Issued at Washington, D.C., this 26th day of March 1996.

Martin Slate,

Executive Director, Pension Benefit Guaranty Corporation.

[FR Doc. 96–7673 Filed 3–28–96; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

Sunshine Act Agency Meeting

Notice is hereby given, pursuant to the provisions of the Government in the Sunshine Act, Pub. L. 94–409, that the Securities and Exchange Commission will hold the following meeting during the week of April 1, 1996.

Commissioners, Counsel to the Commissioners, the Secretary to the Commission, and recording secretaries will attend the closed meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c) (4), (8), (9)(A) and (10) and 17 CFR 200.402(a) (4), (8), (9)(i) and (10), permit consideration of the scheduled matters at the closed meeting.

Commissioner Johnson, as duty officer, voted to consider the items listed for the closed meeting in a closed session.

The subject matter of the closed meeting scheduled for Wednesday, April 3, 1996, at 10:00 a.m., will be:

Institution and settlement of administrative proceedings of an enforcement nature.
Institution of injunctive actions.
Formal orders of investigation.
Opinions.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: The Office of the Secretary at (202) 942–7070.

Dated: March 27, 1996.

Jonathan G. Katz,

Secretary.

[FR Doc. 96–7910 Filed 3–27–96; 3:54 pm]

BILLING CODE 8010–01–M

[Release No. 34–37007; File No. SR–Amex–95–39, SR–CBOE–95–67, and SR–Phlx–95–76]

Self-Regulatory Organizations; Order Approving Proposed Rule Changes and Notice of Filing and Order Granting Accelerated Approval of Amendments Thereto by the American Stock Exchange, Inc., Chicago Board Options Exchange, Inc., and Philadelphia Stock Exchange, Inc., Relating to the Establishment of Uniform Listing and Trading Guidelines for Narrow-Based Stock Index Warrants

March 21, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] the American Stock Exchange, Inc. (''Amex''), Chicago Board Options Exchange, Inc. (''CBOE''), and Philadelphia Stock Exchange, Inc. (''Phlx'') (collectively ''Exchanges'') submitted to the Securities and Exchange Commission (''Commission'' or ''SEC'') proposed rule changes (''proposals'') to establish uniform listing and trading guidelines for narrow-based stock index warrants.[3]

Notice of the proposals, and Amendment No. 1 thereto, were published for comment and appeared in the Federal Register.[4] No comment letters were received.

The Amex subsequently submitted Amendments No. 2, 3, and 4 to the proposal on January 22, 1996 (''Amex Amendment No. 2''), January 30, 1996 (''Amex Amendment No. 3''), and January 31, 1996 (''Amex Amendment No. 4'').[5] The CBOE subsequently submitted Amendments No. 2, 3, and 4 to the proposal on December 27, 1995 (''CBOE Amendment No. 2''), February 2, 1996 (''CBOE Amendment No. 3''), and February 27, 1996 (''CBOE Amendment No. 4'').[6] The Phlx subsequently submitted Amendment No. 2 (''Phlx Amendment No. 2'') (collectively with all of the Exchange's Amendments that have not been noticed to date ''Amendments'') to the proposal on January 31, 1996.[7]

CBOE Amendment No. 2 addresses index maintenance standards. Amex Amendment No. 2 was superseded by Amex Amendment No. 3. Amex and CBOE Amendments No. 3 and Phlx Amendment No. 2 address position limit related issues. Amex Amendment No. 4 reduces the originally proposed position limit applicable to certain narrow-based index warrants and CBOE Amendment No. 4 clarifies an example contained in CBOE Amendment No. 3 with respect to position limit aggregation. This order approves the proposals, as amended, and solicits comments on the Amendments.

I. Description of the Proposal

On August 29, 1995, the Commission approved rule changes for the Exchanges which established uniform listing and trading guidelines for broad-based stock index, currency, and currency index warrants (''broad-based regulatory framework'').[8] Those standards govern all aspects of the listing and trading of index warrants, including issuer eligibility, customer suitability and account approval procedures, position and exercise limits, reportable positions, automatic exercise, settlement, margin, and trading halts and suspensions.

