

the potential risk to the public was significantly reduced and the range of credible accidents and accident consequences for YNPS were limited for the currently configured shutdown and defueled condition. The maximum credible accident for this facility is associated with the Spent Fuel Pit; specifically, a fuel cask handling accident.

The NRC staff has independently calculated the offsite doses resulting from such a fuel handling accident using the assumptions and parameters in the NRC Standard Revised Plan, the Final Safety Analysis Report (FSAR), and the licensee's submittals of May 22, 1992, and July 2, 1992. The staff's analysis indicates that at the exclusion area boundary, the whole body dose, the thyroid dose, and the skin dose are a small fraction of the Environmental Protection Agency's (EPA) Protective Action Guides (PAGs). The licensee's calculations also show that these doses at the exclusion area boundary are a small fraction of the EPA PAGs. Under the general guidelines defining emergency classifications in NUREG-0654/FEMA-REP-1, Revision 1, "Criteria for Preparation and Evaluation of Radiological Emergency Response Plans and Procedures in Support of Nuclear Power Plants," dated November 1980, for an accident of this nature, the level of severity would not reach a point where offsite protective actions would be warranted. Based on the permanently shut down and defueled status of the facility, the configuration of the stored fuel, and the length of time since power operation, the staff concludes that the YAEC will be fully capable of responding effectively to the spectrum of credible accidents using the proposed DEP.

The NRC staff has reviewed the DEP based on the planning standard of 10 CFR 50.47(b), the requirements of appendix E to 10 CFR part 50, and the guidance criteria of NUREG-0654, taking into consideration the current plant status and inherent low risk posed by the YNPS. The staff also reviewed the DEP using the requirements of 10 CFR 50.47(d) for a license authorizing only fuel loading and low power testing; these requirements address the decreased risk associated with low power operation and are generally appropriate for reviewing the offsite aspects of the DEP.

Based on this review, the Commission has concluded that the YNPS DEP provides an acceptable emergency preparedness program for the YNPS in its permanently shut down status, and the plan provides reasonable assurance

that adequate protective measures can and will be taken in the event of a radiological accident at the YNPS.

Therefore, an exemption from 10 CFR 50.54(q), which incorporates by reference the standards of 10 CFR 50.47(b) and the requirements of appendix E, would allow YAEC to discontinue offsite planning activities and reduce the scope of its onsite response. The licensee identified the actions that they will take to implement the still applicable portions of the planning standards of 10 CFR 50.47(b) and requirements of appendix E in their DEP.

The Commission will not consider granting an exemption unless special circumstances are present. In the licensee's letter of July 2, 1992, these special circumstances were addressed as follows:

10 CFR 50.12(a)(2)(ii)—"Application of the regulation in the particular circumstances would not serve the underlying purpose of the rule."

Licensee's response: The degree of emergency planning and preparedness necessary to provide adequate protection of the public health and safety in a permanently shutdown and defueled condition is significantly less than that provided by the existing Emergency Plan. * * * Therefore, requiring YAEC to comply with the full range of emergency preparedness requirements specified in 10 CFR 50.47(b) and 10 CFR 50, appendix E is not necessary to achieve the underlying purpose of the rule.

10 CFR 50.12(a)(2)(iii)—"Compliance would result in undue hardship or other costs that are significantly in excess of those contemplated when the regulations were adopted."

Licensee's response: Compliance with the regulations presents an undue hardship to YAEC in that it requires expenditures in excess of those contemplated when the regulation was adopted. * * * The regulation was established for power operation conditions because such conditions could result in the potential for an accident with off-site consequences.

IV

The staff, based on its independent evaluation, agree with the licensee's analyses and concludes that sufficient bases have been presented for our approval of the exemption request. In addition, the staff finds that there are special circumstances presented that satisfy the requirements of 10 CFR 50.12(a)(2) (ii) and (iii).

V

Based on our Safety Evaluation, the Commission has determined that pursuant to 10 CFR 50.12(a)(1), this exemption is authorized by law, will not present an undue risk to the public

health and safety, and is consistent with the common defense and security.

Accordingly, the Commission hereby grants an exemption to the portions of 10 CFR 50.54(q) that apply to operating plants. The exemption will become effective when the YAEC implements its DEP. "Implementation" is defined as completion of all needed procedures and training of personnel.

Pursuant to 10 CFR 51.32, the Commission has determined that the granting of this exemption will not have a significant effect on the quality of the human environment (57 FR 46885, dated October 13, 1992).

This exemption will become effective when the Defueled Emergency Plan is implemented, as discussed above.

For the Nuclear Regulatory Commission,
Dated at Rockville, Maryland, this 30th day of October 1992.

Brian K. Grimes,
Director, Division of Operating Reactor Support, Office of Nuclear Reactor Regulation.

[FR Doc. 92-26866 Filed 11-4-92; 8:45 am]

BILLING CODE 7590-01-M

Postal Rate Commission

[Docket No. MC93-1]

United States Postal Service's Request for a Recommended Decision on the Establishment of a Classification and Rates for a Bulk Small Parcel Service and Motion for Adoption of Special Rules of Procedure, and Order Designating Officer of the Commission and Setting Dates for Intervention and Responses to Motion; Notice

Before Commissioners: George W. Haley, Chairman; Henry R. Folsom, Vice-Chairman; John W. Crutcher; W. H. "Trey" LeBlanc, III; H. Edward Quick, Jr.
October 30, 1992.

