

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40334; File No. SR-CBOE-98-34]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by Chicago Board Options Exchange, Incorporated to Amend Policy Regarding Exercise Procedures and Requirements for American-Style Cash-Settled Index Options

August 18, 1998.

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 July 27, 1998, the Chicago Board Options Exchange, Incorporated ("CBOE" 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 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

CBOE proposes to set forth in an Exchange Regulatory Circular ("Exercise Procedures Circular") its policies regarding exercise procedures and requirements for American-style cash-settled index options. The text of the Exercise Procedures Circular is available at the Office of the Secretary, CBOE and at the Commission.

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

In its filing with the Commission, 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. 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

1. Purpose

The Exercise Procedures Circular, which supersedes a prior circular on the same subject, is intended to update and clarify the explanation of the operation of Exchange rules governing the procedures applicable to the exercise of American-style cash-settled index options. The Exchange is filing the Exercise Procedures Circular as a rule change in order to give it the status of a rule for enforcement purposes.

Exchange Rule 11.1 sets forth the requirements for the exercise of outstanding option contracts. Exchange Rule 11.1.03 sets forth certain procedures that Exchange members must follow when exercising American-style cash-settled index option contracts. The Exercise Procedures Circular reminds members of these procedures and also provides members with a more complete description of the steps they must follow when exercising such option contracts.

For example, the Exercise Procedures Circular reminds members that the submission of an "exercise advice" to the Exchange does not initiate an exercise at the Options Clearing Corporation and that members must also submit an exercise instruction memorandum to their clearing firm. Also, the Exercise Procedures Circular reminds members that submission of an "exercise advice" or "exercise advice cancellation" after the 3:20 p.m. (CT) cut-off time set forth in Exchange Rule 11.1.03 will constitute a violation of Exchange Rule 11.1. Further, members are reminded of the exercise procedures that the Exchange follows when there is a delayed opening, a trading halt, a modification in trading hours, or a closing rotation. These, among other provisions contained in the Exercise Procedures Circular, are intended to spell out more clearly what the requirements of Exchange Rule 11.1.03 are and how the provisions of Exchange Rule 11.1.03 are implemented by the Exchange.

2. Statutory Basis

The Exchange believes the procedures set forth in the Exercise Procedures Circular are consistent with and further the objectives of Section 6(b)(5) of the Act³ in that they are designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information

regarding the exercise of outstanding option contracts.

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

CBOE does not believe that the proposed rule change will impose any burden on competition.

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

No written comments were solicited or received with respect to the proposed rule change.

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

The proposed rule change will become effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act,⁴ and Rule 19b-4(e)(1)⁵ thereunder, in that it is designated by the Exchange as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. At any time within 60 days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.⁶

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 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 in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at

⁴ 15 U.S.C. 78s(b)(3)(A).

⁵ 17 CFR 240.19b-4(e)(1).

⁶ In reviewing this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78f(b)(5).

the principal office of CBOE. All submissions should refer to the File No. SR-CBOE-98-34 and should be submitted by September 15, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,
Deputy Secretary.

Exhibit A

Italicizing indicates additions to, and [brackets] indicate deletions from, CBOE Rules currently in effect and as proposed to be amended.

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CHAPTER XXIV

Index Options

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Definitions

RULE 24.1

(a)—(t) No change.

* * * Interpretations and Policies:

.01 The reporting authorities designated by the Exchange in respect of each index underlying an index option contract traded on the Exchange are as follows:

Index	Reporting Authority
[Add the following to the current list] CBOE Telebras Index	CBOE.

* * * * *

Terms of Index Option Contracts

RULE 24.9

(a) *General.*

(1) No change.

(2) No change.

(3) *"European-Style Exercise."* The following European-style index options, some of which are A.M.-settled as provided in paragraph (a)(4), are approved for trading on the Exchange:

[Add the following to the current list.]

CBOE Telebras Index.

(4) No change.

(5) No change.

(b) *Long-Term Index Options Series ("LEAPS®")*

(1) No change.

(2) *Reduced-Value LEAPS.*

(A) Reduced-value LEAPS on the following stock indices are approved for trading on the Exchange:

[Add the following to the current list.]

CBOE Telebras Index.

(B) No change.

(c) No change.

