

Term Notes ("ELNs").³ ELNs are intermediate term (two to seven years), non-convertible, hybrid debt instruments, the value of which is linked to the performance of a highly capitalized, actively traded U.S. and non-U.S. companies.

In August 1994, the Exchange amended Section 107B of the Amex Company Guide to permit the listing and trading of ELNs linked to actively traded non-U.S. companies which are traded in the U.S. market as sponsored American Depositary Shares, ordinary shares or otherwise ("non-U.S. securities"), provided that (1) the Exchange has in place a comprehensive surveillance sharing agreement with the primary exchange on which the non-U.S. security trades; or (2) the trading volume of the non-U.S. security in the U.S. market represents at least 50% of the world-wide trading volume in the non-U.S. security ("50% Test").⁴

The Exchange now proposes to amend its ELNs on non-U.S. security listing criteria by (1) revising the manner in which the applicable percentage of world-wide trading volume is calculated under the 50% Test; and (2) adding new criteria for the listing of ELNs on non-U.S. securities, based on the daily trading volume in the U.S. Specifically, the Exchange proposes to revise the 50% Test so that trading in non-U.S. securities and other related non-U.S. securities in any market with which the Exchange has in place a comprehensive/effective surveillance sharing agreement will be added to U.S. market volume for the purpose of determining whether the 50% Test has been met. Currently, only trading in the U.S. market counts toward satisfying the 50% Test.

In addition, the Exchange proposes to add an alternate set of criteria under which the Exchange may list ELNs on non-U.S. securities ("Daily Trading Volume Standard"). The new standard will permit the Exchange to list ELNs on non-U.S. securities if all of the following conditions are satisfied: (1) the combined world-wide trading volume for the non-U.S. security in the U.S. market or in any market with which the Exchange has in place a comprehensive surveillance sharing agreement represents (on a share equivalent basis) at least 20% of the combined world-wide trading volume in the non-U.S. security and other related non-U.S. securities over the six month period preceding the date of selection of the

non-U.S. security for an ELN listing; (2) the average daily trading volume for the non-U.S. security in the U.S. market over the six months preceding the date of selection of the non-U.S. security for an ELN listing is at least 100,000 shares; and (3) the trading volume for the non-U.S. security in the U.S. market is at least 60,000 shares per day for a majority of the trading days for the six months preceding the date of selection of the non-U.S. security for an ELN listing.

The Exchange believes that the alternate criteria is appropriate in that it limits the listing of ELNs linked to non-U.S. securities to those that have both a significant amount of U.S. market trading volume and a substantial volume of trading covered by a comprehensive/effective surveillance sharing agreement, which gives the Exchange the ability to inquire into potential trading problems or irregularities in a market place that serves as a significant price discovery market for the non-U.S. security. Thus, the proposed requirement of observable, high trading volumes, should ameliorate any regulatory concern regarding investor protection and, at the same time, allow investors to trade ELNs linked to more non-U.S. securities.

The Exchange also believes that the proposed amendment will benefit investors by expanding the number of non-U.S. securities that may be linked to ELNs, thereby providing investors with enhanced investment flexibility. The Exchange believes that it is appropriate to now include additional non-U.S. securities within the existing regulatory framework because of the significant level of U.S. investor interest in both U.S. and non-U.S. highly capitalized and actively traded reporting companies.

The Exchange believes 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) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

(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 proposal. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., 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 Section, 450 Fifth Street NW., Washington, D.C. 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-Amex-95-44 and should be submitted by December 28, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

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³ See Securities Exchange Act Release Nos. 32345 (May 20, 1993), 58 FR 30833 (May 27, 1993), and 33328 (December 13, 1993), 58 FR 66041 (December 20, 1993).

⁴ See Securities Exchange Act Release No. 34549 (August 18, 1994), 59 FR 43873 (August 25, 1994).

⁵ 17 CFR 200.30-3(a)(12).

[Release No. 34-36537; File Nos. SR-Amex-95-45; and SR-PSE-95-30]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the American Stock Exchange, Inc., and Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Pacific Stock Exchange, Inc. Relating to Modifications of the Position and Exercise Limits for Narrow-Based Index Options

November 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 15, 1995, the American Stock Exchange, Inc. ("Amex"); and on November 16, 1995, the Pacific Stock Exchange, Inc. ("PSE") (each individually referred to as an "Exchange" and both collectively referred to as "Exchanges") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule changes as described in Items I and II below, which Items have been prepared by the self-regulatory organizations.² The Commission is approving the proposals on an accelerated basis.

