

available. For example, a superior Registered Options Trader ("ROT") bid/offer established immediately prior to the receipt of an AUTO-X order may not be disseminated in time to be matched with such order electronically, but the superior bid/offer is matched with the AUTO-X order through the trade adjustment function of the system. In view of this opportunity for price improvement by manual specialist intervention, the Exchange believes that permitting the automatic execution of 26 to 50 lots does not raise pricing concerns.

Second, according to the PHLX, there are many safeguards incorporated into Exchange rules and policies to ensure the appropriate handling of AUTO-X orders. Although AUTO-X orders are by definition executed automatically at the disseminated quotation, there are procedures in place in the event that the quotes are not accurate. The PHLX states that these safeguards protect customer orders in the event quotations are not up-to-date, not disseminating, or otherwise malfunctioning. At the same time, specialists and (ROTs) are also protected from incorrect executions. For example, in extraordinary (fast) market conditions, quotations are disseminated with an "F" once the 10-up guarantee on screen markets is suspended pursuant to Option Floor Procedure Advise ("Advice") F-10, "Extraordinary Market Conditions (Fast Markets)." ⁸ In addition, Advice A-113, "Auto Execution Engagement/Disengagement Responsibility," allows a specialist to disengage AUTO-X in extraordinary circumstances, upon approval by two floor officials. PHLX believes that these provisions serve to protect the integrity of AUTO-X by preventing inaccurate executions.

Third, the Exchange notes that specialists have the flexibility to establish the AUTO-X guarantee size for each option up to the maximum permissible size. In addition, the Exchange's "Wheel" for electronically assigning AUTO-X participation (although not yet operational) is voluntary for ROTs and will provide executions in 10-lot increments.⁹ Thus,

⁸ Under Advice F-10, when a fast market is in effect, displayed options quotes are not firm and the 10-up guarantee is not applicable, although specialists and trading crowds are required to use best efforts to update quotes and fill incoming orders in accordance with the 10-up rule.

⁹ The Wheel is an automated mechanism for assigning specialists and ROTs, on a rotating basis, as contra-side participants for AUTO-X orders. Specialists must participate on the Wheel and ROTs may participate on the Wheel in assigned issues. On the Wheel, the specialist receives the first assignment of trades for the day in each respective option. Thereafter, the Wheel assigns trades to

the PHLX believes that increasing the maximum AUTO-X order size up to 50 contracts does not raise financial viability concerns because ROTs can choose whether to participate on the Wheel and because the Wheel assigns order in 10-lot increments. With respect to the financial integrity of PHLX specialists and ROTs, the Exchange notes that it monitors compliance with PHLX Rules 703, "Financial Responsibility and Reporting," and 722, "Margin Accounts," on a regular basis.

The Exchange states that the proposed expansion of the AUTO-X maximum order size should not impose significant burdens on the operation and capacity of the AUTOM system. Instead, the PHLX believes that the proposal may enhance AUTOM's effectiveness by increasing the number of orders eligible for automatic execution, thereby reducing manual processing.

The PHLX believes that the proposal is consistent with Section 6(b) of the Act, in general, and, in particular, with Section 6(b)(5), in that it is designed to promote just and equitable principles of trade and to prevent fraudulent and manipulative acts and practices, as well as to protect investors and the public interest, by extending the benefits of AUTO-X to a larger number of customer orders.

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

The PHLX 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 either solicited or received.

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 reason 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

ROTs in an order standardized for that day on a random basis. Each 10 lot or order (whichever is smaller) constitutes an assignment. See Securities Exchange Act Release No. 35033 (November 30, 1994), 59 FR 63152 (December 7, 1994) (order approving File No. SR-PHLX-94-32).

(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, 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 Section, 450 Fifth Street, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by October 17, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-23759 Filed 9-25-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-26253; International Series Release No. 856; File No. SR-CBOE-95-41]

Self-Regulatory Organizations; Order Granting Accelerated Approval of a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, and 3 to the Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to Warrants on the Japanese Export Stock Index

September 19, 1995.

I. Introduction

On August 7, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed a proposed rule change with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities

¹⁰ 17 CFR 200.30-3(a)(12) (1994).

Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² to list and trade warrants on the Japanese Export Stock Index ("Japan Export Index" or "Index").

Notice of the proposal was published for comment and appeared in the Federal Register on August 28, 1995.³ On September 14, 1995, the Exchange filed Amendment No. 1 to the proposed rule change.⁴ On September 15, 1995, the Exchange filed Amendment No. 2 to the proposed rule change.⁵ On September 19, 1995, the Exchange file Amendment No. 3 to the proposed rule change.⁶ No comment letters were received on the proposed rule change. This order approves the Exchange's proposal, as amended, on an accelerated basis.

II. Description of the Proposal

The Exchange represents that it is permitted to list and trade index warrants under CBOE Rule 31.5E. The Exchange is now proposing to list and trade index warrants based upon the Japan Export Index.

A. Composition of the Index

The Japan Export Index was designed by CBOE. The CBOE represents that Index component stocks were selected for their high market capitalizations, and their high degree of liquidity, and

are representative of the relative distribution of companies within Japanese export industries. The Index is composed of 40 of the largest Japanese export companies, as measured by yen-denominated export revenue, listed on the Tokyo Stock Exchange ("TSE").

Business sector representation in the Index as of June 30, 1995, was as follows: (1) Autos and auto parts (25%) (10 issues); (2) Electric Machinery—diversified (22.5%) (9 issues); (3) Consumer Electronics (20%) (8 issues); (4) Iron and Steel (7.50%) (3 issues); (5) Precision instruments (7.5%) (3 issues); (6) Shipbuilding (5%) (2 issues); (7) Chemical (5%) (2 issues); (8) Machinery (2.5%) (1 issue); (9) Computers and semiconductors (2.5%) (1 issue); and (10) Services (2.5% (1 issue).

As of June 30, 1995, the CBOE represents that the 40 stocks contained in the Index range in market capitalization from \$1.59 billion to \$74.76 billion. The median capitalization of the component securities in the Index was \$7.6 billion. Total market capitalization for the Index was approximately \$451 billion.⁷ In addition, the average daily trading volume of the stocks in the Index, for the six-month period ending June 30, 1995, ranged from a high of 6,640,000 shares to a low of 102,220 shares, with a mean and median of approximately 1,440,000 and 844,000 shares, respectively.

B. Calculation and Dissemination of the Index Value

The Japan Export Index is an "equal dollar weighted" broad-based index comprising 40 of the largest Japanese export companies, and measured by total yen-denominated export revenue, listed on the TSE.⁸ The Index is calculated using an "equal dollar weighting" methodology designed to ensure that each of the component securities is represented in an approximately "equal" dollar amount in the Index at each rebalancing. The Index value was set equal to 100 on March 31, 1984. As of September 13, 1995 the

value of the Index was 206.56.⁹ In the event that a security does not trade on a given day, the previous day's last sale price is used for purposes of calculating the Index. In the event that a given security has not traded for more than one day, then the last sale price on the last day on which the security was traded will be used.

Because trading does not occur on the TSE during the CBOE's trading hours, the daily dissemination of the Index value is calculated by the CBOE once each day based on the just recent official closing price of each Index component security as reported by the TSE. This closing value is disseminated prior to the opening of trading in the U.S. via Options Price Reporting Authority. These values are also expected to be carried by the major quote vendors such as Quotron, ADP, ILX and Bloomberg, and thereby will be accessible to investors throughout the trading day.¹⁰

C. Maintenance of the Index

The Index is maintained by the CBOE. The Index will be rebalanced on the last trading day of the calendar year such that the components again represent an equal percentage (2.5%) of the Index. The Exchange staff will periodically review the Index to ensure that it continues to encompass a broad cross-section of Japanese export industries. The components of the Index will remain unchanged unless it becomes necessary to maintain the continuity of the Index by removing a component security due to a merger, takeover, or some other event where the issuer of the component security is not the surviving entity. If a component security is removed, the CBOE will attempt to find a replacement security taking into account liquidity of the replacement security, industry grouping, capitalization and the amount of the company's export revenue. The Exchange represents that the Index will not be permitted to fall below 35 component stocks.¹¹ Additionally, the Exchange represents that it will monitor the weightings of the components of the Index and if at any time the top 5 stocks account for more than 33 1/3% of the total weight of the Index, the Exchange will re-balance the Index within the next thirty calendar days.¹² To ensure continuity in the Index's value, the index divisor will be adjusted to reflect, among other things, certain rights

⁹ See Amendment No. 1, *Supra* note 4. The initial offering price for the warrants will be based on an index level as of the date and time of issuance.

