

used to hedge option transactions in the primary classes in which the member organization makes markets.

For these reasons, the Exchange believes that its proposal is consistent with Section 6 of the Act in general, and in particular with Section 6(b)(5) in that it is designed to promote just and equitable principals of trade, and remove impediments to and perfect the mechanism of a free and open market while preventing fraudulent and manipulative acts and practices.

*(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 on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments on the proposed rule change were neither solicited nor received.

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 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 in the Commission's Public Reference

Section, 450 Fifth Street, N.W., Washington, DC. 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 File No. SR-Phlx-95-79 and should be submitted by February 28, 1996.

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

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 96-2542 Filed 2-6-96; 8:45 am]

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[Release No. 34-36794 File No. SR-Amex-95-56]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the American Stock Exchange, Inc., Relating to the Listing and Trading of Warrants on the Emerging Markets Debt Index**

January 31, 1996.

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 December 26, 1995, the American Stock Exchange, Inc. ("Amex" 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 Amex. On January 16, 1996 the Amex filed Amendment No. 1 to the proposed rule change.<sup>1</sup> The Commission is publishing this notice and Amendment No. 1 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 list and trade warrants based on the Emerging Markets Debt Index ("EMDX" sm).<sup>2</sup>

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

<sup>1</sup> In Amendment No. 1, the Amex states that it will list EMDX warrants under Section 107 of the Amex Company Guide ("Other Securities") rather than under Section 106 ("Currency and Index Warrants"). However, the account opening, trading, advertising, suitability and other provisions of Part VII of the Exchange's rules (Rules 1100 through 1110) applicable to broad based stock index warrants will apply to EMDX warrants. See Letter from William Floyd-Jones, Jr., Assistant General Counsel, Legal and Regulatory Policy, Amex, to Michael Walinskas, Branch Chief, Office of Market Supervision ("OMS"), Division of Market Regulation ("Division"), Commission, dated January 11, 1996 ("Amendment No. 1").

<sup>2</sup> EMDX is a servicemark of the New York Cotton Exchange.

The text of the proposed rule change is available at the Office of the Secretary, the Amex, 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 Exchange 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 Amex 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**

Pursuant to Section 107 of the Amex Company Guide, the Exchange is proposing to list index warrants on the EMDX. Futures contracts and futures options on the EMDX currently trade on the FINEX division of the New York Cotton Exchange ("NYCE"). The Commission recently provided to the Commodity Futures Trading Commission ("CFTC") a non-objection letter regarding the trading of EMDX futures and futures options.<sup>3</sup>

**Index Description**

The EMDX is an index of U.S. dollar-denominated, Brady par bonds<sup>4</sup> of four major Latin American countries. The Index is calculated by multiplying the market price of the Brady par bonds of Mexico, Argentina, Brazil and Venezuela by their corresponding bond weight and summing their products. According to the Exchange, these Brady par bonds are the most liquid and

<sup>3</sup>See letter from Jonathan G. Katz, Secretary, Commission, to Elisse B. Walter, General Counsel, CFTC, dated October 10, 1995 ("non-objection letter").

<sup>4</sup>Brady bonds are issued pursuant to the plan proposed by former Secretary of the Department of the Treasury, Nicholas Brady, which allows developing countries to restructure their commercial bank debt by issuing long-term dollar denominated bonds. There are several types of Brady bonds, but "par Bradys" and "discount Bradys" represent the great majority of issues in the Brady bond market. In general, both par Bradys and discount Bradys are secured as to principal at maturity by U.S. Treasury zero-coupon bonds. Additionally, usually 12 to 18 months of interest payments are also secured in the form of a cash collateral account, which is maintained to pay interest in the event that the sovereign debtor misses an interest payment.

actively traded of all Brady bonds, making the EMDX a significant market benchmark.

The weighted percentages by country of the Brady par bonds in the EMDX as of May, 1994 were: Mexico 36.2%; Argentina 28.9%. Brazil 19.5% and Venezuela 15.4%. The Index consists of the following U.S. dollar-denominated bonds:

(1) United Mexican States Par Bonds, Series A or B, due December 31, 2019, with all unexpired Value Recovery Rights attached;

(2) Republic of Argentina par Bonds, Series L, due March 31, 2023;

(3) Republic of Venezuela Par Bonds, Series A or B, due March 31, 2020, with all unexpired Oil Obligations attached; and

(4) Federative Republic of Brazil Par Bonds, Series Y-L-3 or Y-L-4, due April 15, 2024. Effective October 15, 1995 or on such other date as determined by the Federative Republic of Brazil for the phase in of collateral for the Series Y-L-3, the Series Y-L-3 shall be replaced by Series Z-L Par Bonds and Series Y-L-4. The weights of the Series Z-L and the remaining Series Y-L-4 Par Bonds shall be .097 and .098, respectively. Effective April 15, 1996 or on such other date as determined by the Federative Republic of Brazil for the phase in of collateral for the Series Y-L-4, the bond weight of the Series Z-L Par bonds shall be increased to .195, and the Series Y-L-4 Par Bonds shall be deleted from the Index.

