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

The Exchange 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

Because the foregoing rule change establishes or changes a due, fee, or other change imposed by the Exchange, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act [10] and subparagraph (f)(2) of Rule 19b–4 thereunder. [11] At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. [12]

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposal 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. 20549–0609. 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 avaiable for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to file number SR–Amex–99–12, and should be submitted by June 3, 1999.

[10] 15 U.S.C. 78s(b)(3)(A)(ii).

[11] 17 CFR 240.19b–4(f)(2).

[12] In reviewing this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

For the Commission, by the Division of Market Regulation, pursuant to delegated authority. [13]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99–12062 Filed 5–12–99; 8:45 am]

BILLING CODE 8010–01–M

[13] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–41368; File No. SR–CBOE–98–50]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to the Trading of Differential Index Options

May 5, 1999.

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 November 21, 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 Exchange filed Amendment No. 1 [3] to the proposed rule change on April 27, 1999. The Commission is publishing this notice to solicit comments on the proposed rule change as amended from interested persons.

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

The Exchange proposes to trade Differential Index Options, a new type of standardized index option whose value at expiration is based on the relative performance of either a designated index versus a benchmark index, a designated stock versus a benchmark index, or a designated stock versus a benchmark stock. The text of the proposed rule change is available at the Office of the Secretary, the CBOE and at the Commission.

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

[2] 17 CFR 240.19B–4.

[3] *See* Letter to Michael A. Walinskas, Division of Market Regulation, Commission, from Timothy Thompson, CBOE, dated April 26, 1999 (''Amendment No. 1''). Amendment No. 1 makes certain technical changes to the proposed rule change.

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 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

1. Purpose

The Exchange is proposing to trade a new type of standardized index option, the Differential Index Option, which will offer new investment and hedging opportunities. Differential Index Options will have a value at expiration based on an index, called the ''differential index,'' of the relative performance of a designated index versus a benchmark index over a specific time period (''Index Differential Option''); of a designated stock versus a benchmark index over a specific time period (''Equity Differential Option''); or of a designated stock versus a benchmark stock over a specific time period (''Paired Stock Differential Option''). If the percent gain in the level of the designated index or stock during the period is greater than the percent gain in the underlying benchmark index or stock, then a Differential Call Option originally struck at the money will have a positive value at expiration and a Differential Put Option originally struck at the money will expire worthless. If the percentage gain in the level of the designated index or stock during the period is less than the percent gain in the underlying benchmark, then a Differential Put Option originally struck at the money will have a positive value at expiration and a Differential Call Option originally struck at the money will expire worthless. Thus, a Differential Index Option affords an investor the opportunity, through a single investment, to participate in the relative outperformance of a designated index or stock versus a benchmark index or stock (a Differential Call Option) or the relative underperformance of a designated index or stock versus a benchmark index or stock (a Differential Put Option) over the life of the option, regardless of the absolute performance of the designated index or stock.

For example, an investor may feel that software companies will outperform the broader market over the next several months, but is unsure whether the overall market will move higher or lower. If the investor were to buy an at-the-money standardized CBOE Computer Software Index (''CWX'') call option and the Index declined, the option would expire worthless even if the Index declined by a much smaller percentage than the overall market. On the other hand, if the investor were to purchase an at-the-money Index Differential Call Option on the relative performance of the CBOE Computer Software Index versus the Standard & Poor's 100 Stock Index (''S&P 100''), a benchmark measure of large capitalization stock market performance, and CWX declined by a smaller percentage than the S&P 100, the Index Differential Call Option would have a positive value at expiration. Conversely, an investor who believes that CWX will underperform the S&P 100 may purchase at-the-money Index Differential Put Options perhaps to hedge a portfolio of software company stocks against such market underperformance. If CWX underperforms the S&P 100, the Index Differential Put Options will have a positive value at expiration, regardless of whether the CWX index level itself has increased or decreased on an absolute basis. In effect, the Differential Option structure removes the overall market risk component from the CBOE Computer Software Index performance.

