

[Release No. 34-35246; International Series Release No. 773 File No. SR-Amex-94-60]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange, Inc. Relating to the Listing of Options and Long-Term Options Based on a Reduced-Value of the Deutscher Aktienindex (DAX)**

January 19, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on December 15, 1994, 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 Amex. 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 Exchange proposes to approve for listing and trading standardized options and long-term options on a reduced-value of the Deutscher Aktienindex ("DAX Index" or "Index") computed at one-tenth of the full-value of the Index. In addition, the Amex proposes to amend Rule 904C(b) to provide for a position limit for standardized options on the Index of 25,000 contracts on the same side of the market, provided no more than 15,000 of such contracts are in series in the nearest expiration month. The text of the proposed rule change is available at the Office of the Secretary, the Amex, 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, the Exchange 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 the Statutory Basis for, the Proposed Rule Change*

The Exchange is proposing to trade standardized options and long-term options on a reduced-value of the DAX Index, and internationally recognized, capitalization-weighted<sup>1</sup> index of 30 highly capitalized German stocks trading on the Frankfurt Stock Exchange ("FSE").<sup>2</sup> The stocks included in the Index are among the largest German corporations and their shares are among the most actively traded of German issuers. The DAX Index is composed of ten broad industry groups including chemicals, automobile manufacturers, banks, and insurance companies.

The median capitalization of the companies in the Index as of December 2, 1994, was US \$6.52 billion.<sup>3</sup> The average market capitalization of these companies was US \$8.78 billion as of that date. The market capitalizations of the individual companies in the Index ranged from US \$740.51 million to US \$32.02 billion as of December 2, 1994. Also on that date, the largest component of the Index, Allianz AG Holdings, accounted for 12.15% of the total weighting of the DAX Index, while the smallest, Deutsche Babcock AG, accounted for 0.28% of the weight of the Index. The five highest weighted components of the Index on that date accounted for 43.69% of the total weight of the Index. Average daily volume in the component securities for the period from June 1994, through November 1994, ranged from a low of approximately 59,408 shares to a high of 1.04 million shares, with an average daily trading volume for all components of the Index of approximately 338,449 shares per day. The Index had a closing value of 2,038.5 on December 2, 1994.

The DAX Index is maintained by the FSE in conjunction with the Borsen-

Zeitung (an industry newspaper). To maintain continuity of the Index, the FSE adjusts the Index to reflect certain events relating to the component stocks. In addition, the composition of the DAX Index is reviewed periodically by the FSE. The FSE will not alter the composition of the DAX Index unless a stock fails to meet certain criteria, e.g., market capitalization and trading volume. If possible, a replacement stock will be selected by the FSE from the same industry as the stock that it is replacing.

**Index Calculation**

The DAX Index is a capitalization-weighted index and is calculated by multiplying the price of each component security by its listed capital,<sup>4</sup> adding those sums and dividing by the current Index divisor. The Index divisor was initially determined to yield a benchmark value of 1,000 on December 30, 1987. The divisor is adjusted by the FSE for the changes described above regarding Index maintenance.

The value of the Index is calculated every minute by the FSE from 10:30 a.m. to 1:30 p.m. Frankfurt time (4:30 a.m. to 7:30 a.m. New York time)<sup>5</sup> and is disseminated over Reuters News Service, among others.<sup>6</sup> For purposes of standardized options trading, the Index trading value ("Trading Value") will be one-tenth the level of the DAX Index as calculated and disseminated by the FSE. Thus, at the close of trading in December 2, 1994, the Index value was at 2,038.5, the Trading Value for Index options trading on the Amex would have been 203.85.

**Options Expiration and Settlement**

The proposed options on the Trading Value of the Index are to be European-

<sup>4</sup> See supra note 1.

<sup>5</sup> Telephone conversation between Claire McGrath, Managing Director and Special Counsel, Derivative Securities, Amex, and Brad Ritter, Senior Counsel, Office of Market Supervision, Division of Market Regulation, Commission, on January 5, 1995.

<sup>6</sup> The Amex represents that the FSE also operates the Integrated Stock Exchange Trading and Information System ("IBIS") that is available to trading the 30 DAX Index components from 8:30 a.m. to 5:00 p.m. Frankfurt time (2:30 a.m. to 11:00 a.m. New York time). Because trading on IBIS extends for 3½ hours after trading of the FSE ends and overlaps trading on the Amex for two hours (9:00 a.m. to 11:00 a.m. New York time), the Amex will disseminate, for information purposes only, an Index Trading Value (as defined herein) based on the "indicative DAX" level disseminated by IBIS. Once trading on IBIS has concluded, the Amex will disseminate a closing Trading Value based on the "indicative DAX" level disseminated by IBIS. The "indicative DAX" as disseminated by IBIS will have a different ticker symbol from the DAX Index value as reported by the FSE.

