

*C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others*

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing of Commission Action

Within 35 days of the publication of this notice in the Federal Register or within such other 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 the 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 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 CHX. All submissions should refer to File No. SR-CHX-95-03 and should be submitted by March 20, 1995.

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

Margaret H. McFarland,

*Deputy Secretary.*

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[Release No. 34-35397; File No. SR-CBOE-95-05]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Changes by the Chicago Board Options Exchange, Incorporated, Related to Certain Procedures Regarding Trading Halts, Trading Suspensions, the Reopening of Trading After a Trading Halt or Suspension, and the Shut Down of RAES**

February 21, 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 January 18, 1995, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule changes as described in Items I, II and III below, which Items have been prepared by the CBOE. The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons.

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

The CBOE proposes to amend its rules and Regulatory Circulars RG94-17 and RG93-58 (formerly RG92-40) to conform to existing practice regarding (1) the factors the Exchange considers in deciding whether to halt or suspend trading and (2) the circumstances under which trading is generally halted or suspended by the Exchange. The CBOE also proposes to establish procedures for the resumption of trading after a halt or suspension is lifted, and to grant the Control Room the authority to turn off the Retail Automatic Execution System ("RAES") with respect to a stock option if the Control Room receives a credible indication that trading in the underlying stock has been halted.

The text of the proposed rule changes 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 Changes

In its filing with the Commission, CBOE included statements concerning the purpose of and the basis for the proposed rule changes and discussed any comments it received on the proposed rule changes. 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 parts of such statements.

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

The purpose of the proposed rule changes is to conform the rules to existing practice both regarding the factors considered in a decision to halt or suspend trading and regarding the circumstances under which trading generally will be halted or suspended, to establish procedures for the resumption of trading after a halt or suspension is lifted, and to grant the Control Room the authority to turn off RAES if the Control Room receives a credible indication that trading has stopped in the underlying stock.

Status of Rotation as Factor Considered in Halt or Suspension

Specifically, the proposal would amend Rules 6.3(a), 6.4(a) and 24.7(a) to include the status of the trading rotation<sup>1</sup> as a factor that may be considered in a decision whether to halt or suspend trading. Although it is not presently explicit in the rules, it is current practice to consider the rotation status in deciding whether to halt or suspend trading. For example, if the rotation is near completion, Floor Officials or the Exchange may decide it is in the interest of a fair and orderly market to complete the rotation before calling a halt or suspension in trading. The proposed amendment to the rules would notify members and the public that, when deciding whether to halt trading, Floor Officials may consider the extent to which the rotation has been completed and other factors regarding the status of the rotation. When deciding whether to suspend trading, the Board of Directors similarly would be able to consider the extent to which the rotation is completed or other factors regarding the status of the rotation.

Regulatory Halt

The proposal would add Interpretation .04 to Rule 6.3 and Interpretation .01 to Rule 6.4 to state the current practice that, in general, trading in a stock option will be halted when a regulatory halt in the underlying stock has occurred in the primary market for that stock. Any two Floor Officials may halt trading in any security in the interests of a fair and orderly market for a period not in excess of two consecutive business days.

<sup>1</sup> A "trading rotation" is a series of very brief time periods during each of which bids, offers, and transactions in only a single, specified option contract can be made. See CBOE Rule 6.2.

Similarly, the proposal would state the current practice that, in general, trading in a stock option will be suspended when a regulatory suspension in the underlying stock has occurred in the primary market for that stock. In the case of a regulatory suspension, the Board of Directors is authorized to suspend trading in any security in the interests of a fair and orderly market from an indefinite period.

