

Vertical Spreads. The Commission believes it is important to provide investors with information regarding the rights and characteristics of Packaged Vertical Spreads. In this regard, Packaged Vertical Spread investors will receive a special supplement to the Options Clearing Corporation's ("OCC") Options Disclosure Document ("ODD Supplement") explaining in detail the risks and characteristics of Packaged Spreads.²⁹

The Commission finds good cause for approving Amendment Nos. 1, 2, and 3 prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, Amendment No. 1 to CBOE's proposal set forth a new definition for "vertical spread interval" and several technical non-substantive revisions to the margin rules.

Amendment No. 2 to CBOE's proposal describes changes to its spread rules for margin when the short index option of a spread position is a Packaged Vertical Spread, as described above; (2) verifies that CBOE will list and add series for Packaged Vertical Spreads in accordance with Rule 24.9, Interpretation and Policy .01(c); and (3) sets position limits for Packaged Vertical Spreads based on the S&P 500 and 100 to equal existing position limits for the respective index options.³⁰ The Commission believes the Exchange's proposed reduction in position limits from those originally proposed presents no new regulatory issues and can be approved on an accelerated basis. Further, the originally proposed higher position limits were subject to the full 21-day comment period without any comments being received by the Commission. Amendment No. 3 to CBOE's proposal also makes several technical non-substantive changes. In addition, the Exchange amended the definition of Packaged Vertical Spread to further clarify the structure of the product.

The Commission believes that the changes proposed in Amendment Nos. 1, 2, and 3, unless otherwise stated above, merely clarify in the rule text what was originally proposed by the Exchange and will help to ensure that investors understand the specifications and trading characteristics of the

Packaged Vertical Spread contracts. In addition, the Commission notes that the original proposal was published for the full 21-day comment period without any comments being received by the Commission.

Accordingly, the Commission finds good cause, consistent with Sections 6(b)(5) and 19(b)(2) of the Act, to approve Amendment Nos. 1, 2 and 3 to the proposed rule change, on an accelerated basis.

VI. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1, 2, and 3 to the proposed rule change. 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 office of the CBOE. All submissions should refer to SR-CBOE-96-76 and should be submitted by October 20, 1997.

V. Conclusion

Based upon the aforementioned factors, the Commission finds that the proposed changes relating to the listing and trading of Packaged Vertical Spreads on the S&P 500 and 100 are consistent with the requirements of Section 6(b)(5) and the rules and regulations thereunder. The initiation of Packaged Vertical Spread trading, however, is conditioned upon the issuance of an order approving an ODD Supplement, pursuant to Rule 9b-1 of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,³¹ that the proposed rule change (File No. SR-CBOE-96-76), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³²

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39117; File No. SR-CHX-96-14]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the Chicago Stock Exchange, Inc., Relating to Trading of Particular Investment Company Units

September 22, 1997.

I. Introduction

On April 23, 1996, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19(b)-4 thereunder,² a proposed rule change to amend Article XXVIII of the CHX's Rules to permit them to trade certain units representing an interest in a registered investment company ("Units") on CHX.

The proposed rule change, together with the substance of the proposal, was published for comment in Securities Exchange Act Release No. 37228 (May 20, 1996) 61 FR 26940 (May 29, 1996). One comment letter was received in response to the proposal.³

II. Background and Description

In SR-CHX-96-12, the Exchange requested and received approval of proposed rule changes allowing the listing and/or trading of Units.⁴ CHX is proposing to apply its existing listing standards for the trading of Units to the trading of World Equity Benchmark Securities ("WEBS") pursuant to unlisted trading privileges ("UTP"). CHX is also proposing to amend Article

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from James F. Duffy, Executive Vice President and General Counsel, Legal and Regulatory Policy, American Stock Exchange ("Amex"), to Jonathan G. Katz, Secretary, Commission, dated June 20, 1996 ("Amex letter").

