

25. Applicants assert that, although the Equity Growth Fund invests primarily in the securities of relatively small companies, while the Growth Portfolio does not focus on companies with small market capitalizations, the investment objective of each of the Equity Growth Fund and the Growth Portfolio is capital growth and each invests primarily in equity securities. Because capital growth is the investment objective for both the Equity Growth Fund and the Growth Portfolio, Applicants believe that the investment goals of owners will continue to be achieved after the substitution and that the differences between the investment policies are non-material to the achievement of the investment goals of the owners.

26. Applicants generally submit that the proposed substitutions meet the standards that the Commission and its staff have applied to substitutions that have been approved in the past in that:

a. The expense ratios of each of the Funds of the ML Fund are substantially lower than the expense ratios of the corresponding VIST Portfolios and are expected to remain so;

b. The substitution will be at net asset value of the respective shares, without the imposition of any transfer or similar charge;

c. Monarch Life has undertaken to assume the expenses and transaction costs, including among others, legal and accounting fees and any brokerage commissions, relating to the substitution;

d. The substitution in no way will alter the insurance benefits to Contract owners or the contractual obligations of Monarch Life;

e. The substitution in no way will alter tax benefits to Contract owners;

f. Contract owners may choose simply to withdraw amounts credited to them following the substitution under the conditions that currently exist without incurring any charges; and

g. The substitution is expected to confer certain economic benefits to Contract owners by virtue of the enhanced asset size of the substitute funds. Conclusion:

Applicants submit, for the reasons summarized above, that the proposed substitution is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 97-23185 Filed 8-29-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38968; File No. SR-AMEX-97-31]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the American Stock Exchange, Inc., Relating to Options on The Disk Drive Index

August 25, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 19, 1997, the American Stock Exchange, Inc. ("AMEX" 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. 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 Terms of Substance of the Proposed Rule Change

The AMEX proposes to trade options on The Disk Drive Index ("the Index"), a new stock index developed by the AMEX based on stocks, or American Depositary Receipts ("ADRs") thereon, of companies involved in the design and/or manufacture of disk drives, components of disk drives, and/or software designed to interact with disk drives. AMEX proposes to amend its Rule 901C, Commentary .01, to provide for the listing and trading of the Index. In addition, the AMEX proposes to amend Rule 901C, Commentary .01, to reflect that 90 percent of the Index's numerical index value will be accounted for by stocks that meet the current criteria and guidelines set forth in AMEX Rule 915.

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 AMEX 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 AMEX 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The AMEX has developed a new index called The Disk Drive Index ("Index"), based entirely on shares of widely held companies involved in the design and/or manufacture of disk drives, components of disk drives, and/or software designed to interact with disk drives. The companies represented in the index include: Applied Magnetics Corp., a supplier of magnetic heads for disk-drive applications; HMT Technologies Corp., a designer and manufacturer of thin-film disks for high-capacity computer disk drives; Hutchinson Technology, a supplier of suspension assemblies for rigid disk drives; Iomega Corp., a manufacturer of removable data-storage devices; Komag Inc., a manufacturer of components for hard-disk drives, including thin-film disks and recording heads; Quantum Corp., a manufacturer of storage products for computer systems; Read-Rite Corp., a producer of thin-film magnetic recording heads for hard-disk drives; Seagate Technology, a designer of rigid, magnetic disk drives and components for computer systems; Storage Technology, a manufacturer of information storage and retrieval subsystems and networking products; and Western Digital Corp., a manufacturer of hard-disk drives.³ The AMEX intends to trade standardized option contracts on the newly developed Index. The AMEX is filing this proposal pursuant to AMEX Rule 901C, Commentary .02, which provides for the commencement of the trading of options on the Index thirty days after the date of this filing. The proposal meets all the criteria set forth in Commentary .02 and the Commission's order approving that rule as outlined below.⁴

Eligibility criteria for index components. Pursuant to Commentary .02 to Rule 901C, (1) each of the component securities has a minimum market capitalization of at least \$75 million and has a trading volume in

³ The AMEX submitted additional information regarding the component securities. This information is available in the Commission's public reference room, as described in section IV below, or at the Office of the Secretary, AMEX.

⁴ See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) (SR-AMEX-92-35) (approval order relating to narrow-based index options listing standards) ("Generic Index Approval Order").

¹ 15 U.S.C 78s(b)(1).

² 17 CFR 240.19b-4.

each of the last six months of not less than 1,000,000 shares; (2) at least 90% of the Index's numerical index value and at least 80% of the total number of component securities meet the current criteria for standardized option trading set forth in Exchange Rule 915 (in fact, all of the component securities in the Index currently underlie standardized options); (3) the Index contains no ADRs; (4) all component stocks are listed on the AMEX, the New York Stock Exchange, or traded through the facilities of the Nasdaq stock market and are reported National Market System securities ("Nasdaq/NMS"); and (5) no component security represents more than 25% of the weight of the Index, and the five highest weighted component securities in the Index do not in the aggregate account for more than 60% of the weight of the Index.