Rules 6.3 and 6.4 list factors considered in deciding whether to halt or suspend trading. These factors are currently considered in deciding whether to halt trading in the related stock option. Moreover, generally, when a regulatory halt in the underlying stock has been declared in the primary market, the Exchange will decide to halt or suspend trading in the overlying stock option. The Exchange believes that the close relationship between the underlying stock and the pricing of stock options overlying that security typically justify such a result. When a regulatory halt is declared in the underlying stock, it often is because some news is pending regarding the underlying stock and the primary market wants to allow time for the dissemination of such news. For the same reason, it generally is appropriate in that circumstance to halt trading in the overlying stock option. By addition the proposed interpretations to Rules 6.3 and 6.4, CBOE would inform members and the public of the existence of this general practice to halt or suspend trading in a stock option when a regulatory halt in the underlying stock has been declared.

The proposal also would amend Rules 6.3(a)(iii) and 6.4(a)(ii) to clarify that these rules are only applicable in the case of a security other than an option. Securities other than options include, for example, the securities traded at CBOE which are subject to Chapter 30 of the CBOE Rules. Securities presently subject to Chapter 30 are: Stock, warrants (which term includes currency and index warrants except as otherwise expressly provided or as the context otherwise requires), UIT interest, and such other securities instruments, and contracts as the Board of Directors may from time to time declare are subject to Chapter 30. The changes are necessary to clarify that Rules 6.3(a)(iii) and 6.4(a)(ii) do not apply to stock options or any other options traded at CBOE, but only to securities traded at CBOE other than options.

#### Circuit Breaker Halts

The proposal also would delete Rule 6.3A, which provides for a halt in

trading of all equity and index options when there has been a floor-wide New York Stock Exchange halt or suspension as a result of activation of circuit breakers on the New York Stock Exchange. This rule is unnecessary because the only circumstances under which Rule 6.3A could apply are situations that Rule 6.3B already expressly governs. There are only two circuit breakers that lead to a New York Stock Exchange floor-wide halt—when there has been a Dow Jones Industrial Average drop of 250 or more points below its closing value on the previous trading day and when on the same day there is a cumulative drop of 400 or more points from the previous day's closing value. Rule 6.3B already governs trading halts under both of these circumstances. Under Rule 6.3B, the mandatory circuit breaker halt would terminate automatically after the expiration of the applicable one hour or two hour time period.

The proposal would eliminate the requirements contained in Rule 6.3A that, prior to a reopening rotation, (i) an additional determination must be made that a halt or suspension is not in effect in the primary market where the underlying security for each class of options is traded; (ii) a determination must be made, in the case of index options, that a halt or suspension is not in effect in the primary market of the securities constituting 50% or more of the index value; and (iii) two Floor Officials, in consultation with a designated senior executive officer, must conclude in their judgment that the interests of a fair and orderly market are served by a resumption of trading. After a circuit breaker halt, therefore, trading would resume automatically unless the Exchange affirmatively acted to declare a further halt or suspension pursuant to other rules, such as Rules 6.3, 6.4 or 24.7.

CBOE believes that trading should resume after a circuit breaker halt, subject only to these normal rules regarding trading halts and suspensions. Pursuant to Rules 6.3, 6.4 and 24.7, a halt or suspension in the underlying security (to which Rule 6.3A refers) is among the factors considered in the decision to suspend or halt trading, but this factor does not necessarily require a halt or suspension nor limit the Exchange's ability to exercise judgment in these circumstances. CBOE believes that the interests of a fair and orderly market are better served when the rules allow Exchange officials the discretion to evaluate market conditions and circumstances and to exercise their judgment as to when to halt or suspend trading, without the restrictions on the

exercise of that judgment that are contained in Rule 6.3A.

#### Reopening After Circuit Breaker Halt

The proposal also would eliminate the requirement in Rule 6.3A that, if trading is halted due to activation of circuit breakers, reopening rotations shall be held. Rule 6.3A apparently makes a reopening rotation mandatory and prevents Exchange officials from reopening without a rotation. CBOE believes the interests of a fair and orderly market are better served when the rules allow Exchange officials the discretion to evaluate market conditions and circumstances and to exercise their judgment as to whether to reopen with or without a rotation.