⁴ See Securities Exchange Act Release Nos. 37121 (April 17, 1996), 61 FR 17932 (April 23, 1996) (notice of File No. SR-CHX-96-12) and 37589 (August 21, 1996), 61 FR 44370 (August 28, 1996) (approval order). In that rule filing, the Exchange also stated its intent to trade CountryBasket securities, pursuant to a request for unlisted trading privileges. CountryBasket securities are Units designed to track the performance of specific foreign indices, more fully described in SR-CHX-96-12 and SR-NYSE-95-23. *Id.* See also Securities Exchange Act Release No. 36923 (March 5, 1996), 61 FR 10410 (March 13, 1996) (order approving File No. SR-NYSE-95-23).

²⁹ In reviewing any disclosure materials submitted, the Commission intends to assure that the materials specifically describe the risks and characteristics associated with trading Packaged Spreads. The trading of Packaged Vertical Spreads is expressly contingent upon the Commission's approval of such an ODD supplement.

³⁰ As described above, Packaged Vertical Spreads on the S&P 500 and 100 indexes will be aggregated with other options on the same index.

³¹ 15 U.S.C. 78s(b)(2).

³² 17 CFR 200.30-3(a)(12).

XXVIII, Rule 24, to add Interpretation and Policy .02 to specifically allow the Exchange to trade WEBS pursuant to unlisted trading privileges. WEBS currently are approved for trading on the American Stock Exchange ("Amex").⁵ If at a later time CHX desires to list WEBS, rather than only trade WEBS pursuant to UTP, the Exchange will request Commission approval for that listing in a separate proposed rule change filed pursuant to Section 19(b) of the Act.⁶

Structure of WEBS

Rules to accommodate the trading of Index Fund Shares generally on Amex, along with Amex's trading of WEBS, were previously approved by the Commission.⁷ The information provided below is intended to provide a description of how WEBS are created and traded and is similar to that discussed in the original Amex WEBS Approval Order.

WEBS are issued by Foreign Fund, Inc., and based on seventeen Morgan Stanley Capital International ("MSCI") Indices (each individually an "MSCI Index" or "Index" and collectively "MSCI Indices" or "Indices"). The countries whose markets are represented by those indices are: Australia, Austria, Belgium, Canada, France, Germany, Hong Kong, Italy, Japan, Malaysia, Mexico, Netherlands, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

The investment objective of each WEBS series is to seek to provide investment results that correspond generally to the price and yield performance of public securities traded in the aggregate in particular foreign markets, as represented by specific MSCI Indices. Each WEBS series will use a "passive" or indexing investment approach which attempts to approximate the investment performance of its benchmark index through quantitative analytical procedures.

A WEBS series normally will invest at least 95% of its total assets in stocks that are represented in the relevant MSCI Index and will at all times invest at least 90% of its total assets in such stocks. A WEBS series will not hold all

of the issues that comprise the subject MSCI Index, but will attempt to hold a representative sample of the securities in the Index in a technique known as "portfolio sampling."

Foreign Fund, Inc. will issue and redeem WEBS of each Index Series only in aggregations of shares specified for each Index Series (each aggregation a "Creation Unit"). The number of shares per Creation Unit will range from 40,000 to 600,000. In its original filing to list and trade WEBS, Amex anticipated that the value of a Creation Unit at the start of trading would range from \$450,000 to \$10,000,000, and the net asset value ("NAV") of an individual WEBS would range from \$10 to \$20.

The MSCI Indices

MSCI generally seeks to have 60% of the capitalization of a country's stock market index reflected in the MSCI Index for such country. Thus, the MSCI Indices seek to balance the inclusiveness of an "all share" index against the replicability of a "blue chip" index. MSCI applies the same criteria and calculation methodology across all markets for all indices, developed and emerging.

