

converts this financial information into a form consistent with Rule 15c3-1 under the Act.<sup>5</sup>

The capital formula applied under Canadian securities regulations to Canadian securities firms has been revised and incorporated into a new standard report format. The prior capital formula applied a minimum capital requirement, as assessed by a working capital computation (*i.e.*, total capital less non-allowable assets), based upon volume of business determined by a percentage of adjusted liabilities. The new capital formula continues to be based on a working capital computation minus certain charges, including charges that reflect the risk of proprietary securities held in inventory. However, the new capital formula replaces the concept of adjusted liabilities with revised definitions of allowable assets and margin charges that are intended to reflect the credit worthiness of counterparties and the economic substance of transactions. The report format used by Canadian securities firms to report their capital computation also has been revised. OCC proposes to change its financial requirements and reporting rules to conform them to the revised capital formula and reporting format.

Specifically, the current Interpretations and Policies ("Interpretation") .01 to OCC Rule 301, regarding initial financial requirements, provides that a Canadian Clearing Member that commenced doing business as a broker or dealer within twelve months prior to its admission to Clearing Membership must maintain "initial net free capital," as defined in the Supplementary Instructions re Completion of the Joint Regulatory Financial Questionnaire ("Supplementary Instructions"), of not less than ten percent of such Clearing Member's "adjusted liabilities," as defined in the Supplementary Instructions, until the later of (i) three months after its admission to Clearing Membership or (ii) twelve months after it commenced doing business as a broker or dealer. Currently, Interpretation .01 to OCC Rule 302, regarding minimum net capital requirements, provides that a Canadian Clearing Member shall maintain net free capital, as defined in the Supplementary Instructions, of not less than the amount of net free capital that would be required of such Clearing Member under Section 100.2 of the By-Laws of the Investment Dealers Association of Canada ("IDAC") if the Clearing Member was a member of the IDAC.

As proposed, Interpretation .01 to Rule 301 will require a Canadian Clearing Member to maintain an initial "early warning reserve" as determined in accordance with the Joint Regulatory Financial Questionnaire and Report ("JRFQ&R") of not less than \$1,000,000 (U.S.) for the same period as previously required. The proposed Interpretation .01 to Rule 302 will provide that the minimum net capital requirement of a Canadian Clearing Member be the early warning reserve as determined under the JRFQ&R in an amount not less than the greater of \$750,000 U.S.) or 2% of such Canadian Clearing Member's total margin requirement as determined in accordance with the JRFQ&R. Application of the early warning reserve as determined under the JRFQ&R also will replace the use of the net free capital formula as determined under the Supplementary Instructions in OCC Rules 303 and 304, respectively, regarding early warning notice and restrictions on distributions.

Finally, in connection with OCC's financial reporting requirements, each Canadian Clearing Member will be required to file its JRFQ&R with OCC on a monthly basis except as provided in the Interpretations to Rule 306. The JRFQ&R replaces the Joint Industry Monthly Financial Report previously required under the Interpretations to OCC's Financial Reporting Rule.

OCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the rule proposal will facilitate the prompt and accurate clearance and settlement of securities transactions and will assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

OCC does not believe that the proposed rule change will impact or impose a 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 relating to the proposed rule change have been solicited or received. OCC will notify the Commission of any written comments received by OCC.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty-five 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 ninety 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 OCC 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 in the Commission's Public Reference Room, 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 OCC. All submissions should refer to the file number SR-OCC-95-11 and should be submitted by October 4, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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<sup>5</sup> 17 CFR 240.15c3-1.

<sup>6</sup> 17 CFR 200.30-3(a)(12) (1994).

