

will make a quarterly report to the boards of directors/trustees of the Funds concerning their participation in the credit facility and the terms and other conditions of any extensions of credit thereunder.

14. Each Fund's board of directors/trustees, including a majority of the independent directors/trustees: (a) will review no less frequently than quarterly the Fund's participation in the credit facility during the preceding quarter for compliance with the conditions of any order permitting such transactions; (b) will establish the benchmark rate formula used to determine the interest rate on interfund loans, and review no less frequently than annually the continuing appropriateness of such benchmark rate formula; and (c) will review no less frequently than annually the continuing appropriateness of the Fund's participation in the credit facility.

15. In the event an interfund loan is not paid according to its terms and such default is not cured within two business days from its maturity or from the time the lending Fund makes a demand for payment under the provisions of the interfund loan agreement, TVGI will promptly refer such loan for arbitration to an independent arbitrator selected by the board of each Fund involved in the loan who will serve as arbitrator of disputes concerning interfund loans. The arbitrator will resolve any problem promptly, and the arbitrator's decision will be binding on both Funds. The arbitrator will submit, at least annually, a written report to the boards setting forth a description of the nature of any dispute and the actions taken by the Funds to resolve the dispute.

16. Each Fund will maintain and preserve for a period of not less than six years from the end of the fiscal year in which any transaction by it under the credit facility occurred, the first two years in an easily accessible place, written records of all such transactions setting forth a description of the terms of the transaction, including the amount, the maturity, and the rate of interest available at the time on short-term repurchase agreements and commercial bank borrowings, and such other information presented to the Funds' board of directors/trustees in connection with the review required by conditions 13 and 14.

17. TVGI will prepare and submit to the Fund boards for review an initial special report on the "Design of a system" with respect to the operations of the interfund credit facility prior to the commencement of operations of the facility, including a report thereon of its independent public accountants. A test

program of modest duration involving actual transactions may be conducted prior to submission of the initial report to the boards. An appropriate single Fund which next files its form N-SAR after board review of the initial report will file the report with its Form N-SAR, and the other Funds will incorporate the report by reference in their next N-SAR filings. Thereafter, an annual report on the "Design of the System and Certain Compliance Tests" with respect to the accounting control procedures for the credit facility which includes an opinion of the independent public accountants will be filed for two years (measured from the commencement of the facility subsequent to the test program) with the Form N-SAR of an appropriate single Fund which next files its Form N-SAR after the release of such annual report and opinion, and the other Funds will incorporate each such annual report by reference to their next subsequent Form N-SAR filings. A form of the independent public accountants' opinion is attached as an exhibit to the application. The initial "Design" report and the annual "Design and Compliance Tests" report will each be prepared in accordance with the requirements of Statement of Auditing Standards No. 70 ("SAS 70") as it may be amended from time to time or pursuant to similar auditing standards as may be adopted by the American Institute of Certified Public Accountants from time to time, including reports of independent accountants thereon. Each SAS report will include a description of the principal procedures used by TVGI to monitor compliance with certain of the conditions the Funds have agreed to as part of the relief requested. The principal procedures described in the initial "Design" report and the annual "Design and Certain Compliance Tests" reports will include, at a minimum, procedures that are designed to achieve the following objectives: (a) the Funds are required to comply with the net redemption and percentage limitations on borrowing, and the percentage limitations on lending; (b) the Funds are required to make loans only at the interfund rate and such rate must be higher than the Joint Account repurchase agreement rate but lower than the lowest daily quote rate for available borrowing; (c) the Funds are required to allocate borrowing and lending demand in accordance with procedures established by the boards of directors/trustees; (d) if a Fund, at the time of its borrowing from a Fund, also has outstanding third-party borrowings, the interest rate on such interfund

borrowing cannot exceed the interest rate on third-party borrowings; and (e) the Funds are required to pledge collateral for interfund loans when and to the extent provided by the conditions to any order issued on the application. Each annual SAS 70 report will consider compliance with the procedures designed to achieve the foregoing objectives. After the final annual SAS 70 report, compliance with the conditions to any order issued on the application will be considered by the external auditors as part of their internal accounting control procedures, performed in connection with Fund audit examinations, which form the basis, in part, of the auditors' report on internal accounting controls in Form N-SAR.

