

submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the CTA. All submissions should refer to the file number in the caption above and should be submitted by November 12, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-27902 Filed 10-21-97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

Sunshine Act Meeting

Notice is hereby given, pursuant to the provisions of the Government in the Sunshine Act, Pub. L. 94-409, that the Securities and Exchange Commission will hold the following meeting during the week of October 20, 1997.

A closed meeting will be held on Tuesday, October 21, 1997, at 10:00 a.m.

Commissioners, Counsel to the Commissioners, the Secretary to the Commission, and recording secretaries will attend the closed meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designees, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c) (4), (8), (9)(A) and (10) and 17 CFR 200.402(a) (4), (8), (9)(i) and (10), permit consideration of the scheduled matters at the closed meeting.

Commissioner Hunt, as duty officer, voted to consider the items listed for the closed meeting in a closed session.

The subject matter of the closed meeting scheduled for Tuesday, October 21, 1997, at 10:00 a.m., will be:

Institution of injunctive actions.

Institution and settlement of administrative proceedings of an enforcement nature.

At time, changes in Commission priorities require alterations in the scheduling of meeting items. For further

information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: The Office of the Secretary at (202) 942-7070.

Dated: October 15, 1997.

Jonathan G. Katz,

Secretary.

[FR Doc. 97-28129 Filed 10-20-97; 11:46 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39211; File No. SR-Amex-97-27]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto by the American Stock Exchange, Inc., to Establish Hedge Exemptions From Narrow-Based and Broad-Based Index Options Position and Exercise Limits

October 7, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 4, 1997, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. On August 18, 1997, the Amex submitted to the Commission an amendment to the proposal.³ The Amex also submitted a letter regarding certain aspects of its proposal.⁴ This order approves the Amex's proposal, as amended, and solicits comments from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend (1) Amex Rule 904C to establish hedge exemptions from narrow-based and broad-based index option position limits, and (2) Amex Rule 905C to

establish corresponding exemptions from index option exercise limits.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Amex included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Amex has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Currently, position and exercise limits for index options are the same for all investors, regardless of whether the investor holds a portfolio of stocks which could hedge an index options position. The Exchange now proposes to adopt a hedge exemption from narrow-based and broad-based index options position and exercise limits. The Exchange believes that such an exemption is necessary to meet the needs of investors who use index options for investment and hedging purposes.

According to the Exchange, on various occasions during the last few months, member firms have, on behalf of managers of large portfolios, such as pension and insurance funds, indicated that the current position limits for index options have restricted the use of such options in hedging stock portfolios. Many institutional investors and portfolio managers invest in portfolios of stocks which could be readily hedged with Exchange traded index options. Current position and exercise limits, however, hamper their ability to fully utilize index options to hedge their positions. According to the Exchange, the proposed hedge exemptions from index option position and exercise limits should increase the depth and liquidity of index options markets and allow more effective hedging by investors without increasing the potential for market disruption. The exemptions are similar to exemptions previously approved by the Commission for the Philadelphia Stock Exchange, Inc. ("Phlx").⁵

¹ 15 U.S.C. § 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Claire McGrath, Vice President and Special Counsel, Derivative Securities, Amex, to Ivette Lopez, Assistant Director, Office of Market Supervision, Division of Market Regulation, Commission, dated August 18, 1997 ("Amendment No. 1").

⁴ See letter from Claire McGrath, Vice President and Special Counsel, Derivative Securities, Amex, to Sharon Lawson, Senior Special Counsel, Office of Market Supervision, Division of Market Regulation, Commission, dated September 18, 1997.

⁵ See Securities Exchange Act Release Nos. 36858 (February 16, 1996), 61 FR 7295 (February 27, 1996)

Continued

² 17 CFR 200.30-3(a)(27).

Index option positions hedged in accordance with the proposal would be entitled to exceed existing position and exercise limits by up to two times above and in addition to the current limits.⁶

In order to qualify for an exemption, each option position must be hedged by a position in at least: (1) with respect to narrow-based index options, 75% of the number of component stocks or securities readily convertible into component stocks underlying the index; or (2) with respect to broad-based index options, 20 stocks or securities readily convertible into stocks in four industry groups represented in the index, of which no one component stock accounts for more than 15% of the value of the portfolio hedging the index option position.