<sup>1</sup> The capitalization of a particular stock in the DAX Index is calculated by multiplying the price of the stock by the "listed capital." Listed capital includes common and preferred shares and shares held in the corporate treasury. The Amex represents that this weighting method differs from the method used in calculating domestic capitalization-weighted indexes, which are calculated by multiplying the price of the stock only by the number of common shares.

<sup>2</sup> The components of the Index are as follows: Allianz AG Holdings; BASF AG; Bayer AG; Bayer Hypo/Wech; BMW; Bayer Vereinsbank AG; Commerzbank AG; Continental AG; Daimler-Benz AG; Beutsche Babcock AG; Beutsche Bank AG; Degussa AG; Dresdner Bank AG; Henkel KGAA-Pfd; Hoechst AG; Karstadt AG; Kaufhof Holdings AG; Lufthansa AG; Linde AG; Man AG; Metallgesellschaft; Mannesmann AG; Preussag AG; RWE AG; Schering AG; Siemens AG; Thyssen AG; Veba AG; Viag AG; and Volkswagen AG.

<sup>3</sup> Based on the exchange rate of DM 1=US \$1.5800 prevailing on December 2, 1994.

style,<sup>7</sup> and cash-settled. Trading hours for the Index options will be 9:00 a.m. to 4:15 p.m. New York time. Options on the Trading Value of the Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). The last trading day in an option series will normally be the business day immediately preceding Expiration Friday of each expiration month (normally a Thursday) and trading in expiring options will cease at the close of trading on such day. The exercise settlement value for all of the expiring reduced-value Index options will be calculated based upon the closing value of the Index as determined by the FSE. The FSE calculates an average Index value based upon the average of ten separate Index levels, taken once each minute, between 1:21 p.m. and 1:30 p.m. Frankfurt time on the day following the last day of trading in the expiring contracts, i.e., normally Expiration Friday. The Amex represents that if a component stock does not trade during this interval or if it fails to open for trading, the last available price of the stock will be used by the FSE to calculate the value of the Index. The Amex will then use that value to calculate the settlement Trading Value for the reduced-value Index options. When an option expiration is moved in accordance with an Exchange holiday, the last trading day for the expiring Index options will be the Wednesday before Expiration Friday and the exercise settlement value of the Index options will be determined at the close of the regular Thursday trading session on the FSE, even if the FSE is open for trading on Expiration Friday. If the FSE will be closed on an Expiration Friday, the last trading day for expiring Index options listed by the Amex will be on the Wednesday before Expiration Friday.

The Exchange plans to list reduced-value Index options series with expirations in the three near-term calendar months and in the three additional calendar months in the March cycle. In addition, longer term reduced-value Index options series having up to 36 months to expiration may be traded ("Index LEAPS"). In lieu of such long-term options on the Trading Value of the Index, the Exchange may instead list long-term reduced-value options based on one-tenth of the Index's Trading Value, i.e., 1/100th of the value of the DAX Index as calculated by the FSE. The current and closing trading values of such

reduced-value Index LEAPS will, after the initial computation, be rounded to the nearest one-hundredth. In either event, the interval between expiration months for all long-term Index options will not be less than six months.

#### Exchange Rules Applicable to Stock Index Options

Amex Rules 900C through 980C will apply to the trading of standardized and long-term option contracts based on the DAX Index. These rules cover issues such as sales practices, margin requirements, exercise prices, position limits, and floor trading procedures. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the DAX Index. In order to provide an adequate mechanism for sharing surveillance information with respect to the Index's component stocks, the Amex represents that it has entered into discussions with representatives of the FSE and has reached preliminary agreement with respect to establishing an appropriate means to accomplish such information sharing.

The Amex represents that the DAX Index is deemed to be a Stock Index Option under Rule 901C(a) and a Broad Stock Index Group under Rule 900C(b)(1). With respect to Rule 903C(b), the Exchange proposes to list near-the-money (i.e., within ten points above or below the current Index value) options series on the Index at 2-1/2 point strike (exercise) price intervals when the value of the Index is below 200 points. In addition, the Exchange proposes to establish position limits for options on the reduced-value DAX Index, including Index LEAPS, pursuant to Rule 904C(b), of 25,000 contracts on the same side of the market, provided no more than 15,000 of such contracts are in series in the nearest term month.

In anticipation of substantial activity in the options on this Index (including institutional activity), the Exchange also proposes to have the ability to utilize its Auto-Ex system for orders in the reduced-value DAX Index options of up to 50 contracts. Auto-Ex is the Exchange's automated execution system which provides for the automatic execution of market and marketable limit orders at the best bid or offer at the time the order is entered. The Exchange represents that the ability to use Auto-Ex for orders of up to 50 contracts will provide customers with deep, liquid markets as well as expeditious executions.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act, in general, and

further 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, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

#### (B) Self-Regulatory Organization's Statement on Burden on Competition

The Amex does not believe that the proposed rule change will impose any inappropriate 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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

### 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, 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 Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing

<sup>7</sup> European-style options may only be exercised during a specified period immediately prior to expiration of the options.

will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-94-60 and should be submitted by February 16, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

