liquidation of stock positions related to trading strategies involving index derivative products. For instance, since 1986, the NYSE has utilized auxiliary closing procedures on expiration days. These procedures allow NYSE specialists to obtain an indication of the buying and selling interest in MOC orders at expiration and, if there is a substantial imbalance on one side of the market, to provide the investing public with timely and reliable notice thereof and with an opportunity to make appropriate investment decisions in response.

The NYSE auxiliary closing procedures have worked relatively well and may have resulted in more orderly markets on expiration days. Nevertheless, both the Commission and the NYSE remain concerned about the potential for excess market volatility, particularly at the close on expiration days. Although, to date, the NYSE has been able to attract sufficient contra-side interest to effectuate an orderly closing, adverse market conditions could converge on an expiration day to create a market dislocation which could make member firms and their customers unwilling to acquire significant positions.

The Commission continues to believe preliminarily that LOC orders should provide the NYSE with an additional means of attracting contra-side interest to help alleviate MOC order imbalances both on expiration and non-expiration days. As a practical matter, the Commission believes that LOC orders will appeal to certain market participants who otherwise might be reluctant to commit capital at the close. Specifically, unlike a MOC order, which results in significant exposure to adverse price movements, a LOC order will allow each investor to determine the maximum/minimum price at which he or she is willing to buy/sell. To the extent that such risk management benefits encourage NYSE member firms and their customers to enter orders to offset MOC order imbalances of 50,000 shares or more, thereby adding liquidity to the market, the Commission agrees with the NYSE that LOC orders could become a useful investment vehicle for curbing excess price volatility at the close.[16]

The Commission also finds that the NYSE has established appropriate procedures for the handling of LOC orders and that the NYSE's existing surveillance should be adequate to monitor compliance with those procedures. Because LOC orders will be required to yield priority to conventional limit orders at the same price, the Commission is satisfied that public customer orders on the specialist's book will not be disadvantaged by this proposal. In addition, the Commission believes that the proposed 3:55 p.m. deadline for LOC order entry strikes a reasonable balance between the need to effectuate an orderly closing and the need to avoid unduly infringing upon legitimate trading strategies. Similarly, in the Commission's opinion, the prohibition on canceling LOC orders is consistent with the Exchange's auxiliary closing procedures and, like those procedures, should allow specialists to make a timely and reliable assessment of order flow and its potential impact on the closing price.

The Commission is approving LOC order entry for all stocks for which MOC order imbalances are published on a pilot basis contingent on the extension or permanent approval of the MOC procedures.[17] During the pilot program, the Commission expects the NYSE to monitor the effectiveness of its LOC order procedures.

The Commission therefore requests that the NYSE submit a report to the Commission, by May 31, 1997, describing its experience with the pilot program. At a minimum, this report should contain the following data for each expiration day: (1) for all stocks which had a MOC order imbalance of 50,000 shares or more at 3:40 p.m., the names of those stocks and the size of the imbalance; (2) for each stock listed in (1) above, the size of the MOC order imbalance at 4:00 p.m. and an appropriate measure of the size of conventional limit order and LOC order interest, on the opposite side of the market from the imbalance, at 4:00 p.m., (3) for each stock listed in (1) above, (i) the price of the transaction effected closest in time to 3:40 p.m., the price of the last regular way trade and the closing price, (ii) the change in price of the closing transaction, measured as a percentage, from the last regular way trade and from the transaction effected closest in time to 3:40 p.m., (iii) historical data analyzing price volatility for the same stock on expiration days prior to the implementation of this pilot program; and (4) the average price volatility for all stocks listed in (1) above. The NYSE report also should contain, for one week per calendar quarter (including at least one week with no expiration days) the data described herein, as modified to reflect the MOC procedures for non-expiration days. Any requests to modify this pilot program, to extend its effectiveness or to seek permanent approval for the pilot procedures also should be submitted to the Commission, by May 31, 1997, as a proposed rule change pursuant to Section 19(b) of the Act.

V. Conclusion

The Commission finds good cause for approving the rule filing prior to the thirtieth day after the date of publication of the notice of filing thereof in the Federal Register, in that accelerated approval is appropriate to extend the pilot program until July 31, 1997 without interruption.

