risk; (ii) the amount at risk is held in the account in cash, cash equivalents, or via an escrow agreement; and (iii) the transaction is eligible for the cash account. The existing covered transaction provisions of Regulation T do not address positions involving index options. The Commission has addressed this area in the past by granting a number of no-action positions that allow certain short index call option positions to be offset by a portfolio of stocks that exactly replicates the index option.[32] The proposed revision to Rule 24.11 essentially codifies the margin treatment permitted under these prior positions and therefore is appropriate. Although these prior no-action positions did not address or grant no-action relief to short index put options offset by short positions in a portfolio of stocks replicating the index option, the Commission concludes that such positions nonetheless satisfy the noted regulatory standards required for covered transactions and such treatment is consistent with the covered treatment afforded to transactions in equity options. Accordingly, this provision is reasonable and appropriate.

Accelerated Approval of Amendment Nos. 1 and 2

The Commission finds good cause for approving Amendment Nos. 1 and 2 period to the thirtieth day after the date of publication of notice of filing thereof. Amendment No. 1 addresses technical changes by making corrections to certain typographical mistakes appearing in the rule filing. Amendment No. 2 also makes technical changes by correcting an incorrect cross-reference in CBOE Rule 12.5 and other inadvertent omissions. In addition, it addresses a number of substantive issues, including limiting the availability of good faith margin for permitted offset to only bona fide market-making transactions. Amendment No. 2 also addresses the margin treatment applicable to long listed equity options. Instead of requiring margin to be equal to the current market value of long listed equity options, the requirement has been changed to equal at least the purchase price of the option. This change better reflects the purpose of the proposed change, which was to confirm that long listed options must be paid for in full at the time of purchase. The originally proposed language could possibly be interpreted to impose a maintenance margin requirement for such positions, which is not required for fully paid long positions. The remainder of Amendment No. 2 merely provided additional information regarding issues that were adequately published through the notice of this proposed rule filing. All of the amended changes strengthen and clarify the proposal. Based on the above, the Commission finds that there exists good cause consistent with Section 6(b)(5) of the Act, to accelerated approval of the amendments.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1 and 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of all such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to the file number SR–CBOE–97–17 and should be submitted by June 23, 1997.

It is therefore Ordered, pursuant to Section 19(b)(2) of the Act,[34] that the proposed rule change (SR–CBOE–97–17) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[35]

Margaret H. McFarland,

Deputy Secretary.

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[32] *See, eq.*, Letter from Sharon Lawson, Senior Special Counsel, Market Regulation, to Diane Malley, CBOE, dated October 4, 1996 (short index call positions in Goldman Sachs Technology Composite Index and Goldman Sachs Technology sub-Index options).

[34] 15 U.S.C. 78s(b)(2).

[35] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38708; File No. SR–NYSE–97–01]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the New York Stock Exchange, Incorporated Regarding Changes in its Margin Rules

June 2, 1997.

I. Introduction

On January 9, 1997, the New York Stock Exchange, Incorporated (''NYSE'' or the ''Exchange'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend certain sections of the Exchange's rules to comply with changes to Regulation T which became effective June 1, 1997.

The proposed rule change was published for comment in Securities Exchange Act Release No. 38411 (March 17, 1997), 62 FR 14174 (March 25, 1997). The NYSE submitted a written clarification regarding its filing to the Commission on May 29, 1997.[3] No comments were received on the proposal.

This order approves the proposed rule change.

II. Description of the Proposal

The NYSE proposes to make revisions to its rules governing margin that will establish NYSE rules to govern areas of margin regulation that will no longer be addressed by Regulation T (''Regulation T'')[4] of the Board of Governors of the Federal Reserve System (''Federal Reserve Board,'' ''FRB'' or ''Board''). The Federal Reserve System's Regulation T, which covers the extensions of credit by and to brokers and dealers, currently prescribes margin requirements for options transactions. In April 1996, the Federal Reserve Board amended Regulation T to delete certain rules regarding options transactions in favor of rules to be adopted by the options exchanges and approved by the

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

[2] 17 CFR 240.19b–4.

[3] *See* Letter from Donald van Weezel, Managing Director, Regulatory Affairs, NYSE, to Michael Walinskas, Senior Special Counsel, Division of Market Regulation (''Market Regulation''), Commission, dated May 29, 1997, clarifying requirement relating to the proposed permitted market-maker offset provisions.

[4] 12 CFR 220.1 through 19 (1996).

Commission.[5] This amendment to Regulation T became effective June 1, 1997.

The proposed amendments incorporate the current FRB requirements into Exchange Rule 431 so that they may remain in effect after June 1, 1997. The proposed amendments also incorporate certain treatments of offset positions as recognized under Exchange Act Rule 15c3–1, the ''Net Capital Rule.''

