

and protects investors and the public interest.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition 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

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 thirty-five 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 ninety 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 PCX 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 NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of PCX. All submissions should refer to File No. SR-PCX-97-13 and should be submitted by July 7, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38616; File No. AR-PCX-97-09]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc., Relating to the Elimination of Position and Exercise Limits for FLEX Equity Options

May 12, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 1, 1997, the Pacific Exchange, Inc. ("PCX" 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 PCX, pursuant to Rule 19b-4 of the Act, proposes to eliminate position and exercise limits for FLEX Equity Options under a two-year pilot program.³

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 PCX 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 PCX has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. § 78s(b)(1) (1988).

² 17 CFR 240.19b-4.

³ In general, FLEX Equity Options provide investors with the ability to customize basic option features, including size, expiration date, exercise style, and exercise price.

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

1. Purpose

The Exchange is proposing to adopt a two-year pilot program under which the position and exercise limits for FLEX Equity Options would be eliminated. Exchange Rule 8.107(c) currently provides that position limits for FLEX Equity Options are set at three times the position limits for non-FLEX equity options.⁴ Rule 8.108(a) provides that the exercise limits for FLEX options are equivalent to the FLEX position limits prescribed in Exchange Rule 8.107.

The Exchange believes that the elimination of such limits is appropriate given the institutional nature of the market for FLEX Equity Options. The Exchange believes that many large investors find the use of exchange-traded options impractical because of the constraints imposed by position limits. The Exchange believes that the elimination of position limits will attract additional investors to exchange-traded options, thereby reducing transaction costs as well as improving price efficiency for all exchange-traded option market participants.

The Exchange also believes that FLEX Equity Options, after the elimination of position limits, may become an important part of large investors' investment strategies. In the absence of position limits, investors will be able to use these options to implement specific viewpoints regarding the underlying common stock.

In addition, pursuant to Section 13(d) of the Act and the rules and regulations thereunder, the inclusion of any option position is required when reporting the beneficial ownership of more than 5% of any equity security.⁵ Such reporting requirement make large option positions widely known and easily monitored by regulators and other market participants. In this light, FLEX Equity Options trading will have the transparency of any exchange-traded option transaction or position (open interest) plus the call market focus of

⁴ The Exchange notes that the elimination of position and exercise limits for FLEX Equity Options also has been proposed by other options exchanges. See Securities Exchange Act Release Nos. 37280 (June 5, 1996), 61 FR 29774 (June 12, 1996) (notice of File No. SR-Amex-96-19), and 38152 (January 10, 1997), 62 FR 2702 (January 17, 1997) (notice of File No. SR-CBOE-96-79).

⁵ Pursuant to Rule 13d-3 under the Act, a person will be deemed to be the beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within sixty days, including the right to acquire through the exercise of any option.

liquidity inherent in the Request for Quote ("RFQ") process. Similar to non-FLEX options, positions in FLEX options are required to be reported to the Exchange when an account establishes aggregate same-side of the market position of 200 or more FLEX option contracts. In this manner, the Exchange's proposal is based on the belief that manipulation is best controlled through active and transparent markets.

The Exchange recognizes the theoretical possibility that a would-be manipulator could initiate a large FLEX Equity Option RFQ with no intention of actually trading. Such tactics, however, would be obvious to the Exchange surveillance staff as well as to the Commission, and could be handled under current Exchange rules.

Pursuant to the two-year pilot program, the Exchange will provide to the Commission a status report on the program six months prior to its expiration. In addition, in connection with the monitoring and surveillance of the large FLEX Equity Option positions, Exchange members and member organizations (not including Market Makers) will be required to file a report with the Exchange whenever an account they are carrying holds a position in excess of three times the standard option position limit for that issue. In addition, the Options Clearing Corporation ("OCC") will be contacted when such a report is filed and will be asked to conduct a risk evaluation of the account and its position. If OCC's risk evaluation indicates a cause for concern, the Exchange will notify the member firm carrying the account and assess the circumstances of the transactions, along with the firm's view of the exposure of the account, and determine whether the account is approved and suitable for the strategies used. This monitoring of accounts should provide the Exchange with the information necessary to determine whether additional margin and/or capital charges should be imposed in light of the risks associated with this position in accordance with proposed Exchange Rule 8.107(c).

2. Statutory Basis

The PCX believes that the proposed rule change is consistent with Section 6(b) of the Act in general, and with Section 6(b)(5) in particular,⁶ in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

The PCX 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 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 PCX 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 also will be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR-PCX-97-09 and should be submitted by July 7, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38612; File No. SR-PCX-97-07]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Pacific Exchange, Inc., Relating to Position and Exercise Limits

May 12, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 5, 1997, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below,³ 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 PCX, pursuant to Rule 19b-4 of the Act, is proposing to modify its rules on option position and exercise limits by (a) expanding the scope of its firm facilitation exemption, (b) clarifying its general rule on exercise limits, (c) increasing the position and exercise limits for narrow-based index options, and (d) expanding the broad-based index hedge exemption to include broker-dealers.⁴

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

¹ 15 U.S.C. § 78s(b)(1) (1988).

² 17 CFR 240.19b-4.

³ On March 26, 1997, the PCX amended its rule filing. See letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, Pacific Exchange, Inc., to Matthew S. Morris, Office of Market Supervision, Division of Market Regulation, Commission, dated March 26, 1997 ("Amendment No. 1").

⁴ The PCX has withdrawn those portions of its rule filing which related to FLEX Equity options, and has refiled these changes in File No. SR-PCX-97-09.

⁶ 15 U.S.C. § 78f(b)(5) (1988).

⁷ 17 CFR 200.30-3(a)(12).