

(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 currency warrants under CBOE Rule 31.5(E). The Exchange is now proposing to list and trade currency warrants based upon the value of the U.S. dollar in relation to the Mexican peso. The Exchange further represents that the listing and trading of Mexican Peso Warrants will comply in all respects with CBOE Rule 31.5(E), as discussed below.

Currency Warrant Trading

Mexican Peso Warrants will be unsecured obligations of their issuers and will be cash-settled in U.S. dollars. Mexican Peso Warrants will be exercisable either throughout their life (*i.e.*, American-style) or only immediately prior to their expiration date (*i.e.*, European-style). Upon exercise, the holder of a Mexican Peso Warrant structured as a "put" will receive payment in U.S. dollars to the extent that the value of the Mexican peso has declined in relation to the U.S. dollar below a pre-stated base level. Conversely, upon exercise, holders of a Mexican Peso Warrant structured as a "call" will receive payment in U.S. dollars to the extent that the value of the Mexican peso has increased in relation to the U.S. dollar above a pre-stated level. Mexican Peso Warrants that are "out-of-the-money" at the time of expiration will expire worthless.

Warrant Listing Standards and Customer Safeguards

CBOE Rule 31.5(E) sets forth the criteria applicable to listing currency warrants. Any issue of Mexican Peso Warrants will conform to the listing guidelines under Rule 31.5(E) which provide that: (1) The issuer will have assets in excess of \$100,000,000 and otherwise substantially exceed the size and earnings requirements in Rule 31.5(A); (2) the term of the warrants shall be for a period ranging from one to five years from date of issuance; and (3) the minimum public distribution of such issues shall be one million warrants, together with a minimum of 400 public holders, and have an aggregate market value of at least \$4 million.

On September 28, 1994, the Exchange submitted for Commission approval, proposed rules governing customer protection and margin requirements for stock index warrants, currency index

warrants, and currency warrants.³ If the Commission approves these proposed rules, the Exchange represents that the listing and trading of the proposed Mexican Peso Warrants will be subject to these rules.

The CBOE will also require that Mexican Peso Warrants be sold only to customers whose accounts have been approved for options trading pursuant to Exchange Rule 9.7. The Exchange also notes that the suitability standards of Exchange Rule 9.9 shall apply to recommendations in Mexican Peso Warrants. Further, the Exchange represents that the standards of Rule 9.10(a), regarding discretionary orders, will be applied to Mexican Peso Warrants. Additionally, the Exchange will require that customer positions in Mexican Peso Warrants be subject to the margin requirements applicable to foreign currency options.

Prior to the commencement of trading of Mexican Peso Warrants, the Exchange will distribute a circular to its membership calling attention to certain compliance responsibilities when handling transactions in Index warrants. The Exchange will submit a draft of the circular to the Commission staff for approval prior to distribution to members.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴ in particular, in that it is designed to facilitate transactions in securities and to remove impediments to and perfect the mechanism of a free and open market by providing investors with a low-cost means of participating in the performance of the Mexican economy or hedging against the risk of investing in that economy.

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

The Exchange 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

Written comments on the proposed rule change were neither solicited nor received.

³ See Securities Exchange Act Release No. 35178 (December 29, 1994), 60 FR 2409 (January 9, 1994) (notice of File No. SR-CBOE-94-34).

⁴ 15 U.S.C. 78f(b)(5) (1988).

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 Exchange 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 will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-12 and should be submitted by March 1, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

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⁵ 17 CFR 200.30-3(a)(12) (1994).