Specifically, a permitted offset position will be defined to mean, in the case of an option in which a specialist or market-maker makes a market, a position in the underlying instrument or other related instrument, and in the case of other securities in which a specialist or market-maker makes a market, a position in options overlying the securities in which a market-maker makes a market, if the account holds the following positions: (i) A short option position which is ''in- or at-the-money'' and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is ''in-the-money''; (ii) a long option position which is ''in- or at-the-money'' and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is ''in-the-money''; (iii) a short option position against which an exercise notice was tendered; (iv) a long option position which was exercised; (v) a net long position in a security (other than an option) in which a specialist makes a market; (vi) a net short position in a security (other than an option) in which the specialist makes a market; or (vii) a specified portfolio type as referred to in Exchange Act Rule 15c3–1—Appendix A.[6]

These proposed amendments to Rule 431 adopt provisions regarding permitted market-maker and specialist offset positions from Regulation T and the Net Capital Rule. These offset positions would be subject to the same ''good faith'' margin treatment as has been accorded under Regulation T and would require the clearing/carrying firm to comply with the applicable haircut requirements of the Net Capital Rule for any cash margin deficiency (e.g., the difference between the margin required under Rule 431 and the amount received from the specialist/market maker). The proposal also incorporates the current Regulation T definitions of the terms ''in- or at-the-money'', ''in-the-money'' and ''overlying options.'' The parameters for permitted offsets within the ''in- and at-the-money'' definition have been expanded from one to two ''standard exercise intervals.''

The ''Good Faith'' margin requirements in Section (f)(2)(J) of Rule 431 as proposed to be amended shall be applicable for registered options specialists' and market-makers' transactions in listed options in which the specialist or market-maker makes a market, and registered options specialists' or options market-makers' permitted offset transactions as defined in Section (f)(2)(J) (i)–(vii) of Rule 431, when such transactions are effected for market-making purposes. This requirement will ensure that permitted offset transactions are in fact reasonably related to the specialist's market-making function and are not effected for the purpose of speculation on a margin basis which is applicable only to market-makers and specialists.

Section (f)(2)(J) of Rule 431 has been revised in order to clarify the existing definition of ''good faith'' margin requirements.

A new provision has been added (Section (f)(2)(L) of Rule 431) to incorporate the provisions currently contained in Regulation T regarding ''exclusive designation'' that allow a customer to designate which security position in an account is to be utilized to cover the required margin at the time an option order is entered, provided the member organization offers such a service.

Further, Section (f)(2)(M) of Rule 431 has been added to incorporate the current provisions of Regulation T that allow certain defined options-related transactions to be maintained in a cash account and incorporate a debit put spread provision involving European-style broad-based index options that is consistent with a similar Chicago Board Options Exchange provision.

III. Discussion

After careful review of the Exchange's proposed amendment to its margin rules, and for the reasons discussed below, the Commission believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to national securities exchanges, and, in particular, with the requirements of Section 6(b) of the Act.[7] Specifically, the Commission believes the proposal is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public interest.[8]

The Commission believes that the portions of the proposal that revise the applicable standard governing option market-maker and option specialist permitted offsets are reasonable. The revised standards serve to maintain the requirement that good faith margin may only be extended for bona fide market making related transactions, including hedging transactions that are reasonably related to a market-maker's assigned responsibility. The permitted offsets listed in proposed Section (f)(2)(J) (i)–(vi) of Rule 431 simply incorporate the formerly ''permitted'' Regulation T offsets which have been deleted in favor of exchange rules. The incorporation of these offsets does not raise any new regulatory issues and, accordingly, is reasonable. The permitted offsets listed in proposed Section (f)(2)(J)(vii) of Rule 431 incorporate those permitted offsets allowed under Exchange Act Rule 15c3–1 for purposes of determining broker-dealer net capital requirements. Incorporating these same offsets for the related purpose of determining applicable options market-maker and specialist offsets constitutes a reasonable effort to coordinate risk management requirements that serve similar purposes.

The Commission believes that the proposal is a reasonable effort by the NYSE to accommodate the needs of options market-makers and specialists in undertaking their market-making responsibilities as it recognizes the occasional need for these entities to effect transactions in their course of dealing in options classes for which the options market-maker or specialist is not registered. The Commission believes that this approach will not adversely affect the depth and liquidity necessary to maintain fair and orderly markets. The Commission expects that those clearing firms and other broker-dealers that are bound to comply with the NYSE's margin rules, in extending margin to options market-makers and specialists, will implement adequate procedures to ensure that offsets elected by options market-makers and specialists are recorded accurately and

[5] *See* 61 FR 20386 (May 6, 1996) (Federal Reserve Board's release adopting certain changes to Regulation T).

[6] *See* Securities Exchange Act Release No. 38248 (February 6, 1997) 62 FR 6474 (February 12, 1997) (Final rule adopting changes to Exchange Act Rule 15c3–1) (the ''Net Capital Rule'').

[7] 15 U.S.C. 78f(b).

[8] In approving these rules, the Commission has considered the proposed rules' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

cleared into appropriate accounts. The Commission believes that these requirements will ensure that transactions effected by options market-makers and specialists are in fact reasonably related to their market-making function and are not effected for speculative purposes on a margin basis which should be available only for bona fide market-making activity.

