

### 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.<sup>12</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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### 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"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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,<sup>3</sup> on the Over-The-Counter Prime Index<sup>4</sup> ("OTC Prime Index" or "Index"), a price weighted, A.M. settled index composed of fifteen<sup>5</sup> stocks which are considered the "most active"<sup>6</sup> 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

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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").<sup>7</sup>

#### 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.

<sup>7</sup> 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.

<sup>12</sup> 17 CFR 200.30-3(a)(12).

options exchanges; (6) the Index contains no American Depositary Receipts ("ADRs"); and (7) all component stocks are listed on the Nasdaq and are reported National Market System securities pursuant to Rule 11Aa3-1 of the Act.<sup>8</sup>

The OTC Prime Index value will be disseminated every 15 seconds during the trading day. The Phlx has retained Bridge Data Inc. to compute and do all necessary maintenance of the Index.<sup>9</sup> Pursuant to Phlx Rule 1100A, updated Index values will be disseminated and displayed by means of primary market prints reported by the Consolidated Tape Association and over the facilities of the Options Price Reporting Authority. The Index value will also be available on broker-dealer interrogation devices to subscribers of options information. The Exchange represents that both the Exchange and the Options Price Reporting Authority<sup>10</sup> have the necessary systems capacity to handle the additional traffic of the OTC Prime Index.

As of May 13, 1998, the market capitalization of all the stocks in the Index exceeded \$680 billion and such individual capitalizations ranged from \$3 billion (Quantum Corporation) to \$214 billion (Microsoft Corporation). All fifteen component issues in the Index had average daily trading volumes in excess of one million shares over the past six months. The Exchange believes the component issues are some of the most widely-held and highly-capitalized common stocks.

*Ticker Symbol:* OTX.

*Settlement Symbol:* OTS.

*Index Calculation:* The Index is a price weighted index. To compute the Index value, the following formula would be used:

$$\frac{SP_1 + SP_2 + \dots + SP_{15}}{4} \times 100$$

Where: SP=current stock price

The Initial divisor in an arbitrary number set to achieve a certain index value. The divisor for this Index will be 4.0 will result in an Index value of 188.70 on May 13, 1998.

*Index Maintenance:* To maintain the continuity of the Index, the divisor will be adjusted to reflect non-market changes in the price of the component securities as well as changes in the

composition of the Index. Changes which may result in divisor adjustments include, but are not limited to, stock splits, dividends, spin-offs, mergers and acquisitions. In accordance with Rule 1009A, if any change in the nature of any component (e.g., delisting, merger, acquisition or otherwise) in the Index will change the overall market character of the Index, the Exchange will take appropriate steps to remove the stock or replace it with another stock that the Exchange believes would be compatible with the intended character of the Index. Any replacement components will be reported securities as defined in Rule 11Aa3-1 of the Act.<sup>11</sup> The Index will be rebalanced on an annual basis to reflect the previous year's fifteen most active issues traded on the over-the-counter market.

Pursuant to Rule 1009(c)(2), the Exchange will not increase to more than 20 or decrease to less than 10, the number of components comprising the Index during the year. However, at the end of the calendar year the Index will be rebalanced in order to reflect fifteen of the most actively traded issues from the previous year. The Exchange maintains that the component stocks comprising the top 90% of the Index, by weight, will each maintain a minimum market capitalization of \$75 million. The remaining 10%, by weight, will each maintain a minimum market capitalization of \$50 million. The component stocks comprising the top 90% of the Index, by weight, will maintain a trading volume of at least 500,000 shares per month. The trading volume for each of the component stocks constituting the bottom 10% of the Index, by weight, will maintain an average trading volume of at least 400,000 shares per month. No fewer than 90% of the component issues by weight or fewer than 80% of the total number of the components qualify as stocks eligible for options trading. In addition to the maintenance criteria above, no single component of the Index shall account for more than 25% of the Index and the five highest weighted component securities shall not account for more than 60% of the Index.<sup>12</sup>

If the Index fails at any time to satisfy one or more of the required maintenance criteria, the Exchange will notify the Commission staff immediately of that fact and will not open for trading any additional series of

options on the Index, unless the above is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of options on the OTC Prime Index has been approved by the Commission under Section 19(b)(2) of the Act.<sup>13</sup> In addition to not opening for trading any additional series, the Exchange may, in consultation with the Commission, prohibit opening purchase transactions in series of options previously opened for trading to the extent that the Exchange deems such action necessary or appropriate.<sup>14</sup> The components which are substituted in the Index will comply with the maintenance requirements above.

*Unit of Trading:* Each options contract will represent \$100, the Index multiplier, times the Index value. For example, an Index value of 200 will result in an option contract value of \$20,000 (100 × 200).

*Exercise Price:* The exercise prices will be set in accordance with Phlx Rule 1101A(a).

*Settlement Value:* Because all of the components are national Market Securities traded through Nasdaq, the first reported sale price will be used for the final settlement value for expiring Index option contracts. In the event that a component security does not open for trading on the last day before the expiration of a series of Index options, the previous day's first reported sale price for that security will be used in calculating the Index value. However, in the event that the Options Clearing Corporation ("OCC") determines that the current Index value is unreported or otherwise unavailable (including instances where the primary market for securities representing a substantial part of the value of the Index is not open for trading at the time when the current Index value used for exercise settlement purposes would be determined), the OCC shall determine an exercise settlement amount for the Index in accordance with Article XVII, Section 4 of the OCC By-laws.<sup>15</sup>

*Last Trading Day:* The last business day prior to the third Friday of the month for options which expire on the Saturday following the third Friday of that month.