Notice is given that on October 28, 1992, the United States Postal Service, pursuant to chapter 36 of title 39 of the United States Code, filed a request with the Postal Rate Commission for a Recommended Decision on establishing a new class of mail for bulk small parcels. Pieces mailed under this classification would have to meet the following requirements: (1) Minimum of 300 pieces per mailings (except for pieces being returned), (2) maximum weight of five pounds per piece, (3) maximum size per piece of one-third of a cubic foot, (4) no dimension exceeding 24 inches, (5) prebarcoding, automation compatibility and machinability, and (6) presortation to the BMC (Bulk Mail Center) level. The Postal Service

anticipates the class to be used predominantly by firms shipping merchandise to customers.

The Postal Service proposes a per-piece/per-pound rate schedule, with lower rates for pieces remaining within the BMC or SCF (Sectional Center Facility) area in which they are entered, as well as a lower rate for presort to 5-digit ZIP Code areas. The proposed rates are as follows:

Inter-BMC Rates:	
Per Piece.....	63.9¢
Per Pound.....	54.1
Intra-BMC Rates:	
Per Piece.....	63.9
Per Pound.....	44.8
Destination SCF Rates (5-digit presort required):	
Per Piece.....	48.9
Per Pound.....	42.5
Return Rates:	
Per Piece.....	90.3
Per Pound.....	53.6
5-digit Presort Discount (available to Inter- and Intra-BMC):	
Per Piece.....	15.0

There would be no additional charge for forwarding. The original mailer would be offered the option of endorsing the piece so that it would be returned under the rates for this new class with the original mailer, rather than the intended recipient, paying the postage. Current address correction and merchandise return services would be available.

The proposal was accompanied by the filing of direct testimony of five witnesses for the Postal Service. The testimony includes a discussion of costs and rate development, the application of the statutory criteria said to support the proposal, the projected effects on postal revenues and costs, estimates of potential volume conversion to the new class, and the potential benefits to the users of this service.

Intervention

Persons desiring to participate as a party should file a notice of intervention with the Secretary of the Commission within 21 days of the publication of this Notice and Order in the *Federal Register*, in accordance with section 20 of the Commission's rules of practice (39 CFR 3001.20). Notices of intervention shall affirmatively state whether the person filing requests a hearing, or in lieu thereof, a conference; whether such person intends to participate actively in a hearing; and shall set forth the nature of such person's interest in the issues, to the extent such interest is known. Persons seeking limited participation, but not party status may, by that same

date, file a written notice of intervention as a limited participant, pursuant to section 20a of the rules of practice (39 CFR 3001.20a). In addition, persons wishing to express their views informally, but not to become a party or limited participant, may file comments pursuant to section 20b of the rules of practice (39 CFR 3001.20b).

Officer of the Commission

The Officer of the Commission charged with representing the interests of the general public in this docket, in accordance with 39 U.S.C. 3624(a) is Stephen A. Gold, Director of the Commission's Office of the Consumer Advocate. During this proceeding, he will direct the activities of the Commission personnel assigned to assist him and neither he nor such personnel will participate in, nor advise as to any Commission decision in accordance with 39 CFR 3001.8. The Officer of the Commission shall supply for the record, at the appropriate time, the names of all Commission personnel assigned to assist him in this case.

In this case the Officer of the Commission shall be separately served with three copies of all filings, in addition to and simultaneously with service on the Commission of the 25 copies required by section 10(c) of the rules of practice (39 CFR 3001.10(c)).

Postal Service Motion for Expedited Treatment Under Special Rules

At the same time it filed its Request with the Commission, the Postal Service mailed a Notice of this filing along with a Motion to every participant of record in the Commission's Docket Nos. R90-1 (the most recent omnibus rate case) and RM91-1 (a rulemaking to explore methods of improving the Commission's procedures). The Postal Service's Notice described how interested persons could obtain copies of its Request and supporting documents.

In its Motion, the Postal Service asserts that the Commission should consider this Request under special rules, and attached a copy of them to its Motion. The recent Report of the Joint Task Force on Postal Rate-making, Postal Rate-making in a Time of Change suggested developing rules for expedited consideration of new service offerings where the proposed classification is not to remain in effect for more than five years (in the absence of a subsequent filing for permanent rates and classification).

The Postal Service's proposed special rules provide the specific deadlines and schedules for an expedited proceeding. The Postal Service requests that its

Motion be considered early in the proceeding, and suggests that responses be due by the end of the intervention period. We have decided to provide a longer period for intervention than suggested by the Postal Service. Parties have 21 days from the publication of this Notice and Order in the *Federal Register* to intervene.

We are setting that date as the time for responses to the Postal Service's Motion. It would be helpful if, in addition to commenting on the feasibility of the Postal Service's proposed special rules of practice and suggested procedural schedule, parties would address the issue of whether this case meets the guidelines set out by the Task Force for expedited proceedings for innovations. The Commission would also find helpful the parties' views on the consistency of the proposed special rules with their due process rights. It would also be helpful if the parties could provide information, to the extent possible at this time, on the scope and amount of discovery they anticipate, as well as the scope and amount of direct testimony they can foresee filing. The Commission is also interested in parties' views on potential migration of volume from existing services and whether the proposal truly fits the description of a new service offering.

Replies to the responses to the Motions are due seven days after the final date for responses.

The Commission Orders

(A) Notices of intervention as full or limited participants in this docket shall be sent to Charles L. Clapp, Secretary, Postal Rate Commission, 1333 H Street, NW., suite 300, Washington, DC 20268-0001 within 21 days of the publication of this Notice and Order in the *Federal Register*.

(B) Responses to the Postal Service's Motion for adoption of special rules of procedure in this case are due within 21 days of the publication of this Notice and Order in the *Federal Register*.

(C) Replies to the responses to the Postal Service's Motion for adoption of special rules of procedure in this case are due seven days after the last day for the filing of the responses.

