

scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact:

The Office of the Secretary at (202) 942-7070.

Dated: May 27, 1999.

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 99-13985 Filed 5-27-99; 3:55 pm]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41439; File No. 10-127]

### International Securities Exchange LLC; Notice of Filing of Application for Registration as a National Securities Exchange Under Section 6 of the Securities Exchange Act of 1934

May 24, 1999.

The International Securities Exchange LLC ("ISE") has submitted a Form 1 application under the Securities Exchange Act of 1934 ("Exchange Act"), seeking registration as a national securities exchange under Section 6 of the Exchange Act.<sup>1</sup> A copy of the ISE'S Form 1, including all exhibits, is available in the Commission's Public Reference Room, File No. 10-127, and on the Commission's website at <http://www.sec.gov/rules/othrindx.htm>. The Commission is publishing notice of ISE's filing to afford interested persons an opportunity to submit written comments. The Commission will take these comments into consideration in making its determination about whether to grant ISE's request to be registered as an exchange. The Commission shall grant such registration if it finds that the requirements of the Exchange Act and the rules and regulations thereunder are satisfied.<sup>2</sup>

ISE's Form 1 provides detailed information about ISE and how it proposes to satisfy the requirement of the Exchange Act. In general, ISE would become an exchange that operates an automated trading system for standardized equity options. It would be an agency-auction market similar to the exchange markets currently in operation, although the auction would occur electronically, and not on a floor. ISE plans to become a member-owner of, and clear its transactions through, The Options Clearing Corporation ("OCC").

<sup>1</sup> See Letter to Michael Walinskas, Deputy Associate Director, Division of Market Regulation, Commission, from David Krell, President and CEO, ISE, dated February 1, 1999 ("ISE Form 1").

<sup>2</sup> Section 19(a)(1) of the exchange Act, 15 U.S.C. 78s(a)(1).

As a member-owner of OCC, the options contracts traded on the ISE would be fully fungible with the options of the same companies traded on the other options exchanges. ISE also plans to join the Options Price Reporting Authority Plan, which governs the dissemination of options quotes and last-sale transaction prices.

Interested persons should submit three copies of their written data, views and opinions to Jonathan G. Katz, Secretary, Securities and Exchange and Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. Comments may also be submitted electronically at the following e-mail address: [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Comments must be received on or before July 16, 1999. All comment letters should refer to File No. 10-127; this file number should be included on the subject line if comments are submitted using e-mail. All submissions will be available for public inspection and copying at the Commission's Public Reference Room, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Electronically submitted comment letters will be posted on the Commission's Internet website (<http://www.sec.gov>).

For questions regarding this release, contact: Michael Walinskas, Deputy Associate Director, at (202) 942-0187, Sheila Slevin, Assistant Director, at (202) 942-0796, Christine Richardson, Attorney, at (202) 942-0748, or Joseph Morra, Attorney, at (202) 942-0781; Division of Market Regulation, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-1001.

By the Commission.

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 99-13710 Filed 5-28-99; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41436; File No. SR-Amex-99-15]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange LLC Relating to the Listing and Trading of Notes and Warrants on the 10 Uncommon Values Index of Lehman Brothers Inc.

May 21, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 19, 1999, the American Stock Exchange LLC ("Amex" or "Exchange") filed with the Securities and Exchange 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 Exchange filed Amendment No. 1<sup>3</sup> to the proposed rule change on May 17, 1999. 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 approve for trading stock index warrants, pursuant to Section 106, and indexed term notes, pursuant to Section 107, of the *Amex Company Guide* based upon the 10 Uncommon Values® Index of Lehman Brothers Inc.

#### 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 Amex 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 VI below. The Amex 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 the Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange proposes to trade stock index warrants, pursuant to Section 106, and indexed term notes, pursuant to Section 107, of the *Amex Company Guide* based upon Lehman Brothers' 10 Uncommon Values® Index, an index consisting of ten actively traded equity securities ("Index"). The issuer of the Warrants (as hereinafter defined) and Notes (as hereinafter defined) will be

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Letter from Scott Van Hatten, Amex to Richard Strasser, Division of Market Regulation, Commission, dated May 14, 1999 ("Amendment No. 1"). Amendment No. 1 clarifies that the Notes (as hereinafter defined) will be principal protected if held to maturity or if called by the issuer. Amendment No. 1 also provides three sample calculations of payment amounts that investors holding Notes may receive.

Lehman Brothers Holdings Inc. ("LB Holdings").

The securities to be included in the Index will be those selected annually by the Investment Policy Committee ("Committee") of Lehman Brothers' Equity Research group, a division of Lehman Brothers Inc., and announced on or about July 1, as its selection of ten securities that the Committee believes will outperform the stock market during the succeeding twelve months. To determine the ten selections each year, various Lehman brothers' Equity Research analyses appear before the firm's Investment Policy Committee to present their proposed equity selections to be included in the Index for the next twelve months. The Committee analyzes and screens each proposal after which the list of stocks is reviewed to determine which ones offer the potential for market outperformance. The Committee then selects what it believes to be the best ideas for the next year's 10 Uncommon Values.

