

representation of members and districts. The NASD believes that the informational language in Schedule B to the NASD By-Laws specifying the number of Governors from each district unnecessarily limits the ability of the Board to act under Section 4(b) to make changes in the composition of the Board. The NASD is proposing, therefore, to eliminate the inclusion of rule language regarding district representation on the Board in Schedule B to the NASD By-Laws in order to ensure that the Board has flexibility to act with respect to the composition of the Board of Governors.

The NASD has requested that the SEC approve the proposed rule change on or before September 30, 1995 in order that the new rule may be effective with respect to the NASD's election procedures which commence on October 1, 1995 with respect to Board membership in 1996.

(b) The NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(4) of the Act,<sup>2</sup> which require that the rules of the Association provide for the fair representation of its members in the selection of its directors and administration of its affairs in that the proposed rule change is intended to eliminate rule language regarding district representation on the Board in Schedule B to the NASD By-Laws which unnecessarily limits the ability of the Board of Governors under Article VII, Section 4(b) of the NASD By-Laws to make changes in the composition of the Board.

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

The NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

#### *(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments were neither solicited nor 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 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.

### **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, 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 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 September 21, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-36149; File No. SR-OCC-95-10]

### **Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the Enhancement of Saturday Expiration Date Processing Procedures**

August 23, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on July 11, 1995, The Options Clearing Corporation ("OCC") 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 primarily by OCC. The

Commission is publishing this notice to solicit comments from interested persons.

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

The proposed rule change will allow OCC to replace its present preliminary and final processing cycles for Saturday expiration options with a single real-time processing procedure.

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

In its filing with the Commission, OCC 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.<sup>2</sup>

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

Under the proposed rule change, OCC will enhance its Saturday expiration processing cycles by instituting a single real-time procedure for the updating of expiring positions of its clearing members. OCC's current Saturday expiration processing procedure for index and equity options does not provide real-time updates to clearing members on their expiring positions. Accordingly, two processing cycles, a preliminary and a final cycle, are necessary to reflect the results of post-trade activity (e.g., reconciliation of unmatched trades) affecting expiring positions and to give clearing members the opportunity to edit their preliminary exercise instructions in response to updated reports from OCC.

OCC previously has implemented an expiration processing system for options expiring on business days<sup>3</sup> that provides real-time updates to clearing members on their expiring positions thus eliminating the need for a preliminary and final processing cycle. OCC proposes to employ this same real-time system for its Saturday expirations

<sup>2</sup> The Commission has modified the language in these sections.

<sup>3</sup> Some examples of such options include flexibly structured options, Quarterly-Index Expiration Options or QIXs, and foreign currency option contracts.

<sup>1</sup> 15 U.S.C. 78o-3.

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

in order to reduce Saturday expiration processing to one cycle.

To accomplish the proposed enhancement to Saturday expiration processing, certain changes to OCC's by-laws and rules are necessary. Generally, the proposed changes will eliminate references to preliminary and final processing cycles and reports. The proposed changes also will amend OCC's by-laws and rules to reflect that the expiration exercise procedure is carried out utilizing an on-line transmission of instructions and reports to and from clearing members instead of physical delivery of hard copy reports. Additionally, article VI, section 18 of the by-laws, which provides for emergency situations, will be revised (i) to make it clear that expiration processing cannot be extended beyond the normal expiration time except where the following day is not a business day and (ii) to provide for emergency automatic exercises not only when OCC is unable to issue Expiration Exercise Reports but also when it is unable to receive exercise instructions properly submitted by clearing members.

Article I, Section 1 of OCC's by-laws will be amended to add a new defined term, "Expiration Exercise Report," which will refer to the on-line exercise reports (including intraday updates) that OCC will make available to its clearing members. Technical and conforming changes will be made to Interpretations and Policies .02 under article VI, section 1.

A number of changes are proposed to be made to Article VI, Section 18. First, the proposed rule change will allow exercise processing to continue into the day after the expiration date only when that day is not a business day. This limitation is not new. It was imposed when options expiring on business days were first introduced.<sup>4</sup> The purpose was to avoid the abuses that might result from allowing post-expiration exercise instructions to be given at times when U.S. markets were open. It was deleted as part of a number of related rule changes in 1993.<sup>5</sup> OCC has now concluded that it should not have been deleted and proposes to restore the rule.