¹⁰ See Amendment No. 2, *supra* note 5.

¹¹ *Id.*

¹² See Amendment No. 3, *supra* note 6.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 36128 (August 21, 1995), 60 FR 44529 ("Release No. 36128").

⁴ See Letter from Joe Levin, Vice President, Research Department, CBOE, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated September 14, 1995 ("Amendment No. 1"). In Amendment No. 1, the CBOE represents that the Japan Export Index value was set equal to 100 on March 31, 1984, the base date. As of September 13, 1995 the value of the Index was 206.56. Additionally, the CBOE represents that the Index will be re-balanced annually as of the last trading day of last trading day of the calendar year, and not at the time of the initial issuance of the warrants. The CBOE further proposes that the initial offering price for the warrants will be based on an index around the time of issuance.

⁵ See Letter from Eileen Smith, Director, Research & Product Development, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated September 19, 1995 ("Amendment No. 2"). In Amendment No. 2 the CBOE outlines several additional procedures regarding Index calculation, dissemination, and maintenance.

⁶ See Letter from Eileen Smith, Director, Research & Product Development, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated September 19, 1995 ("Amendment No. 3"). Amendment No. 3 to CBOE's proposal states that the CBOE will monitor the weightings of the components of the Japan Export Index and if at any time the top 5 stocks account for more than 33 1/3% of the total weight of the Index, CBOE will re-balance the Index within the next thirty calendar days.

⁷ Based on the exchange rate of 85 yen/US\$ 1 prevailing on June 30, 1995.

⁸ The components of the Index are as follows: Aiiwa; Bridgestone Corp.; Canon; Casio Computer; Citizen Watch; Fuji Heavy Inds.; Fuji Photo Film; Hitachi; Honda Motor; Isuzu Motor; Kawasaki Heavy Ind.; Kawasaki Steel; Komatsu Ltd.; Konica Corp.; Kyocera Corp.; Kyushu Matsushita; Matsukotob Eltr.; Matsushita Elect I; Mazda Motor; Mitsubishi Heavy; Mitsubishi Motors; NEC; Nikon Corp.; Nintendo; Nippon Steel; Nissan Motor; OKI Electric Ind.; Pioneer Eltr.; Ricoh Co. Ltd.; Sanyo Electric; Sega Enterprises; Sharp Corp.; Sony; Sumitomo Mtl. Ind.; Suzuki Motor; TDK Corporation; Toshiba; Toyota Motor; Victor Co. of Japan; and Yamaha Motor.

issuances, stock splits, rebalancing, and component security changes.

D. Index Warrant Trading

The proposed warrants will be direct obligations of their issuer subject to cash-settlement in U.S. dollars, and either exercisable throughout their life (i.e., American-style) or exercisable only immediately prior to their expiration date (i.e., European-style). Upon exercise, the holder of a warrant structured as a "put" would receive payment in U.S. dollars to the extent that the index value has declined below a pre-stated cash settlement value. Conversely, upon exercise, the holder of a warrant structured as a "call" would receive payment in U.S. dollars to the extent that the index value has increased above the pre-stated cash settlement value. Warrants that are "out-or-the-money" at the time of expiration will expire worthless.

E. Warrant Listing Standards and Customer Safeguards

The Exchange has established uniform listing and trading guidelines for index warrants ("Generic Warrant Listing Standards").¹³ The Exchange represents that the Generic Warrant Listing Standards will be applicable to the listing and trading of index warrants generally, including Japan Export Index warrants. These standards will govern all aspects of the listing and trading of index warrants, including, issuer eligibility,¹⁴ position and exercise limits,¹⁵ reportable positions,¹⁶

¹³ See Securities Exchange Act Release No. 36169 (August 29, 1995), 60 FR 46644 (September 7, 1995) ("Generic Warrant Approval Order").

