

[Release No. 34-37873; File No. SR-CBOE-96-52]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to Options on Interests in Exchange-Listed, Open-End Investment Companies

October 25, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. § 78s(b)(1), notice is hereby given that on July 29, 1996, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The CBOE proposes the adoption of rules to permit the trading of options on interest in open-end, exchange-listed investment companies that hold securities comprising or based on an index or portfolio of securities designed to replicate substantially a specific component of a designated stock index.

The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CBOE included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CBOE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to provide for the trading of options on shares or units of open-end, exchange-listed investment companies that hold securities comprising or based on an index or portfolio of securities that is designed to provide investment results that substantially correspond to the price and yield performance of a

designated stock index. Specifically, the Exchange intends to trade options on interests in investment companies such as CountryBaskets™, which are shares issued by series of an open-end investment company approved for listing on the New York Stock Exchange ("NYSE") and, in the case of the initial nine series CountryBaskets, are designed to replicate substantially the performance of specific components of the FT/S&P-Actuaries World Index™ ("FT/S&P-AWI™").¹

CountryBaskets are structured either as shares issued by a series of an open-end management investment company that invests in an indexed portfolio of securities, or as interests in unit investment trusts ("UITs") that have as their assets shares of an open-end investment company that holds the underlying indexed portfolio. In either case, CountryBasket securities will be continually distributed through "Creation Transactions." To effect a Creation Transaction, a person would buy shares of the open-end investment company in exchange for an in-kind deposit of the indexed portfolio of securities and a specified amount of cash to make the deposit equal the net asset value of the fund shares being purchased. Creation Transactions may occur only in "Creation Unit" size, which is either 100,000 or 250,000 fund shares, depending on the fund. In the case of CountryBaskets structured as UITs, the trust would issue a creation unit-size aggregation of redeemable units of beneficial interest in exchange for shares of the underlying fund. Thus it will always be possible for a person to acquire additional CountryBaskets by means of a Creation Transaction.

Nine series of CountryBaskets were authorized for trading on the NYSE earlier this year.² These initial nine series are based on FT-Actuaries World Indices for Australia, France, Germany, Hong Kong, Italy, Japan, South Africa, United Kingdom and the United States. Options on these same nine series of CountryBaskets are proposed to be traded on the CBOE pursuant to the same rules and procedures that apply generally to trading in options on equity securities or indexes of equity securities, except that special listing criteria are proposed to apply to options on CountryBaskets. Also, reflecting the open-ended nature of CountryBaskets,

the Exchange is not proposing any position or exercise limits to apply to options on CountryBaskets.

The listing standards proposed for options on CountryBaskets are set forth in proposed Interpretation and Policy .06 under CBOE Rule 5.3 and in Interpretation .10 under CBOE Rule 5.4. These standards, which provide for the listing of European-style options only, are substantially the same as those that apply to the initial and continued listing of CountryBaskets on the NYSE under the recently approved rules of that exchange.³ Conforming the listing standards for options on CountryBaskets to the listing standards that apply to CountryBaskets themselves will assure that whenever there is trading in the underlying CountryBaskets, options on these same CountryBaskets may also be available. Similarly, CBOE's proposed listing standards provide that there will be no opening transactions in CountryBasket options, and all such options will trade on a liquidation-only basis, if CountryBaskets should cease to trade on an exchange or as national market securities in the over-the-counter market. The availability of options on CountryBaskets should be beneficial to investors in CountryBaskets, since it will permit these investors to utilize options to adjust the risks and rewards of CountryBasket investing to their individual needs. It should also add to the depth and liquidity of the market for CountryBaskets by permitting market makers in that market to hedge the risks of their market-making activities.

Reflecting the open-ended nature of CountryBaskets, the NYSE's maintenance listing standards for CountryBaskets do not include criteria based on either the number of Units outstanding or on their trading volume.⁴ Similarly, the CBOE believes it is neither necessary nor appropriate to apply traditional position or exercise limits to CountryBasket options, and it is proposing to amend Rules 4.11 and 4.12 to provide that these limits shall not ordinarily apply. Since it should always be possible to create more CountryBaskets at their net asset value

³ See NYSE Listed Company Manual, Paragraph 703.16.

