

Commission, by September 17, 1998, describing its experience with the pilot. At a minimum, this report should contain data, for the last review period of 1997 and the first two review periods of 1998, on (1) the number of specialists who fell below acceptable levels of performances for each objective measure,<sup>20</sup> the questionnaire (for the last review period of 1997) and the overall program, and the specific measures in which each such specialist was deficient; (2) the number of specialists who, as a result of the objective measures, appeared before the PIAC for informal counseling; (3) the number of such specialists then referred to the MPC and the type of action taken; (4) the number of specialists who, as a result of the overall program, appeared before the MPC and the type of action taken; (5) the number of specialists who, as a result of the questionnaire (for the last review period of 1997) or falling in the bottom 10% were referred by the Exchange staff to the PIAC and the type of action taken (this should include the number of specialists then referred to the MPC and the type of action taken by that Committee); and (6) a list of stocks reallocated due to substandard performance and the particular unit involved. The report also should discuss the specific action taken by the BSE to develop additional objective measures and address the other concerns noted above. Any requests to modify this pilot, to extend its effectiveness or to seek permanent approval for the SPEP should be submitted to the Commission by September 17, 1998, as a proposed rule change pursuant to Section 19(b) of the Act.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. This will permit the pilot program to continue and allow the BSE time to consider improvements to its program. In addition, the rule change that implemented the pilot program was published in the **Federal Register** for the full comment period, and no comments were received.<sup>21</sup>

Accordingly, the Commission believes that it is consistent with the Act to accelerate approval of the proposed rule change.

*It is therefore ordered*, pursuant to Section 19(b)(2)<sup>22</sup> that the proposed rule change is hereby approved on an

accelerated basis, through December 31, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39736; File No. SR-CBOE-97-49]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Trading Differentials for Option Contracts

March 9, 1998.

On October 21, 1997, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to allow the Exchange to establish, upon the filing of a rule change proposal pursuant to Section 19(b)(3)(A) of the Exchange Act, the trading differentials for option contracts traded on the Exchange.

The proposed rule change was published for comment in the **Federal Register** on December 1, 1997.<sup>3</sup> No comments were received on the proposal. This order approves the proposal, as amended.

The Exchange is proposing to amend Exchange Rule 6.42 to give the Board of Directors the authority to establish the minimum trading increments for option contracts. Currently, Rule 6.42 that bids and offers shall be express in eighths of \$1 unless a different increment is

approved by the Floor Procedure Committee for an option contract of a particular series. An interpretation to the Rule states that bids and offers for all option series trading below \$3 shall be expressed in sixteenths of a dollar. Until such time as the Board determines to make a change, the current standards will apply.

The proposed change would allow the Exchange to change the trading increments on an expedited basis and thus, allow the Exchange to respond appropriately to changes in the minimum trading increment in the markets for the securities underlying CBOE options or to changes in the minimum trading increments for one of the other options exchanges. When the Board of Directors determines to change the trading increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.42 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for immediate effectiveness upon filing with the Commission.

The Exchange notes that there has been a movement within the industry to reduce the minimum trading and quotation increments imposed by the various SROs.<sup>4</sup> As derivative securities, the prices of options are determined in reference to the prices of the underlying securities. Consequently, the Exchange believes that where practicable, the Exchange should have minimum increments comparable to those applicable to the securities underlying CBOE options.

The Exchange also believes that the proposed rule change would give the Exchange the flexibility to follow the suit of the principal exchanges for the underlying securities without having to update its rules continually but at the same time would give the Exchange the flexibility it needs to deviate from the minimum increments established by the principal markets for the underlying securities in the event that the CBOE's systems were not immediately able to handle such increments. The Exchange, therefore, believes the quality of the market for CBOE options will be

<sup>23</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Exchange Act Release No. 39348 (November 21, 1997), 62 FR 63577 (December 1, 1997). The Exchange submitted on amendment to the proposed rule change on November 17, 1997. See Letter from Timothy H. Thompson, CBOE, to Christine Richardson, Division of Market Regulation, Commission (Nov. 14, 1997). The amendment was published for comment along with the originally submitted filing. By adding the term "appropriate" before the term "Floor Procedure Committee" in the text of proposed Rule 6.42, the amendment clarifies that the decision to change the increments with respect to a particular class of options will be made by whichever Floor Procedure Committee has jurisdiction over trading in that option class. The amendment also replaced Exhibit 1 to the submitted filing with a revised Exhibit 1.

<sup>4</sup> See Exchange Act Release No. 38571 (May 5, 1997), 62 FR 25682 (May 9, 1997) (Commission order approving a change in the minimum increment to 1/16th for equity securities listed in the American Stock Exchange); Exchange Act Release No. 38678 (May 27, 1997), 62 FR 30363 (June 3, 1997) (Commission order approving a change in the minimum increment to 1/16th for Nasdaq-listed equity securities); and Exchange Act Release No. 38897 (Aug. 1, 1997), 62 FR 42847 (Aug. 8, 1997) (Commission order approving a change in the minimum increment to 1/16th for NYSE-listed equity securities).