¹⁴ See CBOE Rule 31.5E(1) and (4). Issuers are required to have a minimum tangible net worth in excess of \$250 million or, in the alternative, have a minimum tangible net worth in excess of \$150 million, provided that the issuer does not have (including as a result of the proposed issuance) issued and outstanding warrants where the aggregate original issue price of all such warrant offerings (combined with offerings by its affiliates) listed on a national securities exchange or that are National Market securities traded through NASDAQ exceeds 25% of the issuer's net worth.

¹⁵ See CBOE Rule 30.35. In particular, under CBOE Rule 30.35, no member can control an aggregate position in a stock index warrant issue, or in all warrants issued on the same stock index, on the same side of the market, in excess of 15,000,000 warrants (12,500,000 warrants with respect to warrants on the Russell 2000 Index) with an original issue price of ten dollars or less. Stock index warrants with an original issue price greater than ten dollars will be weighted more heavily in calculating position limits.

CBOE Rule 30.35 also establishes exercise limits on stock index warrants which are analogous to those found in stock index options. The rule prohibits holders from exercising, within any five consecutive business days, long positions in warrants in excess of the base position limit set forth above.

¹⁶ See CBOE Rules 30.50(d) and 4.13.

automatic exercise,¹⁷ settlement,¹⁸ margin,¹⁹ and trading halts and suspensions.²⁰

Additionally, these warrants will be sold only to accounts approved for the trading of standardized options²¹ and, the Exchange's options suitability standards will apply to recommendations in Index warrants.²² The Exchange's rules regarding discretionary orders will also apply to transactions in Index warrants.²³ Finally, prior to the commencement of trading, the Exchange will distribute a circular to its membership calling attention to certain compliance responsibilities when handling transactions in the Japan Export Index warrants.²⁴

F. Surveillance

The Exchange will apply its existing index warrant surveillance procedures to Japan Export Index warrants. The Exchange has a market surveillance agreement with the TSE which was obtained in connection with CBOE trading of options of the Nikkei 300 Index ("Nikkei 300"). Approximately 73% (29) of the stocks in the Index are also components of the Nikkei 300 Index. The Exchange notes that the TSE is under the regulatory oversight of the Ministry of Finance ("MOF") and believes that the ongoing oversight of all securities trading activity on the TSE by the MOF will help to ensure that trading of the component securities included in the Japan Export Index will be appropriately monitored. Finally, the Exchange believes that the Memorandum of Understanding ("MOU") between the Commission and the MOF will provide a framework for mutual assistance in investigatory and regulatory matters.

¹⁷ See CBOE Rule 31.5E(6).

¹⁸ See CBOE Rule 31.5E(5).

¹⁹ See CBOE Rule 30.53. In general, the margin requirements for long and short positions in stock index warrants are the same as margin requirements for long and short positions in stock index options. Accordingly, all purchases of warrants will require payment in full, and short sales of stock index warrants will require initial margin of: (i) 100 percent of the current value of the warrant plus (ii) 15 percent of the current value of the underlying broad stock index less the amount by which the warrant is out of the money, but with a minimum of ten percent of the index value.

²⁰ See CBOE Rules 30.36 and 24.7.

²¹ See CBOE Rules 30.52(c) and 9.7.

²² See CBOE Rules 30.52(d) and 9.9.

²³ See CBOE Rule 30.50, Interpretation .03 (requiring that the standards of Rule 9.10 be applied to index warrant transactions).

²⁴ Telephone conversation between Eileen Smith, Director, Research & Product Development, CBOE, and John Ayanian, Attorney, OMS, Market Regulation, Commission, on August 17, 1995.

III. Commission Finding and Conclusions

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.²⁵ Specifically, the Commission finds that the trading of warrants based on the Japan Export Index will serve to protect investors, promote the public interest, and help to remove impediments to a free and open securities market by providing investors with a means to hedge exposure to market risk associated with securities in Japanese export industries and provide a surrogate instrument for trading in the Japanese securities market.²⁶ The trading of warrants based on the Japan Export Index should provide investors with a valuable hedging vehicle that should reflect accurately the overall movement of securities in Japanese export industries.

