[Release No. 34–35304; International Series Release No. 779; File No. SR-CBOE-94– 20]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to the Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to the Listing of Options and Long-Term Options on the CBOE Emerging Asian Markets Index and Long-Term Options on a Reduced-Value CBOE Emerging Asian Markets Index

January 31, 1995.

I. Introduction

On June 30, 1994, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("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 to provide for the listing and trading of index options on the CBOE Emerging Asian Markets Index ("Asian Markets Index" or "Index"). The Exchange filed Amendment No. 1 to the proposed rule change on August 18, 1994.3 Notice of the proposal, as amended, appeared in the Federal Register on August 26, 1994.4 The Exchange subsequently filed Amendment No. 2 to the proposed rule change on January 26, 1995.5 No comment letters were received on the proposed rule change. This order approves the Exchange's proposal, as amended.

II. Description of Proposal

A. General

The CBOE proposes to list for trading options on the Asian Markets Index, a new securities index developed by the

CBOE. The Asian Markets Index is composed of the securities issued by 15 closed-end mutual funds 6 that are traded on the New York Stock Exchange ("NYSE") and that invest in the stocks of firms in emerging Asian economies, excluding Japan. The CBOE also proposes to list either long-term options on the full-value Index or long-term options on a reduced-value Index that will be computed at one-tenth of the value of the Asian Markets Index ("Asian Markets LEAPS" or "Index LEAPS").8 Asian Markets LEAPS will trade independent of and in addition to regular Index options traded on the Exchange,9 however, as discussed below, for purposes of position and exercise limits, positions in Index LEAPS and regular Index options will be aggregated.

B. Composition of the Index

The Index was designed by the Exchange and is based on the securities issued by 15 closed-end mutual funds that invest in the stocks of firms in emerging Asian economies, excluding Japan. The shares of each of the closed-end funds contained in the Index trade in the U.S. on the NYSE. The Index is price-weighted and will be calculated on a real-time basis using last sale prices of the shares of the closed-end funds comprising the Index.

As of the close of trading on January 4, 1995, the Index was valued at 122.35.

Also as of that date the market capitalizations of the individual closedend fund securities in the Index ranged from a high of \$628.65 million to a low of \$46.36 million, with the mean and median being \$205.05 million and \$172.65 million, respectively. The total market capitalization of the securities in the Index on that date was \$3.08 billion. The price per share of the closed-end fund securities comprising the Index on January 4, 1995, ranged from a high of \$28.13 to a low of \$8.63, with an average price per share of \$14.99.10

The average daily trading volume of the shares of the closed-end funds contained in the Index, for the period from July 1, 1994, through December 31, 1994, ranged from a high of 118,056 shares per day to a low of 9,984 shares per day. As of January 4, 1995, no single closed-end fund security contained in the Index accounted for more than 12.51% of the Index's total value and the percentage weighting of the five largest issues in the Index accounted for 48.80% of the Index's value. The percentage weighting of the lowest weighted securities issued by a closedend fund contained in the Index was 3.84% of the value of the Index and the percentage weighting of the five smallest closed-end fund securities contained in the Index accounted for 22.29% of the Index's value.11 Based on the aggregate holdings of the mutual funds represented in the Index, as disclosed in the most recent semiannual reports of the component closed-end funds filed with the Commission prior to August 16, 1994, the CBOE represents that securities from no single country accounted for more than 16.25% (Hong Kong) nor less than 4.50% (China) of the weight of the Index. Based on the same semiannual reports, by aggregating the holdings of the closed-end funds comprising the Index, the CBOE represents that no single security held by one or more of the component mutual funds accounted for more than 1.25% of the weight of the Index.12 Finally, more than 10 emerging Asian countries are represented through the holdings of the component funds comprising the Index.13

^{1 15} U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1992).

³In Amendment No. 1, the Exchange proposed to treat the Asian Markets Index as a narrow-based index for purposes of margin, position limits, the exercise limits. Pursuant to CBOE Rule 24.4A, the position limits for the Index will initially be set at 10,500 contracts. *See* Letter from Eileen Smith, Director, Product Development, Research Department, CBOE, to Brad Ritter, Senior Counsel, Office of Market Supervision ("OMS"), Division of Market Regulation ("Division"), Commission, dated August 18. 1994.

⁴ See Securities Exchange Act Release No. 34553 (August 19, 1994), 59 FR 44205 (August 26, 1994).

⁵In Amendment No. 2, the Exchange proposed: (1) to reduce the number of components in the Index from 16 to 15; and (2) several amendments, as discussed more fully herein, regarding the maintenance criteria for the Index. See Letter from Joseph Levin, Vice President, Research Department, CBOE, to Brad Ritter, Senior Counsel, OMS, Division, Commission, dated January 16, 1995 ("Amendment No. 2").

⁶ Id

⁷The components of the Index are the: Asia Pacific Fund; Asia Tigers Fund Inc.; China Fund Inc.; Greater China Fund Inc.; Jardine Fleming China Region Fund Inc.; Morgan Stanley India Fund; Jakarta Growth Fund Inc.; Korea Fund Inc.; Korea Equity Fund Inc.; Malaysia Fund Inc.; First Philippine Fund Inc.; Singapore Fund Inc.; ROC Taiwan Fund; Taiwan Fund Inc.; and Thai Fund Inc.

^{*}LEAPS is an acronym for Long-Term Equity Anticipation Securities. LEAPS are long-term index option series that expire from 12 to 36 months from their date of issuance. See CBOE Rule 24.9(b)(1). The Commission notes that the Exchange has submitted a proposed rule change to allow the CBOE to list index LEAPS that expire up to 60 months from their date of issuance and to allow up to 10 expiration months to be outstanding at any one time. See Securities Exchange Act Release No. 35278 (January 25, 1995).

⁹ According to the CBOE, the Asian Markets Index represents a segment of the U.S. equity market that is not currently represented in the derivative markets and as such, the CBOE concludes, should offer investors a low-cost means of achieving diversification of their portfolios toward or away from emerging Asian market securities. The CBOE believes the Index will provide retail and institutional investors with a means of benefitting from their forecasts of the performance of emerging Asian market securities. The Exchange further believes that options on the Index also can be utilized by portfolio managers and investors as a means of hedging the risks of investing in emerging Asian market securities either directly or through mutual funds that invest primarily in Asian market securities.

¹⁰ See Amendment No. 2, supra note 5.

¹¹ Id.

¹² For example, four of the 15 component funds held shares of China Light & Power based on these semiannual reports. By aggregating the positions of these four mutual funds, China Light & Power accounted for 0.73% of weight of the Index. See Letter from Eileen Smith, Director, Product Development, Research Department, CBOE, to Brad Ritter, Senior Counsel, OMS Division, Commission, dated August 16, 1994 ("August 16 Letter").