(D) Stephen A. Gold is appointed Officer of the Commission to represent the interests of the general public in this proceeding.

(E) The Secretary of the Commission will have this Notice and Order published in the *Federal Register*.

By the Commission.

Charles L. Clapp,

Secretary.

[FR Doc. 92-26823 Filed 11-4-92; 8:45 am]

BILLING CODE 7710-FW-M

RAILROAD RETIREMENT BOARD

Agency Forms Submitted for OMB Review

SUMMARY: In accordance with the Paperwork Reduction Act of 1980 (44 U.S.C. chapter 35), the Railroad Retirement Board has submitted the following proposal(s) for the collection of information to the Office of Management and Budget for review and approval.

Summary of Proposal(s)

- (1) *Collection title:* Canadian Unemployment and Sickness Benefit Information.
- (2) *Form(s) submitted:* UI-62.
- (3) *OMB Number:* 3220-0074.
- (4) *Expiration date of current OMB clearance:* Three years from date of OMB approval.
- (5) *Type of request:* Extension of the expiration date of a currently approved collection without any change in the substance or in the method of collection.
- (6) *Frequency of response:* On Occasion.
- (7) *Respondents:* Individuals or households.
- (8) *Estimated annual number of respondents:* 25.
- (9) *Total annual responses:* 1.
- (10) *Average time per response:* .04 hours.
- (11) *Total annual reporting hours:* 1.
- (12) *Collection description:* The collection obtains from a claimant information needed to avoid payment of unemployment and sickness benefits by the RRB and the Canadian social insurance system for the same period of unemployment or sickness.

ADDITIONAL INFORMATION OR

COMMENTS: Copies of the form and supporting documents can be obtained from Dennis Eagan, the agency clearance officer (312-751-4693). Comments regarding the information collection should be addressed to Ronald J. Hodapp, Railroad Retirement Board, 844 N. Rush Street, Chicago, Illinois 60611-2092 and the OMB reviewer, Laura Oliven (202-395-7316), Office of Management and Budget, room 3002, New Executive Office Building, Washington, DC 20503.

Dennis Eagan,

Clearance Officer.

[FR Doc. 92-26879 Filed 11-4-92; 8:45 am]

BILLING CODE 7905-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-31382; File No. SR-CBOE-92-02]

Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Filing of Amendments to and Order Granting Accelerated Approval of a Proposed Rule Change Relating to the Listing and Trading of Options on the Russell 2000 Index

October 30, 1992.

I. Introduction

On January 21, 1992, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposal to list and trade European-style³ options on the Russell 2000 Index ("Russell 2000" or "Index"), a capitalization-weighted index of domestic equities traded on the New York Stock Exchange ("NYSE"), American Stock Exchange ("Amex") and the National Association of Securities Dealer's ("NASD") Automated Quotation System ("NASDAQ"). This order approves the CBOE's proposal.

The proposed rule change was noticed for comment in Securities Exchange Act Release No. 30329 (February 3, 1992), 57 FR 4782. No comments were received on the proposed rule change.

Subsequently, the CBOE submitted five amendments to the proposal. Amendment No. 1, filed on February 14, 1992, modifies Exchange Rule 24.9 to allow the listing of capped-style options on the Russell 2000 ("Russell 2000 CAPS").⁴ Specifically, Amendment No. 1

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1991).

³ A European-style option may be exercised only during a specified period before the option expires.

⁴ A capped option is an option that will be exercised automatically prior to expiration if the exercise settlement value (determined for each trading day as of the close of trading) for the option on any trading day equals or exceeds (in the case of calls) or equals or is less than (in the case of puts), the cap price for the option. The cap price is the value of the index underlying a series of capped options at which the options in the series will be exercised automatically. Accordingly, the cap price is above the exercise price (i.e., strike price) for calls and below the exercise price for puts. The difference between the strike price and the cap price is equal to the "cap interval." Upon automatic exercise of a capped option, the holder receives a cash settlement amount equal to the cap interval times the multiplier for the option. The holder of a capped option never receives a cash settlement amount greater than the cap interval times the index multiplier; thus the cap price establishes a maximum pre-defined value for the capped options.

proposes a \$20 cap interval for Russell 2000 CAPS and an initial listing of one at-the-money put and call Russell 2000 CAP with an expiration of up to one year. Additional at-the-money series may be listed every two months and, for series with expirations three or more months out, additional series may be listed following a 10-point move in the Index.

Amendment No. 2, filed on April 7, 1992, modifies Exchange Rule 24.14 to include a disclaimer for the Frank Russell Company ("Frank Russell"), the creator of the Index, with regard to the Index.

Amendment No. 3, filed on April 22, 1992, modifies Exchange Rule 24.9 (a)(3) to provide for European-style exercise for Index options. In addition, in Amendment No. 3 the CBOE seeks authorization to list long term options ("LEAPS")⁵ with expirations from 12 to 36 months after listing, on either the full or reduced value (1/10th of the Index) Russell 2000. Strike price interval, bid/ask differential and price continuity rules will not apply to LEAPS until their time to expiration is less than 12 months. The Exchange proposes position limits for Index options equal to 50,000 contracts on the same side of the market, with no more than 30,000 of such contracts in series with the nearest expiration month. Positions in reduced value Index options shall be aggregated with positions in full value Index options, with ten reduced value contracts equal to one full value contract. For reduced value LEAPS, the current and closing Index value would be computed by dividing the Index value by 10 and rounding the resulting figure to the nearest one-hundredth (.004 and below would be rounded down to .00 and .005 and above would be rounded up to .01). For example, an Index value of 175.46 would become 17.55 for the reduced value LEAPS and an Index

If the Index fails to reach the cap price during the life of the capped option, the option becomes European-style on the last business day before expiration. Due to their characteristics, long capped call options resemble vertical bull spreads (i.e., the combination of one long and one short call position with the same expiration but where the strike price of the short call is higher than the strike price of the long call), except that the capped options achieve the spread position in one transaction. Conversely, long capped put options closely resemble vertical bear spreads (i.e., the combination of one long put and one short put position with the same expiration, but where the strike price of the short put is lower than the strike price of the long put), except that the capped options achieve the spread position in one transaction. See Securities Exchange Act Release No. 29805 (October 28, 1991), 56 FR 56255 (order approving File No. SR-CBOE-91-24).

