truly happening with respect to the cost of a college education and what steps can or should be taken to ensure that a quality post secondary education remains affordable. This report is to include the Commission's recommendations for administrative and legislative actions that the Commission considers advisable on the issues it is investigating. The Commission announces its meeting schedule, thereby notifying the general public of their opportunity to attend. These meetings are designed to give interested parties the opportunity to present the Commission with information these parties believe will assist the Commission in its task.

**DATE AND TIME:** October 16, 1997; 8:15 A.M.–5:30 P.M. Agenda items and topics to be discussed: Chairman's report; update on research agenda and work plan as this relates to the functions of the Commission established by statute; laws, regulations, and mandates in higher education; student financial aid policies and programs; instructional, administrative, and technological cost factors in higher education; and other substantive items raised by Commission members or Commission working groups.

**LOCATION:** Herbert Hoover Memorial Building, Stauffer Auditorium, Serra and Galvez Streets, Stanford, California. Parking is available for a fee in the lot on Galvez Street.

**DATE AND TIME:** October 27, 1997; 9:00 A.M.–11:30 A.M. and 1:00 P.M.–3:00 P.M. A hearing will be held at which interested members of the public will be given an opportunity to present representatives of the Commission with information on the issues which the Commission has been charged with considering. The period for submitting comments in writing begins with the publication of this notice. Only comments received by COB October 20 will be considered for possible oral testimony on October 27. The Commission may need to limit the number of individuals who appear before it and the time allotted to these individuals. Persons also may be assigned a specific time to appear. A schedule will be announced by COB October 23.

**DATE AND TIME:** November 7, 1997; 8:15 A.M.–5:30 P.M. Agenda items and topics to be discussed: Chairman's report; update on research agenda and work plan as this relates to the functions of the Commission established by statute; laws, regulations, and mandates in higher education; student financial aid policies and programs; instructional, administrative, and technological cost factors in higher education; and other substantive items raised by Commission members or Commission working groups.

**LOCATION:** Boston, Massachusetts.

**DATE AND TIME:** November 17–18, 1997, 8:15 A.M.–5:30 P.M., each day. Agenda items and topics to be discussed: Chairman's report; update on research agenda and work plan as this relates to the functions of the Commission established by statute; laws, regulations, and mandates in higher education; student financial aid policies and programs; instructional, administrative, and technological cost factors in higher education; and other substantive items raised by Commission members or Commission working groups.

**LOCATION:** Belmont University, 1900 Belmont Boulevard, Nashville, Tennessee.

**DATE AND TIME:** December 4, 1997, 8:15 A.M.–5:00 P.M.

**LOCATION:** Washington, D.C.

**FOR FURTHER INFORMATION CONTACT:** Carmelita Pratt, Administrative Officer, National Commission on the Cost of Higher Education, 1615 M Street, N.W., Suite 240, Washington, D.C. 20036. Telephone (202) 634–6501. Facsimile: (202) 634–6038.

**SUPPLEMENTARY INFORMATION:** The National Commission on the Cost of Higher Education was established by Public Law 105–18, dated June 12, 1997. Transcripts are kept of all public Commission proceedings and are available for public inspection at the offices of the National Commission on the Cost of Higher Education, 1615 M Street, N.W., Suite 240, Washington, D.C. 20036. Contact Carmelita Pratt at the phone number listed above.

**Carmelita Pratt,**

*Administrative Officer.*

[FR Doc. 97–25681 Filed 9–26–97; 8:45 am]

BILLING CODE 6820–DR–P

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–39109; File No. 265–19]**

### Consumer Affairs Advisory Committee; Meeting

**AGENCY:** Securities and Exchange Commission.

**ACTION:** Notice of meeting of the Securities and Exchange Commission (''Commission'') Consumer Affairs Advisory Committee (''Commission'').

**SUMMARY:** The Securities and Exchange Commission's Consumer Affairs Advisory Committee will meet on Tuesday, October 14, 1997, in Room 1C30 at the Commission's Headquarters, 450 Fifth Street, N.W., Washington, D.C., beginning at 9:30 a.m. The meeting will be open to the public. This notice also serves to invite the public to submit written comments to the Committee.

