

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36841; File Nos. SR-CBOE-95-43 and SR-PSE-95-24]

Self-Regulatory Organizations; Order Approving Proposed Rule Changes and Notice of Filing and Order Granting Accelerated Approval of Amendments by the Chicago Board Options Exchange, Inc. and the Pacific Stock Exchange, Inc., Relating to the Listing of Flexible Exchange Options on Specified Equity Securities

February 14, 1996.

I. Introduction

On August 15, 1995, and October 5, 1995 the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") and the Pacific Stock Exchange, Inc. ("PSE" or "Exchange") (collectively the "Exchanges") each, respectively, filed a proposed rule change with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² to provide for the listing and trading of Flexible Exchange Options ("FLEX Options") on specified equity securities ("FLEX Equity Options"). The CBOE submitted to the Commission Amendment No. 1 to its proposal on December 21, 1995.³ The PSE submitted to the Commission Amendment Nos. 1 and 2 to its proposal on October 26, 1995, and January 24, 1996, respectively.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1 to its proposed rule change, CBOE proposes to: (1) set specific position limits, as described more fully, herein; (2) require FLEX Post Officials to call upon FLEX Qualified Market-Makers to quote in response to a Request for Quotes, whenever no FLEX Quotes are made in response to a specific Request for Quotes; and (3) limit FLEX Equity Option transactions to equities that are the subject of Non-FLEX Equity Options traded on the Exchange. See Letter from Michael Meyer, Attorney, CBOE, to Howard Kramer, Associate Director, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated December 21, 1995 ("CBOE Amendment No. 1").

⁴ In Amendment No. 1, the Exchange makes certain technical amendments to conform its filing to CBOE's proposed rule change. See Letter from Michael D. Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated October 26, 1995 ("PSE Amendment No. 1").

In Amendment No. 2, the Exchange makes further changes to conform its filing to subsequent

Notice of CBOE and PSE proposals were published for comment and appeared in the Federal Register on September 12, 1995⁵ and November 13, 1995,⁶ respectively. One comment letter was received on CBOE's proposed rule change.⁷ This order approves the Exchanges' proposals, as amended.

II. Background

The purpose of the Exchanges' proposals is to provide a framework for the Exchanges to list and trade equity options that give investors the ability, within specified limits, to designate certain of the terms of the options. In recent years, an over-the-counter ("OTC") market in customized equity options has developed which permits participants to designate the basic terms of the options, including size, term to expiration, exercise style, exercise price, and exercise settlement value, in order to meet their individual investment needs. Participants in this OTC market are typically institutional investors, who buy and sell options in large-size transactions through a relatively small number of securities dealers. To compete with this growing OTC market in customized equity options, the Exchanges propose to expand their FLEX Options rules⁸ to permit the introduction of trading in FLEX Options on specified equity securities that satisfy the Exchanges' listing standards for equity options and that are currently the subject of regular (non-FLEX) standardized options trading on the Exchange that is seeking to list the FLEX Option.⁹ the Exchanges' proposals will also FLEX Equity Option market participants to designate the following contract terms: (1) exercise price; (2) exercise style (i.e., American,¹⁰

amendments submitted to the Commission by the CBOE. See Letter from Michael D. Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated January 24, 1996 ("PSE Amendment No. 2"). See also CBOE Amendment No. 1, *supra* note 3.

⁵ See Securities Exchange Act Release No. 36185 (September 5, 1995), 60 FR 47415 (SR-CBOE-95-43).

⁶ See Securities Exchange Act Release No. 36452 (November 2, 1995), 60 FR 57027 (SR-PSE-95-24). Amendment No. 1 to PSE's proposal was also published for comment in this release.

⁷ See Letter from Salvatore R. DiDonna, Executive Vice President & Chief Operating Officer, Swiss American Securities Inc., to Jonathan G. Katz, Secretary, SEC, dated September 27, 1995 ("Swiss American Securities Letter").

⁸ See CBOE Rules 24A.1 through 24A.17 and PSE Rules 8.100 through 8.115.

⁹ See CBOE Amendment No. 1, *supra* note 3, and PSE Amendment No. 2, *supra* note 4.

¹⁰ An American-style equity option is one that may be exercised at any time on or before the expiration date.

European,¹¹ or capped¹²); (3) expiration date;¹³ and (4) option type (put, call, or spread).

