contributed to the Federal Employee's Retirement System to receive a refund of retirement deductions and any other money to their credit in the Retirement fund.

There are estimated to be 81,000 respondents for SF 3106 and 40,500 respondents for SF 3106A. It takes approximately 27 minutes to complete SF 3106 and 6 minutes to complete SF 3106A. The annual burden for SF 3106 is 36,450 and the annual burden for SF 3106A is 4,050.

For copies of this proposal, contact Doris R. Benz on (703) 908–8564.

DATES: Comments on this proposal should be received within thirty (30) calendar days from the date of this publication.

ADDRESSES: Send or deliver comments to—

Daniel A. Green, Chief, FERS Division, Retirement and Insurance Service, U.S. Office of Personnel Management, 1900 E Street, NW, Room 4429, Washington, DC 20415

and

Joseph Lackey, OPM Desk Officer, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, NW., Room 10235, Washington, DC 20503.

FOR INFORMATION REGARDING ADMINISTRATIVE COORDINATION—CONTACT: Mary Beth Smith-Toomey, Management Services Division, (202) 606–0623.

U.S. Office of Personnel Management.

Lorraine A. Green,

Deputy Director.

[FR Doc. 95–20644 Filed 8–18–95; 8:45 am]

BILLING CODE 6325–01–M

Notice of Request for Review of a Revised Information Collection Standard Form 3112

AGENCY: Office of Personnel Management.

ACTION: Notice.

SUMMARY: In accordance with the Paperwork Reduction Act of 1980 (title 44, U.S. Code, chapter 35), this notice announces a request for review of a revised information collection. Standard Form 3112, CSRS/FERS Documentation in Support of Disability Retirement Application, collects information from applicants for disability retirement so that OPM can determine whether to approve a disability retirement. Standard Form 3112 supersedes SF 2824 and SF 3105, Documentation in Support of Disability Retirement Application (CSRS & FERS).

Approximately 12,100 Standard Form 3112, SF 3112A and SF 3112C will be completed annually. The SF 3112A requires approximately 30 minutes to complete and the SF 3112C requires approximately 60 minutes to complete. The annual burden is 12,775 hours.

For copies of this proposal, contact Doris R. Benz on (703) 908–8564.

DATES: Comments on this proposal should be received on or before September 20, 1995.

ADDRESSES: Send or deliver comments to—

Lorraine E. Dettman, Chief, Retirement and Insurance Group, Operations Support Division, U.S. Office of Personnel Management, 1900 E Street NW., Room 3349, Washington, DC 20415

and

Joseph Lackey, OPM Desk Officer, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, NW., Room 10235, Washington, DC 20503.

FOR FURTHER INFORMATION REGARDING ADMINISTRATIVE COORDINATION—CONTACT: Mary Beth Smith-Toomey, Management Services Division, (202) 606–0623.

U.S. Office of Personnel Management.

Lorraine A. Green,

Deputy Director.

[FR Doc. 95–20643 Filed 8–18–95; 8:45 am]

BILLING CODE 6320–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–36103; File No. SR-Amex-95–06]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to Proposed Rule Change by the American Stock Exchange, Inc., Relating to Options on the Morgan Stanley Real Estate Investment Trust Index

August 14, 1995.

I. Introduction and Background

On February 16, 1995, the American Stock Exchange, Inc. (''Amex'' or ''Exchange'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] a proposed rule change to list and trade options on the Morgan Stanley REIT Index (''REIT Index''). On March 9, 1995, the Exchange filed Amendment No. 1 to its proposal.[3] Notice of the proposal appeared in the **Federal Register** on March 23, 1995.[4] No comments were received on the proposed rule change set forth in the Notice. On May 16, 1995, the Exchange filed Amendment No. 2 to its proposal.[5] This order approves the Exchange's proposal, as amended.

