contracts.[5] The Commission also approved the elimination of position and exercise limits for certain broad-based index option contracts for a 2–year pilot program.[6] The highest equity option position limit tier is now 75,000 contracts. As a comparison, market capitalization for IBM, which has a base position limit of 75,000 contracts, is approximately $191 billion, while the market capitalization for NDX with a 25,000/15,000 position limit is over $4.2 trillion. Additionally, the average daily volume and open interest in NDX has increased by approximately 150% since October 1999 (see Exhibit B). Based on these statistics and the recent position limit relief granted for standardized equity options, the CBOE believes it is reasonable to allow for changes to the position and exercise limits for NDX index options.

With respect to the near term limitation, the Exchange believes that the rationale for imposing such a limitation is not applicable to the NDX. Historically, a front month limitation was established for American style broad-based index options as a measure to lessen market volatility experienced at the close of trading on expiration when stock/index programs were unwound.[7] However, these conditions are not relevant for the NDX. NDX is a European style contract with a settlement value based on a volume weighting of opening stock prices as reported within the first five (5) minutes of trading. Additionally, it should be noted that the CBOE's surveillance procedures during the week of expiration include communication with NASD Regulation to determine whether there are any concerns regarding potential manipulation in the securities, which comprise the NASDAQ 100. Staff believes that the front month limit for NDX options is not necessary, and that

it only provides a further restriction to the investing public, and, therefore, should be eliminated. Eliminating the front month position and exercise limits for NDX index options may bring additional depth an liquidity, in terms of both volume and open interest, to the NDX without significantly increasing concern regarding intermarket manipulations or disruptions of the index options or the underlying component securities.

2. Statutory Basis

The CBOE believes the proposed rule change is consistent with and the furthers the objectives of Section 6(b)(5)[8] of the Act in that it is designed to remove impediments to a free and open market and to protect investors and the public interest.

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

The CBOE does not believe that the proposed rule change will impose any 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 and 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, including whether the proposed rule 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 CBOE. All submissions should refer to File No. SR–CBOE–00–14 and should be submitted by November 14, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[9]

Margaret H. McFarland,
Deputy Secretary.
[FR Doc. 00–27238 Filed 10–23–00; 8:45 am]
BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–43452; File No. SR–CBOE–00–40]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to SPX Combination Orders

October 17, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] is hereby given that on August 17, 2000, the Chicago Board Options Exchange, Inc. ("CBOE" 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 CBOE. 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 adopt CBOE Rule 24.20, "SPX Combination Orders," to allow S&P 500 Index option ("SPX") traders to print and execute orders for SPX options and orders for hedging transactions in SPX combination orders ("combos")[2] outside of the prevailing

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[5] *See* Securities Exchange Act Release No. 40875 (December 31, 1998), 64 FR 1842 (January 12, 1999) (File Nos. SR–CBOE–98–25; Amex–98–22; PCX–98–33; and Phlx–98–36) (increasing position limits for standardized equity options to 13,500, 22,500, 31,500, 60,000, and 75,000).

[6] *See* Securities Exchange Act Release No. 40969 (January 22, 1999), 64 FR 4911 (February 1, 1999) (File No. SR–CBOE–98–23); Securities Exchange Act Release No. 41011 (February 1, 1999), 64 FR 6405 (February 9, 1999) (File No. SR–Amex–98–38).

[7] According to CBOE, OEX is the only American style broad-based index option traded on the Exchange. The Exchange stated that a front month limitation was established for the OEX index option when the Exchange initially sought to increase the position limits for the option. Other broad-based index options traded on the Exchange are European style options, and therefore can only be exercised on the expiration date. Telephone conversation between Pat Cerny, Director, Department of Market Regulation, CBOE, and Joseph Corcoran, Attorney, Division of Market Regulation, Commission, on October 12, 2000.

[8] 15 U.S.C. 78f(b)(5).

[9] 17 CFR 200.30–3(a)(12).

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

[2] A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security. *See* CBOE Rule 6.53(e).

bid or offer (''out-of-range'') at any time during the trading day, at the prices originally quoted for each option so long as each option when originally quoted would not trade at a price outside the displayed bids or offers in the trading crowd or bids or offers in the SPX customer limit order book. The member initiating the orders must indicate the delta [3] of the options he wishes to trade and must bid and offer for each of the options and each of the legs of the SPX combo on the basis of the total debit or credit. The text of the proposed rule appears below. Proposed new language is in italics.

SPX Combination Orders

Rule 24.20(a) For purposes of this rule, the following terms shall have the following meanings:

(1) An ''SPX combination'' is an order combining a long SPX call and a short SPX put of the same series, or an order combining a short SPX call and a long SPX put of the same series.

