

situations that do not apply to every company.

Under the "cost" category, what should be included as a Year 2000 cost?

The Release states that companies must disclose material historical and estimated costs. The types of Year 2000 costs will vary for each public company. Typical costs include external consultants and professional advisors; purchases of software and hardware; and the direct costs (e.g., compensation and fringe benefits) of internal employees working on Year 2000 projects. Companies often disclose the types and amounts of Year 2000 costs to their Board of Directors or Audit Committee. If internal costs are not known, that fact should be disclosed. If a company has records of some but not all of its internal costs, then disclosure of the type and amount of these known costs should be made, along with the types of internal costs incurred for which the company cannot determine the amount.

For example, a semiconductor manufacturer has hired outside consultants to assist its internal information systems group to address its Y2K issues. The company's plan includes upgrading existing software applications to make them Y2K compliant, replacing some hardware required by the software upgrade, fixing some internally created software code, and contacting suppliers of various services and materials regarding their readiness and plans for Y2K. The Company does not have a project tracking system that tracks the cost and time that its own internal employees spend on the Y2K project. It is expected the Company would disclose:

- The costs incurred to date and estimated remaining costs for the outside consultants, software and hardware applications.
- A statement that the company does not separately track the internal costs incurred for the Y2K project, and that such costs are principally the related payroll costs for its information systems group.

Under the "Risks" Category, What Level of Detail Should a Company Include in its "Reasonably Likely Worst Case Scenario"?

Under this category, companies must describe potential consequences that they believe are reasonably likely to occur. The "reasonably likely worst case scenario" is intended to elicit disclosure of the impact on a company if its systems, both information technology and non-information technology, do not function and it has to implement its

contingency plan. For example, if a company is uncertain about a supplier and its contingency plan is to stockpile inventory, then disclosure of this potential consequence and its costs are required. Companies need not address all possible catastrophic events, including failure of the power grid or telecommunications, unless a company becomes aware that a material disruption in these basic infrastructures is reasonably likely to occur.

However, if a company is unable to obtain assurances as to whether a material and significant relationship, such as a key supplier for raw materials, components or electrical power for a manufacturer, will be impacted by Y2K, then a statement to that effect should be made. For example, if a company buys component parts from a sole supplier, and that sole supplier is unwilling to disclose if its parts will be Y2K compliant, and as a result of that, the company is unable to determine if its products will be Y2K compliant, a statement to that effect should be made. Disclosure of the related contingency plan, in the event the supplier is not Y2K compliant, such as switching to another supplier, and the ability to make such a switch, should also be discussed.

What is an example of good Year 2000 disclosure?

This is probably the most frequently asked question. The SEC historically has not identified any particular disclosure as "good" disclosure for a variety of reasons. We recognize the potential value of pointing out good disclosure, but there are good reasons not to do so, including the risk of establishing a boilerplate template and the differing circumstances each company and industry faces. The best way to draft meaningful disclosure is to closely read the Release and the existing rules and regulations that the Release interprets.

Due to the importance of the Year 2000 issue, after we are able to review the quality of the Year 2000 disclosure in the third quarter Form 10-Qs which will be filed by mid-November, we may provide some sample Year 2000 disclosures. The purpose of these samples would be to illustrate how companies should be following our guidance. We would provide different types of samples to show how "one size doesn't fit all" for Year 2000 disclosure.

Dated: November 9, 1998.

By the Commission.

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40642; File No. SR-CBOE-98-43]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Continued Listing of Options on the Nasdaq-100 Index

November 5, 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 October 2, 1998, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II 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 parties and to grant accelerated approval to the proposal.

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

The Exchange is filing this rule change to inform the Commission that the Nasdaq Stock Market, Inc. ("Nasdaq") has determined to change the weighting methodology of its Nasdaq-100 Index® ("Index"). The Exchange seeks continued approval to list and trade options on the Index after Nasdaq has instituted these changes.

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 statutory 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 III below. The CBOE has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The CBOE currently lists and trades European-style, cash-settled options on the Nasdaq-100 Index ("NDX") pursuant to approval by the Commission.³ The Nasdaq-100 Index is a capitalization-weighted index of one hundred of the largest non-financial securities trade on the Nasdaq Stock Marketsm. The CBOE has been informed that Nasdaq plans, as of December 18, 1998 (after the close of trading), to calculate the Index under a "modified capitalization-weighted" methodology, which is a hybrid between equal weighting and conventional capitalization weighting.⁴ The Exchange is requesting that the Commission approve the continued listing and trading of options on the NDX after this change is instituted by Nasdaq.

