announcing such an order to a trading crowd must disclose all legs of the order and must identify the specific markets and prices at which the non-option leg(s) are to be filled. Second, concurrent with the execution of the option leg of any multi-market order, the initiating member and each member that is a counterparty to the trade must take steps immediately to execute the non-option leg(s) in the identified market(s).[7] Because both of these requirements are essential to fair and efficient order execution, proposed new paragraph (c) of Rule 6.48 would provide that any failure to observe either requirement will constitute a violation of CBOE's Rule 4.1, which prohibits conduct inconsistent with just and equitable principles of trade. The Exchange believes that these new provisions will clarify members' expectations about the execution of multi-market orders covered by the proposed rule and will promote prompt execution of each non-option component of such orders.

In addition to establishing requirements incident to execution, the proposed rule change sets forth one exclusive basis on which members may cancel an executed options transaction that is part of a multi-market order. Proposed Rule 6.48(b)(ii) indicates that any member that is a party to an options transaction that is part of a multi-market order may have the options transaction cancelled only in the event that market conditions in any of the identified non-CBOE markets prevent the execution of one or more of the non-option legs of the order. The Exchange believes that cancellation under this exclusive circumstance is fair and appropriate.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, 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.

III. Commission Finding and Conclusions

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.[8] Specifically, the Commission finds that the Exchange's proposal to specify certain duties of CBOE members in effecting an options transaction on the CBOE that is part of a stock-option or stock-option combination order strikes a reasonable balance between the Commission's mandate under Section 6(b)(5) to remove impediments to and perfect the mechanism of a free and open market and a national market system, while protecting investors and the public interest.

The Commission believes that it is appropriate for the Exchange to clarify the conditions and requirements that CBOE members must observe when executing and cancelling multi-market orders. The Commission understands that complex multi-market orders have become more prevalent, and believes that the proposed rule change addresses the special considerations that apply when executing and cancelling such transactions. The Commission believes that it is reasonable to require a member announcing a multi-market order to a trading crowd to disclose all legs of the order and identify the specific markets and prices at which the non-option leg(s) are to be filled.

Moreover, the Commission believes that it is reasonable to require the parties to the transaction to take steps immediately to transmit the non-option leg(s) to the identified markets for execution. The Commission understands that if a party to the transaction does not take steps immediately to execute the non-option leg(s) of a multi-market order, that party is subject to CBOE Rule 4.1, which prohibits conduct inconsistent with just an equitable principles of trade. Accordingly, the Commission believes that by clarifying the duties and obligations regarding the execution of multi-market orders, this proposal will help to ensure that the non-option leg(s) of a multi-market order are sent immediately to the identified markets for execution.[9]

The Commission also believes that members executing multi-market orders should only be allowed to cancel the option leg(s) of the stock-option transaction under limited circumstances. The Exchange proposes that a trade may be cancelled at the request of any member that is a party to that trade only if market conditions in any non-Exchange market prevent the execution of the non-option leg(s) at the price(s) agreed upon.[10] The types of ''market conditions'' arising in a non-CBOE market that would be sufficient under proposed Rule 6.48(b)(ii) to justify cancellation of the CBOE leg(s) of a multi-market order, include a sudden change in the price of the underlying securities prior to execution of the stock trade, and a trading halt or systems failure that precludes immediate execution of the stock trade at the agreed upon price.[11]

The Commission also notes that the priority principles regarding stock-option, and stock-option combination orders, apply to transactions covered by this proposed rule change.[12] In light of the priorities afforded to such transactions, the Commission believes that the option leg(s) of a multi-market order should be allowed to be cancelled only under the limited circumstances described above. The Commission believes that the Exchange's proposed rule change appropriately addresses this concern.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule change (File No. SR–CBOE–95–16), as amended, is approved.

For the Commission, by the Division of Market Regulation, prusuant to delegated authority.[14]

Margaret H. McFarland,

Deputy Secretary.

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[7] The CBOE represents that it expects the order for the non-option leg(s) of the multi-market order will be enacted concurrently with the execution of the option leg of the order. Additionally, the CBOE represents that it will advise members of this expectation in a Regulatory Circular. *See* Letter from Barbara J. Casey, Vice President, Department of Market Regulation, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated November 7, 1995 (''November 7 Letter'').

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

[9] *See* November 7 Letter, *supra* note 7.

[10] *See* CBOE Rule 6.48(b)(ii). *See also* Amendment No. 1, *supra* note 3.

[11] *See* June 30 Letter, *supra* note 3.

[12] Under CBOE Rule 6.45, stock-option orders, as defined in CBOE Rule 1.1(ii)(a), may attain priority over the trading crowd (but never over the limit order book) when the option leg trades at a price that is at least equivalent to quotes in the crowd. Additionally, stock-option combinations will take priority over orders in the crowd when all legs of the combination trade at a price that is at least equivalent to quotes in the crowd. Stock-option combinations will also attain priority over the limit order book, when one leg of the transaction trades at a price that is better than the corresponding bid or offer in the book and the remaining legs of the transaction trades at a price that is at least equivalent to the established bids or offers in the crowd or book. *See* Securities Exchange Act Release No. 34764 (September 30, 1994), 59 FR 51223 (October 7, 1994).

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30–3(a)(12).