

implication of the trading of such bonds.

II. 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).¹¹ In particular, the Commission believes the proposal is consistent with the Section 6(b)(5) requirement that the rules of exchange be designated to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling and processing information with respect to, and facilitating transactions in, securities, and, in general, to protect investors and the public interest.

Only municipal bond issuers that qualify under PSE's proposed non-listed corporate issuer distribution criteria will be considered for listing on the Exchange. These criteria, along with any other information relevant to determine whether the issue is appropriate for exchange trading, should ensure that only municipal bond issues that can support a liquid trading market will be listed on the Exchange. Moreover, the regulatory scheme in place for municipal securities now would continue to apply to PSE-listed municipal securities, with the additional coverage of PSE-listed municipal securities, with the additional coverage of the PSE surveillance program to the trading of the listed municipal securities. Finally, PSE-listed municipal securities will be traded like other PSE-listed bonds and will be subject to applicable MSRB Rules. For these reasons, the Commission believes the PSE proposal is consistent with the requirements of Section 6(b) of the Act.

The Commission finds good cause to approve Amendment No. 1 to the filing prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. The Amendment requires that outstanding municipal issues maintain a market value or principal amount of at least \$400,000. The Commission believes that this standard, when considered with the existing requirement that an issue be rated as investment grade by at least one nationally recognized rating service, will ensure that only those issues which are sufficiently liquid for exchange trading will continue to trade on the PSE. In addition, the Commission notes

that the Amendment adopts criteria which makes the PSE's maintenance criteria substantially similar to standards which exist at the American and Philadelphia Stock Exchanges. Accordingly, consistent with Section 6(b)(5) of the Act, the Commission believes that good cause exists to approve Amendment No. 1 to the filing on an accelerated basis.

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1. 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 PSE. All submissions should refer to File No. SR-PSE-96-16 and should be submitted by October 31, 1996.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-PSE-96-16) is approved, as amended.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37782; File No. SR-Phlx-96-36]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Index Value Calculations by the Index Calculation Engine ("ICE") System

October 3, 1996

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act"),¹ notice is hereby given that on August 5, 1996, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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 Phlx, pursuant to Rule 19b-4 of the Act, proposes to utilize the Exchange's own internal system's calculation of index values as: (1) A "back-up" to the values currently calculated by an outside securities information vendor, as well as (2) the official index value for Phlx index options.² Currently, the Exchange utilizes a securities information vendor to calculate the index value for all of its listed index options. Thus, this vendor is the "reporting authority" pursuant to Rule 1000A(b)(9), meaning the institution or reporting service designated by the Exchange as the official source for calculating and determining the current value or the closing index value of the index.

Recently, the Exchange implemented its own index value calculation system, known as the Index Calculation Engine ("ICE"). ICE is a system administered by Regulatory Services, which currently serves as a back-up to the official reporting authority by separately calculating index values. Specifically,

¹ 15 U.S.C. 78s(b)(1).

² The Commission notes that the Phlx seeks to utilize the ICE system value as the official index value in three instances. First, the ICE system value would act as the official index value in the event the reporting authority designated by the Phlx is experiencing difficulties in disseminating an accurate value (e.g., computer failure). Under these circumstances, the ICE system value would be used as the official index value only for the time period that is necessary for the designated agent to correct its problem. This would allow trading to continue in the affected security without interruption.

Second, if the Phlx believes that the problem is chronic, the Exchange may want to designate a different reporting authority or become the reporting authority itself. Therefore, the Phlx seeks the authority to continue to disseminate the ICE system index value during the time it takes the Exchange to make this decision. As soon as this decision is made, however, the Phlx would submit a rule filing pursuant to Section 19 of the Act to switch the reporting authority.

Finally, due to economic and efficiency considerations, the Phlx may want to act as the reporting authority for certain Phlx index options on a permanent basis. Telephone call between Edith Hallahan, Special Counsel, Regulatory Services, Phlx, and Anthony P. Pecora, Attorney, Division of Market Regulation, SEC (Sept. 3, 1996).

¹¹ 15 U.S.C. 78f(b)(5) (1982).