The Exchange's proposed definition of ''in- or at-the-money,'' for purposes of permitted offset transactions, represents a codification of a long standing practice among the options markets, of permitting the financing of options specialists and market-makers underlying stock positions on a good faith basis when offset on a share-for-share basis by options which are ''in-or at-the-money,'' *i.e.,* where the current market price of the underlying security is not more than two standard exercise price intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option. The Commission believes it is appropriate for the NYSE to codify this longstanding practice. This practice is also being codified today by the Chicago Board Options Exchange.[9]

The Exchange has also revised existing Section (f)(2)(J) of Rule 431 to clarify the existing definition of ''good faith'' margin requirements. The change in the definition of ''good faith'' margin requirements effectively creates a minimum good faith margin requirement, and, accordingly, is reasonable.

The Exchange has also added a new Section (f)(2)(L) of Rule 431 which incorporates the provisions currently contained in Regulation T regarding ''exclusive designation'' that allow a customer to designate which security position in an account is to be utilized to cover the required margin at the time an option order is entered, provided the member organization offers such a service. This section merely incorporates existing provisions of Regulation T into the Exchange's rules, and, accordingly, is reasonable.

The Exchange's proposed new Section (f)(2)(M)(i) of Rule 431 merely incorporates those provisions of Regulation T that allow certain defined options-related transactions to be maintained in a cash account and, accordingly, does not raise new regulatory issues. The other part of this proposed section incorporates a debit put spread provision involving European-style broad-based index options that is consistent with a similar Chicago Board Options Exchange provision. Accordingly, the Commission finds it reasonable for the NYSE to adopt this similar provision.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,[10] that the proposed rule change (NYSE 97–01) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[11]

Margaret H. McFarland,

Deputy Secretary.

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[9] The Commission notes that the Chicago Board Options Exchange asserts that it has received oral no-action relief from the Federal Reserve Board permitting the two standard exercise price interval interpretation. *See* Securities Exchange Act Release No. 38709 (June 2, 1997).

[10] 15 U.S.C. 78s(b)(2).

[11] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38707; File No. SR–PCX–97–10]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the Pacific Exchange, Incorporated and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 1 to the Proposed Rule Change Relating to Changes to its Margin Rules

June 2, 1997.

I. Introduction

On April 14, 1997, the Pacific Exchange, Incorporated (''PCX'' or the ''Exchange'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend certain sections of the Exchange's rules to comply with changes to Regulation T which become effective on June 1, 1997.

The proposed rule change was published for comment in Securities Exchange Act Release No. 38528 (April 18, 1997), 62 FR 20235 (April 25, 1997). The PCX submitted Amendment No. 1 to the Commission on May 30, 1997.[3] No comments were received on the proposal.

This order approves the proposed rule change.

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

[2] 17 CFR 240.19b–4.

[3] *See* Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX, to Connie Kiggins, Special Counsel, Division of Market Regulation (''Market Regulation''), Commission, dated May 29, 1997, making certain technical changes to the rule filing.

II. Description of the Proposal

The PCX proposes to make revisions to its rules governing margin that will establish PCX rules to govern areas of margin regulation that will no longer be addressed by Regulation T (''Regulation T'')[4] of the Board of Governors of the Federal Reserve System (''Federal Reserve Board,'' ''FRB'' or ''Board''). Several other minor changes that substantially mirror provisions contained in the New York Stock Exchange's margin rules have also been proposed. The Federal Reserve System's Regulation T, which covers the extensions of credit by and to brokers and dealers, currently prescribes margin requirements for options transactions. In April 1996, the Federal Reserve Board amended Regulation T to delete certain rules regarding options transactions in favor of rules to be adopted by the options exchanges and approved by the Commission.[5] This amendment to Regulation T became effective June 1, 1997.

The proposed amendments incorporate the current FRB requirements into Exchange Rule 2.16 so that they may remain in effect after June 1, 1997. The proposed amendments also incorporate certain treatments of offset positions as recognized under Exchange Act Rule 15c3–1, the ''Net Capital Rule.''

Specifically, a permitted offset position will be defined to mean, in the case of an option in which a specialist makes a market, a position in the underlying asset or other related assets, and in the case of other securities in which a specialist makes a market, a position in options overlying the securities in which a specialist makes a market, if the account holds the following permitted offset positions: (i) A short option position that is ''in- or at-the-money'' and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security that is ''in-the-money''; (ii) a long option position that is ''in- or at-the-money'' and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security that is ''in-the-money''; (iii) a short option position against which an exercise notice was tendered; (iv) a long option position that was exercised; (v) a net long position in a security (other than an option) in which a specialist makes a market; (vi) a net short position in a security (other than an option) in which a specialist

[4] 12 CFR 220.1 through 19 (1996).

[5] *See* 61 FR 20386 (May 6, 1996) (Federal Reserve Board's release adopting certain changes to Regulation T).