

sixteenths and \$0.50 per contract in the case of eighths assuming a trading increment of one cent) for one side of each adjusted contract and a corresponding loss for the other. However, OCC believes that the committee will not use its adjustment authority unless it determines that the benefits of adjusting outweigh the detriments. If approved, the proposed rule change will be disclosed in a supplement to the options disclosure document.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁴ because it should promote the prompt and accurate clearance and settlement of securities transactions.

B. Self-Regulatory Organizations' Statement on Burden on Competition

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

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

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

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

Section 17A(b)(3)(F) of the Act⁵ requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that the proposed rule change is consistent with this obligation because it should ensure that the exercise price of an option on a security can be expressed in the same increment as the price of the underlying security when the pricing increment of an underlying security has been changed after the issuance of the option. As a result, the proposed rule change should increase the accuracy of the clearance and settlement of options transactions and promote the prompt and accurate clearance and settlement of securities transactions.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the publication of notice of the filing. Approving prior to the thirtieth day after publication of notice should immediately reduce the possibility of inaccurate clearance and settlement of

options transactions where the exercise price of the option is expressed in a different increment than the trading increment of the underlying security.

IV. Solicitation of Comment

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., 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 in the Commission's Public Reference Room, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR-OCC-97-13 and should be submitted by August 12, 1998.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁶ that the proposed rule change (File No. SR-OCC-97-13) be and hereby is approved.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40199; File No. SR-PCX-97-46]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Minimum Trading Increments

July 14, 1998.

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

("Exchange Act" or "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 22, 1997, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II 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 and to grant accelerated approval to the proposed rule change.

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

The PCX proposes to amend its Rule 5.3(b) by adding a new Commentary .02 to permit members to trade on the Exchange in increments smaller than $\frac{1}{16}$, in order to match bids and offers displayed in other markets for the purpose of preventing Intermarket Trading System ("ITS") trade-throughs. The text of the proposed rule change is available at the Office of the Secretary, the PCX, 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, 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

1. Purpose

In May 1997, the Commission approved an Exchange proposal to amend its rules to permit trading of stocks in sixteenths when the selling price is \$5 or above.³ Previously such

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Exchange Act Release No. 38575 (May 5, 1997), 62 FR 26606 (May 14, 1997) (order granting temporary accelerated approval of File No. SR-PCX-97-16); see also Exchange Act Release No. 38780 (June 26, 1997), 62 FR 36087 (July 3, 1997) (order approving File No. SR-PCX-97-15, amending Rule 5.3(b)).

⁴ 15 U.S.C. 78q-1.

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ 15 U.S.C. 78s(b)(2).

⁷ 17 CFR 200.30-3(a)(12).

stocks could only be traded in $\frac{1}{8}$ increments.

Since that time, certain third market makers have disseminated quotations in certain listed securities in fractions smaller than a sixteenth. In addition, ITS has been modified to permit ITS commitments to trade to be sent through ITS in fractions as small as $\frac{1}{64}$. This ITS modification permits PCX members to send orders via ITS to a market displaying a quotation in $\frac{1}{32}$ or $\frac{1}{64}$.

The Exchange believes that it is important to provide its members with flexibility to effect transactions on the Exchange at a smaller increment than $\frac{1}{16}$ for the purpose of matching a displayed bid or offer in another market at such smaller increment (i.e., $\frac{1}{32}$ or $\frac{1}{64}$) for the purpose of preventing ITS trade-throughs. For example, if the best bid on the Exchange is 8 and a bid of $8 \frac{1}{32}$ is displayed through ITS in another market center, the Exchange specialist or floor broker may execute a market or marketable limit order at $8 \frac{1}{32}$ in order to match the other market's bid. Limit orders entered on the Exchange, however, will continue to be priced at the current minimum trading increment of $\frac{1}{16}$, and orders priced in smaller increments will not be accepted.

2. Statutory Basis

The basis under the Act for the proposed rule change is the requirement under Section 6(b)(5)⁴ that an Exchange have rules that are designed to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

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

The proposed rule change will impose no 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 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) of the Act.⁵

Specifically, the Commission believes the proposal is consistent with the Section 6(b)(5)⁶ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public.⁷

Recently, there has been a movement within the industry to reduce the minimum trading and quotation increments imposed by the various self-regulatory organizations ("SROs"). Last year, the PCX, American Stock Exchange ("Amex"), Nasdaq Stock Market ("Nasdaq"), New York Stock Exchange ("NYSE") and Chicago Board Options Exchange ("CBOE") reduced their minimum trading increments.⁸ Currently, exchange rules provide for trading of most equity securities in increments as small as $\frac{1}{16}$ of a dollar.⁹ PCX represents that several third market makers have begun quoting securities in increments smaller than those approved for trading on the primary markets. The proposed rule change will provide PCX with the limited flexibility it needs to address this development and remain competitive with these markets.

