must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market.

In this regard, the CBOE has stated that the current position limits discourage market participation by certain large investors and the institutions that compete to facilitate their trading. In addition, the CBOE notes that the index option trading volume has increased significantly since 1995, when the current narrow-based index option position limits were established. In light of the increased volume of narrow-based index option trading and the needs of investors and market makers, the Commission believes that the CBOE's proposal is a reasonable effort to accommodate the needs of market participants.

In addition, the Commission notes that the proposal, while increasing the positions limits for narrow-based index options, continues to reflect the unique characteristics of each index option and maintains the structure of the current three-tiered system. Specifically, the lowest proposed limit, 9,000 contracts, will apply to narrow-based index options in which a single underlying stock accounts, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's review of narrow-based index options positions limits. A position limit of 12,000 contracts will apply if any single underlying stock accounts, on average, for 20% or more of the index value or any five underlying stocks together account, on average, for more than 50% of the index value, but no single stock in the group accounts, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's review of narrow-based index option position limits. The 15,000 contract limit will apply only if the Exchange determines that the conditions requiring either the 9,000 contract limit or the 12,000 contract limit have not occurred.

The Commission believes that the proposed increases for the three tiers of 25%, 33%, and 50%, for highest to lowest, respectively, appear to be appropriate and consistent with the Commission's evolutionary approach to position and exercise limits. In this regard, the absence of discernible manipulative problems under the current three-tiered position and exercise limit system for narrow-based index options leads the Commission to conclude that the increases proposed by the Exchange are warranted. The Commission recognizes that there are no ideal limits in the sense that options positions of any given size can be stated conclusively to be free of any manipulative concerns. Based upon the absence of discernible manipulation or disruption problems under current limits, however, the Commission believes that the proposed limits can be safely considered. Accordingly, the Commission believes that the CBOE's proposed increases of existing position and exercise limits for narrow-based index options is appropriate.[6]

The Commission notes that the Exchange has had considerable experience monitoring the current three-tiered framework in narrow-based index options. The Commission has not found that differing position and exercise limit requirements based on the particular options product to have created programming or monitoring problems for securities firms, or to have led to significant customer confusion. Based on the current experience in handling position and exercise limits, the Commission believes that the proposed increase in position and exercise limits for narrow-based index options will not cause significant problems.

Finally, the Commission believes that the Exchange's surveillance programs are adequate to detect and to deter violations of position and exercise limits as well as to detect and deter attempted manipulative activity and other trading abuses through the use of such illegal positions by market participants.

The Commission finds good cause to approve the proposal prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register.** On October 24, 1996, the Commission approved an identical proposal for the Philadelphia Stock Exchange, Inc. (''Phlx'').[7] The Phlx's proposal was subject to the full comment period and generated no responses. Similarly, on January 23, 1997, the Commission granted accelerated approval to an identical proposal for the American Stock Exchange, Inc. (''Amex'').[8] Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve the proposed rule change on an accelerated basis.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2)[9] of the Act, that the proposed rule change (File No. SR–CBOE–97–09) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[10]

Margaret H. McFarland,

Deputy Secretary.

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[6] The Commission continues to believe that proposals to increase position limits and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for each tier, the Commission has concluded that the proposed exercise limit increases for the three-tiered framework do not raise manipulation problems or increase concerns over market disruption in the underlying securities.

[7] *See* Securities Exchange Act Release No. 37863 (October 24, 1996), 61 FR 56599 (November 1, 1996) (order establishing position and exercise limits for narrow-based index options at 9,000, 12,000, or 15,000 contracts) (Phlx–96–33).

[8] *See* Securities Exchange Act Release No. 38202 (January 23, 1997), 62 FR 4555 (January 30, 1997) (order establishing position and exercise limits for narrow-based index options at 9,000, 12,000, or 15,000 contracts) (Amex–96–41).

[9] 15 U.S.C. § 78s(b)(2) (1988).