Procedures regarding reopening after a halt triggered by circuit breakers will be added by amending Rule 6.3B, Interpretation .02. The amended Interpretation .02 would require a reopening rotation unless two Floor Officials, or an Order Book Official acting on authorization from a senior Exchange official, conclude it is appropriate under the circumstances to employ a different method of reopening, including but not limited to, no rotation, an abbreviated rotation, or a variation in the manner of the rotation. The purpose of amended Interpretation .02 to Rule 6.3B is to grant Floor Officials the discretion to deviate from a typical reopening rotation after the expiration of a circuit breaker halt. Order Book Officials would also have this discretion, but only if a senior Exchange official authorized such discretion. This could be accomplished by the senior Exchange official making a general announcement to all Order Book Officials.

The CBOE believes it is reasonable to presume that a reopening rotation will be held after a circuit breaker halt because, after a floor-wide halt, it is physically difficult to have two Floor Officials available at each trading post to make a decision regarding the resumption of trading. The presumption allows for a universal treatment of the reopening after a circuit breaker halt, yet still permits appropriate Exchange officials to exercise judgment to deviate from this presumed course of action when a different method of reopening is appropriate.

#### Corresponding Amendments to Regulatory Circulars

##### *Regulatory Circular RG94-17*

The proposal would amend Regulatory Circular RG94-17, which addresses inter-exchange procedures in volatile markets, to make it consistent

with the proposed amended Interpretation .02 to Rule 6.3B. Regulatory Circular RG94-17 discusses CBOE's procedures during a halt in options trading due to a Dow Jones Industrial Average drop of 250 or more points below its closing value on the previous trading day or a cumulative drop of 400 points in the Dow Jones Industrial Average on the same day. Pursuant to the proposed change to Interpretation .02 to Rule 6.3B, after the expiration of the one hour or two hour period set forth in Rule 6.3B, a reopening rotation would be held in each class of options unless two Floor Officials (or an Order Book Official acting upon authorization from a senior Exchange official) conclude a different method of reopening is appropriate. Additionally, RG94-17 would be amended to delete the requirements contained in Rule 6.3A that, before reopening after a circuit breaker halt, the Exchange must verify that (1) there is no halt or suspension in effect in the primary market where the underlying stock is traded and (2) with respect to an index option, there is no halt or suspension in the primary market of the securities constituting 50% of the index.

#### *Regulatory Circular RG93-58*

The proposal would amend Regulatory Circular RG93-58 (RG93-58 is a reprint of Regulatory Circular RG92-40 dated, July 8, 1992), which addresses trading halt policy regarding options on individual equity securities, to make the circular consistent with the proposed amendment to Rule 6.3. Regulatory Circular RG93-58 would be further amended to state that it does not address the Exchange's trading halt policy when a halt has been declared as a result of the operation of a circuit breaker pursuant to Rule 6.3B, due to a 250 or 400 point intra-day drop of the Dow Jones Industrial Average.

Consistent with Rule 6.3, RG93-58 would be amended so that two Floor Officials may exercise judgment regarding trading halts and so that the concurrence of a senior Exchange staff official would not be required. Presently, Rule 6.3 provides that a decision as to whether to halt trading may be made by any "two Floor Officials," so this amendment to RG93-58 would make the guidelines in RG93-58 consistent with Rule 6.3. Furthermore, Floor Officials need to be able to exercise their judgment without obtaining the concurrence of a senior Exchange staff official, because it may be physically difficult for a senior Exchange staff official to be present at all trading posts during circumstance where a trading halt may be

simultaneously necessary in multiple options classes.

Regulatory Circular RE93-58 provides Floor Officials with non-mandatory guidelines to assist them in their decision regarding a trading halt. Pursuant to Rule 6.3, "[a]ny two Floor Officials may halt trading in any security in the interests of a fair and orderly market." Floor Officials are free to exercise judgment and discretion in deciding whether to halt trading. The language of Rule 6.3 is discretionary and does not require that Floor Officials declare a trading halt, so proposed amendments to various paragraphs of RG93-58 delete language which would limit Floor Officials' discretion by imposing mandatory criteria.