I. Self-Regulatory Organizations' Statements of the Terms of Substance of the Proposed Rule Changes

The Exchanges propose to amend their rules to increase the position and exercise limits³ 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.⁴ The Commission has

approved identical proposal by the Philadelphia Stock Exchange, Inc. ("PHLX") and by the Chicago Board Options Exchange, Inc. ("CBOE").⁵

The texts of the proposed rule changes are available at the offices of the Exchanges, and at the Commission.

II. Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In their filings with the Commission, the self-regulatory organizations included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organizations have prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

The Exchanges propose to amend their rules to increase the position and exercise limits 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. The Exchanges note that the Commission has approved identical proposals by the PHLX and the CBOE.⁶

Currently, the Exchanges' rules establish 5,500, 7,500, and 10,500 contract levels as position limits for industry index options. The Exchanges propose to increase these limits to 6,000, 9,000, and 12,000 contracts,

"Exercise Limits." Under the Exchanges' rules, the current position limits for industry index options are as follows: (1) 5,500 contracts if the Exchange determines in its semi-annual review that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; (2) 7,500 contracts if the Exchange determines in its semi-annual review that any single underlying stock accounted, on average, for more than 20% of the index value or that any five underlying stocks accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or (3) 10,500 contracts if the Exchange determines that the conditions requiring the establishment of a lower limit have not occurred.

⁵ See Securities Exchange Act Release Nos. 36194 (September 6, 1995), 60 FR 47637 (September 13, 1995) (order approving File No. SR-PHLX-95-16) ("PHLX Approval Order"); and 36439 (October 31, 1995), 60 FR 56075 (November 6, 1995) (order approving File No. SR-CBOE-95-56) ("CBOE Approval Order").

⁶ *Id.*

respectively. Under the Exchanges' rules, exercise limits correspond to position limits.

The Exchanges note that the current position and exercise limits have been in place since 1993⁷ and that there have been no further increases in position limits for narrow-based index options since that time, despite appreciable growth in index options trading. According to the Amex, there has been a notable increase in narrow-based index option trading since 1993. Specifically, the Amex states that through October 31, 1995, narrow-based index option volume has increased 79% over all of 1994.

In addition, the Exchanges believe 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.⁸ Accordingly, the Exchanges propose a 9% increase for the lowest tier (5,000 to 6,000 contracts); a 20% increase for the middle level position limit (from 7,500 to 9,000 contracts); and a 15% increase in the highest level (from 10,500 contracts to 12,000 contracts).

The Exchanges also believe that the proposed increases are required by traders and investors to meet their investment needs. In this regard, the Exchanges believe that the current position limit levels create difficulties for investors in narrow-based index options, especially those institutional investors who own large portfolios of the component securities and who wish to use the options markets to hedge those portfolios. The Exchanges propose to raise the position and exercise limits for narrow-based index options to accommodate the liquidity and hedging needs of large investors and the institutions that compete to facilitate the trading interests of the large investors.

Finally, the Exchanges believe that the proposed limits of 6,000, 9,000, and 12,000 contracts will increase the depth and liquidity of the market for industry index options without causing any market disruption. The Exchanges represent that they will continue to monitor and surveil for manipulation and violations of the position and exercise limits. Specifically, the Amex

⁷ See Securities Exchange Act Release Nos. 33282 (December 3, 1993), 58 FR 65218 (December 13, 1993) (order approving File No. SR-PSE-93-38); and 33285 (December 3, 1993), 58 FR 65201 (December 13, 1993) (order approving File No. SR-Amex-93-27).

⁸ According to the PSE, 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).

¹ 15 U.S.C. 78s(b)(1) (1988).

² On November 27, 1995, the PSE amended its proposal to submit its filing pursuant to Section 19(b)(2) under the Act and to request accelerated effectiveness of the proposal. See Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to Yvonne Fraticelli, Office of Market Supervision, Division of Market Regulation, Commission, dated November 27, 1995 ("Amendment No. 1").

³ Position limits impose a ceiling on the number of option contracts which an investor or group of 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.