The EMDX is calculated by multiplying the market price of a bond (the dollar price per \$100 face value) by its corresponding bond weight and summing these products for all bonds in the EMDX. Thus, the formula for calculating the EMDX is as follows:

$$\text{EMDX} = \text{MX}_c^* .362 + \text{AR}_c^* .289 + \text{BR}_c^* .195 + \text{VZ}_c^* .154$$

Where: "c" refers to the current par bond price. The EMDX was designed to have a base value of 50 as of May 3, 1994. As of December 21, 1995 it had a value of 57.20.

At the time the Commission issued its non-objection letter for EMDX futures and futures options trading, the EMDX represented an approximate face amount of \$47.6 billion in U.S. dollar-denominated Brady bonds. Reported 1994 inter-dealer trading volume in the component bonds of the Index was approximately \$408 billion on about 135,000 trades. Thus, the average trade size in the Brady Par Bonds represented in the Index was approximately \$3.02 million and average daily trading volume was 519 transactions. The Exchange represents that the bonds

included in the EMDX are the most actively traded and liquid issues of all Brady Par Bonds.

The FINEX calculates and disseminates the EMDX continuously during trading hours on a real time basis using last trade prices for the subject Brady bonds from the screens of the leading interdealer brokers. The NYCE has agreements with Euro Brokers Capital Markets, Inc., Chapdelaine Corporate Securities, RMJ Securities, Tullet & Tokyo Ltd. and Tradition, Inc. to provide this information.<sup>5</sup>

#### *Warrant Description and Regulatory Framework*

Although the warrants will be listed pursuant to Section 107 of the Company Guide, the Exchange proposes to apply certain rules applicable to stock index warrants to the proposal EMDX warrants. Thus, the listing standards of Section 106 of the Company Guide will apply to the EMDX warrants,<sup>6</sup> and the account opening, trading, advertising, suitability and other provisions of Part VII of the Exchange's rules (Rules 1100 through 1110) applicable to stock index warrants also will apply to EMDX warrants. EMDX warrants also will be subject to the customer margin rules applicable to stock index warrants.

The proposed warrants may be exercised by holders prior to expiration, *i.e.*, they will be "American style." At expiration, or upon early exercise, warrant holders will receive a payment per warrant from the issuer equal to the greater of zero or \$1 times the value of the EMDX at exercise minus the strike price. (The underwriter anticipates that the strike price will be set at the level of the EMDX at the time of warrant issuance). The warrants, accordingly, will be structured as a call on the EMDX.

The issuer will determine the value of the EMDX at expiration, or upon early exercise, in the following manners. In

<sup>5</sup> All of these brokers are members of the National Association of Securities Dealers ("NASD"). Accordingly, the Amex would be able to obtain information relative to transactions in the securities underlying the EMDX pursuant to its information sharing arrangements with the NASD under the Intermarket Surveillance Group ("ISG") Agreement. See Letter from William Floyd-Jones, Assistant General Counsel, Legal and Regulatory Policy Division, Amex, to Michael Walinskas, Branch Chief, OMS, Division, Commission, dated January 19, 1996.

<sup>6</sup> Section 106(e), however, requires issuers to use opening prices for stocks traded primarily in the U.S. during the two business days prior to the determination of final settlement value to determine settlement value. The Exchange does not propose to extend this "opening price" requirement to the proposed EMDX warrants as the Exchange believes that the volatility concerns with respect to listed stocks have not been extended to debt instruments such as Brady bonds.

the event of early exercise, a calculation agent will determine the bid price for the constituent bonds. This price will be the higher of the bid prices of the calculation agent and one reference bank for each of the subject bonds. The calculation agent will then determine the value of the EMDX using the bid prices so derived for each bond in the Index. At expiration, the prices for the relevant bonds will be the higher of the bid prices obtained by polling two reference banks. Each reference bank will be a leading market maker in the relevant bonds.

#### 2. Basis

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 trade, 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 Amex does not believe that the proposed rule change will impose any inappropriate 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 in 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 Amex.

