

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, 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. Also, copies of such filing will be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-96-07 and should be submitted by March 25, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

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[Release No. 34-36885; International Series Release No. 939; File No. SR-AMEX-95-50]

#### Self-Regulatory Organizations; American Stock Exchange, Inc.; Order Approving Proposed Rule Change Relating to the Listing and Trading of Commodity Indexed Securities

February 26, 1996

#### I. Introduction

On December 11, 1995, the American Stock Exchange, Inc. ("Amex" or

"Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade commodity indexed preferred or debt securities ("ComPS"), whose value will be linked to the price of a single commodity.

Notice of the proposed rule change was published for comment and appeared in the Federal Register on January 3, 1996.<sup>3</sup> No comments were received on the proposal. This order approves the proposal.

#### II. Description of Proposal

Under Section 107 of the Amex Company Guide, the Exchange may approve for listing and trading securities which cannot be readily categorized under the listing criteria for common and preferred stocks, bonds, debentures and warrants. The Amex now proposes to list for trading ComPS, which will conform to the Amex's listing guidelines under Section 107 of the Company Guide.<sup>4</sup> Accordingly, all issuances of ComPS must have: (1) A public distribution of one million trading units; (2) 400 holders; and (3) a market value of not less than \$4 million. The Exchange also will require that the issuer have a minimum tangible net worth of \$150 million. In addition, the Exchange will require that the total original issue price of the notes (when combined with all of the issuer's commodity linked notes which are listed on a national securities exchange or traded through the facilities of NASDAQ), shall be greater than 25% of the issuer's tangible net worth at the time of issuance.

Holders of ComPS generally will receive a dividend or interest as applicable on the face value of their securities. The frequency and rate of the dividend or interest payment will vary from issue to issue based upon prevailing interest rates and other factors. In addition, investors will

receive at maturity a payment linked to the price of a single commodity in accordance with the following formula:

$$\text{Fact Amount} * (\text{Ending Commodity Price} / \text{Beginning Commodity Price})$$

Commodity prices will be determined in a manner as described in greater detail below. In addition, commodity prices for the purpose of determining the payment to holders at maturity will be determined by reference to prices for a linked commodity over at least a ten business day period. The securities will have a term of from two to ten years. Holders of the securities have no claim to any of the underlying physical linked commodities. Under the proposal, the Exchange may only link different issues of ComPS to the following commodities: West Texas Intermediate ("WTI") crude oil, natural gas, unleaded gasoline, heating oil, aluminum ("Al"), copper ("Cu"), zinc ("Zn"), nickel ("Ni"), gold, silver and platinum.

The prices for the commodities linked to the proposed ComPS will be based upon: (i) London Metal Exchange ("LME") closing prices for the futures contracts expiring the third Wednesday of March, June, September and December (with respect to the linked base metals); (ii) New York Mercantile Exchange ("NYMEX") official settlement prices for the near term futures contract expiring every month (with respect to the linked energy commodities); (iii) NYMEX official settlement prices for the platinum contract expiring January, April, July and October; (iv) Commodity Exchange ("COMEX") official settlement prices for the gold contract expiring February, April, June, August and December; and (v) COMEX official settlement prices for the silver contract expiring March, May, July, September and December.

These prices are widely reported by vendors of financial information and the press. The following charts describe the linked contracts:

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

<sup>2</sup> 17 CFR § 240.19b-4 (1993).

<sup>3</sup> See Securities Exchange Act Release No. 36639 (Dec. 27, 1995), 61 FR 196.

<sup>4</sup> The proposed underwriter of ComPS has advised the Exchange that the securities will comply with the "hybrid exemption" of the Commodity Futures Trading Commission ("CFTC") under 17 CFR Part 34. The underwriter has further advised the Exchange that it has presented a description of the structure and sample term sheet of ComPS to the staff of the CFTC, who have raised no objection to the structure.

<sup>10</sup> 17 CFR 200.30-3(a)(12).