The purpose of this proposal is to allow for the listing and trading of warrants on narrow-based stock index groups. With the exceptions of separate higher margin requirements and reduced position limits, the broad-based regulatory framework will fully apply to the listing, trading, and surveillance of narrow-based index warrants. This includes a heightened suitability standard for recommendations in index warrants as well as requiring all

[1] 15 U.S.C. § 78s(b)(1) (1988 & Supp. V 1993).

[2] 17 CFR 240.19b–4 (1994).

[3] The Amex, CBOE, and Phlx rule filings were submitted on September 9, 1995, November 9, 1995, and October 27, 1995, respectively. On November 1, 1995, November 20, 1995, and November 22, 1995, Amex, CBOE, and Phlx, respectively, each submitted Amendment No. 1 (''Amendment No. 1'') to their proposals to address issues relating to settlement value for warrants. *See* Letters from William Floyd-Jones, Amex, to Michael Walinskas, SEC, dated October 30, 1995 (''Amex Amendment No. 1''), Timothy Thompson, CBOE, to Stephen M. Youhn, SEC, dated November 15, 1995 (''CBOE Amendment No. 1''), and Shelle Weisbaum, Phlx, to Michael Walinskas, SEC, dated November 22, 1995 (''Phlx Amendment No. 1''). Amex and Phlx Amendment No. 1 also address issues relating to index maintenance standards.

[4] *See* Securities Exchange Act Release Nos. 36448 (Nov. 1, 1995), 60 FR 56180 (Nov. 7, 1995) (Amex); 36525 (Nov. 29, 1995), 60 FR 62512 (Dec. 6, 1995) (CBOE); and 36524 (Nov. 29, 1995), 60 FR 62521 (Dec. 6, 1995) (Phlx).

[5] *See* Letters from William Floyd-Jones, Amex, to Stephen M. Youhn, SEC, dated January 19, 1996, January 29, 1996, and January 30, 1996, respectively.

[6] *See* Letters from Timothy Thompson, CBOE, to Stephen M. Youhn, SEC, dated December 21, 1995, February 1, 1996, and February 27, 1996, respectively.

[7] *See* Letter from Shelle Weisbaum, Phlx, to Michael Walinskas, SEC, dated January 30, 1996.

[8] On August 29, 1995, the Commission approved uniform listing and trading guidelines for stock index, currency and currency index warrants for the New York Stock Exchange (''NYSE''), Pacific Stock Exchange (''PSE''), Phlx, Amex, and CBOE. *See* Securiies Exchange Act Release Nos. 36165, 36166, 36167, 36168, and 36169 (Aug. 29, 1995), respectively. The PSE, to date, has not submitted a narrow-based index warrant filing and the NYSE is not being approved in this order.

purchasers of index warrants to be options approved. The proposed changes from the broad-based regulatory framework are outlined as follows:

(a) *Position Limits.* The Exchanges note that position limits for broad-based index warrants were set at levels approximately equal to 75 percent the then applicable corresponding limits applicable to options on the same index. In turn, the Exchanges propose to establish narrow-based index warrant position limits at a level equal to 75 percent of those recently approved for narrow-based index options.[9] As a result, narrow-based position limits would be governed by three tiers, using the same qualifications criteria as used for narrow-based index option position limits:

(i) 4,500,000 warrants where one stock in the group accounts, on average, for 30% or more of the numerical index value during the 30-day period immediately preceding the review.

(ii) 6,750,000 warrants where either a single stock in the group accounts for 20 percent or more of the group's numerical index value, or any five stocks in the group together account for 50 percent or more of the group's numerical index value, during the immediately preceding 30 days.

(iii) 9,000,000 warrants if the underlying group does not fall within the criteria set forth in either of the other two tiers.

