

specialists should always attempt to reflect a limit order by manually quoting the stock as soon as practicable even though the Quote Assist feature is active.

The Exchange believes that Quote Assist provides valuable help to enable equity specialists to comply with their responsibilities under the Commission's Display Rule. The requirement that Quote Assist generally remain active throughout the day will ensure that equity specialists avail themselves of the tools provided for managing order flow and updating quotes.

## (2) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5)<sup>8</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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 interest; and is not designed to permit unfair discrimination between customers, issuers, brokers and dealers.

### 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 that is not necessary or appropriate in furtherance of the purposes of the Act.

### 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.

## 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, N.W., Washington, D.C. 20549-0609. 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, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to the File No. SR-Amex-00-25 and should be submitted by July 14, 2000.

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

The Commission has reviewed carefully the Exchange's proposed rule change<sup>9</sup> and believes, for the reasons set forth below, that the proposal is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange. Specifically, the Commission believes the proposal is consistent with Sections 6(b)(5) and 11A(a)(1)(C)(iii) and (iv) of the Act.<sup>10</sup> Section 6(b)(5) requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices and to remove impediments to and perfect the mechanism of a free and open market and a national market system. In enacting Section 11A, Congress found that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers and investors of information with respect to quotations for and transactions in securities, and to assure the practicability of brokers executing investors' orders in the best market.

The Commission finds that the proposed rule change will promote the quality of quotation information and promote the proper handling of customer limit orders by limiting the ability of specialists to deactivate Quote Assist. In approving the proposed rule change, however, the Commission notes that Quote Assist does not relieve specialists of their responsibility to reflect limit orders by manually quoting the stock as soon as practicable.

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice thereof in the **Federal Register**, because the proposal

facilitates compliance with the Display Rule. The Commission believes, therefore, that granting accelerated approval of the proposed rule change is appropriate and consistent with Section 6 of the Act.<sup>11</sup>

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>12</sup> that the proposed rule change (SR-Amex-00-25) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 00-15877 Filed 6-22-00; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42947; File No. SR-AMEX-99-37]

### Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment Nos. 1, 2, 3, 4, 5 and 6 by the American Stock Exchange LLC Relating to the Trading of Options on Trust Issued Receipts

June 15, 2000.

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 September 13, 1999, the American Stock Exchange LLC ("Amex" 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 Exchange. Amendment Nos. 1, 2, 3, 4, 5 and 6 were filed on October 22, 1999,<sup>3</sup> December 20, 1999,<sup>4</sup> January 5, 2000,<sup>5</sup> April 28,

<sup>1</sup> 15 U.S.C. 78f.

<sup>2</sup> 15 U.S.C. 78s(b)(2).

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

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> 17 CFR 240.19b-4.

<sup>3</sup> In Amendment No. 1, the Exchange clarified the proposed rule change with respect to opening transactions and made several changes to the text of the proposed rule change. See Letter to Nancy Sanow, Assistant Director, Division of Market Regulation ("Division"), SEC, from Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, dated October 21, 1999.

<sup>4</sup> In Amendment No. 2, the Exchange revised the proposed surveillance agreement requirements. See Letter to Nancy Sanow, Assistant Director, Division, SEC, from Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, dated December 16, 1999.

<sup>5</sup> In Amendment No. 3, the Exchange amended the text of proposed Amex Rule 916 to make it

Continued

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation, 15 U.S.C. 78c(f).

<sup>10</sup> 15 U.S.C. 78f(b)(5), 78k-1(a)(1)(C)(iii) and (iv).

2000,<sup>6</sup> May 4, 2000,<sup>7</sup> and May 12, 2000,<sup>8</sup> respectively. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval to the proposed rule change, as amended.

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

The Exchange proposes to trade standardized equity options on trust issued receipts. The text of the proposed rule change follows. [Bracketing] indicates text to be deleted and *italics* indicate text to be added.

#### Rule 915 Criteria for Underlying Securities

(a) through (b)—No change.

\* \* \* Commentary

.01 through .06—No change.