Official Commodity Name and Units	Exchange	Units per contract	Contract used for ComPS
1. Aluminum \$/MT (Metric Tons) .....	LME .....	25 tons .....	Third Wednesday of Mar, Jun, Sep and Dec.
2. Copper \$/MT .....	LME .....	25 tons .....	Third Wednesday of Mar, Jun, Sep and Dec.
3. Nickel \$/MT .....	LME .....	6 tons .....	Third Wednesday of Mar, Jun, Sep and Dec.
4. Zinc \$/MT .....	LME .....	25 tons .....	Third Wednesday of Mar, Jun, Sep and Dec.
5. Heating Oil #2 \$/gal .....	NYMEX .....	42,000 gal .....	Every month.
6. Natural Gas \$/MM BTU .....	NYMEX .....	10,000 MM BTU .....	Every month.
7. Unleaded Gas \$/gal .....	NYMEX .....	42,000 gal .....	Every month.
8. WTI Light Sweet Crude \$/BBL .....	NYMEX .....	1,000 bbl .....	Every month.
9. Platinum \$/troy oz .....	NYMEX .....	50 troy oz .....	Jan, Apr, Jul, Oct.
10. Gold .....	COMEX .....	100 troy oz .....	Feb, Apr, Jun, Aug and Dec.
11. Silver .....	COMEX .....	5,000 troy oz .....	Mar, May, Jul, Sep and Dec.

Commodity	Avg. daily volume (in contracts)	Avg. open interest (in contracts)
A1 .....	58,417	257,886
Cu .....	68,945	207,748
Ni .....	13,620	58,515
ZN .....	21,212	100,518
Heating Oil .....	36,184	159,614
Natural Gas .....	25,495	130,255
Unleaded Gas .....	30,331	93,225
WTI .....	107,654	411,483
Gold .....	33,860	155,347
Silver .....	23,954	120,027
Platinum .....	3,572	23,239

The value of the linked commodities will be calculated using one of three pricing methodologies, as described below; (1) Excess Return, (2) Total Return or (3) Price Return methodologies.

#### 1. Excess Return

When the Excess Return methodology is employed to value ComPS, it is anticipated that holders of the proposed ComPS will realize a return on their investment equivalent to a trading strategy that holds a fully collateralized near term commodity futures contract for the linked commodity and, near the expiration of the contract, rolls the position into the next nearest designated contract. Accordingly, this methodology can be characterized as the sum of "price" return and "roll" return.

Price return is the return that arises solely from changes over time in the price of the nearby contract. Thus, if on the first day of a given month the price of the nearby contract is \$15.00, and on the 30th day of such month the price of the contract is \$15.50, the investor in such contract has earned a price return of 3.3% (\$0.50/\$15 or 3.33%). Roll return represents the yields which are potentially available as a result of the differential between the prices for shorter-dated commodity future positions and the prices for longer-dated commodity futures positions. The price of the longer-dated position may be higher or lower than the price of the shorter-dated position based on a

variety of factors, including the cost of transportation, storage and insurance of commodities, the expectations of market participants with respect to future price trends and general supply and demand trends.

To minimize possible pricing volatility arising from conducting the "roll" on a single business day, the substitution of the new contract for the old will be accomplished over a five business day period in increments of 20% of the index value. For example, the index change on the day immediately following the first roll is 80% of the old contract change plus 20% of the new contract change. On the next day, the index change is 60% old contract and 40% new contract and so forth until after the last roll day the index change is now 100% the new contract change. For energy commodities, the "roll" will be conducted each month. For base and precious metals, due to the absence of a designated contract for each month, the "roll" will be conducted periodically into the designated contract. Rolls for all commodities will begin on the fifth business day of the month. If a market disruption (e.g., a limit price move, no trading or limited trading) occurs on a roll day, then the affected commodity will not roll on that day, and the volume to roll will accumulate and roll on the next available day.

Many commodity markets, including those for base metals and energy

products, have historically been in backwardation for extended periods (i.e., the nearby futures contracts are more expensive than longer dated contracts). This creates an opportunity to increase the return available through an investment in such commodities by establishing longer-dated positions in the commodities and continuously "rolling" such positions forward as they approach expiration. With the passage of time, longer-dated positions replace expiring shorter-dated positions. Positions that were formerly longer-dated but which have become shorter-dated positions are rolled forward and sold, with the proceeds used to purchase longer-dated replacement contracts. This process results in the realization of the roll return. However, if the prices for shorter-dated positions are less than the prices for longer-dated positions (a condition referred to as "contango") the investor may bear a cost with rolling futures positions forward, even where prices for shorter-dated positions remain constant or increase. This potential cost arises from the fact that as longer-dated contracts become shorter-dated contracts and then approach expiration, the prices of such contracts may decrease relative to the prices for the same contract when it was further away from expiration. Thus, as the maturing contracts are sold and rolled into longer-dated positions, the investor realizes a relatively smaller amount of proceeds, and must purchase

the newly acquired longer dated futures contract at a higher price.