[Release No. 34-36193; File No. SR-PHLX-95-56]

**Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Listing of Options on the PHLX Forest and Paper Products Sector Index**

September 6, 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 15, 1995, the Philadelphia Stock Exchange, Inc. ("PHLX") or "Exchange") file with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. 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 list for trading cash-settled, European-style<sup>1</sup> options on the PHLX Forest and Paper Products Sector Index ("Index"), a new index developed by the Exchange. The Index is comprised of the stocks of 14 domestic forest and paper product companies which, the PHLX represents, effectively represent the available forest and paper products industry.

The text of the proposed rule change is available at the Office of the Secretary, 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 self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

<sup>1</sup> A European-style option can be exercised only during a specified period immediately prior to the expiration of the option.

**(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

The purpose of the proposed rule change is to list for trading cash-settled, European-style options on the Index. The Index is comprised of the stocks of 14 domestic forest and paper product companies which, the PHLX represents, effectively represent the available forest and paper products industry.<sup>2</sup> The Exchange also represents that the Index meets the generic criteria for listing options on narrow-based indexes as set forth in PHLX Rule 1009A, "Designation of the Index," as approved by the Commission.<sup>3</sup> Accordingly, the PHLX is submitting this proposed rule change pursuant to and in accordance with the procedures set forth in the Commission's Generic Index Approval Order.<sup>4</sup> The PHLX proposes to list and trade options on the Index no sooner than 30 days after August 15, 1995, the filing date of this proposed rule change. The contract specifications for the options on the proposed Index are as follows:

**Underlying Index:** The Index is an equal-dollar weighted index comprised of stocks from 14 domestic forest and paper products companies. All 14 stocks in the Index are traded on the New York Stock Exchange ("NYSE") and are therefore "reported securities" as defined in Rule 11Aa3-1 under the Act. The PHLX represents that all of the Index's component stocks presently meet the listing criteria for equity options contained in PHLX Rule 1009, "Criteria for Underlying Stocks," and are currently the subject of standardized options trading in the U.S.

According to the PHLX, as of August 4, 1995, the market capitalization of all of the stocks in the Index exceeded \$60 billion and the individual capitalizations of the Index's component stocks ranged from \$1.6 billion to \$10.8 billion. The PHLX states that all 14 of the Index's component stocks had monthly trading volumes in excess of one million shares over each of the past six months from February through July 1995. Accordingly, the Exchange represents that, with respect to the

<sup>2</sup> The components of the Index are: Boise Cascade; Bowater Inc.; Champion International Corporation; Federal Paper Board Company; Georgia Pacific Corporation; International Paper Company; James River Corporation; Louisiana Pacific Corporation; Mead Corporation; Stone Container Corporation; Temple Inland, Inc.; Union Camp Corporation; Westvaco Corporation; and Weyerhaeuser Company.

<sup>3</sup> See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) ("Generic Index Approval Order").

<sup>4</sup> See note 3, *supra*.

criteria for market capitalization and trading volume, the Index satisfies the generic listing standards as stated in PHLX Rule 1009A.

**Index Calculation:** The methodology used to calculate the Index is an equal dollar-weighting method, meaning that each of the Index's component stocks is represented in approximately equal dollar amounts. The Exchange believes that this method of calculation is important because it will provide each component issue with equivalent influence on the movement of the Index value instead of allowing one highly capitalized stock to dominate the movement of the Index. To determine the initial dollar weighting of the stocks, the Exchange calculated the number of shares of each stock that would represent an investment of approximately \$10,000 in each of the stocks comprising the Index based on closing prices on August 4, 1995. The value of the Index equals the current market value of the sum of the assigned number of shares of all of the stocks in the Index divided by the current Index divisor. The Index value was set at 250 at the close on January 31, 1995.

**Index Maintenance:** The Exchange will rebalance the Index quarterly, following the close of trading on the third Friday of each March, June, September, and December by changing the number of shares of each component stock so that each company is again represented in approximately \$10,000 "equal" dollar amounts. If it becomes necessary, a divisor adjustment will be made when rebalancing occurs to ensure the continuity of the Index's value. The newly adjusted portfolio will then become the basis for the Index's value on the first trading day following the quarterly adjustment.

