Improvement Interval, has priority to execute the contra side of the trade up to the greater of (i) one-half of the trade, (ii) $1 million Underlying Equivalent Value, or (iii) the remaining Underlying Equivalent Value on a closing transaction valued at less than $1 million. If the member improves the BBO and any other FLEX-participating member matches the improved BBO, the submitting member has priority to execute the contra side of the trade up to the greater of (i) two-thirds of the trade, (ii) $1 million Underlying Equivalent Value, or (iii) the remaining Underlying Equivalent Value on a closing transaction valued at less than $1 million. By contrast, under current Exchange rules no priority right of participation in a principal or agency cross is given to a member who submits a Request for Quotes in respect of a FLEX Equity Option, even if the submitting member matches or improves the BBO.

The proposed rule change would provide that a member who submits a Request for Quotes in respect of a FLEX Equity Option and indicates an intention to cross or act as principal on the trade, and who matches or improves the BBO during the BBO Improvement Interval, has a priority right to execute the contra side of the trade for at least twenty-five percent (25%) of the trade.[4] The Exchange believes that the proposed rule change will encourage members to bring FLEX Equity Option orders to CBOE and to commit their capital to the FLEX Equity Options market on CBOE, and thereby contribute to the liquidity of that market, by guaranteeing them a minimum right of participation in the other side of any trade they bring to the market if they are prepared to match or improve the BBO.

The Exchange believes that by providing investors with the flexibility to request quotes for options that expire as early as the day following the day they are issued, and by encouraging members to submit requests for quotes in FLEX Equity Options and to commit capital to CBOE's FLEX Equity Option market, the proposed rule change furthers the objectives of Section 6(b)(5) of the Act to remove impediments to and perfect the mechanism of a free and open market in securities, and to protect investors and the public interest.

[4] The proposed rule change amends the language of Rule 24A.5(e) to state that a submitting member will ''have priority'' to execute the specified share of a trade, instead of that he will ''be permitted'' to execute that share, in order to clarify that a member may cross more than the designated share as to which he has priority if no one else is willing to trade at the same or a better price.

III. 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, the requirements of Section 6(b)(5) of the Act.[5] The Commission believes that the Exchange's proposal to provide that new series of FLEX Equity Options may be opened so long as they do not expire on the same day, reasonably addresses the Exchange's desire to meet the demands of sophisticated portfolio managers and other institutional investors who are increasingly using the OTC market in order to satisfy their hedging needs. In this regard, the change will provide FLEX Equity Option users with more flexibility in establishing expiration dates to better meet their hedging needs. Market participants wanting to open a new series of FLEX Equity Options with a short duration will still have to meet the 250 contract minimum requirement. This should help to ensure that such FLEX Equity Options are opened for legitimate trading needs.

The Commission further notes that expiration of FLEX Equity Options may not correspond to the normal expiration of Non-FLEX Equity Options. More specifically, the expiration date of a FLEX Equity Option may not occur on a day that is on, or within, two business days of the expiration date of a Non-FLEX Equity Option.[6] Moreover, as stated in the FLEX Equity Option Approval Order, the Commission expects the Exchange to take prompt action (including timely communication with the self-regulatory organizations responsible for oversight of trading in the underlying securities) should any unusual market effects develop.[7]

Additionally, the Commission believes that the Exchange's proposal to provide a minimum right of participation of at least 25% of the trade to Exchange members who initiate Requests for Quotes in respect of FLEX Equity Options and indicate an intention to cross or act as principal on the trade, is consistent with the Act. In addition, under CBOE rules, such transactions must, in all cases, be in compliance with the priority, parity, and precedence requirements of Section 11(a) of the Act,[8] and Rule 11a1–1(T)[9] promulgated thereunder. These provisions set forth, among other things, the conditions in which members must yield priority to public customers' bids and offers at the same price.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[10] that the proposed rule change (File No. SR–CBOE–96–20) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[11]

Margaret H. McFarland,

Deputy Secretary.

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[5] 15 U.S.C. 78f(b)(5).

[6] *See* Securities Exchange Act Release No. 36841 (February 14, 1996) (File No. SR–CBOE–95–43) (''FLEX Equity Option Approval Order'').

[7] *Id.*

[8] 15 U.S.C. 78k(a).

[9] 17 CFR 240.11a1–1(T).

[10] 15 U.S.C. 78s(b)(2).

[11] 17 CFR 200.30–3(a)(12).

