[Release No. 34–38213; File No. SR–CBOE–96–75]

January 28, 1997.

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to the Listing and Trading of Packaged Butterfly Spreads.

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 December 16, 1996, the (''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 Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to list for trading Packaged Butterfly Spreads based upon a broad-based index or indexes. A Packaged Butterfly Spread is a European-style option contract that replicates the behavior and payout of a butterfly spread composed of standard index option contracts. Initially, the proposed underlying indexes for the Packaged Butterfly Spreads are the S&P 100 and the S&P 500. The text of the proposed rule change is available at the Office of the Secretary, the Exchange, 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 Exchange included statements concerning the purpose of and basis for 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 Section (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The Exchange proposes to list for trading Packaged Butterfly Spreads based upon the S&P 100 index and the S&P 500 index. A Packaged Butterfly Spread is a packaged European-style option that replicates the behavior and payout of a butterfly spread[3] composed of standard index option contracts. A butterfly spread is a neutral strategy, *i.e.*, it is employed by one who thinks the underlying stock or index will not experience much of a net rise or decline by expiration. The Exchange proposes that the Packaged Butterfly Spreads on the S&P 100 and 500 indexes will have a multiplier of 100.[4] Because Packaged Spreads composed of puts are identical to those composed of calls the Exchange will not list both puts and calls; there will be only one option for each strike price and butterfly interval.

The Exchange believes Packaged Butterfly Spreads will provide advantages to the investing public that are not provided for by standard index options. First, the Exchange believes Packaged Butterfly Spreads offer investors, a relatively low risk security which results because Packaged Butterfly Spreads, by their nature, have a maximum gain and loss that can be realized regardless of the movement in the index level. Packaged Butterfly Spreads allow investors to profit from trendless markets with limited risk. Second, the ''packaging'' of a strategy of four option positions into one option product reduces transaction-related expenses because the investor will only have to enter into one transaction. Third, in the case of Packaged Butterfly Spreads overlying the S&P 100, the investor will have the opportunity to invest in an option product that has European-style exercise. Standard S&P 100 options (''OEX'') have American-style exercise. The Exchange expects Packaged Butterfly Spreads to be supported enthusiastically by market-makers because butterfly spread trading is a familiar strategy to professional traders and the Packaged Butterfly Spreads can be easily incorporated into the overall risk profile of the market-maker's trading strategy in standard index options.

The Exchange proposes to amend Rule 24.1 to describe the new product as well as the term ''butterfly spread interval''.

Position and Exercise Limits. The Exchange is proposing position limits for Packaged Butterfly Spreads overlying the S&P 100 of 100,000 contracts. Likewise, the Exchange is proposing position limits for Packaged Butterfly Spreads overlying the S&P 500 of 100,000 contracts. These position limits are consistent with the position limits that have been established for standard index options on the S&P 500 index. The exercise limits for Packaged Butterfly Spreads will be equal to the position limits set forth above in accordance with the terms of CBOE Rule 24.5.

Margin. With respect to margin, risk exposure is limited in Packaged Butterfly Spreads, and therefore, the maximum margin requirements should not exceed the maximum exposure amount which, for each Packaged Butterfly Spread option contract equals the spread interval times the index multiplier. The proposed amendments state that the maximum margin required for a Packaged Butterfly Spread option contract carried in a short position shall not exceed this maximum exposure amount. The rules will also provide that the required margin for a spread when the exercise price of the long call index option is greater than the exercise price of the short call index option where at least one leg of the spread is a CAPS or Packaged Butterfly Spread would be the lesser of (1) the difference in the aggregate exercise prices or (2) the cap interval or the butterfly spread interval as appropriate.

Listing of Series. The Exchange expects to list contracts having spread intervals of 30 points or some other appropriate value. Initially, the Exchange intends to list an at-the-money and various strikes around the at-the-money in the first two near-term months. New strikes will be added when the underlying trades through the highest or lowest strike available.

Settlement. The expiration date for Packaged Butterfly Spreads will be the Saturday immediately following the third Friday of the expiration month. Exercise will result in the delivery of cash on the business day following expiration. The exercise settlement amount is equal to the greater of (1) butterfly spread interval minus the difference between the index settlement value and the midpoint of the butterfly multiplied by the multiplier ($100), and (2) $0. Packaged Butterfly Spreads will have a European-style of exercise.

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

[2] 17 CFR 240.19b–4.

[3] A butterfly spread is a combination of four option positions and involves using three strike prices. For example, using only calls (a butterfly spread could also consist of a combination of puts and calls), a butterfly spread would consist of buying one call at the lowest strike price, selling two calls at the middle strike price and buying one call at the highest strike price. A butterfly spread might consist of one long December (expiration month) 670 (strike price) call option, two short December 700 call options, and one long December 730 call option.

[4] The Exchange in its original proposal erroneously proposed Packaged Butterfly Spreads with a multiplier of 500 in addition to the 100 multiplier. The Exchange intends to correct this error in a subsequent amendment. Telephone Conversation between Eileen Smith, CBOE and John Ayanian, Division of Market Regulation, Commission, on January 24, 1997.

Miscellaneous. CBOE will use the same surveillance methods it currently employs with respect to their broad-based index options.

CBOE has also been informed that the Options Price Reporting Authority recently added another outgoing high speed line from OPRA processor and thus, has the capacity to support the new series associated the listing of Packaged Butterfly Spreads.[5]

The Exchange believes that the proposal will provide investors with certain advantages over current products in the way of reduced transaction costs and risk reduction. The Exchange believes, therefore, that the proposal is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

The Exchange believes that the proposed rule change will impose no burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange 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

Interestd 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 in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 20549. 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–96–75 and should be submitted by February 25, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[6]

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34–38214; File No. SR–CBOE–96–76]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to the Listing and Trading of Vertical Spreads

January 28, 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 December 16, 1996, the (''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 Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The CBOE proposes to list for trading Vertical Spreads based on the S&P 100 and S&P 500 indexes. A Vertical Spread is a packaged European-style option which replicates the behavior and payout of a vertical spread composed of standard index option contracts. A Vertical Spread may have a multiplier of 100 (as with standard index option contracts overlying the S&P 100 and the S&P 500) or a multiplier of 500. The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for 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

The purpose of the proposed rule change is to amend Exchange rules to provide for the listing and trading of Vertical Spreads based upon the S&P 100 index and the S&P 500 index. A Vertical Spread is a packaged European-style option which replicates the behavior and payout of a vertical spread [3] composed of standard index option contracts. Vertical Spreads may have a multiplier of 100 (as with standard index options overlying the S&P 100 and the S&P 500) or a multiplier of 500.

The Exchange believes Vertical Spreads will provide advantages to the investing public that are not provided for by standard index options. First, the Exchange believes these Vertical Spreads offer investors a relatively low risk security where the risk reduction results because Vertical Spreads, by their nature, have a maximum gain and loss that can be realized regardless of the movement of the index level. In addition, with Vertical Spreads there is no early exercise risk. These options are the equivalent of standard vertical spreads (*i.e.*, the combination of one long and one short options position with the same expiration) traded as a single security. Second, the ''packaging'' of a strategy of two option positions into one option product reduces transaction-related expenses because the investor

[5] *See* Memorandum from Joe Corrigan, OPRA, to Eileen Smith, CBOE, dated November 21, 1996.

[6] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] A vertical spread is the combination of one long and one short options having the same expiration. A call vertical spread will have a lower strike price on the long option and a put spread will have a higher strike price on the long option. For example, a call vertical spread might consist of one long December (expiration month) 700 (strike price) call option and one short December 690 call option.