The number of shares of each component stock in the Index will remain fixed between quarterly reviews, except in the event of certain types of corporate action, such as the payment of a dividend (other than an ordinary cash dividend), stock distribution, stock split, rights offering, recapitalization, reorganization or similar event with respect to the component stocks. In the case of a merger or consolidation of the issuer of a component stock, if the stock remains in the Index, the number of shares of that security in the portfolio may be adjusted to the nearest whole share to maintain the component's relative weight in the Index prior to the merger. Should a stock replacement occur, the average dollar value of the remaining portfolio components will be calculated and that amount invested in the stock of the new component, to the nearest whole share.

In selecting replacement components for the Index, the PHLX will take into account the capitalization, liquidity, volatility and name recognition of any proposed replacement stock and assure that the Index continues to meet the maintenance criteria in PHLX Rule 1009A(c). In each of the above cases, the divisor will be adjusted, if necessary, to ensure the continuity of the Index. If the Index fails at any time to satisfy the maintenance criteria set forth in the Generic Index Approval Order,<sup>5</sup> the Exchange will notify the Commission immediately and will not open for trading any additional series of options on the Index unless the Exchange determines such failure is not significant and the Commission concurs in that determination or unless the continued listing of options of the Index has been approved by the Commission under Section 19(b)(2) of the Act.

Pursuant to the Generic Index Approval Order,<sup>6</sup> the PHLX will not increase to more than 19, or decrease to fewer than 9, the number of stocks in the Index, nor will the PHLX make any change in the composition of the Index that would cause fewer than 90% of the stocks, by weight, or fewer than 80% of the total number of stocks in the Index to qualify as stocks eligible for equity options trading under PHLX Rule 1009, "Criteria for Underlying Stocks."<sup>7</sup>

The Index will be updated dynamically and disseminated every 15 seconds during the trade day. The PHLX has retained Bridge Data, Inc. to compute and perform all necessary maintenance of the Index. Pursuant to PHLX Rule 1100A, "Dissemination of Information," updated Index values will be disseminated and displayed by means of primary market prints reported by the Consolidated Tape Association and over the facilities of the Options Price Reporting Authority ("OPRA").<sup>8</sup> The Index value also will be available

<sup>5</sup> See note 3, *supra*.

<sup>6</sup> See note 3, *supra*.

<sup>7</sup> In addition, the Generic Index Approval order requires that at all time, at least 90% of the stock in the Index, by weight, and 80% of the total number of stocks comprising the Index, individually, must satisfy the Exchange's rules governing the listing and maintenance of listing of options thereon. See Generic Index Approval Order, *supra* note 3.

<sup>8</sup> The PHLX represents that the PHLX and OPRA have the necessary systems capacity to support the new series of options that will result from the introduction of options and long-term options on the Index. See Letter from Joseph Corrigan, Executive Director, OPRA, to Murray Ross, Secretary, PHLX, dated August 17, 1995; and Letter from William H. Morgan, Vice President, Trading Systems, PHLX, to Michael Walinskas, Branch Chief, Office of Market Supervision, Commission, dated August 22, 1995.

on broker/dealer interrogation devices to subscribers of the option information.

**Unit of Trading:** Each options contract will represent \$100, the Index multiplier, times the Index value. For example, an Index value of 200 will result in an option contract value of \$20,000 ( $\$100 \times 200$ ).

**Exercise Price:** The exercise price will be set at 5 point intervals in terms of the current value of the Index. The PHLX will list additional exercise prices in accordance with PHLX Rule 1101A(a), "Terms of Option Contracts."

**Aggregate Exercise Price:** The aggregate exercise price is found by multiplying the Index multiplier (\$100) by the exercise price.

**Settlement Price Determination:** The Index option settlement value will be determined by using the opening prices of the component stocks on the third Friday of each month.