⁴ NYSE requires at least 300,000 Units to be outstanding before trading in a series of CountryBaskets may commence. Although there is no comparable maintenance standard, as a practical matter there can never be trading in a series of CountryBaskets in which there is less than one Creation Unit (100,000 or 250,000 shares, depending on the series) outstanding, since CountryBaskets may only be created and redeemed in Creation Unit size, and if the last outstanding Creation Unit should ever be redeemed, the series (and options on that series) will cease to trade.

¹ CountryBaskets™ is a servicemark of Deutsche Morgan Grenfell/C.J. Lawrence Inc. ("DMG"). "FT/S&P-Actuaries World Index™" and "FT/S&P-AWI™" are trademarks of The Financial Times Limited and Standard & Poor's ("S&P"), and are licensed for use by DMG.

² See Securities Exchange Act Release No. 36923 (March 5, 1996), 61 FR 10410 (March 13, 1996).

by making an in-kind deposit of the securities that comprise the underlying index or portfolio, there is no limit on the available supply of underlying CountryBaskets. Accordingly, the Exchange believes that there is not the same need for option position and exercise limits to protect the underlying market against squeezes and other types of manipulation that applies to options on securities that are not open-ended. Furthermore, the CBOE believes that in the absence of any maintenance listing requirements in the underlying market that call for a minimum number of Units or for minimum trading volume, position and exercise limits would not be meaningful as a percentage of either of these measures. For these reasons, and to assure that so long as there is trading in the underlying CountryBaskets there can also be trading in the related options, the CBOE is not proposing any position or exercise limits for CountryBasket options. The CBOE reserves the right, however, to impose position and exercise limits if, for reasons not now foreseeable, such limits should ever be needed in the interest of fair and orderly markets in the options or the underlying CountryBaskets.

Reflecting that the underlying portfolios of CountryBaskets are indexed, it is proposed to amend Interpretation and Policy .01 under Exchange Rule 5.5 to provide that the minimum strike price intervals for options on CountryBaskets will be \$2.50 where the strike price is \$200 or less, and \$5.00 where the strike price is over \$200. These are comparable to the strike price intervals provided in Interpretation and Policy .01 under Exchange Rule 24.9, as applicable to broad-based index options having strike prices at about the level expected for CountryBasket options.

Margin requirements are proposed for options on CountryBaskets at the same levels that apply to options generally under Exchange Rule 12.3, except that, reflecting the indexed nature of underlying portfolios of CountryBaskets, minimum margin must be deposited and maintained equal to 100% of the current market value of the option plus 15% (instead of 20%) of the market value of equivalent units of the underlying security value. In this respect, the margin requirements proposed for options on CountryBaskets are comparable to margin requirements that currently apply to market index options under Exchange Rule 24.11(b)(i).

The CBOE believes it has the necessary systems capacity to support the additional series of options that

would result from the introduction of CountryBaskets options, and it has been advised that the Options Price Reporting Authority ("OPRA") also will have the capacity to support these additional series upon implementation of an additional outgoing high speed line from the OPRA processor.

The Exchange represents that the proposed rule change is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5) in particular, because, by providing for the trading of options on CountryBaskets within the framework of the CBOE's regulated market place while there is trading in the underlying CountryBaskets in other exchange markets, the proposed rule change is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes the proposed rule change will impose no inappropriate burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the

submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-96-52 and should be submitted by November 22, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37864; File No. SR-DTC-96-16]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Fees and Charges

October 24, 1996.

Pursuant to Section 19(b)(1) ¹ of the Securities Exchange Act of 1934 ("Act"), notice is hereby given that on September 24, 1996, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change revises DTC's Service Fee Schedule, which is attached as Exhibit 1.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC included statements concerning

⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1) (1988).