In addition, the Commission believes, for the reasons discussed below, that the CBOE has adequately addressed issues related to customer protection, index design, surveillance, and market impact of Japan Export Index warrants.

A. Customer Protection

Special customer protection concerns are presented by Japanese Export Index warrants because they are leveraged derivative securities. The CBOE has addressed these concerns, however, by imposing the special suitability, account approval, disclosure, and compliance requirements, as discussed above.²⁷ Moreover, the CBOE plans to distribute a circular to their members identifying the specific risks associated with warrants on the Japan Export Index. Finally, pursuant to the Exchange's listing guidelines, only substantial companies capable of meeting CBOE index warrant issuer standards will be eligible to issue Japan Export Index warrants.

²⁵ 15 U.S.C. 78f(b)(5).

²⁶ Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new securities product upon a finding that the introduction of such product is in the public interest. Such a finding would be difficult with respect to a warrant that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns.

²⁷ See Generic Warrant Approval Order, *supra* note 6.

B. Index Design and Structure

The Commission finds that it is appropriate and consistent with the Act for the CBOE to designate the Index as a broad-based index. Specifically, the Commission believes the Index is broad-based because it reflects a substantial segment of the Japanese equity market. First, the Index consists of 40 actively traded stocks listed on the TSE, representing 10 different industry groups in Japan. Second, the market capitalization of the stocks comprising the Index are very large. Specifically, the total capitalization of the Index, as of June 30, 1995, was approximately U.S. \$455 billion, with the market capitalization of the individual stocks in the Index ranging from a high of \$74.76 billion to a low of \$1.59 billion, with a mean value of \$11 billion.²⁸ Third, no one particular stock or group of stocks dominates the weight of the Index. Specifically, as of September 13, 1995, no single stock accounted for more than 4.14% of the Index's total value, and the percentage weighting of the five largest issues in the Index accounted for 16.98% of the Index's value. Additionally, the lowest weighted stock in the Index accounted for 1.98% of the Index's value.²⁹ Accordingly, the Commission believes it is appropriate to classify the Index as broad-based.

C. Surveillance

As a general matter, the Commission believes that comprehensive surveillance sharing agreements between the relevant foreign and domestic exchanges are important where an index derivative product based on foreign securities is to be traded in the United States.³⁰ In most cases, in the absence of such a comprehensive surveillance sharing agreement, the Commission believes that it would not be possible to conclude that a derivative product, such as the Japan Export Index warrant, was not readily susceptible to manipulation.

Although the CBOE and the TSE do not yet have a written comprehensive

²⁸ These figures are based on the Japanese yen values of as June 30, 1995, but converted to dollars using the current exchange rate of approximately JY 85/U.S. \$1.00.

²⁹ See Letter from Eileen Smith, Director, Research & Product Development, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated September 18, 1995. Upon each annual rebalancing of the Index, each component of the Index will account for no more than 2.5% of the Index (based on 40 stocks comprising the Index).

³⁰ A comprehensive surveillance sharing agreement would allow the parties to the agreement to obtain relevant surveillance information, including, among other things, the identity of the purchasers and sellers of securities.

surveillance sharing agreement that covers the trading of Japan Export Index warrants, a number of factors support approval of the proposal at this time. First, while the size of an underlying market is not determinative of whether a particular derivative product based on that market is readily susceptible to manipulation, the size of the market for the securities underlying the Japan Export Index makes it less likely that the proposed Index warrants are readily susceptible to manipulation.³¹ In addition, the Commission notes that the TSE is under the regulatory oversight of the MOF. The MOF has responsibility for both the Japanese securities and derivatives markets. Accordingly, the Commission believes that the ongoing oversight of the trading activities on the TSE by the MOF will help to ensure that the trading of the underlying components of the Japan Export Index warrants will be carefully monitored with a view toward preventing unnecessary market disruptions.

