

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 Section, 450 Fifth Street, N.W., Washington, D.C. 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-95-05 and should be submitted by May 15, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35616; File No. SR-Phlx-95-11]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Listing of Long-Term Index Options Series ("LEAPS") With a Duration of up to Sixty Months Until Expiration

April 17, 1995.

On February 8, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² filed with the Securities and Exchange Commission ("Commission") a proposed rule change to permit the listing of long-term index options series ("LEAPS") with a duration of up to sixty months (five years) until expiration. Notice of the proposal appeared in the **Federal Register** on February 22, 1995.³ No comment letters were received on the proposed rule change. The Exchange filed Amendment No. 1 to the proposal on February 23, 1995.⁴ This order

approves the Phlx proposal, as amended.

The purpose of the proposed rule change is to permit the Exchange to list index LEAPS with a duration of up to sixty months (five years).⁵ Presently, the Exchange has authority pursuant to Phlx Rule 1101A(b)(iii) to list index LEAPS that expire from twelve to thirty-six months from the time they are listed. The Exchange represents that there has been increasing member firm and customer interest in longer term instruments. The Exchange, therefore, is proposing to amend Exchange Rule 1101A to permit the listing of index options with up to sixty months until expiration. In addition, the Exchange proposes to amend Rule 1101A(b)(iii) to allow for up to ten expiration months for index LEAPS, as opposed to the six months currently allowed.⁶ The proposal does not change any other rule regarding the listing and trading of index LEAPS.⁷

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5).⁸ Specifically, the Commission believes the proposal is designed to provide investors with additional means of hedging equity portfolios from long-term market risk with an exchange-traded security (*i.e.*, a standardized option), thereby facilitating transactions in options and contributing to the protection of investors and the maintenance of fair and orderly markets.⁹

Currently, institutional customers use index options to hedge the risks associated with holding diversified equity portfolios. The Commission continues to believe, as originally stated in its approval of the listing of index LEAPS by the Exchange, that allowing investors to lock in their hedges with longer-term index LEAPS will permit institutions to protect better their portfolios from adverse market moves.¹⁰

Further, the Commission believes that index LEAPS with up to five years until expiration will allow this protection at a known and limited cost.¹¹ Moreover, the proposal will provide institutions with an additional securities product with which to hedge their portfolios as an alternative to hedging with futures positions or off-exchange customized index options.¹² Accordingly, the Commission believes that the proposed rule change will better serve the long-term hedging needs of institutional investors.¹³

Finally, although as with index LEAPS presently trading on the Exchange, specific strike price interval, bid/ask differential, and price continuity rules will not apply until the proposed longer-term index LEAPS have less than 12 months until expiration,¹⁴ the Commission notes that Phlx's general rule obligating market makers to maintain fair and orderly markets will continue to apply to the proposed longer-term index LEAPS.¹⁵ The Commission believes that the requirements of Phlx Rules 1014 and 1020 are broad enough, even in the absence of strike price interval, bid/ask differential, and continuity requirements, to provide the Exchange with the authority to make a finding of inadequate market maker performance should market makers enter into transactions or make bids or offers (or fail to do so) in the proposed longer-term index LEAPS that are inconsistent with the maintenance of a fair and orderly market.

The Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, Amendment No. 1 provides that the Exchange may list up to ten additional expiration months when listing the proposed longer-term index LEAPS. The Commission believes this is consistent with the original approval of index LEAPS which allowed for up to six additional expiration months for LEAPS expiring 36 months from the date of

⁴ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1994).

³ See Securities Exchange Act Release No. 35376 (February 14, 1995), 60 FR 9880.

⁴ In Amendment No. 1, the Phlx proposed to: (1) Amend Rule 1101A to specify that ten additional expiration months may be added for the proposed longer-term index LEAPS, as opposed to the six additional months currently allowed for LEAPS; and (2) provide that the proposal will apply to all indexes, both broad-based and narrow-based, previously approved for the trading of standardized index options on the Exchange. See Letter from Edith Hallahan, Special Counsel, Phlx, to Michael Walinskas, Branch Chief, Office of Market Supervision, Division of Market Regulation, Commission, dated February 23, 1995.

⁵ The proposal would permit five-year LEAPS on both broad-based and narrow-based indexes on which LEAPS have been approved for trading on the CBOE. *Id.*

⁶ *Id.*

⁷ See Phlx Rule 1101A(b)(iii) and Securities Exchange Act Release No. 28910 (February 22, 1991), 56 FR 9032 (March 4, 1991) ("Exchange Act Release No. 28910").

⁸ 15 U.S.C. 78f(b)(5) (1988 & Supp. V 1993).

⁹ The Commission also finds that extending the maximum term for Index LEAPS from three to five years does not alter the Commission's designation of index LEAPS as standardized options pursuant to Rule 9b-1(a)(4) of the Act.

¹⁰ See Exchange Act Release No. 28910, *supra* note 7.