**ADDRESSES:** You should submit written comments in triplicate and refer to File No. 265–19. Send your comments to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

**FOR FURTHER INFORMATION CONTACT:** Geraldine M. Walsh, Special Counsel to the Director, Office of Investor Education and Assistance, (202) 942–7040; Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

**SUPPLEMENTARY INFORMATION:** Section 10(a) of the Federal Advisory Committee Act, 5 U.S.C. App. 10a, requires the Securities and Exchange Commission to give notice that the Consumer Affairs Advisory Committee will meet on October 14, 1997, in Room 1C30 at the Commission's Headquarters, 450 Fifth Street, N.W., Washington, D.C., beginning at 9:30 a.m. The meeting will be open to the public.

The Committee's responsibilities include assisting the Commission in identifying investor problems and being more responsive to their needs. The Committee will explore fundamental issues of concern to investors, including matters currently under consideration by the Commission and topics of emerging concern to investors and the financial services industry.

Dated: September 22, 1997.

**Jonathan G. Katz,**

*Advisory Committee Management Officer.*

[FR Doc. 97–25693 Filed 9–26–97; 8:45 am]

BILLING CODE 8010–01–M

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–39115; File No. SR–CBOE–96–75]**

### Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, and 3 to the Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to the Listing and Trading of Packaged Butterfly Spreads

September 22, 1997.

#### I. Introduction

On December 16, 1996, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange'') filed a proposed rule change with the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] to list for trading Packaged Butterfly Spreads based upon the S&P 100 and the S&P 500 Indexes.

Notice of the proposal was published for comment and appeared in the **Federal Register** on February 4, 1997.[3] The Exchange filed with the Commission Amendment Nos. 1,[4] 2,[5] and 3 [6] to the proposal on March 18, May 2, and June 5, 1997, respectively.

No comment letters were received on the proposed rule change. This order orders the Exchange's proposal, as amended.

## II. Description of the Proposal

The Exchange proposes to list for trading Packaged Butterfly Spreads based upon the S&P 100 index and the S&P 500 index. A Packaged Butterfly Spread is a packaged European-style option that replicates the behavior and payout of a butterfly spread [7] composed of standard index option contracts. The Exchange proposes that the Packaged Butterfly Spreads on the S&P 100 and 500 indexes will have a multiplier of 100. Because Packaged Butterfly Spreads composed of puts are identical to those composed of calls the Exchange will not list both puts and calls; there will be only one call option listed for each strike price and butterfly interval.

The Exchange believes Packaged Butterfly Spreads on the Indexes will provide advantages to the investing public that are not provided for by standard index options. First, the Exchange believes Packaged Butterfly spreads offer investors a relatively low risk security which results because Packaged Butterfly Spreads, by their nature, have a maximum gain and loss that can be realized regardless of the movement in the index level. Packaged Butterfly Spreads allow investors to profit from trendless markets with limited risk. Second, the ''packaging'' of a strategy of four option positions into one option product reduces transaction-related expenses because the investor will only have to enter into one transaction. Third, in the case of Packaged Butterfly Spreads overlying the S&P 100, the investor will have the opportunity to invest in an option product that has European-style exercise.[8] Standard S&P 100 options (''OEX'') have American-style exercise.[9] The Exchange expects Packaged Butterfly Spreads to be supported enthusiastically by market-makers because butterfly spread trading is a familiar strategy to professional traders and the Packaged Butterfly Spreads can be easily incorporated into the overall risk profile of the market-maker's trading strategy in standard index options.

The Exchange proposes to amend Rule 24.1 to describe the new product [10] as well as the term ''butterfly spread interval''.[11]

*Position and Exercise Limits*

The Exchange is proposing position limits for Packaged Butterfly Spreads overlying the S&P 100 of 25,000 contracts. The Exchange is proposing position limits for Packaged Butterfly Spreads overlying the S&P 500 of 100,000 contracts. For position limit purposes, Packaged Butterfly Spreads will be aggregated with option contracts on the same index. These position limits are consistent with the position limits that have been established for standard index options on the S&P 100 and 500 indexes, respectively. The exercise limits for Packaged Butterfly Spreads will be equal to the position limits set forth above in accordance with the terms of CBOE Rule 24.5.

