

25 contracts at any time at or after the closing sale of 10 contracts.

Example 2: Investor Y is short 20 call option contracts of a series at the opening of such a trading day. During the day, Z purchases 20 contracts of that series in opening purchase transactions. Y will be able to exercise 20 contracts of that series that day, and will remain short the 20 contracts. However, in the case of OEX option contracts, if Y's transactions had been effected in a market-maker's account, the purchase would have been deemed to have been a closing transaction for the purposes of CBOE Rule 24.18 and would have been offset by Y's short position, resulting in no net long position to exercise.

Example 3: Market-maker Z is short 100 call options contracts at the opening of that trading day. During the day, X purchases 100 contracts and sells 100 contracts of that series, and Z does not mark the transactions as opening or closing. Z will be able to exercise 100 contracts of that series that day under OCC's rules. However, in the case of OEX option contracts, CBOE Rule 24.18 would prohibit Z from exercising any contracts without regard to the sale transactions, since the purchase transactions would be deemed to be closing transactions, and would be netted against his beginning short position, resulting in no net long position to exercise.

The Exchange believes that the proposed rule change is consistent with, and furthers the objectives of, Section 6(b)(5) of the Securities Exchange Act of 1934 in that, by eliminating a possible source of confusion to investors concerning the terms applicable to the exercise of American-style index options, it will promote just and equitable principles of trade and contribute to the protection of 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. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory

organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

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 will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to File No. SR-CBOE-96-29 and should be submitted by September 5, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37539; File No. SR-NSCC-96-10]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving a Proposed Rule Change to Permit Establishment of Alternative Settlement Cycles for Mutual Fund Transactions Through the Fund/SERV System

August 8, 1996.

On April 4, 1996, National Securities Clearing Corporation filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-NSCC-96-10) under Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ On May

³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78(b)(1) (1988).

8, 1996, NSCC filed an amendment to the proposed rule change.² Notice of the proposal was published in the Federal Register on June 26, 1996.³ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change enables NSCC members using NSCC's Fund/SERV system to select settlement cycles for mutual fund transactions.⁴ The Fund/SERV system automatically establishes a settlement cycle and assigns a settlement date to a mutual fund transaction based on the transaction type.⁵ The proposed rule change permits mutual fund transactions to settle on an expanded or shortened settlement cycle upon agreement of the submitting parties. The date established by the submitting parties for a transaction will be the date used for all processing related to that particular transaction and could be as short as the same day or as long as seven business days.

When a member submits a mutual fund order and desires to establish a settlement cycle other than that established by the Fund/SERV system, the member will include in the order data the date on which the transaction is to settle and a reason code for modifying the settlement cycle. The contraparty has the opportunity to accept or reject the transaction. The transaction also will be rejected by NSCC if the specified settlement cycle is longer than seven business days. Once the mutual fund transaction is accepted, NSCC will process the transaction in accordance with the specified settlement cycle.

II. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as NSCC, be designed to promote the prompt and accurate clearance and settlement of securities

² Letter from Julie Beyers, Associate Counsel, NSCC, to Jerry Carpenter, Associate Director, Division of Market Regulation, Commission (May 8, 1996).

³ Securities Exchange Act Release No. 37341 (June 20, 1996), 61 FR 33159.

⁴ FUND/SERV is an NSCC service that permits NSCC members to process and to settle on an automated basis mutual fund purchase and redemption orders and to transmit registration instructions.

⁵ For example, transactions involving shares of traditional load mutual funds normally settle on a three business day settlement cycle whereas transactions for shares of the same fund involving 401K accounts normally settle on a next day settlement cycle.

transactions.⁶ The proposal gives to participants the flexibility to establish alternative settlement cycles when agreed to by the parties. Without such an alternative, parties to a transaction with a nonstandard settlement cycle would either need to submit the trade to FUND/SERV at a later date (to get an extended settlement cycle) or to settle the trade outside of Fund/SERV. The proposal should allow mutual fund transactions to settle more efficiently and may encourage the settlement of more transactions through the automated Fund/SERV system. Thus, the proposal promotes the prompt and accurate clearance and settlement of mutual fund transactions.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (File No. SR-NSCC-96-10) be and hereby is approved.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 96-20786 Filed 8-14-96; 8:45 am]

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[Release No. 34-37543; File No. SR-PSE-96-12]

Self-Regulatory Organizations; Pacific Stock Exchange, Inc.; Order Approving and Notice of Filing and Order Granting Accelerated Approval of Amendments to Proposed Rule Change Relating to Financial Arrangements of Market Makers

August 8, 1996.

