

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice of the filing thereof in that accelerated approval will allow dual NYSE/NASD and NASD-only members who were registered in good-standing with the Canadian securities regulators to utilize the recently approved versions of the modified general securities representative examination. The NASD's proposal is comparable to the NYSE's proposal (SR-NYSE-95-29) that was published in the Federal Register on October 23, 1995, and drew no comment. The Commission approved the NYSE's proposal on December 21, 1995. Accordingly, the Commission finds good cause for approving the NASD's analogous proposal prior to the thirtieth day after publication of notice of filing thereof.

V. 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 in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by March 7, 1996.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹ that the proposed rule change be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36823; File No. SR-OCC-95-13]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Relating to Adjustments of Options for Ordinary Stock Dividends

February 8, 1996.

On September 19, 1995, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-95-13) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ On October 16, 1995, OCC filed an amendment to the proposed rule change.² Notice of the proposal was published in the Federal Register on December 13, 1995.³ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description of the Proposal

Article VI, Section 11 of OCC's by-laws sets forth general rules regarding adjustments that may be made by the standardized terms of options when certain events occur.⁴ Each specific adjustment is determined by the vote of an OCC adjustment panel comprised of two designated representatives of each exchange that lists such option and the designee of OCC's chairman who votes only in the case of a tie.⁵

OCC is amending Article VI, Section 11 of its by-laws to provide for a general rule that no adjustments to options will be made as a result of ordinary

distributions made on the underlying security. Article VI, Section 11(d) previously contained a general rule that required the adjustment of equity options whenever there was a stock dividend, stock distribution, or stock split.⁶ Under the amendment, no adjustments will be made as a result of an ordinary stock dividend. Under the Interpretations and Policies to Article VI, Section 11 of OCC's by-laws, stock dividends and distributions that are paid on a quarterly basis by the issuer of the underlying security that do not exceed ten percent of the market value of the underlying security will be deemed to be ordinary stock dividends or distributions. The rule change will not affect the current adjustment practice with regard to ordinary cash dividends.⁷ Because the rule change only applies to recurrent stock dividends, OCC anticipates that only in a small number of cases will adjustments be made for stock dividends or distributions. OCC believes that formalizing a policy of not adjusting for recurrent stock dividends will eliminate potential problems associated with the creation of an undesirable proliferation of options series and will eliminate the need to convene adjustment panels to make discretionary determinations for such dividends on a case-by-case basis.

Finally, pursuant to a request from Commission staff, OCC is deleting language from Article VI, Section 11 that provides for Commission review of the determinations made by any OCC adjustment panel.

II. Discussion

Section 17A(b)(3)(F) of the Act⁸ requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and generally, to protect investors and the public interest. The Commission believes the proposed rule change is consistent with OCC's obligations under

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letter from Jacqueline R. Luthringshausen, OCC, to Jerry W. Carpenter, Esq., Division of Market Regulation, Commission (October 11, 1995).

³ Securities Exchange Act Release No. 36558 (December 6, 1995), 60 FR 64087.

⁴ The adjustment is made by proportionately changing the strike price, the unit of trading, or both.

⁵ Article VI, Section 11(j) grants authority to the adjustment panel to make such exceptions to any of the general adjustment rules as it deems to be appropriate. Recently, two adjustment panels exercised their exception authority and determined not to adjust outstanding option contracts to reflect a stock dividend. In both instances, the issuer evidenced a pattern of declaring a small stock dividend in conjunction with a quarterly cash dividend. In determining not to adjust the options, each adjustment panel considered the provision in the Options Disclosure Document that states a stock dividend may be treated as an ordinary cash dividend by an adjustment panel if the issuer of the underlying security announces or exhibits a policy of declaring regular stock dividends that do not individually exceed 10% of the market value of the underlying security. The adjustment panels involved in making these adjustments requested that OCC amend its by-laws to provide explicitly for a general rule that no adjustment will be made to reflect ordinary stock dividends.

⁶ In contrast, Section 11(c) states that it shall be the general rule that there will be no adjustment for ordinary cash dividends. This is because ordinary cash dividends generally are paid on a quarterly basis and adjusting outstanding options each time a dividend is paid could create a massive proliferation of option series that would dilute market liquidity and would overtax price reporting and other systems. Section 11(e) is being amended to include ordinary stock dividends or distributions in the coverage of the general rule.