[Release No. 34–37338; File No. SR–CBOE–96–28]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by Chicago Board Options Exchange, Incorporated Relating to the Selection of Underlying Securities on Which FLEX Equity Options May Be Traded on the Exchange

June 19, 1996

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on April 22, 1996, the Chicago Board Options Exchange, Incorporated (''CBOE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by the CBOE. 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 Exchange proposes to amend CBOE Rule 24A.4(c)(1) governing the selection of underlying securities on which FLEX Equity Options may be traded on the Exchange to eliminate the requirement that the underlying securities must be the subject of Non-FLEX Equity Option trading on the Exchange.

The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

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

In its filing with the Commission, CBOE 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 CBOE 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 Statutory Basis for, the Proposed Rule Change

The CBOE proposes to trade FLEX Equity Options on qualified underlying securities that have been approved by the Exchange for options trading whether or not Non-FLEX Equity Options on those same underlying securities are traded on the Exchange. Under CBOE Rule 24A. 4(c)(1), only those qualified and approved underlying securities that are the subject of Non-FLEX Equity Option trading on the Exchange may serve as underlying securities of FLEX Equity Options traded on the Exchange. In this respect, Rule 24A.4(c)(1) differs from the rules proposed by the American Stock Exchange (''Amex'') and the Philadelphia Stock Exchange (''Phlx'') in respect of FLEX Equity Option trading on those exchanges.[1] Proposed Amex Rule 903G(c) and proposed Phlx Rule 1069A(a)(1)(B) are substantively identical in that any options-eligible security, regardless of whether the security is the subject of Non-FLEX Equity Options traded on the exchange, may underlie a FLEX Equity Option. CBOE Rule 24A.4(c)(1), on the other hand, requires that an underlying security must be ''the subject of Non-FLEX equity Options traded on the Exchange'' to be eligible for FLEX Equity Options trading.

CBOE initially believed it was appropriate to limit FLEX Equity Options to those underlying securities on which it provides a Non-FLEX Equity Options market. Such a limitation would likely facilitate market-making in FLEX Equity Options, and it would avoid investor confusion that could arise if an exchange were to maintain a market in one kind of option but not the other on the same underlying stock. CBOE incorporated this limitation in its rules in the expectation that other exchanges that saw fit to copy its FLEX Equity Options program in all other respects would include this provision in their rules as well. The CBOE believes that in order to remain competitive with the exchanges that propose to list Equity Option on eligible underlying securities regardless of whether that exchange lists Non-FLEX Equity Options overlying that security, the CBOE must submit a similar proposed rule change.

By permitting CBOE to compete equally with other exchanges in listing FLEX Equity Options on qualified underlying securities, and in light of the Congressional finding embodied in Section 11A(a)(1)(C)(ii) of the Act that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure fair competition among exchange markets, the Exchange believes that the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of that Act to remove impediments to and perfect the mechanism of a free and open market and a national market system and to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition.

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. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

The Exchange has requested that the proposed rule change be given accelerated effectiveness pursuant to section 19(b)(2) of the Act. 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 the requirements of Section 6(b)(5) and 11A thereunder. The Commission believes that the proposed rule change is reasonable in that it promotes fair competition among exchanges, consistent with Section 11A of the Act, and will perfect the mechanism of a free and open market and serve to protect investors and the public interest in accordance with Section 6(b)(5) of the Act.

As noted above, as originally approved, the CBOE determined to restrict the trading of FLEX Equity Options to those options which were traded on the Exchange as Non-FLEX Equity Options. The CBOE rationale for this restriction was reasonable and the Commission therefore approved the restriction as consistent with the Act. The Commission believes, however, that the restriction is not mandated by the Act and that it is reasonable for the CBOE to conform its rules to those proposed by other competing markets seeking to establish FLEX Equity Options must still meet the eligibility requirements and criteria set forth in CBOE Rule 5.3. The change should also promote fair competition among exchange markets trading FLEX Equity Options by allowing CBOE to trade and compete for FLEX Equity Options order flow on more options eligible securities.

The Commission finds good cause for approving this proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. Specifically, the Commission believes that the CBOE proposal to conform its rules concerning the selection of underlying securities for FLEX Equity Option trading to the proposed rules of other exchanges on the same subject raises no new regulatory issues. Additionally, the Amex and Phlx proposals were subject to a full notice and comment period, and no comments were received. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists, to approve the proposed rule change on an accelerated basis.

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

[1] *See* Securities Exchange Act Release Nos. 37053 (March 29, 1996), 61 FR 15537 (April 8, 1996) (File No. SR-Amex-95–57) and 37048 (March 29, 1996), 61 FR 15549 (File No. SR-Phlx-96–08). *See also* Letter from Michael Pierson, Senior Attorney, Market Regulation, Pacific Stock Exchange (''PSE''), to John Ayanian, Attorney, Office of Market Supervision (''OMS''), Division of Market Regulation (''Market Regulation''), Commission dated April 26, 1996 (proposing the same amendment to File No. SR–PSE–96–11).