All single-country MSCI Indices are market capitalization weighted. For countries that restrict foreign ownership, MSCI calculates two Indices. The additional Indices are called "free" Indices, and they exclude companies and share classes not purchasable by foreigners. Free Indices are currently calculated for Singapore, Mexico, the Philippines, and Venezuela, and for those regional and international indices which include such markets. The Mexico and Singapore WEBS series will be based on the free Indices for those countries. There are no WEBS series corresponding to the Philippines and Venezuela MSCI Indices.

All MSCI Indexes are calculated daily. The calculation method weights stocks in an index by their beginning-of-period market capitalization. Share prices are "swept clean" daily and adjusted for any rights issues, stock dividends or splits. The MSCI Indices currently are calculated in local currency and in U.S. dollars, without dividends and with gross dividends reinvested.

Prices used to calculate the MSCI Indices are the official exchange closing prices. All prices are taken from the dominant exchange in each market. To calculate the applicable foreign currency exchange rate, MSCI uses WM/Reuters Closing Spot Rates for all developed and emerging markets except those in Latin America. Because of the high volatility of currencies in some Latin American countries, MSCI

continue to calculate its own rates for those countries. Under exceptional circumstances MSCI may elect to use an alternative exchange rate for any country if the WM/Reuters rate is believed not to be representative for a given currency on a particular day.

Each MSCI Index on which a WEBS series is based is calculated by MSCI for each trading day in the applicable foreign exchange market based on official closing prices in such exchange market. For each trading day, MSCI publicly disseminates each Index value for the previous day's close. MSCI Indices are reported periodically in major financial publications and also are available through vendors of financial information.

Foreign Fund, Inc. will cause to be made available daily the names and required number of shares of each of the securities to be deposited in connection with the issuance of WEBS in Creation Unit size aggregations for each WEBS series, as well as information relating to the required cash payment representing, in part, the amount of accrued dividends applicable to such WEBS series. This information will be made available by the Fund Advisor to any National Securities Clearing Corporation ("NSCC") participant requesting such information. In addition, other investors can request such information directly from the Fund distributor. The NAV for each WEBS series will be calculated directly by the Fund administrator, PFPC, Inc. NAVs will be made available to the public from the Fund distributor by means of a toll-free number, and also will be available to NSCC participants through data made available from NSCC.

To provide current WEBS pricing information, Amex represented that it anticipated it would disseminate through the facilities of the Consolidated Tap Association ("CTA") an indicative optimized portfolio value ("Value") for each WEBS series as calculated by Bloomberg, L.P. ("Bloomberg"). The Value will be disseminated on a per WEBS basis every fifteen seconds during regular Amex trading hours of 9:30 A.M. to 4:00 P.M. New York time.⁸

The Value likely will not reflect the value of all securities included in the applicable benchmark MSCI Index. In addition, the Value will not necessarily reflect the precise composition of the current portfolio of securities held by the Fund for each WEBS series at a particular moment. Therefore, the Value on a per WEBS basis disseminated during Amex trading hours should not

⁵ See Securities Exchange Act Release No. 36947 (March 8, 1996), 61 FR 10606 (March 14, 1996) ("Amex WEBS Approval Order").

⁶ The remainder of this section discusses the structure of WEBS, the details of which are taken from SR-Amex-95-43 and its Amendments Nos. 1, 2, 3. The information provided here is significantly condensed from Amex's filing. CHX notes that the Amex has represented that customers who purchase WEBS will receive a detailed prospectus from the issuer.

⁷ See Amex WEBS Approval Order, *supra* note 5.

⁸ These are the same trading hours as at the CHX.

be viewed as a real-time update of the net asset value of the Fund, which is calculated only once a day. It is expected, however, that during the trading day the Value will closely approximate the value per WEBS share of the portfolio of securities for each WEBS series except under unusual circumstances.