Maintenance of the Index. The Exchange will maintain the Index in accordance with AMEX Rule 901C, Commentary .02, so that, (1) the Index is comprised of no less than nine and no more than 13 underlying stocks; (2) component stocks constituting the top 90% of the Index by weight, will have a minimum market capitalization of \$75 million and the component stocks constituting the bottom 10% of the Index, by weight, may have a minimum market capitalization of \$50 million; (3) 90% of the Index's numerical index value and at least 80% of the total number of component securities will meet the then current criteria for standardized option trading set forth in AMEX Rule 915; (4) foreign country securities or ADRs thereon that are not subject to comprehensive surveillance agreements will not in the aggregate represent more than 20% of the weight of the Index; (5) all component stocks will either be listed on AMEX, the New York Stock Exchange, or be Nasdaq/NMS securities; (6) no component security will represent more than 25% of the weight of the Index, and the five highest weighted components will not in the aggregate account for more than 60% of the Index; and (7) trading volume of each component security shall be at least 500,000 shares for each of the last six months, 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 may be at least 400,000 shares for each of the last six months.

The Exchange shall not open for trading any additional option series should the Index fail to satisfy any of the maintenance criteria set forth above unless such failure is determined by the Exchange not to be significant and the

Commission concurs in that determination.

Index calculation. The Exchange will calculate the Index using an "equal-dollar weighting" methodology. The following is a description of the methodology. As of the market close on November 15, 1996, a portfolio of stocks was established representing an investment of approximately \$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 the benchmark value of 200.00 at the close of trading on November 15, 1996.⁵ Quarterly thereafter, following the close of trading on the third Friday of February, May, August and November, 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. If necessary, a divisor adjustment is made during 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 quarterly adjustment.

As noted above, the number of shares of each component stock in the Index portfolio remain fixed between quarterly 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, 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 Exchange may adjust the number of shares of that security in the portfolio, 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 addition or replacement, the Exchange will calculate the average dollar value of the remaining components 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.

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 by the Exchange.

Expiration and settlement. The proposed options on the Index will be European style (i.e., exercises are permitted at expiration only), and cash settled. Standard option trading hours (9:30 a.m. to 4:02 p.m. New York time) will apply. The options on The Disk Drive Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). 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). Trading in expiring options will cease at the close of trading on the last trading day.

The Exchange plans to list options series with expirations in the three near-term calendar months and in the two additional calendar months in the January cycle. In addition, longer term option series having up to thirty-six months to expiration may be traded. 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 ($\frac{1}{10}$) 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. Position limits on reduced value long term Disk Drive Index options will be equivalent to the position limits for regular (full value) Index options and would be aggregated with such options (e.g., 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).

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 Nasdaq/NMS listed securities, 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

⁵ The Index's value at the close of trading on August 12, 1997, was 278.28.

expiration, then the prior day's last sale price will be used in the calculation.⁶

Exchange rules applicable to Stock Index options. AMEX Rules 900C through 980C will apply to the trading of option contracts based on the Index. These rules cover issues such as surveillance, exercise prices, and position limits. 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. The Index is deemed to be a Stock Index Option under Rule 901C(a) and a Stock Index Industry Group under Rule 900C(b)(1). With respect to Rule 903C(b), 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 2½ point strike (exercise) price intervals when the value of the Index is below 200 points. In addition, the Exchange expects that the review required by Rule 904C(c) will result in a position limit of 15,000 contracts with respect to options on this Index.

2. Basis

The proposed rule change is consistent with Section 6(b) of the Exchange Act in general and furthers the objectives of Section 6(b)(5) 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.

⁶The 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).

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. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Exchange Act. Pursuant to the Generic Index Approval Order,⁷ the AMEX may not list options for trading on the Index prior to 30 days after August 19, 1997.⁸ At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in the furtherance of the purposes of the Exchange Act.⁹

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., 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 in the Commission's Public Reference

⁷ See Securities Exchange Act Release No., 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) (SR-AMEX-92-35).

⁸ The AMEX represented to the Commission that it has the necessary systems capacity to support the new series of options to be generated by the Index. The AMEX also stated that it requested a written representation from the Options Price Reporting Authority ("OPRA") confirming the adequacy of its systems capacity. The AMEX will not permit trading of options on the index until it confirms with the Commission that OPRA has given the AMEX a written representation that it has the necessary systems capacity. See Letter from Claire P. McGrath, Vice President & Special Counsel, Derivative Securities, the AMEX, to Ivette Lopez, Assistant Director, Office of Market Supervision, Division of Market Regulation, Commission, dated August 18, 1997.

⁹ In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

Section, 450 Fifth Street, N.W., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the AMEX. All submissions should refer to file number SR-AMEX-97-31 and should be submitted by September 23, 1997.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-21384 Filed 8-29-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38965; File No. SR-CHX-97-13]

Self-Regulatory Organizations Chicago Stock Exchange, Incorporated; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 1 to Proposed Rule Change Relating to Trading Variations

August 22, 1997.

I. Introduction

On June 2, 1997, the Chicago Stock Exchange, Incorporated ("CHX" 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 decrease the minimum variation for certain securities from an eighth to a sixteenth of a dollar and to make conforming changes to its rule regarding when a security is quoted "ex-dividend," "ex-distribution," "ex-rights," or "ex-interest."

The proposed rule change was published for comment in the **Federal Register** on June 12, 1997.³ No comments were received concerning the proposal. On July 1, 1997, the Exchange submitted Amendment No. 1 to the proposed rule change.⁴ This order approves the proposal, including

¹⁰ 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. 38718 (June 5, 1997), 62 FR 32132 (June 12, 1997).

⁴ Letter from David T. Rusoff, Esq., Foley & Lardner, to Ivette Lopez, Division of Market Regulation, SEC, dated June 20, 1997 ("Amendment No. 1"). Amendment No. 1 conformed the CHX's proposal to similar rules of the New York Stock Exchange and the American Stock Exchange by slightly modifying the level at which trading securities in increments of 1/32 of a dollar may occur.