

with the New Management Agreements, after the requisite shareholder approval of the New Management Agreements is obtained, or (b) to such Investment Company in the absence of shareholder approval.

3. The Investment Companies will convene special meetings of shareholders to approve the New Management Agreements on or before the 150th day following termination of the Current Management Agreements (but in no event later than November 30, 1998).

4. The Investment Companies will not bear the costs of preparing and filing the Application, or any costs relating to the solicitation of approval of each Investment Company's shareholders of the New Management Agreements. These costs will be borne by MCM and World.

5. MCM, World, and Framlington will take all appropriate actions to ensure that the scope and quality of investment management services provided to the Investment Companies during the Interim Period will be at least equivalent, in the judgment of the Boards, including a majority of the non-interested directors/trustees, to the scope and quality of such services provided prior to the Interim Period. In the event of any material change in personnel providing services pursuant to the New Management Agreements, MCM, World, or Framlington Management, as appropriate, will apprise and consult with each Board to assure that the Board, including a majority of the non-interested directors/trustees, is satisfied that the services provided will not be diminished in scope or quality.

For the SEC, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-15277 Filed 6-8-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40057; File No. SR-GSCC-98-02]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of a Proposed Rule Change Regarding the Implementation of the GCF Repo Service

June 2, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act"),¹ notice is hereby given that on April 10, 1998, the Government Securities Clearing Corporation ("GSCC") 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 GSCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change will allow GSCC to implement a new service called the "GCF Repo service." The GCF Repo service will allow GSCC's dealer members to trade general collateral repos involving Government securities throughout the day without requiring intraday, trade-for-trade settlement on a delivery-versus-payment ("DVP") basis.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, GSCC 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. GSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.³

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

The GCF Repo service has been developed as part of a collaborative effort among GSCC, its clearing banks,⁴ industry representatives service on GSCC's Repo Implementation Committee, and its associated GCF Repo Working Group.

¹ 15 U.S.C. 78s(b)(1).

² The complete text of the proposed rule change is attached as Exhibit A to GSCC's filing, which is available for inspection and copying at the Commission's public reference room and through GSCC.

³ The Commission has modified the text of the summaries prepared by GSCC.

⁴ Currently, GSCC's clearing banks are The Bank of New York and The Chase Manhattan Bank. Under the proposed rule change, any clearing bank that meets GSCC's operational requirements will be able to provide GCF Repo settlement services to GSCC netting members.

(1) General

The GCF Repo service will enable netting members of GSCC that are not interdealer brokers ("dealers") to trade general collateral repos, based on rate and term, with interdealer broker netting members of GSCC ("brokers") on a blind basis throughout each day. Brokers will be required to submit GCF Repo trade data to GSCC within five minutes of trade execution through a new terminal function. Brokers will not be able to submit GCF Repo trades in batch. Upon receipt of the trade data, GSCC immediately will report transaction details to dealers through a terminal dynamic display facility, and the GCF Repos will receive GSCC's settlement guarantee. Standardized, generic CUSIP numbers established exclusively for the GCF Repo service will be used to specify the acceptable type of underlying Fedwire book-entry eligible collateral, which will include Treasuries, Agencies, and mortgage-backed securities.⁵

Daily submission cutoff for GCF Repo trades will occur five minutes after a predetermined trading deadline, which initially will be 3:30 p.m. GSCC will reject all trades submitted for same-day processing that are received after the cutoff. Dealers initially will have until 3:45 p.m. to affirm or disaffirm trade data submitted against them by a broker. If a dealer takes no action either to affirm or to disaffirm trade data, the trade automatically will be deemed to be affirmed. GSCC will then conduct an afternoon net exclusively for GCF Repo activity and will establish a single net receive or deliver obligation for dealer members in each generic CUSIP.

