

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42999; File No. SR-BSE-00-07]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Boston Stock Exchange, Inc. Relating to Mandatory Decimal Pricing Testing

June 30, 2000.

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 June 27, 2000, the Boston Stock Exchange, Inc. ("BSE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as one concerned solely with the administration of the Exchange under Section 19(b)(3)(A)(iii) of the Act,<sup>3</sup> which renders the proposal effective upon filing with the Commission. 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 BSE proposes to add rules relating to decimal pricing testing in order to prepare for the industry-wide conversion to decimal pricing. The text of the proposed rule change is available at the BSE and at the Commission.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange 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 BSE 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 purpose of the proposed rule change is to add Section (10) (Decimal Pricing Testing) to Chapter XXXIII, Boston Exchange Automated Communication Order-routing Network (BEACON). Specifically, the Exchange seeks to change its rules to require member firms to participate in industry-wide testing of computer systems, as required, in order to prepare for the conversion to decimal pricing.

The Exchange, in cooperation with other self-regulatory organizations ("SROs") has been preparing for a successful industry-wide conversion to decimal pricing. As several other SROs have proposed rules to require decimal testing by their members, the Exchange seeks to codify this requirement as well. The new Rule will require mandatory participation of Exchange members in the testing which will be taking place, and will require any firm which has an electronic interface with the Exchange to conduct testing between the electronic interface and the Exchange ("point-to-point testing"). In the case of a member firm that has an electronic interface through a third party service provider, point-to-point testing with the Exchange will not be required if (i) the member firm conducts successful testing with the service provider, (ii) the service provider conducts successful testing with the Exchange (on behalf of the member firm) and (iii) the Exchange agrees that no further testing is necessary.

The proposed Rule also details the reporting and documentation requirements for all members participating in either the point-to-point testing or the industry-wide testing. Specifically, member firms will be asked to provide reports as determined necessary by the Exchange throughout the course of testing. Additionally, all member firms will be required to keep, and make available for inspection, documentation of all the testing they do as part of the requirements of this Rule.

##### 2. Statutory Basis

The Exchange represents that the statutory basis for the proposed rule change is Section 6(b)(5)<sup>4</sup> of the Act, in that it is designed to promote just and equitable principles of trade; to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with

respect to, and facilitating transactions in securities; to remove impediments to and perfect the mechanism of a free and open market and a national market system; and, in general, to protect investors and the public interest; 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 Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

#### 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>5</sup> and subparagraph (f)(3) of Rule 19b-4 thereunder<sup>6</sup> because it is concerned solely with the administration of the Exchange. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate the 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, 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

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>6</sup> 17 CFR 240.19b-4(f)(3).

available for inspection and copying in the Commission's Public Reference Room in Washington, D.C.

Copies of such filing will also be available for inspection and copying at the principal office of the BSE. All submissions should refer to File No. SR-BSE-00-07 and should be submitted by July 31, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Jonathan G. Katz,**  
*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43000; File No. SR-CBOE-00-15]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 by the Chicago Board Options Exchange, Inc. Relating to a Reduction in the Value of the Nasdaq 100 Stock Index

June 30, 2000.

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 June 30, 2000, 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 and II below, which Items have been prepared by the CBOE. On June 30, 2000, the CBOE submitted Amendment No. 1 to the proposed rule change.<sup>3</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

The CBOE proposes to trade options on the Nasdaq 100 Index based on reduced-value level equal to one-tenth of its present value by multiplying the divisor used in calculating the Index by a factor of 10. In seeking approval to trade options based upon one-tenth of the value of the Nasdaq 100 Index, the Exchange represents that it is planning to list options on the reduced value Nasdaq 100 Index value at the same time it continues to list and trade options on the full value of the Nasdaq 100 Index. In connection with this change, the Exchange proposes to multiply by a factor of 10 the position and exercise limits for the one-tenth level index. When the Exchange trades full value and reduced value Nasdaq 100 options at the same time, the Exchange will require that the positions in the full value and reduced value contracts be aggregated for the purpose of determining compliance with the position and exercise limits. In addition, the Exchange proposes to amend Exchange Rule 24.9, Interpretation .01 to provide that the reduced-value Nasdaq 100 options will have a strike price interval of no less than \$2.50. The text of the proposed rule change is available at the CBOE and at the Commission's Public Reference Room.

#### 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 Exchange 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 Exchange 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 CBOE began trading Nasdaq 100 Index ("NDX") options in February 1994.<sup>4</sup> NDX options are European-style, cash-settled options on the Nasdaq-100

Index. The Nasdaq-100 Index is a modified capitalization-weighted index of 100 of the largest non-financial securities traded on the Nasdaq Stock Market. In recent years, on the strength of a sustained bull market, the value of the NDX has tripled since the mid-1998, such that the value of the Index stood at 4,034.17 as of April 4, 2000. As a result of the significant increase in the value of the underlying index, the premium for NDX options has also increased. The CBOE believes that this has caused NDX options to trade at a level that may be uncomfortably high for retail investors.

As a result, Nasdaq (the reporting authority for the Index) has approved CBOE's request to trade options based on a reduced index level equal to one-tenth of the Nasdaq-100 Index. In seeking approval to trade options based upon one-tenth of the value of the Nasdaq 100 Index, the Exchange represents that it is planning to list options on the reduced value Nasdaq 100 Index value at the same time it continues to list and trade options on the full value of the Nasdaq 100 Index. In addition, the trading symbol for options on the reduced-value Nasdaq 100 Index will no longer be NDX.

In addition to the strike price being reduced by one-tenth, the CBOE proposes to increase the position and exercise for the reduced value Nasdaq 100 Index by a factor of 10.<sup>5</sup> The CBOE believes that this increase in the position and exercise limits is justified because the reduction contract size would result in each contract overlying only one-tenth of the value of a current Nasdaq 100 Index contract. Consequently, the revised position and exercise limits would be equivalent to the current levels in terms of the value of the Index, which the option positions would overlie. Further, when a person trades full value and reduced value Nasdaq 100 options at the same time, the Exchange will require that the positions in the full value and reduced value contracts be aggregated for the purpose of determining compliance with the position and exercise limits.

According to the Exchange, position limits were intended to prevent a particular customer or firm from manipulating the value of an index by limiting the notional value of an index that any particular person or firm could control. The proposed nominal increase (by ten times in the case of one-tenth value options) does not change the notional value that any particular

<sup>7</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> On June 30, 2000, the CBOE submitted a letter from Timothy Thompson, Assistant General Counsel, CBOE, to Joe Corcoran, Attorney, Division of Market Regulation, Commission, amending the proposal ("Amendment No. 1"). In Amendment No. 1 the CBOE requested that the Commission review the proposal under Rule 19b-4(f)(6). The CBOE also expressed its intent to list and trade options on the Nasdaq 100 Index at one-tenth its value, even though it initially sought approval to list options on the Nasdaq 100 Index based upon a reduced index level equal to one-tenth and/or one-fortieth of the Nasdaq 100 Index. Moreover, the CBOE clarified that it will also continue to trade the full value Nasdaq 100 Index options. The Commission notes that filings submitted under Section 19(b)(3)(A) of the Act must be complete upon filing. Because CBOE amended this proposal to file it under Section 19(b)(3)(A) of the Act, the date of the amendment is deemed the date of the filing of the proposal.

<sup>4</sup> See Securities Exchange Act Release No. 33428 (January 5, 1994), 59 FR 1576 (January 11, 1994).

<sup>5</sup> The Exchange has separately filed for an increase in the position and exercise limits for NDX in SR-CBOE-00-14.