In addition, the value of the option position may not exceed the value of the underlying portfolio employed as the hedge. The value of the underlying portfolio is determined as follows: (1) the total market value of the net stock position; less (2) the value of (a) any offsetting calls and puts in the respective index option; and (b) any offsetting positions in related stock index futures or options; and (c) any economically equivalent positions.

The stock portfolio employed as the hedge must be established prior to the index option positions and the options positions must be carried in an account with an Exchange member. Also, securities used to secure an index hedge exemption may not also be used to hedge other option positions.

Exercise limits under the proposal will continue to correspond to position limits, so that investors may exercise up to the number of contracts set forth as the position limit, as well as those contracts exempted by this proposal, during five consecutive business days.

The Amex proposes to exempt positions in index options in a manner which balances the hedging needs of index options investors with the Exchange's obligation to maintain a fair and orderly market. The Amex believes that a hedge exemption of up to two times above the current limit or index options would considerably enhance the attractiveness of these products for institutional investors, who would, in turn, trade more of the products in a hedged manner and thereby provide

stabilizing liquidity in both the index options and the underlying securities.

The Exchange also believes that the proposed index option hedge exemptions should not increase the potential for disruption or manipulation in the markets for the stocks underlying each index. The proposal incorporates several safeguards the Amex will employ to monitor the use of the exemptions. Specifically, prior Exchange approval on the appropriate form designated by the Exchange is required, which should ensure that the hedges are appropriate for the position being taken and are in compliance with Amex rules, including those governing the composition and dollar value of the underlying stock portfolio. The Exchange may grant an exemption for less than the maximum of two times above the existing limit. The hedge exemption form must be kept current, with information updated as warranted. Any information concerning the dollar value and composition of the stock portfolio,⁷ or its equivalent, the current hedged and aggregate options positions, and any stock index futures positions must be promptly provided to the Exchange.

In addition, the exemption requires that both the options and stock positions be initiated and liquidated in an orderly manner. An account in which the exempt option positions are held must liquidate any options prior to or contemporaneously with a decrease in the hedged value of the underlying portfolio to the extent the dollar value of such options would otherwise be excessive under the rule. Also, initiating or liquidating positions should not be conducted in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes or with a view toward taking advantage of any differential price between a group of securities and an overlying stock position.

The Amex's surveillance procedures are designed to detect as well as to deter manipulation and market disruptions. In particular, the Exchange will monitor trading activity in Amex traded index options and the stocks underlying those indexes to detect potential frontrunning and manipulation, as well as review such trading to ensure that the closing of positions subject to the exemptions are conducted in a fair and orderly manner. This means that a reduction of the option positions must occur at or before the corresponding reduction in the stock portfolio positions, thereby

helping to ensure that the stock transactions are not used to impact the market so as to benefit the option positions. Furthermore, the Exchange must be notified in writing for approval prior to liquidating or initiating any such position as well as of any material change in the portfolio or futures positions which materially effects the unhedged value of the qualified portfolio.⁸ On a daily basis, the Exchange will also monitor each option contract to ensure that it is hedged by the equivalent dollar amount of component securities.

If any member or member organization that maintains an index option position in such member's or member organization's own account or in a customer account has reason to believe that such position is in excess of the applicable limit, then it must promptly take action necessary to bring the position into compliance pursuant to Amex Rule 904C, Commentary .01(f).⁹

Lastly, violation of any of the provisions of the index options hedge exemption, absent reasonable justification or excuse, will result in withdrawal of the hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and is not designed to permit unfair discrimination between customers, issuers, brokers, and dealers.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe the proposed rule change will impose any inappropriate burden on competition.

⁸ See Amendment No. 1, *supra* note 3.

