

a clearing agency under Section 17A² of the Act. Because MBSCC's current temporary registration expires on June 30, 1997, the Commission is extending MBSCC's temporary registration as a clearing agency through March 31, 1998, while it completes its review of MBSCC's application for permanent registration. The Commission is publishing this notice and order to solicit comments from interested persons and to extend MBSCC's temporary registration as a clearing agency through March 31, 1998.

On February 2, 1987, the Commission granted MBSCC's application for registration as a clearing agency pursuant to Sections 17A(b)³ and 19(a)(1)⁴ of the Act and Rule 17ab2-1(c)⁵ thereunder for a period of eighteen months.⁶ Subsequently, the Commission has issued orders that extended MBSCC's temporary registration as a clearing agency. The last extension order extends MBSCC's temporary registration through June 30, 1997.⁷

As discussed in detail in the original order granting MBSCC's registration, one of the primary reasons for MBSCC's registration was to enable it to provide for the safe and efficient clearance and settlement of transactions in mortgage-backed securities. Since the original temporary registration order, MBSCC has implemented several improvements to its operating and financial standards and continues to work towards enhancing the safety and efficiency of its operations. For example, over the past year MBSCC has modified its rules to explicitly state that MBSCC has a lien on all property placed in its possession by its participants in order to ensure that MBSCC can cover a participant's unpaid obligations to MBSCC.⁸ In addition, MBSCC has established the Comparison Only System ("COS") which is a limited system that allows principals to compare trade data.⁹

MBSCC has functioned effectively as a registered clearing agency for over ten years. Accordingly, in light of MBSCC's

past performance and the need for continuity of the services MBSCC provides to its participants, the Commission believes that it is necessary and appropriate in the public interest and for the prompt and accurate clearance and settlement of securities transactions to extend MBSCC's temporary registration through March 31, 1998. During this temporary registration period, the Commission will continue its review of MBSCC's application for permanent registration. Any comments received during MBSCC's temporary registration will be considered in conjunction with the Commission's consideration of whether to grant MBSCC permanent registration as a clearing agency under Section 17A(b)¹⁰ of the Act.

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 request for permanent registration as a clearing agency that are filed with the Commission, and all written communications relating to the extension 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 also will be available for inspection and copying at the principal office of MBSCC. All submissions should refer to File No. 600-22.

Conclusion

On the basis of the foregoing, the Commission finds that extending MBSCC's temporary registration as a clearing agency is consistent with the Act and in particular with Section 17A¹¹ of the Act.

It is therefore ordered, pursuant to Section 19(a) of the Act, that MBSCC's temporary registration as a clearing agency (File No. 600-22) be, and hereby is, extended through March 31, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38789; File No. SR-CBOE-97-26]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to Listing of Regular and Long-Term Index Options and FLEX Options on the Dow Jones Industrial Average

June 30, 1997.

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 June 23, 1997, 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

CBOE hereby proposes to amend certain of its rules to provide for the listing and trading on the Exchange of options on the Dow Jones Industrial AverageTM ("DJIA" or "Index"), a broad-based index designed by Dow Jones & Company, Inc. ("Dow JonesTM").¹ Options on the DJIATM will be cash-settled and will have European-style exercise provisions. The Exchange also proposes to amend its rules to provide for the trading of Flexible Exchange Options ("FLEX Options") on the DJIA. The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

¹ "Dow Jones," and "Dow Jones Industrial AverageTM" are trademarks of Dow Jones & Company, Inc. and have been licensed for use for certain purposes by CBOE. CBOE's options based on the Dow Jones Industrial Average are not sponsored, endorsed, sold or promoted by Dow Jones, and Dow Jones makes no representation regarding the advisability of investing in such products.

² 15 U.S.C. 78q-1.

³ 15 U.S.C. 78q-1(b).

⁴ 15 U.S.C. 78s(a)(1).

⁵ 17 CFR 240.17ab2-1(c).

⁶ Securities Exchange Act Release No. 24046 (February 2, 1987), 52 FR 4218.

⁷ Securities Exchange Act Release Nos. 25957 (August 2, 1988), 53 FR 29537; 27079 (July 31, 1989), 54 FR 32412; 28492 (September 28, 1990), 55 FR 41148; 29751 (September 27, 1991), 56 FR 50602; 31750 (January 21, 1993), 58 FR 6424; 33348 (December 15, 1993), 58 FR 68183; 35132 (December 21, 1994), 59 FR 67743; and 37372 (June 26, 1996), 61 FR 35281.

