

54 and should be submitted by June 28, 1995.

It Therefore Is Ordered, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (SR-CBOE-94-54) is approved, as amended.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35789; File No. SR-CBOE-95-05]

**Self-Regulatory Organizations; Order Approving Proposed Rule Changes and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, and 3 to the Proposed Rule Changes by the Chicago Board Options Exchange, Incorporated, Relating to Trading Halts, Trading Suspensions, the Re-opening of Trading after a Trading Halt or Suspension, and the Suspension of the Retail Automatic Execution System**

May 31, 1995.

**I. Introduction**

On January 18, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange"), filed proposed rule changes with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, to: (1) Codify the Exchange's existing practice regarding the factors considered and circumstances under which the Exchange could decide to halt or suspend trading in its markets; (2) establish procedures for the resumption of trading after a halt or suspension is lifted; and (3) grant the senior person in charge of the CBOE Control Room the authority to turn off the Retail Automatic Execution System ("RAES") if the Control Room receives a credible indication that trading has stopped in the underlying stock. The Exchange filed Amendment No. 1 to the proposal on February 21, 1995,<sup>3</sup> Amendment No.

2 to the proposal on May 10, 1995,<sup>4</sup> and Amendment No. 3 to the proposal on May 31, 1995.<sup>5</sup>

Notice of the proposal was published for comment and appeared in the **Federal Register** on February 27, 1995.<sup>6</sup> No comment letters were received on the proposed rule changes. This order approves the Exchange's proposal, as amended.

**II. Description of the Proposal**

The CBOE proposes to amend its rules and Regulatory Circulars RG94-17 ("Inter-Exchange Procedures in Volatile Markets") and RG93-58 (formerly RG92-40 ("Trading Halt Policy")) to codify existing practices regarding the factors the Exchange considers in deciding whether to halt or suspend trading and the circumstances under which trading is generally halted or suspended by the Exchange. The CBOE also proposes to establish procedures for the resumption of trading after a halt or suspension is lifted, and to grant the senior person in charge of the Control Room the authority to turn off RAES<sup>7</sup> for a particular stock option if the Control Room receives a credible indication that trading in the underlying stock has been halted.

**A. Status of Rotation as Factor Considered in Halt or Suspension**

Specifically, the CBOE proposes to amend Rules 6.3(a), 6.4(a) and 24.7(a) to

Regulation"), Commission, dated February 17, 1995. ("Amendment No. 1").

<sup>4</sup> Amendment No. 2 proposes to amend Interpretation .05 to CBOE Rule 6.3 to indicate that the senior person in the Control Room may rely on a *verified report* from the CBOE trading crowd as a credible indication of a trading halt or suspension in the primary market of an underlying security.

CBOE also proposes to clarify that its proposed rescission of CBOE Rule 6.3A is intended to encompass the two Interpretations and Policies previously adopted for that rule. See Letter from Michael Meyer, Schiff, Hardin & Waite, to John Ayanian, Attorney, Market Regulation, OMS, Commission, dated May 10, 1995. ("Amendment No. 2".)

<sup>5</sup> Amendment No. 3 proposes to amend Regulatory Circular RG93-58 to indicate that two Floor Officials may permit trading to continue for more than 15 minutes after a failure of last sale and/or quotation dissemination from either the Exchange or the Options Price Reporting Authority ("OPRA") only with the concurrence of a senior Exchange official. See Letter from Michael Meyer, Schiff, Hardin & Waite, to John Ayanian, Attorney, Market Regulation, OMS, Commission, dated May 31, 1995. ("Amendment No. 3".)

<sup>6</sup> See Securities Exchange Act Release No. 35397 (February 21, 1995), 60 FR 10621 (February 27, 1995).

<sup>7</sup> RAES automatically executes public customer market and marketable orders of a certain size against participating market makers in the CBOE trading crowd at the best bid or offer reflected in the CBOE quotation system. A more detailed description of RAES is provided in Securities Exchange Act Release No. 22015 (May 6, 1985), 50 FR 19832 (May 10, 1985).

include the status of the trading rotation<sup>8</sup> as a factor that may be considered in a decision whether to halt or suspend trading. Although not presently explicit in the CBOE rules, the Exchange states that its current practice includes consideration of the rotation status in deciding whether to halt or suspend trading. An explicit statement would notify members and the public that, when deciding whether to halt trading, Floor Officials may consider the extent to which the rotation has been completed and other factors regarding the status of the rotation. When deciding whether to suspend trading, the Board of Directors similarly would be able to consider the extent to which the rotation is complete and other factors regarding the status of the rotation.

**B. Regulatory Halt or Suspension**

CBOE further proposes to add Interpretation .04 to Rule 6.3 and Interpretation .01 to Rule 6.4 to reflect the current CBOE practice that, in general, trading in a stock option will be halted when a regulatory halt in the underlying stock has occurred in the primary market for that stock. Pursuant to Rule 6.3, any two Floor Officials may halt trading in any security in the interests of a fair and orderly market for a period not in excess of two consecutive business days. Similarly, the proposal reflects the current CBOE practice that, in general, trading in a stock option will be suspended when a regulatory suspension in the underlying stock has occurred in the primary market for that stock. In the case of a regulatory suspension, the Board of Directors is authorized under Rule 6.4 to suspend trading in any security in the interests of a fair and orderly market for an indefinite period.

Rules 6.3 and 6.4 list factors considered in deciding whether to halt or suspend trading. While the factors listed are considered in deciding whether to halt trading, when a regulatory halt in the underlying stock has been declared in the primary market, generally the Exchange will halt or suspend trading in the overlying stock option. The Exchange believes that the close relationship between the underlying stock and the pricing of stock options overlying that security typically justify such a result. When a regulatory halt is declared in the underlying stock, it often is because some news is pending regarding the

<sup>8</sup> A "trading rotation" is a series of very brief time periods during which bids, offers, and transactions in only a single, specific option contract can be made. See CBOE Rule 6.2.

<sup>8</sup> 15 U.S.C. § 78s(b)(2) (1988).

<sup>9</sup> 17 CFR 200.30-3(a)(12) (1994).

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

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

<sup>3</sup> Amendment No. 1 proposes to delete the reference to Rule 6.3A in paragraph (c) of Rule 24.7, because the rule change proposes the deletion of Rule 6.3A in its entirety. See Letter from Michael Meyer, Schiff, Hardin & Waite, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market