

and should be submitted by September 21, 1998.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 98-23314 Filed 8-28-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40359; File No. SR-PTC-98-03]

Self-Regulatory Organizations; Participants Trust Company; Order Granting Accelerated Approval of a Proposed Rule Change Regarding PTC's Pricing and Margining Methodology for Newly Issued Collateralized Mortgage Obligation Securities

August 25, 1998.

On June 15, 1998, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-PTC-98-03) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on August 11, 1998.² For the reasons discussed below, the Commission is granting accelerated approval of the approved rule change.

I. Description

The rule change modifies PTC's pricing and margining methodology for new issue collateralized mortgage obligation ("CMO") securities to more accurately reflect their value during an initial period when pricing vendors are generally unable to provide prices.³ Under the rule change, PTC will obtain indicative bid side prices (prior to the issuance of the CMO security) for each class of the issue from the deal underwriter prior to the closing. PTC will establish margins on new issue CMO securities (priced by reference to underwriter supplied prices) based on larger interest rate shifts, +100 or -200 basis points, than are applied to vendor priced CMO issues, +50 or -100 basis points. Interest only, principal only, and

inverse floater classes will be given no value.

The underwriter supplied values will be used for a maximum of three weeks after the issuance. Any CMO issue not priced by both pricing vendors PTC uses at three weeks from issuance will be given a value of zero, as is currently the case, and will continue to be the case with respect to all but new CMO issues for this three week period.⁴

II. Discussion

Section 17A(b)(3)(F) of the Act⁵ requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. As discussed below, the Commission believes that PTC's proposed rule change is consistent with this obligation.

The Commission believes that the rule change will enable PTC to price and margin new issue CMO securities in a manner which will more accurately reflect their value when pricing vendors are unable to provide prices. The Commission believes that the rule change should allow PTC to more accurately value a participant's securities for purposes of collateral value in PTC's system while still assuring that PTC has available to it sufficient collateral in the event a participant does not satisfy its debit balance at the end of day settlement. Therefore, the Commission believes that the rule change is consistent with PTC's obligation to safeguard securities and funds.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after publication of notice because such approval will allow PTC to implement the modified margining and pricing methodology for new CMOs in a timely manner in connection with PTC's merger with The Depository Trust Company scheduled to occur during the month of August 1998.

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 Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the

proposed rule change (File No. SR-PTC-98-03) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Jonathan G. Katz,

Secretary.

[FR Doc. 98-23317 Filed 8-28-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40355; File No. SR-Phlx-98-30]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Reduce the Value of the National Over-the-Counter Index ("XOC")

August 24, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 16, 1998, the Philadelphia Stock Exchange, Inc. ("Phlx" 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 Exchange. 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 proposes to reduce the value of its National Over-the-Counter Index ("Index") option ("XOC") to one-fourth its present value by quadrupling the divisor used in calculating the Index. In addition, the position and exercise limits applicable to the XOC will be quadrupled until the last expiration date then trading. The Index is a capitalization-weighted market index composed of the 100 largest capitalized stocks traded over-the-counter. The other contract specifications for the XOC remain unchanged.

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

In its filing with the Commission, the Exchange 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

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 40304 (August 4, 1998), 63 FR 42897.

³ For a detailed description of PTC's pricing and valuation of CMOs, refer to Securities Exchange Act Release No. 40304, *Id.*

⁴ PTC currently gives new issue CMOs a zero value during this period in its assessment of a participant's collateral.

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

statements may be examined at the places specified in Item IV below. The Phlx 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

The Exchange began trading the XOC in 1985.² The Index was created with a value of 150 on its base date of September 28, 1984, which rose to 548 in June 1994, 700 in June 1995 and 868 in September 1995. In December 1995, the Exchange split the Index to one-half its value.³ As of June 10, 1998, the index value was 869.22. Thus, the value has increased significantly, especially during the last eighteen months. Consequently, the premium for XOC options has also risen.

As a result, the Exchange proposes to conduct a "four-for-one split" of the Index, such that the value would be reduced to one-quarter of its present value. The number of XOC contracts will be quadrupled, such that for each XOC contract currently held, the holder would receive four contracts at the reduced value, with a strike price one quarter of the original strike price. For instance, the holder of an XOC 800 call will receive four XOC 200 calls. In addition to the strike price being reduced by one quarter, the position and exercise limits applicable to the XOC will be quadrupled, from 25,000 contracts to 100,000 contracts until the last expiration then trading, which is the March 1999 expiration.⁴ This procedure is similar to the one employed respecting equity options where the underlying security is subject to a four-for-one stock split. The trading symbol will remain as XOC (plus any necessary wrap symbols).

In conjunction with the split, the Exchange will list strike prices surrounding the new, lower index value, pursuant to Phlx Rule 1101A.⁵ The Exchange will announce the

effective date by way of an Exchange memorandum to the membership, also serving as notice of the strike price and position limit changes.

The purpose of the proposal is to attract additional liquidity to the product in those series that public customers are most interested in trading. For example, the September 870 calls on June 11 were quoted at 51–52 while the puts were quoted at 40–41. A four-for-one split would serve to reduce the price of the aforementioned options to approximately 12¾–13 for the calls and 10–10¼ for the puts, thus making them more accessible to the retail investor. The Exchange believes that certain investors and traders may be impeded from trading XOC options at their current levels. A reduced value should, in the Phlx's view, encourage additional investor interest.

The Exchange believes that XOC options provide an important opportunity for investors to hedge and speculate upon the market risk associated with the underlying over-the-counter stocks. By reducing the value of the Index, such investors will be able to utilize this trading vehicle, while extending a smaller outlay of capital. This should attract additional investors, and, in turn, create a more active and liquid trading environment.

The Exchange believes the proposed rule change is consistent with Section 6 of the Act in general, and in particular, with Section 6(b)(5), in that it is designed to promote just and equitable principles of trade, as well as to protect investors and the public interest, by establishing a lower index value, which should, in turn, facilitate trading in XOC options. The Exchange believes that reducing the value of the Index does not raise manipulation concerns and would not cause adverse market impact, because the Exchange will continue to employ its surveillance procedures and has proposed an orderly procedure to achieve the index split, including adequate prior notice to market participants.

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

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 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 Phlx 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 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 the Phlx. All submissions should refer to File No. SR-Phlx-98-30 and should be submitted by September 21, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Jonathan G. Katz,
Secretary.

[FR Doc. 98-23312 Filed 8-25-98; 8:45 am]

BILLING CODE 8010-01-M

² Securities Exchange Act Release No. 22044 (May 17, 1985) 50 FR 21532 (May 24, 1985) (File No. SR-Phlx-84-28).

³ Securities Exchange Act Release No. 36577 (December 12, 1995) 60 FR 65705 (December 20, 1995) (SR-Phlx-95-61).

⁴ At this time, the position and exercise limits will return to the current level of 25,000 contracts.

⁵ Specifically, because the Index value would be less than 500, the applicable strike price interval would be \$5 in the first four months and \$25 in the fifth month. Phlx Rule 1101A(a).

⁶ 17 CFR 200.30-3(a)(12).