Each dealer with a net deliver obligation will allocate acceptable securities (determined by the generic CUSIP) and will deliver those securities on a DVP basis to a GSCC account within the dealer's clearing bank using a modified triparty arrangement. GSCC will then instruct the clearing bank to deliver those securities to dealers that have net receive obligations. All GCF Repo activity will settle between dealers

⁵ Because GCF Repo trades will be conducted on a blind-brokered basis, the specific collateral will not be known at the time of the trade. Brokers will submit all GCF Repo trades to GSCC using generic general collateral CUSIPs that denote the underlying security. GSCC expects that the initial types of generic CUSIPs that will be used for GCF Repo activity will denote the following categories of securities: all Treasury securities, Treasury securities with a remaining maturity of ten years and under, all Fedwire-eligible Agency securities, and all Fedwire-eligible mortgage-backed securities. GSCC will continuously review with the members of its Repo Implementation Committee and with appropriate Bond Market Association committees the appropriateness of making eligible other types of generic CUSIPs.

and GSCC within the dealers' clearing banks.

GSCC initially will implement the GCF Repo product offering within each participating clearing bank separately. As a result, a participating dealer will be able to trade GCF Repos only with other dealers that use the same clearing bank. This will allow GSCC time to monitor and review the GCF Repo process as it operates on a limited basis, to detect processing inefficiencies before the service is made more broadly available, and to determine how best to effect after-hours interbank securities allocations.⁶

(2) Participant Eligibility

To be eligible for the GCF Repo service, brokers and dealers will be required to meet the qualifications for repo netting membership as defined in GSCC's rules. In addition, dealer members will be required to designate the brokers that are authorized to submit GCF Repo trades on their behalf. GSCC members that wish to become eligible to use the GCF Repo service also will be required to test with GSCC and to demonstrate that they are able to submit data to and to receive output from GSCC in the communications links, formats, timeframes, and deadlines established for the service.

(3) Securities Eligibility

Initially, the securities eligible for the GCF Repo service will be U.S. Treasury securities (other than inflation-indexed securities or STRIPs), Agency securities that are not mortgage-backed, and book-entry mortgage-backed securities that are Fedwire-eligible. GSCC will continuously review with the members of its Repo Implementation Committee and appropriate Bond Market Association committees the appropriateness of making eligible other types of securities.

(4) Broker Submission

All GCF Repos will be executed by dealers as money-fill transactions through eligible GSCC brokers on a blind-brokered basis.⁷ Brokers will be

⁶ GSCC currently is engaged in discussions with staff of the Federal Reserve Bank of New York regarding the appropriateness of GSCC's proposed means for accomplishing "after-hours" interbank securities allocations. Assuming a satisfactory resolution of the issues involved, which may require, among other things, the Board of Governors of the Federal Reserve System to issue for public comment GSCC's proposal for the opening of the securities Fedwire after its normal close, GSCC expects to expand the GCF Repo product to allow a participating dealer to engage in GCF Repo trading with dealers that use different clearing banks.

⁷ GSCC will consider expanding the GCF Repo service to allow for direct dealer input of data on dealer-to-dealer trading at some point in the future

required to submit GCF Repo trades within five minutes of trade execution. Each GCF Repo trade will have a single dealer on the repo side that is matched to a single dealer on the reverse side. To facilitate this prompt submission, GSCC will implement a new terminal facility that will provide the following services:

(a) *Large Trade Submission.* Brokers will be able to submit GCF Repo trades to GSCC having a principal value of up to \$2 billion. The current maximum transaction size is \$50 million. Therefore, for a \$2 billion trade, a broker will be able to make a single entry instead of the eighty entries that would currently be required to satisfy both sides of the trade. GCF Repos will have a \$1 million minimum transaction size and a \$1 million multiple requirement.

(b) *Single Screen Entry.* Brokers will be able to submit data simultaneously for both the repo and reverse sides of the trade using a single screen.

(c) *Data Entry Short-Cuts.* The screen design will require brokers only to enter critical fields. GSCC automatically will populate certain fields, such as trade date and start date, with default values. Brokers will not have to enter any information that differs from the default values. The system also will automatically calculate the end money for the repo based on start amount, term and rate.

In addition to these specific broker submission services, GSCC will require that every broker participating in GCF Repo provide its terminal on GSCC's premises, so that GSCC operations staff can monitor whether the broker is satisfactorily fulfilling its GCF Repo trade submission responsibilities.