Differential Calculation. The underlying security for a Differential Index Option is an index (called the ''differential index'') of the performance of the designated stock or index relative to the benchmark stock or index. The differential index is calculated as follows: on the base date of each year, prior to the listing of a Differential Index Option series, base reference prices are established for the designated index or stock and the benchmark index or stock (typically, the closing levels on a designated business day). Thereafter, percent changes from the base values of both the designated index or stock and the benchmark index or stock are continuously calculated and the percent change in the benchmark is subtracted from the percent change in the designated index or stock, providing a positive number if the designated index or stock has either out-gained or suffered a lesser percentage decline than the benchmark, and a negative number if the benchmark has out-gained the designated index or stock or suffered a lesser percent loss.

The percentage differential in the relative gain or loss is then multiplied by 100 and added to a fixed base index value (typically 100) to yield the differential index which will underlie the Differential Index Options:

$$D_t=((I_t/I_o)-(B_t/B_o))\times 100 + F$$

Where:

D = differential index;
I = designated index or security;
B = benchmark index or security;
t = current or settlement value of index or security;
o = base reference value of index or security;
F=a fixed base index value, typically 100.

Thus, if the designated index or security has outperformed the benchmark by 7%, and the fixed value, F, is set at 100, the differential index value will be 107; if it has underperformed by 7%, the differential index value would be 93. The base reference values will remain in effect for a predetermined, fixed period (expected to be between six months and two years). Similar to other index values published by the Exchange, the value of each differential index will be calculated continuously and disseminated every 15 seconds [4] under separate symbol by the Option Price Reporting Authority.

Adjustments. For Differential Index Options whose benchmark and designated securities are both indexes, adjustments will be made to the Differential Index Options whenever significant action has been taken by the publisher of the index. Such actions may include the splitting of the value of the designated or benchmark index or a change in the method of calculation. For example, if the publisher of an index were to split the index two-for-one, the Exchange would halve the base reference value of the index in the differential calculation. If an index ceases to be published, the Exchange (1) may replace it with a substitute index (*i.e.*, one that correlates highly with the index being replaced) or a successor index (*i.e.*, an index intended by the publisher as a replacement to the original index); or (2) may undertake to publish the index using the same procedures last used to calculate the index prior to its discontinuance.

The stock component of an Equity Differential and a Paired Stock Differential will be adjusted as follows: (1) for a stock dividend, stock distribution, or stock split, whereby a number of shares (whether a whole number or other than a whole number) of the security are issued with respect to each outstanding share, the base price will be adjusted by the split factor in the Differential Index calculation; (2) for a reverse stock split or combination of shares whereby a number of shares (whether a whole number or other than a whole number) of the security are replaced by or combined into a single share, the base price will be adjusted by the split factor in the Differential Index calculation; (3) generally, there will be no adjustments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions made by the issuer of the benchmark or designated stock (The terms ''ordinary cash dividends or distributions'' shall have the meanings as set forth in Article VI, Section 11 of the By-Laws of The Options Clearing Corporation.); (4) when a security is converted into a right to receive a fixed amount of cash, such as in a merger, the Exchange will replace that security with the cash value and may accelerate the expiration and settlement of the European-style Differential Index option of which the security was a part or allow the option to continue to trade until its original expiration using the cash value as the current security price in the Differential Index calculation; and (5) in the case of a corporate reorganization, re-incorporation or similar occurrence by the issuer of a security which results in an automatic share-for-share exchange of shares of the issuer for shares in the resulting company, the Exchange will substitute the new security for the original security in the Differential Index calculation in the appropriate ratio.

In addition, contract adjustment will be made to differential Indexes to limit the likelihood of negative index values. In the event that the level of a Differential Index settles below 20, the contract will be adjusted by: (1) Adding 100 to the Differential Index level, and (2) adding 100 to the exercise price of the options.

Designated Indexes, Designated Stocks, Benchmark Indexes and Benchmark Stocks. Only stocks which meet the current Exchange Rules for listing standardize equity options will be eligible designated stocks in Equity Differential Options. Only stocks which meet the current Exchange Rules for listing standardized equity options will be eligible designated stocks or benchmark stocks in Paired Stock Differential Options. In this way, only

[4] Telephone call between Sonia Patton, Attorney, Division of Market Regulation, Commission, and William Speth, Research and Planning, CBOE, on April 23, 1999.

the most liquid, actively traded stocks will be considered.

Similarly, only indexes that meet the current Exchange Rules for listing index options or that have been approved for options or warrant trading by the Commission will be eligible for designation either as designated indexes or benchmark indexes in Equity and Index Differential Options. In this way, only those indexes already deemed by the Commission to be suitable for options trading will be considered.