(2) A ''delta'' is the number of SPX combinations required to establish a delta neutral hedge with an SPX option position, based on the value of the underlying S&P futures contract.

(b) Notwithstanding any other rules of the Exchange, orders for SPX options executed in conjunction with SPX combination orders may be transacted in the following manner:

(i) A member holding an order(s) to purchase or sell SPX options must indicate the delta of the option and must bid or offer for each option and each of the legs of a combination order(s) on the basis of the total debit or credit. At the time they are originally quoted, the prices quoted for the options and each leg of the combination order(s) must be such that none would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the SPX customer limit order book.

(ii) The option order(s) and each leg of the combination order(s) may be executed immediately or at any time during the trading day. If the orders are not executed immediately, the option order(s) and each leg of the combination order(s) may be printed at their originally quoted prices in order to achieve the total debit or credit agreed to for the entire transaction.

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 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 CBOE 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

The purpose of the proposed rule change is to establish a new rule, CBOE Rule 24.20, that will facilitate the use of SPX combination orders (''SPX combos'') to hedge positions in SPX options. The proposed new rule would allow SPX traders to print and execute orders for SPX options, and orders for hedging transactions in SPX combos, outside of the prevailing bid or offer (''out-of-range'') at any time during the trading day, at the prices originally quoted for each option, so long as each option when originally quoted would not trade at a price outside the displayed bids or offers in the trading crowd or bids or offers in the SPX customer limit order book.

According to the CBOE, SPX traders commonly hedge their positions in SPX options with SPX combos, also called ''synthetic futures,'' which are created by combining long (short) SPX calls with short (long) SPX puts of the same series, in lieu of hedging with the actual S&P 500 Index futures contract. The individual legs of the SPX combo are priced so that a value for the SPX combo is established which is equivalent to the value of a future at a level at which the trader wishes to make the underlying futures market ''static.'' Then, based on the ''underlying'' value established by the SPX combo that has been quoted, the trader will request a market for the options that he wishes to trade, and will indicate the delta of the option. An SPX trader will execute SPX combos in conjunction with transactions in SPX options, taking into account the delta of the particular option, so that the combined positions will create a ''delta neutral'' hedge, *i.e.*, a position that has no market exposure.[4]

According to the CBOE, proposed CBOE Rule 24.20 will alleviate a reoccurring problem faced by SPX traders executing SPX combo orders. According to the CBOE, current CBOE Rules provide that a combination order (and any spread order) may be executed only so long as no leg of the order would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the customer limit order book.[5] The prices of the options and the legs of the SPX combo can, and frequently do, move away quickly from the market that prevailed when the options were originally quoted (and away from the level at which the trader sought to reproduce the value of the underlying future). If the market moves before the trader is able to effect all of the required transactions, the trader cannot complete the strategy as originally designed because the options or the legs of the SPX combo, if traded at the originally quoted prices, would trade out-of-range.

Proposed CBOE Rule 24.20 would allow an SPX trader who is unable to complete the transactions before the market moves the component options away from the displayed bids or offers to print and execute the orders at any time during the trading day at the originally quoted prices. Proposed CBOE Rule 24.20 would permit these orders to be transacted in this manner only if two conditions are satisfied: (1) the member initiating the orders indicates the delta (as defined in proposed CBOE Rule 24.20(a)(2)) of the options he wishes to trade and bids and offers for each of the options each of the legs of the SPX combo on the basis of the total debit or credit; and (2) at the time they are quoted, the options and the leges of the SPX combo are quoted so that none would trade at a price outside the currently displayed bids or offers in the crowds or bids or offer in the book.

The CBOE notes that a delta neutral SPX combo trade is designed so that market movement will have no impact on the resulting position. The delta made known to the participants to the trade is used to establish the hedge ratio required to keep the trade market neutral. Therefore, whether the component options of a delta neutral SPX combo are traded immediately or later, the Exchange beleives the SPX trader should be allowed to print the options at the original quotes (which represent the level at which the underlying future was ''frozen'') because

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[3] For purposes of proposed CBOE Rule 24.20, the ''delta'' is the number of SPX combos required to establish a delta neutral hedge with an SPX option position, based on the value of the underlying S&P 500 futures contract. *See* CBOE Rule 24.20(a)(2).

[4] For example, the purchase of 100 SPX puts with a 30 delta would require the purchase of 30 ''long'' SPX combos (30 long SPX calls and 30 short SPX puts of the same series) to be hedged delta neutral.