(5) Trade Recording and Dealer Notification

GSCC will immediately record, as compared, all GCF Repos upon receipt of trade data from the brokers. This type of "locked-in" trade recording, called broker-assisted processing, will replace the traditional matched comparison process. As a result, both the repo and reverse sides of the transaction will be processed solely based upon broker input without requiring the submission and matching of corresponding trade details from the dealer members.

By using input from a single, approved submission source (i.e., brokers) to process GCF Repos, the intrinsic limitations and processing delays associated with two-sided comparison will be avoided. This is especially important in order to effectively net each dealer's GCF Repo

when real time processing capabilities have been established between dealers and GSCC.

activity on a real time basis, as opposed to the overnight process that is currently performed for regular buy/sell and repo activity.

Upon receipt of trade data from the brokers, GSCC will immediately provide dealers with GCF Repo transaction details by way of a dynamic, real time, online display. The most recent trades will be displayed in a window at the bottom of these screens while current position information will be displayed at the top of the screen. Position information will be available at both the individual CUSIP level and the cumulative, overall level.

(6) Dealer Affirmation

Dealers will have an obligation to promptly review GCF Repo trades and either affirm or disaffirm them. Affirming a trade will indicate that the dealer recognizes the trade and agrees to its terms. If a dealer disaffirms a trade, its GCF Repo position automatically will be adjusted, and a notification will be sent to the broker for prompt resolution. During the affirmation process, dealers will have the ability to provide their reference number. Entry of a reference number will result in the automatic affirmation of the trade.

Any trade that has not been affirmed or disaffirmed by the close of business will be affirmed automatically by the system.⁸ Because prompt review of transactions is critical in a same-day processing environment, GSCC will assess penalties for late dealer affirmations.

(7) GCF Repo Netting and Position Reporting

GSCC will net all GCF Repo trades intraday for each dealer into a single net settlement position for each generic general collateral CUSIP submitted. This position will represent the aggregate net dollar amount borrowed by the repo dealer or "loaned" by the reverse dealer.

Each day, GCF Repo netting will consist of adding all of the carryover activity (i.e., previous term and previously submitted forward-starting activity that is starting on the current day) for GCF Repos together with the current day's activity. As a result, positions associated with term repos will be renetted each day with the dealer's current activity. GSCC will provide netting results to the clearing banks and its netting dealer members. Clearing banks participating in GCF Repo will be responsible for notifying

⁸ GSCC will send a message to participants fifteen minutes prior to running the automated process that will affirm all pending trades.

their members regarding the allocation of collateral and the transfer of funds.

GSCC will carry every GCF Repo trade in its system and will be responsible for maintaining a database of all financial data for the repos that are traded. This will include tracking all relevant terms of each transaction and insuring that the appropriate final settlement amounts are paid at the conclusion of each repo.

Real time, online output will be provided to brokers, dealers, and the clearing banks over GSCC terminals to provide all transaction and position information necessary for the intraday processing of GCF Repo activity. Brokers and dealers will have the ability to view real time position information, both at the individual CUSIP and overall position levels, on their terminals throughout the day. The bottom of each position screen also will include a revolving dynamic display of the five most recent transactions processed against that participant. Each clearing bank will have the ability to monitor the positions of its clearing members using its terminal and also will be able to monitor projected interbank position and funds movements when that service is made available.

(8) Securities Allocation

Each dealer that is a net lender of securities through GCF Repo will be responsible for allocating the appropriate collateral (as defined by the generic general collateral CUSIP) to its clearing banks using whatever mechanism it mutually agrees upon with the bank. All such collateral movements will be made on a DVP basis to and from a GSCC account. Dealers will have to give priority to the allocation of GCF Repo collateral so that reallocation to the ultimate customer may occur promptly. To encourage timely collateral allocation, GSCC will impose a penalty on collateral allocations that are made after 4:30 p.m. Allocations not made by 7:00 p.m. will be considered fails.

Dealers that receive securities as the result of reverse GCF Repos will be required to reallocate them to a location that is available for reversal before the opening of the securities wire on the next day. Examples of these locations are overnight triparty repos, hold-in-custody repos, and bank loans.

(9) Next-Day Return of Collateral

All GCF Repo positions will be reversed on the morning of the next business day prior to the opening of the securities Fedwire. This next day reversal will occur for all GCF transactions regardless of the term of the

transaction. The repos themselves will be fully collateralized intraday by cash.

