

margined like OCC's existing foreign currency and cross-rate foreign currency option contracts. Accordingly, OCC has determined that no changes to its by-laws or rules are necessary to accommodate these new contracts.

OCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act⁴ and the rules and regulations thereunder because it promotes efficiencies in the clearance and settlement of securities transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none were received.

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

Section 17A(b)(3)(F) of the Act⁵ requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody and control of the clearing agency or for which it is responsible. OCC's proposal will allow the clearance and settlement of flexibly structured option contracts where the peso is either the trading currency or the underlying currency by using existing OCC systems, rules, and procedures already in place for flexibly structured foreign currency options and for cross-rate foreign currency options. Due to the similarity of these option contracts to the option contracts currently cleared and settled in OCC's existing system, OCC should be able to implement the clearance and settlement of such options safely and in a manner consistent with its obligations under Section 17A. Thus, the Commission is approving OCC's proposal, subject to the Commission's approval of the proposed rule change contained in File No. SR-PHLX-97-22.⁶

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the publication of notice of the filing. Approving prior to the thirtieth day after publication of notice will allow

OCC to issue, clear, and settle flexibly structured options and cross-rate foreign currency options on the Mexican peso as soon as the Commission approves PHLX's trading of such options.

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, 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 in 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 OCC. All submissions should refer to File No. SR-OCC-97-10 and should be submitted by October 16, 1997.

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (File No. SR-OCC-97-10) be and hereby is approved, subject to the Commission's final approval of the proposed rule change contained in File No. SR-PHLX-97-22.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39094; File No. SR-OCC-97-06]

Self-Regulatory Organizations, The Options Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change to Issue, Clear, and Settle Packaged Spread Options

September 19, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on May 15, 1997, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") and on July 1, 1997, amended the proposed rule change as described in Items I and II below, which Items have been prepared primarily by OCC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval, conditioned as described below, of the proposed rule change.

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

The purpose of the proposed rule change is to amend OCC's by-laws and rules to permit OCC to issue, clear, and settle packaged spread options, which have been proposed for trading by the Chicago Board Options Exchange ("CBOE").

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

In its filing with the Commission, OCC 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. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.²

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

1. Description of Packaged Spreads

The purpose of the proposed rule change is to amend OCC's by-laws and rules to permit OCC to issue, clear, and

⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵ *Id.*

⁶ *Supra* note 3.

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified the text of the summaries prepared by OCC.

settle packaged spread options, which have been proposed for trading by the CBOE.³ A packaged spread option is a cash-settled option that upon exercise calls for the payment by the assigned writer (*i.e.*, seller) to the exercising holder (*i.e.*, buyer) of an amount equal to the net exercise settlement values of all of the component options in a specified spread position ("exercise settlement amount"). A spread position is the position resulting from the purchase and sale of more than one option of the same type (*i.e.*, put or call) on the same underlying interest. A packaged spread option permits an investor to create the entire spread position in a single transaction thereby avoiding the difficulty of simultaneous executions and potentially reducing transaction costs.

The proposed packaged spread options will be European-style, cash settled index options which will synthetically create a butterfly spread or a vertical spread position. A butterfly spread strategy is a neutral strategy where the holder of the spread typically seeks to profit from a market in which the underlying interest does not significantly rise or decline in value. A packaged butterfly spread option is a single security that replicates the behavior of a butterfly spread strategy by combining four options of the same type on the same underlying interest with the same expiration date. Two of the options have the same exercise price, the third option has an exercise price above the exercise price of the first two by a stated amount ("spread interval"), and the fourth has an exercise price below the first two by the same spread interval. Because a butterfly spread strategy has precisely the same settlement value whether it consists of all puts or all calls, packaged butterfly spreads will not be identified as either puts or calls except that, as noted below, they will be counted as calls for purposes of determining the number of calls issued by OCC and registered under the Securities Act of 1933 ("Securities Act") and the Act.