Expiration and Settlement. The proposed Differential Index Options will be European style (*i.e.*, exercises permitted at expiration only), and cash settled. Index Differential Options in which both the designated or benchmark indexes are broad-based will trade between the hours of 8:30 a.m. and 3:15 p.m. Central time. All other Differential Index Options will trade between 8:30 a.m. and 3:02 p.m. Central time. Differential Index Options will expire on the Sunday following the third Friday of the expiration month (''Expiration Friday''). The last trading day in an expiring options series will normally be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). Trading in expiring options will cease at the close of trading on the last trading day.

While the Exchange seeks approval to list series of Differential Index Options as set forth in Rule 28.4(a)(i), (ii), (iii) and (iv), it is anticipated that the Exchange will initially list only five series with expirations corresponding to the four calendar months in the March cycle in the current calendar year, and a fifth series expiring in March of the following calendar year.

The exercise settlement value for Index Differential Options will be calculated based on the respective exercise settlement values for standardized options on each of the designated and benchmark indexes expiring on the same day. The exercise settlement value for Equity Differential Options will be calculated based on (i) the primary exchange regular-way opening sale price of the designated stock, or, in the case of a stock traded through the NASDAQ system, the first reported regular way sale that occurs when the markets are unlocked and uncrossed, provided that such sale price is within the current best bid or offer, and (ii) the exercise settlement value for standardized options on the benchmark index expiring on the same day. The exercise settlement value for Paired Stock Differential Options will be calculated based on the primary exchange regular way opening sale prices of the designated and benchmark stocks, or, in the case of a stock trade through the NASDAQ system, the first reported regular way sale that occurs when the markets are unlocked and uncrossed, provided that such sale price is within the current best bid or offer. To ensure that the settlement price used satisfies these factors, the Exchange reserves the right to exclude a price from the settlement calculation for a Differential Index Option if it believes, in its best judgment, that such price is not indicative of the true price at that time.

Applicable Exchange Rules. CBOE Rules 28.1 through 28.12 will apply to the trading of Differential Index Option contracts. These Rules cover issues such as exercise prices and positions limits. Surveillance procedures currently used to monitor trading in each of the Exchange's options will also be used to monitor trading in Differential Index Options. In addition, Differential Index Options will be subject to the Exchange's sales practice and suitability rules applicable to standardized options.

Differential Index Options are ''securities'' under Section 3(a)(10) of the Act, and therefore are exempt pursuant to Section 28(a) of the Act from any state law that prohibits or regulates the making or promoting of wagering or gaming contracts, or the operation of ''bucket shops'' or other similar or related activities. Differential Index Options will be traded pursuant to the Exchange's rules and rule amendments discussed herein, which are subject to prior approval by the Commission.

Position Limits. The Exchange proposes that the position limits for Index Differential Options be set at the lower of the separate position limits for standardized index options trading on the designated index and the benchmark index. In the event that one or both of the indexes is not currently the subject of standardized index options trading, then the Exchange will establish position limits as the lesser of those that would be in effect for standardized options on the indexes if such options were trading. In the event neither the designated index nor the benchmark index is subject to position limits the Index Differential Options shall not be subject to position limits. The Index Differential Options shall be subject to any reporting requirements applicable to the underlying indexes.

For Equity Differential Options, the Exchange proposes that the position limits be set at the position limit of standardized equity options trading on the designated stock. In the event that standardized options currently do not trade on the designated stock, then the Exchange will establish a position limit at the level that would be in effect if standardized options did trade on such stock. For Paired Stock Differential Options, the Exchange proposes that the position limits be set at the lower of the separate position limits of standardized equity options trading on the designated and benchmark stocks. In the event that one or both of the stocks is not currently the subject of standardized options trading, then the Exchange will establish position limits as the lesser of those that would be in effect for standardized options on the stocks if such options were trading.

The Exchange also proposes, for position and exercise limit purposes, to require that positions in Differential options with the same designated or benchmark stock or narrow-based index be aggregated. For example, if a Paired Stock Differential option has been created using General Motors Corporation stock as the benchmark and Ford Motor Company as the designated stock, positions in that differential option will be aggregated with position in other Paired Stock Differentials and Equity Differentials using narrow-based indexes created using either General Motors or Ford as the benchmark or designated stocks to determine whether the account is in compliance with the position and exercise limit rules. However, with respect to the use of broad-based indexes as either the benchmark or designated index in an Equity or Index Differential, no aggregation of positions will be required. For example, if Equity Differentials are created using the S&P 100 as the benchmark index and AT&T Corp., Dow Chemical Company, and International Business Machines as designated stocks, members will not be required to aggregate positions in those Differential Options to determine whether an account is in compliance with position and exercise limit rules.