The Exchange will distribute an information circular to its members in connection with the trading of WEBS. The circular will discuss the special characteristics and risks of trading this type of security. Specifically, the circular, among other issues, will discuss what WEBS are, how they are created and redeemed, the requirement that members and member firms deliver a prospectus to investors purchasing WEBS prior to or concurrently with the confirmation of a WEBS transaction, applicable Exchange rules, dissemination information, trading information, and the applicability of suitability rules.⁹ The Exchange also intends to utilize its existing surveillance procedures to surveil trading in WEBS, including surveilling specialist compliance with Article XXX, Rule 23(a), which contemplates specialists engaging in transactions with the issuer of WEBS under certain circumstances.

III. Summary of Comments

Amex filed a comment letter to the proposed rule change.¹⁰ Amex states that CHX, or any market trading or proposing to trade WEBS, should be required to submit for Commission review an information circular to distribute to their members prior to trading WEBS on the exchange. Amex also states that any such information circular should adequately explain the unique characteristics and risks of this type of security, including member responsibilities, and identify the Exchange personnel who can be contacted to discuss any issues or answer any inquiries relating to the trading of WEBS.

IV. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities

exchange, and, in particular, with the requirements of Section 6(b)(5).¹¹ The Commission believes that the Exchange's proposal to trade WEBS pursuant to unlisted trading privileges will provide investors with a convenient way of participating in foreign securities markets and could produce added benefits to investors through the increased competition between other market centers trading the product. Specifically, the Commission believes that CHX's proposal should help provide investors with increased flexibility in satisfying their investment needs, by allowing them to purchase and sell at negotiated prices throughout the trading day securities that replicate the performance of several portfolios of stock,¹² and by increasing the availability of WEBS as an investment tool. Accordingly, as discussed below, the rule proposal is consistent with the requirements of Section 6(b)(5) that Exchange rules facilitate transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.¹³

As the Commission noted in greater detail in the order approving WEBS for listing and trading on Amex,¹⁴ the estimated cost of an individual WEBS¹⁵ should make it attractive to individual retail investors who wish to hold a security replicating the performance of a portfolio of foreign stocks. The Commission also notes that WEBS should provide investors with several advantages over standard open-end investment companies; in particular, investors can trade WEBS continuously throughout the day in secondary markets at negotiated prices.¹⁶ In

¹¹ 15 U.S.C. 78f(b)(5).

¹² The Commission notes that unlike typical open-end investment companies, where investors have the right to redeem their fund shares on a daily basis, investors in WEBS can redeem them in creation unit size aggregations only.

¹³ 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).

¹⁴ See Amex WEBS Approval Order, *supra* note 5. The Commission hereby incorporates by reference the discussion and rationale for approving WEBS provided in the Amex WEBS Approval Order.

¹⁵ As noted in the Background and Description section *supra*, the estimated cost at the time of the approval for trading on Amex was \$10 to \$20 per individual WEBS.

¹⁶ The Commission believes that WEBS will not trade at a material discount or premium in relation to their net asset value, because of potential arbitrage opportunities. See Amex WEBS Approval Order, *supra* note 5, at 31. the mere potential for

contrast, Investment Company Act Rule 22c-1¹⁷ limits holders and prospectus holders of open-end management investment company shares to purchasing or redeeming securities of the fund based on the net asset value of the securities held by the fund as designated by the board of directors. Thus, WEBS should allow investors to respond quickly to market changes through intra-day trading opportunities, expand the opportunity for retail investors to engage in hedging strategies, and reduce transaction costs for trading a portfolio of stocks. The Commission notes that under the proposed rule change, these benefits of WEBS will now be available to investors trading on CHX and believes that the addition of their trading on CHX pursuant to UTP could produce added benefits to investors through the increased competition.

The Commission notes that although the value of WEBS are based on the value of the securities and cash held in the Fund, WEBS are not leveraged instruments. WEBS are essentially equity securities that represent an interest in a portfolio of stocks designed to reflect substantially the applicable MSCI Index. Accordingly, it is appropriate to regulate WEBS in a manner similar to other equity securities. Nonetheless, the Commission believes that the unique nature of WEBS raises certain, disclosure, trading, and other issues that need to be addressed. The remainder of this section addresses these issues, although they are discussed in greater detail in the Amex WEBS Approval Order, where the Commission initially approved WEBS for trading as a new product.