II. Description of the Proposal

A. General

The Amex proposes to list and trade standardized options on the REIT Index, a capitalization weighted index developed by Morgan Stanley & Co. Incorporated (''Morgan Stanley'') comprised of real estate investment trusts (''REITs'')[6] which are traded on the Amex, and the New York Stock Exchange, Inc. (''NYSE''), or are traded through the facilities of the Nasdaq system and are reported Nasdaq national market (''NM'') securities. In addition, the Amex proposes to amend its Rule 902C(d) to include the REIT Index in the disclaimer provisions of that rule. The REIT Index represents a portfolio of the largest and most actively traded REITs, and is designed to provide a broad measure of real estate equity performance. The Index does not

[1] 15 U.S.C. 78s(b)(1) (1998).

[2] 17 CFR 240.19b–4 (1994).

[3] Amendment No. 1 provides additional information regarding the Index components, and states that the Exchange will file with the Commission pursuant to Section 19(b)(1) of the Act should the number of component securities in the Index exceed 116. *See* letters from Claire P. McGrath, Managing Director and Special Counsel, Derivatives Securities, Amex, to Michael Walinskas, Branch Chief, Division of Market Regulation, Commission, dated March 6 and March 9, 1995 (''Amendment No. 1'').

[4] Securities Exchange Act Release No. 35511 (March 17, 1995), 60 FR 15316.

[5] Letter from Claire P. McGrath, Managing Director and Special Counsel, Derivative Securities, Amex, to Michael Walinskas Branch Chief, Decision of Market Regulation, Commission, dated May 16, 1995 (''Amendment No. 2''). Amendment No. 2 provides additional clarifying information regarding the Index, including the number of Index components that are eligible for standardized options trading, strike price intervals, and position limits. *Id.*

[6] REITs are financial vehicles that allow investors to pool funds for participation in real estate ownership of financing. REITs are subject to special tax treatment and are exempt from corporate level tax if they meet certain qualifications. These qualifications include, but are not limited to, the distribution of 95% of taxable income; that five or fewer individuals cannot own more than 50% of the shares; that over 10% to total assets cannot be sold in one year; and that at last 75% of taxable income be derived from real estate in the form of, for example, rents, mortgages, or gains from the sale of real estate. All components on the Index will be REITs as that term is defined in Sections 856 through 860 of the Internal Revenue Code, 26 U.S.C. 856–60 (1988 & Supp. 1993). *See* Amendment No. 1, *supra* note 3.

include healthcare REITs, real estate operating companies or partnerships, or REITs that invest primarily in real estate mortgages or real estate debt securities.

B. Composition of the Index

The REIT Index conforms with Exchange Rule 901C, which specifies criteria for inclusion of stocks in an index on which standardized options will be traded. In addition, Morgan Stanley has included in the Index only those REITs that meet the following standards: (1) a minimum market capitalization of $100 million; (2) a market price of at least $7.50 for the majority of business days during the three calendar months preceding the date of selection (as measured by the lowest closing price reported in any market in which the component security traded on each of the subject days); (3) trading volume in the component security of at least 1.2 million shares during the preceding six months; (4) each component security must be traded on the Amex, NYSE or must be a Nasdaq NM security; and (5) no component security will represent more than 25% of the weight of the Index, nor will the five highest weighted component securities in the Index, in the aggregate, account for more than 50% of the weight of the Index. The criteria set forth above are the same as or exceed many of the criteria established for the expedited listing of options on stock industry indexes pursuant to Exchange Rule 901C, Commentary .02.

When it created the Index, Morgan Stanley identified 87 REITs that meet or exceed the listing criteria. Eighty of the REIT stocks currently trade on the NYSE, four trade through the Nasdaq system, and three on the Amex. The Index is capitalization weighted and will be calculated continuously using last sale prices.