[5] CBOE Rule 6.45(e) provides, in part, that when a member holding a combination order and bidding or offering in a multiple of 1/16 on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the customer limit order book or announced by members in the trading crowd, then the order may be executed as a combination at the total debit or credit with one other member without giving priority to bids or offers of members in the trading crowd that are no better than the bids or offers comprising such total debit or credit and bids and offers in the customer limit order book, provided at least one leg of the order would trade at a price that is better than the corresponding bid or offer in the book.

the originally quoted prices were tied to the delta of the options.

The following example illustrates how proposed CBOE Rule 24.20 would operate: Assume that the S&P 500 Index September futures contract is trading at 1495 and an SPX trader requests quotes for the SPX September 1495 call and September 1495 put, for the purpose of pricing an SPX combo that will reproduce the S&P 500 future at 1495. Assume the September 1495 call and September 1495 put are each quoted at 12 bid, 12⅛ asked. Assume that the trader then requests quotes for the 30 delta SPX September 1480 puts, based on the underlying futures value of 1495, and receives a quote of 6 bid, 6⅛ asked. The trader agrees to buy 100 of the 1480 puts at 6⅛ and to hedge these agrees to buy 30 September 1495 calls at 12 and to sell 30 September 1495 puts at 12 (30 "long" combos). Now assume that the market rallies five points, to a new underlying futures level of 1500, before these orders can be executed. The September 1495 call is now trading at 15, the September 1495 put at 10 and the September 1480 puts at 4⅝. Under current Exchange rules, the trader could purchase the 1480 puts at 6⅛, but could not execute the legs of the SPX combo at 12 because they would trade out-of-range of the current displayed market. Proposed CBOE Rule 24.20 would allow the parties to the trade to print and execute the orders at the original quotes, 12 and 6⅛, because the options would not have traded outside the displayed bids or offers in the crowd or in the book (12 bid, 12⅛ asked: 6 bid, 6⅛ asked), and because the transaction as agreed to at a futures level of 1495 had market neutrality and would not have been affected by the five point market rally (the gain on the SPX combo of 5 points × 30 contracts x 500 multiplier = $75,000, is offset by the loss on the 1480 puts of $1.5 × 100 contracts × 500 = $75,000).

When an SPX combo transaction is effected out-of-range pursuant to proposed CBOE Rule 24.20, that fact will be denoted in the Exchange's disseminated quote by an "indicator."

The Exchange believes the proposed CBOE Rule 24.20 will give both customers and traders of SPX options an efficient means of hedging positions in SPX options, benefiting the marketplace. The Exchange believes that as a result of proposed CBOE Rule 24.20, SPX combo trading will become more consistent with current pricing practices in the futures markets [6] and

the over-the-counter market, enabling the Exchange to compete more effectively with these markets and offering Exchange members and their customers greater flexibility.

The CBOE believes that the proposed rule will allow for the efficient conduct of SPX combo orders and will be beneficial to both customers and traders. Accordingly, the CBOE believes that the proposed rule change is consistent with and furthers the objectives of Section 6(b) of the Act, in general, and Section 6(b)(5), in particular, in that is designed to facilitate transactions in securities, to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

The CBOE 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

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 by order approve such proposed rule change, or 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, 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, NW., Washington, DC 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 CBOE. All submission should refer to File No. SR–CBOE–00–40 and should be submitted by November 14, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[7]

Margaret H. McFarland,
Deputy Secretary.
[FR Doc. 00–27239 Filed 10–23–00; 8:45 am]
BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–43443; File No. SR–CHX–00–20]

Self-Regulatory Organizations Chicago Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change and Amendment No. 1 by the Chicago Stock Exchange, Incorporated Relating to Automatic Execution of Orders for Nasdaq/NM Securities

October 13, 2000.

I. Introduction

On June 9, 2000, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") submitted to the Securities and Exchange Commission "SEC" or "Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") [1] and Rule 19b–4 thereunder,[2] a proposed rule change relating to the automatic execution of orders for Nasdaq/NM Securities. On August 18, 2000, the Exchange filed Amendment No. 1, to the proposed rule change.[3]

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[6] *See* Chicago Mercantile Exchange Rule 542, which provides that spread and combination transactions involving options need not satisfy the

requirement that at least one leg must be within the price range established during the trading session whenever the spread or combination involves one or more contract months which have an established price range.

[7] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* Letter from Paul O'Kelly, Executive Vice President, CHX, to Katherine England, Assistant Director, Division of Market Regulation, Commission, dated August 15, 2000. ("Amendment No. 1"). In Amendment No. 1, the Exchange clarified how specialists would utilize the proposed enhanced liquidity function, and deleted a portion of the proposed rule text that would have permitted a specialist to switch to manual execution mode in unusual trading situations after, among other things, seeking relief from a member of the