notice is hereby given that on August 31, 1995, the Chicago Board Options Exchange, Incorporated ("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 Exchange. 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 CBOE Automotive Index ("Automotive Index" or "Index"). The text of the proposed rule change is available at the Office of the Secretary, the Exchange, 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 Exchange included statements concerning the purpose of and basis for 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 Section (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 permit the Exchange to list and trade cash-settled, European-style³ stock index options on the Automotive Index.

Index Design

The Automotive Index consists of ten companies involved in the design and manufacture of automobiles and automotive parts (replacement and original equipment).⁴ All of the stocks currently comprising the Index currently trade on the New York Stock Exchange ("NYSE"). No proxy for the performance of this industry group is currently available in the U.S. exchangetraded derivatives markets, and the Exchange believes that options on the Index will provide investors with a lowcost means to participate in the performance of or to hedge the risk of investments in this sector.

The components comprising the Index ranged in capitalization from \$2.3 billion to \$36.4 billion as of July 31, 1995. The total capitalization as of that date was \$112.2 billion; the mean capitalization was \$11.2 billion; and the median capitalization was \$4.8 billion. The largest component accounted for 20% of the total weighting of the Index, while the smallest accounted for 5.00%. The top five components accounted for 68.33% of the total weight of the Index.

Index Calculation

The Index will be calculated by CBOE or its designee on a real-time basis using last-sale prices and will be disseminated every 15 seconds by CBOE. If a component security is not currently being traded on its primary market, the most recent price at which the security traded on such market will be used in the Index calculation.

The Index is calculated on a "modified equal-dollar-weighted" method. Each of the ten component securities is represented in dollar amounts that approximate the relative sizes of the companies in the Index. The Exchange believes that this methodology will present a fair representation of the automotive industry without assigning excessive weight to the top three securities (GM, F, and C), as measured by market capitalization. The initial component weights, and the weights at the time of the last quarterly rebalancing on June 16, 1995, were: GM-20%, F-17.5%, C-12.5%, GT-10%, ETN-8.33%, GPC-8.33%, TRW-8.33%, DCN-5%, ECH-5%, and MGA-5%.

The value of the Index equals the current combined market value (based on U.S. primary market prices) of the assigned number of shares of each of the components in the Index divided by the current Index divisor. The Index divisor was initially calculated to yield a benchmark value of 150.00 at the close of trading on December 16, 1994. The value of the Index at the close on July 31, 1995, was 179.93.

Maintenance

The Index will be maintained by CBOE. To maintain continuity in the Index following an adjustment to a component security, the divisor will be adjusted. Changes which may result in divisor changes include, but are not limited to, certain rights issuances, quarterly re-balancing, and component security changes.

The Index is re-balanced after the close of business on Expiration Fridays on the March Quarterly Cycle. In addition, the Index will be reviewed on approximately a monthly basis by the CBOE staff. The CBOE may change the composition of the Index at any time to reflect changes affecting the components of the Index or the Automotive industry generally. If it becomes necessary to remove a component from the Index, every effort will be made to add a component that preserves the character of the Index. In such circumstances, CBOE will take into account the capitalization, liquidity, volatility, and name recognition of the proposed replacement component. CBOE will not decrease the number of components to less than 9 nor increase the number of components to more than 13. All replacement securities will be "reported securities" as defined in Rule 11Aa3-1 of the Securities Exchange Act of 1934.

Additionally, the Exchange will not make any composition change to the Index that would result in less than 80% of the number of components or 90% of the weight of the Index satisfying the initial listing criteria in CBOE Rule 5.3 (for components which are not the subject of standardized options trading) or the maintenance criteria in CBOE Rule 5.4 (for components which are currently the subject of standardized options trading).

Index Option Trading

The Exchange proposes to base trading in options on the Automotive Index on the full value of that Index. The Exchange may list full-value longterm index option series ("LEAPS"), as provided in Rule 24.9. The Exchange also may provide for the listing of reduced-value LEAPS, for which the underlying value would be computed at one-tenth of the value of the Index. The current and closing index value of any such reduced-value LEAPS will, after such initial computation, be rounded to the nearest one-hundredth.

Exercise and Settlement

Automotive Index options will have European-style exercise and will be "A.M.-settled index options" within the meaning of the Rules in Chapter XXIV, including Rule 24.9, which is being amended to refer specifically to Automotive Index Options. The proposed options will expire on the Saturday following the third Friday of the expiration month. Thus, the last day for trading in an expiring series will be the second business day (ordinarily a Thursday) preceding the expiration date.

 $^{^{3}}$ European-style options can only be exercised during a specified period before the options expire.

⁴The components of the Index are: Chrysler Corporation Holding Co. ("C"); Dana Corp. ("DCN"); Echlin Inc. ("ECH"); Eaton Corp. ("ETN"); Ford Motor Co. ("F"); General Motors Corp. ("GM"); Genuine Parts Co. ("GPC"); Goodyear Tire and Rubber Co. ("GT"); Magna International Inc. ("MGA"); and TRW Inc. ("TRW").