.07 *Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:*

(a)(i) the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Commentary .01 to this Rule 915; or

consistent with the purpose section of the proposed rule change. See Letter to Nancy Sanow, Assistant Director, Division, SEC, from Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, dated January 4, 2000.

<sup>6</sup>In Amendment No. 4, the Exchange added an additional maintenance requirement for options on HOLDRS, a kind of trust issued receipt, requiring that the market capitalization of the securities underlying the options and composing the HOLDR must constitute at least 80 percent of the market capitalization of the HOLDR. The Exchange further noted that the prospectus and product description delivery requirements applicable to HOLDRS, will apply to an exercise or assignment of options on HOLDRS. The Exchange also represented that it has the necessary capacity to trade the new series of options generated by options on HOLDRS. See Letter to Nancy Sanow, Assistant Director, Division, SEC, from Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, dated April 27, 2000.

<sup>7</sup>In Amendment No. 5, the Exchange added an additional maintenance requirement for options on HOLDRS, requiring that at least 80 percent of the number of securities held by a HOLDR trust underlie standardized options. See Letter to Nancy Sanow, Assistant Director, Division, SEC, from Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, dated May 3, 2000.

<sup>8</sup>In Amendment No. 6, the Exchange clarified the maintenance criterion added in Amendment No. 4, that the Exchange will not open additional series of options on any HOLDR should the weight of all those securities that are options eligible be less than 80 percent. See Letter to Nancy Sanow, Assistant Director, Division, SEC, from Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, dated May 11, 2000.

(ii) the Trust Issued Receipts must be available for issuance or cancellation each business day from the trust in exchange for the underlying deposited securities; and

(b) any ADRs in the portfolio on which the Trust is based for which the securities underlying the ADRs' primary markets are in countries that are not subject to comprehensive surveillance agreements, do not in the aggregate represent more than 20% of the weight of the portfolio.

#### Rule 916 Withdrawal of Approval of Underlying Securities

No change.

\* \* \* Commentary

.01-.08 No change.

.09 *Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .07 under Rule 915 (such securities are defined and referred to in that Commentary as "Trust Issued Receipts") shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of class covering Trust Issued Receipts in any of the following circumstances:*

(1) *In accordance with the terms of paragraphs 1 through 7 of Commentary .01 of this Rule 916 in the case of options covering Trust Issued Receipts when such options were approved pursuant to paragraph (a)(i) of Commentary .07 of Rule 915;*

(2) *The trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;*<sup>9</sup>

(3) *The trust has fewer than 50,000 receipts issued and outstanding;*

(4) *The market value of all receipts issued an outstanding is less than \$1,000,000; or*

(5) *Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.*

.10 *For Holding Company Depository Receipts (HOLDRS), the Exchange will not open additional series of options overlying HOLDRS (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRS trust is less than 80% (as measured by their relative weightings in the HOLDRS trust); or (2) less than 80% of the total number of securities held in a HOLDRS trust underlie standardized equity options.*

\* \* \* \* \*

### 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 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 provide for the trading of options and FLEX<sup>10</sup> equity options on exchange-listed trust issued receipts.<sup>11</sup> Trust issued receipts are exchange-listed securities representing beneficial ownership of the specific deposited securities represented by the receipts. They are negotiable receipts issued by a trust representing securities of issuers that have been deposited and are held on behalf of the holders of the trust issued receipts. Trust issued receipts, which trade in round lots of 100, and multiples thereof, may be issued after their initial offering through a deposit with the trustee of the required number of shares of common stock of the underlying issuers. This characteristic

<sup>10</sup>FLEX equity options provide investors with the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices.

<sup>11</sup>The Exchange's proposal to list and trade Trust Issued Receipts was approved by the Commission on September 21, 1999. See Securities Exchange Act Release No. 41892, (September 21, 1999), 64 FR 52559 (September 29, 1999).