I. Introduction

On April 5, 1996, the Pacific Stock Exchange, Inc. ("PSE" 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 19b-4 thereunder,² a proposal to amend its rules on the trading restrictions that apply to options

floor members with "financial arrangements" as defined in PSE Rule 6.40. The proposed rule change was published for comment in the Federal Register on May 15, 1996.³ The Exchange filed Amendment Nos. 1⁴ and 2⁵ to its proposal on June 27, 1996, and July 25, 1996, respectively. No comments were received on the proposed rule change. This order approves the Exchange's proposal.

II. Description of the Proposal

PSE Rule 6.40(a) currently provides that two members have a "financial arrangement" with each other for purposes of Rule 6.40 if: (1) One member directly finances the other member's dealings on the Exchange and has a beneficial interest in the other member's trading account such that the first member is entitled to at least 10% of the second member's trading profits; or (2) both members are trading for the same joint account. Rule 6.40(b) provides that two members with a financial arrangement may not bid, offer and/or trade in the same trading crowd without a written exemption from two floor officials.⁶ Current Commentary .06

³ See Securities Exchange Act Release No. 37186 (May 9, 1996), 61 FR 24521.

⁴ Amendment No. 1 effects three changes to the Exchange's proposal. First, the proposed amendment to PSE Rule 6.40(b)(2) is modified so that a reference to "options series" is replaced by one to "trading crowd." Second, a new Rule 6.40, Commentary .01 is introduced to retain what is essentially current Commentary .04. Third, the numbering of the Minor Rule Plan addition is changed from "28" to "29" because Item 28 already was used in another filing. Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to Francois Mazur, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, dated June 26, 1996 ("Amendment No. 1").

⁵ Amendment No. 2 effects several changes to the Exchange's proposal. First, the Exchange is adding the phrase "so represented or executed" to the third line of subsection (b)(2) to Rule 6.40, and also is making some other technical changes to the text of that subsection. Second, the first line of subsection (b)(4), relating to exemptions, which introduces subsections (A) and (B), has been modified to address exemptions generally. Third, proposed 6.40(b)(4)(A) has been modified to reflect that long-term exemptions will be reviewed at least annually. Fourth, the title of Rule 6.40 has been changed to "Financial Arrangements of Options Floor Members." Fifth, the Exchange notes that decisions to grant or revoke an exemption will be reflected in the Options Floor Trading Committee's ("OFTC" or "Committee") minutes, and members whose exemptions are granted or revoked will be so notified in writing. Finally, the reference to "specialists" in 6.40(c) has been deleted. Amendment No. 2 also describes the manner in which previously-granted long-term exemptions will be reviewed. Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to Francois Mazur, Attorney, Division of Market Regulation, Commission, dated July 24, 1996 ("Amendment No. 2").

⁶ Under PSE Rule 6.40, Commentary .05, two or more Lead Market Makers ("LMMs") who are trading on behalf of the same member organization

sets forth the circumstances under which the OFTC ordinarily may grant an exemption to those trading restrictions, *i.e.*, to provide liquidity in the trading crowd.

The Exchange proposes to redefine the term "financial arrangement" for purposes of Rule 6.40, so that two members have a financial arrangement with each other if: (1) One member directly finances the other member's dealings on the Exchange, the amount financed is \$5,000 or more, and the member providing the financing is entitled to a share of the other member's trading profits; or (2) both members are registered with the Exchange as nominees of the same member Organization; or (3) both members are registered with the Exchange to trade on behalf of the same joint account; or (4) both member's dealings on the Exchange are financed by the same source, the amount financed is \$5,000 or more, and the member providing the financing is entitled to a share of each of the other member's trading profits. The proposal states that members with "financial arrangements," as defined, may not bid, offer and/or trade in the same trading crowd at the same time in the absence of an exemption from the OFTC.

The proposal further provides for both long-term and short-term exemptions that can be provided by the OFTC or two Floor Officials, respectively. Proposed Rule 6.40(b)(4) states, more specifically, that the OFTC may grant long-term exemptions to members on a case-by-case basis if it determines that a fair and orderly market would not be impaired by allowing such members with financial arrangements to trade in the same trading crowd at the same time. In making such determinations, the OFTC shall consider the following factors: (1) The nature of the financial arrangement; (2) the degree of independence to be maintained by the applicants in making trading decisions; (3) the impact on competition in the trading crowd if an exemption were granted; (4) the applicant's prior patterns of trading if they have traded previously in the same trading crowd at the same time; and (5) any other information relevant to whether the applicants would tend collectively to dominate the market in a particular trading crowd or a particular option series. The proposal further states that the Committee may revoke any long-term exemption granted pursuant to this subsection if it determines that a fair

may not trade in the same option series at the same time, but may trade in the same trading crowd at the same time.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12) (1995).

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4.