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

The purpose of the proposed regulatory circular is to make it clear that the holder of an American-style option is able to exercise the option at any time up to the exercise cut-off time on any trading day other than the final trading day, even if the holder has sold the option in a closing sale transaction during that trading day. According to the CBOE, this result follows from OCC's sequencing procedures for processing daily activity on every day other than the final trading day.[1]

Specifically, on every day other than the final trading day, OCC's sequencing procedures provide that opening purchase transactions, opening sales transactions, and closing purchase transactions effected on that day are processed before exercises, and exercises are processed before that day's closing sales transactions. As a result, to the extent there is no violation of the CBOE's and OCC's exercise limits, an investor may exercise an option series on any day other than the final trading day to the full extent of the sum of: (1) All the long positions in his account at the opening of that day, plus (2)(a) (in the case of a firm or customer) all positions resulting from the investor's opening purchase transactions on that day without deduction for that day's closing sales transactions, or (b) (in the case of a market maker) all positions resulting from the market maker's purchase transactions that day without deduction for the market maker's sales transactions effected that day.[2] If the number of contracts sold by an investor in closing sales transactions exceeds the number of long positions remaining in the account after the exercises are processed, OCC treats the excess as having been sold in opening sales transactions and the contracts are subject to being assigned exercises. However, a brokerage firm or clearing member may have procedures which would prevent an investor from effecting an exercise that would result in changing a closing sales transaction into an opening sales transaction.

The CBOE's proposed regulatory circular provides several examples illustrating how the OCC's procedures apply to both customers and market makers. In addition, the proposed regulatory circular notes that OCC's sequencing procedures for processing activity on the final trading day provide for the processing of all purchase and sales transactions before exercises and assignments are processed. As a result, on the final trading day an investor may not exercise more than the investor's long positions remaining after netting any short position the investor may have at the opening that day and all options contracts the investor sells that day.

According to the CBOE, the OCC procedures described in the proposed regulatory circular are not new. Nonetheless, the Exchange believes it is important for all members to have the same understanding of these procedures and how they affect exercises. By making Exchange members and their customers better informed as to the procedures that apply to the exercise of American-style options, the CBOE believes that the publication of the proposed regulatory circular will serve to further the purposes of Section 6(b) of the Act, in general, and of Section 6(b)(5), in particular, by promoting just and equitable principles of trade and protecting investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The CBOE does not believe that issuances of the proposed regulatory circular will impose any 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 regulatory circular.

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

The proposed rule change constitutes a stated policy, practice or interpretation with respect to the administration of an existing CBOE rule. Accordingly, the proposal has become effective pursuant to Section 19(b)(3)(A) of the Act and subparagraph (e) of Rule 19b–4 thereunder. At any time within 60 days of the filing of such 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. 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, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by February 28, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[3]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–2617 Filed 2–6–96; 8:45 am]

BILLING CODE 8010–01–M

[1] For purpose of the proposed regulatory circular, the final trading day is the expiration date of options that trade on their expiration date or the last trading day prior to the expiration date for all other options.

[2] Market makers are not required to mark their transactions as opening or closing transactions. Customer transactions must be marked as opening or closing transactions.

[3] 17 CFR 200.30–3(a)(12) (1995).

[Release No. 34–36798; File No. SR–DTC–95–14]

Self-Regulatory Organizations; The Depository Trust Company; Order Approving a Proposed Rule Change Seeking Depository Eligibility of Fractional Shares and Cent-Denominated Securities

January 31, 1996.

On August 4, 1995, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–DTC–95–14) 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 November 6, 1995.[2] No comment letters were received. For the reasons discussed below, the

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] Securities Exchange Act Release No. 36436 (October 30, 1995), 60 FR 56079.

Commission is approving the proposed rule change.

I. Description of the Proposal

Under the rule change, cent-denominated securities and fractional shares of securities will be eligible for book-entry deliver and other DTC services. The proposal is being made in response to requests made by DTC participants.[3] This rule change anticipates the accelerated securities processing environment that will be triggered by the conversion of DTC's money settlement system to an entirely same-day funds settlement (''SDFS'') system.[4] DTC will implement the eligibility of fractional shares on a voluntary basis.

Under the rule change, DTC estimates that approximately 6,000 cent-denominated issues will become eligible for book-entry delivery. Of those 6,000 issues, DTC estimates that 350 are treasury receipts.[5] Participants now will be able to deposit cent-denominated securities at DTC by using DTC's Deposit Automation Management (''DAM'') service.[6] In recording participants' deposits, DTC will ''truncate'' (*i.e.*, cut off) the cents portion of the aggregate dollar figure for the deposited securities. Having eliminated the cents portion from the position, DTC only will reflect the whole dollar amount of deposits in the participant's account at DTC.[7] All related services and transactions thereafter will be effected in whole dollar increments, including principal and income payments.[8]

The truncated amounts will be collected in an internal DTC account. DTC has stated that the sum is not expected to be significant at first and therefore will not warrant the expense of developing a complex system to enable DTC to credit the truncated cents to each respective depositing participant. Instead, the cents and any income derived therefrom will become part of DTC's general revenues. Because DTC refunds revenues in excess of its costs to its participants, DTC in effect will pass along the value of the truncated cents to participants as part of DTC's general refund when and if refunds of excess revenues are distributed.[9] Participants also will forfeit any voting rights on truncated cents.

