CBOE. The Emerging Markets Index is composed of the securities issued by 23 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 (excluding Japan) and Latin American economies.<sup>7</sup> 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 Emerging Markets Index ("Emerging Markets LEAPS" or "Index LEAPS").8 Emerging 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 23 closed-end mutual funds that invest in the stocks of firms in emerging Asian (excluding Japan) and Latin American economies. 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 125.49. Also as of that date the market capitalizations of the individual closedend fund securities in the Index ranged from a high of \$824.31 million to a low of \$46.36 million, with the mean and median being \$224 million and \$155 million, respectively. The total market capitalization of the securities in the Index on that date was \$5.2 billion. The price per share of the closed-end fund securities comprising the Index on January 4, 1995, ranged from a high of \$45.88 to a low of \$8.63, with an average price per share of \$17.35.10

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 284,048 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 11.50% of the Index's total value and the percentage weighting of the five largest issues in the Index accounted for 37.56% of the Index's value. The percentage weighting of the lowest weighted securities issued by a closedend fund contained in the Index was 2.16% of the value of the Index and the percentage weighting of the five smallest closed-end fund securities contained in the Index accounted for 12.53% of the Index's value.<sup>11</sup> 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 15.18% (Mexico) nor less than 2.47% (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 1.57% of the weight of the Index.12 Finally, more than 14 emerging Asian

and Latin American countries are represented through the holdings of the component funds comprising the Index.<sup>13</sup>

## C. Maintenance

The Index will be maintained by the CBOE. The CBOE may change the composition of the Index at any time, subject to compliance with the maintenance criteria discussed below, to reflect the conditions in the emerging Asian (excluding Japan) and Latin American securities markets. If it becomes necessary to replace the securities issues by a closed-end fund contained in the Index, the Exchange represents that every effort will be made to add only replacement securities issued by closed-end mutual funds that preserve the character of the Index and that are listed on either the American Stock Exchange ("Amex") or the NYSE, or that are Nasdaq National Market ("Nasdaq/NM") securities.14 In considering securities of closed-end mutual funds to be added to the Index. the CBOE will take into account the capitalization, liquidity, volatility, and name recognition of the particular closed-end funds and the securities issued by those mutual funds. Further, a closed-end fund represented in the Index may be replaced in the event of certain events, such as a change in the investment objectives of the mutual fund. The Exchange will most likely maintain securities representing 23 closed-end funds in the Index.15 In addition, in choosing securities issued by closed-end funds as replacements for or additions to the Index, the CBOE will not make a composition change that would result in less than 75% of the weight of the Index or 75% of the number of closed-end funds represented in the Index satisfying the listing criteria for standardized options trading set forth in CBOE Rule 5.3, Interpretation and Policy .01 (for mutual fund securities that are not then the subject of standardized options trading) 16 and

<sup>6</sup> Id.

<sup>&</sup>lt;sup>7</sup>The components of the Index are: the Latin America Discovery Fund; Argentina Fund; Brazilian Equity Fund; Brazil Fund; Chile Fund; Emerging Mexico Fund; Mexico Equity and Income Fund; Mexico Fund; 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.;

<sup>&</sup>lt;sup>8</sup>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).

<sup>&</sup>lt;sup>9</sup> According to the CBOE, the Emerging 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 and Latin American market securities. The CBOE believes the Index will provide retail and institutional investors with a means of benefiting from their forecasts of the performance of emerging Asian and Latin American 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 and Latin American market securities either directly or through mutual funds that invest primarily in Asian and Latin American market securities.

<sup>&</sup>lt;sup>10</sup> See Amendment No. 2, supra note 5.

<sup>11</sup> Id

<sup>&</sup>lt;sup>12</sup> For example, three of the 23 component funds held shares of Coteminas based on these semiannual reports. By aggregating the positions of these three mutual funds, Coteminas accounted for 0.25% of the 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").

<sup>&</sup>lt;sup>13</sup> *Id*.

<sup>&</sup>lt;sup>14</sup> Additionally, the CBOE will be required to ensure that each closed-end fund security comprising the Index is a "reported security" as defined in Rule 11Aa3–1 of the Act. See Amendment No. 2, *supra* note 5.

<sup>&</sup>lt;sup>15</sup> If the CBOE determines to increase the number of components to greater than 30 or to decrease the number of components to less than 16, the Exchange will be required to submit a rule filing pursuant to Section 19(b) of the Act. *Id.* 

<sup>&</sup>lt;sup>16</sup> *Id.* The CBOE's options listing standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements; (1) the public float must be at least 7,000,000 shares; (2) there must be a minimum of 2,000 stockholders; (3) trading volume in the U.S. must have been at least 2.4 million over the