In consultation with the Commission, the Exchange will establish the appropriate option position limit for a Differential Index option, where the Exchange chooses as either a designated or benchmark index, a broad-based index that has been approved by the Commission for index warrant trading only. The position limit for a Differential Option using a narrow-based index warrant will be established using the Exchange's narrow-based index option rules.

The Exchange further proposes that Differential Index Options not be aggregated with other standardized options on the underlying designated stock or index or on the underlying benchmark stock or index for purposes of determining whether an account is in compliance with position and exercise limit rules. The Exchange believes this policy is appropriate for the following reasons. First foremost, the value of Differential Index Options will be calculated in a different manner from the value of other currently traded standardized equity and index options. In fact, because of the subtraction of the performance of the benchmark from the designated stock or index, the value of a Differential Index Option may appreciate (depreciate) even as the value of the corresponding standardized option on the designated stock or index decreases (increases). Further, the value of a Differential Index Options is in part a function of the correlation between the designated stock or index and the benchmark (*i.e.*, the tendency of the designated stock or index and the benchmark to move concurrently). This correlation component of the Differential Index Option price is not considered in determining the value of other standardized options on either the designated or benchmark stock or index. As a result, the Differential Index Option is likely to be more or less sensitive to movements in the designated stock or index than the other standardized options on that stock or index, and changes in the Differential Index Option's price may be in the opposite direction from changes in other standardized options prices. Therefore, any attempt to aggregate Differential Index Options with other standardized options for determination of position limits would be combining contracts which, by nature, can change in value quite differently.

Differential Index Options also have certain terms not found in many other standard equity and index options. Each Differential Index Option contract changes in value as a function of the differential performance of a $10,000 long position in the designated stock or index and a $10,000 short position in the benchmark. Many standardized equity options are settled by physical delivery of 100 shares of the underlying stock, worth $5,000 per contract for a $50 stock, and feature American exercise. Standardized index options typically feature European-style exercise, cash settlement, and represent approximately $25,000 worth of a basket of stocks (with the index at the 250 level). Any meaningful aggregation of positions in contracts with different terms would be difficult to establish as a simple rule, and would require a case-by-case analysis of the terms for each Differential Index Option contract compared to other standardized contracts on the designated and/or benchmark stock or index.

The Exchange also believes that the aggregation of position limits hinders the probability of success of any new product. The aggregation of positions in Differential Options with positions in standardized options will result in the new product competing with the established product for a limited amount of potential volume. Thus, with aggregated position limits, new products cannot ''grow the pie'' and increase overall liquidity in all of the products; they start at a disadvantage which may be impossible to overcome.

FLEX Options. The Exchange is modifying its FLEX rules to provide for trading of FLEX options on Differential Index Options. In addition, the Exchange is deleting the list of index options on which it may trade FLEX options set forth in Rule 24A.4(b)(1) and is replacing it with a statement that the Exchange may trade FLEX options on any index or differential index (as defined in Chapter XXVIII) for which the Exchange has been approved to trade options or warrants. This change is consistent with American Stock Exchange Rule 903G(a)(1).

Customer Margin. The Exchange proposes to apply standard index options margin treatment to Differential Index Options. Index Differential Options on the relative performance of one broad-based index versus another will be margined as broad-based index options and short positions therein will require margin equal to the current market value of the Differential Index Option plus an amount equal to 15% of the market value of the Differential Index reduced by any out of the money amount to a minimum of the current market value of the option plus 10% of the Index. All other Index Differential Options, Equity Differential Options and Paired Stock Differential Options will be margined as narrow-based index options and short positions therein will require an amount equal to the current market value of the Differential Index Option plus an amount equal to 20% of the market value of the Differential Index reduced by any out of the money amount to a minimum of the current market price of the option plus 10% of the Index. The Exchange believes that this method of determining customer margin is appropriate because the range of volatilities expected for Differential Indexes should not be significantly different than the expected range for other indexes and equities. This is because the volatility of a Differential Index is based upon the volatilities of the designated and benchmark indexes or stock and the correlation of these components.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,[5] in general, and furthers the objectives of Section 6(b)(5),[6] in particular, in that it will permit the trading of Differential Index Options pursuant to Exchange Rules designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities; and to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect the public interest.

