

Shares are at the same levels that apply to options generally under Exchange Rule 462, except, reflecting the diversified nature of the underlying portfolios represented by the Fund Shares, minimum margin must be deposited and maintained equal to 100% of the current market value of the option plus 15% of the market value of equivalent units of the underlying security value. In this respect, the margin requirements proposed for options on Exchange-Traded Fund Shares are comparable to margin requirements that currently apply to broad-based index options under Exchange Rule 462.

The Exchange believes it has the necessary systems capacity to support the additional series of options that would result from the introduction of Fund options, and it has been advised that the Options Price Reporting Authority ("OPRA") also will have the capacity to support these additional series now that it has implemented an additional outgoing high speed line from the OPRA processor.⁵

2. Basis

The Exchange believes that 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 is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and is not designed to permit unfair discrimination between customers, issuers, brokers or dealers.

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

The Amex 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

⁵ See letter from Joseph P. Corrigan, Executive Director, OPRA, to Ivette Lopez, Assistant Director, OMS, Division, Commission, dated November 8, 1996.

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 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 Amex. All submissions should refer to File No. SR-Amex-96-44 and should be submitted by March 18, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-38307; File No. SR-Amex-97-04]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the American Stock Exchange, Inc., Relating to Options on the de Jager Year 2000 Index

February 19, 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 January 27, 1997, the American Stock Exchange, Inc., ("Amex" or "Exchange") filed with

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. § 78s(b)(1) (1988).

² 17 CFR 240.19b-4.

the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to list and trade options on The de Jager Year 2000 Index ("Index"), a new stock index developed by the Amex and de Jager & Company based on stocks (or American Depository Receipts ("ADRs") thereon) of companies whose business is expected to benefit from the need of companies, governments, and others to address and resolve the "Year 2000" problem. In addition, the Amex proposes to amend Exchange Rule 901C, Commentary .01 to reflect that 90 percent of the Index's numerical index value will be accounted for by stocks which meet the current criteria and guidelines set forth in Exchange Rule 915.

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

1. Purpose

The Amex and de Jager & Company have developed a new index called The de Jager Year 2000 Index, based entirely on shares of widely-held companies whose business is expected to benefit from the need of companies, governments, and others to address and resolve the "Year 2000" problem.³ The

³ The components securities in the Index include: American Management System; Analysts International Corp.; Ciber Inc.; Computer Associates International Inc.; Computer Horizons Corp.; Computer Sciences Corp.; Compuware Corp.; Data Dimensions Inc.; Dun & Bradstreet Corp.; Electronic Continued

"Year 2000" problem arises because most business application software programs (mainframe, client/server, and personal computer) written over the past twenty-years use only two digits to specify the year, rather than four. Therefore, on January 1, 2000, unless the software is corrected, most computers with time-sensitive software programs will recognize the year as "00" and may assume that this year is "1900." This could either force the computer to shut down or lead to incorrect calculations. de Jager & Company is a small consulting firm that, through Peter de Jager, is solely involved in promoting awareness of the "Year 2000" problem.⁴ The industries represented by these companies include: packaged software providers; computer programming consulting firms; and computer outsourcing services. Each of the component securities are traded on the Amex, the New York Stock Exchange, Inc.

("NYSE"), or through the facilities of the National Association of Securities Dealers ("NASD") Automated Quotation system ("NASDAQ") and are reported national market system securities ("NASDAQ/NMS"). The Amex intends to trade standardized option contracts on the newly developed Index. The Exchange is filing this proposal pursuant to Exchange Rule 901C, Commentary .02, which provides for the commencement of trading of options on the Index thirty days after the date of this filing. The proposal meets all the criteria set forth in Commentary .02 and the Commission's order approving that rule.⁵

Eligibility Standards for Index Components

Pursuant to Commentary .02 to Exchange Rule 901C, (1) all of the component securities of the Index are listed on the Amex, the NYSE, or are NASDAQ/NMS listed; (2) each of the component securities has a minimum market capitalization of at least \$75 million;⁶ (3) seventeen of the eighteen components have had a monthly trading

⁴ Mr. de Jager worked for many years in computer operations and programming prior to becoming a speaker and writer on various computer related issues and has recently become involved in promoting awareness of the "Year 2000" problem.

