Index value to other financial vendors such as Reuters, Telerate, and Quotron.

The Index value for purposes of settling outstanding regular Index options and full-value and reducedvalue Index LEAPS contracts upon expiration will be calculated based upon the regular way opening sale prices for each of the closed-end fund securities comprising the Index in their primary market on the last trading day prior to expiration.²² In the event that a closed-end fund security traded as a Nasdaq/NM security is added to the Index, the first reported sale prices for those shares will be used for determining a settlement value. Once the shares of all of the mutual funds represented in the Index have opened for trading, the value of the Index will be determined and that value will be used as the final settlement value for expiring Index options contracts, including full-value and reduced-value Index LEAPS. If any of the closed-end fund securities contained in the Index do not open for trading on the last trading day before expiration, then the prior trading day's (*i.e.*, nornally Thursday's) last sale price will be used in the Index value calculation. In this regard, before deciding to use Thursday's closing value for a closedend fund security contained in the Index for purposes of determining the settlement value of the Index, the CBOE will wait until the end of the trading day on Expiration Friday (as defined herein).

F. Contract Specifications

The proposed options on the Index will be cash-settled, European-style options.23 Standard options trading hours (8:30 a.m. to 3:15 p.m.²⁴ Central Standard time) will apply to the contracts. The Index multiplier will be 100. The strike price interval will be \$5.00 for full-value Index options with a duration of one year or less to expiration.²⁵ In addition, pursuant to CBOE rule 24.9, there may be up to six expiration months outstanding at any given time. Specifically, there may be up to three expiration months from the March, June, September, and December cycle plus up to three additional nearterm months so that the two nearest term months will always be available. As described in more detail below, the Exchange also intends to list several Index LEAPS series that expire from 12 to 36 months from the date of issuance.²⁶

Lastly, the options on the Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). Accordingly, because options on the Index will settle based upon opening prices of the closed-end fund securities comprising the Index on the last trading day before expiration (normally Expiration Friday), the last trading day for an expiring Index option series will normally be the second to the last business day before expiration (normally a Thursday).

G. Listing of Long-Term Options on the Full-Value or Reduced-Value Asian Markets Index

The proposal provides that the Exchange may list long-term Index options that expire from 12 to 36 months from listing based on the fullvalue Index or a reduced-value Index that will be computed at one-tenth of the full-value Asian Markets Index.27 **Existing Exchange requirements** applicable to full-value Index options will apply to full-value and reducedvalue Index LEAPS.²⁸ The current and closing Index value for reduced-value Asian Markets LEAPS will be computed by dividing the value of the full-value Index by 10 and rounding the resulting figure to the nearest one-hundredth. For example, an Index value of 122.36 would be 12.24 for the reduced-value Index LEAPS and an Index value of 122.34 would be 12.23 for the reducedvalue Index LEAPS. The reduced-value Index LEAPS will also be Europeanstyle and will be subject to the same rules that govern the trading of Index options, including sales practice rules, margin requirements and floor trading procedures. Pursuant to CBOE Rule 24.9, the strike price interval for the reduced-value Index LEAPS will be no less than \$2.50 instead of \$5.00.

H. Position and Exercise Limits, Margin Requirements, and Trading Halts

Exchange rules governing margin requirements,²⁹ position and exercise

limits,³⁰ and trading halt procedures ³¹ that are applicable to the trading of narrow-based index options will apply to options traded on the Index. The proposal further provides that, for purposes of determining whether given positions in full-value and reduced-value Index LEAPS comply with applicable position and exercise limits, positions in full-value and reduced-value Index LEAPS will be aggregated with positions in the regular Index options. For these purposes, ten reduced-value contracts will equal one full-value contract.

I. Surveillance

Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in regular Index options and in full-value and reduced-value Index LEAPS. These procedures include complete access to trading activity in the shares of the mutual funds comprising the Index. Further, the Intermarket Surveillance Group Agreement will be applicable to the trading of options on the Index.³²

III. Findings 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 the national securities exchange and, in particular, the

³¹ Pursuant to CBOE Rule 24.7, the trading on the CBOE of Index options and Index LEAPS may be halted or suspended whenever trading in underlying mutual fund shares whose weighted value represents more than 20% of the Index value are halted or suspended.

³² The Intermarket Surveillance Group ("ISG" was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. See Intermarket Surveillance Group Agreement, July 14, 1983. The most recent amendment to the ISG Agreement which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. See Second Amendment to the Intermarket Surveillance Group Agreement, January 29, 1990. The members of the ISG are: the Amex; the Boston Stock Exchange, Inc.; the CBOE, the Chicago Stock Exchange, Inc.; the National Association of Securities Dealers, Inc. ("NASD"); the NYSE, the Pacific Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. Because of potential opportunities for trading abuses involving stock index futures, stock options, and the underlying stock and the need for greate sharing of surveillance information for these potential intermarket trading abuses, the major stock index futures exchanges (e.g., the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

²² As noted above, the current primary market for each of the closed-end fund securities comprising the Index is the NYSE.

²³ A European-style option can be exercised only during a specified period before the option expires.

²⁴ Telephone conversation between Eileen Smith, Director, Product Development, Research Department, CBOE, and Brad Ritter, Senior Counsel, OMS, Division, Commission, on January 27, 1995.

²⁵ For a description of the strike price intervals for reduced-value Index options and long-term Index options, *See infra*, Section II.G.

²⁶ See supra note 8.

²⁷ Id.

²⁸ See CBOE Rule 24.9(b).

²⁹ Pursuant to CBOE Rule 24.11, the margin requirements for the Index options will be: (1) for short options positions, 100% of the current market value of the options contract plus 20% of the underlying aggregate Index value, less any out-ofthe-money amount, with a minimum requirement of the options premium plus 10% of the underlying

Index value; and (2) for long options positions, 100% of the options premium paid.

³⁰ Pursuant to CBOE Rules 24.4A and 24.5, respectively, the position and exercise limits for the Index options will be 10,500 contracts, unless the Exchange determines, pursuant to such rules, that a lower limit is warranted.