

impediments to and perfect the mechanism of a national market system.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²³ that the proposed rule change (SR-BSE-94-12) is approved on a pilot basis until December 31, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁴

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35178; File No. SR-CBOE 94-34]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Establishment of Uniform Listing and Trading Guidelines for Stock Index and Currency Warrants

December 29, 1994.

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 September 29, 1994, 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 self-regulatory organization. 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 adopt rules governing stock index and currency warrants.³ On December 21, 1994, the CBOE amended certain surveillance related matters addressed in the filing. (See footnote 6 *infra*.)

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 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

On October 19, 1990, the Commission approved SR-CBOE-90-08 authorizing the Exchange to list and trade stock, warrants and other securities.⁴ This filing proposes rules governing customer protection and margin requirements for stock index warrants, currency index warrants and currency warrants and position limits for stock index warrants. This filing incorporates the results of numerous communications with the Commission staff and other exchanges, including comments contained in a letter from Sharon Lawson to Joanne Moffic-Silver dated January 28, 1993 ("Lawson letter"). This filing also makes certain changes in the listing criteria for stock index and currency warrants and makes clear that certain rules applicable to currency warrants would apply equally to currency index warrants.

Position Limits. The Exchange is proposing position limits for stock index warrants that, in general, are approximately 75%, in terms of underlying dollar value, of the current position limits for index options. Existing Exchange Rule 4.13, Reports Related to Position Limits, and Rule 4.14, Liquidation of Positions, are made applicable to transactions in stock index warrants.

Customer Protection. Modifications are proposed to Exchange Rule 30.50, Doing Business With the Public, to incorporate references to proposed new Rule 30.52. In addition, Interpretation .02 is being deleted as unnecessary in that, subject to certain "grandfather" provisions identified below, rules applicable to domestic index warrants will apply equally to warrants on foreign indexes.

Proposed new Rule 30.52, Special Requirements for Stock Index Warrants, Currency Index Warrants and Currency Warrants, sets out various customer protection rules applicable to stock index, currency index and currency warrants. In addition to the rules actually set forth therein, Rule 30.52 makes the following existing options customer protection rules applicable to stock index, currency and currency index warrants.

Rule 9.2 Registration of Options

Principals

Rule 9.6 Registration of Branch Offices

Rule 9.7 Account Approval

Requirements

Rule 9.8 Supervision Requirements

Rule 9.9 Suitability Requirements

Rule 9.10 Discretionary Account

Requirements

Rule 9.21 Requirements for Customer Communications

Rule 9.23 Record-keeping

Requirements for Customer

Complaints

Margin. The Exchange's proposed margin requirements for customers having positions in index warrants, currency index warrants and currency warrants are included in proposed new Rule 30.52. In general, the proposed margin requirements for long and short positions in stock index warrants and currency index warrants are the same as margin requirements for positions in stock index options and the margin requirements for long and short positions in currency warrants are the same as those for currency options. CBOE believes that such requirements are more appropriate than applying stock margin treatment to such warrants.

CBOE's proposed margin rule also follow the proposals of the other exchanges in providing spread margin offsets between offsetting warrants and between warrants and listed options on the same underlying interest and providing special margin treatment for "covered writing positions" (*i.e.*, "short" stock index warrant positions covered by positions in all the stocks comprising the index).⁵ Nevertheless, CBOE believes that a broker-dealer carrying such positions must bear in mind that special characteristics of warrants—such as pricing differences, the necessity of borrowing to make

⁵ Although the Exchange has conformed its proposed rule to those of other exchanges by including these provisions giving special margin treatment to covered writing positions, the Exchange strongly believes that such provisions should not be approved for any exchange unless the Commission concurrently approves the same margin treatment for covered writing of stock index call options and stock index put options.

²³ 15 U.S.C. 78s(b)(2) (1988).

²⁴ 17 CFR 200.30-3(a)(12) (1991).

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1991).

³ Currency warrants, as used in this filing, may refer to warrants on individual currencies (or cross currencies) or to warrants on a specific currency index group ("currency index warrants.")

⁴ Securities Exchange Act Release No. 28556, 55 FR 43233 (Oct. 26, 1990).