¹¹ *Id.*

¹² *Id.*

¹³ The Commission's findings are predicated on the somewhat limited length of five-year index LEAPS. Any subsequent proposal to list index LEAPS with expirations beyond five years could alter the nature of the product and would raise new regulatory concerns, including, among other things, the appropriate margin treatment, disclosure, and trading rules for the product.

¹⁴ See Exchange Act Release No. 28910, *supra* note 7.

¹⁵ See Phlx Rules 1014, 1020, and 1000A(a).

listing¹⁶ and, therefore, does not raise any new regulatory issues.

Moreover, Amendment No. 1 provides that the Exchange may list longer-term LEAPS on all indexes currently approved for the trading of standardized options, regardless of whether the index was previously approved for the trading of LEAPS. For those indexes approved for trading LEAPS, the Commission believes that Amendment No. 1 clarifies the application of the proposal and minimizes the potential for investor confusion. With regard to those indexes not previously approved for trading LEAPS, the Commission believes that allowing index LEAPS on these indexes, including the proposed longer-term LEAPS, does not raise any new regulatory issues. Specifically, each of these indexes has previously been approved by the Commission for the listing of standardized index options, and LEAPS on these indexes will be subject to the limitations discussed above.

Accordingly, the Commission believes it is consistent with Section 6(b)(5) of the Act to approve Amendment No. 1 to the Phlx's proposal on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1. 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 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 Phlx. All submissions should refer to the File No. SR-Phlx-95-11 and should be submitted by May 15, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁷ that the proposed rule change (File No. SR-Phlx-95-11) is approved.

¹⁶ See Exchange Act Release No. 28910, *supra* note 7.

¹⁷ 15 U.S.C. 78s(b)(2) (1988).

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Margaret H. McFarland,

Deputy Secretary.

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[Rel. No. IC-21013; 811-4403]

Smith Barney California Municipal Money Market Fund; Notice of Application

April 17, 1995.

AGENCY: Securities and Exchange Commission ("SEC" or "Commission").

ACTION: Notice of application for deregistration under the Investment Company Act of 1940 (the "Act").

APPLICANT: Smith Barney California Municipal Money Market Fund.

RELEVANT ACT SECTION: Section 8(f).

SUMMARY OF APPLICATION: Applicant seeks an order declaring that it has ceased to be an investment company.

FILING DATE: The application was filed on February 22, 1995 and amended on April 5, 1995.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on May 15, 1995, and should be accompanied by proof of service on applicant, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 5th Street, N.W., Washington, D.C. 20549. Applicant, 388 Greenwich Street, New York, New York 10013.

FOR FURTHER INFORMATION CONTACT: Elaine M. Boggs, Staff Attorney, at (202) 942-0572, or C. David Messman, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the SEC's Public Reference Branch.

¹⁸ 17 CFR 200.30-3(a)(12) (1994).

Applicant's Representations

1. Applicant is an open-end management investment company that was organized as a business trust under the laws of Massachusetts. On September 4, 1985, applicant registered under the Act as an investment company, and filed a registration statement to register its shares under the Securities Act of 1933. The registration statement was declared effective on November 20, 1985, and the initial public offering commenced shortly thereafter.

2. On April 27, 1994 and May 25, 1994, applicant's board of trustees approved an agreement and plan of reorganization (the "Plan") between applicant and Smith Barney Muni Funds—California Money Market Portfolio (the "Acquiring Fund")—a registered open-end management investment company. In addition, the board of trustees made the findings required by rule 17a-8 under the Act.¹

3. On August 2, 1994, applicant mailed proxy materials to its shareholders. On November 11, 1994, applicant's shareholders approved the reorganization.

4. Pursuant to the Plan, on November 18, 1994, applicant transferred all of its assets to the Acquiring Fund in exchange for shares of the Acquiring Fund and the assumption by the Acquiring Fund of certain liabilities of applicant. Immediately thereafter, applicant liquidated and distributed *pro rata* to its shareholders the shares it received from the Acquiring Fund in the reorganization. On November 18, 1994, applicant had 831,064,778 shares outstanding, having an aggregate net asset value of \$830,713,099 and a per share net asset value of \$1.00.²

5. Expenses incurred in connection with the reorganization, consisting of accounting, printing, administrative, and legal expenses, totaled \$91,857. One half of the expenses were borne by the Fund's sponsor, Smith Barney Inc., and

¹ Section 17(a) of the Act generally prohibits sales or purchases of securities between registered investment companies and any affiliated person of that company. Rule 17a-8 provides an exemption from section 17(a) for certain reorganizations among registered investment companies that may be affiliated persons, or affiliated persons of an affiliated person, solely by reason of having a common investment adviser, common directors, and/or common officers. Applicant and the Acquiring Fund were "affiliated persons" as defined in the Act solely by reason of having a common investment adviser.

² Dividing the number of outstanding shares by the total net assets does not yield a precise figure of \$1.00 per share. This results from both the effect on the total net assets of realized gains and losses resulting from the sale of portfolio securities prior to their stated maturity and the effect of penny rounding.