⁵ See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) (Amex-92-35) (approval order relating to narrow-based index options listing standards) ("Generic Index Approval Order").

⁶ In the case of ADRs, this represents market value as measured by total world-wide shares outstanding.

volume of at least one million shares during the previous six months (one component had a monthly trading volume of 650,000 shares during the previous six months); (4) sixteen of the component securities in the Index (84.21 percent) and 91.63 percent of the Index's numerical index value have met the initial eligibility criteria for standardized options trading set forth in Exchange Rule 915; (5) foreign country securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not in the aggregate represent more than 20 percent of the weight of the Index; and (6) the Index is price-weighted, and no individual component stock in the Index represents more than 25 percent of the weight of the Index, and the five highest weighted component stocks in the Index do not in the aggregate account for more than 60 percent of the weight of the Index.

Maintenance of the Index

The Amex will maintain the Index in accordance with Exchange Rule 901C, Commentary .02 so that the Index continues to meet the eligibility standards set forth above, except that: (1) the total number of component securities will not increase or decrease by more than 33⅓ percent from the number of components in the Index at the time of its initial listing, and in no event will the Index have less than nine components; (2) component stocks constituting the top 90 percent of the Index, by weight, will have a minimum market capitalization of \$75 million, and the component stocks constituting the bottom 10 percent of the Index, by weight, will have a minimum market capitalization of \$50 million; (3) the monthly trading volume of each component security will be at least 500,000 shares, or for each of the lowest weighted components in the Index that in the aggregate account for no more than 10 percent of the weight of the Index, the monthly trading volume will be at least 400,000 shares; (4) no single component will represent more than 25 percent of the weight of the Index, and the five highest weighted components will represent no more than 60 percent of the Index as of the first day of January and July in each year; and (5) 90 percent of the Index's numerical index value and at least 80 percent of the total number of component securities will meet the then current criteria for standardized option trading set forth in Exchange Rule 915.

The Exchange will not open for trading any additional option series should the Index fail to satisfy any of the maintenance criteria set forth above

unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of the Index option has been approved by the Commission pursuant to Section 19(b)(2) of the Act.

Index Calculation

The Index is price-weighted; the Index value corresponds to the sum of the prices of each of the component stocks divided by the current index divisor. The Index divisor was initially determined to yield a benchmark value of 250 on December 31, 1996. Similar to other stock index values published by the Exchange, the value of the Index will be calculated continuously and disseminated every fifteen seconds over the Consolidated Tape Association's Network B.

The Index will be calculated and maintained by the Amex. A representative of de Jager & Company will be available to advise the Exchange when, pursuant to Exchange Rule 901C(b), the Amex substitutes stocks, or adjusts the number of stocks included in the Index, based on changing conditions in the "Year 2000" industry or in the event of certain types of corporate actions, such as a merger or a takeover which warrants the removal of a component security from the Index. It is anticipated that the Amex will consult with de Jager & Company on a quarterly basis to review possible candidates for removal from or inclusion in the Index.⁷ Such consultations will occur after the close of trading and any determination to remove or to include a component in the Index will be publicly announced prior to the opening of trading on the following business day. However, in the event the Exchange determines to increase the number of Index component stocks to greater than 24 or to reduce the number of component stocks to fewer than 12, the Exchange will submit a rule filing pursuant to Rule 19b-4 under the Act to the Commission. In selecting securities to be included in the Index, the Exchange, in conjunction with de Jager & Company, will be guided by a number of factors including market value of outstanding shares and trading activity

⁷ Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the de Jager Year 2000 Index, including, but not limited to, insider trading reviews of component securities and stockwatch monitoring. Telephone conversation between Claire P. McGrath, Managing Director and Special Counsel, Derivatives Securities, Amex and Matthew S. Morris, Division of Market Regulation, Commission, on February 11, 1997.

and adherence to Exchange Rule 901C, Commentary .02.