(10) Risk Management

GCF Repo transactions and resulting settlement obligations will be subject to all of GSCC's existing risk management processes. GSCC will be able to appropriately assess its members' overall, cumulative exposure as a result of their combined DVP buy/sell and repo activity and their GCF Repo activity.

(a) *Interest Rate Mark-to-Market.* GSCC employs a forward margin process to protect GSCC and its members against market value fluctuations in securities prices and repo interest rates for guaranteed trades from their submission date through to their settlement date. This process is required because in the event of a participant default, GSCC, as transaction guarantor and counterparty, must maintain funds sufficient to replace the defaulting member's settlement obligations at their current market value. Therefore, each day all outstanding trades are marked from contract value to market value. For repos, this mark-to-market includes the cost of financing from the later of the start date or the current date to the scheduled end date. Forward margin debits and credits are settled each day through GSCC's daily funds-only settlement process.

GSCC will perform a daily interest rate mark-to-market for all term GCF Repo activity to bring transactions to their current replacement value.⁹ The mark will result in the daily collection and pass-through of accrued repo interest to date plus or minus the repo rate differential.¹⁰ The GCF Repo interest rate mark will be incorporated into GSCC's regular daily funds-only settlement process. Additionally, there will be a separate marking process for forward-starting GCF Repos that will be the same as the marking process currently employed for marking forward-starting DVP repos.

(b) *Clearing Fund.* GSCC requires its netting members to maintain deposits in the GSCC clearing fund account to provide adequate risk protection and liquidity in the event of a participant failure. The clearing fund guards against potential market exposure that could

⁹ Because all GCF Repos will be processed using generic CUSIPs, the underlying collateral will not be marked by GSCC. However, clearing banks will be responsible for ensuring that allocated collateral conforms to the terms of the contract and that the collateral value is equal to 100% of the principal value of the repo.

¹⁰ The rate differential will be equal to the difference between the contractual repo rate for the term and the GSCC replacement cost repo rate.

occur between the current date and the liquidation date of an insolvent participant's obligations. GSCC accomplishes this by calculating the net effect of: (1) Estimated daily changes in the value of the securities underlying each participant's transactions; (2) estimated daily fluctuations in repo rates for the participant's repo activity; and (3) each participant's estimated funds settlement exposure. All of these estimates of exposure are based on an extensive analysis of historical rate and price volatility and cover at least two standard deviations of all historical movements. GCF Repo activity will be included in all three clearing fund calculations.

(i) Securities Liquidation Component

The risk associated with security receive and deliver obligations is based on price volatility. If a participant were to default, GSCC would ensure that all of that participant's obligations settled. This would expose GSCC to differences in current market value and liquidation value. The securities liquidation component of the clearing fund accounts for this exposure. In order to provide appropriate protection for the market risk associated with the underlying collateral, for GCF Repo activity GSCC will calculate the securities liquidation component based upon a representative portfolio of securities as designated by each generic general collateral CUSIP.

(ii) Repo Volatility Component

Where market exposure related to the underlying collateral is provided for in the securities liquidation component of the clearing fund, the risk pertaining to the interest amount is accounted for in the repo volatility component. The repo volatility component estimates the amount repo rates might change over the course of a repo. Calculations for this component are based on analysis of historical repo rate volatility.

(iii) Funds Adjustment ("FAD") Component

The FAD portion of the clearing fund is based on each participant's average funds-only settlement amount. The relevant variable in this calculation is the size of the settlement amount. It does not matter whether the funds are collected or paid. The FAD component is the average of the absolute value of the twenty largest funds-only settlement amounts over the most recent seventy-five business days.

(c) *Intraday Risk Protections.* GSCC plans to manage intraday risk by maintaining the capability to run clearing fund calculations multiple

times throughout the day to assess the impact of significant changes in position on clearing fund deposit requirements and by making margin calls as necessary. Further, the calculation of net settlement positions arising from GCF Repo activity will be dynamic which will allow GSCC and clearing banks to perform real time position monitoring.

