

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 November 27, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>22</sup> that the proposed rule changes (File Nos. SR-Amex-95-41; SR-CBOE-95-32; SR-NYSE-95-30; SR-PHLX-95-65; and SR-PSE-95-21) are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-27385 Filed 11-3-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36439; File No. SR-CBOE-95-56]

**Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to Modifications of the Position and Exercise Limits for Narrow-Based Index Options**

October 31, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on October 10, 1995, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is approving this proposal on an accelerated basis.

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

The CBOE proposes to amend CBOE Rules 24.4A, "Position Limits for Industry Index Options," and 24.5, "Exercise Limits," to increase the position and exercise limits<sup>2</sup> for narrow-based (or industry) index

options from the current levels of 5,500, 7,500, or 10,500 contracts<sup>3</sup> to 6,000, 9,000, or 12,000 contracts. The Commission recently approved an identical proposal by the Philadelphia Stock Exchange, Inc. ("PHLX").<sup>4</sup>

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 self-regulatory organization 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 self-regulatory organization 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 CBOE proposes to amend CBOE Rules 24.4A and 24.5 to increase the position and exercise limits for narrow-based (or industry) index options from the current levels of 5,500, 7,500, or 10,500 contracts to 6,000, 9,000, or 12,000 contracts. The CBOE notes that the Commission recently approved an identical proposal by the PHLX.<sup>5</sup>

Currently, CBOE Rule 24.4A establishes 5,500, 7,500, and 10,500 contract levels as position limits for industry index options. The CBOE proposes to increase these limits to 6,000, 9,000, and 12,000 contracts, respectively. If the Commission

<sup>3</sup> Under CBOE Rule 24.4A, the current position limits for industry index options are as follows: (1) 5,500 contracts if the CBOE determines in its semi-annual review that any single underlying stock accounted, on average, for 20% or more of the index value or that any five underlying stocks together accounted, on average, for more than 30% or more of the index value during the 30-day period immediately preceding the review; (2) 7,500 contracts if the Exchange determines in its semi-annual review that any single underlying stock accounted, on average, for more than 20% of the index value or that any five underlying stocks accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or (3) 10,500 contracts if the CBOE determines that the conditions requiring the establishment of a lower limit have not occurred.

<sup>4</sup> See Securities Exchange Act Release No. 36194 (September 6, 1995), 60 FR 47637 (September 13, 1995) (order approving File No. SR-PHLX-95-16) ("PHLX Approval Order").

<sup>5</sup> *Id.*

approves the proposed increase in position limits for industry index options, the exercise limits set forth in CBOE Rule 24.5 for industry index options will increase correspondingly since they reference CBOE Rule 24.4A.

The CBOE trades options on the following narrow-based indexes, with limits as shown:

- (1) S&P Banking Index—10,500 contracts;
- (2) S&P Chemical Index—5,500 contracts;
- (3) S&P Health Care Index—7,500 contracts;
- (4) S&P Insurance Index—7,500 contracts;
- (5) S&P Retail Index—5,500 contracts;
- (6) S&P Transportation Index—7,500 contracts;
- (7) CBOE Software Index—7,500 contracts;
- (8) CBOE Environmental Index—7,500 contracts;
- (9) CBOE Gaming Index—7,500 contracts;
- (10) CBOE Global Telecommunications Index—10,500 contracts;
- (11) CBOE Israel Index—7,500 contracts;
- (12) CBOE Mexico Index—10,500 contracts;
- (13) CBOE REIT Index—10,500 contracts;
- (14) CBOE Telecommunications Index—10,500 contracts;
- (15) CBOE Biotech Index—10,500 contracts;
- (16) CBOE Latin 15 Index—10,500 contracts;
- (17) CBOE High Technology Index—10,500 contracts.

The CBOE notes that the current levels have been in place since 1993.<sup>6</sup> The CBOE believes that the proposed limits of 6,000, 9,000, and 12,000 contracts will increase the depth and liquidity of the market for industry index options without causing any market disruption. The Exchange represents that it will continue to surveil for manipulation. In addition, the Exchange states that it has not opened any manipulation inquiries to date as a result of any increase in position and exercise limits.

The Exchange believes that the proposal to increase narrow-based index option position limits is consistent with Section 6 of the Act, in general, and, in particular, with Section 6(b)(5), in that it will allow investors to utilize industry index options more fully as part of their investment portfolios, provide uniform limits among the exchanges listing such options and increase the depth and

<sup>6</sup> See Securities Exchange Act Release No. 33283 (December 3, 1993), 58 FR 65204 (December 13, 1993) (order approving File No. SR-CBOE-93-43).