The example that follows illustrates the calculation of Excess Return as the sum of price and roll return. In the

example, spot prices move from \$15 to \$15.50 over one month, and the second nearby monthly contract moves from \$14.40 to \$15 (*i.e.*, the price curve

remains in a constant \$0.50 backwardation). Holding period Excess Return, therefore, is \$15.50-\$14.50/\$14.50 or 6.9%.

	Aug 1st	Sept 1st
Calculating excess return in a backwardated market:		
1st Nearby Contract and Price .....	Sep @ \$15.00 .....	Oct @ \$15.50.
2nd Nearby Contract and Price .....	Oct @ \$14.50 .....	Nov @ \$15.00.
P/L on Oct Position Initiated Aug 1st .....	.....	\$1.00.
Holding Period Spot Return .....	.....	3.3% (on Sep contract).
Holding Period Excess Return .....	.....	6.9% (on Oct contract).

## 2. Total Return

As stated above, the proposed securities also may use a "Total Return" methodology to value the linked commodities. The Total Return methodology simply adds the element of return arising from an investment in U.S. Treasury bills to the value of the linked commodity as calculated by the Excess Return methodology described above. The element of return arising from an investment in Treasury bills is referred to as collateral return ("collateral return"). Thus, Total Return equals Excess Return plus an interest rate equivalent to the U.S. Treasury bill rate. If the Total Return methodology is used, securities will not have a separate dividend or interest payment, or if they do have a separate dividend or interest payment, it will be substantially less than if the Excess Return methodology were used. The return based upon the Treasury bill rate will be calculated using a 13 week T-bill yield, compounded daily at the decoupled discount rate of the most recent weekly U.S. Treasury bill auction as found in the H.15 (519) report published by the Board of Governors of the Federal Reserve System, on the full value of the commodity. Interest will accrue on an actual day basis over weekends and holidays at the previous day's rate.

## 3. Price Return

If a Price Return methodology is employed, the value of the linked commodity at maturity of the ComPS will be determined by reference to the price of a specified near term futures contract. The use of the Price Return methodology eliminates the elements of roll and collateral return from the valuation of the linked commodities. If the Price Return methodology is used to determine the value of the linked commodity, the holders of the proposed ComPS generally will receive a dividend or interest payment on the face value of their securities, the frequency and rate of which will vary from issue

to issue depending upon prevailing interest rates and other factors.

It is anticipated that the futures contract underlying a particular ComPS will remain unchanged during the term of the instrument. Certain developments, however, may necessitate changes with respect to the underlying futures contract.<sup>5</sup> Decisions regarding such changes will be determined by a policy committee consisting of employees of the commodities and research areas of the underwriter or its affiliates as well as independent industry and academic experts. Employees of the underwriter or its affiliates will be restricted to an advisory, non-voting membership on the committee. Members of the policy committee will be prohibited from trading ComPS.

If it becomes necessary to choose a replacement futures contract, the "new" replacement contract will meet the following criteria: (i) it will be priced in U.S. dollars, or if priced in a foreign currency, the exchange on which the contract is traded must publish an official exchange rate for conversion of the price into U.S. dollars and such currency must be freely convertible into U.S. currency, (ii) it will be traded on a regulated futures exchange in the U.S., Canada, U.K, Japan, Singapore or an O.E.C.D. country,<sup>6</sup> and (iii) at the time of replacement, it will have a minimum annual volume of 300,000 contracts or \$500 million. The underwriter will immediately notify the Exchange and vendors of financial information in the event that there is a chance in the

<sup>5</sup> Such developments could include, among other things, changing liquidity conditions or the discontinuation of existing contracts or the emergence of new "benchmark" contracts for the particular linked commodity.