Trading of WEBS On CHX

The Commission notes that, pursuant to Rule 12f-5 under the Act,¹⁸ prior to trading a particular class or type of security pursuant to UTP, CHX must

arbitrage should keep the market price of WEBS comparable to their net asset values; therefore, arbitrage activity likely will not be significant. In addition, the Fund will redeem in-kind, thereby enabling the Fund to invest virtually all of its assets in securities comprising the MSCI Indices.

¹⁷ 17 CFR 270.22c-1. Investment Company Act Rule 22c-1 generally provides that a registered investment company issuing a redeemable security, its principal underwriter, and dealers in that security may sell, redeem, or repurchase the security only at a price based on the net asset value next computed after receipt of an investor's request to purchase, redeem, or resell. The net asset value of an open-end management investment company generally is computed once daily Monday to Friday as designated by the investment company's board of directors. The Commission granted WEBS an exemption from this provision to allow them to trade in the secondary market at negotiated prices. See Amex WEBS Approval Order, *supra* note 5.

¹⁸ 17 CFR 240.12f-5.

⁹ The Commission notes that CHX has filed a proposed rule change (SR-CHX-97-21) which would require, in part, that any CHX member, before recommending a transaction in any security, have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

¹⁰ See *supra* note 3.

have listing standards comparable to those of the primary market on which the security is listed. The Commission finds that adequate rules and procedures exist to govern the trading of WEBS on CHX, pursuant to UTP. WEBS will be deemed equity securities subject to CHX's rules governing the trading of equity securities. Accordingly, the Exchange's existing general rules that currently apply to the trading of equity securities will also apply to WEBS. In addition, CHX's Article XXVIII, rule 24,¹⁹ which contains specific listing and delisting criteria to accommodate the trading of Units, will apply to the trading of WEBS.²⁰ These criteria should help to ensure that a minimum level of liquidity will exist in each WEBS series to allow for the maintenance of fair and orderly markets. The delisting criteria allow the Exchange to consider the suspension of trading and the delisting of a series of Units, including suspending trading in WEBS traded on the Exchange pursuant to UTP, if an event were to occur that made further dealings in such securities inadvisable. This will give the Exchange flexibility to suspend trading in WEBS if circumstances warrant such action. Accordingly, the Commission believes that CHX's equity rules in general, and CHX's Article XXVIII, Rule 24 in particular, provide adequate safeguards to prevent manipulative acts and practices and to protect investors and the public interest.²¹

The Commission notes that once CHX receives approval to trade WEBS pursuant to UTP, CHX intends to request that WEBS be declared an Intermarket Trading System ("ITS") eligible security. WEBS could then be traded through ITS, subjecting the trading of WEBS to all the ITS rules and procedures, including the ITS trade-through rule.

Disclosure

The Commission believes that CHX's proposal should provide for adequate disclosure to investors relating to the terms, characteristics, and risks of trading WEBS. All WEBS investors,

including those purchasing WEBS on CHX pursuant to UTP, will receive a prospectus regarding the product. Because WEBS trading on CHX pursuant to UTP will be in continuous distribution, the prospectus delivery requirements of the Securities Act of 1933 will apply to both the initial investors and to investors purchasing such securities in the secondary market on CHX. The prospectus addresses the special characteristics of WEBS, including a statement regarding their redeemability and method of creation, and that WEBS are not individually redeemable.