*Margin*

With respect to margin, risk exposure is limited in Packaged Butterfly Spreads, and therefore, the maximum margin requirements should not exceed the maximum exposure amount which, for each Packaged Butterfly Spread option contract equals the butterfly spread interval times the index multiplier. The proposed amendments state that the maximum margin required for a Packaged Butterfly Spread option contract carried in a short position shall not exceed this maximum exposure amount. In addition, margin requirements for spread positions set forth in Rule 24.11(c)(1)(B) does not apply for spread positions where one or both positions comprising the spread are Packaged Butterfly Spreads. If a spread position involves a Packaged Butterfly Spread, as either the long position or the short position, the minimum margin required on such a position will be the full purchase price on the long position plus the margin required in Rule 24.11(b) for the short position.[12]

*Listing of Series.* The Exchange expects to list contracts having butterfly spread intervals of ranging from 10 to 50 points. The Exchange does not intend to simultaneously open series with more than one butterfly spread interval. However, the CBOE may introduce a

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 38213 (January 28, 1997), 62 FR 5265 (February 4, 1997).

[4] In Amendment No. 1, the Exchange provided a new definition for ''butterfly spread interval'' and several revisions to the margin rules, as described more fully herein. *See* Letter from Tim Thompson, Senior Attorney, CBOE, to John Ayanian, Special Counsel, Office of Market Supervision (''OMS''), Division of Market Regulation (''Market Regulation''), Commission, dated March 18, 1997 (''Amendment No. 1'').

[5] In Amendment No. 2, the Exchange amended its margin rules as they apply to spread positions where the long index option contract is a Packaged Butterfly Spread. Amendment No. 2, also verified that CBOE will list and add series for Packaged Butterfly Spreads in accordance with Rule 24.9, Interpretation and Policy .01(c). Finally, in Amendment No. 2, the Exchange indicated that position limits for Packaged Butterfly Spreads based on the S&P 500 and 100 will be the same as existing position limits for the respective index options and will be aggregated with other option contracts on the same index. *See* Letter from William M. Speth, Sr. Research Analyst, Product Development, Research Department, CBOE, to Howard L. Kramer, Senior Associate Director, OMS, Market Regulation, Commission, dated May 2, 1997 (''Amendment No. 2'').

[6] In Amendment No. 3, the Exchange made several technical, non-substantive changes to the proposal. In addition, the Exchange made changes to the margin rules. In particular, the Exchange amended its margin rules (and modified Amendment No. 2), to indicate that margin treatment for spread positions set forth in Rule 24.11(c)(1)(B) do not apply for spread positions where one or both positions comprising the spread are Packaged Butterfly Spreads. As proposed in new Rule 24.11(c)(1)(D), if a spread position involves a Packaged Butterfly Spread, as either the long options position or the short options position, the minimum margin required on such a position will be the full purchase price on the long position plus the margin required in Rule 24.11(b) for the short position. The Exchange also clarified its policy for changing butterfly spread intervals, as described more fully herein. *See* Letter from Eileen Smith, Director, Product Development, Research Department, CBOE, to John Ayanian, Special Counsel, OMS, Market Regulation, Commission, dated June 4, 1997 (''Amendment No. 3'').

[7] A butterfly spread is a combination of four option positions of the same type (put or call) and the same expiration on thee same underlying interest using three different strike prices. For example, using only calls, a butterfly spread would consist of buying one call at the lowest strike price, selling two calls at the middle strike price and buying one call at the highest strike price. A butterfly spread with a butterfly spread interval of 30 might consist of one long December (expiration month) 670 (strike price) call option, two short December 700 call options, and one long December 730 call option.

[8] Only European-style Packaged Butterfly Spreads will be available to investors. A European-style option is one that may be exercised only during a limited period of time prior to expiration.

[9] An American-style option is one that may be exercised at any time prior to expiration.

[10] *See* Amendment No. 3, *supra* note 6.

[11] Specifically, the ''butterfly spread interval'' means a value specified by the Exchange which, when added to the exercise price and subtracted from the exercise price defines a range of index values over which the option has an exercise settlement amount greater than $0. *See* Amendment No. 1, *supra* note 4.

[12] See Rule 24.11(c)(a)(D) and Amendment No. 3, *supra* note 6.

new series with a new butterfly spread interval with a new ticker symbol resulting in a brief period (1 or 2 months) of open series with two butterfly spread intervals. Initially, the Exchange intends to list an at-the-money and various strikes around the at-the-money in the first two near-term months in accordance with Rule 24.9, Interpretation and Policy .01(c).[13] New strikes will be added when the underlying trades through the highest or lowest strike available.