<sup>9</sup>The Exchange has confirmed that "Trust Issued Receipts" should be capitalized in the proposed rule text. Telephone conversation between Heather Traeger, Attorney, Division, SEC, and Scott G. Van Hatten, Legal Counsel Derivative Securities, Amex, on June 14, 2000.

of trust issued receipts is similar to that of exchange-traded fund shares which also may be created on any business day upon deposit of the requisite securities comprising a creation unit.<sup>12</sup> The trust will only issue receipts upon the deposit of the shares of underlying securities that are represented by a round-lot of 100 receipts. Likewise, the trust will cancel, and an investor may obtain, hold, trade or surrender trust issued receipts in a round-lot and round lot multiples of 100 receipts. Following their initial issuance, trust issued receipts will be traded on the Exchange like other equity securities, subject to equity trading rules.

Generally, options on trust issued receipts are proposed to be traded on the Exchange pursuant to the same rules and procedures that apply to trading in options on equity securities or indexes of equity securities. However, the Exchange is also proposing to list FLEX Equity options on trust issues receipts. The Exchange will list option contracts covering 100 trust issued receipts, the minimum required round lot trading size for the underlying receipts. Strike prices for the contracts will be set to bracket the trust issued receipts at the same intervals that apply to standardized equity options (*i.e.*, 2½ point intervals for underlying equity values up to \$25; 5 point intervals for underlying equity values greater than \$25 up to \$200; and 10 point intervals for underlying equity values greater than \$200). The proposed position and exercise limits for options on trust issued receipts would be the same as those established for stock options, as set forth in Amex Rules 904 and 905. The Amex anticipates that most options on trust issued receipts will initially qualify for the lowest position limit. However, as with standardized equity options, applicable position limits will be increased for options if the volume of trading in the trust issued receipts increases to meet the requirements of a higher limit. As is currently the case for all FLEX Equity options, no position and exercise limits will be applicable to FLEX Equity options overlying trust issued receipts.

The listing and maintenance standards proposed for options on trust issued receipts are set forth in proposed Commentary .07 under Amex Rule 915 and in proposed Commentary .09 under Amex Rule 916, respectively. Pursuant to the proposed initial listing standards, Amex will list only trust issued receipts

that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as national market securities. In addition, the initial listing standards require that either: (i) The trust issued receipts meet the uniform options listing standards in Commentary .01 to Amex Rule 915, which include criteria covering the minimum public float, trading volume, and share price of the underlying security in order to list the option;<sup>13</sup> or (ii) the trust issued receipts must be available for issuance or cancellation each business day from the trust in exchange for the underlying deposited securities.

In addition, listing standards for options on trust issued receipts will require that any American Depository Receipts (ADRs) in the portfolio on which the Trust is based for which the securities underlying the ADRs' primary markets are in countries that are not subject to comprehensive surveillance agreements will not in the aggregate represent more than 20 percent of the weight of the portfolio.

The Exchange's proposed maintenance standards provide that if a particular series of trust issued receipts should cease to trade on an exchange or as national market securities in the over-the-counter market, there will be no opening transactions in the options on the trust issued receipts, and all such options will trade on a liquidation-only basis (*i.e.*, only closing transactions to permit the closing of outstanding open options will be permitted). In addition, the Amex will consider the suspension of opening transactions in any series of options of the class covering trust issued receipts if: (i) The options fail to meet the uniform equity option maintenance standards in Commentary .01 to Amex Rule 916,<sup>14</sup> when the options were listed pursuant to the equity option listing standards of Commentary .01 to Amex Rule 915;<sup>15</sup> (ii) the trust has more

than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of trust issued receipts for 30 or more consecutive trading days; (iii) the trust has fewer than 50,000 receipts issued and outstanding; (iv) the market value of all receipts issued and outstanding is less than \$1,000,000; or (v) such other event shall occur or condition exists that in the opinion of the Exchange, makes further dealing in such options on the Exchange inadvisable. Furthermore, the Exchange will not open additional series of options on any HOLDR, without prior Commission approval, if: (1) The proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80 percent (as measured by their relative weightings in the HOLDRs trust);<sup>16</sup> or (2) less than 80 percent of the number of securities held by a HOLDR trust underlie standardized options.