*Trading Hours:* 9:30 a.m. to 4:02 p.m. EST.

*Position and Exercise Limits:* Pursuant to Phlx Rules 1001A(b)(i) and 1002A,

<sup>8</sup> 17 CFR 240.11Aa3-1.

<sup>9</sup> As a back-up to Bridge Data Inc., the Phlx will utilize its own internal index calculation system called the Index Calculation Engine ("ICE") System.

<sup>10</sup> See Letter from Joe Corrigan, Executive Director, Options Price Reporting Authority to Michael Walinskis, Senior Special Counsel, Division, Commission, dated May 4, 1998.

<sup>11</sup> 17 CFR 240.11Aa3-1.

<sup>12</sup> If the concentration of the five highest-weighted securities increase to above 60%, then the Exchange warrants that it will increase the number of components in the Index to 16 components. The Exchange will monitor the concentration of the top five components in the Index on a monthly basis.

<sup>13</sup> See Phlx Rule 1009A.

<sup>14</sup> See Phlx Rule 1010

<sup>15</sup> See e.g., OCC Article XVII, Section 4 and Securities Exchange Act Release No. 37315 (June 17, 1996) 61 FR 32471 (June 24, 1996) (order approving File No. SR-OCC-95-19).

the position and exercise limits will be 12,000 contracts.

**Expiration Cycles:** Three months from the March, June, September, December cycle plus at least two additional near-term months. LEAPs may also be traded on the Index pursuant to Phlx Rule 1101A(b)(iii).

**Exercise Style:** European.

**Premium Quotations:** Premiums will be expressed in terms of dollars and fractions of dollars pursuant to Phlx Rule 1033A. For example, a bid or offer of 1½ will represent a premium per options contract of \$150 (1½ × 100).

The options will be traded pursuant to current Phlx rules governing the trading of index options including provisions addressing sales practices, floor trading procedures, position and exercise limits, margin requirements and trading halts and suspensions.<sup>16</sup> The Exchange also represents that surveillance procedures currently used to monitor trading in index options will be applicable to this Index. These procedures include having complete access to trading activity in the underlying securities which are all traded on Nasdaq. In addition, the Intermarket Surveillance Group ("ISG") Agreement dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of options on the Index.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act<sup>17</sup> in general, and in particular with Section 6(b)(5),<sup>18</sup> in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to and facilitating transactions in securities to remove impediments to and perfect the mechanism of a free and open market and a national market system, as well as to protect investors and the public interest by providing a hedging vehicle for the group of 15 of the most actively-traded securities on the Nasdaq market.

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

The Phlx 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 either solicited or received.

### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The foregoing rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Exchange, and therefore, has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>19</sup> and paragraph (e) of Rule 19b-4 thereunder.<sup>20</sup> At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act

### **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 submissions, 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, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR-Phlx-98-21 and should be submitted by June 30, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>21</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## **SOCIAL SECURITY ADMINISTRATION**

### **Agency Information Collection Activities; Request for Emergency Review by the Office of Management and Budget**

The Social Security Administration publishes a list of information collection packages that will require clearance by OMB in compliance with P.L. 104-13 effective October 1, 1995, The Paperwork Reduction Act of 1995. The information collection listed below has been submitted to OMB for emergency clearance. OMB approval has been requested by June 18, 1998: 0960-NEW. Survey of Widows(ers) Eligible for Higher Retirement Benefits. The Social Security Administration will survey a sample of widow(er) beneficiaries over the age of 70 to determine whether they would file for the higher retirement benefit for which they appear eligible, if the opportunity to file for this benefit was explained in a person contact. Two attempts to contact the beneficiaries by letter have already been made, but the beneficiaries have not filed for the additional benefits, which could be a substantial increase. The information collected from this sample population will provide the empirical basis for reaching a decision regarding whether some or all of the approximately 23,000 beneficiaries in the entire population should be personally contacted. The respondents are a sample of over age 70 SSA title II beneficiaries who are eligible to receive a higher retirement benefit.

*Number of Respondents:* 390.

*Frequency of Response:* 1.

*Average Burden Per Response:* 10 Minutes.

*Estimated Annual Burden:* 65 hours.

To receive a copy of the form or clearance packages, call the SSA Reports Clearance Officer on (410) 965-4145 or write to him at the address listed below. Written comments and recommendations regarding the information collection (s) should be directed to the OMB Desk Officer and SSA Reports Clearance Officer at the following addresses:

(OMB) Office of Management and Budget, OIRA, Attn: Laura Oliven, New Executive Office Building, Room 10230, 725 17th St., NW, Washington, DC 20503  
(SSA) Social Security Administration, DCFAM, Attn: Frederick W.

<sup>16</sup> See, Phlx Rule 722, Phlx Rules 1000A through 1102A and generally Phlx rules 1000 through 1072.

<sup>17</sup> 15 U.S.C. 78f.

<sup>18</sup> 15 U.S.C. 78f(b)(5).

<sup>19</sup> 15 U.S.C. 78S(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4.

<sup>21</sup> 17 CFR 200.30-3(a)(12).