<sup>4</sup> Securities Exchange Act Release No. 23004 (March 19, 1986), 51 FR 9563 [File No. SR-OCC-85-18] (order approving amendments to OCC by-laws and rules to accommodate the issuance, clearance, and settlement of European-style Treasury bill options).

<sup>5</sup> Securities Exchange Act Release No. 33158 (November 4, 1993), 58 FR 60229 [File No. SR-OCC-93-8] (order approving amendments to OCC by-laws and rules to accommodate the clearance and settlement of Quarterly-Index Expiration Options to be traded on the New York Stock Exchange).

Section (a) also will be amended to require a clearing member to submit exercise instructions to OCC within such times as OCC shall prescribe. Currently, a clearing member must respond within two hours of receiving a report.

Section (b) of article VI, section 18 provides a "backstop" automatic exercise procedure in cases where OCC is unable to produce the reports required for expiration exercise processing within applicable deadlines. The proposed rule change will provide for automatic exercise not only in those cases but also in cases where OCC is unable to receive properly submitted exercise instructions within applicable deadlines. Cases of the latter type are currently covered by section (c), which is not well adapted to an on-line environment.<sup>6</sup> OCC believes that an inability to receive exercise instructions should be treated in the same way as an inability to issue exercise reports and therefore proposes to delete section (c) and correspondingly expand the coverage of sections (a) (providing time frames for any delays) and (b) (providing for automatic exercise).

Rule 805, which specifies the exercise processing procedures for Saturday expirations, will be revised to provide expressly for on-line processing and to cover weekday as well as Saturday expirations. The rule will be amended to eliminate references to preliminary and final exercise reports. Instead, OCC will make on-line exercise settlement reports available to clearing members utilizing OCC's on-line C/MACS system.<sup>7</sup> The expiration exercise report will list all of the clearing member's expiring positions. Once the expiration exercise report is made available, clearing members can submit exercise instructions in response to such report on separate C/MACS report screens. The response screens will be updated on a real-time basis.

Paragraph (b) of rule 805 will be amended to reflect a change in the deadline for submitting exercise instructions. Currently, responses to the preliminary exercise report must be

<sup>6</sup> Section (c) of Article VI, Section 18 currently provides that if a preliminary or final exercise report is made available by OCC to a clearing member and if OCC cannot keep any of its offices open until the time prescribed for the return of such report, OCC will reopen its offices to receive such report which shall then be deemed to have been filed on a timely basis.

<sup>7</sup> OCC will specify in its Operations Manual the deadline for making expiration exercise reports available to clearing members. Initially, OCC proposes to specify as the deadline 7:00 a.m. Central Time on the expiration date, which is the current deadline for issuing preliminary exercise reports.

submitted by 9 a.m. central time and responses to the final report must be submitted by 4 p.m. central time. Under the proposed system, clearing members will be required to submit exercise instructions in response to the expiration exercise report before such time as OCC shall specify.<sup>8</sup>

Paragraphs (c) and (d) of rule 805 will be deleted because a final report will no longer be distributed. Paragraphs (e) through (h) and (j) through (l) of rule 805 and the interpretations thereto will be amended to eliminate references to preliminary and final reports and to clarify that exercise instructions must be submitted using the on-line system rather than by hard copy reports. In addition, OCC is proposing to further amend paragraph (h) to allow OCC to prescribe alternative exercise procedures if unusual or unforeseen conditions prevent OCC from making expiration exercise reports available on a timely basis or prevent clearing members from submitting timely on-line responses. As is presently the case, however, OCC will not extend the deadline for submitting exercise instructions beyond the expiration time except pursuant to Article VI, Section 8 of OCC's by-laws.

Paragraph (i) of rule 805 will be eliminated because the on-line system will not permit clearing members to submit untimely exercise instructions. Instead, clearing members desiring to submit late exercise instructions will have to tender written exercise notices pursuant to paragraph (c) of rule 805. Rule 805 also will be relettered to reflect the deletion of paragraphs.