A packaged vertical spread option is a single security that upon exercise calls for the payment of an exercise settlement amount equal to the net exercise settlement amounts of the component options in a vertical spread

position. A vertical spread position consists of a combination of two options of the same type at different exercise prices expiring on the same date. The difference between the exercise prices is the vertical spread interval. The holder of a vertical call spread is long the call having the lower exercise price and is short the call having the higher exercise price. The holder of a vertical put spread is long the put having the higher exercise price and short the put having the lower exercise price. The holder of a vertical spread option typically seeks to profit from an increase (*i.e.*, in the case of a vertical call spread) or decrease (*i.e.*, in the case of a vertical put spread) in the value of the underlying index, with the maximum potential gain in either case being the amount of the vertical spread interval times the multiplier for the index.

2. Organization of Proposed Rule Change

The proposed rule change consists of four sections: (i) amendments to OCC's existing by-laws; (ii) a new Article XXVI of the by-laws applicable only to packaged spread options, (iii) amendments to OCC's existing rules; and (iv) a new Chapter XXVII of the rules applicable only to packaged spread options.

3. Proposed Amendments to Existing By-Laws

The proposed rule changes will amend certain defined terms in Article I of the by-laws to indicate how those terms will apply to packaged spread options. The definitions of the terms "call" and "put" will be amended to state that for purposes of determining the number of calls and puts registered under the Securities Act and the Act a packaged vertical call spread option will be deemed to be a single call option, a packaged butterfly spread options will be deemed to be a single call option, and a packaged vertical put spread option will be deemed to be a single put option. Otherwise, for purposes of OCC's by-laws and rules, packaged vertical call spread options, packaged vertical put spread options, and packaged butterfly spread option will be separate "types" of options. Accordingly, the proposed rule change will amend the term "type of option" set forth in article I, Section I.T. (4) to include packaged butterfly spread options, packaged vertical call spread options, and packaged vertical put spread options as distinct types of options.

OCC also proposes to amend the definition of "cleared security" set forth in Article I, Section I.C.(5). According to

OCC, the change is intended merely to eliminate unnecessary words and has no specific relationship to packaged spread options although a packaged spread option will be defined as an "option contract" and therefore is within OCC's definition of "cleared security."

The amendments in Sections 6 and 7 of Article VI regarding the issuance of securities and the reporting of matched trades, respectively, are intended merely to adapt those sections to apply to packaged spread options. Similarly, the changes in Interpretations and Policies .01 of OCC's rules following Article VI, Section 9, are intended merely to make clear that the general rights and obligations of holders and writers of packaged spread options will be set forth in new Article XXVI of OCC's by-laws and not in Article VI, Section 9. Article VI, Section 10 will be amended to identify the terms of packaged spread options that must be determined by the exchange on which these options trade prior to opening of trading in a series of packaged spread options. Additionally, Article VI, Section 18(b)(2) will be amended to use more general language that can apply to packaged spread options as well as other non-stock option products without referencing the particular chapter of OCC's rules that applies to each.

4. Proposed New By-laws

The proposed rule change will adopt Article XXVI of the by-laws which will pertain only to packaged spread options. Section 1 will define additional terms and will supplement existing defined terms in Article I with respect to packaged spread options. Most of these are self-explanatory and do not require discussion.⁴ The term "base exercise price" will be used for packaged spread options rather than simply "exercise price" to avoid confusion between the exercise price of the packaged spread option itself and the exercise prices of the component positions in puts and calls that the packaged spread options are designed to replicate. For packaged butterfly spread options, the "base exercise price" will be the exercise price of the two options that have the same exercise price in the spread. For packaged vertical call spread options, the base exercise price will be the lower exercise price of the spread. For packaged vertical put spread options, it will be the higher exercise price of the spread. Except as described above, packaged spread options will otherwise

³For a description of CBOE's proposal, refer to Securities Exchange Release Nos. 38214 (January 28, 1997), 62 FR 5266 [File No. SR-CBOE-96-76] (notice of filing of proposed rule change relating to the listing and trading of packaged vertical spread options) and 38213 (January 28, 1997), 62 FR 5265 [File No. SR-CBOE-96-75] (notice of filing of proposed rule change relating to the listing and trading of packaged butterfly spread options).