The Exchanges propose to make the determinations described above when a particular issuance first commences trading the twice a year thereafter. An Exchange may establish uniform dates on which to make those semi-annual determinations in order to make them for all of its Exchange-listed narrow-based index warrants at the same time. After an issuance of warrants commences trading, an Exchange would begin to make the subsequent semi-annual determinations on the first of the uniform dates thereafter.

If the subsequent semi-annual determinations indicate that an index qualifies for a larger position limit, an Exchange may increase the limit to the new number immediately. Once a position limit is established for a particular warrant issuance, however, it will not be reduced. As a result, position limits for issuances of warrants overlying the same index may be different. In the event there is more than one issuance overlying an index, the Exchanges have proposed that there be an additional position limit applicable to all those warrant issuances on the same narrow-based index in the aggregate (''overall position limit''). This overall position limit for warrants on a narrow-based index shall be equal to the largest individual position limit then applicable to any warrant issuance of that same narrow-based index.[10]

(b) *Margin Requirements.* Margin will be similar to that required for narrow-based index options. Accordingly, all purchases of narrow-based index warrants must be paid in full. Additionally, the minimum margin required for each narrow-based index warrant carried short in a customer's account would be 100% of the current market value of each warrant plus 20% of the current index group value. Narrow-based index warrants would also be subject to the same spread margin treatment recently approved for broad-based index warrants.[11]

Listing Warrants on Approved Indexes

The proposed narrow-based index warrant regulatory framework would also allow the Exchanges to list a warrant on a narrow-based stock index without prior Commission approval if the Commission has already approved the underlying stock index for warrant or options trading. Furthermore, the Exchanges propose to incorporate certain generic initial listing and maintenance criteria which, when satisfied, provide for the expedited approval of warrants based on narrow-based indexes. The expedited approval process is nearly identical to that approved for narrow-based index options [12] except as provided below:

(i) the index must contain a minimum of nine stocks at all times; [13] and

(ii) allow for the use of closing (''p.m.'') prices in determining the value of an index warrant except that, where 25 percent or more of the value of an index underlying a warrant consists of stocks that trade primarily in the United States, opening price (''a.m. settlement'') must be used at (1) the warrant's expiration, and (2) on any date in which the warrant's settlement value will be based on prices on either of the two business days preceding expiration.[14]

II. Findings and Conclusions

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).[15] Specifically, the Commission finds that the Exchanges' proposals to establish uniform listing and trading standards for narrow-based stock index warrants strike a reasonable balance between the Commission's mandates under Section 6(b)(5) to remove impediments to and perfect the mechanism of a free and open market and a national market system, while protecting investors and the public interest. In addition, the proposed listing standards for warrants for warrants are consistent with the Section 6(b)(5) requirements that rules of an exchange be designed to prevent fraudulent and manipulative acts, to promote just and equitable principles of trade, and are not designed to permit unfair discrimination among issuers.

The Exchanges' proposed generic listing standards for narrow-based stock index warrants set forth a regulatory framework for the listing of such products. Generally, listing standards serve as a means for an exchange to screen issuers and to provide listed status only to *bona fide* issuances that will have sufficient public float, investor based, and trading interest to ensure that the market has the depth and liquidity necessary to maintain fair and orderly markets. Adequate standards are especially important for warrant issuances given the leveraged and contingent liability they represent.

The Commission notes that, with certain exceptions listed below, the Exchanges will apply to narrow-based index warrants the same regulatory framework which recently was approved for broad-based index warrants. In approving the broad-based index warrant regulatory framework, the Commission found that the framework provides an adequate regulatory structure for the trading of such warrants, including appropriate trading rules, sales practice requirements, margin requirements, position and exercise limits and surveillance procedures. The Commission also found that the applicable framework is designed to minimize the potential for

[9] Currently, depending on the characteristics of the index, position limits for narrow-based index options are either 12,000, 9,000, or 6,000 contracts on the same side of the market.

