whether standard term equity options are too ''deep in the money'' to receive QCC treatment.[6] The public comment period for the proposed rulemaking ended on September 23, 1998, and the Exchange expects the IRS to adopt final regulations on this topic some time after that date. In light of the rule proposal by the IRS, the Exchange now proposes to delete paragraph (c)(3) from Exchange Rule 903G. The Exchange intends for the deletion of paragraph (c)(3) to coincide with the effective date of final regulations by the IRS. The effect of the IRS proposed rulemaking and the Exchange's proposed withdrawal of the limitation on the exercise price of FLEX Equity call options would be that certain taxpayers, particularly institutional and other large investors, could engage in transactions in FLEX Equity call options with a wider range of exercise prices (as was originally intended) without affecting the applicability of Section 1092 of the IRC for QCC options involving equity options with standard terms.

2. Basis

The proposed rule change is consistent with Section 6(b) of the Act,[7] in general, and furthers the objectives of section 6(b)(5),[8] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system by eliminating a restriction on FLEX Equity call options that has hampered their usefulness as a risk managing mechanism.

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.

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

No written comments were solicited or received with respect to the proposed rule change.

[6] Department of the Treasury, Internal Revenue Service REG–104641–97, 63 FR 34616 (June 25, 1998).

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

[8] 15 U.S.C. 78f(b)(5).

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

Within 35 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 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Amex 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 Room, in Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR–AMEX–98–43 and should be submitted by January 14, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[9]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–34130 Filed 12–23–98; 8:45 am]

BILLING CODE 8010–01–M

[9] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40805; File No. SR–PCX–98–53]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Options Floor Trading Halts and Suspensions

December 17, 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 October 6, 1998,[3] the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by the PCX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

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

The PCX is proposing to amend its Rule 6.65 on Options Floor Trading Halts and Suspensions to include guidelines to assist Floor Officials in their decisions regarding trading halts in equity options. The text of the proposed rule change is set forth below. Proposed new language is in italics.

¶ 5079 Trading Halts and Suspensions

Rule 6.65(a)–(b)—No Change.

(c) Options Floor Trading Halt Guidelines. Trading halts are, by definition, unusual market conditions. Accordingly, all of the precise circumstances at the time a trading halt cannot be anticipated. An evaluation of all circumstances at the time a trading halt is under consideration is critical. Except as provided below, to ensure consistent application of the Exchange's trading halt guidelines, the concurrence of two Floor Officials and a senior Exchange Official is required. Bearing in mind the need to exercise discretion in

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

[2] 17 CFR 240.19b–4.

[3] On December 4, 1998, the PCX submitted Amendment No. 1 to the proposed rule change. Amendment No. 1 clarifies certain defined terms in the rule language and makes additional non-substantive textual changes. *See* letter from Robert Pacileo, Jr., Staff Attorney, PCX, to Mignon McLemore, Attorney, Division of Market Regulation, Commission, dated December 3, 1998.

response to particular circumstances as they occur, the following are guidelines for trading halts at the Exchange under varying circumstances:

(1) No last sale and/or quotation dissemination either by the Exchange or by OPRA. At the outset, a time-critical review by two Floor Officials and a senior Exchange Official (the ''group'') will be made of the circumstances causing the failure of dissemination. If it is believed by the group that the dissemination will resume in less than 15 minutes, trading ordinarily will continue and a message will be given to the news wire services announcing the dissemination difficulty. If it is believed by this group that the dissemination problem will extend beyond 15 minutes, the two Floor Officials, in their discretion, may impose a halt on all trading in affected securities. In any event, two Floor Officials may permit trading to continue for more than 15 minutes after a failure of dissemination only with the concurrence of a senior Exchange Official. Trading may resume upon a determination by the group that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

(2) Primary market halts trading in one or more securities for regulatory reasons. Upon notification by the primary market of a regulatory trading halt of an individual equity security in the primary market, the Exchange may impose a trading halt in the individual stock option overlying the security so halted. Trading will resume upon a determination by two Floor Officials that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading.