¹² 15 U.S.C. § 78s(b)(2) (1988).

¹³ 17 CFR 200.30-3(a)(12) (1994).

the ICE system receives market price information from another securities information vendor respecting the securities underlying each Phlx index and, employing the particular methodology (*i.e.*, capitalization-weighted), calculates an index value every 15 seconds. Daily, Exchange staff monitors the ICE terminal to ensure that its value coincides with that of the reporting authority, including the last sale prices, outstanding shares, component issues and divisor. The ICE system contains both the Bridge values and the Exchange-calculated values. The system is directed to disseminate the reporting authority's value as opposed to the ICE value at the start of each day. Alarms are established so that if a particular index value calculated by the reporting authority varies by more than a set amount from ICE's value, the alarm will ring to alert staff. If it is determined that the price disruption is due to incorrect information or a technical difficulty with the reporting authority, Exchange staff is able to immediately switch over to the ICE system to disseminate that value. Thus, ICE provides the Exchange with an independent, internal index value as a back-up.

Accordingly, the Exchange proposes to temporarily utilize the ICE system as its reporting authority when ICE indicates that the reporting authority's value is incorrect or the data feed is subject to technical difficulties. The Exchange also proposes to cease using the designated outside vendor as the reporting authority in specific instances, implementing the ICE system as the reporting authority.

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

In its filing with the Commission, the self-regulatory organization 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 self-regulatory organization 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

Currently, three market (broad-based) index options, seven industry (narrow-based or sector) index options and the Super Cap Index option trade on the

Exchange. The reporting authority for each index option is currently Bridge Data. For each index option listed on the Exchange, the specifications and descriptions filed with the Commission detail how the index value is calculated and that the calculation is conducted by Bridge.

In the course of reviewing inconsistencies in index value calculations as well as the disaster recovery implications of using a single, outside reporting authority, the Exchange determined to create and build its own internal system for the calculation and dissemination of index values. Recently, the ICE system was completed, tested, and implemented as a surveillance tool for Phlx Regulatory Services and Market Surveillance staff monitoring Exchange index options trading.

In an effort to make use of the capabilities of the ICE system, the Exchange proposes its implementation where its official reporting authority is not able to accurately calculate an index value. This may occur for many reasons, including a system malfunction due to a power surge, cut cable, or line problem. The reporting authority's value may also be based on incorrect price information received from that vendor's source of such data, which the Exchange is able to verify and adjust using another vendor's values. Prior to the implementation of the ICE system, Exchange staff became aware of faulty index values by way of customer complaint, specialist or market maker notification (who generally calculate index values independently), and staff discovery due to routine monitoring of index values and news releases. None of these methods is instantaneous nor independently reliable.

With the ICE system in place, Exchange staff can immediately detect an inconsistency in the value between the two systems and investigate further to identify where the discrepancy lies. Because the system automatically alerts staff to such inconsistencies, monitoring index values becomes less reliant on staff efforts. The staff role then becomes focused on researching and resolving the inconsistencies identified by the ICE system.

The Exchange also believes that the development of the ICE system facilitates its ability to serve as the reporting authority for its own index values. Thus, the system will serve not only as a back-up, but also as the official reporting authority, replacing the outside securities information vendor. The Exchange is proposing to designate the ICE system as the reporting authority temporarily when the other

value is not reliable, as described above. In addition, the Exchange proposes that the ICE system be implemented as the reporting authority for index values temporarily (replacing the official reporting authority instantaneously) until another official reporting authority can be designated, whether it is ultimately ICE or another securities information vendor.

Lastly, the Exchange proposes to utilize the ICE system to calculate index values for customized options that may be traded in the future on the Exchange. Because customization will allow for various methods of determining the index value, the Exchange must provide a method for calculating and disseminating such values. For instance, a P.M.-settled option such as the National Over-the-Counter Index option could be customized for A.M. settlement, requiring the calculation of a morning value for that option. The Exchange believes it will be more efficient and economical to rely on ICE for these functions, rather than contract with an outside vendor.

