[Release No. 34–35806; International Series Release No. 817; File No. SR–CBOE–95–12]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 2 and 3 to the Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing of Currency Warrants Based on the Mexican Peso

June 5, 1995.

On January 27, 1995, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] filed with the Securities and Exchange Commission (''Commission'') a proposed rule change to permit the listing of foreign currency warrants based on the value of the U.S. dollar in relation to the Mexican peso (''Peso Warrants''). Notice of the proposal appeared in the **Federal Register** on February 8, 1995.[3] The Exchange subsequently filed Amendment No. 1 to the proposal on March 6, 1995. Notice of Amendment No. 1 to the proposal appeared in the **Federal Register** on March 15, 1995.[4] No comment letters were received on the original proposed rule change or on Amendment No. 1. The Exchange then filed Amendment No. 2 to the proposal on May 1, 1995,[5] and Amendment No. 3 on May 24, 1995.[6] This order approves the CBOE proposal, as amended by Amendment Nos. 2 and 3.

Pursuant to 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. Peso Warrants will be unsecured obligations of their issuers and will be cash-settled in U.S. dollars. 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 Peso Warrant structured as a ''put'' will receive payment in U.S. dollars to the extent that the value of the Mexican peso in relation to the U.S. dollar has declined below a pre-stated base level. Conversely, upon exercise, holders of a Peso Warrant structured as a ''call'' will receive payment in U.S. dollars to the extent that the value of the Mexican peso in relation to the U.S. dollar has increased above a pre-stated level. Peso Warrants that are ''out-of-the-money'' at the time of expiration will expire worthless.

Any issue of Peso Warrants will conform to the listing guidelines under CBOE 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 CBOE Rule 31.5(A); (2) the term of the warrants will be from one to five years from the date of issuance; and (3) the minimum public distribution of such issues will be one million warrants, with a minimum of 400 public holders, and an aggregate market value of at least $4 million.[7]

The CBOE will also require that Peso Warrants be sold only to customers whose accounts have been approved for options trading pursuant to Exchange Rule 9.7. The suitability standards of Exchange Rule 9.9 will apply to recommendations for opening transactions in Peso Warrants. Additionally, the standards of Rule 9.10(a), regarding discretionary orders, will also be applied to Peso Warrants. Moreover, the Exchange will require members and member organizations to report to the CBOE any positions of 100,000 or more Peso Warrants on the same side of the market.[8]

For customer margin purposes, the Exchange will set the customer margin ''add-on'' [9] percentage for Peso Warrants at 18% for both initial and maintenance margin, with a minimum add-on for out-of-the-money Peso Warrants of 15%.[10] If, as a result of the Exchange's routine monitoring of margin adequacy (*i.e.*, at least quarterly reviews), the CBOE determines that a higher customer margin level would be appropriate, the CBOE will take immediate steps to implement the change.[11] If, on the other hand, the Exchange determines that a lower margin percentage would be appropriate as a result of the Exchange's periodic reviews, the Exchange will file a proposal with the Commission pursuant to Section 19(b) of the Act to modify the margin add-on percentages applicable to Peso Warrants.[12] Anytime that the customer margin levels for Peso Warrants are changed, the Exchange will promptly notify the Exchange's membership and the public.

Prior to the commencement of trading of Peso Warrants, the Exchange will distribute a circular to its membership calling attention to certain compliance responsibilities when handling transactions in Peso Warrants.[13]

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) [14] in that

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1994).

[3] *See* Securities Exchange Act Release No. 35324 (February 2, 1995), 60 FR 7599.

[4] In Amendment No. 1, the Exchange amended the proposal to specify customer margin levels for the proposed currency warrants. *See* Securities Exchange Act Release No. 35463 (March 9, 1995), 60 FR 14042.