[FR Doc. 95-1978 Filed 1-25-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-35247; International Series Release No. 774 File No. SR-CBOE-95-01]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing of Warrants on the Deutscher Aktien Index ("DAX Index")**

January 19, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 5, 1995, 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 Exchange. 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 CBOE proposes to list and trade warrants based on the Deutscher Aktien Index ("DAX Index" or "Index"), a broad-based index.<sup>3</sup> The Exchange represents that the listing and trading of warrants on the Exchange is permitted by CBOE Rule 31.5(E). The text of the proposed rule change 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, the Exchange 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**

The Exchange represents that it is permitted to list and trade index warrants under CBOE Rule 31.5(E). The Exchange is now proposing to list and trade index warrants based upon the DAX Index. The Exchange further represents that the listing and trading of Index warrants will comply in all respects with CBOE Rule 31.5(E), as discussed below.

**Index Design<sup>4</sup>**

The DAX Index is a capitalization-weighted index of 30 German blue-chip equity securities listed on the Frankfurt Stock Exchange ("FSE").<sup>5</sup> The Exchange represents that warrants on the DAX Index will provide investors with a low-cost means of participating in the German economy and hedging against the risk of investing in that economy.

The 30 stocks comprising the DAX Index were selected by the FSE for their high market capitalization and high degree of liquidity. The DAX Index stocks are drawn from a broad base of industries and are representative of the industrial composition of the broader German equity market. The CBOE represents that the stocks contained in the Index account for 70% of the trading volume on the FSE.

The DAX Index is weighted by the market capitalization of the component stocks. The capitalization of a particular stock in the Index is calculated by

<sup>4</sup>The Commission notes that the Exchange incorporates by reference to its proposal to list Index options, most of the information and representations contained in this section and in the following sections on Index calculation and maintenance. *Id.* For convenience, the Commission has adapted the text of that filing for inclusion herein.

<sup>5</sup>The components of the Index are as follows: Allianz AG Holdings, BASF AG, Bayer AG, Bayer Hypo/Wech, BMW, Bayer Vereinsbank AG, Commerzbank AG, Continental AG, Daimler-Benz AG; Deutsche Babcock AG; Deutsche Bank AG; Degussa AG; Dresdner Bank AB; Henkel KGAA-Pfd; Hoechst AG; Karstadt AG; Kaufhof Holdings AG; Lufthansa AG; Linde AG; Man AG; Metallgesellschaft; Mannesmann AG; Preussag AG; RWE AG; Schering AG; Siemens AG; Thyssen AG; Veba AG; Viag AG; and Volkswagen AG.

multiplying the listed capital<sup>6</sup> by the price of the stock and a multiple determined by the FSE.

As of August 31, 1994, the CBOE represents that the 30 stocks contained in the Index range in market capitalization from DM 1.8 billion (US\$1.14 billion)<sup>7</sup> to DM 50.1 billion (US\$31.7 billion) with the median capitalization of the firms in the Index of DM 9.9 billion (US\$6.3 billion). Also as of that date, the largest 13 stocks in the Index accounted for approximately 75% of the total weight of the Index with no single security accounting for more than 10.87% or less than 0.37% of the total weight of the Index. Average daily trading volume in the components of the Index for the period from March 1, 1994, through August 31, 1994, ranged from a low of 50,981 shares to a high of 820,738 shares, with an average daily trading volume for all components during that period of approximately 295,000 shares. The Index is composed of ten broad industry groups, including, among others, chemicals, automobile, and insurance companies which, the CBOE represents, reflect the industry composition of the German equity market.

**Calculation**

The DAX Index reflects changes in the capitalization of the component stocks relative to the base value of 1,000 on December 30, 1987. The base value was reached by multiplying the price of each stock by the number of listed shares of that stock, obtaining the sum for all components, and then dividing by a divisor determined to give the Index an initial value of 1,000. The Index had a closing value of 2,212.85 on August 31, 1994.

The value of the DAX Index is calculated every minute by the FSE from 9:30 a.m. to 1:30 p.m., Frankfurt time (3:30 a.m. to 7:30 a.m. Eastern time), based on last sale prices of the component stocks. The value of the Index is not disseminated by the FSE until opening prices are available for at least 15 components of the Index representing at least 70 percent of the capitalization of the Index. Thereafter, with respect to any stock that has not yet opened for trading, the Index value is calculated using the previous day's closing price for those components.

<sup>6</sup>Listed capital is determined based on the issuer's preferred and common shares registered for trading on the FSE. The CBOE notes that domestic indexes, such as the S&P 500 Index, are calculated based on the shares of common stock only.

<sup>7</sup>Based on the exchange rate of DM 1.5815/US\$1 prevailing on August 31, 1994.

<sup>8</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1991).

<sup>3</sup> The Exchange previously submitted a rule filing to permit the listing and trading of index options on a reduced-value DAX Index. See Securities Exchange Act Release No. 35130 (December 20, 1994), 59 FR 66985 (December 28, 1994) (notice of File No. SR-CBOE-94-47).