Options on trust issued receipts will be physically-settled and will have the American-style exercise feature used on all standardized equity options, and not the European-style feature. The Exchange, however, also proposes to trade FLEX Equity options which will be available with both the American-style and European-style exercise feature, as well as other FLEX Equity features.<sup>17</sup>

The proposed margin requirements for options on trust issued receipts are at the same levels that apply to options generally under Amex Rule 462, except, with respect to trust issued receipts based on a broad-based portfolio, minimum margin must be deposited and maintained equal to 10 percent of the current market value of the option plus 15 percent of the market value of

uniform equity option listing standards, Amex Rules 1200 *et seq.* require a minimum number of trust issued receipts to be outstanding before trading in a series of trust issued receipts may commence. In addition, the Amex has represented that although there is no comparable public float maintenance standard for the underlying trust issued receipt, as a practical matter there can never be trading in a series of trust issued receipts in which there is less than one round-lot outstanding, since trust issued receipts may only be issued and cancelled in round lots, and if the last outstanding round lot should ever be cancelled, the series (and the options on that series) will cease to trade.

<sup>16</sup>The Exchange represents that the weight of each security in a HOLDR trust will be determined by calculating the summation of the number of shares of each security (represented in a single HOLDR) and underlying options multiplied by its respective share price divided by the summation of the number of shares of all securities (represented in a single HOLDR) multiplied by their respective share prices. See Amendment No. 6, *supra* note 8.

<sup>17</sup>An American-style option may be exercised at any time prior to its expiration. A European-style option, however, may be exercised only on its expiration date.

<sup>12</sup>The Exchange received approval to trade options on fund shares on July 1, 1998. See Securities Exchange Act Release No. 40157 (July 1, 1998), 63 FR 37426 (July 10, 1998).

<sup>13</sup>Specifically, Commentary .01 to Amex Rule 915 requires the underlying security to have a public float of 7,000,000 shares, 2,000 holders, trading volume of 2,400,000 shares in the preceding 12 months, a share price of \$7.50 for the majority of the business days during the three calendar months preceding the date of the selection, and that the issuer of the underlying security is in compliance with the Act.

<sup>14</sup>Specifically, Commentary .01 to Amex Rule 916 provides that an underlying security will not meet the Exchange's requirements for continued listing when, among other things: (i) There are fewer than 6,300,000 publicly-held shares; (ii) there are fewer than 1,600 holders; (iii) trading volume was less than 1,800,000 shares in the preceding twelve months; and (iv) the share price of the underlying security closed below \$5 on a majority of the business days during the preceding 6 months.

<sup>15</sup>The Exchange notes that even if options on trust issued receipts were not listed under the

equivalent units of the underlying security value. Trust issued receipts that hold securities based upon a narrow-based portfolio must have options margin that equals at least 100 percent of the current market value of the contract plus 20 percent of the market value of equivalent units of the underlying security value. In this respect, the margin requirements proposed for options on trust issued receipts are comparable to margin requirements that currently apply to broad-based and narrow-based index options.

The Exchange believes it has the necessary systems capacity to support the additional series of options that would result from the introduction of options on HOLDRs, and it has been advised that the Options Price Reporting Authority ("OPRA") also will have the capacity to support these additional series in light of the capacity allocation in place at the OPRA processor.<sup>18</sup>

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act<sup>19</sup> in general and furthers the objectives of Section 6(b)(5)<sup>20</sup> 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.

### *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 Statements 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.

## III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Persons making written

submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. 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 Exchange. All submissions should refer to File No. SR-AMEX-99-37 and should be submitted by [July 14, 2000].