18. No fund will be permitted to participate in the Credit Facility upon receipt of requisite regulatory approval unless the Fund has fully disclosed in its prospectus all material facts about its intended participation.

For the SEC, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96-6638 Filed 3-19-96; 8:45 am]

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[Release No. 34-36953; File No. SR-Amex-96-08]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange, Inc., Relating to the Trading of Options on the Amex Gold BUGSSM Index

March 11, 1996.

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 February 9, 1996, 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 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 Amex proposes to list and trade standardized options on the Amex Gold BUGSSM Index ("Index"), a modified equal-dollar weighted index developed by the Amex and comprised of 15 gold mining company stocks (or American

Depository Receipts ("ADRs") thereon) which are traded on the Amex or the New York Stock Exchange ("NYSE"). The Amex proposes to amend Commentary .01 to Amex Rule 901C, "Designation of Stock Index Options," to indicate that 90% of the Index's numerical index value must be accounted for by stocks which meet the then current criteria and guidelines provided in Amex Rule 915, "Criteria for Underlying Securities" and to indicate that these criteria must also be satisfied immediately following each quarterly rebalancing.

The text of the proposal is available at the Office of the Secretary, Amex, 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 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

(a) Purpose

The Amex proposes to trade standardized options on the Index, a modified equal-dollar weighted index developed by the Amex, representing a portfolio of 15 large actively traded gold mining company stocks. The Exchange believes that an index of gold mining stocks whose values are affected strongly by the price of gold will be attractive to many investors. In an effort to give investors an index with a significant exposure to the near term movements in gold prices, the Exchange has included in the Index those gold mining companies that do *not* hedge their gold production for extensive periods into the future. According to the Amex, gold fluctuating price of gold. Only companies that have a hedging ratio of less than 1½ years production will be considered for inclusion in the Index.

Eligibility Standards for Index Components

The Amex states that the Index conforms with Exchange Rule 901C, which specifies criteria for the inclusion of stocks in an index on which standardized options will be traded. According to the Amex, the Index also conforms to most of the criteria set forth in Amex Rule 901C, Commentary .02 (which provides for the commencement of trading of options on an index 30 days after the date of filing), except that the Index is calculated using a modified version of the equal-dollar weighting method and four of the components of the Index do not meet the six month minimum trading volume criteria.¹ According to the Amex, all of the Index's component securities meet the following eligibility standards: (1) all of the Index's component securities are traded on the Amex or the NYSE; (2) the component stocks comprising the top 90% of the Index by weight have a market capitalization² of at least \$75 million, and those component stocks constituting the bottom 10% of the Index by weight have a market capitalization of at least \$50 million; and (3) foreign country securities or ADRs thereon that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the Index. In addition, stocks constituting 87.34% of the Index by weight have minimum monthly volume of one million shares during the six months preceding the Amex's filing. Four stocks constituting 12.66% of the Index by weight have minimum monthly volumes ranging from 429,000 to 62,000 shares during the six months preceding the Amex's filing.

Index Calculation

The Index is calculated using a modified equal-dollar weighting methodology. Three of the Index's component companies are given higher weightings based upon their market value. The following is a description of

¹ Under Amex Rule 901C, Commentary .02, the Amex may list options on a stock industry index pursuant to Section 19(b)(3)(A) under the Act provided that the index satisfies certain criteria. Commentary .02 requires, among other things, that the index be calculated based on either the capitalization weighting, price weighting, or equal-dollar weighting methodology, and that the trading volume for each component stock of the index in each of the last six months be not less than 1,000,000 shares, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the trading volume must be at least 500,000 shares in each of the last six months.