<sup>6</sup> The O.E.C.D. (Organization of Economic Cooperation and Development) consists of the following countries: the U.S., Japan, Germany, France, Italy, U.K., Canada, Australia, Austria, Belgium, Denmark, Finland, Greece, Iceland, Ireland, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and Turkey.

futures contract underlying a particular series of ComPS.<sup>7</sup>

The Amex represents that it is able to obtain market surveillance information, including customer identity information, with respect to transactions occurring on the LME pursuant to its information sharing arrangements with the Securities and Futures Authority ("SFA") in the United Kingdom through the Intermarket Surveillance Group ("ISG").<sup>8</sup> The Exchange also is able to obtain market surveillance information, including customer identity information, with respect to transactions occurring on NYMEX or COMEX pursuant to its information sharing agreement with NYMEX. In addition, the Exchange is able to obtain market surveillance information, including customer identity information, regarding transactions on several other futures exchanges in the U.S. and abroad through the ISG.<sup>9</sup>

In the event that the policy committee determines that the futures contract underlying a ComPS should be changed, and it identifies an appropriate benchmark replacement contract, the substitution of the new contract for the old only will be done where: (1) the Exchange has established a comprehensive information sharing agreement with the market or self-

<sup>7</sup> The Amex would also have to have suitable surveillance arrangements for any replacement contract, as discussed above.

<sup>8</sup> The ISG was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. See Intermarket Surveillance Group Agreement, July 14, 1983. The most recent amendment to the ISG Agreement, which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. See Second Amendment to the Intermarket Surveillance Group Agreement, January 29, 1990. The domestic members of the ISG are the Amex; the Boston Stock Exchange, Inc.; the Chicago Board Options Exchange, Inc.; the Chicago Stock Exchange, Inc.; the National Association of Securities Dealers, Inc.; the New York Stock Exchange, Inc.; the Pacific Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. The SFA is an affiliate member of ISG.

<sup>9</sup> See *infra* note 10.

regulator for the replacement contract,<sup>10</sup> or (2) the SEC has established suitable alternative arrangements with an appropriate regulator of the market for the replacement contract.<sup>11</sup> When there is no suitable benchmark replacement contract or, there is a suitable benchmark contract but the Exchange's or the Commission's information sharing arrangements do not meet the above criteria, then the affected ComPS either will be called by the issuer or the payment to be made to holders at maturity will be fixed as of a certain time and in a manner established by the underwriter, and thereafter the principal amount will not fluctuate throughout the term of the instrument as a result of the price of a linked commodity.

The underwriter intends to retain the services of an independent calculation agent to compute the value of the linked commodities in accordance with the protocols described above if a Total Return or an Excess Return methodology is employed since the value of the linked commodities will vary from the prices of the relevant futures contracts then trading as a result of the incorporation of roll and collateral return (in the case of Total Return methodology). With respect to ComPS overlying the linked energy and precious metal commodities (*i.e.*, those commodities traded in the U.S.), the value of such ComPS will be calculated every 60 seconds and disseminated to vendors of financial data via the Exchange's Network B. With respect to ComPS overlying base metals (*i.e.*, those traded on the LME), the value of such ComPS will be continuously disseminated on Network B, but will be updated only once per day during U.S. market hours as the market for the relevant underlying contracts does not trade in a continuous fashion when the U.S. securities markets are open.

Since commodity returns historically have been negatively correlated with financial assets, the Exchange believes

that the ownership of ComPS (although their return is uncertain) will help to diversify a portfolio of financial instruments. According to the Exchange, ComPS also will benefit the producers, consumers and dealers of the underlying commodities by permitting them, through the issuance of ComPS, to raise low cost capital.

Returns to investors in ComPS are unleveraged with neither a cap nor a floor. There is an element of derivative pricing, however, with respect to the calculation of the final payment. The Exchange, accordingly, will require members, member organizations and employees thereof to make a determination with respect to customers whose accounts have not previously been approved to trade futures or options that a transaction in the proposed securities is suitable for such customer. In addition, members, member organizations or employees thereof recommending a transaction in ComPS will be required: (1) to determine that the transaction recommended is suitable for the customer and (2) to have a reasonable basis for believing that the customer can evaluate the special characteristics of, and is able to bear the financial risks of, the recommended transaction. The Exchange will distribute a circular to its membership prior to trading ComPS providing guidance with regard to member firm compliance responsibilities (including suitability recommendations) when handling transactions in such securities and highlighting the special risks and characteristics thereof.