⁴ The Amex's position and exercise limits for industry index options are provided in Amex Rules 904C, "Position Limits," and 905C, "Exercise Limits." The PSE's position and exercise limits for industry index options are provided in PSE Rules 7.6, "Position Limits for Index Options," and 7.7,

states that it will use monitoring systems currently in place to detect and deter attempted manipulative activity and other trading abuses through the use of illegal positions by market participants. The PSE states that it will monitor the markets for evidence of manipulation or disruption caused by investors with positions at or near current position or exercise limits and that the proposed limits will not diminish the surveillance function in this regard.

The Exchanges believe that the proposals to increase narrow-based index option position limits are consistent with Section 6 of the Act, in general, and, in particular, with Section 6(b)(5), in that they are designed to promote just and equitable principles of trade and to prevent fraudulent and manipulative acts and practices. The Amex also believes that the proposal is not designed to permit unfair discrimination between customers, issuers, brokers or dealers. The PSE also believes that the proposal is designed to protect investors and the public interest.

(B) Self-Regulatory Organizations' Statements on Burden on Competition

The Exchanges do not believe that the proposed rule changes will impose any burden on competition.

(C) Self-Regulatory Organizations' Statements on Comments on the Proposed Rule Changes Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule changes.

III. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Changes

The Exchanges have requested that the proposed rule changes be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act. As noted above, the Commission has previously approved identical proposals submitted by the PHLX and the CBOE.⁹

The Commission finds that the proposed rule changes are 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).¹⁰ Specifically, the Commission finds that the proposed position and exercise limits for narrow-based index options should accommodate the needs of investors and market participants and

should increase the potential depth and liquidity of the options market as well as the underlying cash market without significantly increasing concerns regarding intermarket manipulations or disruptions of the market for the options or the underlying securities.

As noted above, the Commission believes that although the position and exercise limits for options must be sufficient to protect the options and related markets from disruptions by manipulation, the 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 market makers from adequately meeting their obligations to maintain a fair and orderly market. In this regard, the Exchanges have stated that they believe that the proposals will increase the depth and liquidity of the market for industry index options without causing any market disruption. In addition, the Exchanges represent that they will continue to conduct surveillance for manipulation and other trading abuses.

The Commission notes that the proposals, while increasing the applicable position and exercise limits for narrow-based index options, continue to reflect the unique characteristics of each index option and maintain the structure of the current three-tiered system. Specifically, the lowest proposed limit, 6,000 contracts, will apply to narrow-based index options in which a single underlying stock accounts 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. Limits of 9,000 contracts will apply if any single underlying stock accounts, on average, for 20% or more of the index value or any five underlying stocks account, on average for more than 50% of the index value, but no single stock in the group accounts, 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. The 12,000-contract limit will apply only if the Exchange determines that the conditions requiring either the 6,000-contract limit or the 9,000-contract limit have not occurred. Accordingly, the proposal allows the Exchanges to avoid placing unnecessary restraints on those narrow-based index options where the manipulative potential is the least and the need for increased positions, both by traders and institutional investors, may be the greatest.

The Commission believes that the proposed increases for the three tiers of 9%, 20%, and 15%, for lowest to highest, respectively, appear to be appropriate and consistent with the Commission's evolutionary approach to position and exercise limits. In this regard, the absence of discernible manipulative problems under the current three-tiered position and exercise limit system for narrow-based index options leads the Commission to conclude that the modest increases proposed by the Exchanges are warranted. The Commission recognizes that there are no ideal limits in the sense the options positions of any given size can be stated conclusively to be free of any manipulative concerns. However, based upon the absence of discernible manipulation or disruption problems under current limits, the Commission believes that the proposed limits can be safely considered. Accordingly, the Commission believes that the liberalization of existing position and exercise limits for narrow-based index options is now appropriate.¹¹

The Commission notes that the Exchanges have had considerable experience monitoring the current three-tiered framework in narrow-based stock index options. The Commission has not found that differing position and exercise limit requirements based on the particular options product to have created programming or monitoring problems for securities firms, or to have led to significant customer confusion. Based on the current experience in handling position and exercise limits, the Commission believes that the proposed increases in position and exercise limits for narrow-based index options will not cause significant problems.