**Settlement Value:** Based upon the operating prices of the component stocks on the last day prior to expiration.

**Last Trading Day:** The Thursday prior to the third Friday of the month for options which expire on the Saturday following the third Friday of that month.

**Trading Hours:** 9:30 a.m. to 4:10 p.m. EST.

**Position and Exercise Limits:** The Index is an industry index and the PHLX will apply position and exercise limits pursuant to PHLX Rules 1001A(b) (i), "Position Limits," and 1002A, "Exercise Limits," respectively.

**Expiration Cycles:** Three months from the March, June, September, December cycle plus at least two additional near-term months. The PHLX also will trade long-term Index options having up to 36 months to expiration pursuant to PHLX Rule 1101A(b) (iii).

**Issuer and Guarantor:** The Options Clearing Corporation ("OCC").

**Premium Quotations:** Premiums will be expressed in terms of dollars and fractions of dollars pursuant to PHLX Rule 1033A, "Meaning of Premium Bids and Offers." For example, a bid or offer of 1½ will represent a premium per options contract of \$150 ( $1\frac{1}{2} \times 100$ ). The minimum change in a premium under \$3 will be 1/16 and 1/8 for a quote of \$3 or greater.

The Index options will be traded pursuant to current PHLX rules governing the trading of index options.<sup>9</sup> In addition, the Exchange represents that surveillance procedures currently

<sup>9</sup> See PHLX Rules 1001A through 1102A, "Limitation of Exchange Liability," and 1000, "Applicability, Definitions, and References," through 1072, "Reporting Requirements Applicable to Short Sales in NASD/NM Securities."

used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in Index options. These procedures include having complete access to trading activity in the underlying securities, which are all traded on the NYSE. In addition, the Intermarket Surveillance Group Agreement ("ISG Agreement"), dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of Index options.

The PHLX believes that the proposal is consistent with Section 6(b) of the Act, in general, and, in particular, with Section 6(b)(5), in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, as well as to protect investors and the public interest.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The PHLX does not believe that the proposed rule change will impose any inappropriate burden on competition.

*(C) Self-Regulatory Organization's Statement and Comments on the Proposed Rule Change Received from Members, Participants or Others*

No written comments were either solicited or received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Because the foregoing rule change complies with the standards set forth in the Generic Index Approval Order,<sup>10</sup> it has become effective pursuant to Section 19(b)(3)(A) of the Act and subparagraph (e) of Rule 19b-4 thereunder. Pursuant to the Generic Index Approval Order, the Exchange may not list Index options for trading prior to 30 days after August 15, 1995, the date the proposed rule change was filed with the Commission. At any time within 60 days of the filing of such 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.

<sup>10</sup> See note 3, *supra*.

#### 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. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by October 4, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-36194; File No. SR-PHLX-95-16]

#### Self-Regulatory Organization; Order Approving Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Modifications of the Position and Exercise Limits for Narrow-Based Index Options

September 6, 1995.

##### I. Introduction

On March 6, 1995, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 PHLX Rule 1001A, "Position Limits," to increase the position and exercise limits<sup>3</sup> for narrow-based (or

industry) index options from the current levels of 5,500, 7,500, or 10,500 contracts to 6,000, 9,000, or 12,000 contracts.

Notice of the proposed rule change appeared in the **Federal Register** on May 16, 1995.<sup>4</sup> No comments were received on the proposal.

##### II. Background and Description

Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of option contracts that a member or customer can hold or exercise. These rules are intended to prevent the establishment of large options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. At the same time, the Commission has recognized that option position and exercise limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market.<sup>5</sup>

In 1983, the PHLX set position and exercise limits for narrow-based index options at 4,000 contracts.<sup>6</sup> In 1993, the Commission approved a PHLX proposal to amend PHLX Rule 1001A to increase the position limits for narrow-based index options to the current levels of 5,500, 7,500, or 10,500 contracts.<sup>7</sup> The

investors acting in concert may hold or write in each class of options on the same side of the market (i.e., aggregating long calls and short puts or long puts and short calls). Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days. PHLX Rule 1002A, "Exercise Limits," states that for the purposes of determining compliance with PHLX Rule 1002, "Exercise Limits," exercise limits for index option contracts shall be equivalent to the position limits described in PHLX Rule 1001A.

