CBOE Rule 5.4, Interpretation and Policy .01 (for mutual fund securities that are then the subject of standardized options trading).17 Additionally, at least twice each year the CBOE will review the Index to ensure that not less than 75% of the weight of the Index and 75% of the number of closed-end funds represented in the Index continue to satisfy the 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) and CBOE Rule 5.4, Interpretation and Policy .01 (for mutual fund securities that are then the subject of standardized options trading).

Moreover, at least twice each year, based on the most recent Commission filings by the closed-end funds represented in the Index, the CBOE will review the holdings of each of the closed-end funds and will promptly notify the Commission if it becomes aware that: (1) Any security held by one or more mutual funds represented in the Index, in aggregate, accounts for more than 5% of the weight of the Index; or (2) securities from any one country held by one or more mutual funds represented in the Index, in aggregate, account for more than 25% of the weight of the Index.

Finally, the CBOE will promptly notify the Commission staff at any time that the CBOE determines that the securities of a closed-end fund contained in the Index account for more than 15% of the weight of the Index if: (1) The shares of the mutual fund do not satisfy the listing eligibility requirements in CBOE Rule 5.3. Interpretation and Policy .01 (if the mutual fund does not then have standardized options trading on its shares); or (2) the shares of the mutual fund do not satisfy the maintenance eligibility requirements in CBOE Rule 5.4, Interpretation and Policy .01 (if the mutual fund has standardized options trading on its shares).18

preceding twelve months; and (4) the U.S. market price must have been at least \$7.50 for a majority of the business days during the preceding three calendar months. See CBOE Rule 5.3, Interpretation and Policy .01.

The CBOE will promptly notify the Commission staff at any time that the CBOE determines that either the Index or the securities issued by the closedend funds comprising the Index fail to satisfy any of the above maintenance criteria. Further, in such an event, the Exchange will not open for trading any additional series of Index options or Index LEAPS unless the Exchange determines that such failure is not significant, and the Commission staff affirmative concurs in that determination, or unless the Commission specifically approves the continued listing of that class of Index options or Index LEAPS pursuant to a proposal filed in accordance with Section 19(b)(2) of the Act. 19

D. Applicability of CBOE Rules Regarding Index Options

Except as modified by this order, the rules in Chapter XXIV of the CBOE Rules will be applicable to Index options and full-value and reduced-value Index LEAPS. In accordance with Chapter XXIV of CBOE's rules, the Index will be treated as a narrow-based index for purposes of applicable position and exercise limits, policies regarding trading halts and suspensions, and margin treatment.²⁰

E. Calculation of the Index

The CBOE Emerging Markets Index is a price-weighted index and reflects changes in the prices of the closed-end mutual fund securities comprising the Index relative to the Index's base date of December 31, 1991. Specifically, the Index value is calculated by adding the prices of the mutual fund securities comprising the Index and then dividing this summation by a divisor that is equal to the number of the closed-end funds represented in the Index in order to obtain an average price. To maintain the continuity of the Index, the divisor will be adjusted to reflect non-market changes in the prices of the closed-end fund securities comprising the Index as well as changes in the composition of the Index. Changes that may result in divisor adjustments include, but are not limited to, certain rights issuances.

The Index will be calculated continuously and will be disseminated to the Options Price Reporting Authority ("OPRA") every fifteen seconds by the CBOE, based on the last-sale prices of the closed-end fund securities comprising the Index.²¹

OPRA, in turn, will disseminate the 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 price 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., normally 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

¹⁷ See Amendment No. 2, supra note 5. The CBOE's options maintenance 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 6,300,000 shares; (2) there must be a minimum of 1,600 stockholders; (3) trading volume in the U.S. must have been at least 1.8 million over the preceding twelve months; and (4) the U.S. market price must have been at least 55.00 for a majority of the business days during the preceding six calendar months. See CBOE Rule 5.3, Interpretation and Policy. 01.

¹⁸ See Amendment No. 2, supra note 5.

¹⁹ *Id*.

²⁰ See *infra* Section II.H.

²¹ For purposes of dissemination of the Index value, if the shares of a mutual fund included in the Index have not opened for trading, the CBOE will use the closing value of those shares on the

prior trading day when calculating the value of the Index, until the shares of the mutual fund open for trading

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.