

by OneChicago.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons. OneChicago also filed the proposed rule change with the Commodity Futures Trading Commission ("CFTC"), together with written certifications under Section 5c(c) of the Commodity Exchange Act ("CEA")<sup>4</sup> on June 19, 2003.

### **I. Self-Regulatory Organization's Description of the Proposed Rule Change**

OneChicago is proposing to establish listing standards and amend its rules providing position limits, final settlement prices for futures on cash-settled narrow-based security indices, and employee confidentiality all of which are attached to the proposed rule change. The text of the proposed rule change follows; additions are *italicized*; deletions are [bracketed].

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#### **LISTING STANDARDS**

##### **For MicroSectors**

##### **CASH SETTLED NARROW-BASED INDEX FUTURES**

*V. Initial eligibility criteria for a MicroSector security futures product, based on an index composed of two or more securities.*

*A. For a cash settled Dow Jones MicroSector security futures product, the Dow Jones MicroSector Index must:*

*(i) Meet the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; and*

*(ii) Meet the following requirements:*

*(a) It must be approximately equal dollar-weighted composed of one or more securities in which each component security will be weighted equally based on its market price on the Selection Date.*

*(b) Each of its component securities must be registered under Section 12 of the Exchange Act.*

*(c) Each of its component securities must be a component security in the Dow Jones U.S. Total Market Index or an ADR linked to a security in the Dow Jones Global Index.*

*(d) Each of its component securities must be the subject of a U.S. exchange-traded option on the date of selection for inclusion in the index.*

*(e) Each of its component securities must have a trading history on a U.S. exchange for at least 12 months.*

*(f) Each of its component securities must have a "float market capitalization" of at least one billion dollars.*

*(g) Each of its component securities close at or above \$7.50 for each of the trading days in the three months prior to selection for the index.*

*(h) Subject to (g), (i) and (k) below, component securities that account for at least 90 per cent of the total index weight and at least 80 per cent of the total number of component securities in the index must meet the requirements for listing a single-security future contract, as set forth in Section I.*

*(i) Each of its component securities must have an average daily trading volume in each of the preceding 12 months prior to selection for inclusion in the index greater than 109,000 shares (an ADR must have an average daily trading volume greater than 100,000 receipts).*

*(j) Each of its component securities must be (1) listed on an Exchange or traded through the facilities of an Association and (2) reported as an NMS security.*

*(k)(1) OneChicago must have in place an effective surveillance sharing agreement with the primary exchange in the home country where the stock underlying each component ADR is traded;*

*(2) The combined trading volume of each component ADR and other related ADRs and securities in the U.S. ADR market, or in markets with which OneChicago has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock over the three-month period preceding the dates of selection of the ADR for futures trading ("Selection Date");*

*(3)(A) The combined trading volume of each component ADR and other related ADRs and securities in the U.S. ADR market, and in markets with which OneChicago has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the Selection Date;*

*(B) The average daily trading volume for the ADR in the U.S. markets over the three-month period preceding the*

*Selection Date is at least 100,000 receipts; and*

*(C) The daily trading volume for the ADR is at least 60,000 receipts in the U.S. markets on a majority of the trading days for the three-month period preceding the Selection Date;*

*(4) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing; or*

*(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.*

*(l) The current underlying index value must be reported at least once every 15 seconds during the time the MicroSector futures product is traded on OneChicago.*

*(m) An index underlying a MicroSector future must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for 50 per cent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of component securities in the index is greater than five at the time of rebalancing. In addition, OneChicago reserves the right to rebalance quarterly at its discretion.*

*(n) The MicroSector futures products will be AM settled.*

*(o) The initial indexes underlying MicroSector futures products will be created only for industry groups that have five or more qualifying securities.*

*VI. Maintenance standards for a MicroSector futures product based on an index composed of two or more securities.*

*A. OneChicago will not open for trading MicroSector futures products that are cash settled based on an index composed of two or more securities with a new delivery month unless the underlying index:*

*(i) Meets the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; and*

*(ii) Meets the following requirements:*

*(a) All of its component securities must be registered under Section 12 of the Exchange Act;*

*(b) Subject to (d) and (i) below, component securities that account for at least 90 per cent of the total index weight and at least 80 per cent of the*

<sup>3</sup> With the permission of OneChicago, the Commission made a typographical, non-substantive correction to the text of the proposed rule change. See telephone conversation between Madge Hamilton, Deputy General Counsel, OneChicago and Andrew Shipe, Special Counsel, Division of Market Regulation, Commission, July 7, 2003.

<sup>4</sup> 7 U.S.C. 7a-2(c).