

take if the shares of an Index component became unavailable for trading, either due to a corporate action such as a takeover or merger, or due to bankruptcy. However, no distinction was made between this type of component change and a discretionary component change in the Dow Jones Industrial Average, in which the shares of a company removed from the DJIA continue to trade.

CBOE, therefore, proposes to clarify its maintenance procedures under which component changes can be made to the Index. Specifically, if it becomes necessary to remove a stock from the Index in the event that its shares cease to trade and a proxy for those shares is not available, it will be replaced by the stock in the DJIA that has the highest yield of the stocks not already in the Index. If a stock is removed from the DJIA at the discretion of Dow Jones, but its shares continue to trade, that stock will remain in the Index until the time of the annual re-balancing.

2. Statutory Basis

The CBOE believes the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) ⁴ of the Act in that it is designed to remove impediments to a free and open market and to protect investors and the public interest.

B. Self-Regulatory Organization's 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

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

III. Date of Effective of the Proposed Rule Change and Timing for Commission Act

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 person are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule is consistent with the Act. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change between 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 provision of 5 U.S.C. 552, will be available 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 CBOE. All submissions should refer to File No. SR-CBOE-99-60 and should be submitted by March 20, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority. ⁵

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42443; File No. SR-CBOE-99-27]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to Customer Communications

February 18, 2000.

I. Introduction

On June 18, 1999, 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 ("Act") ¹ and Rule 19b-4 ² thereunder, a proposed rule change. In its proposal, CBOE seeks to permit the use of non-standardized worksheets in

customer communications. Notice of the proposal was published in the **Federal Register** on December 8, 1999.³ The Commission received no comment letters on the filing and this order approves the proposal.

II. Description of the Proposal

CBOE proposes to amend Exchange Rule 9.21 ("*Communications to Customers*"), which governs communications between Exchange members and their customers and other members of the public, to eliminate the requirement that standard forms of options worksheets be uniform within a member organization (*i.e.*, for specific types of options and strategies). Following the recommendations of the Commission's Special Study of the Options Market,⁴ the options exchanges amended their rules to require uniform options worksheets. In 1991, the options exchanges further amended and clarified their rules by publishing the *Guidelines for Options Communications* ("*Guidelines*"),⁵ which explained the customer communications rules of the options exchanges and the interpretations of these rules. Among other things, the Guidelines helped clarify the options exchanges' rules about using options worksheets and stated, in part, that "[s]tandard forms of worksheets must be uniform within a particular member organization. * * *" CBOE now proposes to remove this requirement.

CBOE notes that the proposal will allow a member organization or its associated person to tailor worksheets to specific prospective or existing clients, to utilize worksheets that may be commercially available, or to use Exchange or other industry developed worksheets. Member organizations may still decide to require within their written supervisory procedures that options worksheets be standardized within their respective organizations. However, CBOE states that worksheets will continue to be subject to the content and approval requirements of material deemed sales literature, as required by existing Exchange Rule 9.21.

³ See Securities Exchange Act Release No. 42186 (November 30, 1999), 64 FR 68707.

⁴ See Report of the Special Study of the Options Market, Chapter V, page 130 (December 22, 1978); Securities Exchange Act Release No. 15575 (Feb. 22, 1979) (Order implementing certain recommendations contained in the Commission's Special Study of the Options Market).

⁵ See Securities Exchange Act Release No. 29682 (September 13, 1991), 56 FR 47973 (September 23, 1991) (File Nos. SR-Amex-90-38; SR-CBOE-90-27; SR-NASD-91-02; SR-NYSE-90-51; and SR-PSE-90-41).

¹ 17 CFR 200.30-3(a)(12).

² 15 U.S.C. 78s(b)(1).

³ 17 CFR 240.19b-4.

⁴ 15 U.S.C. 78f(b)(5).

III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act.⁶ In particular, the Commission finds the proposal is consistent with Section 6(b)(5)⁷ of the Act. Section 6(b)(5) requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade and to protect investors and the public interest.

