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 NYSE 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 NYSE 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

ELDS are non-convertible debt securities of an issuer where the value of the debt is based, at least in part, on the value of another issuer's common stock or non-convertible preferred stock.[1] The purpose of the proposed rule change is to amend the trading volume criteria for the linked security, that is, the security on which the value of the ELDS is based. Currently, under Section 703.21 of the Listed Company Manual, in order to list an ELDS product, the linked security must meet one of the following criteria:

Market capitalization		Annual trading volume
$3 billion	and	2.5 million shares.
$1.5 billion	and	20 million shares.
$500 million	and	80 million shares.

The proposed rule change will lower the trading volume requirements criteria such that an ELDS may be listed provided the linked security meets one of these revised criteria:

Market capitalization		Annual trading volume
$3 billion	and	2.5 million shares.
$1.5 billion	and	10 million shares.
$500 million	and	15 million shares.

The Exchange believes the new criteria will provide it with greater flexibility to list these types of securities. The rule change will also delete the current provision of the rule that allows the Exchange to list ELDS that do not meet these criteria if the Division of Market Regulation of the SEC concurs. With the increased flexibility that the new numerical listing criteria will supply, it will no longer be necessary to conduct such a case-by-case review of ELDS listings.

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5) that an exchange have rules that are 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, in general, to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes the proposed rule change will impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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

Within 35 days of the 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 the 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 NYSE. All submissions should refer to File No. SR–NYSE–95–39 and should be submitted by January 10, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[2]

Jonathan G. Katz,

Secretary.

[FR Doc. 95–30912 Filed 12–19–95; 8:45 am]

BILLING CODE 8010–01–M

[1] *See* Securities Exchange Act Release No. 33468 (Jan. 13, 1994). These listing standards were subsequently revised in Securities Exchange Act Release Nos. 33841 (March 31, 1994) and 34985 (Nov. 18, 1995).

[2] 17 CFR 200.30–3(a)(12) (1994).

[Release No. 34–36577; File No. SR-Phlx–95–61]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to a Reduction of the Value of the Phlx National Over-the-Counter Index

December 12, 1995.

I. Introduction

On September 22, 1995, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') submitted to the Securities and Exchange Commission (''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 reduce the value of the Phlx's National Over-the-Counter Index (''Index'') option (''XOC'') to one-half of its present value.[3] The Index is a capitalization-weighted market index composed of the 100 largest capitalized stocks trading over-the-counter. The other contract

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1994).

[3] The Exchange will accomplish this reduction in value by doubling the divisor used in calculating the Index.

specifications for the XOC remain unchanged.

The proposed rule change appeared in the Federal Register on November 14, 1995.[4] No letters were received in response to the Commission's solicitation for comment on the proposed rule filing.[5] This order approves the Phlx's proposal.

II. Background and Description

The Phlx began trading the XOC in 1985.[6] The Index was created with a value of 150 on its base date of September 28, 1984, which rose to 548 in June 1994, and to 700 in June 1995. On September 14, 1995, the Index value was 868. Thus, the Index value has increased significantly, especially during the last year. Consequently, the premium for XOC options has also risen.

As a result, the Phlx proposes to conduct a ''two-for-one split'' of the Index, such that the value will be reduced by one-half. In order to account for the split, the number of outstanding XOC contracts will be doubled, such that for each XOC contract currently held, the holder will receive two contracts at the reduced value, with a strike price of one-half the original strike price. For instance, the holder of an XOC 800 call will receive two XOC 400 calls. In addition, the Phlx will double to the position and exercise limits applicable to the XOC, from 17,000 contracts to 34,000 contracts until the last expiration then trading, which is the June 1996 expiration.[7] According to the Phlx, this procedure is similar to that employed with equity options when the underlying security is subject to a two-for-one stock split, as well as that used for the recent split of the Phlx's Semiconductor Index.[8]

In conjunction with the split, the Exchange will list strike prices surrounding the new, lower Index value, pursuant to Phlx Rule 1101A. The Phlx will announce the effective date by way of an Exchange memorandum to its membership, which will also serve as notice of the strike price and position limit changes.[9]

According to the Phlx, the purpose of the proposal is to attract additional liquidity to the product in those series that public customers are most interested in trading. For example, according to the Phlx, a near-term, at-the-money call option series currently trades at approximately $1,200 per contract. After the Index split, the same option series (once adjusted), with all else remaining equal, could trade at approximately $600 per contract. Thus, while certain investors and traders may currently be impeded from trading at such levels, a reduced Index value should encourage additional investor interest.

The Phlx believes the XOC options provide an important opportunity for investors to hedge and speculate upon the market risk associated with the underlying over-the-counter stocks. By reducing the value of the Index such investors will be able to utilize this trading vehicle, while extending a smaller outlay of capital. According to the Phlx, this should attract additional investors, and, in turn, create a more active and liquid trading environment.

