based for the regulatory purposes noted above.

The Commission also finds that the large capitalizations, liquid markets, and relative weightings of the close-end fund securities comprising the Index significantly minimizes the potential for manipulation of the Index. First, the overwhelming majority of the closedend fund securities comprising the Index are actively traded, with an average daily trading volume for all such mutual fund shares for the period from July 1, 1994 through December 31, 1994, of approximately 64,335 shares per day. Second, the market capitalizations of the closed-end fund securities in the Index are large, ranging from a high of \$824.31 million to a low of \$46.36 million as of January 4, 1995, with the mean and median being \$224 million and \$155 million, respectively. Third, although the Index is composed of securities representing only 23 closed-end mutual funds, no particular security or group of closed-end fund securities dominates the Index Specifically, as of January 4, 1995, no 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 closed-end fund securities in the Index accounted for 37.56% of the Index's value.

Fourth, the proposed maintenance criteria will serve to ensure that: (1) The Index remains comprised substantially of closed-end mutual funds that are highly capitalized and that have liquid markets for their issued securities; and (2) the Index is not dominated by any one mutual security that does not satisfy the Exchange's options listing criteria, any one security held by one or more of the mutual funds represented in the Index, or securities from any one country held by one or more of the mutual funds represented in the Index. Specifically, in considering changes to the composition of the Index, 75% of the weight of the Index and 75% of the number of closed-end mutual funds represented in the Index must comply with 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) and CBOE Rule 5.4, Interpretation and Policy .01 (for mutual fund securities that are then the subject of standardized options trading).37

Additionally, the CBOE is required to review the composition of the Index at least semiannually to ensure that the Index continues to meet these "75%" requirements.

Further, at least semiannually, based on the most recent Commission filings by the closed-end funds represented in the Index, the CBOE will review the holdings of each closed-end fund and will promptly notify the Commission if: (1) Any security held by one or more of the closed-end 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 of the closed-end funds represented in the Index, in aggregate, account for more than 25% of the weight of the Index. Similarly, the CBOE will promptly notify the Commission staff at any time that it determines that the shares of a closedend fund contained in the Index account for more than 15% of the weight of the Index if the shares of the mutual fund do not satisfy the listing eligibility requirements in CBOE's rules.38

Finally, the CBOE will promptly notify the Commission staff at any time that it determines that either the Index or the shares of one or more of the closed-end funds comprising the Index fail to satisfy any of the above maintenance criteria. In such an event, the Exchange will not open for trading any additional series of Index options or LEAPS unless the Exchange determines that such failure is not significant, and the Commission staff affirmatively 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.

For the above reasons, the Commission believes that these criteria minimize the potential for manipulation of the Index and eliminate domination concerns.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as Emerging Markets Index options, including full-value and reduced-value Emerging Markets LEAPS, can commence on a national securities exchange. The Commission notes that the trading of standardized exchange-trading options

occurs in an environment that is designed to ensure, among other things, that: (1) the special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. Accordingly, because the Index options and Index LEAPS will be subject to the same regulatory regime as the other standardized index options currently traded on the CBOE, the Commission believes that adequate safeguards are in place to ensure the protection of investors in Emerging Markets Index options and full-value and reduced-value Emerging Markets Index LEAPS.

C. Surveillance

The Commission notes that predominantly because of the lack of relevant market information sharing agreements, the shares of only one of the closed-end funds contained in the Index (Asia Pacific Fund) are eligible for standardized options trading.³⁹

The Commission believes, however, that based on the maintenance criteria discussed above, the CBOE has addressed the concerns that the Commission expressed in approving the listing of options on individual country funds.40 These maintenance criteria, among other things, ensure that the Index will not become a surrogate for trading options on either the closed-end mutual funds represented in the Index or individual Asian or Latin American market securities held by those component mutual funds for which standardized options could not otherwise be traded and minimize the potential for manipulation of the value of the Index.41

Second, in approving the listing of options on individual country funds, the Commission determined that if a fund is "diversified," as defined in the Investment Advisers Act of 1940

³⁷ Additionally, mutual fund securities contained in the Index must be "reported" securities and must be traded on the Amex or the NYSE or must be Nasdaq/NM securities. The CBOE is also limited in the number of mutual funds that can be represented

in the Index without having to obtain Commission approval. See *supra* notes 14 and 15.

³⁸ See supra notes 16 and 17.

³⁹ Options on the securities by international funds are eligible for standardized options trading where those securities meet or exceed the Exchange's established uniform options listing standards (see supra note 16) and (1) the Exchange has a market information sharing agreement with the primary home exchange on which each of the foreign securities comprising the fund's portfolio trade, (2) the fund is classified as a diversified fund, as that term is defined by Section 5(b) of the Investment Company Act, 15 U.S.C. § 80a-5(b), and the fund's portfolio is composed of securities from five or more countries, or (3) the listing of a particular international fund option is specifically approved by the Commission. See Securities Exchange Act Release No. 33068 (October 19, 1993), 58 FR 55093 (October 25, 1993) ("Country Fund Approval Order").

⁴⁰ Id.

⁴¹ See *supra* Section III.A.