(3) Primary market non-regulatory trading halt in one or more equity securities. Upon notification by the primary market of a non-regulatory trading halt of an individual equity security in the primary market, any two Floor Officials, in their discretion, may impose a trading halt in the individual stock option overlying the security so halted. Trading may resume upon a determination by two Floor Officials that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

(4) The primary market halts trading floor-wide. If the primary market halts trading floor-wide, the Exchange will halt trading in all individual equity options overlying the securities so halted in the primary market and will assess the viability of markets in the underlying securities, as measured by transactions and by share volume. In the event that it is determined by two Floor Officials, with the concurrence of a senior Exchange Official, that sufficient markets will support trading other than on the primary exchange, the Exchange will resume trading. Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

(5) Primary market is open but is unable to disseminate last sale or quotation information. The Exchange's options trading ordinarily will remain open for trading unless, in the opinion of two Floor Officials, the absence of disseminated information will impede the ability of market makers to maintain fair and orderly markets in the option. The concurrence of a senior Exchange Official is required if more than one option class is affected.

(6) Over-the-counter quote dissemination halt. Two Floor Officials, in their discretion, may halt trading in options overlying over-the-counter securities affected by such a quote dissemination halt upon first notification of the dissemination halt. Trading may resume upon a determination by two Floor Officials that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

(7) Expiration Friday trading in individual equity options. In the event that any of the foregoing should occur on expiration Friday, it is the preference of the Exchange to allow trading to continue on that date. This will be a primary consideration in the assessments to be made by the Floor Officials and the Senior Exchange Official.

(8) Dissemination of news after the close of trading in the primary market. Any two Floor Officials may halt trading in any security in the event of disseminated news that causes the Floor Officials to believe that trading in options should be halted to allow market participants an opportunity to consider the effect of the news on pricing of trades. Two Floor Officials and a senior Exchange Official will then decide whether and, if so, when to recommence trading. This may occur after the primary market of the underlying security has closed for the day, in which event, the decision may be to not resume trading until the next trading day or to have a closing rotation after appropriate notification to the public.

Commentary:

.03 For purposes of this Rule, a ''regulatory halt'' is a halt that is initiated by a regulatory authority in the primary market and a ''non-regulatory halt'' is a halt initiated by floor staff or at the request of a Market Maker or Trading Crowd in the primary market. For example, regulatory halts may be initiated by Exchange Staff in the primary market if listing or maintenance requirements are not met; if there is a need for dissemination of news regarding market developments or material information; or at the request of the issuer. Examples of non-regulatory halts in the primary market would be requests by Floor Members due to an influx, or imbalance of orders, or by Floor Officials due to volatility in market conditions; or natural disasters.

* * * * *

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

In its filing with the Commission, the PCX included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item II below. The self-regulatory organization 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

Background. Circuit Breakers are coordinated cross-market trading halts that are intended to help avoid a systematic breakdown when a severe one-day market drop of historic propositions prevents the financial markets from operating in an orderly manner. The objective of trading halts (*i.e.*,circuit breakers) is to stop trading when there is a severe market decline such that liquidity and credit dry up and prices threaten to free fall.[4] The Securities and futures markets introduced circuit breakers in order to offer investors an opportunity to assess

[4] *See* Exchange Act Release No. 39846 (April 9, 1998), 63 FR 18477 (April 15, 1998).

information and positions when the markets experienced a severe, rapid decline.[5]

In 1988, the Commission approved various exchanges' circuit breaker proposals, along with the PCX's and the NASD's circuit breaker policy statements in response to the October 19, 1987 market drop. The Commission stated in its approval order that the circuit breaker proposals would provide market participants with an opportunity during a severe market decline to reestablish an equilibrium between buying and selling interests in a more orderly fashion.[6]

