

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42884; File No. SR-OCC-99-16]

Self Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Relating to Exercises by Put Holders During a Shortage of the Underlying Security

June 1, 2000.

On November 2, 1999, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-99-16) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on March 29, 2000.² On April 10, 2000, OCC filed an amendment to the proposed rule change.³ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

OCC is amending Article VI, Section 19 of its By-laws to eliminate OCC's authority to prohibit exercises by put holders that would be unable to deliver the underlying security due to a shortage of the underlying security. In lieu thereof, the amended By-laws give OCC the right to suspend settlement until it can determine whether the unavailability of the underlying stock will extend past the option expiration date and upon making that determination to take the appropriate action under Article VI, Section 19(b) or (c). Thus, the rule change allows OCC to protect the benefit of the put holder's bargain and to treat puts and calls equally when there is a shortage of the underlying securities.

A similar change will be made to Article XV, Section 3 and Article XX, Section 3 with respect to dollar-denominated and cross-rate foreign currency options by deleting Article XV, Section 3 (b)(2) and Article XX, Section 3(b)(2). The deletions will conform the treatment of foreign currency puts to the treatment of equity puts by eliminating OCC's authority to prohibit exercises by put holders who would be unable to deliver the underlying interest. OCC already has the authority to fix cash settlement prices for foreign currency puts in appropriate circumstances.

Finally, Article XXIV, Section 5 of OCC's By-laws, which relates to buy-write options unitary derivatives (BOUNDS),⁴ has been amended to conform OCC's treatment of BOUNDS put holders in shortage situations with its treatment of equity and foreign currency options holders in similar situations.

II. Discussion

Section 17A(b)(3)(F)⁵ of the Act requires that the rules of a clearing agency not be designed to permit unfair discrimination among participants in the use of the clearing agency. The Commission finds that OCC's rule change is consistent with OCC's obligation under the Act because it amends OCC's rules so that put and call holders are treated similarly when there is a shortage of the underlying security.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-99-16) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42861; File No. SR-PCX-99-45]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Pacific Exchange, Inc. Relating to House-Keeping Amendments to Rules on Floor Brokers

May 30, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rules 19b-4 thereunder,² notice is hereby given that on November 5, 1999, 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. Additionally, on March 23, 2000, the Exchange filed with the Commission Amendment No. 1 to the proposal.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is proposing to modify its options Floor Broker rules by renumbering certain Options Floor Procedure Advices ("OFPAs"), clarifying existing provisions, eliminating superfluous provisions, and incorporating current policies and procedures into the text of Rule 6. The text of the proposed rule change is available at the PCX and at the Commission.

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 Exchange 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 Exchange has prepared summaries, set

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 42563 (Mar. 22, 2000), 65 FR 16679.

³ OCC amended its proposed rule change to extend the proposed change to cover foreign currency options and cross-rate foreign currency options. Because the amendment made no substantive changes to OCC's proposal other than to include additional option products OCC clears, republication of notice was not required.

⁴ See Securities Exchange Act Release No. 37603 (Aug. 26, 1996) 61 FR 46500 (Sept. 3, 1996), for amendments to OCC's By-laws and Rules to provide for the issuance, clearance, and settlement of BOUNDS.

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ 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 P. Pacileo, Senior Attorney, Regulatory Policy, PCX, to Nancy Sanow, Senior Special Counsel, Division of Market Regulations, SEC, dated March 22, 2000. The Amendment corrects several typographical errors and clarifies the wording of the proposed rule change.