III. Summary of Comments

The Phlx received one comment letter opposing the proposed rule change from a financial planner at Smith Barney Shearson.[10] The issues raised therein and the Phlx's response thereto [11] are discussed below.

According to the commenter, one of the primary inducements to trading the Index is its volatility. If the Index is split in half, however, the commenter believes that investors will be unnecessarily forced to trade twice as many contracts in order to maintain their current degree of leverage. In response, the Phlx stated that a lower priced, less volatile Index will better serve the needs of investors as the Exchange will be able to more timely update quotes, particularly during periods of active market conditions.

The commenter also opposes the proposed rule change because he believes that splitting the Index will reduce its value to an inappropriately low level. In this regard, the commenter suggests alternative split levels (*e.g.*, a 4 for 3 split, or a 3 for 2 split) as a less problematic approach. In this manner, according to the commenter, the Index will retain a greater percentage of its current value. The Phlx responded that splitting the Index in a manner other than two-for-one would result in unnecessary calculations and adjustments to the divisor, position limits, and strike prices and would thereby create investor confusion and excessive system demands.

Finally, the commenter suggests that the Exchange postpone the splitting of the Index to provide investors with a reasonable amount of time to adjust their positions as a result of the proposed rule change. In this regard, the Commission notes that to avoid investor confusion the Phlx has stated that it intends to provide market participants with adequate notice of the change to the Index value.[12]

IV. Discussion

After careful consideration of the comment letter and the Phlx's response thereto, the Commission has decided to approve the proposed rule change. For the reasons discussed below, the Commmission 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, with the requirements of Section 6(b).[13] Specifically, the Commission believes that the proposal is consistent with the Section 6(b)(5) requirement to protect investors and the public interest and to remove impediments to a free and open securities market. By reducing the value of the Index, the Commission believes that a broader range of investors will be provided with a means of hedging their exposure to the market risk associated with the underlying over-the-counter stocks. Similarly, the Commission believes that reducing the value of the Index could help attract additional investors, thus creating a more active and liquid trading market.

The Commission also believes that the Phlx's position and exercise limits and strike price adjustments are appropriate and consistent with the Act. In this regard, the Commission notes that the position and exercise limits and strike price adjustments are identical to the

---

[4] See Securities Exchange Act release No. 36460 (November 6, 1995), 60 FR 57256 (November 14, 1995).

[5] The Commission notes, however, that the Phlx forwarded to the Commission one comment letter it received prior to filing this rule proposal. This letter and the Phlx's response is discussed below. See *infra* note 10 and accompanying discussion.

[6] See Securities Exchange Act Release Nos. 21576 (January 18, 1985), 50 FR 3445 (January 24, 1985); and 22044 (May 17, 1985), 50 FR 21532 (May 24, 1985) (File No. SR–Phlx–84–28).

[7] Separately, the Exchange is proposing to increase the XOC position and exercise limits to 25,000 contracts. *See* SR–Phlx–95–38.

[8] See Securities Exchange Act Release No. 35999 (July 20, 1995), 60 FR 38387 (July 26, 1995) (File No. SR–Phlx–95–41).

[9] In this regard, the Commission notes that in a memorandum dated November 20, 1995, the Phlx provided notice to its members and member organizations of its intention to reduce the value of the XOC by one-half.

[10] See letter from Barry J. Weisberg, Vice President, Smith Barney Shearson, Inc., to Andy Kolinsky, Vice President, Phlx, dated August 1, 1995. The Commission notes that the commenter also raised other concerns regarding the trading of the XOC unrelated to the rule proposal which are not discussed herein.

[11] See letter from Gerald D. O'Connell, First Vice President, Market Regulation and Trading Operations, Phlx, to Barry J. Weisberg, Vice President, Smith Barney Shearson, Inc., dated November 20, 1995.

[12] See supra note 9.

[13] 15 U.S.C. 78f(b) (1988).

approach used to adjust outstanding options on stocks that have undergone a two-for-one stock split.

The Commission believes that doubling the Index's divisor will not have an adverse market impact or make trading in XOC options susceptible to manipulation. After the split, the Index will continue to be comprised of the same stocks with the same weightings and will be calculated in the same manner (except for the change in the divisor). The Phlx's surveillance procedures will also remain the same.

Lastly, for the reasons discussed below, the Commission also believes that the commenter's criticisms of the rule proposal have been adequately addressed by the Phlx's response. First, issues regarding the appropriate value of an index are business decisions typically left to the discretion of an exchange, particularly in the absence of Commission concerns regarding potential manipulation, investor confusion, or other regulatory concerns. Second, the Commission believes that the Exchange's proposal to adjust the Index in a manner similar to a two-for-one stock split provides a simple, orderly, and efficient means to effect the adjustment. Third, the Commission believes that the Phlx will be able to provide adequate notice to market participants regarding to change to the Index value prior to its implementation. As noted above,[14] the Phlx has already indicated its intent, subject to Commission approval, to adjust the Index value after the December expiration.