[10] For example, assume a firm issues warrants on a narrow-based index in July 1996 (''Issuance 1'') and, at the time, the applicable position limit for that issuance is 9 million warrants. The following year, in July 1997, the same firm completes a new issuance of warrants on the same index (''Issuance 2''). At the time of the second issuance, however, the composition of the index has changed such that it now qualifies for a position limit of 6.75 million warrants. An investor would still be permitted to hold 9 million warrants of Issuance 1. Any aggregate position including warrants from Issuance 1 and 2 would be subject to an overall 9 million warrant position limit, with no more than 6.75 million of those warrants coming from Issuance 2. Under no circumstances could an investor hold more than 6.75 million warrants from Issuance 2.

[11] *See, e.g.,* Amex Rule 462(d)(2)(F) and (G).

[12] *See* Securities Exchange Act Release No. 34157 (June 3, 1994).

[13] The generic narrow-based index option standard requires ten stocks initially and nine stocks thereafter.

[14] The generic index option standard requires the use of opening (''a.m.'') price settlement.

[15] 15 U.S.C. § 78f(b)(5) (1988).

manipulation, thereby helping to ensure that such index warrants do not have a negative market impact. Finally, the Commission also indicated that the framework adequately addressed the special risks to customers arising from the trading of such warrants.[16]

The Commission believes it is reasonable for the Exchanges to apply a nearly identical regulatory structure to narrow-based index warrants as broad-based index warrants, particularly given the substantial similarities that exist between them.[17] Both broad and narrow-based stock index warrants represent a leveraged investment in a portfolio or group of equity securities. However, broad-based index products generally have a large number of component securities and represent a certain overall equities market or a substantial segment thereof. Narrow-based index products, on the other hand, generally are comprised of fewer component securities that often are concentrated in a particular industry group. These differences heighten concerns with leveraged narrow-based index products regarding market impact, manipulation and volatility, dictating that narrow-based indexes be subject to lower position limits and more restrictive margin treatment.[18]

Accordingly, the Exchanges have proposed separate margin and position limit treatment for narrow-based index warrants. The proposed margin levels are analogous to those currently in place for narrow-based stock index options. The Commission believes these requirements will provide adequate customer margin levels sufficient to account for the potential volatility of these products. In addition, the Commission believes that it is appropriate to apply options margin treatment given the options-like market risk posed by warrants.[19]

The proposed position limits are also similar to those in place for narrow-based index options.[20] In addition, the Exchanges have proposed aggregation requirements to address multiple issuances of warrants on the same narrow-based index.[21] The Commission believes that the position limits and aggregation requirements are reasonable and will serve to minimize potential manipulation and other market impact concerns while not unduly restricting liquidity in warrant issuances.

The Commission believes the Exchanges' existing surveillance procedures applicable to broad-based index warrants are adequate to surveil the trading of narrow-based index warrants. The Commission found that the Exchanges' broad-based surveillance procedures were adequate to surveil for manipulation and other abuses involving the warrant market and the underlying component securities. Given the functional similarities between narrow and broad-based index warrants, the Commission believes it is reasonable to apply the same surveillance procedures to both.

Similarly, for the same reasons noted in our order approving broad-based index warrants, the Commission believes that heightened customer suitability standards, options account approval requirements, and sales practice procedures which are modelled after index options should be extended to narrow-based index warrants. The Commission notes that, upon approval of this filing, the Exchanges may list a warrant upon any narrow-based index that the Commission has previously approved for options or warrant trading. Additionally, in order to expedite SEC review of a particular warrant issuance, the Exchanges have proposed employing accelerated listing procedures similar to those adopted for listing options on narrow-based indexes.[22]

The Commission notes that these proposed accelerated listing standards for index warrants differ from the standards applicable to narrow-based index options in that there is a minimum nine stock requirement for index warrants (*i.e.*, an index must initially and at all times thereafter be comprised of at least nine stocks) and that index warrants may, at certain times, utilize a p.m. settlement methodology, as discussed above. The Commission believes the proposed differences are reasonable in the warrant context for several reasons.