Finally, as noted above, the Commission and the MOF have concluded a Memorandum of Understanding that provides a framework for mutual assistance in investigatory and regulatory matters.³² Moreover, the Commission also has a longstanding working relationship with the MOF on these matters. Based on the longstanding relationship between the Commission and the MOF and the existence of the MOU, the Commission is confident that it and the MOF could acquire information from one another similar to that which would be available in the event that a comprehensive surveillance sharing agreement were executed between the CBOE and the TSE with respect to transactions in TSE-traded stocks related to Japan Export Index warrant transactions on the CBOE.³³

Nevertheless, the Commission continues to believe strongly that a

³¹ In evaluating the manipulative potential of a proposed index derivative product, as it relates to the securities that comprise the index and the index product itself, the Commission has considered several factors, including (1) The number of securities comprising the index or group; (2) the capitalizations of those securities; (3) the depth and liquidity of the group or index; (4) the diversification of the group or index; (5) the manner in which the index or group is weighted; and (6) the ability to conduct surveillance on the product. See Securities Exchange Act Release No. 31016 (August 11, 1992), 57 FR 37012 (August 17, 1992).

³² See Memorandum of Understanding Between the United States Securities and Exchange Commission and the Securities Bureau of the Japan Ministry of Finance on the Sharing of Information, dated May 23, 1986.

³³ It is the Commission's expectation that this information would include transaction, clearing, and customer information necessary to conduct an investigation.

comprehensive surveillance sharing agreement between the TSE and the CBOE covering Japan Export Index warrants would be an important measure to deter and detect potential manipulations or other improper or illegal trading involving Japan Export Index warrants. Accordingly, the Commission believes it is critical that the TSE and the CBOE continue to work together to consummate a formal comprehensive surveillance sharing agreement to cover Japan Export Index warrants and the component securities as soon as practicable.

D. Market Impact

The Commission believes that the listing and trading of Japan Export Index warrants on the CBOE will not adversely impact the securities markets in the United States or in Japan. First, the existing index warrants surveillance procedures of the CBOE will apply to warrants on the Index. In addition, the Commission notes that the Index is broad-based and diversified and includes highly capitalized securities that are actively traded on the TSE. Additionally, the CBOE has established reasonable positions and exercise limits for stock index warrants, which will serve to minimize potential manipulation and other market impact concerns.

The Commission finds good cause for approving the proposed rule change, including Amendment Nos. 1, 2, and 3 prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. The Commission notes that Japan Export Index warrants will be listed pursuant to the Generic Warrant Listing Standards as described above. Additionally, the Index's applicable "equal dollar weighting" methodology is a commonly applied index calculation method. Moreover, the Japan Export Index is a broad-based Index designed to represent a substantial segment of the Japanese equity market and accordingly is similar in design as other Japanese stock market based options and/or warrants that have been approved by the Commission for U.S. exchange trading.³⁴ Finally, no

³⁴ See Securities Exchange Act Release Nos. 34821 (October 11, 1994), 59 FR 52568; and 35184 (December 30, 1994), 60 FR 2616 (January 10, 1995) (Orders approving proposed rule change by the Amex and CBOE, respectively, to list and trade warrants based on the Nikkei 300 Index). See also Securities Exchange Act Release No. 27565 (December 22, 1989), 55 FR 376 (January 4, 1990) (Order approving proposed rule change by the Amex to list and trade warrants based on the Nikkei 225 Index). See also Securities Exchange Act Release Nos. 28475 (September 27, 1990), 55 FR

comments were received on the proposal, which was subject to the full 21 day notice and comment period.³⁵

Amendment No. 1 to CBOE's proposal sets the Index value equal to 100 on March 31, 1984, rather than on the date of the first issuance of the warrants, as originally proposed. Accordingly, the Index was valued at 206.56, as of September 13, 1995, and the initial offering price for the warrants will be based on an index level around the time of issuance. The Commission notes the Index does not yet underlie any warrant trading, therefore the setting of a new starting value for the Index does not raise any new regulatory issues.

The CBOE also indicated in Amendment No. 1 that the Index will not be re-balanced at the time of initial issuance of the warrant, rather it will be re-balanced annually as of the last trading day of the calendar year as originally proposed. The Commission notes that the Index was re-balanced on the last trading day of 1994, and will again be re-balanced on the last trading day in 1995. Additionally, the Index will be re-balanced earlier when necessary as set forth below in CBOE Amendment No. 3.