The size of the minimum trading increment for securities traded through the facilities of Nasdaq is determined by the technical limitations of the Nasdaq system. Currently, Nasdaq systems are capable of trading securities priced under \$10 in increments as fine as $\frac{1}{32}$ of one dollar. Securities priced over \$10 may be traded in increments as fine as $\frac{1}{16}$ of one dollar.¹⁰ As a result, the Commission recognizes that Nasdaq

third market makers may trade exchange listed securities priced at less than \$10 in increments finer than sixteenths. Nasdaq has informed the Commission that Nasdaq third market makers are currently posting quotes for listed securities in increments finer than sixteenths.¹¹ The proposed amendment to Exchange Rule 5.3(b) will allow PCX traders to match prices disseminated by Nasdaq market makers that may better the PCX quote by an increment finer than the current $\frac{1}{16}$ minimum increment. In addition, the Commission notes that the proposal will enable the Exchange to match prices disseminated by another exchange in the event that another exchange were to reduce its minimum trading increment.¹² The proposal should assist Exchange members to fulfill their obligation to obtain the best price for their customers. Accordingly, the Commission believes that it is reasonable for the Exchange to allow trading in increments finer than sixteenths for the limited purpose of preventing an ITS trade-through.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Approval of the proposal will provide PCX members with the ability to match a better bid or offer made available through ITS, thereby helping to prevent ITS trade-throughs and ensuring the best execution of PCX customer orders. The Commission notes that this proposal is similar to a proposal by the NYSE that was published for the full notice and comment period, no comments were made on that proposal.¹³ Therefore, the Commission believes it is consistent with Section 6(b)(5) and Section 19(b)(2) of the Act to grant accelerated approval to the proposed rule change.¹⁴

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions

⁶ 15 U.S.C. 78f(b)(5).

⁷ In approving this rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁸ See Exchange Act Release No. 38780 (June 26, 1997), 62 FR 36087 (July 3, 1997) (order approving PCX-97-15, amending PCX Rule 5.3(b)); Exchange Act Release No. 38571 (May 5, 1997), 62 FR 25682 (May 9, 1997) (approving an Amex proposal to reduce the minimum trading increment to $\frac{1}{16}$ for certain Amex-listed equity securities); Exchange Act Release No. 38678 (May 27, 1997), 62 FR 30363 (June 6, 1997) (approving a Nasdaq rule change to reduce the minimum quotation increment to $\frac{1}{16}$ for certain Nasdaq-listed securities); Exchange Act Release No. 38897 (Aug. 1, 1997), 62 FR 42847 (Aug. 8, 1997) (approving a NYSE rule change to reduce the minimum quotation increment to $\frac{1}{16}$ for certain NYSE-listed securities); and Exchange Act Release No. 39159 (Sept. 30, 1997), 62 FR 52365 (Oct. 9, 1997) (approving a CBOE rule change to reduce the minimum quotation increment to $\frac{1}{16}$ for stocks).

⁹ *Id.*

¹⁰ The Commission notes that any change to the minimum increment for securities traded through the facilities of the Nasdaq system would be considered a change in an existing order-entry or trading system of an SRO. Accordingly, the NASD would be required to file a proposed rule change under Section 19(b)(3)(A) of the Act to change its minimum increment.

¹¹ Telephone conversation between Andrew S. Margolin, Senior Attorney, Nasdaq, Gene Lopez, Vice President, Trading and Market Services, Nasdaq, and David Sieradzki, Attorney, Commission, on July 8, 1998.

¹² To change its minimum increment, an exchange would be required to file a proposed rule change that would become immediately effective under Section 19(b)(3)(A) of the Act.

¹³ See Exchange Act Release No. 38897 (Aug. 1, 1997), 62 FR 42847 (Aug. 8, 1997). The Commission also notes that it recently approved on an accelerated basis a similar proposal by Amex. See Exchange Act Release No. 40189 (July 9, 1998) (order approving File No. SR-Amex-97-39).