<sup>22</sup> 15 U.S.C. § 78s(b)(2) (1982).

<sup>23</sup> 17 CFR 200.30-3(a)(12) (1994).

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

<sup>2</sup> Position limits impose a ceiling on the number of option contracts which an investor or group of investors acting in concert may hold or write in each class of options on the same side of the market (*i.e.*, aggregating long calls and short puts or long puts and short calls). Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

liquidity of the market, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system in a manner consistent with the protection of investors and the public interest.

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

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

The CBOE has requested that the proposed rule change be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act. As noted above, the Commission has previously approved an identical proposal submitted by the PHLX.<sup>7</sup>

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).<sup>8</sup> Specifically, the Commission finds that the proposed position and exercise limits for narrow-based index options should accommodate the needs of investors and market participants and should increase the potential depth and liquidity of the options market as well as the underlying cash market without significantly increasing concerns regarding intermarket manipulations or disruptions of the market for the options or the underlying securities.

As noted above, the Commission believes that although the position and exercise limits for options must be sufficient to protect the options and related markets from disruptions by manipulation, the limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent market makers from adequately meeting their obligations to maintain a fair and orderly market. In this regard, the CBOE has stated that it believes that the proposal will increase

the depth and liquidity of the market for industry index options without causing any market disruption. In addition, the CBOE represents that it will continue to conduct surveillance for manipulation, and that the Exchange has not opened any manipulation inquiries to date as a result of an increase in position and exercise limits.

The Commission notes that the proposal, while increasing the applicable position limits for narrow-based index options, continues to reflect the unique characteristics of each index option and maintains the structure of the current three-tiered system. Specifically, the lowest proposed limit, 6,000 contracts, will apply to narrow-based index options in which a single underlying stock accounts for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option positions limits. A position limit of 9,000 contracts will apply if any single underlying stock accounts, on average, for 20% or more of the index value or any five underlying stocks account, on average for more than 50% of the index value, but no single stock in the group accounts, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits. The 12,000-contract limit will apply only if the Exchange determines that the conditions requiring either the 6,000-contract limit or the 9,000-contract limit have not occurred. Accordingly, the proposal allows the Exchange to avoid placing unnecessary restraints on those narrow-based index options where the manipulative potential is the least and the need for increased positions, both by traders and institutional investors, may be the greatest.

The Commission believes that the proposed increases for the three tiers of 9%, 20%, and 15%, for lowest to highest, respectively, appear to be appropriate and consistent with the Commission's evolutionary approach to position and exercise limits. In this regard, the absence of discernible manipulative problems under the current three-tiered position and exercise limit system for narrow-based index options leads the Commission to conclude that the modest increases proposed by the Exchange are warranted. The Commission recognizes that there are no ideal limits in the sense that options positions of any given size can be stated conclusively to be free of any manipulative concerns. However, based upon the absence of discernible manipulation or disruption problems

under current limits, the Commission believes that the proposed limits can be safely considered. Accordingly, the Commission believes that the liberalization of existing position and exercise limits for narrow-based index options is now appropriate.<sup>9</sup>

The Commission notes that the Exchange has had considerable experience monitoring the current three-tiered framework in narrow-based stock index options. The Commission has not found that differing position and exercise limit requirements based on the particular options product to have created programming or monitoring problems for securities firms, or to have led to significant customer confusion. Based on the current experience in handling position and exercise limits, the Commission believes that the proposed increase in position and exercise limits for narrow-based index options will not cause significant problems.

Finally, the CBOE has indicated that it will continue to conduct surveillance for manipulation. The Commission believes that the Exchange's surveillance programs are adequate to detect and deter violations of position and exercise limits as well as to detect and deter attempted manipulative activity and other trading abuses through the use of such illegal positions by market participants.

For the foregoing reasons, the Commission finds that the proposal to increase the position and exercise limits for narrow-based index options to 6,000, 9,000, or 12,000 contracts, depending on the percentage stock concentrations within the index, is consistent with the requirements of the Act and the rules and regulations thereunder.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. As noted above, the Commission has previously approved an identical proposal submitted by the PHLX.<sup>10</sup> The PHLX's proposal was published for the full notice and comment period and the Commission received no comments on the PHLX's proposal. The CBOE's proposal raises no new regulatory issues. Accordingly, the Commission

<sup>9</sup> The Commission continues to believe that proposals to increase position limits and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for each tier, the Commission has concluded that the proposed exercise limit increases for the three-tiered framework do not raise manipulation problems or increase concerns over market disruption in the underlying securities.