All submissions should refer to File No. SR-Amex-95-56 and should be submitted by February 28, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36785; File No. SR-Phlx-95-69]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc; Relating to the Bid Test Exemption**

January 29, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 2, 1996, 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, 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 Organizations' Statement of the Terms of Substance of the Proposed Rule Change**

The Phlx proposes to amend its Rule 1072, Reporting Requirements Applicable to Short Sales in NASD/NM Securities, which establishes specific criteria exempting Phlx specialists and

Registered Option Traders ("ROTs") from the National Association of Securities Dealers, Inc. ("NASD") "bid test" applicable to National Market ("NM") securities. The NASD bid test, with certain exceptions, prohibits short sales at or below the current insider bid when that bid is below the previous inside bid.<sup>2</sup> Specifically, the Phlx proposes to extend its market maker exemption to: (1) Permit an off-floor option or stock option order hedged contemporaneously with an NM security to be eligible for the exemption, with prior Floor Official approval and filing of a written report; and (2) allow the exemption to apply to a company that is involved in a publicly announced merger or acquisition ("M&A") with an NM security.

First, sub-paragraph (A) of Phlx Rule 1072(c)(2)(ii) is proposed to be added to permit a ROT to facilitate an off-floor options or combination order and contemporaneously hedge the resulting option position with a short sale in the applicable NM securities as if such securities were designated securities pursuant to the Rule. The ROT must obtain written Floor Official approval and file with the Market Surveillance Department of the Exchange a written report in a form required by the Exchange. Such ROT must retain a copy of the report to demonstrate that the transaction was bid test exempt.

Second, sub-paragraph (B) of Phlx Rule 1072(c)(2)(ii) is proposed to be added to state that exempt hedge transactions include short sales in M&A securities effected by a qualified Exchange options market maker to hedge, and which in fact serves to hedge, an existing or prospective position in an Exchange-listed option overlying a designated NM security of another company that is a party to the M&A. M&A securities are defined as the securities of a company that is a party or prospective party to a publicly announced merger or acquisition with an issuer of an NM security that underlies an Exchange-listed option.

**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**

In 1994, the NASD adopted a bid test rule applicable to NM securities traded through Nasdaq prohibiting short sales of NM securities at or below the current inside bid when that bid is below the previous inside bid.<sup>3</sup> An exemption from this rule exists for option market makers hedging positions with the underlying securities of that option; qualifying short sales are referred to as "exempt hedge transactions." Pursuant to this market maker exemption, the Phlx adopted Rule 1072 establishing specific criteria for a short sale to qualify as an "exempt hedge transaction" in "designated" NM issues.<sup>4</sup> Generally, option specialists may rely on the exemption for short sales in NM securities underlying their specialist equity options, and index options if at least 10% of the value of the index is comprised of NM securities. In addition, ROTs must be assigned in that option to rely on the exemption and may only use the exemption in 20 designated NM issues.

The Phlx now proposes to permit the facilitation of certain off-floor orders pursuant to the market maker exemption. The Phlx also proposes to expand the definition of "exempt hedge transaction" to include securities involved in an M&A transaction with NM securities. These amendments to the Exchange's exemptive rule are similar to recent changes by other options exchanges.<sup>5</sup>

**Facilitating Orders**

The Phlx proposes to permit certain hedge transactions in NM securities by a ROT to be considered executed in "designated" issues for purposes of qualifying as exempt hedge transactions.

<sup>3</sup> Securities Exchange Act Release No. 34277 (June 6, 1994), 59 FR 34885 (granting temporary approval).

<sup>4</sup> Securities Exchange Act Release No. 34632 (September 2, 1994), 59 FR 46999. The other options exchanges adopted rules similar to Phlx Rule 1072. See Chicago Board Options Exchange ("CBOE") Rule 15.10, New York Stock Exchange ("NYSE") Rule 759A, American Stock Exchange ("Amex") Rule 957, and Pacific Stock Exchange ("PSE") Rule 4.19. *Id.*

<sup>5</sup> Respecting facilitation orders, see Securities Exchange Act Release No. 35281 (January 26, 1995), 60 FR 6575 ("CBOE"); and respecting M&A securities, see Securities Exchange Act Release Nos. 35211 (January 10, 1995), 60 FR 3887 (Amex, CBOE, and PSE) as well as 36019 (July 24, 1995), 60 FR 39035 (NYSE).

<sup>7</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> NASD Rules of Fair Practice, Art. III, Section 48.