Rule 805 will be deleted because there will no longer be a need for separate exercise processing procedures for options that expire on weekdays. The procedures prescribed by rule 805 will apply to all expiring options, regardless of expiration date. Finally, rules 801, 802, 1304, 1404, 1504, 1603, 1702, 1804, 2103, 2302, and 2403 will be amended to reflect the relettering of the paragraphs of rule 805 and the elimination of rule 806.

OCC believes the proposed rule change is consistent with the requirements of section 17A of the Act<sup>9</sup> and the rules and regulations thereunder because the proposal will

<sup>8</sup> OCC will specify this deadline in its Operations Manual. Initially, the deadline will be 1:00 p.m. central time. This new cut-off time will allow OCC to begin its critical expiration processing earlier and should reduce the amount of time clearing members will be required to maintain staff on expiration Saturdays.

<sup>9</sup> 15 U.S.C. 78q-1 (1988).

enhance exercise processing for expiring options positions.

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

OCC believes that no burden will be placed on competition as a result of the proposed rule change.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others*

No written comments have been solicited or received. OCC will notify the Commission of any written comments received by OCC.

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

Within thirty-five 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 ninety 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 OCC 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. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submissions, 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 OCC. All submissions should refer to the file number SR-OCC-95-10 and should be submitted by September 21, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-36146; File No. SR-PSE-95-18]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Stock Exchange, Inc. Relating to Position Limits on the PSE Technology Index**

August 23, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on August 21, 1995, the Pacific Stock Exchange, Inc. ("PSE" 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 PSE proposes to amend its existing rules to increase the existing position and exercise limits for options on the PSE Technology Index ("Index"). In addition, the Exchange is proposing to change the terms of option contracts on the Index from p.m. settled to a.m. settled.

The text of the proposed rule change is available at the Office of the Secretary, PSE and at the Commission.

**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 PSE 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 PSE 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 November 26, 1991, the Commission approved an exchange proposal to re-classify the PSE Technology Index as a broad-based index.<sup>1</sup> The Index is a price-weighted, European-style<sup>2</sup> index comprised of 100 stocks that are intended to represent a broad spectrum of companies principally engaged in manufacturing and service-related products within advanced technology fields. Position and exercise limits for options on the Index are governed by PSE rules 7.6 and 7.7, and are set at 15,000 contracts on the same side of the market.

The Exchange is proposing to set new positions and exercise limits for options on the Index at 37,500 contracts on the same side of the market, with no more than 22,500 of such contracts in the series with the nearest expiration date. The Exchange has compared the Index with similar indexes traded on other exchanges and believes, based on such data, that the proposed position and exercise limits are consistent with the existing limits for broad-based index option contracts traded at the other exchanges.<sup>3</sup>

The Exchange is also proposing that options on the Index be a.m. settled instead of p.m. settled as originally approved. Accordingly, the last day of trading for options on the index shall be the business day preceding the last day of trading in the underlying securities prior to expiration. The current index value at the expiration of an a.m. settled index option shall be determined on the last day of trading in the underlying securities prior to expiration (*i.e.*, the Friday immediately preceding the third Saturday of the month). The current index value shall, for such purposes, be determined by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that the last reported sale price of such a security shall be used in any case where the security does not open for trading on that day.

<sup>1</sup> Securities Exchange Act Release No. 29994, 56 FR 63536 (Dec. 4, 1991). The Commission initially approved options trading on the Index in November 1983. See Securities Exchange Act Release Nos. 20424, 48 FR 54557 (Dec. 5, 1983); and 20499, 48 FR 58880 (Dec. 23, 1983).

<sup>2</sup> A European-style option may only be exercised during a specified period prior to expiration.

<sup>3</sup> The Exchange has compared the Index to the following indexes: Russell 2000 Index, S&P 400 Index, S&P 600 Index, Wilshire Small-Cap Index and National Over the Counter Index.

<sup>10</sup> 17 CFR 200.30-3(a)(12) (1994).