

followed in holding these closing rotations. As with other trading rotations that are provided for currently under Rule 6.2, the Order Book Official, with the approval of two Floor Officials, may deviate from these procedures in handling a closing rotation. In addition, the appropriate Floor Procedure Committee may determine not to hold a closing rotation for a particular class of options for a calendar quarter, in which case prior notice will be provided to the Exchange's membership.

The Exchange has noticed recently that on the last trading day of each calendar quarter there is increased order flow in Exchange-traded options and in the underlying securities, particularly at the end of that trading day. Many large money managers adjust their positions at the end of the calendar quarter because of tax considerations and reporting requirements. As a result of this activity in both the underlying and options markets at the end of the calendar quarter, the last sale print for many stocks is often delayed, sometimes much beyond the close of the options market. To account for late prints and increased order flow at the end of the day, the Exchange believes it is important to provide for a closing rotation in Exchange-traded options at the end of each calendar quarter. These rotations will allow Exchange members to adjust the options prices in line with the prices of the underlying securities; thus, avoiding potential capital and/or margin deficiencies for traders with hedged positions involving the options and the underlying securities. The closing rotation will also give investors and other interested parties more accurate closing prices for CBOE options on these high volume days. Although the Exchange has the authority now under Rule 6.2 to call for closing rotations any time the circumstances warrant, it determined to add this interpretation to the Rule so Floor Officials do not have to make the determination of whether to order a closing rotation each quarter in many different options classes. Also, by adding this Interpretation to its Rules it will give member firms and customers advance notice of the Exchange's intention of holding closing rotations on these four days each year so they can act accordingly.

For quarterly closing rotations, unless otherwise directed by Floor Officials or the appropriate Floor Procedures Committee, the only orders that may participate in the closing rotation are those that are received before the normal close of the trading day, *i.e.*, generally 3:02 p.m. for equity and narrow-based index options and 3:15

p.m. or broad-based index options. The Exchange's Retail Automatic Execution System ("RAES")³ will not be available during the closing rotation.

2. Statutory Basis

The Exchange represents that the proposed rule change is consistent with Section 6(b)(5) of the Act⁴ in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest.

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

The Exchange 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

No written comments were either solicited or received.

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 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, including whether the proposal is consistent with the Act. 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 Room. 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-CBOE-98-26 and should be submitted by August 31, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Jonathan G. Katz,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40300; File No. SR-DTC-98-15]

Self-Regulatory Organizations; The Depository Trust Company; Notice of a Proposed Rule Change to Incorporate the Rules and Procedures of Participants Trust Company, To Increase the Size of the Board of Directors, and To Amend the Rules Regarding the Use of the Participants Fund

August 3, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 13, 1998, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") and on July 30, 1998, amended 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

Under the proposed rule change, in connection with the proposed merger of Participants Trust Company ("PTC") and DTC,² DTC will incorporate the rules and procedures of PTC into its rules and procedures and will increase the size of its Board of Directors. DTC is also proposing to amend its rules

⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

³ RAES is the Exchange's automatic execution system for small public customer market or marketable limit orders.

⁴ 15 U.S.C. 78f(b).

² For a description of the proposed merger, refer to Securities Exchange Act Release No. 40121 (June 24, 1998), 63 FR 35631 [File Nos. SR-DTC-98-12, SR-PTC-98-02] (notice of proposed rule change relating to proposed merger between DTC and PTC).

regarding the use of its participating fund.

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.³

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

DTC and PTC have entered into a merger agreement under which PTC will merge with and into DTC. DTC will form a mortgage-backed securities division ("MBS Division") to deliver the depository services currently provided by PTC to its participants with respect to PTC-eligible securities. Under the merger agreement, the MBS Division will remain in place until at least September 30, 2000. Current PTC participants will be given the opportunity to become participants and limited purpose participants in the MBS Division. The cash and securities presently constituting the PTC participants fund will be transferred to a new MBS Division participants fund.

Under the proposed rule change, DTC will adopt PTC's rules and procedures, with certain modifications, as the rules and procedures of the MBS Division.⁴ DTC intends to incorporate PTC's rules without altering the rights and responsibilities of either PTC participants or DTC participants.

The merger agreement also provides that as of the effective date of the merger a person initially nominated by PTC's Board shall become a member of DTC's Board. This new director position is to remain in place at least until September 30, 2000. In order to accommodate the new director position, the proposed rule change will amend DTC's By-Laws to increase the number of directors on its Board from seventeen to eighteen.

Virtually all of PTC's participants are also DTC participants.⁵ DTC participants are entitled to acquire DTC stock based upon their use of DTC's services. The amount of each DTC participant's entitlement is recalculated each year, and participants that purchase DTC's stock are permitted to vote in the election of DTC's Board of Directors. After DTC and PTC merge, the calculation of each participant's entitlement to acquire DTC stock will take full account of its use of services provided through the MBS Division. DTC believes that expansion of the Board in this manner should provide additional assurances to current PTC participants that DTC's Board will be aware of their service needs.

In addition to the amendments regarding the creation of the MBS Division, DTC is amending the rules relating to the use of its participants fund. Under the proposed rule change, DTC's Rule 4 will be amended to make clear that if DTC were to cease providing some or all of its services, it could use the participants fund to cover wind-down costs that are not covered by service fee revenues or other available resources.

DTC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁶ and the rules and regulations thereunder. DTC believes that the proposal should assure the continued availability to PTC users of efficient and cost-effective depository services and thereby should facilitate the prompt and accurate clearance and settlement of transactions in PTC-eligible securities. In addition, DTC believes that its governance procedures should continue to allow its participants to have a fair opportunity to acquire DTC voting stock in proportion to their use of DTC's services.

(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

DTC has not solicited or received comments on the proposed rule change.

Informally, a number of participants have expressed support of the subject proposals.

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

Within thirty-five 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 ninety 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 DTC 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, 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, 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 in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of DTC. All submissions should refer to File No. SR-DTC-98-15 and should be submitted by August 31, 1998.

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

Jonathan G. Katz,

Secretary.

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³ The Commission has modified the text of the summaries prepared by DTC.

⁴ The full text of the proposed rules of the MBS Division is included in DTC's proposed rule filing which is available for inspection and copying at the Commission's public reference room and through DTC.

⁵ The only exceptions are Federal Home Loan Mortgage Corporation (a limited purpose participant), Federal National Mortgage Association, and The Federal Reserve Bank of Cleveland.

⁶ 15 U.S.C. 78q-1.

⁷ 17 CFR 200.30-3(a)(12).