*Settlement*

The expiration date for Packaged Butterfly Spreads will be the Saturday immediately following the third Friday of the expiration month. Exercise will result in the delivery of cash on the business day following expiration. The exercise settlement amount is equal to the greater of: (1) Butterfly spread interval minus the difference between the index settlement value and the midpoint of the butterfly multiplied by the multiplier ($100), and (2) $0. Packaged Butterfly Spreads will have a European-style of exercise.

*Miscellaneous*

CBOE will use the same surveillance methods it currently employs with respect to their broad-based index options.

CBOE has also been informed that the Options Price Reporting Authority recently added another outgoing high speed line from OPRA processor and thus, has the capacity to support the new series associated with the listing of Packaged Butterfly Spreads.[14]

## III. Commission Finding 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 a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.[15] Moreover, the Exchange's proposal to list and trade Package Butterfly Spreads on the S&P 100 and S&P 500 indexes strikes a reasonable balance between the Commission's mandates under Section 6(b)(5) to remove impediments to and perfect the mechanism of a free and open market and a national market system while protecting investors and the public interest.[16] Specifically, the Commission finds that the Packaged Butterfly Spreads are an innovative financial product that will provide investors with additional choices and flexibility in their use of derivatives.[17] In addition, Packaged Butterfly Spreads offer both holders and writers of options a means to participate in the options markets at a predetermined maximum gain or loss. Under the terms of Packaged Butterfly Spreads, the option writer's (holder's) maximum loss (gain) is established at the time of the investment by the option's butterfly spread interval. Accordingly, Packaged Butterfly Spreads permit investors to participate in the options market at a known cost. In addition, the Commission believes that Packaged Butterfly Spreads, which replicate the combination of four separate option positions on the same underlying interest and expiration, likely will benefit investors by providing them with a more efficient and cost effective method of executing spread transactions.

The Commission also finds that the specific rules proposed by the CBOE to accommodate Packaged Butterfly Spreads are consistent with the Act.[18] Specifically, the Commission believes that it is reasonable for the Exchange to set a butterfly spread interval range from 10 to 50 points. In response to the Commission's concerns about investor confusion by having series of Packaged Butterfly Spreads simultaneously open with different butterfly spread intervals, the Exchange does not intend to simultaneously open series with more than one butterfly spread interval. However, the CBOE may introduce a new series with a new butterfly spread interval with a new ticker symbol resulting in a brief period (1 or 2 months) of open series with two butterfly spread intervals.[19] The Commission notes that the Exchange may submit a ''noncontroversial filing'' pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(e)(6) thereunder if it decided to change the present butterfly spread range (currently 10 to 50 points) and the proposal does not raise any other regulatory issues.

The Commission also notes that Packaged Butterfly Spreads on the S&P 500 and S&P 100 indexes will be subject to the same position and exercise limit requirements that currently apply to S&P 500 and S&P 100 index options, respectively. In particular, Packaged Butterfly Spreads on the S&P 500 will be aggregated with all other S&P 500 index options, subject to a 100,000 contract limit under Rule 24.4(b). Packaged Butterfly Spreads on the S&P 100 index will be aggregated with all other S&P 100 index options, subject to a 25,000 contract limit under Rule 24.4(b).

The Commission believes that the proposed margin treatment for Packaged Butterfly Spreads in cash and margin accounts is consistent wit the Act. Specifically, the Commission believes that, similar to short capped options positions,[20] it is reasonable to permit short Packaged Butterfly Spreads positions in a cash account so long as the maximum exposure (the butterfly spreads interval) is deposited. This position is the equivalent of a completely covered position, because the maximum risk of loss is already on deposit. In addition, the Commission believes that the proposed margin requirements for Packaged Butterfly Spreads in margin accounts is reasonable because they are virtually identical to the margin requirements for traditional short stock index options positions held in margin accounts, except that a limit equal to the maximum exposure to the option writer is placed on the margin requirement. It is reasonable to limit the margin in this way because the margin would cover 100% of the writer's exposure, thereby requiring no additional margin calls.

The Commission also believes it is reasonable to require for any spread position involving a Packaged Butterfly Spread a minimum margin deposit equal to the full purchase price on the long position plus the margin required in Rule 24.11(b) for the short position.[21] Accordingly, the Commission believes it is reasonable under such circumstances to prohibit application of margin

[13] *See* Amendment No. 2, *supra* note 5.