*It is therefore ordered,* pursuant to Section 19(b)(2)[18] of the Act, the proposed rule change, including Amendment No. 1, extending the pilot for the entry of LOC orders until July 31, 1997, be and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[19]

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96–19939 Filed 8–5–96; 8:45 am]

**BILLING CODE 8010–01–M**

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**[Release No. 34–37497; File No. SR–Phlx–96–21]**

## Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 1 to Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Index Options Exercise Advices

July 30, 1996.

I. Introduction

On July 7, 1996, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend Exchange Rule 1042A, Exercise of Option Contracts, and Floor Procedure Advice (''Advice'') G–1, to be retitled Index Option Exercise Advice Forms, requiring the submission of an index option exercise advice form for all

[16] Furthermore, the Commission notes that LOC orders could allow the NYSE to accomplish this goal without diminishing any benefit to investors from trading strategies that rely on MOC orders to guarantee a fill at the closing price.

[17] The pilot program for MOC procedures expires on October 31, 1996. *See* Securities Exchange Act Release No. 36404 (October 20, 1995), 60 FR 55071.

[18] 15 U.S.C. 78s(b)(2).

[19] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4.

non-expiration exercises. In this manner, the Exchange will eliminate the rule's current 25 contract threshold.

The proposed rule change appeared in the Federal Register on June 25, 1996.[3] No comments were received on the proposed rule change. The Phlx subsequently filed Amendment No. 1 to the proposed rule change on July 26, 1996.[4] This order approves the Phlx's proposal.

## II. Background and Description

Exchange Rule 1042A and Advice G–1 govern the exercise of index options.[5] Specifically, Exchange Rule 1042A(a)(i) requires that a memorandum to exercise any American-style index option must be received or prepared by the Phlx member organization no later than 4:30 p.m. on the day of exercise.[6] In addition, Exchange Rule 1042A(a)(ii) and Advice G–1 require the submission of an exercise advice form to the Exchange when exercising 25 or more American-style index option contracts.

Pursuant to Exchange Rule 1042A(b), however, these requirements are not applicable on the last business day before expiration, generally an ''expiration Friday.'' [7] The above requirements are also not applicable to European-style index options which, by definition, cannot be exercised prior to expiration. Lastly, the Exchange notes that the procedures for exercising equity option contracts, contained in Exchange Rule 1042, are not affected by this rule proposal.

As stated above, the Phlx proposes to amend Exchange Rule 1042A and Advice G–1 by requiring the submission of an index option exercise advice form all non-expiration exercises. In this manner, the Exchange is eliminating the rule's current 25 contract threshold.

According to the Phlx, the purpose of this change is to enhance surveillance efforts in determining compliance with the exercise cut-off time. Currently, the submission of an exercise advice form where 25 more contracts are exercised creates an audit trail for the Exchange to examine when ascertaining compliance with the exercise cut-off time. Thus, by eliminating the 25 contract threshold, all non-expiration exercises will require the submission of an exercise advice form. By providing a more complete audit trail for smaller exercises, the Phlx believes that its surveillance efforts will be enhanced.

The Exchange also believes that eliminating the 25 contract threshold should prevent the confusion associated with having to calculate the number of index option contracts being exercised for each Phlx index as exercise advices will be required for all non-expiration exercises. In addition, the Exchange notes that the requirement of Exchange Rule 1042A(a)(i) to prepare a memorandum to exercise applies to all non-expiration exercises, not just to those over 25 contracts. Thus, according to the Phlx, because member organizations are already preparing such memorandum, the additional preparation of an advice form will not impose a substantial burden.

The Phlx notes that because Advice G–1 is based on Exchange Rule 1042A and contains certain pertinent provisions of the rule for easy reference on the trading floor, specified reference to Exchange Rule 1042A is proposed to be added to Advice G–1.