⁸ Securities Exchange Act Release No. 38598 (May 9, 1997), 62 FR 27091 [File No. MBS-96-08].

⁹ Securities Exchange Act Release No. 38461 (April 1, 1997), 62 FR 16634 [File No. MBS-97-03].

¹⁰ 15 U.S.C. 78q-1(b).

¹¹ 15 U.S.C. 78q-1.

¹² 17 CFR 200.30-3(a)(50)(i).

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 self-regulatory organization 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 self-regulatory organization 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

1. Purpose

The purpose of the proposed rule change is to permit the Exchange to list and trade cash-settled, European-style stock index options on the DJIA. The DJIA is a price-weighted index of 30 of the largest, most liquid stocks traded on organized U.S. securities markets.² Options initially will be based on one-one hundredth of the DJIA. Options on an underlying level of one-tenth of the DJIA may be introduced at a later date. The purpose of offering options based on either one-one hundredth or one-tenth is to offer contracts which appeal to both retail and institutional investors. Each contract would have a different ticker symbol to eliminate any potential confusion.

Index Design. The DJIA has been designed to measure the performance of certain high capitalization stocks. The DJIA has been calculated by Dow Jones & Company since 1896 and is the most commonly watched index of the U.S. stock market. The DJIA is a price-weighted index with each stock affecting the Index in proportion to its market price. Each stock in the Index is eligible for options trading.

Exhibit B illustrates the capitalization and weighting of the DJIA component securities, as well as shares outstanding and prices on June 5, 1997. On that date, the 30 stocks ranged in capitalization from \$5.9 billion to \$200.0 billion. The total market capitalization of the Index was \$1.7 trillion, the average capitalization of the firms in the Index was \$57.0 billion and the median capitalization was \$40.6 billion. The largest stock accounted for 6.30% of the total weight of the Index, while the

smallest accounted for 1.46%. The top 5 components accounted for 26.18% of the weight of the Index.

Calculation. The DJIA is a price-weighted index. The level of the Index reflects the total price of the component stocks divided by the Index Divisor. The DJIA was first calculated on May 26, 1896 and the index value was 40.94 on that date. The Index had a closing value of 7305.29 on June 5, 1997. The daily calculation of the DJIA Index is computed by dividing the aggregate price of the companies in the Index by the Index Divisor. The Divisor keeps the Index comparable over time and is adjusted periodically to maintain the Index. The values of the Index will be calculated by Dow Jones & Company or its designee and will be disseminated at 15-second intervals during regular CBOE trading hours to market information vendors via the Options Price Reporting Authority ("OPRA") or the Consolidated Tape Association ("CTA").

Maintenance. Dow Jones is responsible for maintenance of the DJIA. Index maintenance includes monitoring and completing the adjustments for company additions and deletions, stock splits, stock dividends (other than an ordinary cash dividend), and stock price adjustments due to company restructuring or spinoffs. If required, the Index Divisor will be adjusted to account for any of the above changes. Generally, index components are replaced infrequently. The editors of the Wall Street Journal are responsible for component additions and deletions. These changes are announced in the Wall Street Journal and through the Dow Jones New Service generally three to five days prior to implementation. The DJIA has been composed of 30 stocks since 1928 and it is expected that it will remain at 30 stocks.

Index Option Trading. In addition to regular Index options, the Exchange may provide for the listing of long-term index option series ("LEAPS®"). For LEAPS, the underlying value would be computed at one-tenth or one-one hundredth of the DJIA, as applicable. Reduced-value LEAPS will not be available based on one-one thousandth of the DJIA. The current and closing index value of any such reduced-value LEAP will, after such initial computation, be rounded to the nearest one-one hundredth. The Exchange will also provide for the trading of FLEX Options on the Index.

Strike prices for options based on one-one hundredth of the Index will be set to bracket the Index in 1/2 point increments or greater. These 1/2 point increments correspond to 5-point

increments in other broad-based index options, such as the S&P 100 and S&P 500, because the size of the contract will be approximately one-tenth of the size of the option contracts on those other broad-based indexes. Strike prices for options based on one-tenth of the Index will be set in 5-point increments. The trading hours for options on the Index will be from 8:30 a.m. to 3:15 p.m. Chicago time. Options based on the DJIA will be listed in up to three near-term months plus up to three months from the March quarterly cycle.

The Exchange is also proposing to add an interpretation to Rule 6.42 to establish the minimum increment for bids and offers in the DJIA at sixteenths of a dollar. Rule 6.42 currently requires bids and offers to be expressed in eighths of \$1, except for those series trading below \$3. Exhibit C presents proposed contract specifications for options on the DJIA.