In time, depending on the size of the accumulated truncated amounts, DTC may reconsider developing a tracing mechanism to enable it credit these amounts to the accounts of depositing participants. In order for the Commission to monitor the magnitude of the truncated amounts, DTC will provide to the Commission annual written notice of the total amount of the general refund distributed to DTC participants that is generated from such truncated amounts [10] and the number of issues from which cents were truncated.[11] However, at this time, DTC believes that the actual financial effect on tits participants of the cent truncation will be negligible and well within industry practice for reconciling de minimis differences in such things as deliveries and deposits.

Under the new rule, DTC also is implementing a voluntary depository eligibility program for securities denominated in fractional shares.[12] DTC will carry the fractional portions under a contra-CUSIP number with full shares being reflected in the primary CUSIP. Deliver orders and pledges will not initially be permitted to be denominated in fractional shares.[13] However, as the fractional shares accumulate to constitute full shares, DTC participants will have the option to move the shares from the contra-CUSIP to the primary CUSIP where the shares will be eligible for all activities.[14] Alternatively, the accumulated fractional shares can be left in the contra-CUSIP. DTC also will provide enhanced physical processing so that deposits and withdrawals-by-transfer containing both whole and fractional shares can be combined. DTC will handle the process of separating the whole shares to the primary CUSIP and the fractional shares to the contra-CUSIP.

[3] The results of a survey conducted by DTC in 1992 showed that most responding participants wished to have certain types of issues not then eligible for depository services made DTC-eligible. Among others, cent-denominated securities and fractional shares were securities participants requested be made depository eligible. Subsequently, DTC distributed to its participants a notice dated August 24, 1994, which outlines the specific procedures to be employed in connection with the proposed services. In response to the August notice, seven commenters favored making cent-denominated securities eligible for book-entry delivery while our commenters did not. The dissenters generally stated that either such services were unnecessary in relation to their expense or that the proposed services would fail to provide any improvement in the way DTC participants currently process such securities. With regard to fractional shares, commenters generally favored making such shares depository eligible but ten commenters disfavored DTC's use of a contra-CUSP to identify the fractional shares. Six commentes favored the use of the contra-CUSIP. Dissenting commenters cited the anticipated difficulties in CUSIP and contra-CUSIP reconciliation as well as in providing programming resources to accommodate the contra-CUSIP given that such resources were seen as already fully committed to the upcoming change to a same-day funds settlement system and the conversion to a T+3 settlement cycle. To address its participants' concerns evidenced in the earlier letters, DTC devised the current proposal that provides for voluntary implementation of services for fractional shares. This newer, more flexible approach was described to participants in a notice dated December 14, 1994.

[4] The term ''same-day funds'' refers to payment in funds that are immediately available and generally are transferred by electronic means. Currently, transactions in equities, corporate debt, and municipal debt are settled in ''next-day funds'' (a term that refers to payment by means of certified checks that are for value on the following day). Transactions in commercial paper and other money market instruments are settled in same-day funds. On February 22, 1996, all issues currently settling in next-day funds will convert to settlement in same-day funds.

[5] This estimate is based on information compiled by a DTC participant. Treasury receipts are proprietary products of broker-dealers created by stripping the coupons from U.S. Treasury securities (''Treasuries'') with the resulting instrument representing an interest in the stripped coupons or in the remaining principal (*i.e.* zero coupon products). The U.S. Treasury now issues STRIPS (Separate Trading of Registered Interest and Principal of Securities) bonds which essentially have replaced the Treasury receipt in function. The Treasury issues STRIPS in a format that allows dealers to sell them immediately as zero-coupon products and does not require the repacking steps that are necessary to transform straight Treasuries into zero-coupon instruments. Other newly eligible issues will include church bonds and various other securities types. Church bonds are securities issued by religious organizations to finance building or renovation projects. These securities typically are issued in small dollar amount within a confined geographical area.

[6] DAM is an enhanced automated deposit service that enables DTC participants to send details of deposits to DTC in advance of forwarding the physical certificates. For a complete description of DTC's DAM service, refer to securities Exchange Act Release No. 33412 (January 4, 1994), 59 FR 1769 [File No. SR–DTC–93–09] (order approving proposed rule change).

[7] For example, if a participant deposits ten certificates at $1.15, $11.00 will be credited to the participant's DTC account, and the remaining fifty cents will be truncated.

[8] Under the rule change, participants will garner the benefit of administrative efficiencies that will attend the elimination of centers. Specifically, fewer keystrokes will be required to enter dollar values, and less record surveillance will be required to account for and reconcile amounts less than a dollar.

[9] Any refunds from the truncation program will be distributed to all DTC participants and not only those participants depositing cent-denominated securities.