B. Self-Regulatory Organizations Statement on Burden on Competition

The 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

The Exchange did not solicit or receive written comments on 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, N.W.,

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

[6] 15 U.S.C. 78f(b)(5).

Washington, D.C. 20549–0609. 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 insepction and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR–CBOE–98–50 and should be submitted by June 3, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[7]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99–12066 Filed 5–12–99; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–41374; File No. SR–CBOE–99–16]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to the Listing and Trading of Generic Narrow-Based Index Options Under Rule 19b–4(e)

May 5, 1999.

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 April 15, 1999, 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. The filing was amended on April 28, 1999.[3] The proposed rule change has been filed by the CBOE as a "non-controversial" rule change under Rule 19b–4(f)(6)[4] under the Act. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

CBOE is proposing to amend Rule 24.2, *Designation of the Index,* to provide for the listing and trading of narrow-based stock index options pursuant to new Rule 19b–4(e) under the Act.[5] The text of the proposed rule change follows. Proposed new language is in *italics;* proposed deletions are in brackets:

* * * * *

CHAPTER XXIV

Index Options

* * * * *

Designation of the Index

Rule 24.2 *(a)* The component securities of an index underlying an index option contract need not meet the requirements of Rule 5.3. *Except as set forth in subparagraph (b) below,* [T]the listing of a class of index options on a new underlying index will be treated by the Exchange as a proposed rule change subject to filing with and approval by the Securities and Exchange Commission ("Commission") under Section 19(b) of the Exchange Act.

(b) [A rule change proposing the listing of a class of index options on a new underlying narrow-based index may be designated by the Exchange as constituting a stated policy, practice or interpretation with respect to the administration of this Rule 24.2 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act, thereby qualifying the rule change for effectiveness upon filing with the Commission, if the Exchange prefiles with the Commission a draft copy of the rule change not less than one week before it is filed, and if the Exchange proposes to commence trading in the subject class of index options not earlier than 30 days after the date of filing, and] *Notwithstanding paragraph (a) above, the Exchange may trade options on narrow-based index options pursuant to Rule 19b–4(e) of the Securities Exchange Act of 1934,* if each of the following conditions is satisfied:

(1)–(12) No change.

(c) No change.

* * * * *

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 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

1. Purpose

The CBOE is proposing to amend Rule 24.2, *Designation of the Index,* to provide for the listing and trading of narrow-based stock index options pursuant to new Rule 19b–4(e) under the Act. Certainly, CBOE Rule 24.2 permits the Exchange to list and trade options on narrow-based indexes thirty days after a filing describing the index option is made under Section 19(b)(3)(A) of the Act, provided that the index meets the generic listing criteria set forth in Rule 24.2(b). The recent Commission release adopting new Rule 19b–4(e) ("New Products Release"),[6] however, no longer requires a Section 19(b)(3)(A) filing and subsequent waiting period so long as the exchange relying on the new Rule has generic listing criteria approved by the Commission and meets certain other requirements.

The New Products Release indicated that products meeting the listing criteria approved by the Commission in its 1994 Generic Narrow-Based Index Options approval order[7] (as set forth in CBOE Rule 24.2) qualified for filing under new Rule 19b–4(e), so long as an exchange eliminated the Section 19(b)(3)(A) rule filing requirement from its existing rules.[8] The Exchange is, therefore, proposing to eliminate the Section 19(b)(3)(A) rule filing requirement in Rule 24.2 and instead incorporate the provisions of new Rule 19b–4(e). The Exchange represents that it will use new Rule 19b–4(e) in accordance with the

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[7] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* letter from Timothy H. Thompson, Director, Regulatory Affairs, CBOE, to Michael Walinskas, Deputy Associate Director, Division of Market Regulation, Commission, dated April 20, 1999.

[4] 17 CFR 240.19b–4(f)(6).

[5] 17 CFR 240.19b–4(e).

[6] *See Amendment to Rule Filing Requirements for Self-Regulatory Organizations Regarding New Derivative Securities Products,* Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998).

[7] *See*, Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994).

[8] *See*, New Products Release at note 89.