

be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of MBSCC. All submissions should refer to File No. 600-22.

### Conclusion

On the basis of the foregoing, the Commission finds that extending MBSCC's temporary registration as a clearing agency is consistent with the Act and in particular with Section 17A of the Act.<sup>12</sup>

*It is therefore ordered*, pursuant to Section 19(a) of the Act, that MBSCC's temporary registration as a clearing agency (File No. 600-22) be, and hereby is, extended through March 31, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39775; File No. SR-Amex-98-11]

### Self-Regulatory Organizations; Notice of Filing and Order Granting Partial Accelerated Approval of Proposed Rule Change by the American Stock Exchange, Inc. Relating to a Reduction in the Value of the de Jager Year 2000, Amex Securities Broker/Dealer and Amex Airline Indices

March 20, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 23, 1998, the American Stock Exchange, Inc. ("Amex" 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 Amex. On March 11, 1998, the Amex filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Commission is publishing

this notice to solicit comments on the proposed rule change from interested persons. As discussed below, the Commission is also granting accelerated approval to the portion of the proposal relating to the Amex Securities Broker/Dealer Index ("Broker/Dealer Index").

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

The Amex proposes to split the de Jager Year 2000 ("de Jager Index"), Broker/Dealer Index and Amex Airline ("Airline Index") Indices to one-half of their current values.

### 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 Amex 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 Amex 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

On December 12, 1994, the Commission granted the Exchange approval to list and trade options on the Airline Index.<sup>4</sup> Initially, the aggregate value of the stocks contained in the Airline Index was reduced by a divisor to establish an index benchmark value of 200. Over the past two years, the index value of the Airline Index has more than tripled in value from 200 to 728.

On March 15, 1994, the Commission granted the Exchange approval to list and trade options on the Broker/Dealer Index.<sup>5</sup> Initially, the aggregate value of the stocks contained in the Broker/

accelerated effectiveness of the proposed rule change with respect to the provisions concerning the Amex Securities Broker/Dealer Index. In addition to correcting a clerical error, Amendment No. 1 also makes clear that the position and exercise limits, which are proposed to be initially doubled, will revert to their original limits at the expiration of the furthest expiration month for non-long term options series ("LEAPs") as established on the date of the split.

<sup>4</sup> See Securities Exchange Act Release No. 35084, 59 FR 65419 (December 19, 1994) (order approving File No. SR-Amex-94-54).

<sup>5</sup> See Securities Exchange Act Release No. 33766, 59 FR 13518 (March 22, 1994) (order approving File No. SR-Amex-93-37).

Dealer Index was reduced by a divisor to establish an index benchmark value of 300. Since its creation the index value of the Broker/Dealer Index has more than tripled from 300 to 953.<sup>6</sup>

On February 19, 1997, the Commission granted the Exchange approval list and trade options on the de Jager Index.<sup>7</sup> Initially, the aggregate value of the stocks contained in the de Jager Index was reduced by a divisor to establish an index benchmark value of 250. Since its creation, the index value of the de Jager Index has nearly doubled in value from 250<sup>8</sup> to 413.

As a consequence of the rising Indices' values, premium levels for the Airline, Broker/Dealer and de Jager Indices options have also risen. According to the Exchange, these higher premium levels have been cited as the principal factor that has discouraged retail investors and some small market professionals from trading these index options. As a result, the Exchange is proposing to decrease the Airline, Broker/Dealer and de Jager Indices to one-half of their respective present values.

To decrease the Indices' values, the Exchange will double the divisor used in calculating the Indices. The Amex proposes no other changes to the components of the Indices, their methods of calculation (other than the change in the divisor), expiration style of the options or any other Index specification.

The Amex believes that lower valued Indices will result in substantial lowering of the dollar values of options premiums for the airline, Broker/Dealer and de Jager Indices options contracts. The Exchange plan to adjust outstanding series similar to the manner in which equity options are adjusted for a 2-for-1 stock split. On the effective date of the split "ex-date," the number of outstanding Airline, Broker/Dealer and de Jager Indices' options contracts

<sup>6</sup> At the time the proposal was originally filed, the index value of the Broker/Dealer Index had increased to 953. Subsequent to the original filing, however, the index value has increased to more than 1000. According to the Amex, the system used to calculate the value of the Index cannot accommodate four-digit numbers. As a result, all calculations of the value of options on the Broker/Dealer Index must be performed manually on a continuous basis for each series. Therefore, the Amex has requested accelerated approval of the provisions of the proposal pertaining to the Broker/Dealer Index. See Amendment No. 1, *supra* note 3.

<sup>7</sup> See Securities Exchange Act Release No. 38307, 62 FR 8469 (February 25, 1997) (order approving File No. SR-Amex-97-04).