Currently, both the CBOE¹⁴ and PSE¹⁵ have received Commission approval to list and trade FLEX Options on several broad-based market indexes of equity securities ("FLEX Index Options"). The Exchanges believe that because of the success of these products in meeting the needs of investors for greater flexibility is designating the terms of index options within the parameters of the Exchanges' FLEX Options rules, the Exchanges are now proposing to provide comparable flexibility to investors in equity options. The Exchanges believe that FLEX Equity Options will further broaden the base of institutional investors that use FLEX Options to manage their trading and investment risk.

For the most part, the Exchanges represent that their current rules governing FLEX Index Options will apply unchanged to FLEX Equity Options. Certain changes to the Exchanges' existing FLEX Options rules, however, are proposed to deal with the special characteristics of FLEX Equity Options. Specifically, the Exchanges propose to add several new definitions to accommodate the introduction of trading in FLEX Equity Options,¹⁶ and to revise certain other rules governing FLEX Options and their trading, as described below.

As with FLEX Index Options, the Options Clearing Corporation ("OCC")

¹¹ A European-style equity option is one that may be exercised only during a limited period of time prior to expiration of the option.

¹² A capped-style equity option is one that is exercised automatically prior to expiration when the cap price is less than or equal to the closing price of the underlying security for calls or when the cap price is greater than or equal to the closing price of the underlying security for puts.

¹³ The proposals, however, require that the expiration date of a FLEX Equity Option may not fall on a day that is within two business days of the expiration date of a Non-FLEX Equity Option.

¹⁴ Specifically, the Commission has approved the listing by the CBOE of FLEX Options on the S&P 100 ("OEX"), S&P 500 ("SPX"), Nasdaq 100, and Russell 2000 Indexes. See Securities Exchange Act Release Nos. 31920 (February 24, 1993), 58 FR 12280 (March 3, 1993) (approval of FLEX Options on the SPX and OEX indexes), 34052 (May 12, 1994), 59 FR 25972 (May 18, 1994) (approval of FLEX Options on the Nasdaq 100 index), and 32694 (July 29, 1993), 58 FR 41814 (July 5, 1993) (approval of FLEX Options on the Russell 2000 index).

¹⁵ The Commission has approved the listing by the PSE of FLEX Options on the Wilshire Small Cap Index and the PSE Technology Index. See Securities Exchange Act Release No. 34364 (July 13, 1994), 59 FR 36813 (July 19, 1994).

¹⁶ In addition to the term FLEX Equity Options, the proposal also defines the terms "FLEX Index Options," "Non-FLEX Options," "Non-FLEX Equity Option," and, "Applicable Floor Procedure Committee." See CBOE Rule 24A.1 and PSE Rule 8.100(b).

will be the issuer of all FLEX Equity Options. The Commission has designated FLEX Index Options as standardized options for purposes of the options disclosure framework established under Rule 9b-1 of the Act.¹⁷

III. Description of the Proposal

The Exchanges propose to revise their rules concerning the terms of FLEX Options to make specific reference to the terms of FLEX Equity Options.¹⁸ Specifically, FLEX Equity Options will have (1) a maximum term of three years, (2) a minimum size of 250 contracts for an opening transaction in a new series, and (3) a minimum size of 100 contracts for an opening or closing transaction in a series in which there is already open interest (or any lesser amount in a closing transaction that represents the remaining underlying size). The minimum value size for FLEX Quotes¹⁹ by a single Market-Maker in response to a Request for Quotes²⁰ in FLEX Equity Options is the lesser of 100 contracts or the remaining underlying size in a closing transactions.

The Exchanges also propose to allow exercise prices and premiums for FLEX Equity Options to be stated in dollar amounts or percentages, with premiums rounded to the nearest minimum tick and exercise prices rounded to the nearest one-eighth. The exercise of FLEX Equity Options will be by physical delivery, and the exercise-by-exception procedures of OCC will apply.²¹

The Exchanges represent that the trading procedures applicable to FLEX Equity Options will be subject to many of the same rules that apply to equity options traded on the Exchanges, and are similar to those that apply to FLEX Index Options, except that unless the Exchange's Market Performance Committee decides otherwise, there will not be FLEX Appointed Market-

