

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 the listing of Packaged Butterfly Spreads.⁵

The Exchange believes that the proposal will provide investors with certain advantages over current products in the way of reduced transaction costs and risk reduction. The Exchange believes, therefore, that the proposal is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

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

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

No written comments were solicited or received with respect to the proposed rule change.

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

Within 35 days of the date of 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 Exchange consents, the Commission will:

(A) by order approve such 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 NW., Washington, DC 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 in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-CBOE-96-75 and should be submitted by February 25, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-38214; File No. SR-CBOE-96-76]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to the Listing and Trading of Vertical Spreads

January 28, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 16, 1996, the ("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 Exchange. 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 to list for trading Vertical Spreads based on the S&P 100 and S&P 500 indexes. A Vertical Spread is a packaged European-style option which replicates the behavior and payout of a vertical spread composed of standard index option contracts. A Vertical Spread may have a multiplier of

100 (as with standard index option contracts overlying the S&P 100 and the S&P 500) or a multiplier of 500. 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, the Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The exchange 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 amend Exchange rules to provide for the listing and trading of Vertical Spreads based upon the S&P 100 index and the S&P 500 index. A Vertical Spread is a packaged European-style option which replicates the behavior and payout of a vertical spread³ composed of standard index option contracts. 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.

The Exchange believes Vertical Spreads will provide advantages to the investing public that are not provided for by standard index options. First, the Exchange believes these Vertical Spreads offer investors a relatively low risk security where the risk reduction results because Vertical Spreads, by their nature, have a maximum gain and loss that can be realized regardless of the movement of the index level. In addition, with Vertical Spreads there is no early exercise risk. 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

³ A vertical spread is the combination of one long and one short options having the same expiration. A call vertical spread will have a lower strike price on the long option 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.

⁵ See Memorandum from Joe Corrigan, OPRA, to Eileen Smith, CBOE, dated November 21, 1996.

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

will only have to enter into one transaction. In the case of Vertical Spreads with a multiplier of 500, the transaction-related expenses would be substantially reduced from a comparable trade involving standard index options. Third, in the case of Vertical Spreads overlying the S&P 100, the investor will have the opportunity to invest in an option product that has European-style exercise. Standard S&P 100 options ("OEX") have American-style exercise. The exchange expects Vertical Spreads to be supported enthusiastically by market-makers because spread trading is a familiar strategy to professional traders and the Vertical Spreads can be easily incorporated into the overall risk profile of the market-maker's trading strategy in standard index options.

An addition will be made to Rule 24.1 to describe the new product as well as the term "vertical spread interval."

Position and Exercise Limits. The Exchange is proposing position limits for Vertical Spreads overlying the S&P 100 of 100,000 contracts where the index multiplier is 100. The Exchange also is proposing position limits for Vertical Spreads overlying the S&P 500 Index of 100,000 contracts where the index multiplier is 100. The Exchange believes 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. To the extent that the Exchange lists and a member holds Vertical Spread positions with different multipliers (i.e., 100 and 500) yet overlying the same index, these positions would be aggregated in determining compliance with the position limits. Each Vertical Spread with a 500 multiplier would count as 5 Vertical Spread contracts for the purpose of determining compliance with the position limits. The exercise limits for Vertical Spreads will be equal to the positions limits set forth above in accordance with the terms of current Rule 24.5.

Margin. With respect to margin requirements, risk exposure is limited in Vertical Spreads, and therefore, the maximum margin requirements should not exceed the maximum exposure amount which, for each Vertical Spread option contract equals the vertical spread interval times the index multiplier. The proposed amendments state that the maximum margin required for a put or call Vertical Spread option contract carried in a short position shall not exceed this maximum exposure amount. In addition, the amendment provides that for each put or call Vertical Spread option contract carried

in a short position in a cash account, the customer must deposit cash equal to the maximum exposure amount. The rules will also provide that the required margin for a spread when the exercise price of the long call index option is greater than the exercise price of the short call index option where at least one leg of the spread is a CAPS or Vertical Spread would be the lesser of (1) the difference in the aggregate exercise prices or (2) the cap interval or the vertical spread interval as appropriate.

Listing of Series. The Exchange expects to list both put and call contracts having various spread intervals. Initially, the Exchange intends to list an at-the-money strike and various strikes around the at-the-money level in the first two near-term months. New strikes will be added when the underlying indexes trade through the highest or lowest strike available.

Settlement. The expiration date for Vertical 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 will be equal to the difference between the OEX or SPX settlement value, as appropriate, and the strike price of the Vertical Spread contract; or the amount of the spread interval, whichever is less, multiplied by the multiplier, i.e., either \$100 or \$500. Vertical Spreads will have a European-style of exercise.

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

CBOE has also been informed that the Options Price Reporting Authority ("OPRA") has the capacity to support the new series associated with the listing of Vertical Spreads.

By adopting rules that will provide for the trading of index options that will provide investors with certain advantages over current products in the way of reduced transaction costs and risk reduction, CBOE believes the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

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

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For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,
Deputy Secretary.

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⁴ 17 CFR 200.30-3(a)(12).