The current PCX Rule 6.65 provides for trading halts and suspensions for equity options whenever the Exchange deems such action appropriate in the interests of a fair and orderly market and to protect investors. The PCX also has a policy which sets forth guidelines for trading halts in equity options at the Exchange under varying circumstances. The proposed rule change would codify the Exchange's policy regarding guidelines for trading halts by describing several situations which may require trading halts. The situations are: (1) No last sale and/or quotation dissemination either by the Exchange or by the Options Price Reporting Authority (''OPRA''); (2) Primary market halts trading in one or more securities for regulatory reasons; (3) Primary market non-regulatory trading halt in one or more equity securities; (4) The Primary market halts trading floor-wide; (5) Primary market is open but is unable to disseminate last sale or quotation information; (6) Over-the-counter quote dissemination halt; (7) Expiration Friday trading in individual equity options; and (8) Dissemination of news after the close of trading in the primary market. The Commission approved a similar change to the Chicago Board Options Exchange (''CBOE'') rule and policy regarding trading halts in equity options.[7]

Proposal. The Exchange is proposing to amend Rule 6.65 on Options Floor Trading Halts and Suspensions to include non-mandatory guidelines to assist Floor Officials in their decisions regarding trading halts. Trading halts are, by definition, unusual market conditions. Accordingly, all of the precise circumstances of a trading halt cannot be anticipated. An evaluation of all the circumstances at the time a trading halt is under consideration is critical. Bearing in mind the need to exercise discretion in response to particular circumstances as they occur, the PCX proposes the following guidelines for trading halts at the Exchange.

First, when there is no last sale and/or quotation dissemination either by the Exchange or by the OPRA, the PCX proposes that, after review by two Floor Officials and a senior Exchange Official, if it is believed that the dissemination will resume in less than 15 minutes, trading ordinarily will continue and a message will be given to the news wire services announcing the dissemination difficulty. In addition, if it is believed by this group that the dissemination problem will extend beyond 15 minutes,the two Floor Officials, in their discretion, may impose a halt on all trading in affected securities. In any event, two Floor Officials may permit trading to continue for more than 15 minutes after a failure of dissemination only with the concurrence of a senior Exchange Officials. Trading may resume upon a determination by the group that the condition that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading.

Second, when the primary market halts trading in one or more securities for regulatory reasons, the Exchange proposes that trading in the individual stock option overlying a stock that has been halted for regulatory reasons generally will halt immediately upon the notification thereof by the primary market.[8]

Third, the Exchange proposes that, upon notification by the primary market of a non-regulatory trading halt of an individual equity security in the primary market, any two Floor Officials, in their discretion, may impose a trading halt in the individual stock option overlying the security so halted.

Fourth, when the primary market halts trading floor-wide, the Exchange proposes that trading will halt in all individual equity options overlying the securities so halted in the primary market and will assess the viability of markets in the underlying securities, as measured by transactions and by share volume. In the event that it is determined by two Floor Officials, with the concurrence of a senior Exchange Official, that sufficient markets will support trading other than on the primary exchange, the Exchange will resume trading.

Fifth, the Exchange proposes that when the primary market is open but is unable to disseminate last sale or quotation information, options trading ordinarily will remain open for trading unless, in the option of two Floor Officials, the absence of disseminated information will impede the ability of market makers to maintain fair and orderly markets in the option. The concurrence of a senior Exchange Official is required if more than one option class is affected.

Sixth, the Exchange further proposes that, in the event of an over-the-counter quote dissemination halt, two Floor Officials, in their discretion, may halt trading in options overlying over-the-counter securities affected by such a quote dissemination halt upon first notification of the dissemination halt.

Seventh, the Exchange proposes that, in the event that any of the foregoing should occur on expiration Friday, it is the preference of the Exchange to allow trading to continue on that date. This will be a primary consideration in the assessment to be made by the Floor Officials and the senior Exchange Official.

Eighth, the Exchange proposes that any two Floor Officials may halt trading in any security in the event of disseminated news after the close of trading in the primary market that causes the Floor Officials to believe that trading in options should be halted to allow market participants an opportunity to consider the effect of the news on pricing of trades. Two Floor Officials and a senior Exchange Official will than decide whether and, if so, when to recommence trading. This may occur after the primary market of the underlying security has closed for the day, in which event, the decision may be to not resume trading until the next trading day or to have a closing rotation after appropriate notification to the public.