⁷ Interpretations and Policies .01 to Article VI, Section 11 of OCC's by-laws provides that cash dividends that do not exceed 10 percent of the market value of the market value of the underlying security generally will be deemed ordinary cash dividends. Ordinary cash dividends are not subject to adjustment.

⁸ 15 U.S.C. 78q-1(b)(3)(F) (1988).

¹ 15 U.S.C. 78s(b)(2).

² 17 CFR 200.30-3(a)(12).

the Act because it should add certainty as to when and how adjustments will be made to option contracts due to an issuer's distribution of stock dividends. Removal of the requirement in OCC's rules providing for Commission review of OCC adjustment panel decisions also should add certainty and predictability to the options market. Furthermore, administrative inefficiencies should be reduced because adjustment panels will be convened only when there is an extraordinary stock dividend rather than each time issuers distribute an ordinary stock dividend.

As a self-regulatory organization, OCC has been granted significant authority under the Act. The use of an adjustment panel to administer the adjustment of standardized options is an example of the broad authority Congress granted to self-regulatory organizations. However, it is expected that OCC will notify the Commission of any adjustment panel's decision (i) to adjust standardized option contracts for stock or cash dividends that otherwise would be deemed ordinary under OCC's rules, interpretations, or policies or (ii) not to adjust standardized option contracts for stock or cash dividends that otherwise would not be deemed ordinary under OCC's rules, interpretations, or policies.

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-OCC-95-13) be, and hereby is, approved.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36822; Filed No. SR-Phlx-95-88]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment Nos. 1 and 2 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Trading Rotations, Halts or Reopenings

February 8, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 12b-4 thereunder,² notice is hereby given that on December 26, 1995, the ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange submitted Amendment No. 1 to the Commission on January 29, 1996.³ The Exchange submitted Amendment No. 2 to the Commission on February 8, 1996.⁴ The Commission is approving this proposal, as amended, on an accelerated basis.

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

The Exchange proposed to amend Floor Procedure Advice ("Advice") G-2, Trading Rotations, Halts or Reopenings, to add reference to Super Cap Index ("Index") options to correspond to recent amendments to Rule 1047A. Specifically, paragraph (a)(i) is proposed to be amended to add Super Cap Index options, providing that the opening rotation for Super Cap Index options may be held after underlying securities representing 75% of the current index value of all

securities underlying the Index have opened for trading on the primary market, and at least 3 stocks underlying the Index are open for trading on the primary market.⁵ The second paragraph will continue to require that an opening rotation be held as soon as practicable, respecting both industry index and Super Cap Index options, once underlying securities representing 90% of the current index value of all the securities underlying the index have opened for trading on the primary market.

The Exchange also proposes to amend provisions regarding reopenings in both Rule 1047A and Floor Procedure Advice G-2 by incorporating the requirements for a Super Cap Index opening rotation. Thus, the underlying securities representing 75% of the current Index value and three stocks must be open for trading on the primary market before Super Cap Index options may reopen after a trading halt.⁶

The Exchange also proposes to correct the recently approved text to Rule 1047A respecting Super Cap Index options opening rotations to state that 90% of the "current index value" of all the securities underlying the index must have opened for trading on the primary market in order for an opening to be required. Currently, the text incorrectly refers to 90% of the securities. The entire sentence referring to Super Cap Index options is proposed to be deleted, thus deleting the incorrect text, and replacing it with new language pertaining to the new "75% of the current Index value, and 3 underlying stocks" requirements. The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and at the Commission.

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

In this filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (A), (B), and (C) below, of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange proposes to further amend Phlx Rule 1047A and Floor Procedure Advice G-2 to state that in addition to the requirement that 75% of the current index value must be open for trading on the primary market before an opening rotation in Super Cap Index options can commence, at least 3 stocks underlying the Super Cap Index must also be open for trading on the primary market. See Letter from Edith Hallahan, Special Counsel, Phlx, to Michael Walinskas, Branch Chief, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated January 29, 1996 ("amendment No. 1").

⁴ The Exchange proposes to further amend both Rule 1047A and Floor Procedure Advice G-2 by incorporating the opening rotation requirements for Super Cap Index options into Exchange Requirements regarding re-openings. See Letter from Gerald O'Connell, First Vice President, Market Regulation and Trading Operations, Phlx, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated February 8, 1996 ("amendment No. 2").

⁵ See Amendment no. 1, *supra* note 3.

⁶ See Amendment No. 2, *supra* note 4.