<sup>8</sup> As originally filed, the proposal incorrectly listed the de Jager's benchmark Index value as 200. This clerical error was corrected by the Exchange in Amendment No. 1. See Amendment No. 1, *supra* note 3.

<sup>12</sup> 15 U.S.C. 78q-1.

<sup>13</sup> 17 CFR 200.30-3(a)(50)(i).

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Letter from Scott G. Van Hatten, Legal Counsel, Derivative Securities, Amex, to Sharon Lawson, Esq., Assistant Director, Division of Market Regulation ("Division"), Commission, dated March 10, 1998 ("Amendment No. 1"). In Amendment No. 1, the Amex requests expedited review and

will be doubled and strike prices halved.

#### *Position and Exercise Limits*

Currently, position and exercise limits for the Airline and Broker/Dealer Indices equal 15,000 contracts, while position and exercise limits for the de Jager Index equal 12,000 contracts, on the same side of the market. The Exchange proposes to double the position and exercise limits to 30,000 contract for the Airline and Broker/Dealer Indices and to 24,000 contracts for the de Jager Index on the same side of the market. This change will be made simultaneously with the proposed reduction of the Indices' value and the doubling of the number of contracts.

Since the new position and exercise limits will be equivalent to the Indices' present limits, there is no additional potential for manipulation of the Indices or the underlying securities. Further, an investor who is currently at the 15,000 (or 12,000) contract limit will, as a result of the index value reductions, automatically hold 30,000 (or 24,000) contracts to correspond with the lowered index values. These increased position and exercise limits will revert to their original limits at the expiration of the furthest month for non-LEAPs<sup>9</sup> as established on the date of the split.

The Exchange believes that decreasing the values of the Airline, Broker/Dealer and de Jager Indices may make these index options more attractive to retail investors and other market professionals and therefore, more competitive with other products in the marketplace.

#### 2. Statutory Basis

The Amex believes the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act<sup>10</sup> that an Exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and

open market and a national market system.

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

The Exchange does not believe that the proposed rule change 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 rule change.

#### **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 the self-regulatory organization 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.

The Exchange has also requested that the Commission find good cause, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> for approving the proposed split of the Broker/Dealer Index on an accelerated basis prior to the thirtieth day after publication in the **Federal Register**.<sup>12</sup>

#### **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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File Number SR-Amex-98-11 and should be submitted by April 16, 1998.

#### **V. Commission Findings and Order Granting Partial Accelerated Approval of the Proposed Rule Change**

The Commission finds that the portion of the proposed rule change, as amended, relating to the Broker/Dealer Index is consistent with the requirements of Section 6 of the Act<sup>13</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>14</sup> Specifically, the Commission believes that the provisions of the proposed rule change pertaining to the Broker/Dealer Index are consistent with and further the objectives of Section 6(b)(5) of the Act<sup>15</sup> in that the proposed splitting of the Broker/Dealer Index and the associated temporary increases in the position and exercise limits would remove impediments to and perfect the mechanism of a free and open market in a manner consistent with the protection of investors and the public interest.

By reducing the value of the Broker/Dealer Index, the Commission believes that a broader range of investors will be provided with a means to hedge their exposure to the market risk associated with the stocks underlying the Index. Similarly, the Commission believes that reducing the value of the Broker/Dealer Index may attract additional investors, thus creating a more active and liquid trading market.

The Commission also believes that Amex's proposed adjustments to its position and exercise limits applicable to the Broker/Dealer Index are appropriate and consistent with the Act. In particular, the Commission believes that the temporary doubling of the position and exercise limits are reasonable in light of the fact that the size of the Broker/Dealer Index option contract will be halved and that, as a result, the number of outstanding options contracts an investor holds will be doubled. The temporary doubling of the position and exercise limits, therefore, will ensure that investors will not potentially be in violation of the lower existing position and exercise

<sup>9</sup> The proposal, as originally filed, required the increased position and exercise limits to revert to the original limits at the expiration of the furthest expiration month as established on the date of the split. Because trading in LEAPs has been approved for each of the three Indices, the Amex proposes to clarify that position and exercise limits will revert to their original levels at the expiration of the furthest expiration month for non-LEAPs. See Amendment No. 1, *supra* note 3. The furthest expiration month for non-LEAPs is generally nine months.

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> 15 U.S.C. 78s(b)(2).

<sup>12</sup> See note 6, *supra*.

<sup>13</sup> 15 U.S.C. 78f.