As of the close of trading on April 24, 1995, the Index was valued at 195.1.[7] As of the close of trading on February 10, 1995, the market capitalizations of the individual securities in the Index ranged from a high of $1.1 billion (Security Capital Industrial) to a low of $103.4 million (Equity Inns Inc.), with a mean and median of $359 million and $279 million, respectively. The total market capitalization of the securities in the Index was $31 billion. The total number of shares outstanding for the REITs in the Index ranged from a high of 69.5 million shares (Security Capital Industrial) to a low of 7.5 million shares (JDN Realty). the 90-day lowest price per share of securities in the Index, for a 90-day period preceding February 10, 1995, ranged from a high of $33.25 (Kimco Realty) to a low of $8.75 (Berkshire Realty). In addition, for a 120-day period preceding February 10, 1995, the average daily trading volume of the REITs in the Index ranged from a high of 142,138 shares (RFS Hotel Investments) to a low of 10,359 shares (Property TR America), with the mean and median being 39,167 and 31,937 shares, respectively. Lastly no one REIT accounted for more than 3.41% of the Index's total value (Security Capital Industrial and Simon Property Group), and the percentage weighting of the five largest issues in the Index accounted for 15.42% of the Index's value. The percentage weighting of the lowest weighted component was .31% of the Index (Equity Inns), and the percentage weighting of the five smallest issues accounted for 1.87% of the Index's value.

Seventy-nine out of the 87 securities in the Index, representing 90.8% of the number of securities in the Index, and 95.67% of its value, are eligible for standardized options trading (four of the 79 options eligible securities currently underlie exchange-listed options). The eight components that do not meet options eligibility standards account for only 9.2% of the number of securities in the Index, and 4.33% of its value.[8]

C. Maintenance

The Exchange will be responsible for maintaining the Index once trading begins. To maintain the Index, the Exchange will review the component securities on a quarterly basis to ensure that the Index continues to represent only the largest and most actively traded REITs. After the close of trading on the last business day of December, March, June, and September, all publicly traded equity REITs (except healthcare REITs, real estate operating companies or partnerships, or REITs that invest primarily in real estate mortgage or real estate debt securities) will be reviewed to see if they meet the criteria outlined above. After the close of trading on the third Friday of January, April, July, and October, the Exchange will add to the Index all those REITs that meet the criteria described above for initial inclusion in the Index and that are not currently in the Index.

At the same time as REITs are added to the Index, REITs that do not meet certain separate maintenance criteria will be removed from the Index. The maintenance criteria for the component securities are: (1) A minimum market capitalization of $75 million; (2) a market price of at least $5.00 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the component security traded on each of the subject days; and (3) trading volume in the component security of at least 900,000 shares during the preceding six months.

It is anticipated that the number of components in the REIT Index will increase as more real estate investment companies enter the public market, and those currently in the public market grow in size and trading volume. However, if the number of component securities in the Index shall increase to more than 116 or decrease to fewer than 58, the Exchange has stated that it will file with the Commission pursuant to Section 19(b)(1) of the Act to obtain additional approval for such Index.[9]

The number of component stocks in the Index shall remain fixed between quarterly reviews except in the event of certain types of corporate actions such as a merger or takeover which warrants the removal of a component security from the Index prior to its quarterly review.[10] If such an event occurs, the divisor shall be recalculated to ensure continuity of the Index's value.

[7] *See* Amendment No. 2, *Supra* note 5. The Index divisor was initially determined to yield a benchmark value of 200 on December 31, 1994.

[8] *Id.* Amex Rule 915 provides criteria for potential underlying securities for put or call option contracts. These criteria include: a minimum of 7 million shares of the underlying security which are owned by persons other than those required to report their security holdings under Section 16(a) of the Act; a minimum of 2,000 holders in the underlying security; trading volume of at least 2.4 million shares in the preceding 12 months; a market price per share of the underlying security of at least $7.5 for the majority of business days during the three calendar months preceding the date of selection; and the issuer is in compliance with applicable requirements of the Act. Amex Rule 915, Commentary .01. The word ''security'' may be broadly interpreted to mean any equity security as defined in Rule 3a11–1 under the Act, 17 CFR 240.3a11–1 (1994) (definition of the term ''equity security''). Amex Rule 915, Commentary .03.

[9] *See* Amendment No. 1, *supra* note 3.