Amendment No. 2 to CBOE's proposal describes more detailed maintenance procedures to be employed by the CBOE.³⁶ The Commission believes that the Exchange's periodic review of the underlying components of the Index for liquidity, capitalization and export revenue, and the replacement procedures for underlying components of the Index, as described above, will help ensure that the Index maintains its intended market character.

In Amendment No. 2, the CBOE further represents that the Index values are expected to be carried by the major quote vendors, and thereby will be accessible to investors throughout the trading day. The Commission believes that in light of CBOE's assurances that the Index value will be widely available to investors throughout the trading day, and because stock exchange trading in Japan and U.S. markets does not overlap, the described amendment relating to Index dissemination is appropriate.

Amendment No. 3 to CBOE's proposal states that the CBOE will monitor the weightings of the components of the Japan Export Index and if at any time the top 5 stocks account for more than

33 $\frac{1}{3}$ % of the total weight of the Index, CBOE will re-balance the Index within the next thirty calendar days. The Commission notes that Amendment No. 3 is more restrictive than the original proposal which was published for the full 21-day comment period without any comments being received by the Commission.³⁷ Additionally, the Commission believes that the Exchange's interim rebalancing procedures will benefit investors and help ensure that the Index reflects its intended market character.

Accordingly, the Commission believes it is consistent with Section 6(b)(5) and 19(b)(2) of the Act to approve the proposed rule change, including Amendment Nos. 1, 2 and 3 to the proposed rule change, on an accelerated basis.

E. 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to SR-CBOE-95-41 and should be submitted by October 17, 1995.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,³⁸ that the proposed rule change (File No. SR-CBOE-95-41), as amended, is approved.

³⁷ The Commission believes that the CBOE's amended maintenance procedures are more restrictive in that the CBOE will re-balance the Index within 30 calendar days if at any time the top 5 stocks account for more than 33 $\frac{1}{3}$ % of the total weight of the Index. The proposal as originally filed only contemplated an annual rebalancing under all circumstances.

³⁸ 15 U.S.C. 78s(b)(2).

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁹

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-23758 Filed 9-25-95; 8:45 am]

BILLING CODE 8010-01-M

DEPARTMENT OF STATE

[Public Notice No. 2254]

United States International Telecommunications Advisory Committee (ITAC) Standardization Sector U.S. ITAC-T Study Group and ITAC Ad Hoc Committee—Rights & Obligations; Meeting Notice

The Department of State announces that the United States International telecommunications Advisory Committee (ITAC), Telecommunications Standardization Sector (ITAC-T) Study Group (formerly the USNC), the ITAC ad hoc Committee for Rights and Obligations and the ITAC-T Study Group C will meet on the following dates and times at the U.S. Department of State, 2201 C Street, NW., Washington, DC 20530:

ITAC-T National Study Group, October 18, 1995, 930-300, Room 1205
ITAC-T Study Group C, October 23, 1995, 130-500, Room 3524
ITAC Ad Hoc Committee for Rights and Obligations, November 28, 1995, 930-300, Room 1205

Detailed agendas will be provided prior to the meeting to the most recent attendees of the two U.S. ITAC Groups. The ITAC-T agenda will deal primarily with a debrief of the September meeting of the Telecommunications Standardization Advisory Group (TSAG) including any discussions relating to the joint RAG/TSAG refinement meeting (September 15 & 18) and initial preparations for the 1996 World Telecommunications Standardization Conference (WTSC-96) while the ITAC ad hoc committee for Rights and Obligations will finalize U.S. preparations for the upcoming Geneva December 11-15 meeting of the ITU Review Committee. The agenda for Study Group C will deal principally with documents discussed at the U.S. domestic meeting held prior to the SG C meeting, drafted as contributions and destined for the November meeting in Geneva of ITU-T Study Group 15.

Members of the General Public may attend the meetings and join in the discussions, subject to the instructions of the chair. Admittance of public

³⁹ 17 CFR 200.30-3(a)(12).

40492 (October 3, 1990); and 31016 (August 11, 1992), 57 FR 37012 (August 17, 1992) (Orders approving proposed rule change by the Amex to list and trade options and warrants, respectively, on the Japan Index).

³⁵ See Release No. 36128, *supra* note 3.

³⁶ See Amendment No. 2, *supra* note 5.