Makers²² who are obligated to respond to Requests for Quotes in respect of FLEX Equity Options as there are with FLEX Index Options. Instead, the Exchanges propose to have five or more "FLEX Qualified Market-Makers",²³ who are permitted, but not obligated, to enter quotes in response to a Request for Quotes in a class of FLEX Equity Options in which the Market-Maker is qualified. In addition, a FLEX Post Official²⁴ may call upon a FLEX Qualified Market-Maker to make responsive quotes in the interests of a fair and orderly market. Moreover, a FLEX Post Official must call upon a FLEX Qualified Market-Maker to make a quote in response to a Request for Quotes ("RFQ") if no quotes are made in response to the RFQ.²⁵ Accordingly, a FLEX Qualified Market-Maker is obligated to make responsive quotes whenever called upon to do so by a FLEX Post Official. Quotes of FLEX Qualified Market-Makers must satisfy the minimum size parameters discussed above for FLEX Equity Options and must be entered within the time periods provided in the Exchanges' FLEX Options Rules.²⁶

The Exchange represent that the rules governing priority of bids and offers for FLEX Equity Options are also similar to those that apply to FLEX Index Options, except that in the case of FLEX Equity Options, no guaranteed minimum right of participation is provided to an Exchange member that initiates a Request for Quotes and indicates an intention to cross or act as principal on the trade.²⁷ The Exchanges' regular rules of price and time priority will apply in those situations.²⁸

The Exchanges are proposing position limits and exercise limits for FLEX Equity Options that are longer than the limits applicable to Non-FLEX Equity Options for the same reasons that the position and exercise limits for FLEX Index Options are larger than those applicable to Non-FLEX Index Options. Position and exercise limits for FLEX Equity Options are set forth and compared to existing limits for Non-FLEX Equity Options on the same underlying security.²⁹

Non-FLEX equity position limit	FLEX equity position limit
4,500 contracts	13,500 contracts.
7,500 contracts	22,500 contracts.
10,500 contracts	31,500 contracts.
20,000 contracts	60,000 contracts.
25,000 contracts	75,000 contracts.

The applicable position and exercise limit tiers for Non-FLEX Equity Options are based on the number of outstanding shares and trading volume of the underlying security.³⁰ This proposal does not alter the applicable tier criteria set forth in the Equity Option Position Limit Approval Orders.

As is currently the case for FLEX Index Options, it is proposed that there will be no aggregation of positions or exercises in FLEX Equity Options with positions or exercises in Non-FLEX Equity Options for purposes of the limits. The Exchanges believe that the larger position and exercise limits for FLEX Options and the nonaggregation of positions and exercises in FLEX Options and Non-FLEX Options reflect the institutional nature of the market for FLEX Options and the fact that the Exchanges must compete with over-the-counter markets throughout the world, many of which do not impose position or exercise limits.

The Exchanges also propose to provide that the expiration date of a FLEX Equity Option may not occur on a day that falls on, or within, two business days of the expiration date of a Non-FLEX Equity Option. This is intended to eliminate the possibility that the exercise of FLEX Equity Options at FLEX Equity Option. This is intended to eliminate the possibility that the exercise of FLEX Equity at expiration will cause any untoward

¹⁷ See Securities Exchange Act Release No. 31910 (February 23, 1993), 58 FR 12056 (March 2, 1993) ("9b-1 Order"). As described in note 42 *infra*, and for the same reasons stated in the 9b-1 Order, FLEX Equity Options are deemed "standardized options" for purposes of the Rule 9b-1 options disclosure framework.

¹⁸ CBOE Rule 24A.4 and PSE Rule 8.102.

¹⁹ See CBOE Rule 24A.1(f) and PSE Rule 8.100(b)(7).

²⁰ See CBOE Rule 24A.1(k) and PSE Rule 8.100(b)(12).

²¹ OCC Rule 805 provides for automatic exercise of in-the-money options at expiration without the submission of an exercise notice to the OCC if the price of the security underlying the option is at or above a certain price (for calls) or at or below a certain price (for puts); and the non-exercise of an option at expiration if the price of the security underlying the option does not satisfy such price levels. See OCC Rule 805.

²² See CBOE Rule 24A.9 and PSE Rule 8.109.