[10] Although the Amex is responsible for maintaining the Index, Morgan Stanley has stated that it may desire to consult with the Amex (or that the Amex may desire to consult with Morgan Stanley) concerning possible changes to the Index components upon the occurrence of certain corporate events that may occur between quarterly reviews. Events that might warrant such a reconfiguration could include non-cash dividends, stock splits, rights offerings, stock distributions, reorganizations, recapitalizations, and other similar events. Letter from Robin Roger, Vice President and Counsel, Morgan Stanley, to Michael Walinskas, Branch Chief, Division of Market Regulation, Commission, dated June 22, 1995. For a description of procedures attendant to such consultations, *see id.*, and *infra* Section II.I., *Surveillance.*

D. Index Calculation and Applicable Exchange Rules

The REIT Index is market capitalization weighted, where the Index value is calculated by multiplying the primary exchange regular way last sale price of each component security by its number of shares outstanding, adding the sums and dividing by the current index divisor. Given that a REIT is required to distribute at least 95% of its taxable income, much of a REIT's value is reflected in its dividend distributions. As a total return index, the REIT Index will reflect the value of the regular cash dividends of its component securities by reinvesting such dividends into the Index portfolio. Therefore, at the close of trading each day, the prices of component securities which will trade ''ex-dividend'' the next day will be adjusted (downward) by the value of the dividend amount to reflect the price impact on the stock as it trades without (''ex'') the dividend on the following day. The divisor is then adjusted to ensure continuity of the Index value. The Index divisor was initially set to yield a benchmark value of 200 on December 31, 1994. Similar to other stock index values published by the Exchange, the value of the Index will be calculated continuously and disseminated every 15 seconds over the Consolidated Tape Association's Network B.

E. Contract Specifications and Applicable Exchange Rules

The proposed options on the Index will be European style (*i.e.*, exercises permitted at expiration only), and cash settled. Standard option trading hours (9:30 a.m. to 4:10 p.m. New York time) will apply. The Index multiplier will be 100. The strike price interval will be five points for full-value Index options when the Index is above 200.[11]

The Exchange plans to list options series with expirations in the three near-term calendar months and in the two additional calendar months in the January cycle. In addition, long-term options on either a full-value or a reduced-value Index level having up to 36 months until expiration may be traded.[12] Expiration intervals for both full-value and reduced-value long-term options will not be less than six months.

Amex Rules 900C through 980C will apply to the trading of option contracts based on the Index. These rules address, among other things, surveillance, exercise prices, and position limits. The Exchange has designated the Index a Stock Index Option under Rule 901C(a) and a Stock Index Industry Group under Rule 900C(b)(1). Pursuant to Rule 903C(b), the Exchange proposes to list near-the-money (*i.e.*, within ten points above or below the current index value) option series on the Index at 2½ point strike (exercise) price intervals when the value of the Index is below 200 points.[13]

F. Settlement

The options on the REIT Index will expire on the Saturday following the third Friday of the expiration month. The last trading day in an expiring option series will normally be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). Trading in expiring options will cease at the close of trading on the last trading day.

The exercise settlement value for all of the Index's expiring options will be calculated based upon the primary exchange regular way opening sale prices for the component stocks. In the case of securities traded through the Nasdaq system, the first reported regular way sale price will be used. If any component stock does not open for trading on its primary market on the last trading day before expiration, then the prior day's last sale price will be used in the calculation.

G. Listing of Long-Term Options on the Full-Value or Reduced-Value REIT Index

Longer term option series having up to 36 months to expiration may be traded. In lieu of such long-term options on a full-value Index level, the Exchange may instead list long-term, reduced-value put and call options based on one-tenth (1/10th) the Index's full-value. In either event, the interval between expiration months for either a full-value or reduced-value long-term option will not be less than six months. The trading of any long-term options are subject to the same rules which govern the trading of all the Exchange's index options, including sales practice rules, margin requirements and floor trading procedures, and all options will have European style exercise. As discussed below, position limits on reduced-value long-term REIT Index options will be equivalent to the position limits for regular (full-value) Index options and would be aggregated with such options (thus, a position limit of 10,500 contracts on the same side of the market for full-value Index options would be equivalent to a position limit for the reduced-value Index options of 105,000 contracts on the same side of the market).