⁴The text of OCC's proposed rule changes is included in OCC's filing which is available for inspection and copying at the Commission's Public Reference Room or through OCC.

be subject to the provisions governing index options found in Article XVII of OCC's Rules and Chapter XVIII of OCC's by-laws.

Article XXVI, Section 2 regarding the general rights and obligations of holders and writers of packaged spread options is similar to corresponding provisions in other Articles. Provisions in Sections 3, 4, and 5 relating to adjustments, unavailability or inaccuracy of index values, and time for determination of index values merely incorporate corresponding provisions of Article XVII of the index option by-laws.

5. Proposed Amendments to Existing Rules

Provisions in existing Rules 207 and 401 regarding records and reporting of matched trades, respectively, will be modified in order to accommodate the unique attributes of packaged spread options. Rule 602, which sets forth the margin requirements for non-equity options does not require substantive modification in order to provide for the margining of packaged spread options. The existing margin rules calculate margin for an account that contains options in a spread position based upon the net risk of that position. Consequently, the margin requirement for a short position in packaged spread options and the margin credit, if any, for a long position will be precisely the same as if margin was calculated based upon the corresponding spread position consisting of separate European-style puts or calls. Accordingly, the margin rule will apply to packaged spreads without modification except that Interpretations and Policies .06 to Rule 602 will be modified to make clear that packaged spreads will never be treated as "unpaired" because short and long option positions are synthetically paired within the packaged spread option itself.

6. Proposed New Rules

OCC proposes to add Chapter XXVII to its rules which will relate only to packaged spread options. Rule 2701 sets forth that OCC will not accept escrow deposits in lieu of margin on packaged spread options. Rules 2702 and 2703 set forth the exercise and assignment procedures for packaged spread options. These procedures essentially parallel the procedures in OCC Rules 805 and 1802-1804 that are applicable to European-style index options. OCC will follow its usual expiration date exercise procedures in identifying to clearing members those options that are in the money by at least \$1 and will afford the clearing member an opportunity to negate an exercise if it chooses to do so.

As is the case with most other options, Interpretations and Policies .01 to proposed Rule 2702 states that these procedures are for administrative convenience only and are not intended to override a clearing member's agreement with its customers as to whether an option will be exercised. Rule 2704 will provide that the exercise settlement date will ordinarily be the business day following the expiration date as is the case for index options.

Rule 2705 will specify that the exercise settlement amount for a packaged spread option will be the settlement value of the synthetically created spread position as calculated by OCC utilizing a settlement value furnished to OCC by the exchange on which the packaged spread option is traded. Rule 2706 is needed to integrate the packaged spread rules with those in Chapter XI relating to clearing member suspensions. It is parallel to similar provisions in other product-specific chapters of the OCC's rules.

OCC believes that the proposed rule change is consistent with the purposes and requirements of Section 17A of the Act⁵ because it applies to packaged spread options the same procedures and safeguards that have been and are successfully employed by OCC for other options products. OCC believes that these procedures have proven effective in promoting the prompt and accurate clearance and settlement of securities transactions and to safeguard funds and securities in its custody or control for which it is responsible.

(B) Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change will have any material adverse impact on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been received.

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

Section 17A(b)(3)(F)⁶ of the Act requires that the rules of a clearing agency be designed 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 and to promote the prompt