²³ FLEX Qualified Market-Makers for FLEX Equity Options will be required to obtain a specific clearing member letter of guarantee, similar to FLEX Appointed Market-Makers assigned to FLEX Index Options. FLEX Qualified Market-makers, however, will not be required to maintain specific minimum financial requirements as are required for FLEX Appointed Market-Makers assigned to FLEX Index Options in CBOE Rules 24A.13 and 24A.14, and PSE Rules 8.113 and 8.114. See, e.g., CBOE Rules 24A.9, 24A.13, 24A.14, and 24A.15; and PSE Rules 8.109, 8.113, 8.114, and 8.115.

²⁴ See CBOE Rule 24A.1(e) and PSE Rule 8.100(b)(7).

²⁵ See CBOE Rule 24A.9(c) and PSE Rule 8.109(c). See also CBOE Amendment No. 1, *supra* note 3, and PSE Amendment No. 2, *supra* note 4.

²⁶ See CBOE Rule 24A.5 and PSE 8.103. Initially, the Request Response Time will be a minimum of 2 minutes and a maximum of 20 minutes. Under the proposed rules, the Equity Floor Procedures Committee has the authority to set the range for the Request Response Time. The Exchanges will provide at least 2 days notice to their respective members and member organizations of any changes to the Request Response Time range.

²⁷ See CBOE Rule 24A.5(c) and PSE Rule 8.103(c).

²⁸ See CBOE Rule 6.45 and PSE Rule 6.75.

²⁹ See CBOE Rule 24A.7(b) and PSE Rule 8.107(c). See also CBOE Amendment No. 1, *supra* note 3, and PSE Amendment No. 2, *supra* note 4.

³⁰ See Securities Exchange Act Release Nos. 36409 (October 23, 1995), 60 FR 55399 (October 31, 1995) (File Nos. SR-NYSE-95-31; SR-PSE-95-25; SR-Amex-95-42; and SR-Phlx-95-71); and 36371 (October 13, 1995, 60 FR 54269 (October 20, 1995) (File No. SR-CBOE-95-42) (collectively the "Equity Option Position Limit Approval Orders").

pressure on the market for underlying securities at the same time as Non-FLEX Equity Options underlying securities at the same time as Non-FLEX Equity Options expire. The Exchanges propose that this change will also apply to FLEX Index Options.³¹

The Exchanges believe that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act,³² in particular, in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest in that extending the existing FLEX Option program to encompass FLEX Options on specified equity securities will for the first time provide investors with a regulated, transparent exchange market in flexible options on individual equity securities.

IV. Comments

As noted above, the Commission received one comment letter, which was supportive of CBOE's FLEX Equity Option proposal. The commentator expressed the view that the FLEX product will provide its customers with the ability to negotiate equity option contract terms without compromising the safety and liquidity provided by the five options exchanges in the U.S.³³

V. Discussion

The Commission finds that the proposals are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Sections 6(b)(5)³⁴ and 11A³⁵ of the Act. Specifically, the Commission finds that the Exchanges' proposals are designed to provide investors with a tailored or customized product for equity options currently traded on each of the respective Exchanges that may be more suitable to their investment needs. Moreover, consistent with Section 11A, the proposals should encourage fair competition among brokers and dealers and exchange markets, by allowing the Exchanges to compete with the growing

OTC market in customized equity options.

The Commission believes the Exchanges' proposals reasonably address their desire to meet the demands of sophisticated portfolio managers and other institutional investors who are increasingly using the OTC market in order to satisfy their hedging needs. Additionally, the Commission believes that the Exchanges' proposals will help promote the maintenance of a fair and orderly market, consistent with Sections 6(b)(5) and 11A of the Act, because the purpose of each proposal is to extend the benefits of a listed, exchange market to equity options that are more flexible than current listed equity options. The benefits of the Exchanges' options markets include, but are not limited to, a centralized market center, an auction market with posted transparent market quotations and transaction reporting, parameters and procedures for clearance and settlement, and the guarantee of OCC for all contracts traded on the Exchange.