H. Position and Exercise Limits, Margin Requirements, and Trading Halts

Because the Index is classified as a ''Stock Index Industry Group'' under Amex rules,[14] Exchange rules that are applicable to the trading of options on narrow-based indexes will apply to the trading of REIT Index options and long-term Index options. Specifically, Exchange rules governing margin requirements,[15] position and exercise limits,[16] and trading halt procedures [17] that are applicable to the trading of narrow-based index options will apply to options traded on the Index. For purposes of determining whether a given position in reduced-value long-term Index options complies with applicable position and exercise limits, positions in the reduced-value long-term Index options will be aggregated with positions in the full-value Index options. For these purposes, ten reduced-value contracts will equal one full-value contract.

I. 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 REIT Index. In addition, the Intermarket Surveillance Group Agreement (''ISG Agreement''), dated July 14, 1983, as amended January 29,

[11] For a description of other strike price intervals, *see infra* text accompanying note 13.

[12] *See infra* Section II.G.

[13] Amendment No. 2, *supra* note 5. Strike price intervals at 2½ points for long-term reduced-value Index options would apply when the reduced-value Index, which is one-tenth the value of the full-value Index, is below 200 points. Telephone conversation between Claire P. McGrath, Managing Director and Special Counsel, Derivatives Securities, Amex, and Francois Mazur, Staff Attorney, Division of Market Regulation, Commission on August 8, 1995.

[14] Amex Rule 900C(b)(1).

[15] Pursuant to Amex Rule 462, the minimum margin requirements for short Index options positions will be 100% of the option premium plus 20% 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 aggregate Index value.

[16] The Exchange expects that the review required by Rule 904C(c) relating to position limits for Stock Index Industry Groups will result in a position limit of 10,500 contracts on the same side of the market with respect to options on the Index. *See* Amendment No. 2, *supra* note 5. Pursuant to Amex Rule 905C, exercise limits for the Index options also will be 10,500 contracts on the same side of the market. The Exchange may determine, pursuant to Rules 904C(c) and 905C, that lower exercise and position limits are warranted.

[17] Pursuant to Amex Rule 918C, the trading on the Amex of Index options may be halted or suspended when trading has been halted or suspended in the primary markets for any combination of underlying stocks accounting for 20% or more of the current group value.

1990, will be applicable to the trading of options on the Index.[18]

Morgan Stanley also has established special procedures in connection with the possibility that Morgan Stanley may consult with the Amex, or the Amex may consult with it, regarding appropriate changes in the Index constituency in the event of certain corporate events affecting a REIT issuer. Specifically, such consultations will be effected at Morgan Stanley only by a person or persons assigned to the REITs industry within the capital markets group of the Investment Banking Division. That person or those persons filling such position or positions and engaged in the consultation with the Amex will be on the non-sales and non-trading side of the firm. In addition, persons engaged in consultations with the Amex will be subject to certain procedures limiting the dissemination of such information within Morgan Stanley, and in particular will be prohibited from relaying any information concerning such consultations to the sales and trading side of the firm. Persons involved in consultations with the Amex will not be allowed to trade personally in the shares of the specific REIT issuer under discussion, nor in the Amex listed option derived from the Index, from the time consultation is undertaken until two days following public dissemination of information concerning the decision to include or exclude the issuer from the Index.[19]

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) of the Act.[20] Specifically, the Commission finds that the trading of REIT Index options, including full-value and reduced-value REIT long-term options, will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with a means of hedging exposure to market risk associated with REIT securities.[21]

Nevertheless, the trading of options on the REIT Index, including full-value and reduced-value long-term Index options, raises several concerns related to index design, customer protection, surveillance, and market impact. The Commission believes, for the reasons discussed below, that the Amex has adequately addressed these concerns.

A. Index Design and Structure

The Commission finds that the REIT Index is a narrow-based index. The REIT Index currently is composed on 87 securities, all of which are REIT stocks.[22] Accordingly, the Commission believes that it is appropriate for the Amex to apply its rules governing narrow-based index options to trading in the Index options.

