

maker may do with regard to accepting pre-opening responses from other participant markets when the other market has already opened trading in the relevant security or, with respect to a halt or suspension in trading, either did not halt trading in the relevant security or has already resumed trading in the relevant security. The Commission finds that these additional substantive proposed rule changes are consistent with the Act because they should facilitate transactions in securities between and promote the linkage among the ITS Participants by conforming the CHX, PSE, and NASD's ITS rules with the model Pre-Opening Application rules contained as Exhibit A to the ITS Plan and the other ITS Participants' rules.

The Commission finds good cause to approve Amendment No. 1 to the NASD's proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Amendment No. 1 amends NASD Rule 5250(c), titled "Pre-Opening Notification from Other Markets," to state that no ITS/CAES Market Maker that has opened for trading or, with respect to a halt or suspension in trading initiated by another Participant Market, did not halt trading in the security reasonably contemporaneously with the Participant Market or resumed trading during such trading halt or suspension, shall respond to a pre-opening notification. The Commission notes that this language aligns the NASD's Rule 5250(c) with comparable rules of other Participants and with Exhibit A of the ITS Plan itself. By conforming the NASD's rule language with that of the other ITS Participants, Amendment No. 1 should ensure that all the Participants operate under similar rules that are designed to achieve similar goals, thereby facilitating transactions in securities and fostering the linking of all securities markets in the national market system through ITS. Accordingly, the Commission believes that it is consistent with Section 15A(b)(6) of the Act to approve Amendment No. 1 to the NASD's proposal on an accelerated basis so that all the markets have parallel requirements at the same time.

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 1 to the NASD's rule proposal. 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 also will be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-97-09 and should be submitted by June 26, 1997.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule changes (SR-AMEX-97-07, SR-BSE-96-11, SR-CBOE-97-12, SR-CHX-96-34, SR-CSE-97-03, SR-NASD-97-09, SR-NYSE-97-03, and SR-PSE-97-05), including NASD Amendment No. 1, are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-14686 Filed 6-4-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38693; File No. SR-Amex-97-15]

Self-Regulatory Organizations; American Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Options on the NatWest Energy Index

May 29, 1997.

I. Introduction

On March 20, 1997, the American Stock Exchange, Inc. ("Amex" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "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 authorize Options on the NatWest Energy Index.

The proposed rule change was published for comment in the **Federal Register** on April 24, 1997.³ No

comments were received on the proposal. This order approves the proposal.

II. Description of the Proposal

A. General

Amex proposes to trade options on The NatWest Energy Index ("Index"), a cash-settled narrow based index developed by the Amex and NatWest Securities Corporation ("NatWest") based on 30 stocks (or ADRs thereon) of companies whose business is in various segments of the energy industry. In addition, the Amex proposes to amend (1) Rule 901C, Commentary .01 to reflect that 90% of the Index's numerical index value will be accounted for by stocks that meet the current criteria and guidelines set forth in Rule 915; and (2) Rule 902C to include the NatWest Energy Index in the disclaimer provisions of that rule.⁴

B. Composition of the Index

The Amex and NatWest have developed the Index based entirely on shares of widely held companies involved in producing and providing different types of energy products. The industries represented by these companies are domestic and international oil producers, refiners and transmitters, oil equipment manufacturers and drillers, and natural gas producers.

The Exchange will use an "equal dollar-weighted" method to calculate the value of the Index.⁵ The Index was initialized at a level of 250.00 as of the close of trading on December 20, 1996.

C. Eligibility Standards for the Inclusion of Component Stocks in the Index

The Exchange represents that the Index conforms with Exchange Rule 901C, which specifies criteria for inclusion of stocks in an index on which standardized options will be traded. In addition, the Index has met the following standards: (1) Each of the component securities is traded on the Amex, the New York Stock Exchange ("NYSE") or through Nasdaq and are reported national market system securities; (2) each of the component securities has a minimum market

⁴ Amex Rule 902 will be amended to add subsection (g) which will provide, among other things, that NatWest does not guarantee the accuracy or completeness of the Index or any data included therein, nor does NatWest make any warranty, either express or implied, as to the results to be obtained by any person or entity from the use of the Index or any data included therein.

⁵ See *infra* section II.D entitled "Calculation of the Index" for a description of this calculation method.