As indicated above, the trading procedures applicable to FLEX Equity Options will be subject to many of the same rules that apply to equity options traded on the Exchanges, and are similar to those that apply to FLEX Index Options, except that unless the Exchange's Market Performance Committee decides otherwise, there will not be FLEX Appointed Market-Makers³⁶ who are obligated to respond to Requests for Quotes in respect of FLEX Equity Options as there are in respect of FLEX Index Options. Instead, the Exchanges propose to have five or more "FLEX Qualified Market-Makers" appointed to each class of FLEX Equity Option who are permitted, but not obligated, to enter quotes in response to a Request for Quotes in a class of FLEX Equity Options in which the Market-Makers is qualified.³⁷ To provide for adequate liquidity, the Exchanges provide that a FLEX Post Official may call upon a FLEX Qualified Market-Maker to make responsive quotes in the interests of a fair and orderly market.³⁸

Moreover, a FLEX Post Official must call upon a FLEX Qualified Market-Maker to make a quote in response to a Request the Quotes ("RFQ") if no quotes are made in response to the RFQ.³⁹ Accordingly, a FLEX Qualified Market-Maker is obligated to make responsive quotes whenever called upon to do so by a FLEX Post Official. Additionally, quotes of FLEX Qualified Market-Makers must satisfy the minimum size parameters discussed above for FLEX Equity Options and must be entered within the time periods provided in the Exchanges' FLEX Options Rules.⁴⁰ The Commission believes the Exchanges' trading procedures for FLEX Equity Options are reasonably designed to provide some of the benefits of an Exchange auction along with features of a negotiated transaction between investors. The Commission recognizes that the Exchanges' proposed FLEX Equity Option trading programs will allow the trading of option contracts of substantial value, for which continuous quotation may be difficult to sustain. The Commission believes that the Exchanges have adequately addressed these concerns by establishing procedures for quotes upon request, which must be firm for a designated period of time and which will be disseminated through the Options Price Reporting Authority ("OPRA").

The Commission believes that market impact concerns are reduced for FLEX Equity Options because expiration of these equity options will not correspond to the normal expiration of Non-FLEX Equity Options. In particular, FLEX Equity Options, similar to FLEX Index Options, will never expire on any "Expiration Friday." More specifically, the expiration date of a FLEX Option may not occur on a day that is on, or within, two business days of the expiration date of a Non-FLEX Option. The Commission believes that this should reduce the possibility that the exercise of FLEX Options at expiration will cause any additional pressure on the market for underlying securities at the same time that Non-FLEX Options expire.

Nevertheless, because the position limits for FLEX Equity Options are much higher than those currently existing for outstanding exchange-traded equity options and open interest in one or more FLEX Equity Option series could grow to significant levels, it is possible that FLEX Equity Options might have an impact on the securities

³⁶ See CBOE Rule 24A.9 and PSE Rule 8.109.

³⁷ The Commission notes that FLEX Qualified Market-Makers for FLEX Equity Options will be required to obtain a specific clearing member letter of guarantee, similar to FLEX Appointed Market-Makers assigned to FLEX Index Options. FLEX Qualified Market-Makers, however, will not be required to maintain specific minimum financial requirements as are required for FLEX Appointed Market-Makers assigned to FLEX Index Options in CBOE Rules 24A.13 and 24A.14, and PSE Rules 8.113 and 8.114. See, e.g., CBOE Rules 24A.9, 24A.13, 24A.14, and 24A.15; and PSE Rules 8.109, 8.113, 8.114, and 8.115.

³⁸ See CBOE Rule 24A.9(b) and PSE Rule 8.109(b).

³¹ Both Exchanges currently provide that the expiration date of a FLEX Index Option may not occur during this time period. The proposed rule change merely clarifies this requirement.

³² 15 U.S.C. 78f(b)(5).

³³ See Swiss American Securities Letter, *supra* note 7.

³⁴ 15 U.S.C. 78f(b)(5).

³⁵ 15 U.S.C. 78k-1.

³⁹ See CBOE Rule 24A.9(c) and PSE Rule 8.109(c). See also CBOE Amendment No. 1, *supra* note 3, and PSE Amendment No. 2, *supra* note 4.

⁴⁰ See CBOE Rule 24A.5 and PSE 8.103.

markets for the securities underlying FLEX Equity Options. The Commission expects the Exchanges to monitor the actual effect of FLEX Equity Options once trading commences and take prompt action (including timely communication with the self-regulatory organizations responsible for oversight of trading in the underlying securities) should any unusual market effects develop.