⁹ The Commission notes that under Exchange Rule 904(a), member organizations are prohibited from effecting opening transactions in option contracts on behalf of a customer where the transaction would cause the customer account to be in violation of the position limits set forth under Rule 904. Rule 904C incorporates Rule 904 by reference; therefore, the Commission believes that, under Exchange rules, failure to reduce a limit in a customer account in accordance with Amex Rule 904C, Commentary .01(f) would be considered a violation by the member firm carrying the customer account. See Amex Rules 904 and 904C.

(approval order relating to industry index option hedge exemption) (File No. SR-Phlx-95-45); 37320 (June 18, 1996) 61 FR 32878 (June 25, 1996) (approval order relating to market index option hedge exemption) (File No. SR-Phlx-96-07).

⁶ The Commission notes that the hedge exemptions are in addition to any other exemptions available under the Exchange's rules.

⁷ The Exchange notes that as the dollar value of the hedging portfolio fluctuates, the number of exempt contracts may need to be adjusted.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange has neither solicited nor received written comments with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; (3) was provided to the Commission for review at least five business days prior to the filing date; and (4) does not become operative for 30 days from August 18, 1997,¹⁰ the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(e)(6) thereunder. In particular, the Commission believes that the proposal qualifies as a "noncontroversial filing" in that the proposal does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate for the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Room. Copies of such filing will also be

available for inspection and copying at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Amex.

All submissions should refer to File No. SR-Amex-97-27 and should be submitted by November 12, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39240; File No. SR-CBOE-97-54]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Routing of Firm and Broker-Dealer Orders to the Par Workstations in the DJX Trading Crowd

October 14, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on October 3, 1997, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Chicago Board Options Exchange, Incorporated ("CBOE" or the "Exchange") will enable its order routing system ("ORS") to route broker-dealer and firm orders to the trading crowd for options based on the Dow Jones Industrial Average ("DIX").²

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for the Proposed Rule Change

In its filing with the Commission, the CBOE included statements concerning

the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CBOE has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

On May 30, 1997, the Securities and Exchange Commission ("SEC" or "Commission") approved a proposed rule change of the CBOE which sought permanent approval of a pilot program concerning certain enhancements to the Exchange's electronic order routing system.³

The changes instituted in the pilot program, now approved on a permanent basis, included the electronic routing and processing of contingency and discretionary orders,⁴ the recognition by ORS of firm and broker-dealer orders, the routing of firm and broker-dealer orders to the Public Automated Routing ("PAR") system workstations in the OEX crowd, and the execution of certain contingency orders on the Exchange's Retail Automatic Execution System. In addition, the Exchange enabled the system to route firm and broker-dealer orders electronically to the PAR workstations in the trading crowd for options on the Standard & Poor's 100 Index ("OEX"), but not to PAR stations in any other trading crowd. The Exchange has now enabled its systems to route firm and broker-dealer orders electronically to the PAR stations in the trading crowd for DJX, which is scheduled to commence trading on the Exchange on October 6, 1997. The Exchange intends to study further whether it should enable the system to route such orders to equity and SPX crowds at some future date. All other enhancements to the ORS which were recently approved by the Commission will apply equally to trading in DJX as

³ SR-CBOE-97-22, approved in Securities Exchange Act Release No. 38702 (May 30, 1997), 62 FR 31184 (June 6, 1997).

⁴ The systems enhancements specifically have allowed for the routing of the following types of contingency and discretionary orders: All or None orders (AON), Immediate or Cancel orders (IOC), Fill or Kill orders (FOK), Minimum Quantity orders (MIN), Stop orders (STP), Stop Loss orders (STP LOSS), Opening Only orders (OPG), Market on Close Orders (MOC), Closing Only orders (CLO), Market if Touched orders (MIT), Not held orders (NH), and With Discretion orders. Due to systems and administrative limitations, ORS has continued to be unavailable for stop limit orders as well as spreads, straddles, combos, and other multi-part orders.

¹⁰ Because the Exchange filed Amendment No. 1 subsequent to the original filing date, the 30-day period commences on the filing date of Amendment No. 1.

¹¹ 17 CFR 200.30-3(a)(12).

¹⁵ U.S.C. § 78s(b)(1).

² The text of the proposed rule change is available at the Office of the Secretary, CBOE and in the Public Reference Room at the Commission.