⁵ LEAPS is an acronym for Long-Term Anticipation Securities.

value of 175.43 would become 17.54. The reduced Index value would be continuously calculated and disseminated. Other than the reduced value, all Index specifications and calculations would remain the same. Reduced value LEAPS may expire at six-month intervals and, when a new expiration month is listed, series may be near or bracketing the current reduced Index value. Additional series may be added when the value of the underlying Index increases or decreases by 10 to 15%.

Amendment No. 4, filed on September 10, 1992, amends Exchange Rule 24.9 (e) to provide that the exercise settlement value for Index options shall be based on an Index value derived from opening prices on the last day of trading prior to expiration (normally a Friday). The proposal also provides that the last day of trading for expiring Index options shall be the day preceding the last day of trading in the underlying securities prior to expiration (normally a Thursday).⁶

Amendment No. 5, filed on October 13, 1992, provides that strike price intervals for Index options will be no less than \$5.00 when the Index is above a level of 200.00.⁷

II. Description of the Proposal

A. General

The CBOE proposes to list and trade options on the Russell 2000, Russell 2000 CAPS, and full and reduced value Russell 2000 LEAPS. The Russell 2000 is a capitalization-weighted index developed by Frank Russell and composed of the bottom 2000 of the 3000 largest U.S. equity securities in terms of domestic market capitalization. The Index is designed to track the performance of the domestic small to mid-sized capitalization market. Unlike the Standard & Poor's ("S&P") indexes, the Russell 2000 is adjusted for cross ownership, i.e., a company's weighing is determined after deducting the net capitalization value of securities held by other companies or corporate insiders.

⁶ The CBOE also has proved additional data concerning the composition and design of the Index. See letter from Joseph Levin, Vice President, Research, CBOE, to Howard Kramer, Assistant Director, SEC, dated April 27, 1992, and letter from Joseph Levin, Vice President, Research, CBOE, to Thomas R. Gira, Branch Chief, Options Regulation, Division of Market Regulation ("Division"), Commission, dated September 25, 1992 ("CBOE Letter").

⁷ See letter from Joseph Levin, Vice President, CBOE, to Thomas R. Gira, Branch Chief, Options Regulation, Commission, dated October 8, 1992 ("October 8 Letter").

B. Composition of the Index

Currently, 551 stocks in the Index trade on the NYSE, 219 trade on the Amex, 1218 are National Market System ("NMS") securities traded through the facilities of the NASD's NASDAQ system, and one stock is a non-NMS security traded on NASDAQ.⁸ As of August 31, 1992, 96 industries were represented in the Index⁹ and the total capitalization of the Index was approximately \$298.2 billion. The mean and median capitalization figures for the 2000 stocks on that date were \$150 million and \$113 million, respectively. The value of trading of the Index-component stocks over the previous six months averaged approximately \$45 million daily, with a median value of \$64.4 million per day. The Index's most highly capitalized stock, Lennar Corp., accounted for 0.195% of the Index, the top 100 stocks in the Index comprised 14.72% of the total Index capitalization, and the bottom 100 stocks accounted for 1.13% of the total Index capitalization. The lowest capitalized stock, RCM Technologies, represented .0015% of the total Index capitalization.¹⁰

C. Calculation of the Index

Under the proposal, Bridge will calculate the Index every 15 seconds during the trading day and the CBOE will disseminate this information to the Options Price Reporting Authority ("OPRA"). OPRA, in turn, will disseminate the Index value to other financial information vendors such as Reuters, Telerate and Quotron.

As a capitalization-weighted index, the Russell 2000 reflects changes in the capitalization (market value) of the component stocks relative to the capitalization on base date. The current Index value is calculated by adding the market values of the Index's component stocks, which are derived by multiplying the price of each stock by the number of shares outstanding, to arrive at the total market capitalization of the 2000 stocks. The total market capitalization of the 2000 stocks is then divided by a divisor, which represents the "adjusted" capitalization of the Index on the base

date of December 31, 1986. To calculate the Index, last sale prices will be used for exchange-traded and NASDAQ stocks.¹¹ If a component stock is not open for trading, the most recently traded price for that security will be used in calculating the Index. In order to provide continuity for the Index's value, the divisor is adjusted periodically to reflect such events as changes in the number of common shares outstanding for component stocks, company additions or deletions, corporate restructurings and other capitalization changes.

The Index value for purposes of settling outstanding Index options contracts upon expiration will be calculated based upon the regular way opening sale prices for each of the Index's component stocks in their primary market on the last trading day prior to expiration.¹² In the case of securities traded through the NASDAQ system, the first reported sale price will be used. Once all of the component stocks have opened, the value of the Index will be determined and that value will be used as the settlement value for the options. If any of the component stocks do not open for trading on the last trading day before expiration, then the prior trading day's (i.e., Thursdays) last sale price will be used in the Index calculation. In this regard, before deciding to use Thursday's closing value of a component stock for the purpose of determining the settlement value of the Index the CBOE will wait until the end of the trading day on expiration Friday.¹³

D. Maintenance of the Index

The Index will be maintained by Frank Russell, which provides asset management consulting services to institutional investors. The Index's component securities are adjusted annually, as of the last trading day of May, to reflect changes in capitalization rankings and shares available. At that time, the largest 3000 U.S. securities are ranked in descending order and the

¹¹ *Id.* But see *infra* notes 12 and 13 and accompanying text, on the use of opening sale prices to calculate the final settlement value of the Index.