[5] Amendment No. 2, as discussed herein, effectively supersedes Amendment No. 1 by specifying higher minimum customer margin levels than those proposed in Amendment No. 1. *See* Letter from Mary Bender, Senior Vice President, Division of Regulatory Services, CBOE, to Sharon Lawson, Assistant Director, Office of Market Supervision (''OMS''), Division of Market Regulation (''Division''), Commission, dated April 27, 1995 (''Amendment No. 2'').

[6] In Amendment No. 3, as discussed herein, the Exchange: (1) Specified the standards the CBOE will use to ensure continued adequate customer margin levels for short positions in Peso Warrants; and (2) imposed reporting requirements for certain positions in Peso Warrants. *See* Letter from Mary Bender, Senior Vice President, Division of Regulatory Services, CBOE, to Brad Ritter, Senior Counsel, OMS, Division, Commission, dated May 24, 1995 (''Amendment No. 3'').

[7] On September 28, 1994, the Exchange submitted for Commission approval, proposed rules governing listing requirements, and customer protection and margin requirements for stock index warrants, currency index warrants, and currency warrants. *See* Securities Exchange Act Release No. 35178 (December 29, 1994), 60 FR 2409 (January 9, 1995) (notice of File No. SR–CBOE–94–34) (''Generic Warrant Listing Proposal''). If ultimately approved by the Commission, Peso Warrants issued subsequent to that approval will be subject to these rules. These rules, however, will not change the customer margin requirements specified herein. *See* Amendment No. 2, *supra* note 5.

[8] *See* Amendment No. 3, *supra* note 6. In connection with the Generic Warrant Listing Proposal, the CBOE intends to impose similar reporting requirements for all currency warrants listed by the Exchange. *See* Generic Warrant Listing Proposal, *supra* note 7.

[9] For these purposes, ''add-on'' is the percentage of the current market value of the Mexican pesos underlying each Peso Warrant that the holder of a ''short'' position must pay in addition to the current market value of each Peso Warrant.

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

[11] Prior to increasing the customer margin levels, the Exchange should immediately contact the Commission for a determination as to whether a rule filing pursuant to Section 19(b) of the Act will be required.

[12] Specifically, the Exchange will review, on at least a quarterly basis, the frequently distributions reflecting the percentage price returns for the Mexican peso in relation to the U.S. dollar for all seven day periods during the preceding two year period. If the current margin add-on is not sufficient to cover at least 97.5% of all such seven day price returns, the Exchange will take steps to increase the margin level to one that will cover at least 97.5% of all such instances. *See* Amendment No. 3, *supra* note 6. In no event, however, will the Exchange reduce the margin levels provided in Amendment No. 2 without the prior approval of the Commission. *See* Amendment No. 2, *supra* note 5.

[13] The circular should highlight: (1) That Peso Warrants may be sold only to customers with options approved accounts; (2) the applicable suitability requirements; (3) the standards regarding discretionary orders; (4) the reporting requirements for positions of 100,000 or more Peso Warrants on the same side of the market; and (5) the applicable customer margin requirements.

[14] 15 U.S.C. 78f(b)(5) (1988).

it is designed to protect investors and the public interest. First, the Commission believes that the trading of listed warrants on the Mexican peso should provide investors with a hedging and risk transfer vehicle that will reflect the overall movement of the Mexican peso in relation to the U.S. dollar. In this regard, Peso Warrants should provide investors with an efficient and effective means of managing risk associated with the Mexican peso.

Second, the Exchange has proposed listing standards to provide for fair and orderly markets in Peso Warrants. Peso Warrants will conform to the listing standards in CBOE Rule 31.5(E), which are similar to the standards pursuant to which currency warrants have been listed by other securities exchanges.[15] In addition, the Exchange will limit transactions in Peso Warrants to customers with options approved accounts and impose the CBOE's suitability standards and discretionary account standards to transactions in Peso Warrants. Moreover, the requirements established by the Exchange for reporting positions in Peso Warrants on the same side of the market will assist the CBOE in detecting and deterring attempts at manipulation.