The proposal would further amend RG93-58 to reflect CBOE's general practice, as set forth in the proposed interpretation to Rule 6.3, to halt trading in an overlying stock option when a regulatory halt in the underlying stock has been declared in the primary market for that stock.

RG93-58 would be further amended to delete the requirement that, in connection with a halt due to no last sale and/or quotation dissemination either by the Exchange or to the Options Price Reporting Authority ("OPRA"),<sup>2</sup> trading may only resume 15 minutes after notification to the news wire services. The guidelines provide that the news wire services will be notified of the dissemination difficulty. However, under such circumstances, since trading presumably would have been proceeding in other markets, it is important for the options market to resume trading as soon as practical after the dissemination difficulty which led to the halt is no longer present. CBOE believes that waiting 15 minutes to resume trading would be inordinately long and may be contrary to the interests of a fair and orderly market. Nonetheless, the proposed amendments would specifically state CBOE's general practice to notify member firms and news wire services before the resumption of trading.

<sup>2</sup> OPRA is a National Market System Plan approved by the Commission pursuant to Section 11A of the Act and Rule 11A3-2. Securities Exchange Act Release No. 17638 (Mar. 18, 1981).

OPRA provides for the collection and dissemination of last sale and quotation information on options that are traded on the five exchanges participating in the plan. The exchanges include the CBOE, the Philadelphia Stock Exchange, the American Stock Exchange, the Pacific Stock Exchange, and the New York Stock Exchange.

The OPRA plan was implanted in response to directives of the SEC that provisions be made for the Consolidated reporting of transactions in eligible options contracts listed and traded on national securities exchanges.

The language in paragraph one of RG93-58 would be further amended to clarify that there is a preference, but not a requirement, to halt trading if two Floor Officials believe that the dissemination problem will last more than 15 minutes. The language would be further amended to clarify that, if the two Floor Officials believe that the dissemination problem will be resolved within the next 15 minutes, then there is no preference for a halt—even if that expectation proves to be incorrect. The present language would be further amended to clarify that trading ordinarily will continue if two Floor Officials believe it is likely the dissemination problem will be resolved in less than 15 minutes. The present language appears to require trading to continue under such circumstances. Again, these guidelines should not limit Floor Officials' discretion, since Rule 6.3 provides for discretion in such circumstances. If a systems problem prevented CBOE or OPRA from disseminating CBOE's last sale or quote data, this would be an unusual market condition and, pursuant to Rule 6.3, two Floor Officials may halt trading.

The proposed amendments would delete the requirement in paragraph four of RG93-58 that, in connection with a primary market floor-wide trading halt and despite the determination by two Floor Officials that sufficient markets will support trading other than at the primary market, trading may resume only upon a one hour notification to the news wire services. Again, since trading of the underlying stock is continuing at an exchange other than the primary exchange, the CBOE believes that waiting one hour to resume options trading at the CBOE could be inordinately long and might be contrary to the interests of a fair and orderly market. Instead, paragraphs one and six of RG93-58 would be amended so that the guidelines for the resumption of trading would be consistent with Rule 6.3(b), which provides that trading in a security that has been the subject of a halt may resume upon a determination by two Floor Officials that the conditions which led to the halt are no longer present, or that the interests of a fair and orderly market are best served by a resumption of trading. However, the proposed amendments would specifically state CBOE's general practice to notify member firms and news wire services before the resumption of trading.