With respect to p.m. settlement, index warrants are issuer-based products whose terms are individually set by the issuer, with the number of warrants on a given index being fixed at the time of issuance. Accordingly, it is not certain that there will be a significant number of warrants in indexes with similar components expiring on the same day. This may reduce pressure from liquidation of warrant hedges at settlement. Second, the Commission authorized the same settlement methodology for broad-based index warrants and believes it is reasonable that narrow-based index warrants operate in the same manner. With respect to the nine stock requirement, the Commission does not believe that this difference is such that it will subject narrow-based index warrants to increased manipulation. In fact, narrow-based index options impose the same maintenance requirement of nine stocks. The Commission does not believe that the creation of a nine stock index, as opposed to a ten stock index, will lead to increased manipulation, per se, provided the other listing criteria are satisfied. The Commission notes that this requirement precludes the issuance of index warrants pursuant to the accelerated listing procedures upon any index comprised of less than nine stocks.

The Commission believes that the accelerated listing procedures will provide a sufficient opportunity for it to examine narrow-based index warrant

[16] Pursuant to Section 6(b)(5) of the Act, the Commission is required to find, among other things, that trading in warrants will serve to protect investors and contribute to the maintenance of fair and orderly markets. In this regard, the Commission must predicate approval of any new derivative product upon a finding that the introduction of such derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. As discussed below, the Commission believes narrow-based index warrants will serve an economic purpose by providing an alternative product that will allow investors to participate in the price movements of the underlying securities in addition to allowing investors holding positions in some or all of such securities to hedge the risks associated with their portfolios.

[17] The regulatory framework for broad-based index warrants is similar to the approach used in regulating index options. Because the same risks exist in trading of narrow-based index options, the Commission believes it is appropriate to utilize the same approach.

[18] This is similar to the approach taken in regulating narrow-based and broad-based index options.

[19] The customer spread margin rules applicable to broad-based stock index and currency warrants were approved subject to a one year pilot program. The Commission notes that narrow-based index warrants will be subject to the same pilot program and, upon expiration of that program, it will determine whether to revise or approve on a permanent basis the proposed spread margin rules.

[20] The Commission notes that position limits for broad-based stock index warrants were set at a level roughly equivalent to 75% of broad-based index options. In the absence of trading experience with U.S. equities market based index warrants, the Commission believes it would be imprudent to establish position limits for positions greater than those currently applicable (on an equivalent basis) to stock index options on the same index.

[21] Because each individual warrant issuance is assigned a separate identification symbol, the Exchanges have the ability to monitor the aggregation of separate issuances of warrants on the same underlying index.

[22] Accelerated listing procedures allow the Exchange to permit issuances of warrants on a particular narrow-based index pursuant to a filing submitted to the Commission for effectiveness immediately upon filing under Section 19(b)(3)(A) of the Act. In the event that a proposed index does not qualify for expedited approval under these standards, the Exchanges are not precluded from filing a proposed rule change for Commission review pursuant to Section 19(b)(2).

products based on new indexes (which require that a filing be made pursuant to Section 19(b)(3)(A) of the Act). Specifically, the Commission believes that the seven day prefiling requirement gives the Commission staff an opportunity to discuss with an Exchange whether its proposal to list and trade particular narrow-based index warrants properly qualifies for effectiveness upon filing. In addition, the Commission finds that the 30 day delay in the commencement of trading of proposed narrow-based index warrants will provide a meaningful opportunity for public comment prior to the commencement of trading, while also providing an Exchange with the opportunity to inform market participants in advance of the proposed trade date for new index warrants. In accordance with Section 19(b)(3)(C) of the Act, if the Commission determines that the rule change proposal is inconsistent with the requirements of the Act and the rules and regulations thereunder, the 30 day delay would allow the Commission to abrogate the rule change before trading commences, which will minimize disruption on market participants. This authority could be utilized if, for example, it is determined that the proposed narrow-based index warrant does not satisfy the applicable accelerated listing standards.