<sup>4</sup> See Securities Exchange Act Release No. 35694 (May 9, 1995), 60 FR 26067.

<sup>5</sup> See, e.g., Securities Exchange Act Release No. 33285 (December 3, 1993), 58 FR 65201 (December 13, 1993) (order approving File No. SR-Amex-93-27) (increasing position and exercise limits for equity options and narrow-based index options).

<sup>6</sup> See Securities Exchange Act Release No. 20437 (December 2, 1983), 48 FR 55229 (December 9, 1983) (order approving File No. SR-PHLX-83-17).

<sup>7</sup> See Securities Exchange Act Release No. 33288 (December 3, 1993), 58 FR 65221 (December 13, 1993) (order approving File No. SR-PHLX-93-07) ("1993 Approval Order"). Specifically, PHLX Rule 1001A(b)(1) currently provides the following position limits for industry index options: (i) 5,500 contracts for an index where a single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits; (ii) 7,500 contracts for an index where a single component

PHLX proposes to amend Exchange Rule 1001A(b)(1) to increase the position and exercise limits for industry index options from 5,500, 7,500, or 10,500 contracts to 6,000, 9,000 or 12,000 contracts.<sup>8</sup>

The Exchange believes that its proposal is consistent with the Act for several reasons. First, the Exchange notes that the current industry index option position limits have been in place since 1993 and that there have been no further increases in position limits for narrow-based index options since that time, despite substantial changes in the marketplace. Most notable among these changes, according to the PHLX, is an appreciable growth in index options trading. The PHLX states that this marked increase in index options volume has significantly increased liquidity in PHLX-traded index options.<sup>9</sup>

Second, the Exchange believes that the proposed increases are reasonable and consistent with the gradual, evolutionary approach adopted previously by the Commission and the options exchanges when increasing position and exercise limits.<sup>10</sup> Accordingly, the PHLX proposes a 9% increase in the lowest tier (from 5,000 to 6,000 contracts); a 20% increase for options currently at the 7,500 contract limit (increased to 9,000 contracts); and a 15% increase in the highest tier, currently at 10,500 contracts (increased to 12,000 contracts).

Third, the Exchange believes that the proposed increases are needed by traders and investors. According to the PHLX, Exchange members and customers have asked the Exchange to propose an increase in position limits, primarily because interested trading

stock accounted, on average, for 20% or more of the index value or any five component stocks together accounted, on average, for more than 50% of the index value but no single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits; or (iii) 10,500 contracts where the conditions requiring a limit of 5,500 contracts or 7,500 contracts have not occurred.

<sup>8</sup> The PHLX currently trades options on the following narrow-based indexes: (1) the Gold/Silver Index ("XAU") 5,500 contracts; (2) the Utility Index ("UTY") (10,500 contracts); (3) the PHLX/KBW Bank Index ("KBX") (10,500 contracts); (4) the Phone Index ("PNX") (5,500 contracts); (5) the Semiconductor Index ("SOX") (7,500 contracts); and (6) the Airline Sector Index ("PLN") (10,500 contracts).

<sup>9</sup> The PHLX states that index options volume increased 450% (from 354,614 contracts to 1,957,171 contracts in 1994 as compared to 1993).

<sup>10</sup> According to the PHLX, the most recent position limit changes in 1993 represented changes of 38% (from 4,000 to 5,500 contracts); 25% (from 6,000 to 7,500 contracts); and 31% (from 8,000 to 10,500 contracts).

<sup>11</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1994).

<sup>3</sup> Position limits impose a ceiling on the number of option contracts which an investor or group of