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

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of Section 6(b)(5) of the Act<sup>21</sup> and the rules and regulations thereunder applicable to a national securities exchange. Specifically, the Commission finds that providing for the listing and trading of options and FLEX Equity options on Exchange-traded trust issued receipts should give investors a better means to hedge their positions in the underlying trust issued receipts. Further, the Commission believes that pricing of the underlying trust issued receipts may become more efficient and market makers in these shares, by virtue of enhanced hedging opportunities, may be able to provide deeper and more liquid markets. In sum, the Commission believes that options on trust issued receipts likely will engender the same benefits to investors and the marketplace that exist with respect to options on common stock, thereby serving to promote the public interest, remove impediments to a free and open securities market, and promote efficiency, competition, and capital formation.<sup>22</sup>

As a general matter, the Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as options on trust issued receipts, can commence trading on a national

securities exchange. The Commission notes that the trading of standardized exchange-traded options occurs in an environment that is designed to ensure, among other things, that: (1) The special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. With regard to position and exercise limits, the Commission finds that it is appropriate to adopt the tiered approach used in setting position and exercise limits for standardized stock options. This approach should serve to minimize potential manipulation and market impact concerns. In addition, the Commission believes that the rationale for allowing FLEX Equity options generally to trade without position and exercise limits is equally applicable in the context of FLEX Equity options on trust issued receipts. Accordingly, because options and Flex Equity options of trust issued receipts will be subject to the same regulatory regime as the other options and FLEX Equity options currently traded on the Amex, the Commission believes that adequate safeguards are in place to ensure the protection of investors in options and Flex Equity options on trust issued receipts.

The Commission also believes that it is appropriate to permit the Amex to list and trade options, including FLEX Equity options, on exchange-traded trust issued receipts given that these options must meet specific requirements related to the protection of investors.<sup>23</sup> First, the Exchange's listing and delisting criteria for options on trust issued receipts are adequate. With regard to initial listing, the proposal requires that either: (1) The underlying trust issued receipts meet the Amex's uniform options listing standards; or (2) the trust issued receipts must be available for issuance or cancellation each business day from the trust in exchange for the underlying deposited securities. This listing requirement should ensure that there exists sufficient supply of the underlying trust issued receipts so that a short call writer, for example, will have the ability to secure delivery of the trust issued receipts upon exercise of the option.

With respect to continued listing, options listed pursuant to the uniform

<sup>18</sup> See Amendment No. 4, *supra* note 6, and letter from Joseph P. Corrigan, Executive Director, OPRA, to Nancy Sanow, Assistant Director, Division, SEC, dated April 26, 2000.

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

<sup>20</sup> 15 U.S.C. 78f(b)(5).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

<sup>22</sup> In approving this rule, the Commission notes that it has also considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>23</sup> The Commission notes, and Amex has verified, that holders of options on trust issued receipts who exercise and receive the underlying trust issued receipts must receive, like any purchaser of trust issued receipts, a product description or prospectus, as appropriate. See Amendment No. 4, *supra* note 6.

options listing standards will have to meet the options maintenance listing standards. The maintenance criteria provide that an underlying security will not meet the Exchange's requirements for continued listing when, among other things: (1) The trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of trust issued receipts for 30 or more consecutive trading days; (2) the trust has fewer than 50,000 receipts issued and outstanding; or (3) the market value of all receipts issued and outstanding is less than \$1,000,000. The Commission believes these criteria will help to ensure that a minimum level of liquidity will exist for options on trust issued receipts to control against manipulation and allow for the maintenance of fair and orderly markets. Furthermore, the Exchange will not open additional series or options on any HOLDER, without prior Commission approval, if: (1) The proportion of securities underlying standardized equity options to all securities held in a HOLDERS trust is less than 80 percent (as measured by their relative weightings in the HOLDERS trust); or (2) less than 80 percent of the number of securities held by a HOLDER trust underlie standardized options. The Commission believes that these additional criteria will ensure that a very significant portion of the individual component securities of the HOLDERS trust will be options eligible (either by market capitalization weighting or by total number of component securities), thereby assuring that the component securities for the most part will satisfy minimum thresholds previously approved by the Commission.

The Commission also believes that the surveillance standard developed by the Amex for options on trust issued receipts is adequate to address the concerns associated with the listing and grading of such securities. Specifically, the Amex has proposed to limit to 20 percent of the weight of the portfolio any component securities that are ADRs when the primary market for the securities underlying those ADRs' are in countries that are not subject to comprehensive surveillance agreements.