[14] *See* Memorandum from Joe Corrigan, OPRA, to Eileen Smith, CBOE, dated November 21, 1996.

[15] 15 U.S.C. 78f(b)(5).

[16] In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[17] Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new option proposal upon a finding that the introduction of such new derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of Packaged Butterfly Spreads on the S&P 500 and 100 will provide investors with another hedging vehicle that should reflect the overall movement of the U.S.-listed stock market.

[18] The Commission notes that CBOE Rule 24.1, as amended, defines Packaged Butterfly Spreads. Because the current Exchange proposed definition is limited to Packaged Butterfly Spreads on the S&P 500 and 100 Indexes, the Exchange is required to submit a rule filing pursuant to Section 19(b) of the Act in order to list Packaged Butterfly Spreads on another stock index or individual security.

[19] The Exchange represents that it would not allow margin offset, pursuant to Rule 24.11(c), between spread with different spreads intervals. *See* Amendment No. 3, *supra* note 6.

[20] *See* Securities Exchange Act Release No. 29865 (October 28, 1991), 56 FR 56255 (November 1, 1991).

[21] *See supra* note 12.

requirements for spread positions involving a Packaged Butterfly Spread because the required margin deposit would not always cover 100% of the writer's exposure. For example, a spread involving a long 670 S&P 500 index call option and a short 650 Packaged Butterfly Spread on the S&P 500, with a butterfly spread interval of 50, the margin deposit requirement under the margin rule for spread transactions would be the lesser of (1) The difference in aggregate exercises prices ((670 − 650)×100=$2,000) and (2) the butterfly spread interval times the multiplier (i.e., 50×100=$5,000). The margin deposit requirement under the spread rule, if allowed, would be $2,000. The writer's maximum exposure (when the current index level is 650), however, is $3,000.[22] For this spread position, the margin requirement under proposed CBOE Rule 24.11(c)(1)(D) will be the full purchase price of the long position (premium×$100) *plus* the butterfly spread interval times the index multiplier (50×$100) of the short position.

In summary, the Commission believes that the Packaged Butterfly Spreads on the S&P 500 and S&P 100 Indexes will provide investors with additional choices and flexibility in their use of derivatives and offer both holders and writers of options a means to participate in the options markets at a predetermined maximum gain or loss. Further, the Commission notes that in order to promote investor protection and to ensure adequate disclosure in connection with Packaged Butterfly Spreads, the rules pertaining to standardized options and the requirements of Exchange Act Rule 9b–1 will apply to trading in Packaged Butterfly Spreads. The Commission believes it is important to provide investors with information regarding the rights and characteristics of Packaged Butterfly Spreads. In this regard, Packaged Butterfly Spread investors will receive a special supplement to the Options Clearing Corporation's (''OCC'') Options Disclosure Document (''ODD Supplement'') explaining in detail the risks and characteristics of Packaged Spreads.[23]

The Commission finds good cause for approving Amendment Nos. 1, 2, and 3 prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register.** Specifically, Amendment No. 1 to CBOE's proposal set forth a new definition for ''butterfly spread interval'' and several technical revisions to the margin rules, as described above.

Amendment No. 2 to CBOE's proposal: (1) Verifies that CBOE will list and add series for Packaged Butterfly Spreads in accordance with Rule 24.9, Interpretation and Policy .01(c); and (2) sets position limits for Packaged Butterfly Spreads based on the S&P 500 and 100 to equal existing position limits for the respective index options.[24]

The first change described above is clarifying in nature and will prevent undue proliferation of options series on Packaged Butterfly Spreads. The Commission believes the Exchange's proposed reduction in position limits from those originally proposed presents no new regulatory issues and can be approved on an accelerated basis. Further, the originally proposed higher position limits were subject to the full 21-day comment period without any comments being received by the Commission.

Amentment No. 3 to CBOE's proposal also makes several technical non-substantive changes. In addition, the Exchange amended the definition of Packaged Butterfly Spread to further clarify that the product is intended to replicate the behavior of the combination of four separate options, as described above. Finally, Amendment No. 3 provides that margin requirements for spread positions set forth in Rule 24.11(c)(1)(B) do not apply for spread positions where one or both positions comprising the spread are Packaged Butterfly Spreads. [25] The Commission believes that the proposed changes to the margin requirements present no new regulatory issues and further strengthens the Exchange's proposal by ensuring that adequate margin will be deposited by those with positions involving Packaged Butterfly Spreads.