<sup>14</sup> In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>15</sup> 15 U.S.C. 78f(b)(5).

limits while permitting market participants to maintain, after the split of the Broker/Dealer Index, their current level of investment in the Broker/Dealer Index option contracts. As noted above, the increased position and exercise limits of 30,000 contracts will revert to their original limit of 15,000 contracts at the expiration of the further expiration month of non-LEAPs as established on the date of the split, which is expected to be October 1998.<sup>16</sup>

The Commission further believes that doubling the Broker/Dealer Index's divisor will not have an adverse market impact on the trading in these options. After the split, the Broker/Dealer Index will continue to be comprised of the same stocks with the same weightings and will be calculated in the same manner, except for the proposed change in the divisor. The Commission notes that the Amex's surveillance procedures also will remain the same.

Finally, the Commission notes that, prior to implementing the changes, the Exchange will provide advance notice of the proposed changes to the Broker/Dealer Index to its membership through an information circular.<sup>17</sup> The Broker/Dealer Index is expected to be reduced by one-half prior to the April 17, 1998 expiration. The Amex has committed to provide notice to its membership at least two weeks prior to the implementation of the proposed change to the Broker/Dealer Index value and the resulting adjustments to the outstanding Broker/Dealer Index options contracts. The Commission believes that the proposed time frame should allow for adequate notice to be provided to the holders of all open positions in Broker/Dealer Index options and other market participants.

The Commission finds good cause for partially approving the proposed rule prior to the thirtieth day after publication of the proposed rule change in the **Federal Register**. The Commission believes that the proposed split of the Broker/Dealer Index raises no new or novel regulatory concerns. In addition, the Commission notes that since the initial filing of the proposal,

the value of the Broker/Dealer Index has increased to the extent that present value is in excess of 1000. As the system used to calculate the value of the Index cannot accommodate four-digit numbers, all calculations of the value of options on the Broker/Dealer Index must be performed manually on a continuous basis for each series. The Commission believes that to ensure the continued accuracy and reliability of the values of Broker/Dealer Index options contracts, the accelerated approval of the portion of the proposal relating to the Broker/Dealer Index is appropriate. In addition, the Amex has ensured that market participants will receive adequate notice prior to implementation of the adjustments to the index value and outstanding Broker/Dealer Index options. Accordingly, the Commission finds that good cause exists, consistent with Section 6(b)(5) of the Act,<sup>18</sup> to partially accelerate approval of the proposed rule change, as discussed above.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>19</sup> that the portion of the proposed rule change (SR-Amex-98-11) relating to the Broker/Dealer Index is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>20</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 98-7921 Filed 3-25-98; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39771; File No. SR-NASD-98-15]

### Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Elimination of Position and Exercise Limits for FLEX Equity Options

March 19, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 17, 1998, NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange

Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II 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. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

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

NASD Regulation is proposing to amend Rule 2860(b) of the National Association of Securities Dealers, Inc. ("NASD" or "Association"), to establish the NASD member firms and their customers shall have the same position and exercise limits for FLEX Equity Options as the firms that are also members of the exchange on which such FLEX Equity Options trade. Below is the text of the proposed rule change. Proposed new language is in italics.

#### Rule 2860. Options

\* \* \* \* \*

(b) Requirements.

(1) General.

(A) Applicability—This Rule shall be applicable (i) to the trading of options contracts issued by The Options Clearing Corporation and displayed on The Nasdaq Stock Market and to the terms and conditions of such contracts; (ii) to the extent appropriate unless otherwise stated herein, to the conduct of accounts, the execution of transactions, and the handling of orders in exchange-listed options by members who are not members of an exchange on which the option executed is listed; (iii) to the extent appropriate unless otherwise stated herein, to the conduct of accounts, the execution of transactions, and the handling of orders in conventional options; and (iv) other matters related to options trading.

Unless otherwise indicated herein, subparagraphs (3) through (12) shall apply only to options displayed on Nasdaq and standardized and conventional on common stock and subparagraphs (13) through (24) shall apply to transactions in all options as defined in paragraph (a), including common stock. *The position and exercise limits for FLEX Equity Options for members who are not also members of the exchange on which FLEX Equity Options trade shall be the same as the position and exercise limits as applicable to members of the exchange on which such FLEX Equity Options are traded.*

\* \* \* \* \*

<sup>16</sup> According to the Amex, October 1998 will be the furthest expiration month for non-LEAPs on the Broker/Dealer Index for purposes of the reversion of position and exercise limits to their original levels. The Amex has agreed to provide notice to its members to remind them of the need to reduce their positions at least one month prior to the date that the position and exercise limits revert to their original levels. Per telephone conversation between Scott Van Hatten, Legal Counsel, Derivative Securities, Amex, and Deborah Flynn, Division, Commission, on March 19, 1998.

<sup>17</sup> Per telephone conversation between Scott Van Hatten, Legal Counsel, Derivative Securities, Amex, and Deborah Flynn, Division, Commission, on March 19, 1998.

<sup>18</sup> 15 U.S.C. 78f(b)(5).

<sup>19</sup> 15 U.S.C. 78s(b)(2).

<sup>20</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. § 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.