¹³ 15 U.S.C. 78s(b)(2).

¹⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 38526 (Apr. 18, 1997), 62 FR 20043 (Apr. 24, 1997).

capitalization of at least \$75 million;⁶ (3) each of the components has had a monthly trading volume of at least one million shares during each of the previous six months; (4) each of the component securities in the Index has met the initial eligibility criteria for standardized options trading set forth in Rule 915;⁷ (5) foreign country securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not in the aggregate represent more than 20% of the weight of the Index; and (6) no individual component stock in the Index represents more than 25% of the weight of the Index, and the top five highest weighted stocks do not constitute more than 50% of the weight of the Index. The criteria set forth above are identical to the criteria established for the expedited listing of options on stock industry indexes pursuant to Exchange Rule 901C, Commentary .02.

D. Calculation of the Index

The Index shall be calculated by the Amex using an "equal-dollar weighting" methodology designed to ensure that each of the component securities is represented in an approximately "equal" dollar amount in the Index. The following is a description of how the equal-dollar weighting calculation method works. As of the market close on December 20, 1996, a portfolio of stocks was established representing an investment of \$100,000 in the stock (rounded to the nearest whole share) of each of the companies in the Index. The value of the Index equals the current market value (i.e., based on U.S. primary market prices) of the sum of the assigned number of shares of each of the stocks in the Index portfolio divided by the Index divisor. The Index divisor was initially determined to yield a benchmark value of 250.00 at the close of trading on December 20, 1996. Annually thereafter, following the close of trading on the third Friday of December, the Index portfolio will be adjusted by changing the number of whole shares of each component stock so that each company is again represented in "equal" dollar amounts.

⁶ In the case of ADRs, this represents market value as measured by total world-wide shares outstanding.

⁷ Initial eligibility criteria include: (1) the security must have a minimum of 7,000,000 shares held by persons other than those required to report their security holdings under Section 16(a) of the Act; (2) there must be at least 2,000 holders of the security; (3) the security must have a trading volume of at least 2,400,000 shares over the preceding twelve months; (4) the security must have had a share price of at least 7½ for the majority of business days for the last three calendar months preceding the date of selection; and (5) the issuer is in compliance with any applicable requirements of the Act.

If necessary, a divisor adjustment is made at the rebalancing to ensure continuity of the Index's value. The newly adjusted portfolio becomes the basis for the Index's value on the first trading day following the annual adjustment.⁸

Subject to the maintenance criteria discussed below, for the Index the number of shares of each component stock in the Index portfolio remains fixed between annual reviews except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, or similar event with respect to the component stocks. In a merger or consolidation of an issuer of a component stock, if the stock remains in the Index, the number of shares of that security in the portfolio will be adjusted, if necessary, to the nearest whole share, to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In the event of a stock replacement, the dollar value of the security being replaced will be calculated and that amount invested in the stock of the new component, to the nearest whole share. In all cases, the divisor will be adjusted, if necessary, to ensure Index continuity.

Additionally, if at any time between annual rebalancings the top five stocks in the Index by weight represent in the aggregate more than one-third of the Index's value, the Exchange will rebalance the Index after the close of trading on Expiration Friday in the next month on the March cycle.⁹ For example, if in July it is determined that the top five components in the Index account for more than one-third of the Index's weight, then the Index will be rebalanced after the close of trading on expiration Friday in September.

Similar to other stock index values published by the Exchange, the value of the Index will be calculated continuously and disseminated every 15 seconds over the Consolidated Tape Association's Network B and to the Options Price Reporting Authority ("OPRA").

E. Maintenance of the Index

The Index will be calculated and maintained by the Amex in consultation

⁸ In certain circumstances, the Index will be rebalanced prior to the end of a calendar year. See *infra* Section II.E entitled "Maintenance of the Index."

⁹ The options on The NatWest Energy Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday").

with NatWest which may, from time to time, suggest changes in the Index's components, in the industry categories represented or in the number of component stocks in an industry category to properly reflect the changing conditions in the energy sector. The Index will be maintained in accordance with Rule 901C, Commentary .02 which provides that the Index continues to meet the eligibility standards set forth above, except that, (1) the total number of component securities will not increase or decrease by more than 33⅓% from the number of components in the Index at the time of its initial listing and in no event will the Index have less than nine components; (2) the monthly trading volume of each component security shall be at least 500,000 shares, or for each of the lowest weighted components in the Index that in the aggregate account for no more than 10% of the weight of the Index, the monthly trading volume shall be at least 400,000 shares; and (3) no single component will represent more than 25% of the weight of the Index and the five highest weighted components will represent no more than 50% of the Index as of the first day of January and July in each year.