Immediately thereafter, on or about July 1 of each year, the ten securities to be included in that year's Index are announced. Each subsequent year's 10 Uncommon Value stocks ("New Components") will replace the preceding year's 10 Uncommon Value stock ("Old Components") in their entirety in the Index. The New Components will be added to the Index on or about July 1 ("Announcement Date") each year, and the Old Components will be removed from the Index on the last business day immediately preceding the Announcement Date ("Closing Date").

Consistent with other structured products, the Exchange will distribute a circular to its membership, prior to the commencement of trading, providing guidance with regard to member firm compliance responsibilities, including appropriate suitability criteria and/or guidelines. Lastly, as with other structured products, the Exchange will closely monitor activity in the Notes and Warrants to identify and deter any potential improper trading activity in the Notes and Warrants.

*Description of Index Term Notes.* Under Section 107 of the *Amex Company Guide*, the Exchange may approve for listing and trading securities that cannot be readily categorized under the listing criteria for common and preferred stocks, bonds, debentures, or warrants.<sup>4</sup> The Amex now proposes to list for trading under Section 107 of the *Amex Company Guide*, indexed term

notes ("Notes") whose value in whole or in part will be based on the Index.

The Notes will be debt securities and will conform to the listing guidelines under Section 107A of the *Amex Company Guide*. Although a specific maturity date will not be established until the time of the offering, the Notes will provide for maturity of not less than one nor more than ten years from the date of issue.

The price of each Note may be par or less than par, in which case the Notes accrue original issue discount. The Notes may or may not provide for periodic coupon payments (at a fixed rate).

Beginning on a specified date ("Conversion Date"), holders have the right to tender the Notes in exchange for the cash equivalent ("Exchange Amount") of the current component securities in the Index in proportions equal to their weighting in the Index, according to the following formula:

$\text{Par/Strike} \times \text{Index}_t$

Where:

$\text{Index}_t$ : Index Closing Price of the Selected Index on the earlier of Conversion Date or Maturity Date  
 $\text{Index}_i$ : Initial Spot  
 Strike: —to be disclosed % of  $\text{Index}_i$ , (e.g. 125%)

Investors in the Notes may receive varying payment amounts depending upon whether the notes are held to maturity, called by the issuer prior to maturity or redeemed by the investor prior to maturity. Below are examples of calculations of payments amounts that investors holding the Notes may receive.<sup>5</sup>

To determine payment amounts given each of the three separate events, a Par value (Issue Price) of \$1000, Strike of 125, and Initial Value of the Index 100 are assumed. The maturity of the notes are assumed to be 5 years and the issuer may not call the notes prior to three years after their issuance (i.e., the notes will have a non-call life of 3 years).

1. The investor holds the Notes until maturity. At maturity, the investor will receive the greater of:

Par (\$1000), and  
 $(\text{Par/Strike} \times \text{Final Index Value})$

2. The investor converts the Notes prior to maturity. Investors may convert their Notes at any time after the one-month anniversary of the issue date in exchange for cash. The amount the investor would receive in the event of early conversion is determined by the following formula:

$(\text{Par/Strike} \times \text{Current Index Value})$

3. The issuer has the right to call the notes at Par at any point beginning three years after the trade date by publishing such call with 30-days notice to investors. Once the issuer calls the Notes, its holders may convert it by giving the issuer at least 20-days notice. If the investors convert, they receive:

$(\text{Par/Strike} \times \text{Current Index Value})$

Otherwise, should the holder fail to convert, the Notes will be called by the issuer and the investor will receive the Par Value (\$1,000).

Example 1: Assume an Index value equal to 150 (i.e., greater than the initial Index value of 100). Payment to investors under the above three events would be as follows:

- Greater of [ $\$1000$  and  $(\$1,000/125 \times 150)$ ] = \$1,200
- $(\$1,000/125 \times 150)$  = \$1,200
- $(\$1,000/125 \times 150)$  = \$1,200

Example 2: Assuming an Index value of 90 (i.e., less than the initial index value of 100). Payment to investors under the above three events would be as follows:

- Greater of [ $\$1,000$  and  $(\$1,000 / 125 \times 90)$ ] = \$1,000
- $(\$1,000 / 125 \times 90)$  = \$720
- Note may or may not be called by the issuer in this case. If the Note is called, payment would equal Par (\$1,000).

