

MEMO# 8997

June 20, 1997

CBOE PROPOSES TO TRADE OPTIONS ON MUTUAL FUND INDEXES

June 20, 1997 TO: SEC RULES COMMITTEE No. 62-97 RE: CBOE PROPOSES TO TRADE
OPTIONS ON MUTUAL FUND INDEXES

The Chicago Board Options Exchange, Incorporated ("CBOE") has filed a proposed rule change with the Securities and Exchange Commission to enable it to list options based on two mutual fund indexes -- the Lipper Analytical/Salomon Brothers Growth Fund Index and the Lipper Analytical/Salomon Brothers Growth & Income Fund Index. Attached is a copy of the Commissions release regarding the CBOEs proposed rule change. Each index is composed of the 30 largest U.S. funds in the specified investment objective, based on their total net assets as of the close of business on the last trading day of December. The indexes are equal-weighted and rebalanced on a quarterly basis. The proposed options will trade on the full value of each index and will settle based on the closing net asset values of the component funds two business days prior to expiration. The CBOEs proposal notes that trading in the funds that make up the indexes has no effect on the value of the indexes. Instead, the value of the indexes depends entirely on the net asset values of the component funds, which in turn depends on the values of their portfolio securities. Responding to concerns expressed by the Commission regarding the degree in which fund portfolio managers should be allowed to trade options on the indexes, the CBOE expresses the view that this issue is one that should be addressed by each funds management, consistent with guidance provide by the Commission. The comment period on the CBOEs proposed rule change expires July 8, 1996. If you have any comments that you would like the Institute to consider addressing in a letter on the proposal, please contact the undersigned (at 202/326-5824 or by e-mail at amy@ici.org) no later than July 1, 1997. Amy B.R. Lancellotta Associate Counsel Attachment

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