

cause exists to approve Amendments No. 1 on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1 and 2, including whether the proposed rule change is consistent with the Act. 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 in the Commission's Public Reference Room, 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 CBOE. All submissions should refer to File No. SR-CBOE-97-64 and should be submitted by April 14, 1998.

For the foregoing reasons, the Commission finds that the CBOE's proposal to list and trade warrants based on the Asia Tiger 100 Index is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-CBOE-97-64), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁶

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39763; File No. SR-CBOE-98-04]

Self-Regulatory Organizations; Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Clarifying the Application of Exchange Rules 8.7 and 8.51 to the Activities of Market-Makers on the CBOE

March 16, 1998.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on February 6, 1998, the Chicago Board Options Exchange, Incorporated ("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 CBOE. 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 Change

CBOE proposes to amend certain of its rules pertaining to the obligations of market-makers. 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 clarify the application of Exchange Rules 8.7 and 8.51 to the activities of market-makers on CBOE by amending or adopting interpretations and policies under those Rules. Rule 8.7 requires, among other things, that market-makers on CBOE "compete with other Market-Makers to improve

markets in all series of options classes at the station where a Market-Maker is present." Rule 8.51 imposes firm quotation obligations on trading crowds. Ordinarily, in meeting these obligations, each market-maker makes his or her own independent decision concerning what market to quote at any given time, and does not attempt to discuss or agree with other market-makers concerning what the market ought to be. However, there are circumstances where, in order to make fair and orderly markets that are competitive with other markets and responsive to the legitimate needs of investors, some coordination among market-makers is necessary. These circumstances arise (1) in connection with the establishment of parameters used by the automated quotation updating system (which is generally the Exchange's Auto Quote system) to automatically generate options quotations in response to changes in the market for the underlying security or index; (2) in responding to requests for markets in size, such that the coordinated efforts of more than one market-maker are called for in order to be able to fill any resulting order to buy or sell options; and (3) whenever a trading crowd, in order to be competitive with other markets, determines collectively to honor its disseminated quotations in a size greater than the six (ordinarily 10 contracts) called for under the Exchange's firm quotation rule (Rule 8.51). As described below, the purpose of this filing is to describe the nature and extent of coordination among market-makers that is permitted under each of these circumstances.

Auto Quote Formulas

Automated quotation updating systems, which are relied upon by all trading crowds to provide immediately updated quotations in options series traded by the crowd, utilize option valuation formulas in order to generate options quotations based on changes in any one of a number of variables. Among other things, these formulas require assumed volatility factors to be established for each underlying interest. The quotations that are generated and displayed by these systems translate into obligations of the trading crowd to buy or sell options at the quoted prices. For this reason, all members of the trading crowd participate in the decisions concerning the components of the automated quotation updating system formula applicable to each class of options traded by the crowd. Proposed Interpretation and Policy 8.8.07 reflects this by providing expressly that the formula used in each

²⁶ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

trading crowd to generate automatically updated market quotations shall be as agreed upon by the trading crowd. This is made subject to the exception that in those trading crowds where a Designated Primary Market-Maker ("DPM") has been appointed, the DPM has the primary responsibility for determining the variables of the formula used to generate automatically updated market quotations. The DPM is required to disclose the components used in that formula to any member of the trading crowd immediately upon request, provided that the MTS Committee will have the discretion to exempt DPMs using proprietary automated quotation updating systems from having to disclose proprietary information concerning the formulas used by those systems.

Joint Responses to Requests for Markets

When a request for a market to buy or sell a large number of options is submitted to a trading crowd, it is usually the case that the customer on whose behalf the request is made wants to know promptly at what single price all of the options represented by the request can be bought or sold. A unitary specialist at another competing market is better equipped to provide this kind of response. In order to compete effectively, the collective members of a market maker trading crowd must also provide a response to this kind of request. Interpretation and Policy 8.7.09 expressly permits the collective response to a group of members.

A Crowd's Agreeing to Honor its Market at a Greater Than Required Size

CBOE's firm quote rule (Rule 8.51) generally obligates each trading crowd to honor disseminated quotations for ten contracts. In some cases, especially for classes of options traded in more than one market, trading crowds on CBOE may be required by competitive and other business considerations to honor disseminated quotations for more than the required ten contracts. CBOE believes this necessarily requires agreement among the market-makers in the trading crowd before it can be announced. Interpretation and Policy 8.51.09 expressly contemplates such an agreement among the members of a trading crowd.

By enhancing the ability of CBOE to make competitive, fair and orderly markets in options, the proposed rule change is consistent with, and in furtherance of, the objectives of Section 11A(a)(1)(C)(ii)² of the Act to assure fair competition among markets, and the

objectives of Section 6(b)(5)³ of the Act to 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

CBOE does not believe that the proposed rule change will impose any 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 self-regulatory organization 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, including whether the proposed rule change is consistent with the Act. 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 Room. Copies of such timing will also be available for inspection and copying at the principal office of CBOE. All

submissions should refer to the File No. SR-CBOE-98-04 and should be submitted by April 14, 1998.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39769; File No. JR-CBOE-98-08]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change By the Chicago Board Options Exchange, Inc., Relating to Electronic Filing of FOCUS Reports

March 17, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act"),¹ notice is hereby given that on February 20, 1998, 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 Exchange.² 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 require members who are required to compute net capital under Exchange Act Rule 15c3-1 ("net capital computing members") to file their FOCUS reports electronically using the WinJammer™ system.

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 CBOE included statements concerning

⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² On March 16, 1998, the CBOE made a technical amendment to the proposal clarifying the implementation schedule for the electronic filing requirement contained therein. Telephone conversation between Timothy Thompson, Senior Attorney, Exchange, and Kenneth Rosen, Attorney, Division of Market Regulation, Commission (March 16, 1998).

² 15 U.S.C. 78k-1(a)(1)(C)(ii).

³ 15 U.S.C. 78f(b)(5).