Finally, when regard to any of the aforementioned circumstances, the

[5] *Id.*

[6] *Id.*

[7] *See* CBOE Regulatory Circular RG92–40, dated July 8, 1992, or CBOE Regulatory Circular RG93–58, dated November 10, 1993, (CBOE Circular 92–40 reissued); Exchange Act Rel. No. 25906 (July 13, 1988), 53 FR 27249 (July 919, 1988) (order approving CBOE's trading halt policy for individual equity options). *See also* CBOE Regulatory Circular RF95–51, dated June 14, 1995; Exchange Act Rel. No. 35789 (May 31, 1995), 60 FR 30127 (June 7, 1995) (order approving amendment to CBOE's trading halt policy for individual equity options to reflect amendments to CBOE Rule 6.3).

[8] As stated in proposed commentary .03, a ''regulatory halt'' is a halt that is initiated by a regulatory authority in the primary market and a ''non-regulatory halt'' is a halt initiated by floor staff or at the request of a Market Maker or Trading Crowd in the primary market. For example, regulatory halts may be initiated by Exchange Staff in the primary market if listing or maintenance requirements are not met; if there is a need for dissemination of news regarding market developments or material information; or at the request of the issuer. Examples of non-regulatory halts in the primary market would be requests by Floor Members due to an influx, or imbalance of orders, or by Floor Officials due to volatility in market conditions; or natural disasters.

Exchange proposes that trading may resume upon a determination by two Floor Officials that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

2. Statutory Basis

The PCX believes the proposed rule change is consistent with Section 6(b) [9] of the Act, in general, and furthers the objectives of Section 6(b)(5),[10] in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities and, in general to protect investors and the public interest.

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

The PCX believes that the proposed rule change will impose no burden on competition.

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

The PCX neither solicited nor received written comments on the proposed rule change.

III. 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 at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR–PCX–98–53 and should be submitted by January 14, 1999.

IV. Commission's Finding and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds, for the reasons set forth below, that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with the requirements of Section 6(b) [11] of the Act. Specifically, the Commission believes the proposals is consistent with the Section 6(b)(5) [12] requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitation transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and national market system and, in general, to protect investors and the public.[13]

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. The Commission believes that approval of the proposal should enhance market efficiency by providing additional clarity to the Exchange's existing trading halt policy for options on individual equity securities. Furthermore, outlining conditions which require an option trading halt should help lessen confusion for market participants, thereby facilitating the maintenance of a fair and orderly market. The Commission notes that the proposed rule change should be particularly helpful during times of high volatility in the market. The Commission also notes that this proposal is similar to a proposal filed by CBOE on October 5, 1987. After the notice and comment period, the Commission approved CBOE's proposal.[14]

Given the Commission's prior approval of a similar proposal and the immediate need to provide uniform guidelines for Exchange Floor Officials in handling trading halts and suspensions, the Commission deems it appropriate to approve the proposed rule change on an accelerated basis. The Commission believes it is consistent with Section 6(b)(5) [15] and Section 19(b)(2) [16] of the Act to grant accelerated approval to the proposed rule change.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–PCX–98–53) is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[17]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–34126 Filed 12–23–98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40806; File No. SR–PCX–98–58]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. to Terminate its Specialist Post Fee Waiver Program

December 18, 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 November 23, 1998, as amended on December 15, 1998,[3] the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. 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 terminate its Specialist Post Fee Waiver Program.

[9] 15 U.S.C. 78f(b).

[10] 15 U.S.C. 78f(b)(5).

[11] 15 U.S.C. 78f(b).

[12] 15 U.S.C. 78f(b)(5).

[13] In approving this rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. The Commission believes that this rule will improve market efficiency by providing uniform guidelines for Exchange Floor Officials in the event that the circumstances outlined in the proposed rule occur. The Commission further believes that the rule will have little, if any, adverse impact on competition. 15 U.S.C. 78c(f).

[14] *See* supra, note 7.

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

[16] 15 U.S.C. 78s(b)(2).

[17] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* Letter from Robert Pacileo, Staff Attorney, Regulatory Policy, PCX, to Richard Strasser, Assistant Director, Division of Market Regulation, Commission, dated December 14, 1998 (''Amendment No. 1''). Amendment No. 1 changed the PCX's justification for the proposed rule change's immediate effectiveness, and clarified the date PCX approved the proposal internally.