

[Release No. 34-36525; File No. SR-CBOE-95-67]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Establishment of Uniform Listing and Trading Guidelines for Narrow-based Stock Index Warrants

November 29, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. § 78s(b)(1), notice is hereby given that on November 9, 1995, 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, II and III below, which Items have been prepared by the self-regulatory organization. On November 20, 1995, the CBOE submitted Amendment No. 1 ("Amendment No. 1") to the filing to clarify issues relating to settlement values for both narrow-based and broad-based index warrants and also the reporting of hedge unwinding transactions.¹ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The CBOE proposes to amend Exchange rules 30.35, 30.53, and 31.5 to establish uniform listing and trading guidelines applicable to narrow-based stock index warrants.

The text of the proposed rule change is available at the Office of the Secretary, CBOE 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 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

1. Purpose

On August 29, 1995, the Commission approved SR-CBOE-94-34 which established uniform listing and trading guidelines for broad-based stock index, currency, and currency index warrants.² This filing proposes rules governing the listing and trading of narrow-based indexes, *i.e.*, indexes that do not meet the Commission's criteria for broad-based treatment. This filing would modify the recently approved regulatory framework for the trading of broad-based stock index warrants, by adopting certain rules for the trading of warrants on narrow-based indexes that are now applicable to the trading of narrow-based index options.

The Exchange first traded narrow-based index options in September 1983. Exchange rules governing the trading of warrants, including stock index warrants, were approved in October 1990³ and similar rules were approved for another exchange as early as 1988.⁴ Because of the years of experience the Exchange has with trading index options and the Commission has with regulating index option and warrant trading, the Exchange believes that the trading of warrants based on narrow-based indexes presents no new or novel regulatory issues and should be permitted subject to the same restrictions that apply to the trading of narrow-based stock index options.

Specifically, the Exchange proposes that the margin requirements applicable to the short sales of narrow-based index options would apply to the short sale of narrow-based index warrants, and the reduced position limits applicable to narrow-based index options would apply to narrow-based index warrants. The Exchange proposes that the narrow-based index warrant position limit be set at 75% of the levels recently approved by the Commission for narrow-based index options.⁵ In all

other respects, the rules applicable to broad-based and narrow-based options are the same. Consequently, all other rules applicable to broad-based index warrants would apply to warrants on narrow-based indexes. In addition, the Exchange would conduct the surveillance of trading in narrow-based index warrants in a similar manner to its surveillance of trading in broad-based index warrants.

The Exchange proposes that, upon Commission approval of this filing, the Exchange be permitted, without further Commission review, to list a warrant on any narrow-based index that the Commission has previously approved for options or warrant trading. In order to expedite the review of a particular warrant issue, the Exchange proposes employing procedures similar to those set forth in Rule 24.2(b) to file for approval of the index underlying a proposed issuance of warrants.⁶ However, the Exchange will not list a warrant on an index consisting of fewer than nine stocks, nor will it allow any of the indexes upon which warrants are traded to consist of fewer than nine stocks, unless the Commission separately approves such index for warrant trading.

The Exchange also proposes to amend Rule 31.5(E)(5) in order to clarify that the settlement mechanism for narrow-based index warrants will be the same as that for broad-based index warrants.⁷ Accordingly, an issuer may elect to use closing prices for the securities underlying a stock index to determine settlement values at all times other than the day on which the final settlement value is to be determined ("valuation date"), as well as during the two business days preceding valuation date.⁸

2. Statutory Basis

CBOE believes 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 will permit trading in warrants based on the Mexico 30 Index pursuant to rules designed to

12,000 position limit levels currently applicable to narrow-based index option trading.

⁶ These criteria establish streamlined procedures for listing options on stock industry groups (*i.e.*, narrow-based). Accordingly, the Exchange proposes that the same criteria apply to subsequent proposals to establish narrow-based indexes which underlie proposed warrant issuances.

⁷ See Amendment No. 1.

⁸ See Amendment No. 1. The Commission notes that although the recently approved regulatory framework for broad-based index warrants establishes uniform settlement valuation provisions adopted by several exchanges, including CBOE, the CBOE in this filing proposes to amend Rule 31.5(E)(5) to clarify such provisions.

¹ See Letter from Timothy Thompson, CBOE, to Steve Youhn, SEC, dated November 15, 1995.

Specifically, as discussed below, Amendment No. 1 clarifies that narrow-based index warrants will be governed by the same settlement procedures applicable to broad-based index warrants.

Furthermore, it clarifies that certain hedge unwinding transactions in narrow-based index warrants which are undertaken as a result of early exercises will be reported to the Exchange in the same manner as with broad-based index warrants.

² See Securities Exchange Act Release No. 36169.

³ See Securities Exchange Act Release No. 28556 (Oct. 26, 1990).

⁴ See Securities Exchange Act Release No. 26152 (Oct. 3, 1988).

⁵ See Securities Exchange Act Release No. 36439 (Oct. 31, 1995). Accordingly, the Exchange proposes that position limits for narrow-based index warrants be set at 4,500,000, 6,750,000, and 9,000,000, which are equivalent to 75% of the 6,000, 9,000, and