At the beginning of each calendar year, NatWest will provide the Amex with a current list of replacement stocks on which to draw in the event that a component in the Index is to be replaced ("Replacement List").¹⁰ The Amex will publicly distribute the Replacement List as soon as practicable following receipt from NatWest.

The stocks in the Replacement List will be selected and ranked by NatWest based on a number of criteria, including conformity to the initial eligibility standards set forth above,¹¹ trading liquidity, market capitalization, the ability to borrow shares and share price. The replacement stocks will be categorized by industry within the energy sector and ranked within their category based on the aforementioned criteria. The replacement stock for a security leaving the Index will be selected by the Amex from the Replacement List based on industry category and liquidity.¹²

In addition, NatWest will advise the Exchange regarding the handling of

¹⁰ See letter from Jeffrey T. Letzler, General Counsel, NatWest to Sharon Lawson, Assistant Director, SEC, dated May 16, 1997 ("NatWest Letter").

¹¹ See *supra* Section II. C entitled "Eligibility Standards for the Inclusion of Component Stocks in the Index."

¹² The Amex will ensure that at the time of selection it will only select securities that continue to meet the eligibility requirements discussed above.

unusual corporate actions which may arise from time to time. Routine corporate actions (e.g., stock splits, routine spin-offs, etc.) which require straightforward index divisor adjustments will be handled by Exchange staff without consultation with NatWest. All stock replacements and unusual divisor adjustments caused by the occurrence of extraordinary events such as dissolution, merger, bankruptcy, non-routine spin-offs or extraordinary dividends will be made by Exchange staff in consultation with NatWest. All stock replacements and the handling of non-routine corporate actions will be announced at least ten business days in advance of such effective change, whenever practicable. As with all options currently trading on the Amex, the Exchange will make this information available to the public through dissemination of an information circular.

F. Expiration and Settlement

The exercise settlement value for all of the Index's expiring options will be calculated based upon the primary exchange regular way opening sale prices for the component stocks. In the case of securities traded through the Nasdaq system, the first reported regular way sale price will be used. If any component stock does not open for trading on its primary market on the last trading day before expiration, then the prior day's last sale price will be used in the calculation.¹³

G. Contract Specifications

The proposed options on the Index will be European-style,¹⁴ and cash settled. Standard option trading hours (9:30 a.m. to 4:10 p.m. New York time) will apply. The last trading day in an expiring option series will normally be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). The Exchange Plans to list option series with expirations in the three near-term calendar months and in the two

additional calendar months in the March cycle. The Exchange also intends to list longer term option series having up to thirty-six months to expiration. Trading in expiring options will cease at the close of trading on the last trading day. The Exchange proposes to list near-the-money (i.e., within ten points above or below the current index value) option series on the Index at 2-1/2 point strike (exercise) price intervals when the value of the Index is below 200 points.

H. Listing of Long-Term Options on the Full Value or the Reduced Value of the Index

The proposal provides that the Exchange may list longer term option series having up to thirty-six months to expiration on the full value of the Index. In lieu of such long-term options on a full value Index level, the Exchange may instead list long-term, reduced value put and call options based on one-tenth (1/10th) the Index's full value. In either event, the interval between expiration months for either a full value or reduced value long-term option will not be less than six months. The trading of any long term options would be subject to the same rules which govern the trading of all the Exchange's index options, including sales practice rules, margin requirements and floor trading procedures and all options will have European-style exercise.

I. Position and Exercise Limits, Margin Requirements and Trading Halts

Because the Index is a Stock Index Option under Amex Rule 901C(a) and Stock Index Industry Group under Rule 900C(b)(1), the proposal provides that Exchange rules that are applicable to the trading of narrow-based index options will apply to the trading of options on the Index. Specifically, Exchange rules governing margin requirements, position and exercise limits,¹⁵ and trading halt procedures¹⁶ that are applicable to trading of narrow-based index options will apply to options traded on the Index. Position limits on reduced value long-term NatWest Energy Index options will be equivalent to the position limits for regular (full value) Index options and would be aggregated with such options (for example, if the position limit for the full value options is 15,000 contracts on the

same side of the market, then the position limit for the reduced value options will be 150,000 contracts on the same side of the market).