² In the case of ADRs, this represents market capitalization as measured by total world-wide shares outstanding.

how this modified equal-dollar weighting calculation method works. As of the market close on February 5, 1996, a portfolio of gold mining company stocks was established representing an investment of approximately (1) \$16,000 in two components in the Index; (2) \$12,000 in one of the components; (3) \$2,000 in two components; and (4) \$4,300 in the remaining 12 components (rounded to the nearest whole share). The value of the Index equals the current market value (*i.e.*, based on U.S. primary market prices) of the sum of the assigned number of shares of each of the stocks in the Index portfolio divided by the Index divisor. The Index divisor was initially determined to yield the benchmark value of 200.00 at the close of trading on February 5, 1996. Each quarter thereafter, following the close of trading on the Thursday prior to the third Friday of March, June, September, and December, the Index portfolio will be reviewed and adjusted if any one of the three components initially representing higher weightings in the Index value currently represents 25 percent or more of the Index value, or if any one of the other components initially representing lower weightings in the Index value currently represents 5 percent or more of the Index value. The Index portfolio will be rebalanced, if necessary, by changing the number of whole shares of each component stock so that the three components initially given higher weights will again represent less than 25 percent of the Index value, and the remaining lower-weighted components will each represent less than 5 percent of the Index value. The Exchange has chosen to rebalance the Index following the close of trading on the Thursday prior to the third Friday of March, June, September and December, since it allows an option contract to be held for up to three months without a change in the Index portfolio while, at the same time, maintaining the equal-dollar weighting feature of the Index. If necessary, a divisor adjustment will be made at the rebalancing to ensure the continuity of the Index's value. The newly adjusted portfolio becomes the basis for the Index's value on the first trading day following the quarterly adjustment.

As noted above, the number of shares of each component stock in the Index portfolio remains fixed between quarterly reviews except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, stock distribution, stock split, reverse stock split, rights offering, distribution,

reorganization, recapitalization, or similar event with respect to the component stocks. In a merger or consolidation of an issuer of a component stock, if the stock remains in the Index, the number of shares of that security in the portfolio may be adjusted, to the nearest whole share, to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In the event of a stock addition or replacement, the new component stock will be added to the Index at a weight determined by the Exchange and the Index will be rebalanced. In all cases, the divisor will be adjusted, if necessary, to ensure Index continuity.

Similar to other stock index values published by the Exchange, the value of the Index will be calculated continuously and disseminated every 15 seconds over the Consolidated Tape Association's Network B.

Maintenance of the Index

The Exchange will maintain the Index so that upon quarterly rebalancing: (1) the total number of component securities will not increase or decrease by more than 33 $\frac{1}{3}$ percent from the number of components in the Index at the time of its initial listing and in no event will the Index have less than nine components; (2) component stocks constituting the top 90 percent of the Index by weight will have a minimum market capitalization of \$75 million and the component stocks constituting the bottom 10 percent of the Index by weight will have a minimum market capitalization of \$50 million; (3) at least 90 percent of the Index's numerical index value and at least 80 percent of the total number of component securities individually will meet the then current criteria for standardized option trading set forth in Amex Rule 915; (4) stocks constituting 85 percent of the Index have a monthly trading volume of at least 500,000 shares for each of the last six months; (5) no single component will represent more than 25 percent of the weight of the Index and the five highest weighted components will represent no more than 60 percent of the Index at each quarterly rebalancing; and (6) in order to maintain the character of the Index, companies whose gold production hedging policies change to greater than 1 $\frac{1}{2}$ times annual production will be considered for removal from the Index.

The Amex will not open for trading any additional option series if the Index fails to satisfy any of the maintenance criteria set forth above unless the Exchange determines that such failure is not significant and the Commission

concurs in that determination or unless the continued listing of options on the Index has been approved by the Commission pursuant to Section 19(b)(2) of the Act.

Expiration and Settlement

The options on the proposed Index will be European-style (*i.e.*, exercises permitted only at expiration) and cash-settled. Standard option trading hours (9:30 a.m. to 4:10 p.m. Eastern Standard Time) will apply. Options on the Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). The last trading day in an expiring option series normally will be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). Trading in expiring options will cease at the close of trading on the last trading day.