Beginning on a specified date the issuer may or may not have the right to call all of the Notes at a call price equal to the issue price of the Notes plus accrued original issue discount, if any, to the call date. If the market value of the basket of component securities on the last trading before the issuer sends its call notice is equal to or greater than the call price, the issuer will deliver to holders the Exchange Amount instead. If the issuer notifies holders it will be calling the Notes for the Exchange Amount, a holder may still exercise its exchange right on any day prior to the call date.

If the Notes have not been exchanged or called prior to maturity, they will be paid in cash at maturity in an amount equal to par plus accrued interest, if any.

*Exchange Rules Applicable to Index Notes.* Because the Notes are linked to a basket of equity securities, the Amex's existing equity floor trading rules and standard equity trading hours (9:30 a.m. to 4:00 p.m. Eastern Time) will apply to the trading of the Notes. Pursuant to Exchange Rule 411, the Exchange will impose a duty of due diligence on its members and member firms to learn the essential facts relating to every customer prior to trading the Notes. Further, the

<sup>4</sup> See Securities Exchange Act Release No. 27753 (March 1, 1990), 55 FR 8626 (March 8, 1990).

<sup>5</sup> See Amendment No. 1, *supra* n.3.

Notes will be subject to the equity margin rules of the Exchange.<sup>6</sup>

*Description of Index Warrants.* Under Section 106 of the *Amex Company Guide*, the Exchange may approve for listing and trading index warrants. The Amex now proposes to list for trading, under Section 106 of the *Amex Company Guide*, index warrants ("Warrants") whose value in whole or in part will be based upon the Index. The Warrants will conform to the listing guidelines under Section 106 of the *Amex Company Guide*.

Although a specific maturity date will not be established until the time of the offering, the Warrants will have a term of between one and five years from the date of issuance. The Warrants will be cash-settled in U.S. Dollars.

*Expiration and Settlement of Index Warrants.* The Warrants will be direct obligations of their issuer, LB Holdings, subject to cash-settlement during their term, and either exercisable throughout their life (*i.e.*, American style) or exercisable only on their expiration date (*i.e.*, European style). Upon exercise, or at the warrant expiration date (if not exercised prior to such date), the holder of a warrant structured as a "put" would receive payment in U.S. dollars to the extent that the Index has declined below a pre-stated index level (*i.e.*, the put strike). Conversely, holders of a warrant structured as a "call" would, upon exercise or at expiration, receive payment in U.S. dollars to the extent that the Index has increased above the pre-stated index level (*i.e.*, the call strike). If "out-of-the-money" at the time of expiration, then the Warrants would expire worthless. In addition, the Amex, prior to the commencement of trading, will distribute a circular to its membership calling attention to specific risks associated with the Warrants on the Index.

*Exchange Rules Applicable to Index Warrants.* The listing and trading of Warrants on the Index will comply in all respects with Exchange Rules 1100 through 1110 for the trading of stock index and currency warrants. These rules cover issues such as exercise and position and reporting requirements. Surveillance procedures currently used to monitor trading in each of the Exchange's other index warrants will also be used to monitor trading in the Warrants. The Index will be deemed to be a Stock Index Industry Group under Amex Exchange 900C(b)(1). The Exchange expects that the review required by Exchange Rule 1107(b)(ii) will result in a position limit of 9,000,000 Warrants.

*Eligibility Standards for Index Components.* Components of the Index approved pursuant to this filing will meet the following criteria: (1) a minimum market value of at least \$75 million, except that the lowest weighted component security in the Index may have a market value of \$50 million; (2) trading volume in each of the last six months of not less than 1,000,000 shares, except that the lowest weighted component security in the Index may have a trading volume of 500,000 shares or more in each of the last six months; (3) 90% of the Index's numerical Index value and at least 80% of the total number of component securities will meet the then current criteria for standardized option trading set forth in Exchange Rule 915; (4) all component stocks will either be listed on the Amex, the New York Stock Exchange, or traded through the facilities of the Nasdaq Stock Market and reported National Market System securities; and (5) if any foreign securities or American Depositary Receipts represented in the Index cause a particular foreign country's weight in the Index to initially exceed 20% of the Index's numerical Index value, the Exchange will have in place a surveillance sharing agreement with the appropriate regulatory organization in that country.

*Index Calculation.* The Index will be calculated using an "equal-dollar weighting" methodology designed to ensure that each of the component securities is represented in an approximately "equal" dollar amount in the Index. To create the Index, a portfolio of equity securities will be established by the issuer representing an investment of \$10,000 in each component security (rounded to the nearest whole share). The value of the Index will equal the current market value of the sum of the assigned number of shares of each of the component securities divided by the current index divisor. The Index divisor will initially be set to provide a benchmark value of 100.00 at the close of trading on the day preceding the establishment of the Index.

The Exchange will calculate the Index and, similar to other stock index values published by the Exchange, the value of the Index will be calculated continuously and disseminated every 15 seconds over the Consolidated Tape Association's Network B.