ComPS will be subject to the equity margin and trading rules of the Exchange that, where ComPS are issued as debt in denominations with a face value of \$1,000 or greater, they will be traded subject to the Exchange's debt trading rules (although they will still remain subject to equity margin rules).

### III. Commission Findings and Conclusions

The Commission 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, the requirements of Section 6(b)(5). In particular, the Commission believes that the availability of exchange-traded ComPS will provide an instrument for investors to achieve desired investment objectives (*e.g.*, commodity exposure and portfolio diversification) through the purchase of an exchange-traded securities product linked to one of the

single commodities noted above.<sup>12</sup> For the reasons discussed below, the Commission has concluded that the Amex listing standards applicable to ComPS are consistent with the Act.

ComPS are similar in structure to a previous Amex proposed product, Commodity Indexed Notes ("COINs"), which the Commission approved in March 1995.<sup>13</sup> COINs, similar to ComPS, were proposed to be listed pursuant to Section 107 of the Amex Company Guide. The principal value of COINs was to be derived from the performance of a commodity index comprised of futures contracts overlying certain selected physical commodities.

Like COINs, the value of ComPS will be affected partially by certain risks that are associated with the purchase and sale of exchange-traded futures contracts. Furthermore, the Commission notes that the prices of commodities, including the eleven individual commodities which may underlie a particular ComPS issuance, may be subject to volatile price movements caused by numerous factors.<sup>14</sup> Accordingly, an investment in ComPS may also be subject to volatile price movements due to price changes in the underlying commodities and related futures contracts. In addition, ComPS possess many complex features, such as the incorporation of roll return and collateral return into their pricing methodologies.

In order to address the complex and risky nature of ComPS, the Amex has proposed special suitability, disclosure, and compliance requirements. First, the Exchange will require members to make a determination with respect to customers whose accounts have not previously been approved to trade futures or options that a transaction in the proposed securities is suitable for such customer.<sup>15</sup> This is important given the embedded derivative component of ComPS. Second, the

<sup>12</sup> Pursuant to Section 6(b)(5) of the Act the Commission must predicate approval of exchange trading for new products upon a finding that the introduction of the product is in the public interest. Such a finding would be difficult with respect to a product that served no investment, hedging or other economic function, because any benefits that might be derived by market participants would likely be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns.

<sup>13</sup> See Securities Exchange Act Release No. 35518 (March 21, 1995).

<sup>14</sup> Such factors include, but are not limited to, international economic, social and political conditions and levels of supply and demand for the individual commodities.

<sup>15</sup> Such a requirement is more than the duty to know and approve customers, but entails an obligation to make a determination that the transaction is suitable for the customer.

<sup>10</sup> The Exchange currently has information sharing arrangements that qualify as comprehensive information sharing agreements with the following futures markets and self-regulators: Chicago Board of Trade, Chicago Mercantile Exchange, London International Financial Futures and Options Exchange, Montreal Exchange, New York Futures Exchange, New York Mercantile Exchange and the U.K. Securities and Futures Authority. From time to time, moreover, the Exchange enters into new information sharing arrangements that qualify as comprehensive information sharing agreements with securities and futures markets and self-regulators other than those with which the Exchange currently has such agreements.

<sup>11</sup> Amex will notify the Commission staff prior to the commencement of a ComPS replacement contract change. Telephone conversation between Michael Bickford, Amex, and Michael Walinskas, SEC, on February 21, 1996.

Amex will require that members who make recommendations in ComPS determine that the transaction recommended is suitable for the customer and have a reasonable basis for believing that the customer can evaluate the special characteristics of, and is able to bear the financial risks of, the recommended transaction. Third, because ComPS are cash-settled, holders will not receive, nor be required to liquidate, the underlying physical commodities or overlying futures contracts. The Commission notes that this provision will effectively terminate a ComPS investor's exposure to commodity market risk at the security's maturity and limit an investor's loss to the amount of his initial investment. Finally, the Exchange plans to distribute a circular to its membership calling attention to the specific risks associated with ComPS.<sup>16</sup> This will assist members in determining the customers eligible to trade ComPS, formulating recommendations in ComPS, and in monitoring customer and firm transactions in ComPS.