J. Surveillance

Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the Index. These procedures include complete access to trading activity in the underlying securities. Further, the Intermarket Surveillance Group ("ISG") Agreement, dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of options on the Index.¹⁷

NatWest has also adopted special procedures to prevent the potential misuse of material, non-public information by the research, sales, and trading divisions of the firm in connection with the maintenance of the Index.¹⁸ As discussed above, the Amex will publicly disseminate each Replacement List by issuing information circulars so that investors will know in advance which securities will be considered as replacements for the Index.¹⁹

In addition, NatWest will have a limited role in the stock replacement selection and substitution process. First, when a stock in the Index no longer meets the published criteria as determined following a quarterly review of the components by the Exchange, the Amex will determine, without consultation with NatWest, which security from the applicable Replacement List will be selected for addition to the Index. Second, the Amex will also make adjustments as a result of stock splits, routine spin-offs, and otherwise, without consultation with

¹⁷ 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. The most recent amendment to the ISG Agreement, which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. See Second Amendment to the Intermarket Surveillance Group Agreement, January 29, 1990. The members of the ISG are: the Amex; the Boston Stock Exchange, Inc.; the Chicago Board Options Exchange, Inc.; the Chicago Stock Exchange, Inc.; the National Association of Securities Dealers, Inc.; the NYSE; the Pacific Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. Because of potential opportunities for trading abuses involving stock index futures, stock options, and the underlying stock, and the need for greater sharing of surveillance information for these potential intermarket trading abuses, the major stock index futures exchanges (e.g., the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

¹⁸ See NatWest Letter, *supra* note 10.

¹⁹ *Id.*

¹³ The Commission notes that pursuant to Article XVII, Section 4 of the Options Clearing Corporation's ("OCC") by-laws, OCC is empowered to fix an exercise settlement amount in the event it determines a current index value is unreported or otherwise unavailable. Further, OCC has the authority to fix an exercise settlement amount whenever the primary market for the securities representing a substantial part of the value of an underlying index is not open for trading at the time when the current index value (i.e., the value used for exercise settlement purposes) ordinarily would be determined. See Securities Exchange Act Release No. 37315 (June 17, 1996), 61 FR 42671 (order approving SR-OCC-95-19).

¹⁴ A European-style option can be exercised only during a specified period before the option expires.

¹⁵ Pursuant to Amex Rules 904C and 905C, respectively, the position and exercise limits for the proposed Index options will be 15,000 contracts, unless the Exchange determines, pursuant to Rules 904C and 905C, that a lower limit is warranted.

¹⁶ Pursuant to Amex Rule 918C, the trading of options on the Index will be halted or suspended whenever trading in underlying securities whose weighted value represents more than 20% of the Index's value are halted or suspended.

NatWest. Even in those situations where the Amex consults with NatWest, upon the occurrence of certain events, the actual replacement stock will be selected solely by Amex from the stocks on the Replacement List. Finally, the special procedures developed by NatWest to prevent the misuse of material, non-public information concerning the Index will also be used in connection with the addition or removal of an industry group from the Index.

III. Findings and Conclusions

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,²⁰ and, in particular, with the requirements of Section 6(b)(5).²¹ Specifically, the Commission finds that the trading of options on the Index, including full-value and reduced value index options, will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with an additional means to hedge exposure to market risk associated with stocks in the energy sectors.²²

The trading of options on the Index and reduced-value Index, however, raises several issues relating to index design, customer protection, surveillance, and market impact. The Commission believes, for the reasons discussed below, that the Amex adequately has addressed these issues.