<sup>10</sup> See PHLX Approval Order, *supra* note 4.

<sup>7</sup> See PHLX Approval Order, *supra* note 4.

<sup>8</sup> 15 U.S.C. 78f(b) (1988 & Supp. V 1993).

believes it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve the proposed rule change on an accelerated basis.

#### 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 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 November 27, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> that the proposed rule change (SR-CBOE-95-56) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority,<sup>12</sup>

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 95-27424 Filed 11-3-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36441; File No. SR-CBOE-95-64]

### Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval to Proposed Rule Change by the Chicago Board Options Exchange, Incorporated and Amendment Nos. 1 and 2 to the Proposed Rule Change, Relating to Position Limits on the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index

October 31, 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 October 20, 1995 the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange submitted to the Commission Amendment Nos. 1 and 2 to the proposal on October 26, 1995.<sup>3</sup> The Commission is approving this proposal, as amended, on an accelerated basis.

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

The Exchange proposes to revise the positions limits applicable to the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index.<sup>4</sup> (The S&P 500/Barra Growth Index is sometimes hereinafter referred to as the "Growth Index," the S&P/500 Barra Value Index is sometimes hereinafter referred to as the "Value Index," and the Growth Index and the Value Index are sometimes hereinafter collectively referred to as the "Indexes.") The position limits are being revised to account for the rebasing of the Indexes. The text of the proposed rule change is available at the Office of the Secretary of 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 self-regulatory organization 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 those statements may be examined at the places specified in Item IV below

and is set forth in sections (A), (B), and (C) below.

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

The purpose of the proposed rule change is to reduce the contract position limits for the Indexes consistent with the recent rebasing of the Indexes by Standard & Poor's ("S&P"). The Indexes are maintained by Barra, Inc. ("Barra") pursuant to an agreement between Barra and Standards & Poor's ("S&P"). The Value Index and Growth Index represent a partition of the S&P 500 Stock Index and, like options on the S&P 500 ("SPX options"), Value options and Growth options are cash-settled, European-style and A.M.-settled. The Indexes are described in more detail in File No. SR-CBOE-93-36 and in the Commission order approving the Indexes for options trading on the Exchange.<sup>5</sup> The Exchange represents that it intends to begin trading options on both Indexes on or about November 7, 1995.

**Rebasing of the Indexes.** On July 20, 1995, Standard & Poor's announced that the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index will be rebased effective Friday, July 28, 1995. The Indexes were set at a base value of 10 for December 31, 1974. The new base value for the Indexes will be 35 and all historical values of the Indexes will be adjusted accordingly by a factor of 3.5. The rebasing serves to bring the value of the combined Indexes into line with the value of the S&P 500, the index from which the Indexes are derived.

As an example, the Growth Index and the Value Index closed at 78.64 and 84.59, respectively, on Tuesday, July 25, 1995. On an adjusted basis those levels are 275.24 and 296.07. The sum of those values is 571.31, as compared to the closing level of the S&P 500 on that date of 561.10.

**Position Limits.** Currently, under CBOE Rule 24.4(a), position limits for Growth options and position limits for Value options are 125,000 contracts on the same side of the market, with no more than 75,000 contracts in the series with the nearest expiration date. Positions in both classes of options must be aggregated, pursuant to the Rule, in determining compliance with the position limits. In addition, currently under Interpretation .01 to Rule 24.4, the maximum combined position in the Indexes may not exceed 225,000 same-side of the market option contracts

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

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

<sup>3</sup> The Exchange submitted Amendment No. 1 to its proposed rule change to reduce the position limits originally proposed in this filing to position limits consistent with the rebasing of the Growth Index and Value Index. The Exchange proposes to amend the contract position limits for the Indexes: (1) From 40,000 contracts on the same side of the market as originally proposed to 36,000 contracts; (2) from 25,000 contracts in the nearest expiration series as originally proposed to 21,500 contracts; and (3) from a 75,000 contract hedge exemption limit as originally proposed to 65,000 contracts. Additionally, Amendment No. 2 changes the name of each Index from S&P/Barra Growth and S&P/Barra Value to S&P 500/Barra Growth and S&P 500/Barra Value, respectively. See Letter from Timothy Thompson, Attorney, CBOE, to John Ayanian, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, dated October 26, 1995.

<sup>4</sup> Exercise limits will be set at the same level as position limits. See CBOE Rule 24.5.

<sup>5</sup> See Securities Exchange Act Release No. 34124 (May 27, 1994), 59 FR 29310 (June 6, 1994).

<sup>11</sup> 15 U.S.C. § 78f(b)(2) (1988).

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