[10] Telephone conversation between Jack Weiner, Associate Counsel, DTC, and Mark Steffensen, Attorney, Division of Market Regulation (''Division''), Commission (January 26, 1996).

[11] Telephone conversation between Jack Wiener, Associate Counsel, DTC, and Jerry W. Carpenter, Assistant Director, and Peter R. Geraghty, Senior Counsel, Division, Commission (January 31, 1996).

[12] A fractional share is a unit of stock less than one full share.

[13] DTC also is investigating the possibility of developing and providing a limited delivery capability that would require receiver authorization prior to a delivery being made.

[14] DTC participants also will have the ability to break up full shares under the primary CUSIP into fractional shares under the contra-CUSIP although the resulting fractional shares will not be initially eligible for deliver orders or for pledging purposes.

II. Discussion

Section 17A(b)(3)(F)[15] of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of transactions. The Commission believes DTC's proposed rule change is consistent with DTC's obligations under the Act because it will make cent-denominated shares and fractional shares eligible for deposit at DTC and thus eligible for other DTC services. The rule change will allow DTC participants to remove cent-denominated securities and fractional share certificates from their vaults and to deposit them at DTC. Including cent-denominated securities and fractional shares in the class of securities eligible for deposit at DTC should help to eliminate the costly, cumbersome, and inefficient physical processing of these securities thus promoting the prompt and accurate clearance and settlement of transactions in these types of securities.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of 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–DTC–95–14) be, and hereby is, approved.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–2539 Filed 2–6–96; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–36784; File No. SR–Phlx–95–79]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Bid Test Exemption

January 29, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on January 2, 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 proposes to amend its Rule 1072, Reporting Requirements Applicable to Short Sales in NASD/NM Securities, to permit affiliated Registered Option Traders (''ROTs'') to trade for each other's account pursuant to the market maker exemption contained therein. Rule 1072 establishes specific criteria exempting Phlx specialists and ROTs from the NASD's ''bid test'' applicable to Nasdaq/National Market (''NM'') securities. The NASD bid test, with certain exception, prohibits short sales at or below the current inside bid when that bid is below the previous inside bid.[2] Specifically, the Phlx proposes to extend its market maker exemption to include short sales by affiliated ROTs as ''by or for a qualified options market maker'' consistent with Rule 1072(c)(2). The proposed language in Rule 1072(c)(2)(iii)(A) would thus permit ROTs of the same member organization to trade pursuant to the exemption, even when the ROT trading the account has not designated that NM issue.

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

In 1994, the NASD adopted a bid test rule applicable to NM securities traded through Nasdaq prohibiting short sales of NM securities at or below the current inside bid when that bid is below the previous inside bid.[3] An exemption from this rule exists for option market makers hedging options positions with the related underlying securities, and the qualifying short sales are referred to as ''exempt hedge transactions.'' Pursuant to this market maker exemption, the Phlx adopted Rule 1072 establishing specific criteria for a short sale to qualify as an ''exempt hedge transaction'' in ''designated'' NM issues.[4] Generally, option specialists may rely on the exemption for short sales in NM securities underlying their specialist equity options, and index options if at least 10% of the value of the index is comprised of NM securities. In addition, ROTs must be assigned in that option to rely on the exemption and may only use the exemption in 20 designated NM issues.

The Phlx now proposes to permit affiliated ROTs to trade one another's accounts pursuant to Rule 1072. Specifically, the amendment would allow an ROT to effect bid test exempt short sales in a Nasdaq/NM security which that ROT has not designated as qualifying for the exemption, provided that the security is a designated Nasdaq/NM security of another ROT of the same member organization, and further provided that such other ROT is not also present or represented by a Floor Broker in the same trading crowd at the time of the bid test exempt sale. The Exchange notes that this amendment is similar to a CBOE proposal to permit nominees of a market maker organization to qualify for the exemption.[5]

The Phlx believes that the proposed amendment should facilitate ROT activity by allowing member organizations to manage better their market making activities. Managing these obligations and monitoring positions is especially critical when a ROT is absent from the trading floor. The Exchange also believes that the proposed provision is consistent with the intent of the market maker exemption to the short sale rule, in that the exemption continues to be limited to those Nasdaq/NM securities which are

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[15] 15 U.S.C. 78q–1(b)(3)(F) (1988).

[16] 17 CFR 200.30–3(a)(12) (1995).

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] NASD Rules of Fair Practices, Art. III, Section 48.

[3] Securities Exchange Act Release No. 34277 (June 6, 1994), 59 FR 34885 (granting temporary approval).

[4] Securities Exchange Act Release No. 34632 (September 2, 1994), 59 FR 46999. The other options exchanges adopted rules similar to Phlx Rule 1072. See Chicago Board Options Exchange (''CBOE'') Rule 15.10, New York Stock Exchange (''NYSE'') Rule 759A, American Stock Exchange (''Amex'') Rule 957, and Pacific Stock Exchange (''PSE'') Rule 4.19. *Id.*

[5] Securities Exchange Act Release No. 35281 (January 26, 1995), 60 FR 6575.