

For the SEC, by the Division of Investment Management, under delegated authority.
Margaret H. McFarland,
Deputy Secretary.
[FR Doc. 97-3542 Filed 2-12-97; 8:45 am]
BILLING CODE 8010-01-M

[Release No. 34-38255; International Series Release No. 1049; File No. SR-CBOE-96-60]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Board Options Exchange, Incorporated Relating to Listing and Trading of Options on the Salomon Brothers BMI World Property Index

February 6, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 7, 1996, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change³ 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 change from interested persons.

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

The CBOE proposes to list and trade cash-settled, European-style stock index options on the Salomon Brothers BMI World Property Index ("World Property Index" or "Index"), a broad-based, float capitalization-weighted index comprised of 339 stocks⁴ from eighteen countries.⁵

The text of the proposed rule change is available at the Office of the secretary, CBOE and at the Commission.

¹ 15 U.S.C. 78s (b)(1)

² 17 CFR 240.19b-4.

³ On December 18, 1996, CBOE submitted an amendment to the rule change. See letter from Eileen Smith, Director, Product Development, Research Department, CBOE to Marianne H. Khawly, Staff Attorney, Division of Market Regulation, SEC, dated December 18, 1996.

⁴ A list of the securities comprising the World Property Index was submitted by the Exchange as Exhibit B, and is available at the Office of the Secretary, CBOE and at the Commission.

⁵ The following countries are represented in the Index: Australia; Belgium; Canada; Denmark; France; Germany; Hong Kong; Ireland; Japan; Malaysia; the Netherlands; Norway; Singapore; Spain; Sweden; Switzerland; the United Kingdom; and the United States.

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 CBOE included statements concerning the purpose of and basis for the proposed rule change and represented it did not receive any comments on the proposed rule change. 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 Change

1. Purpose

The purpose of the proposed rule change is to permit the CBOE to list and trade cash-settled, European-style stock index options on the World Property Index. As discussed further in the *Maintenance* paragraph, the World Property Index is a broad-based float capitalization-weighted index (price times available shares outstanding). The Index is currently composed of 339 high-capitalization stocks of real estate and property companies from 18 countries. The World Property Index is a subset of the Salomon Brothers World Equity Index which is comprised of listed equities from 22 countries.

Index Design. The World Property Index has been designed to measure the performance of certain high capitalization real estate and property stocks from various countries. The World Property Index is a broad-based float capitalization-weighted index calculated as described below. The Exchange represents that the Index is broad-based for three reasons. First, although the stocks are all involved in real estate and property, the types of real estate vary widely. The Index can be divided into the following four industry groups: non-U.S. diversified property activities group; non-U.S. property development group; non-U.S. property investment/management group; and the U.S. group.⁶ Second, the 339 component stocks are from 18 countries, therefore, CBOE asserts that

⁶ The U.S. group consists of the following 12 industry subgroups: apartments; healthcare facilities; hotels; manufactured homes; office/industrial buildings; diversified properties; net/lease properties; REOCs; self-storage facilities; factory outlets; regional malls; and shopping centers.

the performance of the various companies is not as closely linked as it would generally be in a narrow-based index. On July 31, 1996, the 339 stocks ranged in capitalization from \$75.5 million to \$12.4 billion. The largest stock accounted for 6.43% of the total weighting of the Index, while the smallest accounted for 0.04%. The top five stocks in the Index accounted for 22.72 percent of the weight of the Index.⁷ The median capitalization of the firms in the Index was \$247.3 million. And third, the CBOE believes that since each of the components from foreign countries are traded in local currencies and then translated into U.S. dollars, there is an added component of currency conversion which must be factored into the movement of the individual securities.

Calculation. The Index level is calculated once per day by Salomon Brothers and will be disseminated by CBOE prior to the opening the next business day over the Options Price Reporting Authority ("OPRA") or the Consolidated Tape Association. Closing prices in each company's domestic market are used in the final daily Index calculations.⁸ WM/Reuters Closing Spot Rates ("WM/Reuters Rates"), taken at 4:00 p.m. London time, are midmarket rates (as opposed to bid-side quotations) based on Reuters data that are used to calculate the U.S. dollar value of the Index. WM/Reuters Rates are calculated by the WM Company ("WM") and appear on Reuters beginning on page WMRA.⁹

Shares are adjusted for corporate actions on their ex-dates. These actions include splits, scrip and bonus issues, and preemptive rights. For actions resulting in no net change to the capitalization of the issue, such as stock splits and stock dividends, the Index divisor, described below, remains unchanged. The Index divisor is updated at each quarter-end for changes in share capital because of share

⁷ The top five stocks were: Sun Hung Kai Properties Ltd. from Hong Kong (6.43 percent); Cheung Kong Holdings Ltd. from Hong Kong (5.29 percent); Mitsubishi Estate Co. from Japan (5.04 percent); Mitsui Fudosan Co. from Japan (3.44 percent); and New World Development Company Ltd. from Hong Kong (2.52 percent).