<sup>20</sup> For objective measure, the Commission also requests that the BSE provide the mean and median scores.

<sup>21</sup> See February 1993 Approval Order, *supra* note 4.

<sup>22</sup> 15 U.S.C. 78s(b)(2).

enhanced by allowing for more accurate pricing of CBOE options.

The Commission finds that the proposed rule change is consistent with the requirement of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Sections 6 and 11A of the Act.<sup>5</sup> Specifically, the Commission believes that permitting the Exchange to establish trading differentials for option contracts upon the filing of a proposal under Section 19(b)(3)(A) of the Act will help to facilitate securities transactions, to remove impediments to and perfect the mechanism of a free and open market, to foster competition and coordination with persons engaged in regulating securities, and to promote just and equitable principles of trade.

As noted above, the Commission previously has approved a rule proposal that allows the Exchange to establish trading increments for equity securities. The Commission believes that permitting the Exchange to establish trading differentials for option contracts upon the filing of a proposal under Section 19(b)(3)(A) of the Act will provide greater flexibility to the Exchange and thereby enhance the quality of the market for affected CBOE-listed options. Allowing the CBOE to quote in finer increments will facilitate quote competition. This should help produce more accurate pricing of options and should result in tighter quotations. Furthermore, if the quoted markets are improved by reducing the minimum increment, the change could result in added benefits to the markets such as reduced transaction costs.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>6</sup> that the proposed rule change (SR-CBOE-97-49) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39735; File No. SR-PCX-97-39]

### Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Trading Differentials for Option Contracts

March 9, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 21, 1997, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. On December 10, 1997, the Exchange submitted to the Commission an amendment to the proposed rule change.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval to the proposed rule change.

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

The Exchange proposes to amend its rules to allow the Exchange to establish, upon the filing of a rule change proposal pursuant to Section 19(b)(3)(A) of the Exchange Act, the trading differentials for option contracts traded on the Exchange. The Exchange also proposes to amend its rules to clarify that the Exchange shall file a rule change proposal with the Commission pursuant to Section 19(b)(3)(A) of the Exchange Act when it determines to change the trading differentials for equity securities.<sup>4</sup> The text of the proposed

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Letter from Michael D. Pierson, PCX, to Christine Richardson, Division of Market Regulation, Commission (December 10, 1997) ("Amendment No. 1").

<sup>4</sup> The Exchange already has the authority to determine the trading differentials for equity securities traded on the Exchange. See Exchange Act Release No. 38780 (June 26, 1997), 62 FR 36087 (July 3, 1997) (order approving SR-PCX-97-15). The approval order for SR-PCX-97-15 stated that, when the Exchange determined to change a trading differential for an equity security, the Exchange would file with the Commission a rule change proposal pursuant to Section 19(b)(3)(A) of the Exchange Act (effective upon filing).

The Exchange is now proposing to add Commentary .01 to Rule 5.3(b) to clarify that, when it determines to change a trading differential for an

rule change is available at the Office of the Secretary, PCX 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 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, Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

PCX Rule 6.72 currently provides that bids and offers in option contracts shall be expressed in eighths of \$1, unless a different fraction of \$1 is approved by the Exchange's Options Floor Trading Committee for an option contract of a particular series. Commentary .01 to Rule 6.72 currently provides that the Options Floor Trading Committee has determined that bids and offers for all option series trading below \$3 shall be expressed in sixteenths of a dollar.

The Exchange is now proposing to amend Rule 6.72 to provide that the Exchange shall determine the trading differentials for option contracts traded on the Exchange. The Exchange is proposing this rule change in order to provide itself with greater flexibility, so that it can change the trading differentials for option contracts traded on the Exchange on an expedited basis. Amendment No. 1 amends Commentary .01 to Rule 6.72 to clarify that when the Exchange determines to change the trading increments for option contracts, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.72 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for immediate effectiveness upon filing with the Commission. The Exchange notes that the proposed rule change is

equity security, it shall file with the Commission a rule change proposal pursuant to Section 19(b)(3)(A) of the Exchange Act. See Amendment No. 1, *supra* note 3. This new language will conform the Exchange's Rule 5.3(b) to what is required by the order that gives the Exchange its authority to change the trading differentials for equity securities.

<sup>5</sup> See 15 U.S.C. 78f(b) and 78k-1. In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation, consistent with Section 3 of the Act. *Id.* at 78c(f).

<sup>6</sup> 15 U.S.C. 78s(b)(2).

<sup>7</sup> 17 CFR 200.30-3(a)(12).