¹⁴ 15 U.S.C. 78f(b)(5) and 78s(b)(2).

⁴ 15 U.S.C. 78f(b)(5).

⁵ 15 U.S.C. 78f(b).

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 Room, located at the above address. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-PCX-97-46 and should be submitted by August 12, 1998.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁵ that the proposed rule change (SR-PCX-97-46) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40193; File No. SR-PCX-98-21]

Self-Regulatory Organizations; Pacific Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Fines for Disruptive Action on the Options Floor

July 10, 1998.

I. Introduction

On April 16, 1998, the Pacific Exchange, Inc. ("PCX" or "Exchange"), filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder² to increase fines for disruptive action involving physical contact between members while on the options floor. Notice of the filing was published in the **Federal Register** on

June 10, 1998.³ No comments were received. This order approves the proposal.

II. Description of the Proposal

The Exchange is proposing to increase its recommended fines under the Minor Rule Plan ("MRP")⁴ for disruptive action involving physical contact between members while on the options floor. These fines are currently set at \$500, \$1,000 and \$2,500 for first, second and third violations, respectively, during a running two-year period. The Exchange is proposing to increase these fines to \$1,500, \$3,000 and \$5,000, respectively.⁵ The purpose of the rule change is to deter future incidents of disruptive conduct involving physical contact on the PCX options floor. The Exchange notes that there has been a moderate increase recently in the number of such cases, and the Exchange intends for the proposed rule change to reverse that trend.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder, and, in particular with the requirements of Section 6(b)(6) of the Act.⁶ Section 6(b)(6) of the Act requires that the rules of the Exchange provide that its

³ Securities Exchange Act Release No. 40063 (June 3, 1998), 63 FR 31823.

⁴ Rule 19d-1(c)(2) under the Act authorizes national securities exchanges to adopt minor rule violation plans for the summary discipline and abbreviated reporting of minor rule violations by exchange members and member organizations. See Securities Exchange Act Release No. 21013 (June 1, 1984), 49 FR 23828 (June 8, 1984) (order approving amendments to paragraph 9(c)(2) of Rule 19d-1 under the Act). Pursuant to PCX Rule 10.13, the Exchange may impose a fine on any member or member organization for any violation of an Exchange rule that has been deemed to be minor in nature and approved by the Commission for inclusion in the MRP. PCX Rule 10.13(h)-(j) sets forth the specific Exchange rules deemed to be minor in nature.

⁵ As noted in PCX Rule 10.13(e), pursuant to Securities Exchange Act Release No. 30958, any person or organization found in violation of a minor rule under the MRP is not required to report such violation on SEC Form BD, provided that the sanction imposed consists of a fine not exceeding \$2,500 and the sanctioned person or organization has not sought an adjudication, including a hearing, or otherwise exhausted the administrative remedies available with respect to the matter. Accordingly, any fine imposed in excess of \$2,500 will be subject to reporting on SEC Form BD in addition to the immediate, rather than periodic, reporting a requirement of Section 19(d)(1) of the Act. See Securities Exchange Act Release No. 30280 (January 22, 1992), 57 FR 3452 (noting that fines in excess of \$2,500, assessed under New York Stock Exchange, Inc. ("NYSE") Rule 476A, are not considered pursuant to the NYSE's minor rule violation plan and are thus subject to the current reporting requirements of Section 19(d)(1) of the Act).

⁶ 15 Proposed Rule Change 78f(b)(6).

members be appropriately disciplined for violations of the Act, the rules and regulations thereunder, and the Exchange's rules. The Commission believes that the proposed fines will serve as a stronger deterrent to disruptive behavior, thereby promoting fair and orderly markets on the options floor and protecting investors and the public interest. The Commission also notes that the proposed fine schedule is graduated to account for repeat offenders and that the Exchange may commence a formal disciplinary proceeding under Exchange Rule 10.3 if it determines that a violation otherwise covered by the MRP is not minor in nature. Accordingly, the Commission believes that the proposed fines will result in appropriate discipline.

IV. Conclusions

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (SR-PCX-98-21) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40208; File No. SR-Phlx-97-63]

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change and Amendment No. 1 Thereto and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to Proposed Rule Change To Adopt a New Method of Calculating Initial and Maintenance Margin Requirements for Foreign Currency Options

July 15, 1998.

I. Introduction

On December 22, 1997, the Philadelphia Stock Exchange, Inc. ("Phlx" 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 proposed rule change that would adopt a new method of

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.