¹² The last trading day prior to expiration is the third Friday of the expiration month. Because opening value will be used, the last full trading day for the Index options will be the Thursday prior to expiration. For a more detailed discussion of the trading days for the Index options, see *infra* Section II, E.

¹³ For purposes of the daily dissemination of the Index value, if a stock included in the Index has not opened for trading, the CBOE will use the closing value of the stock on the prior trading day when calculating the value of the Index, until the stock opens for trading.

⁸ See CBOE Letter, *supra* note 6. Real-time last sale reporting recently has been extended to all securities traded over NASDAQ. However, NASDAQ/NMS securities, among other things, are subject to higher listing standards.

⁹ Among others, the industry groups represented in the Index include: banks (9.7%), computer services (4.1%), pharmaceuticals (4.3%), electronics (3.7%), hospital supplies (3.4%), insurance (4.1%), office and business equipment (3.4%), real estate (2.5%), retailing (5.8%), services (8.2%), and utilities (5.2%). See CBOE Letter, *supra* note 6.

¹⁰ *Id.*

composition of the Index is updated to incorporate the stocks ranked between 1,001 and 3,000. The reconfiguration of the Index is effective as of the last day of June. Replacements are made strictly on the basis of market capitalization, as adjusted for cross ownership (i.e., if a component stock increases significantly in value it may be deleted from the 2000 and added to the 1000 during the next reconstitution).¹⁴ If a stock ceases to trade as a result of a merger or acquisition during the year, the stock is deleted from the Index and replaced during the subsequent annual recapitalization. No interim replacements are made. If a stock is deleted, however, there will be a corresponding change to the Index divisor to ensure that the continuity of the Index value is maintained. The 55 stocks deleted from the Index between July 1991 and February 1992 were replaced during the June 1992 reconstitution.¹⁵

E. Contract Specifications

The proposed options on the Index will be cash-settled, European-style options. Standard options trading hours (8:30 a.m. to 3:15 p.m. Central Standard Time) will apply to the contracts. The Index multiplier will be 100. The CBOE proposes to use strike price intervals of 2½ points for Russell 2000 Index options and full value and reduced value Russell 2000 LEAPS when these Indexes are below a level of 200.00.¹⁶ When these Indexes are above a level of 200.00, the CBOE plans to use strike price intervals of no less than \$5.00.¹⁷ In addition, pursuant to CBOE Rule 24.9, there will be six expiration months outstanding at any give time. Specifically, there will be three expiration months from the March, June, September, and December cycle plus three additional near-term months so that the three nearest term months will always be available. For Russell 2000 LEAPS, which expire from 12 to 36 months after listing, the CBOE may list up to six additional expiration months.

The options on the Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). Accordingly,

since options on the Index will settle based upon opening prices of the component stocks on the last trading day before expiration (normally a Friday), the last trading day for an expiring Index option series will normally be the second to the last business day before expiration (normally a Thursday).

In addition, for capped-style Index options, the CBOE proposes a cap interval of \$20. Initially, the CBOE plans to list one at-the-money call and put Russell 2000 CAP with expirations of up to one year into the future. Additional series may be listed every two months, and series may be added to expiration months with three or more months remaining if there is a move of 10 points or greater in the Index.

Finally, the Exchange proposes to make Russell 2000 options eligible for automatic execution through the Exchange's Retail Automatic Execution System ("RAES"). If available for a particular series, the RAES order eligibility size limit will be ten contracts.

F. Position and Exercise Limits, Margin Requirements, Trading Halts and Other Applicable Exchange Rules

Under the proposal, the requirements contained in Chapter XXIV of the Exchange Rules that are applicable to the trading of options on broad-based indexes will apply to the trading of options on the Index. Specifically, among others, Exchange rules governing margin requirements¹⁸ and trading halt procedures¹⁹ will apply to Russell 2000 options. In addition, due to the lower level of the Index values in comparison to the value of other indexes underlying options traded on the Exchange, the CBOE proposes position limits of 50,000 contracts, with no more than 30,000 of such contracts in series in the nearest expiration month.

¹⁴ Pursuant to CBOE Rule 24.11, the margin requirements for the Index options will be: (1) For each short option position, 100% of the current market value of the options contract plus 15% of the underlying aggregate Index value, less any out-of-the-money amount, with a minimum requirement of the options premium plus 10% of the underlying Index value; and (2) for long options positions, 100% of the options premium paid.

¹⁵ Pursuant to CBOE Rule 24.7, the trading on the CBOE of Index options may be halted or suspended, among other things, whenever the trading in the underlying securities whose weighted value represents more than 20% of the Index value are halted or suspended. In deciding to halt or suspend trading under CBOE Rule 24.7 due to unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market, the activation of price limits on a futures exchange is one of the factors which may constitute an unusual condition or circumstance under CBOE Rule 24.7.

