

readily available through a variety of public sources.

Further, the Commission notes that the value of the DJES50 will be disseminated on a real time basis at least once every 15 seconds throughout the trading day. The Commission believes that this information will be extremely useful and beneficial for investors in DJES50 BRIDGES. Although the BRIDGES are denominated in U.S. dollars, as noted above, the index value, until January 1, 1999, will be derived from converting the value of each security from its home currency into ECUs. After the EMU introduces the euro currency on January 1, 1999, the index will be calculated in euros, with currency conversions made at the exchange rates prescribed by EMU law. The Commission believes that valuing all the index components using the ECU or euros, as appropriate, is permissible since the same methodology for valuing the index will be used throughout the life of the BRIDGES. Nevertheless, the fact that the index value does not reflect U.S. dollars and contains currency risk will be highlighted in the circular to members.<sup>27</sup>

Fourth, while the Commission has a systematic concern that a broker-dealer or a subsidiary providing a hedge for the issuer will incur position exposure, the Commission believes this concern is minimal given the size of the proposed BRIDGES issuance in relation to the net worth of the issuer.<sup>28</sup>

Finally, the Exchange's surveillance procedures will serve to deter as well as detect any potential manipulation. As noted above, NYSE represents that it has in place surveillance sharing arrangements with the appropriate regulatory organizations in countries representing over 95 percent of the capitalization of the DJES50. Further, if the surveillance coverage should fall below certain levels, as discussed above, no new BRIDGES will be listed. This should help to ensure that adequate surveillance mechanisms exist in the future.

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**. Specifically, the Commission believes that the proposal does not raise any regulatory issues that were not addressed by the Term Notes Approval Orders. In addition, to the

extent that the DJES50 has certain characteristics that differ from the previous Term Notes Approval Orders, the Commission believes that the NYSE has adequately addressed those issues. Accordingly, the Commission believes that good cause exists, consistent with Section 6(b)(5) and Section 19(b)(2) of the Act, to grant accelerated approval to the proposed rule change.<sup>29</sup>

*It Is Therefore Ordered*, pursuant to Section 19(b)(2) of the Act,<sup>30</sup> that the proposed rule change (SR-NYSE-98-22) is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>31</sup>

**Jonathan G. Katz,**

*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40293; File No. SR-PCX-98-34]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Telephone Fees

July 31, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on June 26, 1998, 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, 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 Exchange is proposing to modify its Schedule of Rates for Exchange Services to include various charges for the use of telephones and telephone equipment on the trading floors.

The text of the proposed rule change is available at the Office of the Secretary, 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

The Exchange is proposing to adopt new telephone fees and charges to cover the cost of a new telephone system and telephones (MX Digital Turrets). The PCX currently provides the telephone system used by members on the Options Floor and Equities Floor in Los Angeles. To set pricing to cover the cost of this new technology, the PCX is proposing to establish the following fees:

*PCX Options Floor Telephone Fees:* \$60 per month for each MX phone; \$30 per month for each non-MX phone; \$14 per month for each line; \$50 per month for each cordless phone; and \$110 per month for each drop phone.

*PCX Equities Floor Telephone Fees (Los Angeles only):*<sup>2</sup> \$60 per month for each 32-button phone; \$45 per month for each 16-button phone; \$9 per month for each line; and \$1 per month for each line appearance.

These fees are designed to cover the cost of the new MX telephone system and telephones.

###### 2. Statutory Basis

The Exchange represents that the proposed rule changes are consistent with Section 6(b)<sup>3</sup> of the Act in general and further the objectives of Section 6(b)(4)<sup>4</sup> in particular because it provides for the equitable allocation of reasonable dues, fees and other charges among its members.<sup>5</sup>

<sup>2</sup> Fees for telephones and related equipment for the Equities Floor in San Francisco are passed through to Member Firms. Direct monthly billing for telephone and equipment leasing has not been implemented in San Francisco.

<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(4).

<sup>5</sup> In approving these rules, the Commission has considered the proposed rules' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>27</sup> Telephone conversation between Vincent F. Patten, Assistant Vice President, Investment Banking Division and New Products, NYSE; James T. McHale, Special Counsel, Division, SEC and David Sieradzki, Attorney, Division, SEC on July 31, 1998.

<sup>28</sup> See Term Notes Approval Orders, *supra* note 6.

<sup>29</sup> 15 U.S.C. 78f(b)(5) and 78s(b)(2).

<sup>30</sup> 15 U.S.C. 78s(b)(2).

<sup>31</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

### *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*

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

The foregoing rule change establishes or changes a due, fee, or other charge and, therefore, has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>6</sup> and subparagraph (e)(2) of Rule 19b-4 thereunder.<sup>7</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### **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, 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. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange.

All submissions should refer to File No. SR-PCX-98-34 and should be submitted by September 1, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Jonathan G. Katz,**

*Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-40304; File No. SR-PTC-98-03]

### **Self-Regulatory Organizations; Participants Trust Company; Notice of Filing of a Proposed Rule Change Regarding PTC's Pricing and Margining Methodology for Newly Issued Collateralized Mortgage Obligation Securities**

August 4, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on June 15, 1998, the Participants Trust Company ("PTC") 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 primarily by PTC. 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**

The proposed rule change will modify PTC's pricing and margining methodology with respect to newly issued collateralized mortgage obligation ("CMO") securities to more accurately reflect the value of CMOs.

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

In its filing with the Commission, PTC 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. PTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>2</sup>

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

In general, PTC values a participant's securities for the purpose of assuring that sufficient collateral will be available for PTC to borrow against or liquidate in the event the participant's debit balance is not satisfied at end of day settlement. Securities in a participant's account are valued by applying a margin to the assigned market value of the securities. The purpose of margin is to limit the risk caused by fluctuations in the market value of the securities.

CMOs that are currently on deposit at PTC are CMO securities issued or guaranteed by the Government National Mortgage Association ("GNMA") and the Department of Veteran's Affairs ("VA") and certain issues guaranteed by the Federal Home Loan Mortgage Association ("FHLMA") and the Federal National Mortgage Association ("FNMA") that are collateralized by GNMA securities.

PTC assigns a market value to a CMO security by selecting the lower of the two prices for the security as supplied by two nationally recognized pricing sources. To establish a margin for a CMO, PTC subjects each CMO tranche to a "stress test" to project the largest percentage price decrease resultant of a 50 basis point upward movement in Treasury yields and a 100 basis point downward movement in Treasury yields.<sup>3</sup>

CMO tranches for which prices are not available from PTC's pricing vendors are margined at 100% (i.e., are given no value in PTC's system), and the minimum margin for any CMO tranche is 5%. Margins are reevaluated at least quarterly and in response to certain defined market or price shifts. PTC currently prices and margins new issue CMO securities in the same manner in which secondary or seasoned CMO securities are priced and margined (i.e., based upon the lower of two prices received from PTC's two vendors and application of the standard stress test).

In the case of newly issued CMO securities, however, the information on the security that the vendor uses to establish its price is generally not available to the vendor until after issuance. The release of information after issuance does not allow the vendor sufficient time to model and price a new

<sup>8</sup> 17 CFR 200.30-(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> The Commission has modified the text of the summaries prepared by PTC.

<sup>3</sup> PTC's current CMO margin and pricing methodology was approved by the Commission on April 30, 1996. Securities Exchange Act Release No. 37152 (April 30, 1996), 61 FR 20304 [File No. SR-PTC-96-02].

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> 17 CFR 240.19b-4(e)(2).