The Monday following the expiration Friday when Nasdaq institutes this change, December 21, 1998, the CBOE will bring up new series of options overlying the Index under the current symbol, NDX. The outstanding series will continue to settle based on the present calculation method and will be traded under a new symbol. Nasdaq has stated that the new methodology is expected to: (1) retain in general the economic attributes of capitalization weighting; (2) promote portfolio weight diversification (thereby limiting domination of the Index by a few large stocks); (3) reduce Index performance distortion by preserving the capitalization ranking of companies; and (4) reduce market impact on the smallest component securities from necessary weight rebalancings.

Under the new methodology, the component securities will be categorized as either "Large Stocks" or "Small Stocks," depending on whether their current percentage weights (after taking into account scheduled weight adjustments due to stock repurchases, secondary offerings, or other corporate actions) are greater than, or less than, or equal to, the average percentage weight in the Index (*i.e.*, as a 100-stock index, the average percentage weight in the Index is 1.0%). The categorization will

be conducted on a quarterly basis to coincide with Nasdaq's quarterly scheduled weight adjustment procedures.

These quarterly categorizations will result in an Index rebalancing if either one or both of the following two weight distribution requirements are *not* met: (1) The current weight of the single largest market capitalization stock in the Index is less than or equal to 24.0% and (2) the "collective weight" of those stocks whose individual current weights exceed 4.5%, when added together, is less than or equal to 48.0%.

If either one or both of these requirements are not met upon quarterly review, a weight rebalancing will be performed in accordance with the following rules. First, relating to requirement (1) above, if the current weight of the single largest stock in the Index exceeds 24.0%, then the weights of all Large Stocks will be scaled down proportionately towards 1.0% be enough for the adjusted weight of the largest stock to be set to 20.0%. Second, relating to requirement (2) above, for those stocks whose individual current weights or adjusted weights in accordance with the preceding step are in excess of 4.5%, if their "collective weight" exceeds 48.0%, then the weights of all Large Stocks will be scaled down proportionately towards 1.0% by just enough for the "collective weight," so adjusted, to be set to 40.0%.

The aggregate weight reduction among the Large Stocks resulting from either or both of the above rescalings will then be redistributed to the Small Stocks in the following manner. In the first iteration, the weight of the largest Small Stock will be scaled upwards by a factor that sets it equal to the average index weight of 1.0%. The weights of each of the smaller remaining Small Stocks will be scaled up by the same factor reduced in relation to each stock's relative rank among the Small Stocks such that the smaller the stock in the ranking, the less the scale-up of its weight.

In the second iteration, the weight of the second largest Small Stock, already adjusted in the first iteration, will be scaled upwards by a factor that sets it equal to the average index weight of 1.0%. The weights of each of the smaller remaining Small Stocks will be scaled up by this same factor reduced in relation to each stock's relative ranking among the Small Stock such that, once again, the smaller the stock in the ranking, the less the scale-up of its weight.

Additional iterations will be performed until the accumulated increase in weight among the Small

Stocks exactly equals the aggregated weight reduction among the Large Stocks from rebalancing in accordance with weight distribution requirement (1) and/or weight distribution requirement (2).

Then, to complete the rebalancing procedure, once the final percent weights of each stock in the Index are set, the Index share weights will be determined based upon the last sale prices and aggregate capitalization of the Index at the close of trading on the Thursday in the week immediately preceding the week of the third Friday in March, June, September, and December. Changes to the Index weights will be made effective after the close of trading on the third Friday in March, June, September, and December and an adjustment to the Index divisor will be made to ensure continuity of the Index.

The CBOE will notify market participants of the Nasdaq's decision to alter the calculation methodology through a notice to members and member firms in advance of the changeover. The Exchange believes this action will be adequate to prevent any problems because, as mentioned above, the Exchange will continue to list outstanding series under a different symbol that will settle under the old methodology; thus, there will be no change to outstanding contracts. The Exchange has employed the same system for introducing new series after a change in the calculation of the index value or settlement value of an Index in the past.⁵

2. Basis

The Exchange believes that the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act,⁶ in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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.

