

markets for the securities underlying FLEX Equity Options. The Commission expects the Exchanges to monitor the actual effect of FLEX Equity Options once trading commences and take prompt action (including timely communication with the self-regulatory organizations responsible for oversight of trading in the underlying securities) should any unusual market effects develop.

The Exchanges represent that FLEX Equity Options will allow them to compete with OTC markets and help meet the demand for customized equity options products by institutional investors. The minimum value sizes for opening transactions in FLEX Equity Options are designed to appeal to institutional investors, and it is unlikely that most retail investors would be able to engage in options transactions at that size. Nevertheless, the FLEX Equity Option minimum size is much smaller than that for FLEX Index Options. Accordingly, the Commission requests that the Exchanges monitor their respective comparative levels of institutional and retail investor open interest in FLEX Equity Options for one year from the commencement of their respective FLEX Equity Option trading programs, and each provide a report to the Commission's Division of Market Regulation with their findings.

The Commission notes that effective surveillance guidelines are essential to ensure that the Exchanges have the capacity to adequately monitor trading in FLEX Equity Options for potential trading abuses. The Commission's staff has reviewed CBOE's surveillance program and believes it provides a reasonable framework in which to monitor the trading of FLEX Equity Options on its trading floor and detect as well as deter manipulation activity and other trading abuses. The PSE is in the process of preparing its surveillance plan to submit to the Commission.

This approval order, in regard to the PSE, is contingent upon it submitting adequate surveillance plans that have been reviewed and approved by Commission staff.

The Commission notes that trading of FLEX Equity Options is contingent upon receipt by the Commission of a letter from OPRA indicating that it has adequate systems processing capacity to accommodate the additional options listed in accordance with the FLEX Equity Options program. OPRA has reviewed CBOE's request, and has concluded that the additional traffic generated by FLEX Equity Options traded on the CBOE is within OPRA's

capacity.<sup>41</sup> The PSE is preparing to submit its request to OPRA to determine whether the additional traffic generated by FLEX Equity Options traded on the PSE is within OPRA's capacity. This approval order, in regard to the PSE, is contingent upon it submitting its OPRA Capacity Letter to the Commission's Division of Market Regulation.

The Commission finds good cause for approving CBOE Amendment No. 1 and PSE Amendment No. 2 prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, these amendments (1) set specific position limits for each tier of Non-FLEX Equity Option position limits; (2) require FLEX Post Officials to call upon FLEX Qualified Market-Makers to quote in response to a Request for Quotes, whenever no FLEX Quotes are made in response to a specific Request for Quotes; and (3) limit FLEX Equity Option transactions to equities that are the subject to Non-FLEX Equity Options traded on the Exchange. The Commission does not believe that the amendments raise any new or unique regulatory issues. The amendments also strengthen and clarify the proposal by addressing market impact and liquidity concerns as well as the scope of the proposal. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists, to approve CBOE Amendment No. 1 and PSE Amendment No. 2 to their respective proposals on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning CBOE Amendment No. 1, and PSE Amendment No. 2. 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 will also be available for

inspection and copying at the principal offices of the Exchanges. All submissions should refer to SR-CBOE-95-43; and SR-PSE-95-24 and should be submitted by March 13, 1996.

## VI. Conclusion

For the reasons discussed above, the Commission finds that the proposal is consistent with the Act and Sections 6 and 11A of the Act in particular. In addition, the Commission finds pursuant to Rule 9b-1 under the Act, that FLEX Options, including FLEX Equity Options, are standardized options for purposes of the options disclosure framework established under Rule 9b-1 of the Act.<sup>42</sup>

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>43</sup> that the proposals (File Nos. SR-CBOE-95-43 and SR-PSE-95-24), as amended, are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>44</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

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[Release No. 34-36842; File No. SR-DTC-95-25]

## Self-Regulatory Organizations; The Depository Trust Company; Order Approving a Proposed Rule Change to Allow Participants to Make Intraday Withdrawals of Principal and Income Payments

February 14, 1996.

On November 15, 1995, the Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-DTC-95-25) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> to allow participants to make intraday withdrawals of principal and income payments ("P&I payments"). Notice of the proposal was published in the Federal Register on January 17, 1996.<sup>2</sup> The Commission

<sup>42</sup> 17 CFR 240.9b-1(a)(4). As part of the original approval process of the FLEX Options framework, the Commission delegated to the Director of the Division of Market Regulation the authority to authorize the issuance of orders designating securities as "standardized options" pursuant to Rule 9b-1(a)(4) under the Act. See Securities Exchange Act Release No. 31911 (February 23, 1993), 58 FR 11792 (March 1, 1993).

<sup>43</sup> 15 U.S.C. 78s(b)(2).

<sup>44</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> Securities Exchange Act Release No. 36686 (January 5, 1995), 61 FR 1199.