The Exchanges represent that FLEX Equity Options will allow them to compete with OTC markets and help meet the demand for customized equity options products by institutional investors. The minimum value sizes for opening transactions in FLEX Equity Options are designed to appeal to institutional investors, and it is unlikely that most retail investors would be able to engage in options transactions at that size. Nevertheless, the FLEX Equity Option minimum size is much smaller than that for FLEX Index Options. Accordingly, the Commission requests that the Exchanges monitor their respective comparative levels of institutional and retail investor open interest in FLEX Equity Options for one year from the commencement of their respective FLEX Equity Option trading programs, and each provide a report to the Commission's Division of Market Regulation with their findings.

The Commission notes that effective surveillance guidelines are essential to ensure that the Exchanges have the capacity to adequately monitor trading in FLEX Equity Options for potential trading abuses. The Commission's staff has reviewed CBOE's surveillance program and believes it provides a reasonable framework in which to monitor the trading of FLEX Equity Options on its trading floor and detect as well as deter manipulation activity and other trading abuses. The PSE is in the process of preparing its surveillance plan to submit to the Commission.

This approval order, in regard to the PSE, is contingent upon it submitting adequate surveillance plans that have been reviewed and approved by Commission staff.

The Commission notes that trading of FLEX Equity Options is contingent upon receipt by the Commission of a letter from OPRA indicating that it has adequate systems processing capacity to accommodate the additional options listed in accordance with the FLEX Equity Options program. OPRA has reviewed CBOE's request, and has concluded that the additional traffic generated by FLEX Equity Options traded on the CBOE is within OPRA's

capacity.⁴¹ The PSE is preparing to submit its request to OPRA to determine whether the additional traffic generated by FLEX Equity Options traded on the PSE is within OPRA's capacity. This approval order, in regard to the PSE, is contingent upon it submitting its OPRA Capacity Letter to the Commission's Division of Market Regulation.

The Commission finds good cause for approving CBOE Amendment No. 1 and PSE Amendment No. 2 prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, these amendments (1) set specific position limits for each tier of Non-FLEX Equity Option position limits; (2) require FLEX Post Officials to call upon FLEX Qualified Market-Makers to quote in response to a Request for Quotes, whenever no FLEX Quotes are made in response to a specific Request for Quotes; and (3) limit FLEX Equity Option transactions to equities that are the subject to Non-FLEX Equity Options traded on the Exchange. The Commission does not believe that the amendments raise any new or unique regulatory issues. The amendments also strengthen and clarify the proposal by addressing market impact and liquidity concerns as well as the scope of the proposal. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists, to approve CBOE Amendment No. 1 and PSE Amendment No. 2 to their respective proposals on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning CBOE Amendment No. 1, and PSE Amendment No. 2. 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for

inspection and copying at the principal offices of the Exchanges. All submissions should refer to SR-CBOE-95-43; and SR-PSE-95-24 and should be submitted by March 13, 1996.

VI. Conclusion

For the reasons discussed above, the Commission finds that the proposal is consistent with the Act and Sections 6 and 11A of the Act in particular. In addition, the Commission finds pursuant to Rule 9b-1 under the Act, that FLEX Options, including FLEX Equity Options, are standardized options for purposes of the options disclosure framework established under Rule 9b-1 of the Act.⁴²

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁴³ that the proposals (File Nos. SR-CBOE-95-43 and SR-PSE-95-24), as amended, are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴⁴

Margaret H. McFarland,
Deputy Secretary.

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Self-Regulatory Organizations; The Depository Trust Company; Order Approving a Proposed Rule Change to Allow Participants to Make Intraday Withdrawals of Principal and Income Payments

February 14, 1996.

On November 15, 1995, the Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-DTC-95-25) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ to allow participants to make intraday withdrawals of principal and income payments ("P&I payments"). Notice of the proposal was published in the Federal Register on January 17, 1996.² The Commission

⁴² 17 CFR 240.9b-1(a)(4). As part of the original approval process of the FLEX Options framework, the Commission delegated to the Director of the Division of Market Regulation the authority to authorize the issuance of orders designating securities as "standardized options" pursuant to Rule 9b-1(a)(4) under the Act. See Securities Exchange Act Release No. 31911 (February 23, 1993), 58 FR 11792 (March 1, 1993).

⁴³ 15 U.S.C. 78s(b)(2).

⁴⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 36686 (January 5, 1995), 61 FR 1199.

⁴¹ See Letter from Joe Corrigan, Executive Director, OPRA, to Andy Lowenthal, CBOE, dated January 26, 1996 ("OPRA Capacity Letter").