receive payment in U.S. dollars to the extent that the index value has increased above the prestated cash settlement value. Warrants that are ''out-of-the-money'' at the time of expiration will expire worthless.

*Warrant Listing Standards and Customer Safeguards*

The Exchange has established listing standards for index warrants which are contained in CBOE Rule 31.5E.[5] The Exchange also has established certain sales practice rules for the trading of index warrants which are contained in Chapter IX of the Exchange's Rules. The Exchange represents that the listing and trading of index warrants on the Japan Export Index will be subject to these guidelines and rules.

The Exchange has submitted to the Commission a proposed rule change to amend its listing criteria for stock index warrants.[6] The Exchange represents that the Generic Warrant Listing Standards will be applicable to the listing and trading of currency and index warrants generally, including Japan Export Index warrants. If the listing of Japan Export Index warrants is approved prior to Commission approval of the Generic Warrant Listing Standards, the CBOE represents that it will require that (1) these warrants be sold only to accounts approved for the trading of standardized options[7] and (2) index options margin will be applied.[8] Finally, prior to the commencement of trading, the Exchange will distribute a circular to its membership calling attention to certain compliance responsibilities when handling transactions in the Japan Export Index warrants.[9]

*Surveillance*

The Exchange expects to apply its existing index warrant surveillance procedures to Japan Export Index warrants. The Exchange has a market surveillance agreement with the Tokyo Stock Exchange (''TSE'') which was obtained in connection with CBOE trading of options of the Nikkei 300 Index (''Nikkei 300''). Approximately 73% of the stocks in the Index are also components of the Nikkei 300 Index. The Exchange notes that the TSE is under the regulatory oversight of the Ministry of Finance (''MOF'') and believes that the ongoing oversight of all securities trading activity on the TSE by the MOF will help to ensure that trading of the component securities included in the Japan Export Index will be appropriately monitored. Finally, the Exchange is aware of a Memorandum of Understanding (''MOU'') between the Commission and the MOF that provides a framework for mutual assistance in investigatory and regulatory matters.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act, in particular, in that it is designed to facilitate transactions in securities and to remove impediments to and perfect the mechanism of a free and open market and facilitate transactions in securities because the Index warrants will provide investors a means by which to hedge existing investments in the Japanese equity market.

*(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.

*(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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to SR–CBOE–95–41 and should be submitted by September 18, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[10]

**Margaret H. McFarland,**

*Deputy Secretary.*

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**[Release No. 34–36122; File No. SR–Phlx–95–54]**

## Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Extending the Pilot Program for Equity and Index Option Specialist Enhanced Parity Split Participations

August 18, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on August 3, 1995, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared

[5] Currently, Rule 31.5E provides that: (1) Issues of warrants must substantially exceed the Exchange's criteria for the listing of equity issues under CBOE Rule 31.5A and have assets in excess of $100 million; (2) particular warrant issues must have at least (i) one million warrants outstanding, (ii) a principal amount/aggregate market value of $4 million, and (iii) 400 public holders; and (3) warrant issues must have a term of one to five years from the date of issuance.

[6] These proposed standards will govern all aspects of the listing and trading of index warrants, including, position and exercise limits, reportable positions, automatic exercise, settlement, margin, and notification of early exercise. *See* Securities Exchange Act Release No. 35178 (December 29, 1994), 60 FR 2409 (January 9, 1995) (notice of File No. SR–CBOE–94–34) (''Generic Warrant Listing Standards'').

[7] *See* CBOE Rule 9.7.

[8] Telephone conversation between Eileen Smith, Director, Product Development, Research Department, CBOE, and John Ayanian, Attorney, Office of Market Supervision (''OMS''), Division of Market Regulation (''Market Regulation''), Commission, on August 17, 1995.