As a general matter, the Commission believes that comprehensive surveillance agreements provide an important deterrent to manipulation because they facilitate the availability of information needed to fully investigate a potential manipulation, if it were to occur. These agreements are especially important in the context of derivative products based on foreign securities because they facilitate the collection of

necessary regulatory, surveillance and other information from foreign jurisdictions. In evaluating the current proposal, the Commission believes that requiring comprehensive surveillance agreements to be in place between the Amex and the primary markets for ADRs that comprise 20 percent or more of the weight of the underlying portfolio upon which trust issued receipts are based provides an adequate mechanism for the exchange of surveillance sharing information necessary to detect and deter possible market manipulations. Further, as to the domestically-traded trust issued receipts themselves and the domestic stocks in the underlying portfolio upon which trust issued receipts are based, the Intermarket Surveillance Group ("ISG") Agreement<sup>24</sup> will be applicable to the trading of options on trust issued receipts.

Finally, the Commission believes that it is appropriate to require minimum margin of 100 percent of the current market value of the option plus 15 percent of the market value of the underlying security value for options on trust issued receipts based on a broad-based portfolio. Moreover, the Commission believes that requiring minimum margin of 100 percent of the current market value of the option plus 20 percent of the market value of the underlying security value for options on trust issued receipts based on a narrow-based portfolio is appropriate. The Commission notes that these margin requirements for options on trust issued receipts are comparable to margin requirements that currently apply to broad-based and narrow-based index options.

Amex has requested that the Commission find good cause for approving the proposed rule change, as amended, prior to the thirtieth day after the day of publication of notice in the **Federal Register**. The Commission believes the proposal is similar to the proposal to list and trade options on exchange-traded fund shares previously reviewed and approved by the Commission.<sup>25</sup> The Commission also notes that there were no comment letters on the initial trust issued receipts filing. Furthermore, the Commission finds that the proposal raises no new regulatory issues and should benefit holders of trust issued receipts by

<sup>24</sup> ISG was formed on July 14, 1983, to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. See Intermarket Surveillance Group Agreement, July 14, 1983.

<sup>25</sup> See Securities Exchange Act Release No. 40157 (July 1, 1998), 63 FR 37426 (July 10, 1998).

permitting them to use options to manage the risks of their positions in the receipts. Accordingly, the Commission finds good cause to accelerate approval of the proposed rule change, as amended.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>26</sup> that the proposed rule change (SR-AMEX-99-37), as amended, is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>27</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

[FR Doc. 00-15903 Filed 6-22-00; 8:45 am]

**BILLING CODE 8010-01-M**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42951; File No. SR-BSE-99-07]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Boston Stock Exchange, Inc. Amending its Minor Rule Violation Plan

June 16, 2000.

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 June 1, 1999, the Boston Stock Exchange, Inc. ("BSE" or "Exchange") 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 by the Exchange. On March 24, 2000, the BSE submitted Amendment No. 1 to the proposed rule change.<sup>3</sup> On May 30, 2000, the BSE submitted Amendment No. 2 to the proposed rule change.<sup>4</sup> The Commission is publishing this notice to solicit

<sup>26</sup> 15 U.S.C. 78s(b)(2).

<sup>27</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> In Amendment No. 1, the BSE proposes to incorporate the BSE's Minor Rule Violation Plan into the Boston Stock Exchange Guide, which is its rulebook. See letter with enclosures from William P. Cummings, Manager of Legal and Regulation, BSE, to Richard Strasser, Assistant Director, Division of Market Regulation ("Division"), Commission, dated March 12, 2000 ("Amendment No. 1").

<sup>4</sup> In Amendment No. 2, the BSE seeks to amend the Summary Fine Schedule of the Minor Rule Violation Plan to prohibit all forms of tobacco use. See letter with enclosures from John A. Boese, Assistant Vice President, Rule Development and Market Structure, BSE, to Richard Strasser, Assistant Director, Division, Commission, dated May 26, 2000 ("Amendment No. 2").