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 will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to File No. SR–CBOE–96–28 and should be submitted by July 18, 1996.

It is therefore ordered pursuant to Section 19(b)(2) of the Act, that the proposed rule change is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[2]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–16369 Filed 6–26–96; 8:45 am]

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[Release No. 34–37343; File No. SR–GSCC–96–02]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Modifying the Minimum Financial Criteria for Category One Interdealer Broker Netting Membership

June 20, 1996.

On February 13, 1996, the Government Securities Clearing Corporation (''GSCC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–GSCC–96–02) 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 March 14, 1996.[2] GSCC amended the filing on May 16, 1996.[3] No comment letters were received regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

GSCC is modifying its rules to reflect a new minimum financial criteria for category one interdealer broker (''IDB'') membership in GSCC's netting system. Such financial criteria will be based on levels of (1) excess net capital if the member is a broker-dealer registered with the Commission pursuant to Section 15 of the Act[4] or (2) excess liquid capital if the member is a government securities broker registered pursuant to Section 15C of the Act.[5] Excess net capital is defined in GSCC's rules as the difference between the net capital of a broker or dealer and the minimum net capital such broker or dealer must have to comply with the requirements of Rule 15c3–1(a) under the Act.[6] Excess liquid capital is defined in GSCC's rules as the difference between the liquid capital of a government securities broker or dealer and the minimum liquid capital that such broker or dealer must have to comply with the requirements of 17 CFR 402.2 (a), (b), and (c).

Currently, GSCC has two categories of netting system membership for IDBs. Category one IDBs act exclusively as brokers and trade only with netting members and with certain ''grandfathered'' nonmember firms.[7] Currently, the minimum financial requirement for category one IDBs is $4.2 million in excess net or liquid capital, as applicable. Category two IDBs have a minimum financial requirement of $25 million in net worth and $10 million in excess net or liquid capital, as applicable.[8]

GSCC's proposed rule change will modify the minimum financial requirement for category one IDBs to require $10 million in excess net or liquid capital, as applicable. Category one IDBs will continue not to have a minimum net worth requirement.

III. Discussion

The Commission finds that the proposed rule change is consistent with the Act, and specifically with Sections 17A(b)(4)(B)[9] and 17A(b)(3)(F).[10] Section 17A(b)(4)(B) provides that a registered clearing agency may deny participation to or condition the participation of any person if such person does not meet such standards of financial responsibility as are prescribed by the rules of the clearing agency. Section 17A(b)(3)(F) requires 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. GSCC believes that given the large dollar volume of activity that the IDBs have submitted and continue to submit to GSCC for netting and settlement and their principal nature vis-a-vis GSCC, it is appropriate to require as a condition to participation that all IDBs have and maintain a minimum level of excess net or liquid capital of at least $10 million. The Commission believes that modifying the minimum financial criteria for category one IDBs should strengthen GSCC's overall risk management process and enhance its membership standards. The Commission believes that the increased capital requirement for category one IDBs should provide for greater financial responsibility, operational capacity, experience, and competence. The Commission also believes that by enhancing its risk management process the increase will facilitate GSCC in fulfilling its statutory obligations under Section 17A of the Act with respect to the safekeeping of securities or funds in its custody or control or for which it is responsible.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with Section 17A of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR–GSCC–96–02) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[11]

Margaret H. McFarland,

Deputy Secretary.

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[2] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] Securities Exchange Act Release No. 36945 (March 7, 1996), 61 FR 10614.

[3] GSCC amended the filing to request that the proposed rule change become effective upon approval by the Commission and not with the implementation of the second stage of netting services for repurchase and reverse repurchase transactions involving government securities as the underlying instrument (''repos'') as originally requested. Letter from Jeffrey F. Ingber, General Counsel and Secretary, GSCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Commission (May 16, 1996).

[4] 15 U.S.C. § 78o (1988).

[5] 15 U.S.C. § 78o–5 (1988).

[6] 17 CFR 15c3–1(a) (1975).

[7] GSCC maintains a list of grandfathered entities which are non-netting system members that historically have done business with GSCC's interdealer broker netting members. Business done by the interdealer broker netting members with grandfathered entities is treated by GSCC as business done with an actual netting member.

[8] Unlike a category one IDB, a category two IDB is permitted to have up to ten percent of its business with non-netting members other than grandfathered, nonmember firms. This determination is based on the category two IDB's dollar volume of next-day and forward settling activity in eligible securities over the prior twenty business days.

[9] 15 U.S.C. 78q–1(b)(4)(B) (1988).

[10] 15 U.S.C. § 78q–1(b)(3)(F) (1988).

[11] 17 CFR 200.30–3(a)(12) (1995).