The Commission believes that the changes proposed in Amendment Nos. 1, 2, and 3, unless otherwise stated above, merely clarify in the rule text what was originally proposed by the Exchange and will help to ensure that investors understand the specifications and trading characteristics of the Packaged Butterfly Spread contracts. In addition, the Commission notes that the original proposal was published for the full 21-day comment period without any comments being received by the Commission. Moreover, the Commission believes that the foregoing amendments raise no new regulatory issues.

Accordingly, the Commission finds good cause, consistent with Sections 6(b)(5) and 19(b)(2) of the Act, to approve Amendment Nos. 1, 2, and 3 to the proposed rule change, on an accelerated basis.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1, 2, and 3 to the proposed rule change. 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 SR–CBOE–96–75 and should be submitted by October 20, 1997.

### V. Conclusion

Based upon the aforementioned factors, the Commission finds that the proposed changes relating to the listing and trading of Packaged Butterfly Spreads on the S&P 500 and 100 are consistent with the requirements of Section 6(b)(5) and the rules and regulations thereunder. The initiation of Packaged Butterfly Spread trading, however, is conditioned upon the issuance of an order approving an ODD Supplement, pursuant to Rule 9b–1 of the Act.

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[22] The writer's maximum exposure of this spread position is determined as follows:

short loss − long gain=maximum exposure
$5,000 − (670 − 650)×100
$5,000 − (20)×100
$500 − $2,000=($3,000)

[23] In reviewing any disclosure materials submitted, the Commission intends to assure that the materials specifically describe the risks and characteristics associated with trading Packaged Spreads. Trading trading of Packaged Butterfly Spreads is Packaged Spreads. The trading of Packaged Butterfly Spreads is expressly contingent upon the Commission's approval of such an ODD supplement.

[24] As described above, Packaged Butterfly Spreads on the S&P 500 and 100 indexes will be aggregated with other options on the same index.

[25] Accordingly, this proposed amendment eliminates the provision in Amendment No. 2 which would have allowed spread positions involving long Packaged Butterfly Spread positions to receive margin treatment under the spread rule. *See* Amendment No. 3, *supra* note 6.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,[26] that the proposed rule change (File No. SR–CBOE–96–75), is amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[27]

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 97–25688 Filed 9–26–97; 8:45 am]

**BILLING CODE 8010–01–M**

[26] 15 U.S.C. 78s(b)(2).

[27] 17 CFR 200.30–3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–39116; File No. SR–CBOE–96–76]**

## Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, and 3 to the Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to the Listing and Trading of Packaged Vertical Spreads

September 22, 1997.

### I. Introduction

On December 16, 1996, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange'') filed a proposed rule change with the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] to list for trading Packaged Vertical Spreads based upon the S&P 100 and the S&P 500 Indexes.

Notice of the proposal was published for comment and appeared in the **Federal Register** on February 4, 1997.[3] The Exchange filed with the commission Amendment Nos. 1,[4] 2,[5] and 3[6] to the proposal on March 18, May 2, and June 5 1997, respectively.

No comment letters were received on the proposed rule change. This order approves the Exchange's proposal, as amended.

### II. Description of the Proposal

The Exchange proposes to list for trading Packaged vertical Spreads based upon the S&P 100 index and the S&P 500 index (''Indexes''). A Packaged Vertical Spread is a packaged European-style option that replicates the behavior and payout of a vertical spread [7] composed of standard index option contracts. The Exchange proposes that the Packaged Vertical Spreads may have a multiplier of 100 (as with standard index options overlying the S&P 100 and the S&P 500) or a multiplier of 500. To date, the Exchange has not determined whether Packaged Vertical Spreads will initially have a multiplier of 100 or 500. The Exchange, however, does not intend to simultaneously open series with both a 100 and a 500 multiplier. If the Exchange introduces Packaged Vertical Spreads with a new multiplier with a new tricker symbol, it will only result in a brief period (1 or 2 months) of open series with both a 100 and a 500 multiplier. The Exchange represents further that it will notify the Commission so that it can be determined what appropriate steps should be taken prior to listing Packaged Vertical Spreads with the different multiplier.[8]