and accurate clearance and settlement of securities transactions. OCC's proposal will allow OCC to clear and settle packaged spread options using existing OCC systems, rules, and procedures. Thus, due to the similarity of packaged spreads to other option products currently cleared and settled by OCC, OCC should be able to implement the clearance and settlement of packaged spread options safely and in a manner consistent with its safeguarding obligations under Section 17A. In addition, the packaging of a strategy that synthetically creates two option positions (as with vertical spread options) and four option positions (as with the packaged butterfly spread options) into one security should reduce the number of transactions processed because a clearing member will only have to enter into one transaction and because OCC will only have to process one transaction rather than multiple transactions to achieve the same option strategy. In this way, the Commission believes that the proposal is consistent with OCC's obligation under Section 17A to promote the prompt and accurate clearance and settlement of securities transactions.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after publication of notice of the filing because accelerated approval will allow OCC to coordinate the issuance, clearance, and settlement of packaged spread options with the CBOE's listing of packaged spread options. The Commission believes that because OCC will be applying procedures which have proved to be efficient and safe in the past, accelerated approval is justified. Furthermore, no negative comments were received upon publication of the notice of filing of the CBOE's proposed rule changes, and the Commission does not expect to receive any adverse comments on the present proposed rule change.⁷ However, the Commission's approval of OCC's proposed rule change is subject to the Commission's approval of CBOE's proposed rule changes.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549. Copies of the submissions, all subsequent amendments, all written statements with respect to the proposed rule

⁵ 15 U.S.C. 78q-1

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ *Supra* note 3.

change that are filed with the Commission, and all written communications relating to the proposed rule change between the commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filings will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR-OCC-97-06 and should be submitted by October 16, 1997.

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-97-06) be and hereby is approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-25446 Filed 9-24-97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39087; File No. SR-PCX-97-29]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Amendment No. 1 Thereto and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 Thereto by the Pacific Exchange, Inc. Relating to the Listing and Trading of Options on the Morgan Stanley Emerging Growth Index

September 17, 1997.

I. Introduction

On July 8, 1997, the Pacific Exchange, Inc. ("PCX" 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 list and trade options on the Morgan Stanley Emerging Growth Index ("Index"). On July 29, 1997, the Exchange submitted an amendment to the proposal.³ Notice

of the proposed rule change and Amendment No. 1 appeared in the **Federal Register** on August 5, 1997.⁴ No comment letters were received concerning the proposed rule change. On September 17, 1997, the Exchange submitted Amendment No. 2.⁵ This order approves the PCX's proposal, as amended.

II. Description of the Proposal

The purpose of the proposed rule change is to permit the Exchange to list and trade European-style, cash-settled options on the Index, a market capitalization-weighted, broad-based index developed by Morgan Stanley & Co. Incorporated ("Morgan Stanley") comprised of the common stocks of 50 domestic emerging growth securities representing 26 different industry groups.

A. Design of the Index

The Index is comprised of 50 representative stocks⁶ traded on the New York Stock Exchange, Incorporated ("NYSE"), the American Stock Exchange, Incorporated ("Amex") and through the facilities of the National Association of Securities Dealers,

Regulation ("Division"), SEC, dated July 29, 1997 ("Amendment No. 1"). Amendment No. 1, among other issues, addressed maintenance standards and revised the Exchange's limitation of liability rule, PCX Rule 7.13.

⁴ See Securities Exchange Act Release No. 38884 (July 29, 1997), 62 FR 42150 (August 5, 1997).

⁵ See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX to Marianne H. Duffy, Special Counsel, Division, SEC, dated September 17, 1997 ("Amendment No. 2"). Amendment No. 2 proposed an additional maintenance standard regarding options eligibility of the Index components.