The Commission believes that the proposal is consistent with the Act because it provides flexibility to CBOE member firms while still providing for investor protection. In particular, the proposal provides flexibility to CBOE members and their associated persons by allowing them to create options worksheets that match the investment objectives of their clients. At the same time, however, the proposal provides for investor protection by continuing the requirement that a registered options principal first approve the worksheet before its use.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (SR-CBOE-99-27) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42442; File No. SR-CHX-99-24]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to Price Improvement for Securities That Trade in Minimum Variations of 1/64th of \$1.00

February 18, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice hereby is given that on October 20, 1999, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") filed with the Securities and Exchange

Commission (the "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 Items of Substance of the Proposed Rule Change

The Exchange proposes to amend CHX Rule 37, Article XX, governing price improvement, to add an algorithm providing for price improvement in the case of issues trading in minimum variations of 1/64th of \$1.00. Specifically, the Exchange proposes to amend Article XX, Rule 37, adding section 37(g). The text of the proposed rule change is as follows: Additions are *italicized*.

ARTICLE XX

Regular Trading Sessions

* * * * *

Guaranteed Execution System and Midwest Automated Execution System Rule 37.

(g) *Derivative SuperMAX*
Derivative SuperMAX shall be a voluntary automatic execution program within the MAX System. Derivative SuperMAX shall be available for securities that trade on the Exchange in minimum price variations of 1/64th of \$1.00. A specialist may choose to enable this voluntary program within the MAX system on a security-by-security basis. If Derivative SuperMAX has been enabled for a particular security and the maximum order has been set at an amount that is less than or equal to 599 shares (or such greater amount designated by the specialist and approved by the Exchange), Derivative SuperMAX shall be automatically enabled. If the security is eligible for Derivative SuperMAX and the specialist in such security has chosen to engage Derivative SuperMAX for such security, all small agency market orders in that security will automatically be executed in accordance with the Derivative SuperMAX algorithm set forth below. For purposes of this subsection (g), the term "small agency market order" shall mean an agency order from 100 shares up to and including 599 shares (or such greater amount designated by the specialist and approved by the Exchange).

(1) Pricing.

(a) *If a small agency market order to buy or sell is received in a security in which Derivative SuperMAX is enabled, such order shall be executed at the ITS Best Offer (for a buy order) or the ITS*

Best Bid (for a sell order) if (i) the spread between the ITS Best Bid and the ITS Best Offer in such security at the time the order is received is less than 1/64th of a point, or (ii) the order does not meet the criteria set forth in (b) below.

(b) *If a small agency market order to buy or sell is received in a security in which Derivative SuperMAX has been enabled, and the spread between the ITS Best Bid and the ITS Best Offer in such security at the time the order is received is greater than or equal to 1/64th of a point, such order shall be executed at 1/64th of a point lower than the ITS Best Offer (for a buy order) or 1/64th of a point higher than the ITS Best Bid (for a sell order).*

(2) Operating Time.

Derivative SuperMAX will operate each day that the Exchange is open for trading from 8:45 a.m. (Central Time) until the close of a Primary Trading Session. A specialist may enable or remove Derivative SuperMAX for a particular security only on one given day each month, as determined by the Exchange from time to time.

Notwithstanding the previous sentence, during unusual market conditions, individual securities or all securities may be removed from Derivative SuperMAX with the approval of two members of the Committee on Floor Procedure.

(3) Timing.

Orders entered into Derivative SuperMAX shall be immediately executed (i.e., without any delay) upon completion of the algorithm.

(4) Other.

Any eligible order in a security included in Derivative SuperMAX, which is manually presented at the specialist post by a floor broker must also be guaranteed an execution by the specialist pursuant to the criteria set forth in (1) above. In the event that a contra side order which would better a Derivative SuperMAX execution is presented at the post, the incoming order which is executed pursuant to the Derivative SuperMAX criteria must be adjusted to the better price.

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 and discussed any comments it received regarding 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

⁶ In addition, pursuant to Section 3(f) of the Act, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19-4.