⁸ Salomon Brothers currently does not calculate intra-day values of the Index during the U.S. trading day.

⁹ WM is a UK-based company that specializes in performance measurement. WM is a neutral force, not related to any trading firm or broker-dealer. WM/Reuters Rates represent an effort led by WM to standardize the closing spot rates used in the global investment community for fund valuation, index compilation, and performance measurement. WM/Reuters Rates are considered to be an industry standard and are used by various firms in index calculation.

issuance or buybacks. This update may include bond and warrant conversions or open market share buybacks. There is no replacement of de-listed issues, per se, prior to annual reconstitution. However, large, newly formed companies, spin-offs from Index constituents and privatizations falling within the top half of their country's capitalization range enter the Index at the next month-end, following their official listing.

If a company's shares are no longer available because of a cash tender offer or bankruptcy, that company will be deleted from the Index without replacement. The deletion will occur on the last trading day of the month in which the event takes place. If the issue stops pricing, it will be maintained in the Index at the final offer price until its removal. If a company is acquired by another constituent of the Index through a share swap, the acquired company will be deleted from the Index on the swap ex-date. The share weight of the acquiring company will increase in accordance with the terms of the offer to reflect the combined capitalization of both companies.

If trading in a stock is halted, the last bid or suspension price is carried forward. In cases of a prolonged suspension, a dealer market or gray market price may be used. A gray market is a market available through dealers or banks. In such cases of prolonged suspension, Salomon would attempt to obtain a price on the gray market by getting a quote from several dealers other than Salomon.

Maintenance. The World Property Index was originally created using all stocks from each country with a market value of at least \$100 million. Stocks are retained in the Index if they maintain a market value of at least \$75 million, and new stocks are added if they meet a \$100 million minimum market value at the annual re-balance date on the last trading day in May. The individual components are classified into sectors based on the breakdown of sales provided by the company in financial reports. The primary selection criteria for adding or deleting a country is the size of its equity market, the freedom of capital movement and the ability to repatriate dividends. Additionally, reliable price, share, dividend and corporate action data must also be readily available.

As mentioned above, the World Property Index is float-capitalization weighted, *i.e.* the component issues in the Index are included at a level that accounts for the price of a share times the available shares outstanding. To determine the appropriate weight, all

issues are assigned an availability factor. The factor is a percentage measurement of its float (available capital). There are four categories of shares which are excluded in determining availability: corporate cross-holdings; private control block holdings (encompassing 10% or more of total capital); government holdings; and legally-restricted shares.

Availability factors are updated each year at the same time as the annual reconstitution of the Index on July 1 of each year. All listed equities in the constituent markets are evaluated by their available capital based on their price and total shares outstanding as of the last business day in May. Changes to the constituent list, effective July 1 each year, are preannounced two weeks prior to the effective date and are subject to change due to any major corporate activity occurring during the period between May 31 and the effective date of July 1.

The level of the Index reflects the total market value of the component stocks relative to a particular base period. The World Property Index base date is December 31, 1992, when the Index value was set to 100.00. The Index had a closing value of 188.92 on December 31, 1996. The daily calculation of the World Property Index is computed by dividing the total market value of the companies in the Index by the Index divisor. The divisor keeps the Index comparable over time and is adjusted periodically to maintain the Index. The Index divisor is adjusted for all extraordinary dividends, noncash corporate distributions, and monies distributed via share buybacks. The Index levels are price levels and, therefore, do not account for ordinary dividends.

Index Option Trading. In addition to regular Index options, the CBOE may provide for the listing of long-term index option series ("LEAPS®") and reduced-value LEAPS® on the Index. For reduced-value LEAPS®, the underlying value would be computed at one-tenth of the Index level. The current and closing Index value of any such reduced-value LEAP® will, after such initial computation, be rounded to the nearest one-hundredth.

Strike prices will be set to bracket the Index in 2½ point increments for strikes below 200 and 5 point increments above 200. The minimum tick size for series trading below \$3 will be 1/16th and for series trading above \$3 the minimum tick will be 1/8th. The trading hours for options on the Index will be from 8:30 a.m. to 3:15 p.m. Chicago time.

Exhibit C presents proposed contract specifications for World Property Index options.