(d) *Loss Allocation Procedure.* GSCC has analyzed the appropriateness of its current loss allocation procedure in light of the unique aspects of the GCF Repo service. GSCC has concluded that its current loss allocation procedure remains the most fair and equitable means of allocating any loss that might arise from the insolvency of a member that engaged in GCF Repo activity. Thus, GSCC's loss allocation procedure will remain the same for GCF Repo activity.

(11) Trade Modification/Cancellation

The rules for GCF Repo trade modification are: (1) Any data input field on an unaffirmed trade may be modified unilaterally by the broker at any time during the processing day and (2) dealers may not modify any data on GCF repos; rather they must cancel (or request cancellation of) the trade. The modification of an unaffirmed trade will result in the immediate replacement of the original trade and all affected processing screens will be immediately updated accordingly.

The submission of a request for cancellation of an affirmed trade will result in the generation of a trade cancellation request to the original broker or dealer. Upon approval of the cancel request, the approving dealer will automatically be replaced by the broker in the transaction. The broker will carry the position and incur all associated responsibilities unless and until the broker submits a correcting entry (*i.e.*, an entry where the broker enters a new single-sided transaction with the correct dealer to eliminate the broker's position).

The two basic rules for canceling GCF Repos are: (1) An unaffirmed trade may be unilaterally canceled by either the broker or the dealer at any time during the processing day and (2) a trade that has been affirmed, either by a dealer or by the system as part of end-of-day processing, will require bilateral cancellation. This means that a broker may cancel a trade unilaterally at any time during the day if it has not been affirmed by either the dealer or by the system. A unilateral cancellation of a GCF Repo trade by the broker will result in the cancellation of both sides of the trade. Trade cancellation by the broker

will result in the cash and collateral positions being reversed by the amount of the canceled trade and taken out of account balances.

A dealer may cancel a GCF Repo trade unilaterally at any time during the day if it has not been affirmed either by the dealer or by the system. Trade cancellation will result in the dealer's cash and collateral position balances being adjusted by the amount of the canceled trade, and the automatic replacement of the dealer by the broker in the transaction. The broker will carry the position and incur all associated responsibilities unless and until the broker submits a correcting entry (*i.e.*, an entry where the broker enters a new single-sided transaction with the correct dealer to eliminate the broker's position). Cancellation of a trade by the dealer results in the cancellation of that dealer's side only. The other dealer's side of the trade will remain intact.

Cancellation of trades that have been affirmed by the dealer or by the system will be required to be bilateral (*i.e.*, if the dealer requests a cancellation, the broker must approve it and vice-versa). A dealer or broker request for cancellation of an affirmed trade that is not acted upon by the counterparty will require manual intervention by GSCC operations to determine whether or not the trade should be canceled.

(12) Output and Reports

GSCC will establish a separate reporting stream to produce a full range of machine-readable output ("MRO") and print image end-of-day reports for the GCF Repo service, which will be substantially similar to the output currently provided to participants in conjunction with their regular cash and repo trading activity. In accommodating the GCF Repo service, GSCC will attempt to limit the number and magnitude of changes made to existing MRO formats in order to minimize the development effort required by participating members.

(13) Benefits

GSCC believes that the GCF Repo service will bring numerous benefits to the Government securities marketplace, including the following:

(a) *Increased Liquidity.* The GCF Repo service should improve market liquidity by adding an additional resource to current borrowing options (*i.e.*, bank loans and triparty repos). Liquidity should be further enhanced by providing to the dealer community open access to a multitude of funds providers and by allowing for the bulk movement of collateral between dealers.

(b) *Enhanced Ability to Trade General Collateral Repos.* The GCF Repo service should enhance the ability to trade general collateral repos by removing the current constraints of collateral allocation and notification imposed on every transaction. As a result, dealers will be able to freely trade rate and term while having only one settlement on a net basis at the end of the day.

(c) *Additional Collateral Source.* The GCF Repo service provides an alternative vehicle for dealers to buy or sell collateral, finance positions, or swap collateral.

(d) *Risk Protection.* Through netting and novation, GSCC will become the legal counterparty to all GCF repos within minutes of execution and thereby eliminate counterparty risk. In addition to GSCC's current risk management procedures, dynamic risk assessment processes will be implemented to address any intraday risk associated with the GCF Repo service.