G. Surveillance

Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the Index. These procedures include complete access to trading activity in the underlying securities. In addition, the Intermarket Surveillance Group ("ISG") Agreement ("ISG Agreement") dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of options on the Index.²⁰

III. Discussion

The Commission finds that the proposed rule change is 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 section 6(b)(5).²¹ The Commission finds that the trading of options on the Index, including full value and reduced value Index options, will permit investors to participate in the price movements of the 2000 securities on which the Index is based and should allow investors holding positions in some or all of the securities underlying the Index to hedge the risks associated with their portfolio more efficiently and effectively. Accordingly, the Commission believes Russell 2000 options will provide investors with an important trading and hedging mechanism that should reflect accurately the overall movement of stocks in the small to middle-capitalization range of U.S. equity securities. By increasing the hedging and investment opportunities of investors, the Commission believes that Russell 2000 options will serve to promote the public interest, protect investors, and contribute to the maintenance of fair and orderly markets. Moreover, the Commission believes that reduced value Russell 2000 LEAPS, which will be traded on an index computed at one-tenth the value of the Russell 2000, will serve the needs of retail investors by providing them with the opportunity to use a long-term option to hedge their portfolios from long-term market moves at a reduced cost.

²⁰ ISG was formed on July 14, 1983, to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. Members of ISG include, among others, all the markets that trade the securities underlying the Index. See ISG Agreement, July 14, 1983. The most recent amendment to the ISG Agreement, which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. See Second Amendment to the ISG Agreement, January 29, 1990.

²¹ 15 U.S.C. 78f(b)(5) (1988).

¹⁴ See CBOE Letter, *supra* note 6. Between July 1988 and June 1992, an average of 467 stocks were added to or deleted from the Index as a result of the annual reconstitution of the Index. Prior to 1988, the Index was reconstituted more frequently than once per year and the number of additions and deletions was higher.

¹⁵ *Id.*

¹⁶ OPRA has indicated that the listing and trading of Russell 2000 options series will have no material impact on OPRA's capacity. See memorandum from Joseph Corrigan, OPRA, to Joseph Levin, CBOE, dated April 2, 1992 ("OPRA Memorandum").

¹⁷ See October 8 Letter, *supra* note 7.

The trading of Russell 2000 options, however, raises several issues, including issues related to index design, customer protection, surveillance and market impact. For the reasons discussed below, the Commission believes that the CBOE has adequately addressed these issues.

A. Index Design and Structure

The Commission finds that it is appropriate and consistent with the Act to classify the Index as broad-based, and, thus, to permit Exchange rules applicable to the trading of broad-based index options to apply to Russell 2000 options.²² The Commission also finds that the reduced-value Russell 2000 Index is broad-based because it is comprised of the same component securities as the Index and merely divides the Russell 2000 by ten, which does not alter the basic character of the Index. Specifically, the Commission believes that the Index is broad-based because it reflects a substantial segment of the U.S. equities market, in general, and small to mid-sized U.S. securities, in particular. The Index, whose total capitalization as of August 31, 1992, was approximately \$298.2 billion, consists of 2000 actively-traded, small to middle-capitalization domestic securities, including the stocks of companies from 96 different industries, no one of which dominates the Index.²³ In addition, as of August 31, 1992, no single stock comprised more than 0.195% of the Index's total value and the percentage weighing of the 100 largest issues in the Index accounted for only 14.72% of the Index's value. Accordingly, the Commission believes it is unlikely that attempted manipulations of the prices of the issues in the Index would affect significantly the Index's value.

The Commission also believes that the general broad diversification, level of capitalization, and trading activity in the markets for the Index's component stocks significantly minimize the potential for manipulation of the Index. First, as discussed above, the Index

represents a broad cross-section of domestic small to mid-sized stocks, with no single industry group or stock dominating the Index. Second, the overwhelming majority of the stocks that comprise the Index are not actively traded. The value of trading of the Index's component stocks over the last six months averaged approximately \$45 million daily, with a median value of \$64 million per day.²⁴ Although the average trading activity for the Russell 2000 stocks is much less than for the stocks of existing broad-based index futures, the sheer number of Russell 2000 stocks and the dispersion of weighting throughout the stocks makes it unlikely that attempted manipulations of the prices of a small number of issues would significantly affect the Index's value. Third, Frank Russell has developed procedures and criteria designed to ensure that the Index maintains its broad representative sample of stocks in the small to middle-capitalization range of U.S. equity securities.

The Commission notes, however, that in the past several Index component securities were deleted from the Index on an intra-year basis due to corporate actions and, pursuant to the Index construction procedures, were not replaced until the next annual reconfiguration of the Index.²⁵ The annual diminution of the number of securities in the Index raises concerns regarding the maintenance of the continuity of the Index value, the diversity of component securities, and the relative weightings of component securities. Given the extremely large number of securities in the Index, the relatively low weighting of each component security of the Index, the adjustments to the Index divisor upon deletions of securities, and the large number of securities that historically have not been deleted between annual reconfigurations, the Commission, nevertheless, believes that the Index will at all times reflect accurately the small to middle-capitalization range of U.S. equity securities.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as Russell 2000 Index options, Russell 2000 LEAPS, and Russell 2000 CAPS can commence on a national securities exchange. The Commission notes that the trading of

standardized exchange-traded options occurs in an environment that is designed to ensure, among other things, that: (1) The special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts.

Accordingly, because the Index options and Index LEAPS will be subject to the same regulatory regime as the other standardized options currently traded on the CBOE, the Commission believes that adequate safeguards are in place to ensure the protection of investors in Index options and Index LEAPS.