[9] *Id.*

[10] 17 CFR 200.30–3(a)(12).

by the Exchange. 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 Phlx proposes to extend until August 26, 1996, the Exchange's enhanced parity participation (''Enhanced Parity Split'') pilot program for Equity and index option specialists (''Pilot Program''). Amendments to the wording in Exchange Rule 1014(g)(ii) and Options Floor Procedure Advice B–6 (Priority of Option Orders for Equity Options and Index Options by Account Type) (''Advice B–6'') are also being made to correct certain language pertaining to the Enhanced Parity Split and to note the change in the expiration date of the Pilot Program. The text of the proposed rule change is available at the Office of the Secretary, the Phlx, 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 Phlx included statements concerning the purpose of and basis for the proposed rule change. The Text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (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*

In August 1994, the Commission approved, as a one-year pilot program, which expires on August 26, 1995, the Exchange's proposal to adopt an enhanced specialist participation in parity equity option trades.[1] In November 1994, the Commission approved the Exchange's request to expand the Enhanced Parity Split to include index option specialists as well as equity option specialists.[2] The Enhanced Parity Split was again amended in March 1995, to modify the Pilot Program where less than three controlled accounts [3] are on parity with the specialist.[4] The Enhanced Parity Split is only applicable to 50% of each specialist units's issues listed prior to August 26, 1994, and to all option classes listed after that date.[5]

The Enhanced Parity Split, as amended, applies in those situations where an equity or index options specialist is on parity with one or more controlled accounts for orders involving more than five contracts. Specifically: when an equity or index option specialist is on parity with one controlled account, the specialist receives 60% of the contracts and the controlled account receives the remaining 40%; when a specialist is on parity with two controlled accounts, the specialist receives 40% of the contracts and each controlled account receives 30%; and when a specialist is on parity with three or more controlled accounts, the specialist is counted as two crowd participants for purposes of allocating the contracts. In all of these situations, if a customer is on parity, the customer will not be disadvantaged by receiving a lesser allotment than any other crowd participant, including the specialist.

Although the Enhanced Parity Split was approved in August 1994, the Exchange did not actually implement the program until late October 1994, due to logistical issues regarding the specialists' lists of options classes that would be subject to the Enhanced Parity Split and how to divide the contracts where there was an odd number of contracts involved. The Exchange therefore represents that it has only had the opportunity to conduct two quarterly reviews of the Enhanced Parity Split pursuant to Exchange Rule 509 to ensure that specialists receiving the Enhanced Parity Split are complying with the Exchange's minimum performance standards.[6] Thus, because the Enhanced Parity Split has not been in operation for a full year and because the Exchange's Quality of Markets Subcommittee has not had the opportunity, in the Phlx's opinion, to properly judge the effectiveness of the Pilot Program, the Exchange has determined to extend the program for an additional year. Accordingly, the Phlx requests that the Enhanced Parity Split be extended until August 26, 1996. Exchange Rule 1014(g)(ii) Advice B–6, which contains the text of Rule 1014, will be amended to reflect the new expiration date for the Pilot Program.

In addition, Exchange Rule 1014(g)(ii), which describes the Enhanced Parity Split, is being amended in order to correct an error that the Exchange represents was made when the program was amended in March 1995.[7] The Exchange statues that the intent of that amendment, as stated in the Phlx's proposal and in the Commission's approval order, was to give specialists the following levels of enhanced participation for parity trades involving more than five contracts: 60% of the contracts when the specialist is on parity with only one controlled account; 40% when the specialist is on parity with two controlled account; and to count the specialist as two crowd participants when the specialist is on parity with three or more controlled accounts.[8] The rule language proposed by the Exchange and subsequently approved by the Commission in connection with that filing, however, incorrectly states that ''where there are two *or more* controlled accounts are on parity * * * the specialist is entitled to 40% of the initiating order'' (emphasis added). The Exchange states that the phrase ''or more'' is incorrect. Accordingly, the Exchange is also proposing to delete the phrase ''or more'' from the rule language cited above. Similarly, the Exchange is also amending Section C of Advice B–6 to make the same change.

In the Commission's order originally approving the Enhanced Parity Split, it was noted that prior to granting an extension or permanent approval of the Pilot Program, the Commission would require the Exchange to make any changes necessary to ensure that competition is not being unnecessarily restrained and that investors are not being harmed by the enhanced participation provisions.[9] As to the issue of competition, the Exchange represents that it did find that the Enhanced Parity Split as originally approved was overly burdensome when only one or two controlled accounts were on parity with the specialist. As a result, the Exchange states that it corrected this problem by its amendment to the Enhanced Parity Split in March 1995, as discussed above, that

[1] *See* Securities Exchange Act Release No. 34606 (August 26, 1994), 59 FR 45741 (September 2, 1994).

[2] *See* Securities Exchange Act Release No. 35028 (November 30, 1994), 59 FR 63151 (December 7, 1994).