[10] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38625; File No. SR–OCC–97–01]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Permitting Certain Fund Shares To Satisfy Margin Requirements and Permitting the Use of Certain Fund Shares and Trust Units for Escrow Deposits

May 13, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on February 21, 1997, The Options Clearing Corporation (''OCC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change (File No. SR–OCC–97–01) as described in Items I, II, and III below, which items have been prepared primarily by OCC. 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 proposed rule change will permit OCC participants to deposit with OCC certain shares issued by an open-end management investment company (''fund shares'') as a form of margin. The

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

proposed rule change also will permit participants to make escrow deposits with OCC by using fund shares and certain publicly traded units of beneficial interest in unit investment trusts (''trust units'').

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

In its filing with the Commission, OCC 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. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[2]

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

(1) Using Fund Shares as a Form of Margin

The proposed rule change will amend subparagraph (4) of OCC Rule 604(d), which sets forth the margin deposit eligibility requirements for debt and equity issues, to permit OCC participants to deposit as a form of margin collateral fund shares issued by open-end management investment companies that hold portfolios or baskets of common stocks. These classes of fund shares are traded and cleared like shares of common stock and are typically held in book-entry form at a securities depository. As a result, OCC believes it will be able to readily perfect a security interest in deposited fund shares and will be able to liquidate them if necessary. Accordingly, OCC believes it is appropriate to allow its participants to use fund shares as a form of margin collateral under the conditions specified in subparagraph (4) of Rule 604(d), which currently permits OCC participants to use approved trust units as margin deposits.[3]

To enable participants to deposit fund shares as margin collateral, the proposed rule change will amend the term ''stock'' defined in subparagraph (4) of Rule 604(d) to include fund shares. In addition, fund shares also will have to meet the requirements applicable to stocks under Rule 604(d) and be of a class approved by OCC for deposit as margin. Because Rule 604(d)(1) requires that a stock be exchange listed or traded on the NASDAQ National Market System, the ''publicly traded'' requirement of subparagraph (4) will be deleted as unnecessary.

The proposed rule change also will amend Section 11 of OCC's Interpretations and Policies to require that OCC's Membership/Margin Committee (''Committee'') approve classes of fund shares for deposit as margin. Presently, World Equity Benchmark Shares (''WEBS'') listed on the American Stock Exchange are the only class of fund shares the Committee has approved.

(2) Using Fund Shares and Trust Units as Escrow Deposits

The proposed rule change also will amend OCC Rule 1801(b), which relates to index option escrow deposits, by adding new subparagraph 2 which will define the term ''common stocks'' to include fund shares and trust units.[4] By adding this definition, OCC Rule 1801(b) will permit participants to use fund shares and trust units as part of an escrow deposit made with respect to index call option contracts carried in a short position in a participants' customer account.[5]

The language of the new definition parallels that of Rule 604(d), as proposed to be amended herein. Accordingly, fund shares and trust units deposited must meet the existing requirements for deposits of common stock under Rule 1801(b) and must be of a class approved by OCC for deposit as margin collateral. Because the Committee already has approved for deposit as margin SPDRs on the S&P 500 Index and S&P 400 Mid-Cap Index (as an eligible class of trust units) and WEBS (as as eligible class of fund shares), upon approval of this rule filing SPDRs and WEBS will be eligible for use as escrow deposits for short positions in index call options.[6]

OCC believes that the proposed rule change is consistent with the requirements of section 17A of the Act[7] and the rules and regulations thereunder because it expands the forms of margin collateral that may be deposited with OCC in a prudent and safe manner designed to assure the safeguarding of securities in OCC's custody and control.

(B) Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.

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

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been 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 OCC 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

[2] The Commission has modified the text of the summaries prepared by OCC.

[3] Currently, the only trust units approved for deposit as margin are Standard & Poor's (''S&P'') Depository Receipts (''SPDRs'') on the S&P 500 Index and S&P 400 Mid-Cap Index. Securities Exchange Act Release No. 38105, (December 31, 1996) 62 FR 1014 [File No. SR–OCC–96–13] (order approving a proposed rule change relating to unit investment trusts as margin collateral).

[4] The proposed rule change also will make technical changes to Rule 1801 to reflect the addition of new subparagraph (b)(2).

[5] OCC has filed with the Commission a proposed rule change (File No. SR–OCC–97–02) that will authorize OCC to issue and clear options on fund shares and trust units. OCC also asserts that, if approved by the Commission, fund shares and trust units will by definition become ''underlying securities as defined by Article I, Section 1 of OCC's bylaws,'' and escrow deposits with respect to call option contracts on these underlying securities carried in a short position will be automatically permitted under the existing provisions of OCC Rule 610, which relates to the deposit of underlying securities in lieu of margin.