⁵ Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376 (July 28, 1992) (approving SR-CBOE-92-09, which requested to continue to list and trade NDX options after a change in the exercise settlement value of the Nasdaq-100) and Exchange Act Release No. 37089 (April 9, 1996), 61 FR 16660 (April 16, 1996) (approving SR-CBOE-96-12, which requested to allow the DBOE to continue to list and trade SPX options after a change to A.M. settlement).

⁶ 15. U.S.C. 78f(b)(5).

³ Exchange Act Release No. 33428 (January 5, 1994), 59 FR 1576 (January 11, 1994).

⁴ The Exchange will notify the Commission in the event Nasdaq is unable to implement this new methodology as of December 18, 1998. Telephone calls between Timothy Thompson, Director of Regulatory Affairs, Legal Department, CBOE, and Kelly McCormick, Attorney, Division of Market Regulation, Commission, on November 5, 1998.

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. 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 all such filings will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to File No. SR-CBOE-98-43 and should be submitted by December 7, 1998.

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

The Commission finds that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange,⁷ and, in particular, the requirements of Section 6(b)(5) of the Act.⁸ Section 6(b)(5) of the Act requires, among other things, that the rules of the Exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade and to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general to protect investors and the public interest. Specifically, the Commission finds that the proposal to modify the weighting methodology of the Nasdaq-100 Index from a capitalization-weighted index to a modified capitalization index will

contribute to the maintenance of fair and orderly markets consistent with investor protection by ensuring that no one stock or group of stocks dominate the Index. Moreover, the Commission believes the proposal will have the effect of reducing the potential influence of any one stock on the movement of the Index.

The Commission believes that the proposed weighting method does not present any new or novel regulatory issues because the proposal adopts a method that is similar to one previously approved for the continued listing of options underlying the GSTI Composite Index.⁹ The Index will be calculated using a modified capitalization-weighted method, which is a hybrid between equal weighting and capitalization weighting. Under the new methodology, based upon quarterly examinations, the Index will be rebalanced if either one or both of the following two weight distribution requirements are not met. The first requires the then current weight of the single largest stock in the Index to be less than or equal to 24.0%. The second requirement looks at the "collective weight" of the stocks whose individual current weights exceed 4.5%; these stocks when added together, must be less than or equal to 48.0%. If either one of these two requirements is not met, a weight rebalancing must be performed in accordance with defined rules. In approving this proposal, the Commission believes that the new methodology should help reduce the likelihood that one or a few stocks will dominate the Index and have an undue effect on the Index value.

The Exchange stated that Nasdaq plans to implement this new methodology as of December 18, 1998 (after the close of trading). The Exchange proposes to bring up a new series of options overlying the Index, based on the new methodology, on the Monday following the expiration Friday, December 21, 1998. The new series of options will be signified by the current symbol, NDX. Any outstanding series will continue to list under a different symbol and continue to settle under the old methodology. CBOE will notify market participants of the new calculation by a notice to members and member firms in advance of the changeover. The Commission believes that these procedures will help to ensure investors have been adequately notified about the impending change prior to its implementation, and should provide them with sufficient time to

make any desired adjustments to their positions.

The Commission finds good cause to approve the proposal prior to the thirtieth day after the date of publication of notice of the filing in the **Federal Register**. By accelerating the effectiveness of the Exchange's rule proposal, the Commission will enable the continued listing and trading of options on the Index without interruption after the change in the weighting methodology. In addition, the Commission believes that the proposed weighting method does not present any new or novel regulatory issues as the proposal adopts a weighting method that will assist in ensuring that one or a few components will not dominate the Index. Accordingly, the Commission believes that it is consistent with Section 6(b)(5) of the Act¹⁰ to approve the proposed rule change on an accelerated basis.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed change (File No. SR-CBOE-98-43) is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Docket No. 34-40645; File No. SR-CBOE-98-33]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Board Options Exchange, Inc. Relating to Exercise Advice Procedures

November 6, 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, Inc. ("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 the CBOE. The

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

⁷ In reviewing this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78f(b)(5).

⁹ Exchange Act Release No. 38852 (July 18, 1997), 62 FR 40128 (July 25, 1997).