⁶ The 50 stocks comprising the Index are: BMC Software Inc. (BMCS), Parametric Technology Corp. (PMTC), Diamond Offshore Drilling, Inc. (DO), Ascend Communications Inc. (ASND), Cabletron Systems (CS), Altera Corp. (ALTR), Ciena Corp. (CIEN), Linear Technology Inc. (LLTC), Paychex Inc. (PAYX), Compuware Corp. (CPWR), XILINX Inc. (XLNX), Maxim Integrated Products (MXIM), Health Management Assoc. (HMA), McAfee Associates Inc. (MCAF), Sterling Commerce Inc. (SE), Iomega Corp. (IOM), Robert Half Intl. Inc. (RHI), AT&T Corp. (ATML), Bed Bath & Beyond Inc. (BBBY), American Power Conversion (APCC), Planet Hollywood Intl. Inc. (PHIH), Synopsys Inc. (SNPS), Reading and Bates Corp. (RB), Viking Office Prods. Inc. (VKNG), Micron Electronics Inc. (MUEL), Cambridge Technology Partners (CAPT), Blyth Industries Inc. (BTH), Jabl Circuit Inc. (JBIL), Novellus Systems Inc. (NVLS), Dollar Tree Stores Inc. (DLTR), Jones Medical Inds. Inc. (JMEDI), Pairgain Technologies Inc. (PAIR), Rexall Sundown Inc. (RXSD), CDW Computer Centers Inc. (CDWC), Titanium Metals Corp. (TIMT), Remedy Corp. (RMDY), Aspect Telecommunications (ASPT), Delta & Pine Land Co. (DLP), Telco Communications Grp. Inc. (TCGX), APAC Teleservices Inc. (APAC), Learning Tree Intl. Inc. (LTRE), Visio Corp. (VSIO), Catalina Marketing Corp. (POS), Nautica Enterprises Inc. (NAUT), Boston Technology Inc. (BSN), ETEC Systems Inc. (ETEC), Mentor Corp. (MNTR), Gentex Corp. (GNTX), Veritas Software Co. (VRTS), and Bio Technology General Corp. (BTGS).

Incorporated ("NASD") automated quotation system and are reported national market system securities.

The Index was designed by Morgan Stanley to reflect the emerging growth equity market. The component securities were selected for their market capitalization, price per share, longterm debt as a percentage of total capital, mean estimated longterm (three year) earnings per share growth rate, net sales and return on average total equity. Specifically, stocks were selected based on whether they are "emerging" stocks (in general, having current sales figures of between \$25 million and \$2 billion annually) and "growth" stocks (in general, having a high mean I/B/E/S⁷ anticipated earnings growth rate). A primary consideration in determining "growth" is whether a stock's expected growth rate is significantly higher than that of other stocks. In addition, currently all of the issues are traded in the United States and there are no foreign issues or American Depositary Receipts ("ADRs") included in the Index.⁸

The Exchange represents that the Index currently is representative of the domestic emerging growth stock market as a whole, and therefore, believes it is a broad-based index. In support of this, the PCX notes that the Index is comprised of companies in 26 different industry groups, which range from apparel (.76%) to auto parts (.63%) to restaurants (1.79%).⁹ Although

⁷ The term I/B/E/S refers to the Institutional Broker's Estimate System, a source of analysts' earnings expectation data that is obtained from over 7,000 analysts working for approximately 750 research organizations.

⁸ In the future, should the Index include non-U.S. registered securities, such securities will not in the aggregate comprise more than 10% of the Index weight and will not represent more than 3 Index components. Prior to reaching these limits, PCX will notify the Commission to determine if a new filing under Rule 19b-4 is required.

⁹ The industry groupings and their Index weight are as follows: apparel (0.76%); auto parts (0.63%); biotechnology (0.56%); catalog/specialty distribution (2.55%); computer communications (5.66%); computer local area networks (4.52%); computer software (20.45%); contract drilling (6.29%); discount stores (1.14%); diversified commercial services (8.37%); electronic data processing peripherals (2.55%); electronic data processing services (4.06%); electrical products (1.82%); electronic data processing (1.53%); electronic production equipment (3.18%); farming/seeds/milling (0.86%); hospital/nursing management (2.88%); medical specialties (0.64%); other metals/minerals (0.91%); other pharmaceuticals (2.15%); other specialty stores (1.89%); other telephone/communications (0.84%); packaged goods/cosmetics (1.35%); restaurants (1.79%); semiconductors (16.99%); and telecommunications equipment (5.63%). The industry groupings are based upon the classifications used by FactSet Research Systems, Inc., an electronic market data provider of information that is available by subscription in the securities industry.

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX to James T. McHale, Special Counsel, Division of Market