FLEX Option Trading. The Exchange is proposing changes to its FLEX rules to provide for the trading of FLEX options on the DJIA. The proposed changes include an amendment to the FLEX Option position limits. The change would apply the same limits to positions in options on the DJIA that exist for positions in other indexes in the FLEX program; the limits are 200,000 contracts on the same side of the market. For purposes of determining compliance with these limits, every 10 option contracts based on the one-one hundredth of the DJIA should be counted as one contract.

Exercise and Settlement. The proposed options on the Index will expire on the Saturday following the third Friday of the expiration month. Trading in the expiring contract month will normally cease at 3:15 p.m. (Chicago time) on the business day preceding the last day of trading in the component securities of the Index (ordinarily the Thursday before expiration Saturday, unless there is an intervening holiday). The exercise settlement value of the Index at option expiration will be calculated by Dow Jones³ based on the opening prices of the component securities on the business day prior to expiration. If a stock fails to open for trading, the last available price on the stock will be used in the calculation of the Index, as is done for currently listed indexes.⁴

³ Phone conversation between Eileen Smith, Director, Research and Product Development, CBOE, and Heather Seidel, Attorney, Market Regulation, Commission, on June 30, 1997.

⁴ The Commission notes that pursuant to Article XVII, Section 4 of the Options Clearing Corporation's ("OCC") by-laws, OCC is empowered

² Exhibit B to the proposed rule filing contains the component securities of the DJIA and their respective weights, and is available at CBOE or at the Commission, as noted in Section IV below.

When the last trading day is moved because of Exchange holidays (such as when CBOE is closed on the Friday before expiration), the last trading day for expiring options will be Wednesday and the exercise settlement value of Index options at expiration will be determined at the opening of regular Thursday trading.

Surveillance. The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in Index options, Index LEAPS, and FLEX Options on the DJIA.

Position Limits. The Exchange proposes to establish position limits for options on the DJIA at 1,000,000 contracts on either side of the market for option contracts that are based on one-one hundredth of the value of the DJIA and 100,000 for contracts based on one-tenth of the value of the DJIA. Positions in options based on either level of the DJIA will be aggregated for purposes of determining compliance with position limits; positions in options based on one-tenth of the value of the DJIA must be multiplied by a factor of 10, then aggregated with options based on one-one hundredth of the value of the DJIA. The broad-based index hedge exemption will be 2,500,000 contracts for options based on one-one hundredth of the DJIA and 250,000 contracts for options based on one-tenth of the DJIA. These limits are roughly equivalent, in dollar terms, to the limits applicable to options on the S&P 500, a broad-based A.M.-settled index option.

Exchange Rules Applicable. As modified herein, the Rules in Chapter XXIV will be applicable to options on the DJIA. Broad-based margin rules will apply to the Index. The Exchange is proposing to amend Chapter XXIV, Rule 24.14, Disclaimers, to identify Dow Jones and Company, Inc. as the index reporting authority for the DJIA and other Dow Jones products.

Capacity. CBOE believes it has the necessary systems capacity to support new series that would result from the introduction of options on the DJIA. CBOE has also been informed that OPRA also has the capacity to support the new series.⁵ In making this

determination, the Exchange notes that OPRA has made, and is in the process of making, significant enhancements to its capacity. These enhancements include: upgrades to computers; additional lines to firms, vendors and exchanges; and the introduction of new technology incorporating high speed data transmission. All of these enhancements will be in place prior to the scheduled introduction of these options contracts and will give more than sufficient capacity to deal with these and other new products.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁶ in general and furthers the objectives of Section 6(b)(5)⁷ in particular in that it will permit trading in options based on the DJIA pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to invest in options based on an additional index.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate 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 either solicited or received.

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, 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 at the Commission's Public Reference Room. 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-97-26 and should be submitted by July 29, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority:⁸

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38791; File No. SR-CBOE-97-28]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Listing of Regular Options, Full and Reduced Value Long-Term Index Options, and FLEX Options on the Dow Jones Utility Average

June 30, 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 June 23, 1997, 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.

to fix an exercise settlement amount in the event it determines a current index value is unreported or otherwise unavailable. Further, OCC has the authority to fix an exercise settlement amount whenever the primary market for the securities representing a substantial part of the value of an underlying index is not open for trading at the time when the current index value (i.e., the value used for exercise settlement purposes) ordinarily would be determined. See Securities Exchange Act Release No. 37315 (June 17, 1996), 61 FR 42671 (order approving SR-OCC-95-19).

⁵ See Exhibit D.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.