V. Conclusion

For the foregoing reasons, the Commission finds that the Phlx's proposal to reduce the value of the Index to one-half of its present value is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[15] that the proposed rule change (SR–Phlx–95–61) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[16]

Jonathan G. Katz,

Secretary.

[FR Doc. 95–30855 Filed 12–19–95; 8:45 am]

BILLING CODE 8010–01–M

[14] See supra note 9.

[15] 15 U.S.C. 78s(b)(2) (1988).

[16] 17 CFR 200.30–3(a)(12) (1994).

[Rel. No. IC–21600; File No. 812–9526]

Connecticut General Life Insurance Company, et al.

December 13, 1995.

AGENCY: Securities and Exchange Commission (the ''SEC'' or the ''Commission'').

ACTION: Notice of Application for Exemption under the Investment Company Act of 1940 (the ''1940 Act'').

APPLICANTS: Connecticut General Life Insurance Company (''CG Life''), CG Variable Life Insurance Separate Account II (the ''Account''), and CIGNA Financial Advisors, Inc. (''CIGNA'').

RELEVANT 1940 ACT SECTIONS: Order requested under Section 6(c) of the 1940 Act for exemptions from Section 27(c)(2) of the 1940 Act and Rule 6e–3(T)(c)(4)(v) thereunder.

SUMMARY OF APPLICATION: Applciants seek an order to permit them to deduct a charge that is reasonable in relation to CG Life's increased federal income tax burden resulting from the receipt by CG Life of premiums in connection with certain flexible premium variable life insurance contracts issued by CG Life, the Account and any other separate account established in the future by CG Life (the ''Other Accounts,'' collectively, with the Account, the ''Accounts'').

FILING DATE: The application was filed on March 13, 1995 and amended and restated on August 1, 1995 and December 1, 1995.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing on this application by writing to the Secretary of the SEC and serving Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the Commission by 5:30 p.m. on January 8, 1996 and should be accompanied by proof of service on Applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Secretary of the SEC.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Applicants, Robert A. Picarello, Esq., Connecticut General Life Insurance Company, 900 Cottage Grove Road, Hartford, Connecticut 06152.

FOR FURTHER INFORMATION CONTACT: Joseph G. Mari, Senior Special Counsel, or Wendy Friedlander, Deputy Chief, both at (202) 942–0670, Office of Insurance Products, Division of Investment Management.

SUPPLEMENTARY INFORMATION: Following is a summary of the application. The complete application is available for a fee from the Commission's Public Reference Branch.

Applicants' Representations

1. CG Life, a stock life insurance company domiciled in Connecticut, is a wholly owned subsidiary of CIGNA Holdings, Inc., which is, in turn, wholly owned by CIGNA Corporation. The Account, established by CG Life on July 6, 1994 pursuant to Connecticut law, is registered with the Commission as a unit investment trust. The assets of the Account are divided among subaccounts, each of which will invest in shares of one of five registered investment companies (the ''Funds''). The funds currently offer sixteen portfolios for investment. Each of the Funds is an open-end diversified management investment company under the 1940 Act. The Other Accounts will be organized as unit investment trusts and will file registration statements under the 1940 Act and the Securities Act of 1933.

2. CIGNA will serve as the distributor and the principal underwriter of the Existing Contracts, described below. Applicants state that they expect CIGNA also to serve as the distributor and the principal underwriter of the Future Contracts, described below. CIGNA is a wholly owned subsidiary of Connecticut General Corporation, CIGNA, which is, in turn, a wholly owned subsidary of CIGNA Corporation. CIGNA a member of the National Association of Securities Dealers, Inc., is registered with the Commission as a broker-dealer under the Securities Exchange Act of 1934, and as an investment adviser under the Investment Advisers Act of 1940.

3. The Existing Contracts are flexible premium variable life insurance policies, and will be issued on a group or individual basis. The Future Contracts will be substantially similar in all material respects to the Existing Contracts (the Future Contracts, collectively, with the Existing Contracts, the ''Contracts''). The Contracts will be issued in reliance on Rule 6e–3(T)(b)(13)(i)(A) under the 1940 Act. Applicants state that CG Life will deduct 1.15% of each premium payment made under the Contracts to cover CG Life's estimated cost for the federal income tax treatment of deferred acquisition costs.

4. In the Omnibus Budget Reconciliation Act of 1990, Congress amended the Internal Revenue Code of 1986 (the ''Code'') by, among other things, enacting Section 848 thereof.