The Commission also finds that the large capitalizations, liquid markets, and relative weightings of the Index's component securities significantly minimize the potential for manipulation of the Index. First, the majority of the components that comprise the Index are actively traded, with a mean and median average daily trading volume of 39,167 and 31,937 shares, respectively. Second, the market capitalizations of the securities in the Index are very large, ranging from a high of $1.1 billion to a low of $103.4 million, as of February 10, 1995, with the mean and median being $359.3 million and $279.2 million, respectively. Third, the Index is comprised of 87 component securities, and no one particular security or group of securities dominates the Index. Specifically, no individual REIT comprises more than 3.41% of the Index, and the percentage weighting of the five largest issues in the Index account for 15.42%. Fourth, 79 out of the 87 securities in the Index, representing 95.67% of the Index's value, are eligible for standardized options trading (four of the 79 options eligible securities currently underlie exchange-listed options).[23] Fifth, should the number of component securities increase to more than 116 or fall to fewer than 58, as determined by the inclusion and maintenance criteria described above, the Exchange will file with the Commission pursuant to Section 19(b)(1) of the Act to obtain additional approval for such Index. This will help to protect against material adverse changes in the composition and design of the Index that might adversely affect the Amex's obligations to protect investors and to maintain fair and orderly markets in REIT Index options and long-term Index options. Sixth, the Index will be calculated continuously using last sale prices. This will further reduce the potential for manipulation of the value of the Index. Finally, the Commission believes that the existing mechanisms to monitor trading activity in those securities, as discussed below, will help to deter, as well as detect, such illegal activity.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated

[18] The Amex is a member of the ISG, which 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. *See* Intermarket Surveillance Group 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 Intermarket Surveillance Group Agreement, January 29, 1990. The members of the ISG are: the Amex; the Boston Stock Exchange, Inc.; the Chicago Board Options Exchange, Inc.; the Chicago Stock Exchange, Inc.; the National Association of Securities Dealers, Inc. (''NASD''); the NYSE; the Pacific Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. Because of the potential opportunities for trading abuses involving stock index futures, stock options, and the underlying stock, and the need for greater sharing of surveillance information for these potential intermarket trading abuses, the major stock index futures exchanges (*e.g.*, the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

[19] Letter from Robin Roger, dated June 1, 1995, *supra* note 10. Morgan Stanley will place on its Watch List those REIT issuers which have been the subject of consultation between Morgan Stanley and the Amex where such consultations have resulted in a decision to add or delete the issuer from the Index. The Watch List is used as a device to trigger the monitoring of trading and reviewing of research relating to certain companies to avoid actual and potential conflicts of interest. Morgan Stanley represents that it will arrange a mechanism by which an Amex employee, as well as a Morgan Stanley employee, will notify Morgan Stanley of an addition to, or deletion from, the Index to ensure an adjustment to the Watch List. *Id.*

[20] 15 U.S.C. 78f(b)(5) (1988).

[21] Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new option proposal upon a finding that the introduction of such new derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of listed index options and full-value and reduced-value long-term options on the REIT Index will provide investors with a hedging vehicle that should reflect the overall movement of REIT securities in the U.S. securities markets. The Commission also believes that these Index options will provide investors with a means by which to make investment decisions in the REIT sector of the U.S. securities markets, allowing them to establish positions or increase existing positions in such markets in a cost-effective manner. Moreover, the Commission believes that the reduced-value long-term REIT Index options 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.

[22] The reduced-value REIT Index, which is composed of the same component securities as the Index, is identical to the REIT Index, except that it is calculated by dividing the Index value by ten.

[23] Amendment No. 2, *supra* note 5. The eight components that do not meet options eligibility standards account for only 4.33% of the Index's value. *Id.*

financial instruments, such as REIT Index options (including full-value and reduced-value long-term Index options), 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 long-term options will be subject to the same regulatory regime as the other standardized options currently traded on the Amex, the Commission believes that adequate safeguards are in place to ensure the protection of investors in REIT Index options and full-value and reduced-value long-term Index options.