CHX has also drafted an information circular that will be sent to all CHX members prior to the commencement of trading of WEBS. The Commission notes that it has reviewed this draft information circular and believes it adequately explains the unique characteristics and risks of WEBS. The circular will note, for example, Exchange member responsibilities, including that before an Exchange member undertakes to recommend a transaction in WEBS, it should make a determination that it is in compliance with applicable rules of other self-regulatory organizations of which it is a member, including suitability rules.²² The circular will also address members' responsibility to deliver a prospectus to all investors purchasing WEBS, as well as highlight the characteristics of WEBS, including that they are only redeemable in Creation Unit size aggregation.²³ The Commission also notes that CHX's draft circular is essentially the same as the Amex WEBS circular previously reviewed by the Commission. The Commission also believes that CHX's draft information circular adequately addresses Amex's comments.²⁴

Dissemination of WEBS Portfolio Information

The Commission believes that since Amex is disseminating the Values for the seventeen WEBS series, investors will be provided with timely and useful information concerning the value of

WEBS, on per WEBS basis. The Commission notes that information is disseminated through facilities of the CTA and reflects the currently available information concerning the value of the assets comprising the Deposit securities. The information is disseminated every 15 seconds during the hours of 9:30 a.m. to 4:00 p.m., Eastern standard time and will be available to all investors, irrespective of where the transaction is executed. Also, since the value is expected to closely track the applicable WEBS series, the Commission believes the Values will provide investors with adequate information to determine the intra-day value of a given WEBS series.²⁵ In the Amex WEBS Approval Order, the Commission noted that it expected Amex to monitor the disseminated Value, and if Amex determines that the Value does not closely track applicable WEBS series, it will arrange to disseminate an adequate alternative.

Surveillance

The Commission notes that CHX has submitted surveillance procedures for WEBS and believes that those procedures are adequate to address concerns associated with the listing and trading of such securities, including any concerns associated with specialists purchasing and redeeming Creation Units. The Exchange has represented that its surveillance procedures should allow it to identify situations where specialists purchase or redeem Creation Units to ensure compliance with CHX Article XXX, Rule 23(a), which requires that such purchases or redemptions facilitate the maintenance of a fair and orderly market in the subject security.²⁶

Specialists

The Commission finds that it is consistent with the Act to allow a specialist registered in a security issued by an Investment Company to purchase or redeem the listed security from the

¹⁹ The Commission approved generic rules for the listing and/or trading of investment company units on CHX in 1996. See Securities Exchange Act Release No. 37589 (August 21, 1996), 61 FR 44370 (August 28, 1996).

²⁰ The Commission notes the listing and delisting criteria is similar to those adopted by Amex to trade WEBS.

²¹ The Commission also believes that the proposed rule change should help protect investors and the public interest, and help perfect the mechanisms of a national market system, in that it will allow for the trading of WEBS on CHX pursuant to UTP, making WEBS more broadly available to the investing public.

²² See *supra* note 9.

²³ The Commission notes that the information circular also discusses exemptive relief granted by the Commission from certain rules under the Act, exemptions that CHX members can rely upon. The applicable rules are: Rule 10b-10(e); Rule 10b-13; Rule 10b-17(b)(2); Rule 11(d)(1); Rules 15c1-5 and 15c1-6; and Regulation M to the extent it superseded Rules 10b-6 and 10b-7.

²⁴ In particular, in response to the comments in Amex's comment letter, the Commission notes it has reviewed CHX's draft information circular and that it believes the circular adequately explains the unique characteristics and risks of WEBS, including member responsibilities, and that it identifies the Exchange personnel to contact regarding issues relating to the trading of WEBS.

²⁵ In addition, the Amex WEBS Approval Order states that the statement of additional information ("SAI") to the preliminary prospectus states that each series will calculate its NAV per share at the close of the regular trading session for the NYSE on each day that the Amex is open for business. NAV generally will be based on the last quoted sales price on the exchange where the security primarily is traded. See Amex WEBS Approval Order, *supra* note 5.