The Exchange believes Packaged Vertical Spreads on the Indexes will provide advantages to the investing public that are not provided for by standard index options. First, the Exchange believes the Packaged Vertical Spreads on the Indexes will offer investors a relatively low risk security which results because Packaged Vertical Spreads, by their nature, have a maximum gain and loss that can be realized regardless of the movement in the index level. These options are the equivalent of standard vertical spreads (*i.e.*, the combination of one long and one short options position with the same expiration) traded as a single security. Second, the ''packaging'' of a strategy of two option positions into one option product reduces transaction-related expenses because the investor will only have to enter into one transaction. In the case of Packaged Vertical Spreads with a multiplier of 500, the transaction-related expenses would be substantially reduced from a comparable trade involving standard index options which currently have a 100 multiplier. Third, in the case of Packaged Vertical Spreads overlying the S&P 100, the investor will have the opportunity to invest in an option product that has European-style exercise.[9] Standard S&P 100 options (''OEX'') have American-style exercise.[10] Accordingly, with Packaged Vertical Spreads there is no early exercise risk. The Exchange expects Packaged Vertical Spreads on the Indexes to be supported enthusiastically by market-makers because vertical spread trading is a familiar strategy to professional traders and the Packaged Vertical Spreads can be easily incorporated into the overall risk profile of the market-maker's trading strategy in standard index options.

The Exchange proposes to amend Rule 24.1 to describe the new product [11] as well as the term ''vertical spread interval''.[12]

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 38213 (January 28, 1997), 62 FR 5265 (February 4, 1997).

[4] In Amendment No. 1, the Exchange provided a new definition for ''vertical spread interval'' and several technical non-substantive revisions to the margin rules. *See* Letter from Tim Thompson, Senior Attorney, CBOE, to John Ayanian, Special Counsel, Office of Market Supervision (''OMS''), Division of Market Regulation (''Market Regulation''), Commission, dated March 18, 1997 (''Amendment No. 1'').

[5] In Amendment No. 2, the Exchange amended its spread rules for margin when the short index option of a spread position is a Packaged Vertical Spread, as described more fully herein. Amendment No. 2 also verified that CBOE will list and add series for Packaged Vertical Spreads in accordance with Rule 24.9, Interpretation and Policy .01(c). Finally, in Amendment No. 2, the Exchange indicated that position limits for Packaged Vertical Spreads based on the S&P 500 and 100 will be the same as existing position limits for the respective index options and will be aggregated with other option contracts on the same index. *See* Letter from William M. Speth, Sr. Research Analyst, Product Development, Research Department, CBOE, to Howard L. Kramer, Senior Associate Director, OMS, Market Regulation, Commission, dated May 2, 1997 (''Amendment No. 2'').

[6] In Amendment No. 3, the Exchange made several non-substantive changes to the proposal. In addition, added Rule 24.4(e) to reflect that position limits for Packaged Vertical Spreads with multipliers of 500 would have position limits equal to 1/5th of the position limits for products with multipliers of 100. The Exchange also clarified that for Packaged Vertical Spreads with multipliers of 500, the spread rules for margin would only apply when there are 5 contracts with a 100 multiplier offsetting one contract with a 500 multiplier. Finally, the Exchange also clarified its policy for changing the multiplier and/or the vertical spread intervals, as described more fully herein. *See* vertical spread intervals, as described more fully herein. *See* Letter from Eileen Smith, Director, Product Development, Research Department, CBOE, to John Ayanian, Special Counsel, OMS, Market Regulation, Commission, dated June 4, 1997 (''Amendment No. 3'').

[7] A vertical spread is the combination of one long and one short options position having the same expiration. A call vertical spread will have a lower strike price on the long options and a put spread will have a higher strike price on the long option. For example, a call vertical spread might consist of one long December (expiration month) 700 (strike price) call option and one short December 690 call option.

[8] *See* Amendment No. 3, *supra* note 6.

[9] Only European-style Packaged Vertical Spreads will be available to investors. A European-style option is one that may be exercised only during a limited period of time prior to expiration.

[10] An American-style option is one that may be exercised at any time prior to expiration.

[11] *See* Amendment No. 3, *supra* note 6.

[12] Specifically, the ''vertical spread interval'' means a value specified by the Exchange which, when added to the exercise price for call series or subtracted from the exercise price for put series defines the index level over which (for calls) and under which (for puts) the value of the contract will have its maximum value at expiration. *See* Amendment No. 1, *supra* note 4.