C. Surveillance

The Commission believes that a surveillance sharing agreement between an exchange proposing to list a stock index derivative product and the exchange(s) trading the stocks underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. Such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the stock index product less readily susceptible to manipulation. In this regard, the CBOE, Amex, NASD and the NYSE, along with other U.S. securities exchanges, are members of the ISG, which provides for the exchange of all necessary surveillance information.²⁶

D. Market Impact

The Commission believes that the listing and trading of Index options on the Exchange will not adversely impact the underlying securities markets. First, as described above, the Index is broad-based and no one stock or industry group dominates the Index. Second, as noted above, the stocks contained in the Index generally are not actively traded. Third, existing CBOE stock index options rules and surveillance procedures will apply to Russell 2000 options. Fourth, the Exchange has established reasonable position and exercise limits for the Russell 2000 options that will serve to minimize potential manipulation and market impact concerns. Fifth, the risk to investors of contra-party non-performance will be minimized because the Index options will be issued and guaranteed by the Options Clearing Corporation just like any other

²² Previously, the Commission concluded that the Russell 2000 represents a substantial segment of the market for small to mid-level capitalized securities. See letter from William Heyman, Director, Division, SEC, to Brian Folkerts, Director, Office of Congressional and Governmental Affairs, Commodity Futures Trading Commission ("CFTC"), dated October 13, 1992 (letter not objecting to trading of Russell 2000 futures and futures options on the Chicago Mercantile Exchange); and letter from Richard G. Ketchum, Director, Division, SEC, to Paula Tosini, Director, Division of Economic Analysis, CFTC, dated December 9, 1986 (letter not objecting to the trading of futures contracts based on the Russell 1000, 2000, and 3000 Indexes on the New York Futures Exchange).

²³ See *supra* note 9.

²⁴ See CBOE Letter, *supra* note 6.

²⁵ See *supra* notes 13 and 14 and accompanying text.

²⁶ See *supra* note 20.

standardized option traded in the United States.

Lastly, the Commission believes that settling Russell 2000 options and reduced value Russell 2000 LEAPS based on the opening prices of component securities is reasonable and consistent with the Act because it may contribute to the orderly unwinding of Index options positions upon expiration.

E. Other Proposed Rule Changes

The Commission also believes that the other rule changes proposed by the CBOE to accommodate the trading of Russell 2000 options are consistent with the Act. First, the Commission believes it is reasonable for the CBOE to use 2 1/2 point strike price intervals for the Index options when the Index is below a level of 200.00 because, given the relatively low level of the Index and its relatively low volatility, such intervals will enable investors to better tailor their options positions to achieve their investment objectives; in addition, OPRA has represented that it has adequate capacity to accommodate the 2 1/2 point strike price intervals.²⁷ The Commission also believes that it is reasonable for the CBOE to use strike price intervals of no less than \$5.00 when the Index is above a level of 200.00 because such intervals should provide investors with sufficient flexibility to meet their investment objectives and, at the same time, avoid excessive proliferation of options series. Second, the Commission believes that a RAES order size limit of ten contracts for Russell 2000 options is reasonable because it will help to ensure the efficient and timely execution of customer orders. Based on representations from the CBOE, the Commission believes that the Exchange will have sufficient processing capacity to accommodate the anticipated order flow through RAES resulting from this order size limit.²⁸

Third, with regard to capped-style Index options, the Commission believes, as it did when it approved the listing of capped-style options,²⁹ that capped options are an innovative financial product that will provide investors with additional choice and flexibility in their use of derivatives. Because the capped-style options writer's (holder's) maximum loss (gain) is established at the time of the investment by the

option's cap interval,³⁰ capped-style Russell 2000 options will allow investors to participate in the small to mid-level company market at a known and limited cost. By eliminating some of the risks associated with spread positions in options, capped Russell 2000 options may make the market for small to middle-capitalized companies more attractive to a broad range of investors. In addition, the Commission notes that the capped-style Index options, which are the equivalent of vertical bull and bear spreads traded as a single security, should benefit investors in the small to middle-capitalization range of companies by providing them with a more efficient and cost effective method of achieving the economic results of spread transactions.

The Commission also finds that the specific rules proposed by the CBOE to accommodate capped-style Index options are consistent with the Act. Specifically, the Commission believes that it is reasonable for the CBOE to set a cap interval of 20 for capped-style Index options instead of 30 (which is currently used for the S&P 100 and S&P 500 Indexes) because the level of the Index is lower than either the S&P 100 or 500 Indexes. Accordingly, the Commission believes the cap price for the Russell 2000-capped options is placed sufficiently far from the exercise price so that the capped options will not be exercised automatically on a frequent basis. In addition, the Commission believes that the CBOE's proposal to bring up new at-the-money series of capped-style Index options every two months and after a 10-point move in the Index is consistent with the Act because it will not result in a proliferation of options series.

Fourth, with regard to Russell 2000 LEAPS, the Commission believes, as it has concluded previously,³¹ that full value and reduced value Russell 2000 LEAPS will provide investors with an opportunity to hedge their equity portfolios against long-term market risk at a known and limited cost. In addition, the Commission believes that reduced value Russell 2000 LEAPS will serve the needs of retail investors by providing them with the opportunity to use long-term options to protect their portfolios

from long-term market moves at a reduced cost. This may result in options premiums more affordable to retail investors.

The Commission finds good cause for approving Amendment Nos. 1, 2, 3, 4 and 5 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. First, Amendment Nos. 1 and 3 provide, respectively, for the listing of Russell 2000 CAPS and full and reduced value Russell 2000 LEAPS. Because the stocks comprising the Russell 2000 CAPS and the Russell 2000 LEAPS are identical to the Index, and because both products will be subject to the same rules that apply to other capped options and other index LEAPS traded on the Exchange, the Commission believes that the proposals to list Russell 2000 CAPS and Russell 2000 LEAPS raise no new regulatory issues. In addition, the proposal in Amendment No. 3 providing for European-style exercise of Index options is technical in nature and raises no new regulatory issues.³²

Second, Amendment No. 4 provides that the final settlement value of expiring Index options will be based on the opening prices of the component stocks on the trading day prior to expiration, instead of their closing prices. The Commission believes that this contract design modification, while significant in terms of the potential market impact of the index options, does not alter significantly the contract design specifications of the Index options contracts. Moreover, the Commission believes that this modification may contribute to the orderly unwinding of positions in Index options and related positions, thereby helping to ensure that the trading of Russell 2000 options will not have any adverse market impacts.