The number of shares of each component stock in the Index will remain fixed between Announcement Dates except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, a stock

distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, or similar event with respect to the component stocks. The number of shares of each component stock may also be adjusted, if necessary in the event of a merger, consolidation, dissolution or liquidation of an issuer or in certain other events such as the distribution of property by an issuer to shareholders, the expropriation or nationalization of a foreign issuer or the imposition of certain foreign taxes on shareholders of a foreign issuer. Shares of a component stock may be replaced (or supplemented) with other securities under certain circumstances, such as the conversion of a component stock into another class of security, the termination of a depositary receipt program or the spin-off of a subsidiary. If the stock remains in the Index, the number of shares of that security in the portfolio may be adjusted, to the nearest whole share, to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In all cases, the divisor will be adjusted, if necessary, to ensure Index continuity.

Consistent with other structured products, the Exchange will distribute a circular to its membership, prior to the commencement of trading, providing guidance with regard to member firm compliance responsibilities, including appropriate suitability criteria and/or guidelines. Lastly, as with other structured products, the Exchange will closely monitor activity in the Notes and Warrants to identify and deter any potential improper trading activity in the Notes and Warrants.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5)<sup>8</sup> in particular, in that it is designated to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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 Exchange does not believe that the proposed rule change will impose any burden on competition.

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>6</sup> See Exchange Rule 462.

*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 Exchange consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceeding 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, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. 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 Room. 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-99-15 and should be submitted by June 22, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 99-13810 Filed 5-28-99; 8:45 am]

**BILLING CODE 8010-01-M**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-41435; File No. SR-CBOE-99-03]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Option Exercise Procedures<sup>1</sup>**

May 21, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on January 20, 1999, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or the "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. The proposal was amended on May 11, 1999.<sup>4</sup> 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**

CBOE proposes to amend Exchange Rules 4.16 and 11.1 to permit the exercise of American-style, cash-settled index options following a trading halt that occurs at or after 3:00 p.m. Such exercises will be permitted at or after 3:00 p.m. through 3:20 p.m. (CT), the normal deadline for exercising such options. The Exchange is also proposing to amend its Regulatory Circular concerning the Exchange's procedures and requirements regarding the exercise of American-style, cash-settled index options ("Exercise Regulatory Circular")<sup>5</sup> to reflect these changes and to reflect changes to CBOE Rules 4.16 and 11.1 that were recently approved by the Commission. Additionally, the Exchange is proposing to permit CBOE's President or his designee to extend the applicable deadline for the delivery of Exchange-required exercise notifications, for either an American-

<sup>1</sup> The CBOE amended the title of this filing in Amendment No. 1. See *infra* note 4.

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> In Amendment No. 1, the Exchange made typographical corrections to, clarified the purpose of, and expanded the scope of the proposed rule change ("Amendment No. 1"). See Letter from Arthur B. Reinstein, Counsel, CBOE, to Hong-anh Tran, Attorney, Division of Market Regulation ("Division"), Commission, dated May 10, 1999.

<sup>5</sup> See Securities Exchange Act Release No. 40334 (August 18, 1998), 63 FR 45275 (August 25, 1998) File No. SR-CBOE-98-34.

style, cash-settled index options or a non-cash settled equity options, if unusual circumstances are present.<sup>6</sup> Attached as Exhibit A to this Notice is the text of the proposed rule. Proposed new language is *italicized*; proposed deletions are in [brackets].

**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**

American-style, Cash-Settled Index Options

The CBOE proposes to modify its rules governing the exercise of American-style, cash-settled index during certain trading halts. Currently, the Exchange trades only one type of American-style, cash-settled index option contract, Standard & Poor's 100 index options ("OEX index options").<sup>7</sup> Index options generally are traded on the Exchange from 8:30 a.m. to 3:15 p.m. (CT).<sup>8</sup> CBOE Rule 11.1 governs the exercise of options contracts, including index option contracts. CBOE Rule 11.1 provides that CBOE members shall follow the procedures of the Options Clearing Corporation ("OCC") as well as those of the exchange when exercising option contracts. Options generally may be exercised at any time during the trading day, and proposed CBOE Rule 11.1.03 requires members intending to exercise American-style, cash-settled index option contracts to deliver an "exercise advice" to a place designated by the Exchange no later than five minutes after the close of trading on that

<sup>6</sup> See Amendment No. 1, *supra* note 4.

<sup>7</sup> Although OEX index options are the only standardized American-style, cash-settled index options currently traded on the Exchange, the Revised Rules also would apply to exercises of American-style, cash-settled FLEX Index Option contracts. All other CBOE index options are European-style, with exercise permitted only upon their expiration.

<sup>8</sup> CBOE Rule 24.6, *Days and Hours of Business*.

<sup>9</sup> 17 CFR 200.30-3(a)(12).