²⁶ The Commission notes that, in the Amex WEBS Approval Order, it discussed the concerns raised when a broker-dealer is involved in the development and maintenance of a stock index upon which a product such as WEBS is based. Adequate procedures to prevent the misuse of material, non-public information regarding changes to component stocks in an MSCI Index have been adopted and should help to address concerns raised by Morgan Stanley's involvement in the management of the Indices.

issuer as appropriate to facilitate the maintenance of a fair and orderly market in that security. The Commission believes that such market activities should enhance liquidity in such security and facilitate a specialist's market making responsibilities. In addition, because the specialist only will be able to purchase and redeem WEBS on the same terms and conditions as any other investor (and only at the NAV), and Creation transactions must occur through the distributor and not directly with the issuer, the Commission believes that concerns regarding potential abuse are minimized. As noted above, the Exchange's surveillance procedures also should ensure that such purchases are only for the purpose of maintaining fair and orderly markets, and not for any other improper or speculative purposes. Finally, the Commission notes that its approval of this aspect of the Exchange's rule proposal does not address any other requirements or obligations under the federal securities laws that may be applicable.²⁷

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²⁸ that the proposed rule change (SR-CHX-96-14) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39114; File No. SR-DTC-97-15]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change Relating to the Coupon Collection Service

September 22, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on

²⁷ The Commission notes that with respect to WEBS, broker-dealers and other persons are cautioned in the prospectus and/or the Fund's SAI that some activities on their part may, depending on the circumstances, result in their being deemed statutory underwriters and subject them to the prospectus delivery and liability provisions of the Securities Act of 1933.

²⁸ 15 U.S.C. 78s(b)(2).

²⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

July 15, 1997, 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 from interested persons on the proposed rule change.

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

The proposed rule change revises DTC's fee schedule for its coupon collection service ("CCS"). DTC will give participants that use CCS a discount of \$0.25 per shell for any month in which the participant's shell deposit volume is 6,250 or greater. If a participant's year-end shell deposit volume is 75,000 or greater, DTC will rebate to the participant the \$0.25 per shell for any month(s) in that year for which the participant did not receive a discount because its shell deposit volume was less than 6,250.

In addition, DTC will charge participants \$0.60 per shell received without a valid CUSIP number. This additional fee is designed to serve as an incentive to Participants to identify their shells properly. As all of DTC's fees are reviewed on an annual basis, this surcharge will be reevaluated each year, based on the proportion of shells that DTC receives without a valid CUSIP number.

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.²

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

CCS provides participants with a method for the collection of interest relating to coupons from municipal bearer bonds.³ Participants using CCS

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

³ For a more detailed description of CCS, refer to Securities Exchange Act Release No. 35750 (January

are required to deposit coupons in a standard sealed envelope or "shell" each of which may contain no more than 200 coupons. Participants also must identify each shell properly, which includes labeling each shell with a valid CUSIP number.⁴ After verifying the contents of the shells, DTC credits the participants with the interest due on the coupons contained in the shells.

The purpose of the proposed rule change is to revise the fees associated with CCS. DTC continually strives to align service fees with estimated service costs and the subject revisions are part of that effort.

DTC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁵ and the rules and regulations thereunder because it provides for the equitable allocation of dues, fees, and other charges among DTC's participants.

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

DTC does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Not applicable.

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)(ii) of the Act⁶ and Rule 19b-4(e)(2) thereunder⁷ because the proposal establishes or changes a due, fee, or other charge imposed by DTC.⁸ At any time within sixty days of the filing of such 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,

22, 1996), 61 FR 2852 [File No. SR-DTC-95-18] (order approving proposed rule change).

⁴ The coupons contained in a shell must all be for the same CUSIP number, series, and payable date.

⁵ 15 U.S.C. 78q-1.

⁶ 15 U.S.C. 78s(b)(3)(A)(ii).

⁷ 17 CFR 240.19b-4(e)(2).

⁸ DTC's rule filing originally was submitted for consideration pursuant to Section 19(b)(2) of the Act. 15 U.S.C. 78s(b)(2). However, DTC subsequently requested that the Commission consider the rule filing pursuant to Rule 19(b)(3)(A) of the Act. Letter from Larry Thompson, Senior Vice President and Deputy General Counsel, DTC (September 22, 1997).