<sup>41</sup> See Letter from Joe Corrigan, Executive Director, OPRA, to Andy Lowenthal, CBOE, dated January 26, 1996 ("OPRA Capacity Letter").

received no comment letters. For the reasons discussed below, the Commission is approving the proposed rule change.

#### I. Description of the Proposal

In a memorandum dated July 29, 1994, which was issued jointly with the National Securities Clearing Corporation ("NSCC") and which described the planned conversion of DTC's money settlement system to an entirely same-day funds settlement ("SDFS") system, DTC announced plans to offer a service for intraday withdrawal of P&I payments. The service was developed in response to participants' requests to have the funds resulting from P&I payments available for participants' use prior to the time of DTC's money settlement at the end of the day. DTC plans to begin the new service in the first quarter of 1996.

In the current next-day funds settlement ("NDFS") environment, P&I payment allocations are credited to participants' accounts on a regular basis at a specific time during the day. Under the proposed rule change, P&I payment allocations for SDFS issues will be credited to participants' money settlement accounts throughout each processing day as funds are received by DTC from issuers and their paying agents. Only P&I payments that have been received by DTC and credited to a participant's account will be available for withdrawal. Withdrawal requests for P&I payments will be subject to the risk management controls of the SDFS system (*i.e.*, collateral monitor and net debit caps). Any withdrawal request that is blocked due to insufficient collateral or a net debit cap will recycle until enough collateral or settlement credits have been generated to satisfy the collateral or net debit cap deficiency or until the end of the recycle period on that day. Any early withdrawal requests still recycling at the end of the recycle period will be dropped from the system, and the P&I payment allocation will be included in the end-of-day settlement.

#### II. Discussion

Section 17A(b)(3)(F) of the Act<sup>3</sup> requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes that DTC's proposal is consistent with DTC's obligations under Section 17A(b)(3)(F)

because the procedures should facilitate the prompt and accurate settlement of P&I payments by allowing participants to withdraw P&I credits prior to end-of-day settlement. Intraday withdrawal of P&I credits also should help provide liquidity in the clearance and settlement system by providing participants with a source of intraday liquidity. The Commission also believes the procedures are consistent with DTC's obligations to assure the safeguarding of securities and funds in its custody or control because DTC only will permit participants to withdraw early those P&I credits that DTC has actually received from an issuer's paying agent or that DTC has an expectation based on a paying agent's historical compliance with DTC's P&I payment policy that such payments will be received.<sup>4</sup> Furthermore, DTC will subject intraday P&I payment withdrawal requests to its risk management controls (*i.e.*, collateral monitor and net debit caps). This should ensure that withdrawal requests that will cause a participant to have insufficient collateral or exceed their net debit cap will recycle until enough collateral or settlement credits are generated in the participant's account.

#### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, and in particular with Section 17A(b)(3)(F) 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-DTC-95-25) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

Margaret H. McFarland,

*Deputy Secretary.*

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<sup>4</sup> As part of its preparation for the SDFS conversion, DTC has secured intraday and overnight lines of credit that will be available to fund early P&I credit withdrawals for which DTC has not actually received payments from the issuer's paying agent but for which DTC expects such payments based on the paying agent's historical compliance with DTC's P&I payment policy. For a further description of DTC's policy regarding P&I payments to participants, refer to Securities Exchange Act Release No. 36837 (February 13, 1996), [File No. SR-DTC-96-02] (notice of filing and immediate effectiveness of a proposed rule change regarding P&I payments to participants).

<sup>5</sup> 17 CFR 200.30-3(a)(12) (1995).

[Release No. 34-36844; File No. SR-DTC-96-04]

#### Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Revision of Certain Fees

February 14, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 25, 1996, the Depository Trust Company ("DTC") 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 primarily by DTC. 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 Substance of the Proposed Rule Change

The purpose of the proposed rule change is to revise the fees charged for deliveries, money market instruments ("MMI") transactions, and long positions because of the conversion to same-day funds settlement.<sup>2</sup>

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

In its filing with the Commission, DTC 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. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>3</sup>

#### (A) Self-Regulatory Organization's Statement of the Purpose of and Statutory Basis for the Proposed Rule Change

DTC plans to convert its existing next-day funds settlement and same-day funds settlement ("SDFS") systems into an entirely SDFS system on February 22, 1996. Most of the fees currently charged for services in each of the two settlement systems are identical and will not at this time be affected by the conversion. The purpose of the proposed rule change is to revise the

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> A copy of the revised fee schedule is attached to this notice of DTC's proposed rule change as Appendix A.

<sup>3</sup> The Commission has modified the text of the summaries prepared by DTC.

<sup>3</sup> 15 U.S.C. 78q-1(b)(3)(F) (1988).