The Phlx, in administering advices such as Advice G–1 as part of its minor rule violation enforcement and reporting plan (''minor rule plan''), [8] understands that infractions cited pursuant to the plan are minor in nature. Thus, in order to bolster the distinction between minor and serious violations, the Phlx proposes that Advice G–1 expressly state that the listed schedule of fines for the infractions of the applicable Exercise Advice Form procedures are only applicable to minor infractions.[9] The Phlx notes, however, that by including certain provisions of Exchange Rule 1042A into Advice G–1 it is not implying that all violations of Advice G–1 are minor in nature. Exchange Rule 1042A was intended to govern exercise memorandum and advice procedures in order to prevent abuses and fraudulent activity; incorporating part of the rule into an advice does not diminish this critical purpose. Rather, as with many other important, substantive provisions in Exchange rules that are codified into Advices,[10] this system merely allows for the efficient handling of minor violations.

## III. Discussion

The Commission finds 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)(5), [11] in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and will serve to protect investors and the public interest. Specifically, the Commission believes that the amendments to Exchange Rule 1042A and Advice G–1 requiring that the amendments to Exchange Rule 1042A and Advice G–1 requiring the submission of an index option exercise advice form for all non-expiration exercises will benefit market participants by enhancing the Phlx's surveillance efforts through a more complete audit trail. The Commission also believes that the proposal will reduce the confusion associated with members' having to calculate the number of index option contracts being exercised for each Phlx index, as exercise advices will be required for all non-expiration exercises.

In addition, the Commission believes that the Phlx's proposal to incorporate part of Exchange Rule 1042A into Advice G–1 will serve as any easy reference on the trading floor, without

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[3] *See* Securities Exchange Act Release No. 37321 (June 18, 1996), 61 FR 32877 (June 25, 1996).

[4] In Amendment No. 1, the Phlx proposed to delete the phrase ''industry (narrow-based)'' from paragraph (a)(i) of Exchange Rule 1042A because the requirements of that paragraph apply to all index options. Previously, there were separate paragraphs for industry and market index options, but once they were combined, deleting the reference to ''industry'' was overlooked. *See* Securities Exchange Act Release No. 37077 (April 5, 1996), 61 FR 16156 (April 11, 1996) (File No. SR–Phlx–95–86). This change will correct the omission. *See* letter from Gerald D. O'Connell, Senior Vice President, Market Regulation and Trading Operations, Phlx, to Matthew Morris, Office of Market Supervision, Division of Market Regulation, Commission, dated July 26, 1996 (''Amendment No. 1'').

[5] The Exchange notes that with respect to index option contracts, clearing members are also required to follow the procedures of the Options Clearing Corporation (''OCC'') for tendering exercise notices. Exercise notices are the exercise instructions required by OCC and are distinct from exercise advices which are required by Exchange rules.

[6] *See* Securities Exchange Act Release No. 37077 (April 5, 1996), 61 FR 16156 (April 11, 1996) (File No SR–Phlx–95–86). In this regard, the Exchange has attempted to create a level playing field among option investors by maintaining a cut-off time to ensure that all exercise decisions occur promptly after the close of trading. Consequently, to prevent fraud and unfairness, a long option holder is prohibited from exercising index options on non-expiration days based on information obtained after the cut-off.

[7] *See* Securities Exchange Act Release No. 36903 (February 28, 1996), 61 FR 9001 (March 6, 1996) (File No. SR-Phlx-96–01).

[8] *See* Exchange Rule 970.

[9] Advice G–1 states that the fine schedule provides sanctions for infractions of the index option Exercise Advice Form procedures which are minor in Nature. Any violation of the procedure which has been deemed serious by the Phlx will be referred directly to the Exchange's Business Conduct Committee where stronger sanctions may result. The Phlx notes, however, that this language does not affect the other floor procedure advices administered pursuant to the plan which do not specifically contain this statement; infractions cited pursuant to the plan are minor in nature regardless of whether this specific language was added to the advice.

[10] *See, e.g.,* Advice F–15 which pertains to the Exchange's position and exercise limits.

[11] 15 U.S.C. § 78f(b) (1988).

diminishing the rule's purpose of preventing abuses and fraudulent activity of the Exchange's exercise memorandum and advice procedures.

The Commission finds good cause to approve Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of notice to filing thereof in the Federal Register. Specifically, because Amendment No. 1 is non-substantive in nature and therefore raises no new regulatory issues, the Commission believes that it is consistent with Section 6(b)(5) of the Act to approve Amendment No. 1 to the proposal on an accelerated basis.