Exercise and Settlement. The proposed options on the Index will expire on the Saturday following the third Friday of the expiration month. Trading in the expiring contract month will normally cease at 3:15 p.m. (Chicago time) on the business day preceding the last day of trading in the component securities of the Index (ordinarily the Thursday before expiration Saturday, unless there is an intervening holiday). The exercise settlement value of the Index at option expiration will be based on the closing prices of the component securities on the business day prior to expiration. If a stock fails to open for trading, the last available price on the stock will be used in the calculation of the Index, as is done for currently listed indices. When the last trading day is moved because of Exchange holidays (such as when the CBOE is closed on the Friday before expiration), the last trading day for expiring options will be Wednesday and the exercise settlement value of Index options at expiration will be determined at the opening of regular Thursday trading.

Surveillance. As of July 31, 1996, the stocks from the United States represented 24.04% of the weight of the Index. In addition, the CBOE currently has information sharing agreements with 11 of the 18 foreign countries representing 63.77% of the weight of the Index.¹⁰ In addition, the Exchange represents that it will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in Index options and Index LEAPS® on the world Property Index.

Position Limits. The CBOE proposes to establish position limits for options on the World Property Index at 50,000 contracts on either side of the market, and no more than 30,000 of such contracts may be in the series in the nearest expiration month. These limits are roughly equivalent, in dollar terms, to the limits applicable to options on other indices.

Exchange Rules Applicable. As modified herein, the Rules in Chapter XXIV will be applicable to World Property Index options.

CBOE has also been informed that OPRA recently has added an additional outgoing high speed line from the OPRA processor and thus, also has the capacity to support the new series.¹¹

¹⁰ CBOE represents that it has surveillance sharing agreements with the following countries: Belgium; Canada; France; Germany; Hong Kong; Ireland; Japan; Malaysia; the Netherlands; Spain; and the United Kingdom.

¹¹ See memo from Joe Corrigan, Executive Director, OPRA to Eileen Smith, Director of Product

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it will permit trading in options based on the World Property Index pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to invest in options based on an additional index.

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

CBOE 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 solicited or received with respect to the proposed rule change.

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 self-regulatory organization 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

Research, CBOE, dated June 26, 1996 (conforming that the traffic generated is within OPRA's capacity).

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. 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 the file number in the caption above and should be submitted by March 6, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 97-3539 Filed 2-12-97; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-38254; File No. SR-PSE-97-03]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Pacific Stock Exchange Incorporated Relating to a Waiver of All Customer, Firm and Market Maker Transaction Fees for Transactions in FLEX Equity Options Until April 29, 1997

February 6, 1997.

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 ("Act") and Rule 19b-4 thereunder,² notice is hereby given that on January 27, 1997, the Pacific Stock Exchange Incorporated ("PSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the PSE. The Exchange filed with the Commission Amendment No. 1 to the proposed rule change on January 28, 1997.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The PSE is proposing to extend for a three month period its waiver of all

¹² 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Exchange filed Amendment No. 1 to accurately reflect the expiration date of the three month extension of the waiver. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to John V. Ayanian, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, dated January 27, 1997 ("Amendment No. 1").

customer, firm and Market Maker transaction fees for transactions in FLEX Equity Options.

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 PSE included statements concerning the purpose of and basis for the proposed rule change, as amended, and discussed any comments it received on the proposed rule change, as amended. The text of these statements may be examined at the places specified in Item IV below. The PSE 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

1. Purpose

On February 14, 1996, the Commission approved an Exchange proposal for the listing and trading of Flexible Exchange (FLEX) Options on equity securities, pursuant to Rule 8.100.⁴ The Exchange commenced trading of FLEX Equity Options on October 24, 1996. On October 31, 1996, the Commission approved an Exchange proposal to waive for three months all customer, firm and market maker transaction fees for transactions in FLEX Equity Options.⁵ The Exchange is now proposing to extend this waiver for three additional months, ending on Wednesday, April 29, 1997.⁶ The purpose of the waiver is to encourage customers, firms and market makers to execute transactions in FLEX Equity Options on the Exchange and respond to competitive actions in the industry.

2. Statutory Basis

The proposal is consistent with Section 6(b)(5)⁷ of the Act because it is designed to facilitate transactions in securities.

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

The Exchange does not believe that the proposed rule change, as amended, will impose any burden on competition.

⁴ See Securities Exchange Act Release No. 36841 (February 14, 1996), 61 FR 6666 (February 21, 1996).

⁵ See Securities Exchange Act Release No. 37901 (October 31, 1996), 61 FR 57508 (November 6, 1996).

⁶ See Amendment No. 1, *supra* note 3.

⁷ 15 U.S.C. 78f(b)(5).