(e) *Open Access.* The GCF Repo service will be available to a broad spectrum of industry participants. These will include brokers, dealers, securities lenders, money borrowers, and any qualified clearing bank that provides clearance services to GSCC members.

(14) Statutory Basis for the Proposed Rule Change

GSCC believes that the proposed rule change is consistent with the requirements of the Section 17A of the Act¹¹ and the rules and regulations thereunder because they will allow GSCC to offer to all of its netting members on an equal basis a service that will provide them with enhanced ability to engage in general collateral trading activity in a safe and efficient manner.

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

GSCC does not believe that the proposed rule change will have an impact or impose a burden on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. GSCC will notify the Commission of any written comments received by GSCC.

¹¹ 15 U.S.C. 78q-1.

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 the self-regulatory organization 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, including whether the proposed rule change is consistent with the Act. 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 also will be available for inspection and copying at the principal office of GSCC. All submissions should refer to File No. SR-GSCC-98-02 and should be submitted by June 30, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-15214 Filed 6-8-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40058; File No. SR-Phlx-98-21]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Listing and Trading of Options on the Over-The-Counter Prime Index

June 2, 1998.

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 May 15, 1998, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Phlx. 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 Phlx proposes to list and trade European style, cash-settled options, including long term options,³ on the Over-The-Counter Prime Index⁴ ("OTC Prime Index" or "Index"), a price weighted, A.M. settled index composed of fifteen⁵ stocks which are considered the "most active"⁶ stocks traded on the Nasdaq market.

The Exchange is filing this proposal pursuant to Phlx 1009A(b) which provides for the commencement of trading of options on the Index thirty (30) days after the date of this filing. The Exchange believes the proposal is in compliance with Rule 1009A(b) and the standards approved in the Generic

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Phlx Rule 1101A(b)(iii). Long term options are also known as LEAPs.

⁴ The Exchange submitted a pre-filing on April 30, 1998 in accordance with the Generic Index Approval Order. See Generic Index Approval Order, *infra* note 7. Since the pre-filing the Exchange has changed the name of the Index from the "Over-The-Counter Most Active Index" to the "Over-The-Counter Prime Index" and the trading symbols have changed. However, the Exchange represents that none of the other contract specifications have been modified since the pre-filing.

⁵ Since the pre-filing on April 30, 1998, the Exchange added three stocks to the Index increasing the number of components in the Index from 12 to 15 in order to alleviate concerns regarding the concentration of the five highest-weighted securities.

⁶ Most active is defined as those underlying securities which had the largest trading volume in the previous year.

Index Option Approval Order ("Generic Index Approval Order").⁷

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 Phlx 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 Phlx 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

1. Purpose

The purpose of the proposed rule change is to list for trading European style, cash-settled options on the OTC Prime Index, a new index developed by the Exchange pursuant to Rule 1009A(b) in accordance with the Generic Index Approval Order for the listing and trading of narrow-based index options. Options on this Index will provide a hedging vehicle for a group of some of the most active securities traded on the Nasdaq market. In order to assure that the Index reflects the most active securities traded on the Nasdaq market, the Index will be rebalanced annually to reflect the previous year's fifteen most actively traded issues.

Pursuant to Rule 1009A, (1) the options on the Index will be A.M. settled; (2) the Index is price weighted; (3) no one component security will represent more than 25% of the weight of the Index, and the five highest weighted component securities in the Index do not in the aggregate account for more than 60% of the weight of the Index; (4) each of the component securities has a minimum market capitalization of a least \$75 million and has a trading volume in each of last six months of not less than 1,000,000 shares; (5) all of the components of the Index meet the current criteria for standardized options trading set forth in Exchange Rule 1009 and are currently the subject of listed options on U.S.

⁷ See Securities Exchange Act Release No. 34157 (June 3, 1994) 59 FR 30062 (June 10, 1994) (order approving File Nos. SR-Amex-92-35; SR-CBOE-93-59; SR-NYSE-94-17; SR-PSE-94-07; and SR-Phlx-94-10). The Generic Index Approval Order established generic listing standards for options on narrow-based indexes and adopted streamlined procedures for introducing trading in options satisfying the generic listing standards.

¹² 17 CFR 200.30-3(a)(12).