[3] A controlled account is defined as ''any account controlled by or under common control with a member broker-dealer.'' Customer accounts, which include discretionary accounts, are defined as all accounts other than controlled accounts and specialists accounts. *See* Phlx Rule 1014(g).

[4] *See* Securities Exchange Act Release No. 35429 (March 1, 1995), 60 FR 12802 (March 8, 1995).

[5] The Exchange also has an additional enhanced parity split program that is limited to ''new'' option specialist units trading newly listed options classes where the specialist is on parity with two or more registered options traders. The enhanced parity split for new specialist units was approved on a permanent basis and is therefore not included in this proposed rule change. *See* Securities Exchange Act Release No. 34109 (May 25, 1994), 59 FR 28570 (June 2, 1994).

[6] *See sipra* note 1.

[7] *See sipra* note 4.

[8] *Id.*

[9] *See supra* note 1.

modified the program with respect to situations where a specialist is on parity with only one or two controlled accounts. As to the issue of investor protection, the Exchange believes that the provisions requiring specialists to assure that customers are not disadvantaged by the Enhanced Parity Split has been strictly enforced without incident. Moreover, the Exchange represents that it has not received any complaints, either orally or in writing, regarding the Enhanced Parity Split, in general, or from investors regarding inequitable splits, in particular.

The Phlx represents that the proposed rule change is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5),[10] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices; to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest. Specifically, the Exchange represents that the proposal balances the competing interests of specialists and market makers while assisting specialists in making tight and liquid markets in their assigned options classes, and protects the public interest by requiring quarterly reviews and ensuring that customer orders are not disadvantaged by the Enhanced Parity Split.

*(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.

*(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: (1) Does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) the Exchange provided the Commission with notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b–4(e)(6) thereunder.[11]

A proposed rule change filed under Rule 19b–4(e)[12] does not become operative prior to thirty days after the date of filing or such shorter time as the Commission may designate if such action is consistent with the protection of investors and the public interest. The Phlx has requested, in order for the Pilot Program to continue in operation without interruption, that the Commission accelerate the implementation of the proposed rule change so that it may take effect prior to the thirty days specified under Rule 19b–4(e)(6). The Commission finds that the proposed rule change is consistent with the protection of investors and the public interest and therefore has determined to make the proposed rule change operative as of August 27, 1995.

Additionally, the Commission believes that the conditions stated in the original approval order for extending the Pilot Program have been satisfied.[13] Specifically, the Phlx has stated that: (1) The previous amendments to the Pilot Program have served to assure that the Enhanced Parity Split is not unnecessarily restraining competition; (2) the Pilot Program contains sufficient safeguards to prevent customers from being disadvantaged by the application of the Enhanced Parity Split; and (3) no complaints have been received by the Phlx regarding the Pilot Program. As a result, the Commission believes that extending the Pilot Program for one year, until August 26, 1996, is appropriate and consistent with the Act.[14]

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. 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 at the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR–Phlx–95–54 and should be submitted by September 18, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[15]

**Margaret H. McFarland,**

*Deputy Secretary.*

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[10] 15 U.S.C. 78f(b)(5) (1988).

[11] 17 CFR 240.19b–4(e)(6) (1994).

[12] *Id.*

[13] *See supra* note 1.

[14] The Commission notes that in connection with any future request by the Exchange for the Commission to either further extend or permanently approve the Pilot Program, the Exchange will be required to submit to the Commission a report discussing (1) whether the Pilot Program has generated any evidence of any adverse effect on competition or investors, in particular, or the market for equity or index options, in general, (2) whether the Exchange has received any complaints, either written or otherwise, concerning the operation of the Pilot Program, and (3) whether the Exchange has taken any disciplinary action against, or commenced any investigations, examinations, or inquiries concerning the operation of the Pilot Program, as well as the outcome of any such matter. Any request for either a further extension or permanent approval of the Pilot Program, along with the above report, should be submitted to the Commission no later than June 1, 1996.

[15] 17 CFR 200.30–3(a)(12) (1994).

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**[Release No. 34–36129; File No. SR–NASD–95–27]**

## Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Approving Proposed Rule Change Relating to the Adjustment of Open Orders

August 22, 1995.

## I. Introduction

On February 3, 1995, the National Association of Securities Dealers, Inc. (''NASD'' or ''Association'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') a proposed rule change pursuant to Section 19(b)(1) of the Securities