* * * Interpretations and Policies:

.01 The procedures for adding and deleting strike prices for index options are provided in Rule 5.5 and Interpretations and Policies related thereto, as otherwise generally provided by Rule 24.9, and include the following:

(a) The interval between strike prices will be no less than \$5.00; provided, that in the case of the following classes of index options, the interval between strike prices will be no less than \$2.50:

[add the following to the list]

CBOE Telebras Index for strike prices below \$50

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40328; File No. SR-PCX-98-17]

Self-Regulatory Organization's; Pacific Exchange, Inc.; Order Approving Proposed Rule Change Relating to Expansion of the LMM Book Pilot Program

August 17, 1998.

I. Introduction

On April 16, 1998, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² to remove the current cap on the number of LMMs who may participate in the program.³

Notice of the proposed change was published in the **Federal Register**.⁴ The Commission received no comment letters in response to the notice of the proposed rule change.

II. Description of the Proposal

PCX has proposed to remove the current cap on the number of LMMs who may participate in the program.

On October 11, 1996, the Commission approved an Exchange proposal to adopt a one-year pilot program under

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4 (1991).

³ The Exchange had initially submitted the filing prior to April 16, 1998, but that submission did not include a signature page. By letter dated April 14, 1998, the Exchange filed Amendment No. 1 to the filing, which contained signatures for the filing. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX, to Marie D'Aguanno Ito, Special Counsel, Division of Market Regulation, Commission, dated April 14, 1998. On May 1, 1998, PCX submitted Amendment No. 2 to the filing, seeking to withdraw the portion of the filing that proposed removing the limit on the number of option issues that may be included in the LMM program. The PCX represented in the Amendment that such proposal would be submitted in a separate filing. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, to Marie D'Aguanno Ito, Special Counsel, Division of Market Regulation, Commission, dated April 30, 1998.

⁴ Exchange Act Release No. 39995 (May 15, 1998) 63 FR 28432 (May 22, 1998).

which a limited number of LMMs would be able to assume operational responsibility for the options public limit order book ("Book") in certain option issues.⁵ On September 22, 1997, the Commission approved an Exchange proposal to extend the program for one year, so that it is currently set to expire on October 12, 1998.⁶

Under the pilot program, approved LMMs manage the Book function, take responsibility for trading disputes and errors, set rates for Book execution, and pay the Exchange a fee for systems and services.⁷ Currently, both multiply-listed and non-multiply-listed option issues are eligible to be traded under the pilot program.⁸ Initially, the program was limited by allowing no more than three LMMs to participate in the program and no more than 40 option symbols to be used. But on April 1, 1997, the Commission approved an Exchange proposal to expand the program so that up to nine LMMs may participate and up to 150 option symbols may be used.⁹

The Exchange is now proposing to expand the LMM Book Pilot Program to eliminate the cap on the number of LMMs that may participate in the program. The Exchange notes that the program has been in operation for approximately eighteen months and that no significant problems have occurred. The program has been viable and effective, and has resulted in significant cost savings to customers in Book execution charges. The Exchange believes that it has adequate systems and operation capacity to expand the scope of the program beyond its current limits.

The Exchange believes that the proposed change will make the Exchange LMM Program more competitive because it will provide LMMs with the same flexibility currently held by options specialists at other exchanges, and DPMs at the Chicago Board Options Exchange.

⁵ See Exchange Act Release No. 37810 (October 11, 1996) 61 FR 54481 (October 18, 1996) (approving File No. SR-PSE-96-09).

⁶ See Exchange Act Release No. 39106 (September 22, 1997) 62 FR 51172 (September 30, 1997).

⁷ See Exchange Act Release No. 37874 (October 28, 1996) 61 FR 56597 (November 1, 1996) (approving SR-PSE-96-38, establishing a staffing charge for LMMs who participate in the pilot program); see also File No. SR-PCX-98-03 (proposal to modify the LMM Book Pilot staffing charge).

⁸ See Exchange Act Release No. 38273 (February 12, 1997) 62 FR 7489 (February 19, 1997) (approving File No. SR-PSE-96-45); see also Exchange Act Release No. 39667 (February 13, 1998) 63 FR 9895 (February 26, 1998) (order approving proposal to allow non-multiply-listed option issues to be traded under the program).

⁹ See Exchange Act Release No. 38462 (April 1, 1997) 62 FR 16886 (April 8, 1997).

⁷ 17 CFR 200.30-3(a)(12).