The Exchange believes that its ICE system supports the integrity of index values on the Exchange in two ways. First, it serves as an automatic trigger that the official value may be incorrect, with independent verification of data. Second, the ICE system provides an automatic replacement value.

The Exchange notes that pursuant to Rule 1102A, neither the Exchange nor its Reporting Authority shall have any liability stemming from the calculation or dissemination of the current or closing index value.³ The Exchange also notes that other exchanges' rules contain substantially similar definitions of reporting authority and liability provisions, and utilize a wide variety of reporting authorities, including calculating certain index values internally, thereby serving as their own reporting authority.⁴

Thus, the Exchange believes that the proposed rule change is consistent with

³ See also Phlx By-Law Article XII, Section 12-11, Use of Facilities of Corporation (limiting the Exchanges' liability concerning damages sustained by a member or member organization utilizing the Exchange's facilities).

The Commission notes, however, that blanket disclaimers may not apply in all instances. See letter from Murray L. Ross, Vice President and Secretary, Phlx, to Anthony P. Pecora, Attorney, Division of Market Regulation, SEC, dated August 21, 1996, in File No. SR-Phlx-96-11 (stating that the Phlx will not rely upon the limitation of liability clause concerning 3-D options in cases of intentional misconduct or any violation of the federal securities laws); 15 U.S.C. 78cc (limiting the ability to waive the protection of the federal securities laws).

⁴ See, e.g., Chicago Board Options Exchange Rule 24.1, Interpretations and Policies .01.

Section 6 of the Act⁵ in general, and in particular, with Section 6(b)(5),⁶ in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, as well as to protect investors and the public interest, by creating a back-up and alternative determination of index values on the Exchange. This, in turn, promotes the integrity of the index settlement process by improving both the responsiveness to erroneous values as well as providing a replacement value to ensure the accuracy of disseminated index values.

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

The Phlx does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

The Exchange has neither solicited nor received written comments.

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

Within 35 days of the 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 the 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, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Also, copies of such filing will be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR-Phlx-96-36 and should be submitted by October 31, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

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SMALL BUSINESS ADMINISTRATION

Notice; Interest Rates

The Small Business Administration publishes an interest rate called the optional "peg" rate (13 CFR 122.8-4(d)) on a quarterly basis. This rate is a weighted average cost of money to the government for maturities similar to the average SBA direct loan. This rate may be used as a base rate for guaranteed fluctuating interest rate SBA loans. This rate will be 6 $\frac{7}{8}$ percent for the October-December quarter of FY 97.

Pursuant to 13 CFR 108.503-8(b)(4), the maximum legal interest rate for a commercial loan which funds any portion of the cost of a project (see 13

CFR 108.503-4) shall be the greater of 6% over the New York prime rate or the limitation established by the constitution or laws of a given State. The initial rate for a fixed rate loan shall be the legal rate for the term or the loan.

John R. Cox,

Associate Administrator for Financial Assistance.

Calculation of SBA's Peg Rate and Direct Lending Rate

SBA's PEG RATE is a Weighted Average of the last three months like-maturity rates from the Treasury Department, as follows:

Month	Weight	Rate	Weighted rate
July	1	7	7
August	2	7	14
September	3	6.75	20.25
Sum			41.25

Divide by 6 to get peg rate 6.875=peg rate; round to the nearest eighth=6 $\frac{7}{8}$

SBA's direct rate is last month's like-maturity Treasury Rate plus 1%, as follows:

September—6.75+1

Direct Rate=Last Month+1=7.75

Peg Rate: 6 $\frac{7}{8}$

Direct Rate: 7.750%

Average Maturity Calculation

Of EOL Loans, 1404—12.5 Average Maturity of EOL Loans

Of HAL Loans, 954—14.42 Average Maturity of HAL Loans

Of VET Loans, 816—10.92 Average Maturity of VET Loans

Weighted Average			
Weight-EOL Loans.	0.442344	5.529300	
Weight-HAL Loans.	0.300567	4.334177	
Weight-VET Loans.	0.257088	2.807410	
Sum	1	12.67088	=Average Maturity.

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

⁷ 17 C.F.R. 200.30-3(a)(12).