Third, the Exchange has proposed adequate customer margin requirements. The proposed add-on margin (*i.e.*, 18%) provides sufficient coverage to account for historical and potential volatility in the Mexican peso in relation to the U.S. dollar. In addition, the Exchange must conduct periodic reviews of the volatility in the Mexican peso and must take immediate steps to increase the existing customer margin levels if the Exchange determines that the existing levels are no longer adequate.[16] As a result, the Commission believes that the proposed customer margin levels and the review and maintenance criteria for those margin levels will result in adequate coverage of contract obligations and are designed to reduce risks arising from inadequate margin levels.

Finally, the Exchange will prepare and distribute to its membership a circular describing each issue of Peso Warrants listed by the CBOE, calling attention to certain compliance responsibilities when handling transactions in Peso Warrants.[17]

Based on the foregoing, the Commission believes that the listing and trading of Peso Warrants, within the framework described above, is appropriate and consistent with the Act.

The Commission finds good cause for approving Amendment Nos. 2 and 3 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, Amendment No. 2 realigns the customer margin requirements to reflect more accurately the recent volatility of the Mexican peso in relation to the U.S. dollar. Moreover, the Commission notes that the original proposal and Amendment No. 1 to the proposal were published in the **Federal Register** for the full 21-day comment period and that no comments were received by the Commission regarding either the original proposal or the lower customer margin levels proposed in Amendment No. 1.

Amendment No. 3 also provides that the CBOE will review the volatility of the Mexican peso in relation to the U.S. dollar on at least a quarterly basis and increase the applicable customer margin levels if appropriate. Moreover, as provided in Amendment No. 2, the CBOE cannot lower the customer margin levels from the 18% and 15% levels provided above without Commission approval pursuant to Section 19(b) of the Act. As discussed above, the Commission believes these procedures will ensure that the customer margin requirements for Peso Warrants are maintained at levels adequate to cover present and future volatility of the Mexican peso in relation to the U.S. dollar.

Amendment No. 3 also imposes reporting requirements for certain large positions (*i.e.*, over 100,000 contracts on the same side of the market) in Peso Warrants. Because there currently are no position limits for positions in Peso Warrants, the Commission believes this is a reasonable approach by the CBOE for acquiring information that may be helpful in the Exchange's efforts to detect and deter attempted manipulation.

Based on the above and in order to allow the CBOE to begin listing Peso Warrants without delay, the Commission believes it is consistent with Section 6(b)(5) of the Act to approve Amendment Nos. 2 and 3 to the CBOE's proposal on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 2 and 3. 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 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 the File No. SR–CBOE–95–12 and should be submitted by July 3, 1995.

It Is therefore Ordered, pursuant to Section 19(b)(2) of the Act,[18] that the proposed rule change (File No. SR–CBOE–95–12), as amended by Amendment Nos. 2 and 3, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[19]

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34–35809; File No. SR–NSCC–95–06]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Seeking To Establish the Collateral Management Service

June 5, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on May 22, 1995, the National Securities Clearing Corporation (''NSCC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change (File No. SR–NSCC–95–06) as described in Items I, II, and III below, which items have been

[15] For example, the American Stock Exchange (''Amex'') currently lists currency warrants on the Japanese yen and the German mark pursuant to Section 106 of the Amex Company Guide. If the Commission approves the Exchange's Generic Warrant Listing Proposal, Peso Warrants listed subsequent to that approval will be subject to the revised listing standards. *See* Generic Warrant Listing Proposal, *supra* note 7. The Commission notes that to the extent the customer margin requirements contained in the Generic Warrant Listing Proposal differ from those discussed herein for Peso Warrants, the customer margin levels specified above will be applied.

[16] *See supra* note 12.

[17] *See supra* note 13.

[18] 15 U.S.C. 78s(b)(2) (1988).

[19] 17 CFR 200.30–3(a)(12) (1994).

[1] 15 U.S.C. 78s(b)(1) (1988).