Expiration and Settlement

The proposed options on the Index will be European-style (*i.e.*, exercises are permitted at expiration only), and cash settled. Standard option trading hours (9:30 a.m. to 4:10 p.m., New York time) will apply. The options on The de Jager Year 200 Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). The last trading day in an expiring options series will normally be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). Trading in expiring options will cease at the close of trading on the last trading day.

The Exchange plans to list options series with expirations in the three near-term calendar months and in the two additional calendar months in the February cycle. In addition, longer term options series having up to thirty-six months to expiration may be traded. In lieu of such long-term options on a full value Index level, the Exchange may instead list long-term, reduced value put and call options based on one-tenth ($\frac{1}{10}$) the Index's full value. In either event, the interval between expiration months for either a full value or reduced long-term option will not be less than six-months. The trading of any long-term options would be subject to the same rules which govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and floor trading procedures and all options will have European-style exercise. Position limits on reduced-value long-term de Jager Year 2000 Index options will be equivalent to the position limits for regular (full-value) Index options and would be aggregated with such options. (For example, if the position limit for the full-value options is 12,000 contracts on the same-side of the market, then the position limit for the reduced-value options will be 120,000 contracts on the same-side of the market.)

The exercise settlement value for all of the Index's expiring options will be calculated based upon the primary exchange regular way opening sale prices for the component stocks. In the case of securities traded through the NASDAQ system, the first reported regular way sale price will be used. If any component stock does not open for trading on its primary market on the last trading day before expiration, then the

prior day's last sale price will be used in the calculation.⁸

Exchange Rules Applicable to Stock Index Options

Exchange Rules 900C through 980C will apply to the trading of option contracts based on the Index. These rules cover issues such as surveillance, exercise prices, and position limits. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on The de Jager Year 2000 Index. The Index is deemed to be a Stock Index Option under Exchange Rule 901C(a) as well as a Stock Index Industry Group under Exchange Rule 900C(b)(1). With respect to Exchange Rule 903C(b), the Amex proposes to list near-the-money (*i.e.*, within ten points above or below the current index value) option series on the Index at 2- $\frac{1}{2}$ point strike (exercise) price intervals when the value of the Index is below 200 points. In addition, the Amex expects that the review required by Exchange Rule 904C(c) will result in a position limit of 12,000 contracts with respect to options on this Index.

2. Statutory Basis

The Amex believes that 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 is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Amex does not believe that the proposed rule change will impose any inappropriate burden on competition.

⁸ The Commission notes that pursuant to Article XVII, Section 4 of the Options Clearing Corporation's ("OCC") by-laws, the OCC is empowered to fix an exercise settlement amount in the event it determines a current index value is unreported or otherwise unavailable. Further, the OCC has the authority to fix an exercise settlement amount whenever the primary market for the securities representing a substantial part of the value of the underlying index is not open for trading at the time when the current index value (*i.e.*, the value used for exercise settlement purposes) ordinarily would be determined. See Securities Exchange Act Release No. 37315 (June 17, 1996), 61 FR 32471 (June 24, 1996) (OCC-95-18).

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

Because the foregoing rule change complies with the standards set forth in the Generic Index Approval Order,⁹ it has become effective pursuant to Section 19(b)(3)(A) of the Act. Pursuant to the Generic Index Approval Order, the Amex may not list options for trading on the Index prior to thirty days after January 27, 1997, the date the proposed rule change was filed with the Commission. At any time within sixty days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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. 20549. Copies of such filing also will be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-97-04 and should be submitted by March 18, 1997.

