

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47188; File No. SR-CBOE-2003-01]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by The Chicago Board Options Exchange, Incorporated To Amend CBOE Rule 9.3A To Allow In-Firm Delivery of the Regulatory Element of Continuing Education

January 15, 2003.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 9, 2003, The Chicago Board Options Exchange, Incorporated ("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 Exchange filed the proposal pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(6)<sup>4</sup> thereunder, which renders the proposal effective upon filing with the Commission. 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 amend CBOE Rule 9.3A, *Continuing Education for Registered Persons*, to permit the in-firm delivery of the Regulatory Element of Continuing Education by member organizations. Currently, this computer-based training is administered to registered persons by an outside vendor at its locations. The text of the proposed rule change is available at the 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 its proposal and discussed any comments it received regarding the proposal. 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

The CBOE proposes to permit member organization delivery of the Regulatory Element of the Continuing Education Program ("Program"). The Program is designed to keep industry participants up to date on products, services and rules, and is composed of a Regulatory Element and a Firm Element. The Regulatory Element is computer-based training that covers ethical, sales practice and regulatory matters, and requires that each registered person complete this training on the occurrence of their second registration anniversary date and every three years thereafter. A registered person who fails to complete the training will be deemed inactive, and may not conduct or be compensated for activities requiring registration. The Firm Element requires member and member organizations to provide to their registered employees having direct contact with customers ongoing training that is specifically tailored to their business.

At the recommendation of the Securities Industry/Regulatory Council on Continuing Education ("Council"),<sup>5</sup> the CBOE proposes to adopt amendments to CBOE Rule 9.3A to permit member organizations to administer the Regulatory Element of the Continuing Education Program to their registered persons by instituting firm programs acceptable to the Exchange. Currently, the Regulatory Element is administered only at vendor locations. The proposed rule requires that member organizations meet certain conditions for in-house delivery relating to the security of the training delivery environment. The proposed rule amendments set forth the delivery requirements as specified by the Council.

The proposed rule change is substantially similar to rules of The American Stock Exchange LLC, The New York Stock Exchange, Inc., and the

National Association of Securities Dealers, Inc.<sup>6</sup>

##### 2. Statutory Basis

The CBOE believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>8</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to prevent fraudulent and manipulative acts and practices, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system. The Exchange also believes that the proposed rule change is consistent with Section 6(c)(3)(B) of the Act.<sup>9</sup> Under that Section, it is the Exchange's responsibility to prescribe standards of training, experience and competence for persons associated with Exchange members and member organizations. The Exchange has proposed this rule change to establish an additional mechanism for the administration of the Regulatory Element of the Program, which will help to enable registered persons to satisfy their continuing education obligations.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

#### 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

Because the foregoing proposed rule change does not:

- (i) Significantly affect the protection of investors or the public interest;
- (ii) Impose any significant burden on competition; and
- (iii) Become operative for 30 days from the date on which it was filed, or such shorter time as the Commission

<sup>5</sup> The Council is comprised of representatives from broker-dealers and self-regulatory organizations whose duties include recommending and helping develop specific content and questions for the Regulatory Element, as well as minimum core curricula for the Firm Element. The Council has developed a model under which member organizations may deliver the computer-based training in-house.

<sup>6</sup> The proposed rule change is identical in substance, and substantially similar in wording, to Amex Rule 341A(4), NYSE Rule 345A, Interpretation /03, and NASD Rule 1120(a)(6).

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> 15 U.S.C. 78f(c)(3)(B).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6). The CBOE provided the Commission written notice of its intent to file the proposal on December 26, 2002.

may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>10</sup> and Rule 19b-4(f)(6) thereunder.<sup>11</sup> At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposal is consistent with the Act. Persons making written submissions 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 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 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 number SR-CBOE-2003-01 and should be submitted by February 12, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47190; File No. SR-CBOE-2002-62]

### Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Chicago Board Options Exchange, Inc. Proposing To Amend Interpretation .01(b)(2) and .05(d)(ii) to CBOE Rule 5.3 Which Establish the Pricing Criteria for Securities That Underlie Options Traded on the Exchange

January 15, 2003.

#### I. Introduction

On October 11, 2002, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Interpretation .01(b)(2) and .05(d)(ii) to CBOE Rule 5.3, which establish the pricing criteria for securities that underlie options traded on the Exchange. The proposed rule change was published for comment in the **Federal Register** on December 16, 2002.<sup>3</sup> No comments were received on the proposed rule change. This order approves the proposed rule change.

#### II. Description of the Proposal

The Exchange proposes to amend Interpretation .01(b)(2) to CBOE Rule 5.3 to provide that, for securities that underlie options traded on the Exchange ("underlying security") that are deemed Covered Securities, as defined under section 18(b)(1)(A) of the Securities Act of 1933 ("1933 Act"),<sup>4</sup> the closing market price of the underlying security must be at least \$3.00 per share for the five previous consecutive business days prior to the date on which CBOE submits an option class certification to the Options Clearing Corporation for listing and trading. For Underlying Securities that are not Covered Securities, the Exchange states that the

current \$7.50 price per share requirement would continue to apply. The market price of such underlying security would be measured by the closing price reported in the primary market in which the underlying security is traded. Finally, the Exchange proposes to amend Interpretation and Policy .05(d)(ii) to CBOE Rule 5.3 to reflect that the market price standard for Restructure Securities also shall be reduced from \$7.50 to \$3.00 as long as the Restructure Security is a Covered Security.

#### III. Discussion

After careful review, 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.<sup>5</sup> In particular, the Commission believes that the proposed rule change is consistent with section 6(b)(5) of the Act,<sup>6</sup> which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade; facilitate transactions in securities, and protect investors and the public interest.

The Commission notes that although this proposal amends the closing market price for an underlying security which is deemed a Covered Security, as well as the time period for which it must trade at that price prior to it being listed on the Exchange, the CBOE has represented that it will continue to maintain its initial listing standards.<sup>7</sup> Therefore, an underlying security that is deemed a Covered Security must also meet CBOE's additional listing requirements prior to CBOE bringing up a new series of options to trade, including the requirements that: there must be a minimum of 7,000,000 shares of the underlying security owned by public investors; there must be a minimum of 2,000 holders of the underlying security; and, that there must be a trading volume of at least 2,400,000 shares in the preceding twelve months.<sup>8</sup> Accordingly, the Commission finds that the proposed rule change to require a closing market price of at least \$3.00 per share for the five previous consecutive business days for underlying securities that are

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 46957 (December 6, 2002), 67 FR 77106.

<sup>4</sup> Section 18(b)(1)(A) of the 1933 Act provides that, "[a] security is a covered security if such security is—listed, or authorized for listing, on the New York Stock Exchange or the American Stock Exchange, or listed, or authorized for listing, on the National Market System of the Nasdaq Stock Market. \* \* \* 15 U.S.C. 77r(b)(1)(A). The term Covered Security, for the operation of proposed amendments to Interpretation .01(b)(2) to CBOE Rule 5.3 herein, would not include those securities defined under section 18(b)(1)(B) of the 1933 Act. 15 U.S.C. 77r(b)(1)(B).

<sup>5</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> Telephone conversation between James Flynn, Attorney, CBOE, and Christopher Solgan, Attorney, Division of Market Regulation ("Division"), Commission, on January 14, 2002. See also Securities Exchange Act Release No. 46957, *supra* note 3.

<sup>8</sup> See CBOE Rule 5.3.

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(6).

<sup>12</sup> 17 CFR 200.30-3(a)(12).