Finally, Amendment No. 2, which provides a disclaimer for Frank Russell, and Amendment No. 5, which provides that the strike price intervals for the Index options can be less than \$5.00 when the Index is above a level of \$200.00, are technical in nature and raise no new regulatory issues. In addition, the disclaimer for Frank Russell is similar to disclaimers previously approved by the Commission. Therefore, the Commission believes it is consistent with sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment Nos. 1, 2, 3,

²⁷ See OPRA Memorandum, *supra* note 16.
²⁸ See letter from Joseph Levin, Vice President, CBOE, to Howard Kramer, Assistant Director, Division of Market Regulation, Commission, dated April 27, 1992.
²⁹ See Securities Exchange Act Release No. 29865 (October 28, 1991), 56 FR 56255 (order approving File No. SR-CBOE-91-24).

³⁰ Once the option's cap price (the strike price plus the cap interval for a call or the strike price minus the cap interval for a put) has been reached, the capped-style option is exercised automatically. Thus the option writer's maximum potential liability is the amount of the cap interval, and, conversely, the option holder's maximum gain is the amount of the cap interval. See note 4, *supra*.
³¹ See Securities Exchange Act Release No. 28686 (December 10, 1990), 55 FR 51517 (order approving File No. SR-CBOE-90-30).

³² Other proposals set forth in Amendment No. 3 have been approved previously by the Commission. See Securities Exchange Act Release No. 31243 (September 28, 1992) (order approving File No. SR-CBOE-91-51).

4 and 5 to the CBOE's proposal on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1, 2, 3, 4 and 5 to the proposed rule change. 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. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by November 27, 1992.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,³³ that the proposed rule change (File No. SR-CBOE-92-02) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁴

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 92-26888 Filed 11-4-92; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-31384; File No. SR-GSCC-92-10]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Filing and Order Granting Accelerated Approval on a Temporary Basis of Proposed Rule Change Relating to the Netting of Forward- Settling Trades in Government Securities

October 30, 1992.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on

September 2, 1992, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change 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. This order grants accelerated approval on a temporary basis through March 31, 1992.

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

The proposed rule change would revise GSCC's rules to allow for the netting of forward-settling trades.

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

In its filing with the Commission, GSCC 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. GSCC 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

(a) On April 12, 1990, the Commission approved on a temporary basis, until April 30, 1992, a proposed rule change (SR-GSCC-90-01)² that expanded GSCC's netting service to include forward-settling trades in Government securities ("forward trades"). That order was subsequently approved through October 30, 1992.³ By this filing, GSCC requests that such authority be made permanent by the Commission or, in the alternative, that the Commission further extend on a temporary basis GSCC's authority to net forward trades.

In its approval order of April 12, 1990 (the "Approval Order"),⁴ the

Commission stated that, "in light of its significance to GSCC and its membership, the proposed netting service for forward-settling transactions should be carefully monitored before it becomes a permanent feature of GSCC's netting system." The Approval Order was a lengthy one; however, the essence of the Commission's concerns regarding the proposal may be said to have been the adequacy of each of the following: (1) GSCC's forward mark allocation payment process; (2) the revised Clearing Fund formula; and (3) GSCC's system prices. Each of these concerns is discussed below.

1. The Forward Mark Allocation Calculation

As was stated in the original rule filing (SR-GSCC-90-01), in designing a system for the netting of forward trades, GSCC considered fully applying mark-to-market requirements during the period between trade and settlement, in the same manner as is done for regular-way trading. That is, GSCC considered requiring Netting Members (hereinafter "members") to pay on a daily basis in cash the full amount of mark payments stemming from net settlement positions in forward-settling securities.

In view, however, of the potential for significant amounts of money to have to be passed through GSCC on a daily basis, which might on any particular day drain liquidity from a firm in an unpredictable manner, GSCC chose an alternative approach that realistically reflects, and sufficiently minimizes, the risk of disruption to the settlement process. This method provides for the daily collection of a percentage of any debit mark amount allocable to a forward-settling position (the "forward mark allocation amount") that ensures, on a per-CUSIP basis, that the failure of up to all the five members with the largest debit mark levels on any given day would not disrupt GSCC's ability to successfully settle that day's Government securities trades.

GSCC's experience to date shows that this approach to the margining of forward trades strikes an appropriate balance between the need for a sufficient margin to ensure GSCC's liquidity and to prevent a loss upon liquidation of a member's position versus the desire to not unduly drain funds from members. Analyses done by GSCC indicate that, in the morning of a typical date for forward trades, when GSCC faces exposure equal to the difference between the amount of forward mark allocation ("FMA") payments collected on the previous business day (which has not yet been

² Securities Exchange Act Release No. 27902 (April 12, 1990), 55 FR 15066.

³ See Securities Exchange Act Release Nos. 30661 (April 30, 1992), 57 FR 19854 (approving the netting of forward settling trades through July 31, 1992) and 31065 (August 21, 1992), 57 FR 39255 (approving the netting of forward settling trades through October 30, 1992).

⁴ *Supra*, note 2.

³³ 15 U.S.C. 78s(b)(2) (1988).

³⁴ 17 CFR 200.30-3(a)(12)(1991).

¹ 15 U.S.C. 78s(b)(1) (1988).