III. Conclusion

The Commission believes that the adoption of these proposed uniform listing and trading standards for narrow-based index warrants will provide an appropriate regulatory framework. These standards will also benefit the Exchanges by providing them with greater flexibility in structuring narrow-based index warrant issuances and a more expedient process for listing narrow-based index warrants without further Commission review pursuant to Section 19(b) of the Act. As noted above, additional Commission review of specific warrant issuances will generally only be required for warrants overlying any non-approved narrow-based index that has not been previously approved by the Commission for narrow-based index warrant or options trading. If Commission review of a particular warrant issuance is required, the Commission expects that, to the extent that the warrant issuance complies with the uniform criteria adopted herein, its review should generally be limited to issues concerning the newly proposed index. This should help ensure that such additional Commission review could be completed in a prompt manner without causing any unnecessary delay in listing new narrow-based index warrant products.

The Commission finds good cause for approving the Exchanges' Amendments to the proposals prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. The Commission notes that the Amendments primarily relate to position limits and aggregation of multiple issuances of warrants on the same index. The Commission notes that the Amendments ensure that multiple issuances of index warrants on the same narrow-based index will be aggregated together and subject to an overall limit. The Commission believes it is appropriate to aggregate holdings in multiple issuances together since, despite the difference in expiration dates, warrants which overlie the same index are fundamentally the same instrument. Furthermore, aggregation provisions will ensure that an investor (or group) may not circumvent the applicable position limits by merely purchasing warrants from different issuances.

The Amendments also provide that once a position limit is established for a particular warrant issuance, it will not be reduced for the duration of that particular issuance. Given the limited duration of warrants (one to five years), and that any new index warrants on the same index could not exceed the lowered position limits, the Commission believes it is appropriate for position limits to not be reduced during their duration.

CBOE Amendment No. 2 imposes a minimum nine stock requirement for all narrow-based indexes which underlie a warrant issuance. This provision brings CBOE into conformity with the other exchanges. The Amex and Phlx provisions regarding this requirement have already been noticed and no comments were received. Accordingly, this provision does not raise any new or unique regulatory issues. Finally, Amex Amendment No. 4 reduces the lowest position limit tier to 4.5 million warrants from 4.875 million. The Commission notes that this brings the Amex into conformity with the other Exchanges. Finally, CBOE Amendment No. 4 clarifies an example contained in CBOE Amendment No. 3 with respect to position limit aggregation. Because this example is explanatory in nature and does not alter any of its rules, the provision does not raise any new or unique issues. For these reasons, the Commission believes there is good cause, consistent with Section 19(b)(2)[23] of the Act, to approve the Exchanges' Amendments to the proposals on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the Exchanges' Amendments. 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 NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal offices of the above-mentioned self-regulatory organizations. All submissions should refer to the file number in the caption above and should be submitted by April 19, 1996.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,[24] that the proposed rule changes (SR–Amex–95–39, SR–CBOE–95–67, and SR–Phlx–95–76) are approved, as amended.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[25]

Jonathan G. Katz,

Secretary.

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[23] 15 U.S.C. § 78s(b)(2) (1988).

[24] 15 U.S.C. § 78s(b)(2) (1988).

[25] 17 CFR § 200.30–3(a)(12) (1994).

[Release No. 34–37017; File No. SR–Amex–96–03]

Self-Regulatory Organizations; American Stock Exchange, Inc.; Order Approving Proposed Rule Change by the American Stock Exchange, Inc. Relating to the Listing and Trading of Options and Long-Term Options on the Networking Index and Long-Term Options on a Reduced-Value Networking Index

March 22, 1996.

I. Introduction

On January 23, 1996, the American Stock Exchange, Inc. (''Amex'' or ''Exchange'') submitted to the Securities