[6] If the Commission approves the proposed rule change, OCC will send a notice to each of its custodian banks advising them that the term ''common stocks'' as used in the Amended and Restated On-Line Escrow Deposit Agreement includes the SPDRs and WEBS identified above.

[7] 15 U.S.C. 78q–1.

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 Room, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR–OCC–97–01 and should be submitted by June 10, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[8]

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38623; File No. SR–PCX–12]

Self-Regulatory Organizations; The Pacific Exchange, Inc.; Notice of Filing of Proposed Rule Change Modifying Rules on Disclosure of Financial Arrangements of Members

May 13, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on April 23, 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 primarily by PCX. 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 Exchange is proposing to amend its rule on disclosure of financial arrangements of Members, to expand the scope of such arrangements that must be disclosed to the Exchange, to eliminate unnecessary provisions of the rule, and to clarify existing provisions.[2]

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

In its filing with the Commission, 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. PCX 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

The Exchange is proposing to make various changes to PCX Rule 4.18, ''Disclosure of Financial Arrangement of Members.'' First, Rule 4.18, Subsection (a) Currently provides, in part, that a Market Maker, Floor Broker, Specialist or Member Organization who enters into a financial arrangement with any other member shall disclose to the Exchange the name of such member and the terms of the arrangement. The Exchange is proposing to replace ''any other member'' with ''any other person or entity'' and to replace ''the name of such member'' with ''the identity of such person or entity.'' Accordingly, the amended rule will require that financial arrangements between Members and Non-Members be disclosed, while currently, only financial arrangements between Members must be disclosed. The Exchange believes that this expansion of the scope of financial arrangements that must be disclosed is appropriate because the Exchange needs to conduct adequate financial monitoring of its Members. The Exchange further believes that the distinction in the current rule between financing provided by Members and financing provided by Non-Members is unsound.

Second, Subsection (a) Currently defines ''financial arrangement'' for purposes of Rule 4.18 as ''(1) The direct financing of a member's dealings upon the Exchange; or (2) any direct equity investment or profit sharing arrangement; or (3) any consideration over the amount of $5,000.00 that constitutes a gift, loan, salary or bonus.'' The Exchange is proposing to clarify and expand the third clause to provide: ''any consideration over the amount of $5,000.00, including, but not limited to, gifts, loans, annual salaries or bonuses.''

Third, the Exchange is proposing to eliminate Subsection (b), which currently provides that each Market Maker shall inform the Exchange immediately of the intention of any party (1) To change any financial arrangement as defined in this Rule; or (2) to issue a margin call. It further provides that on a form prescribed by the Exchange, a Market Maker shall submit to the Exchange a monthly report of his use or extension of credit pursuant to this Section. The Exchange believes that these requirements are unnecessary.

Fourth, the Exchange is proposing to eliminate subsection (c), which provides that the disclosure of financial arrangements pursuant to this Rule shall be the responsibility of all parties involved. The Exchange believes this provision is superfluous.

Finally, subsection (d) currently provides that unless otherwise agreed, the Exchange member shall submit to the Exchange notification of the initiation or termination of such financial arrangements within ten business days of the effective date of such arrangements. It further provides that failure to disclose financial arrangement terms to the Financial Compliance Department may result in disciplinary action by the Exchange. The Exchange is proposing to modify subsection (d) to provide that Exchange Members with financial arrangements must submit to the Exchange notification of the initiation, modification or termination of such financial arrangements in a form, time and manner approved by the Exchange. It further states that failure to disclose the terms of such financial arrangements to the Exchange may result in disciplinary action. The Exchange proposes eliminating the stated 10 business day rule in order to add flexibility for situations where an individual situation requires an immediate response.

The Exchange believes that the proposal is consistent with Section 6(b) of the Act, and Section 6(b)(5) of the Act[3] in particular, in that it promotes just and equitable principles of trade and to protect 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.

[8] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] The test of the proposed rule change is attached as Exhibit A to File No. SR–PCX–97–12, and is available for review at the principal office of PCX and in the Public Reference Room of the Commission.

[3] 15 U.S.C. 78f(b)(5).