⁹ See *supra* note 5.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-38290; File No. SR-CBOE-96-73]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to Membership Committee Jurisdiction Over Continuing Membership

February 14, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4² thereunder, notice is hereby given that on November 26, 1996, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend CBOE Rule 3.4 to: (i) grant the Membership Committee, instead of the BCC, the power to decide whether to limit or condition the right of a person to continue as a member, or as a person associated with a member, when such person fails to meet any of the qualification requirements for membership or association after the membership or association has been approved, fails to meet any condition

placed by the Membership Committee on such membership or association, violates an agreement with the Exchange, or becomes subject to a statutory disqualification under the Act; and (ii) require a member or person associated with a member who is subject to a statutory disqualification to submit an application to the Membership Committee in order to continue as a member or as a person associated with a member.

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

1. Purpose

The purpose of the proposed rule change is to grant to the CBOE's Membership Committee certain authority over persons who fail to meet conditions to their remaining as members or persons associated with members, or who become subject to a statutory disqualification after becoming a member or person associated with a member. Presently this authority rests with the Exchange's BCC. The proposed rule change also requires a member or person associated with a member who is subject to a statutory disqualification and who wants to continue as a member or in association with a member to submit an application to that effect to the CBOE's Membership Committee.

CBOE Rule 3.4 (a) through (c) sets forth the reasons the CBOE's Membership Committee may deny or condition membership or a person's association with a member. However, the jurisdiction of the CBOE's Membership Committee currently applies only to applicants for membership or association with a member, not to existing members or associated persons. CBOE Rule 3.4(e) currently authorizes the Exchange's BCC

to take action against an existing member under Chapter XVII, "Discipline," of the CBOE's rules when any of these reasons for denying or conditioning membership (or association with a member) comes into existence. Under this authority, the Exchange's BCC may suspend or bar from membership an existing member for the same reasons a person applying for membership could be denied membership or be granted only conditional membership. For example, if an existing member becomes subject to a statutory disqualification under Sections 3(a)(39) and 15(b) under the Act, the CBOE's BCC may take action, pursuant to CBOE Rule 3.4(e), to discontinue that member's membership. In addition, Section 2.2 under the CBOE's Constitution, "Eligibility for Membership; Good Standing," provides that the good standing of a CBOE member may be suspended, terminated or otherwise withdrawn, as provided in the CBOE's Rules, if any of the conditions for approval cease to be maintained or the member violates any of its agreements with the Exchange or any of the provisions of the Constitution. Again, the CBOE's BCC currently would take action under Section 2.2 of the Exchange's Constitution against existing members or associated persons.

The CBOE believes it is more appropriate for the Exchange's Membership Committee to deal with membership related issues (whether those issues concern an applicant for membership or an already existing CBOE member), and for the Exchange's BCC to limit its activities to disciplinary matters involving allegations of specific rule violations. The Exchange believes that its Membership Committee is more familiar with the considerations that properly bear on decisions to deny or condition membership, and is best able to evaluate cases involving whether to continue or condition the membership of an existing member by referring to the standards it applies when evaluating applicants for membership. The Exchange's BCC may not be privy to membership applications that were denied by the CBOE's Membership Committee and the reasons for such denial. Furthermore, the CBOE's BCC may not be familiar with the factors considered by the Exchange's Membership Committee when acting on membership applications, or the types of conditions that may be imposed on applicants. In short, the Exchange believes that the present bifurcation of membership issues between the two committees could result in the CBOE's

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ On February 12, 1997, the Exchange filed an amendment to the rule proposal. See Letter from Arthur Feinstein, Senior Attorney, CBOE, to Janice Mitnick, Attorney, Division of Market Regulation, Commission, dated February 12, 1997 ("Amendment No. 1"). Amendment No. 1 provides that failure to file an application notifying the Exchange of a statutory disqualification would be a factor to be considered by the CBOE's Membership Committee in making determinations with respect to the person's membership or association pursuant to CBOE Rule 3.4(e), instead of constituting a waiver of the individual's right of appeal. Further, Amendment No. 1 describes the procedures to be followed by the Exchange's Membership Committee in reviewing an application submitted pursuant to proposed Rule 3.4(f). Finally, Amendment No. 1 describes the composition of the CBOE's Business Conduct Committee ("BCC") and CBOE's Membership Committee.