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 1 to the rule proposal. 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. 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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR–Phlx–96–21 and should be submitted by August 27, 1996.

IV. Conclusion

For the foregoing reasons, the Commission finds that the Phlx's proposal to require the submission of an index option exercise advice form for all non-expiration exercises, is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR–Phlx–96–21), including Amendment No. 1, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

[12] 15 U.S.C. § 78s(b)(2) (1988).

[13] 17 CFR 200.30–3(a)(12).

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96–19937 Filed 8–5–96; 8:45 am]

BILLING CODE 8010–01–M

## SMALL BUSINESS ADMINISTRATION

**[Declaration of Disaster Loan Area #2880]**

### Illinois; Declaration of Disaster Loan Area

As a result of the President's major disaster declaration on July 25, 1996, I find that Cook, De Kalb, Du Page, Grundy, Kane, Kendall, La Salle, Ogle, Stephenson, Will, and Winnebago Counties in the State of Illinois constitute a disaster area due to damages caused by severe storms and flooding beginning on July 17, 1996 and continuing. Applications for loans for physical damages may be filed until the close of business on September 23, 1996, and for loans for economic injury until the close of business on April 25, 1997 at the address listed below: U.S. Small Business Administration, Disaster Area 2 Office, One Baltimore Place, Suite 300, Atlanta, GA 30308, or other locally announced locations. In addition, applications for economic injury loans from small businesses located in the following contiguous counties may be filed until the specified date at the above location: Boone, Bureau, Carroll, Jo Daviess, Kankakee, Lake, Lee, Livingston, Marshall, McHenry, Putnam, Whiteside, and Woodford Counties in Illinois; Green, Lafayette, and Rock Counties in Wisconsin; and Lake County, Indiana.

Interest rates are:

| | Percent |
|---|---|
| For Physical Damage: | |
| Homeowners with credit available elsewhere | 7.625 |
| Homeowners without credit available elsewhere | 3.875 |
| Businesses with credit available elsewhere | 8.000 |
| Businesses and non-profit organizations without credit available elsewhere | 4.000 |
| Others (including non-profit organizations) with credit available elsewhere | 7.125 |
| For Economic Injury | |
| Businesses and small agricultural cooperatives without credit available elsewhere | 4.000 |

The number assigned to this disaster for physical damage is 288006. For economic injury the numbers are 897500 for Illinois; 897600 for Wisconsin; and 897700 for Indiana.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: July 30, 1996.

Bernard Kulik,

*Associate Administrator for Disaster Assistance.*

[FR Doc. 96–19955 Filed 8–05–96; 8:45 am]

BILLING CODE 8025–01–P

**[Declaration of Disaster Loan Area #2861; Amendment #2]**

### Indiana; Declaration of Disaster Loan Area

The above-numbered Declaration, approved on July 3, 1996, is hereby amended to correct the deadline for filing applications for economic injury loans which was inadvertently published as March 3, 1997 in the original declaration. The correct filing deadline is April 3, 1997.

All other information remains the same, i.e., the termination date for filing applications for physical damage is August 31, 1996.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: July 30, 1996.

Bernard Kulik,

*Associate Administrator for Disaster Assistance.*

[FR Doc. 96–19951 Filed 8–05–96; 8:45 am]

BILLING CODE 8025–01–P

**[Declaration of Disaster Loan Area #2861; Amendment #1]**

### Indiana; Declaration of Disaster Loan Area

In accordance with a notice from the Federal Emergency Management Agency, effective July 23, 1996, the above-numbered Declaration is hereby amended to include Montgomery and Posey Counties in the State of Indiana as a disaster area due to damages caused by severe storms and flooding which occurred April 28 through May 25, 1996.

In addition, applications for economic injury loans from small businesses located in the contiguous counties of Boone, Clinton, Fountain, Hendricks, Parke, Putnam, and Tippecanoe in the State of Indiana may be filed until the specified date at the previously designated location.

Any counties contiguous to the above-named primary counties and not listed herein have been declared under a separate declaration for the same occurrence.

All other information remains the same, i.e., the termination date for filing applications for physical damage is