A. Index Design and Structure

The Commission believes it is appropriate for the Exchange to designate the Index as narrow-based for purposes of index options trading. The Index is comprised of a limited number of stocks intended to track discrete industry groups of the energy sector of the stock market. Accordingly, the

Commission believes it is appropriate for the Amex to apply its rules governing narrow-based index options to trading in the proposed Index options.²³

The Commission also believes that the liquid markets, large capitalizations, and relative weightings of the Index's component stocks significantly minimize the potential for manipulation of the Index. First, the stocks that comprise the Index are actively traded. Minimum monthly trading volume in the component stocks of the Index for the period between June 1, 1996 and December 1, 1996 ranged from 2.52 million to 27.52 million shares. Second, the market capitalizations of the stocks in the Index are very large, ranging from \$1.86 billion to \$126 billion. Third, because the index is equal dollar-weighted, no one particular stock or group of stocks dominates the Index.

Fourth, the Index will be maintained so that in addition to the other maintenance criteria discussed above in Section II. E, at each rebalancing, at least 90% of the Index's numerical value and at least 80% of the total number of component securities will be composed of securities eligible for standardized options trading. Fifth, NatWest and Amex will be required to ensure that each component of the Index is subject to last sale reporting requirements in the U.S. pursuant to Rule 11Aa3-1 of the Act. This will further reduce the potential for manipulation of the value of the Index. Finally, the Commission believes that Amex's existing mechanisms to monitor trading activity in the component stocks of the Index, or options on those stocks or the Index, will help deter as well as detect any illegal activity.

B. Customer Protection

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 the Index, can commence 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. Accordingly, because

options on the Index will be subject to the same regulatory regime as the other standardized options currently traded on the Amex, the Commission believes that adequate safeguards are in place to ensure the protection of investors in options on the Index. Finally, the Amex has stated that it will distribute information circulars to members following rebalancings and prior to component changes to notify members of changes in the composition of the Index. Additionally, the Amex will publicly disseminate each Replacement List by means of information circulars. The Commission believes this should help to protect investors and avoid investor confusion.

C. Surveillance

The Commission believes that a surveillance sharing agreement between an exchange proposing to list a stock index derivative product and the exchange(s) trading the stocks underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. Such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the stock index product less readily susceptible to manipulation.²⁴ In this regard, markets on which the components of the Index currently trade, the markets on which all component stocks trade are members of the ISG, which provides for the exchange of all necessary surveillance information.²⁵

The Commission notes that certain concerns are raised when a broker-dealer, such as NatWest, is involved in the development and maintenance of a stock index that underlies an exchange-traded derivative product. For several reasons, however, the Commission believes that the Amex has adequately addressed this concern with respect to options on the Index.

First, the value of the Index is to be calculated and disseminated by the Amex independent of NatWest. Accordingly, neither NatWest nor any other party will be in receipt of the value prior to its public dissemination. Second, routine corporate actions (e.g., stock splits, routine spinoffs, etc.) will be handled by the Amex without consultation with NatWest. Third, although stock replacements and unusual divisor adjustments caused by the occurrence of extraordinary events,

²⁰ In approving this rule, the Commission has considered the proposed rules' impact on efficiency, competition, and capital formation. 15 U.S.C. § 78c(f).

²¹ 15 U.S.C. 78f(b)(5).

²² Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new option proposal upon a finding that the introduction of such new derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of listed options on the Index will provide investors with a hedging vehicle that should reflect the overall movement of the stocks representing companies in the energy sector in the U.S. stock markets.

²³ See *supra* Section II.I entitled "Position and Exercise Limits, Margin Requirements, and Trading Halts."

²⁴ See Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45849 (October 5, 1992).

²⁵ See *supra* note 17.

such as dissolution, merger, bankruptcy, non-routine spinoffs, or extraordinary dividends, will be made by Exchange staff in consultation with NatWest. Amex alone ultimately will select the actual replacement stock from the Replacement List without NatWest's assistance. Such replacements will be announced publicly at least 10 business days in advance of the effective change by the Amex through the dissemination of an information circular, whenever practicable. Fourth, the Commission believes that the procedures NatWest has established to detect and prevent material non-public information concerning the Index from being improperly used by the person or persons responsible for compiling the Replacement List, as well as other persons within NatWest responsible for coordinating with Amex on the Index, as discussed above,²⁶ adequately serve to minimize the likelihood of manipulation of options on the Index, the securities in the Index, and securities added to and deleted from any Replacement List. In summary, the Commission believes that the procedures outlined above help to ensure that NatWest will not have any informational advantages concerning modifications to the composition of the Index due to its limited role in consulting with Amex on the maintenance of the Index under certain circumstances.