The Commission also believes that several factors significantly minimize the potential for manipulation of ComPS. First, each of the futures contracts overlying the commodities is relatively actively traded, and has considerable open interest. Second, the majority of futures contracts overlying the component commodities trade on exchanges that impose position limits on speculative trading activity, which are designed, and serve, to minimize potential manipulation and other market impact concerns. Third, as discussed below, the Amex has entered into certain surveillance sharing agreements with each of the futures exchanges upon which the underlying designated futures contracts trade. These agreements should help to ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making ComPS less readily susceptible to manipulation.<sup>17</sup> Fourth,

<sup>16</sup> The ComPS circular will be submitted to the Commission for its review and should include, among other things, a discussion of those risks which may cause commodities to experience volatile price movements in addition to details on the pricing methodology to be used for that particular issuance.

<sup>17</sup> The Amex has comprehensive surveillance sharing agreements with all of the exchanges upon which the futures contracts relating to a particular ComPS trade. Specifically, Amex is able to obtain market surveillance information, including customer identity information, for transactions occurring on NYMEX and Comex. Furthermore, under the ISG information sharing agreement, SFA will be able to provide, upon Amex request, surveillance information with respect to trades effected on the LME, including client identity

the price of ComPS (with respect to those commodities traded in the U.S.) will be calculated every 60 seconds and disseminated to vendors of electronic financial information via the Exchange's Network B.<sup>18</sup> Fifth, adequate procedures are in place to prevent the misuse of information by members of the policy committee responsible for replacements with respect to the underlying contract.<sup>19</sup> Accordingly, for the reasons discussed above, the Commission believes that ComPS are not readily susceptible to manipulation and that in any event, the surveillance procedures in place are sufficient to detect and deter potential manipulation.

The Commission notes the ComPS, unlike standardized options, do not contain a clearinghouse guarantee but are instead dependent upon the individual credit of the issuer. This heightens the possibility that a purchaser of ComPS may not be able to receive any cash payment due upon maturity. To some extent this credit risk is minimized by the Exchange's listing guidelines requiring ComPS issuers to possess at least \$100 million in assets and stockholders' equity of at least \$10 million. In any event, financial information regarding the issuer will be disclosed or incorporated in the prospectus accompanying the offering of ComPS.

Based on the above, the Commission finds that the proposal to trade ComPS is consistent with the Act, and, in particular, the requirements of Section 6(b)(5).<sup>20</sup>

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>21</sup> that the proposed rule change is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>22</sup>

information. Finally, if the underlying commodity for an issuance of ComPS changes or if a different market is utilized for purposes of calculating the value of a designated futures contract, the Amex will ensure that it has entered into a surveillance sharing agreement with respect to the new relevant market.

<sup>18</sup> For commodities traded on the LME, as discussed above, prices for ComPS will be continuously disseminated on Network B, however, they will only be updated once per day during U.S. hours.

<sup>19</sup> As discussed above, members of the policy committee are expressly prohibited from trading ComPS and from communicating any knowledge concerning changes in the value of the underlying commodities. Amex will also have surveillance procedures in place to periodically review activity in the securities.

<sup>20</sup> The Commission notes that a Rule 19b-4 filing might be required in order to list any other derivative product based upon a commodity interest that differs from the proposed ComPS or previously approved COINs products.

<sup>21</sup> 15 U.S.C. § 78s(b)(2) (1982).

<sup>22</sup> 17 CFR § 200.30-3(a)(12) (1994).

Margaret H. McFarland,  
Deputy Secretary.  
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[Release No. 34-36884; File No. SR-Amex-96-02]

**Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the American Stock Exchange, Inc. Relating to a Gratuity Fund Interpretation**

February 23, 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 16, 1996 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 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 Board of the American Stock Exchange, Inc. has made an interpretation of Article IX of the Exchange Constitution with respect to the Gratuity Fund eligibility of individuals who inherited their regular memberships.

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 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> 15 U.S.C. 78s(b)(1).