#### RAES

Finally, the proposal would add Interpretation .05 to Rule 6.3 to grant authority to the senior person then in

charge of the Exchange's Control Room to turn off RAES with respect to a stock option if that senior person confirms that the Control Room has received a credible indication (including, but not limited to, information from the trading crowd)<sup>3</sup> that trading in the underlying stock has been halted or suspended. After exercising such authority, that senior person would need to immediately seek confirmation of this decision from two Floor Officials. The purpose of this interpretation is to prevent orders from being placed on RAES during the interval after the trading in the underlying stocks has been halted or suspended but before two Floor Officials have declared a trading halt pursuant to Rule 6.3(a) or before a Post Director or Order Book Official has suspended trading pursuant to Interpretation .01 to Rule 6.3. This interpretation is necessary because, when a stock halts due to pending news, the direction of the effect of the news may be anticipated and, while Floor Officials are being called to a post to decide whether to halt trading, firms could place an order on RAES which could be detrimental to the market makers signed onto the system. Under the current Interpretations to Rule 6.3, the Post Director or Order Book Official must turn off RAES concurrently with any suspension of trading. If an "ST" symbol (for an exchange listed security) or an "H" symbol (for a security traded primarily in the over-the-counter market) is displayed on the Class Display Screen that displays current market information for the underlying security, the Order Book Official or Post Director may suspend trading in the related equity option for a period not to exceed five minutes and concurrently shall turn off RAES applicable to the affected options class or classes.<sup>4</sup> The

<sup>3</sup>BOE represents that if information of an impending halt or suspension comes from the trading crowd or from a source other than hard information in the Control Room, the senior person in charge of the Control Room would first verify it before turning off RAES. To verify the existence of a trading halt or suspension, the senior person would rely upon hard information in the Control Room including (1) the quote of the underlying security being pulled from the Class Display Screen, (2) an ST or H appearing on the Class Display Screen via the Consolidated Tape Association, (3) a print-out in the Control Room confirming the halt or suspension of trading in the underlying security, and (4) notification of the trading halt or suspension via the "Hoot and Holler" system. The Hoot and Holler system is a voice linkage between all of the exchanges and the Commission. Telephone conversation between Edward Joyce, CBOE, and John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Division"), Commission, on Thursday, February 16, 1995.

<sup>4</sup>See Securities Exchange Act Release No. 34126 (May 27, 1994), 59 FR 29309 (June 6, 1994)

Control Room, however, may receive information that trading has stopped in the underlying stock before the Post Director or Order Book Official sees the "ST" symbol or "H" symbol on the Class Display Screen for the underlying stock. Consequently, it is important for the Control Room to have authority to turn off RAES without being required to wait for the "ST" or "H" symbol to appear on the class display screen or for the Post Director or Order Book Official to act.

The proposal would provide that the Post Director, Order Book Official, or their representative will re-start RAES after the trading halt or suspension has ceased. This would be consistent with Rules 6.8(f) and 24.15(f), which provide that each day RAES is available, a Post Director or his representative will start RAES.

#### Conclusion

CBOE believes that the proposed rule changes are consistent with and further the objectives of Section 6(b)(5) of the Act, in that the rule changes are designed to perfect the mechanism of a free and open market and to protect investors and the public interest by enabling Floor Officials to evaluate and consider market conditions and circumstances in determining whether to halt or suspend trading and in deciding on a method to reopen trading after a halt or suspension. CBOE believes that the proposed rule change regarding the authority of the Control Room to turn off RAES with respect to a stock option upon credible information that trading in the underlying stock has been halted is also consistent with and furthers the objectives of Section 6(b)(5) of the Act, in that it is designed to perfect the mechanism of a free and open market.

#### *B. Self-Regulatory Organization's Statement on Burden on Competition*

CBOE does not believe that the proposed rule changes will impose any burden on competitions.

#### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Changes Received from Members, Participants or Others*

No written comments were solicited or received with respect to the proposed rule changes.

(Approval Order giving the Order Book Officials or the Post Director the authority to suspend trading, and to turn off RAES for the affected options class or class whenever trading in the underlying security is halted).

#### III. Date of Effectiveness of the Proposed Rule Changes 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 80 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 changes, or

(B) Institute proceedings to determine whether the proposed rule changes 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 changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of CBOE. All submission should refer to file number SR-CBOE-95-05 and should be submitted by March 20, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

Margaret H. McFarland,

Deputy Secretary.

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<sup>5</sup> 17 CFR 200.30-3(a)(12) (1994).