D. Market Impact

The Commission believes that the listing and trading of options on the Index, including long-term full-value and reduced-value Index options, on the Amex will not adversely impact the underlying securities markets.²⁷ First, as described above, due to the "equal dollar-weighting" methodology, no one stock or group of stocks dominates the Index. Second, as noted above, the stocks contained in the Index have relatively large capitalizations and are relatively actively traded. Third, the currently applicable 15,000 contract position and exercise limits will serve to minimize potential manipulation and market impact concerns. Fourth, the risk to investors of contraparty non-

performance will be minimized because the options on the Index will be issued and guaranteed by the Options Clearing Corporation just like any other standardized option traded in the United States.

Lastly, the Commission believes that settling expiring options on the Index (including long-term full-value and reduced-value Index options) based on the opening prices of component securities is reasonable and consistent with the Act. As noted in other contexts, valuing options for exercise settlement on expiration based on opening prices rather than closing prices may help reduce adverse effects on markets for stocks underlying options on the Index.²⁸

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²⁹ that the proposed rule change (SR-AMEX-97-15) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁰

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-14687 Filed 6-4-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38697; File No. SR-MBSCC-97-03]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Approving a Proposed Rule Change Relating to the Establishment of the Comparison Only System

May 30, 1997.

On February 18, 1997, the MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-MBSCC-97-03) 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 April 7, 1997.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change modifies MBSCC's rules to establish the

Comparison Only System ("COS") and to create a new category of participant, a "limited purpose participant," eligible to use this system. As a result of interest expressed by the Federal National Mortgage Association and other organizations, MBSCC developed COS.

Under current MBSCC rules, MBSCC processes securities through its Comparison and Clearing System ("CCS") which provides a comparison and confirmation service, risk management services, and a multilateral netting service. The proposed COS is a more limited system than the CCS in that it will only provide comparison and confirmation services. COS will be a system restricted to those that trade in a principal capacity (*i.e.*, as dealers) where specified trade data must exactly and promptly compare between like contra-sides.

Because the COS is limited to comparison, participants will not be required to meet specific net capital or net worth financial requirements. COS will require each limited purpose participant to submit financial information to demonstrate its financial ability to meet its cash balance debit obligations to MBSCC, which are limited to the fees for using the COS and any late fees imposed. It is expected that these fees will be significantly lower than those imposed on participants in the CCS; therefore, no basic deposit fee will be required of COS participants. MBSCC will bill the limited purpose participant on a monthly basis. The bill will be payable to MBSCC via the federal funds wire. Similarly, limited purpose participants are not subject to margin and participants fund requirements.

Under COS, after a trade is negotiated by the parties, trade data will be submitted electronically by the parties to MBSCC for comparison. The submitted trade data will be compared in MBSCC's AM or PM processing pass. If a trade compares, MBSCC will issue a purchase and sale report to each side of the trade.³ The purchase and sale report will serve as the sole binding confirmation of the matched trade.⁴ Trades compared through COS will be settled outside of the MBSCC system. Trades that do not compare will be reported as unmatched on a transaction

²⁶ See NatWest Letter, *supra* note 10.

²⁷ In addition, the Amex and the OPRA have represented that the Amex and the OPRA have the necessary systems capacity to support those new series of index options that would result from the introduction of options on the Index. See Letter from Edward Cook, Jr., Managing Director, Trading Floor Systems & Technology, Amex, to Ivette Lopez, Assistant Director, Division of Market Regulation, SEC, dated April 7, 1997; and letter from Joe Corrigan, Executive Director, OPRA, to Ivette Lopez, Assistant Director, Division of Market Regulation, SEC, dated April 15, 1997.

²⁸ Securities Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376 (July 28, 1992).

²⁹ 15 U.S.C. 78s(b)(2).

³⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 38461 (April 1, 1997), 62 FR 16634.

³ For a trade to compare in COS, certain trade data will have to match exactly. Specifically, the trade data will be buyer account, seller account, class code or CUSIP/pool number, price, trade type, trade date, settlement date, and par value.

⁴ Under MBSCC's rules, as the sole confirmation, the purchase and sale report will evidence a valid, binding, and enforceable contract, and MBSCC will be entitled to rely upon the purchase and sale report for all purposes under their rules. MBSCC Rules, Article II, Rule 4, Section 2.