C. Surveillance

The Commission believes that a surveillance sharing agreement between an exchange proposing to list a security index derivative product and the exchange(s) trading the securities 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 security index product less readily susceptible to manipulation.[24] In this regard, the NYSE, Amex, and NASD, which currently are the primary markets for the REITs comprising the Index, are all members of the ISG, which provides for the exchange of all necessary surveillance information.[25] Further, the Commission believes that the procedures Morgan Stanley has established in connection with possible consultations between itself and the Amex provide further assurances that the Index will not be susceptible to manipulation.[26]

D. Market Impact

The Commission believes that the listing and trading on the Amex of options on the REIT Index, including full-value and reduced-value long-term Index options, will not adversely affect the underlying securities markets.[27] First, as described above, no one security dominates the Index. Second, the Exchange's listing and maintenance criteria should ensure that the component securities generally will be actively-traded, highly capitalized securities.[28] Third, the 10,500 contract position and exercise limits applicable to Index options and long-term Index options will serve to minimize potential manipulation and market impact concerns. Fourth, the risk to investors of contra-party non-performance will be minimized because the Index options and Index long-term options will be issued and guaranteed by The Options Clearing Corporation just like any other standardized option trading in the United States.

Lastly, the Commission believes that settling expiring REIT Index options (including full-value and reduced-value Index long-term options) based on the opening prices of component securities is consistent with the Act. As noted in other contexts, valuing options for exercise settlement on expiration based on opening prices rather than closing prices may help to reduce adverse effects on markets for securities underlying options on the Index.[29]

E. Accelerated Approval of Amendment No. 2

The Commission finds good cause for approving Amendment No. 2 to the Exchange's proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Amendment No. 2 serves to clarify the Exchange's proposal by providing additional information, including the number of Index components that are eligible for standardized options trading, strike price intervals, and position limits. Accordingly, the Commission finds that no new regulatory issues are raised by Amendment No. 2. Therefore, the Commission believes it is consistent with Sections 19(b)(2) and 6(b)(5) of the Act to approve Amendment No. 2 to the Exchange's proposal on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 2. 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 submissions, 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 Amex. All submissions should refer to the file number in the caption above and should be submitted by September 11, 1995.

V. Conclusion

For the reasons set forth above, 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).[30]

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–Amex–95–06), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[31]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–20641 Filed 8–18–95; 8:45 am]

BILLING CODE 8010–01–M

[24] Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45829.

[25] *See supra* note 18 and accompanying text.

[26] *See supra* note 19 and accompanying text.

[27] In addition, the Amex and the Options Price Reporting Authority ("OPRA") have stated that they have the necessary systems capacity to support those new series of index options that would result from the introduction of options and long-term options on the REIT Index. *See* letter from Edward Cook, Jr., Managing Director, Information Technology, Amex, to Michael Walinskas, Branch Chief, Division of Market Regulation, Commission, dated May 2, 1995; and letter from Joseph P. Corrigan, Executive Director, OPRA, to Michael Walinskas, Branch Chief, Division of Market Regulation, Commission, dated May 23, 1995.

[28] The Commission notes that although 90.8% of the Index's components currently are options eligible, the Exchange's proposed maintenance criteria do not require a minimum percentage of components to be options eligible securities. The Amex maintenance criteria will require for each component, however, that it have a minimum market capitalization of $75 million, a market price of at least $5.00 for specified periods, and a trading volume of at least 900,000 shares during the preceding six months. These criteria are generally consistent with the Amex's generic narrow-based index option maintenance listing standards. *See* Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062. The Commission also notes that the Index is made up of a large number of securities (currently 87), and that the eight component securities that are not options eligible, representing 9.2% of the number of securities in the Index, account for only 4.33% of the Index value. *See supra* Section II.B., *Composition of the Index*. Therefore, the Commission believes that the listing and trading of REIT Index options will not have an adverse market impact.

[29] *See* Securities Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376.

[30] 15 U.S.C. 78f(b)(5) (1988).

[31] 17 CFR 200.30–3(a)(12) (1994).