Finally, the Exchanges have indicated that they will continue to conduct surveillance for manipulation. The Commission believes that the Exchanges' surveillance programs are adequate to detect and deter violations of position and exercise limits as well as to detect and deter attempted manipulative activity and other trading abuses through the use of such illegal positions by market participants.

For the foregoing reasons, the Commission finds that the proposals to increase the position and exercise limits

¹¹ The Commission continues to believe that proposals to increase position limits and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for each tier, the Commission has concluded that the proposed exercise limit increases for the three-tiered framework do not raise manipulation problems or increase concerns over market disruption in the underlying securities.

⁹ See PHLX and CBOE Approval Orders, *supra* note 5.

¹⁰ 15 U.S.C. 78f(b) (1988 & Supp. V 1993).

for narrow-based index options to 6,000, 9,000, or 12,000 contracts, depending on the percentage stock concentrations within the index, are consistent with the requirements of the Act and the rules and regulations thereunder.

The Commission finds good cause for approving the proposed rule changes prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. As noted above, the Commission has previously approved identical proposals submitted by the PHLX and the CBOE.¹² The PHLX's proposals was published for the full notice and comment period and the Commission received no comments on the PHLX's proposal. The Exchanges' proposals raise no new regulatory issues. Accordingly, the Commission believes it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve the proposed rule changes on an accelerated basis. In addition, the Commission believes it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 1 to the PSE's proposal on an accelerated basis so that both proposals may become effective simultaneously.

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 changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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 filings will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organizations. All submissions should refer to the file numbers in the caption above and should be submitted by December 28, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹³ that the

proposed rule changes (SR-Amex-95-45 and SR-PSE-95-30) are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-36531; File No. SR-CHX-95-26]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to Listing Standards

November 30, 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 November 8, 1995, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("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 Exchange proposes to amend Article XXVIII of the Exchange's Rules to modify the Exchange's listing standards and create two tiers of listings.

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.

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

1. Purpose

The North American Securities Administration Association ("NASAA")¹ has endorsed certain listing standards as sufficient to warrant a state's granting exchange-listed securities a listing exemption from registration. The CHX proposes to modify its own listing standards to comply with those endorsed by NASAA and adopted by other stock exchanges.²

The CHX proposes changes to its Rules regarding the quantitative requirements for issuers and issues, qualitative requirements for issuers (e.g., corporate governance standards), and maintenance criteria for issues. In no case do the proposed changes decrease current CHX standards.

NASAA has entered into a Memorandum of Understanding ("MOU") with the Philadelphia Stock Exchange ("Phlx")³ and the Pacific Stock Exchange ("PSE").⁴ Those memoranda set out standards that NASAA recognizes as sufficient to warrant listing exemptions from state blue sky requirements. The proposed rules establish listing standards that are essentially identical to the standards set out in those two NASAA MOUs. Although the CHX is in the process of reaching a similar MOU with NASAA, the CHX's new listing standards are specifically designed to satisfy the listing standards endorsed by NASAA.

Other exchanges have established two tiers of listing requirements. In general, Tier I listing standards are quantitatively and qualitatively higher (i.e., more restrictive and demanding) than Tier II listing standards.

The CHX does not currently have a two-tier structure for listings but proposes to create a two-tiered structure. Both Tier I and Tier II listed issues will be traded pursuant to identical auction rules, but otherwise the two tiers will differ in several ways.

¹ NASAA is an association of securities administrators from each of the 50 states, the District of Columbia, Puerto Rico and ten Canadian provinces.

² See, e.g., Securities Exchange Act Release No. 34235 (June 17, 1994), 59 FR 32736 (June 24, 1994) (approving a Philadelphia Stock Exchange rule change adopting NASAA endorsed standards); Securities Exchange Act Release No. 34429 (July 22, 1994), 59 FR 38998 (Aug. 1, 1994) (approving a Pacific Stock Exchange rule change adopting NASAA endorsed standards).

³ The Memorandum of Understanding was approved by NASAA and Phlx on October 12, 1994.

⁴ The Memorandum of Understanding was approved by NASAA and the PSE on October 12, 1994.

¹² See PHLX and CBOE Approval Orders, *supra* note 5.

¹³ 15 U.S.C. 78f(b)(2) (1988).

¹⁴ 17 CFR 200.30-3(a)(12) (1994).