The Amex plans to list series with expirations in the three near-term calendar months and in the two additional calendar months in the March cycle. In addition, the Amex may list longer term option series having up to 36 months to expiration. In lieu of such long-term options on a full value Index, the Amex may instead list long-term, reduced value put and call options based on one-tenth $\frac{1}{10}$ the Index's full value. In either event, the interval between expiration months for either a full value or reduced value long-term option will not be less than six months. The trading of any long-term Index options will be subject to the same rules which govern the trading of all of the Amex's index options, including sales practice rules, margin requirements, and floor trading procedures. As noted above, all Index options will have European-style exercise. Position limits on reduced-value long term Index options will be equivalent to the positions limits for full value Index options and will be aggregated with such options. For example, if the position limit for the full value Index options is 9,000 contracts on the same side of the market, then the position limit for the reduced value Index options will be 90,000 contracts on the same side of the market.

The exercise settlement value for all of the Index's expiring options will be calculated based upon the primary exchange's regular way opening sale prices for the component stocks. In the case of securities traded through the facilities of the National Association of Securities Dealers Automated Quotation system ("NASDAQ"), the first regular way sale price will be used. If any component stock does not open for

trading on its primary market on the last trading day before expiration, then the prior day's last sale price will be used in the calculation.

Exchange Rules Applicable to Stock Index Options

Amex Rules 900C, "Applicability and Definitions," through 980C, "Exercise of Stock Index Option Contracts," will apply to the trading of option contracts based on the Index. These rules cover issues such as surveillance exercise prices, and position limits. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the Index. The Index is deemed to be a stock index option under Amex Rule 901C(a) and a stock index industry group under Amex Rule 900C(b)(1).³ With respect to paragraph (b) of Amex Rule 903C, "Series of Stock Index Options," the Exchange proposes to list near-the-money option series on the Index at 2- $\frac{1}{2}$ point strike (exercise) price intervals when the value of the Index is below 200 points. In addition, the Exchange expects that the review required by paragraph (c) of Amex Rule 904C, "Position Limits," will result in a position limit of 9,000 contracts for options on the Index.⁴

(b) Basis

The Amex believes that the proposed rule change is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5), in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and is not designed to permit unfair discrimination between customers, issuers, brokers or dealers.

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

The Amex does not believe that the proposed rule change will impose any burden on competition.

³ Under Amex Rule 900C(b)(1), a stock index industry group is an index of stocks representing a particular industry or related industries.

⁴ Amex Rule 904(c) provides that the position limit for an industry index option will be 9,000 contracts if the Amex determines at the commencement of trading of the options that any single stock in the underlying stock index industry group accounted, on average, for 20% or more of the numerical index value or that any five stocks in the group together accounted, on average, for more than 50% of the numerical index value, but that no single stock in the group accounted, on average, for 30% or more of the numerical index value, during the 30-day period immediately preceding the review.

(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 after 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 reason 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, 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 April 10, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 96-6641 Filed 3-19-96; 8:45 am]

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[Release No. 34-36956; File No. SR-Amex-96-05]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange, Inc. Relating to Assurances of Delivery for Short Sales of Derivative Securities into an Underwriting Syndicate's Stabilizing Bid

March 11, 1996

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 January 31, 1996, the American Stock Exchange, Inc. ("Amex" 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 Amex proposes to amend its policy to require that members trading derivative securities as Registered Options Traders pursuant to Amex Rule 958 make prior arrangements either to borrow the necessary securities or to obtain other assurances that delivery can be made on settlement date prior to effecting a short sale into an underwriting syndicate's stabilizing bid.

The text of the proposed rule change is available at the Office of the Secretary, Amex 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 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

Since 1989, the Exchange has required members and member organizations effecting short sales for both customer and proprietary accounts

either to make prior arrangements to borrow the securities or to obtain acceptable assurances that delivery can be made on settlement date.¹ Such assurances include knowledge that the security is available for borrowing, conversion privileges, rights exercises or other similar situations so long as the security needed for delivery can be timely obtained. Short sales by specialists, market makers and odd-lot dealers in fulfilling their market making responsibilities are excepted from this requirement. Arbitrageurs and other traders may not rely upon this "market maker" exception.

In 1992, the Exchange amended its rules to permit regular members to register as Registered Options Traders ("ROTs") in order to trade index warrants for their own account subject to Amex Rule 958.² The Exchange deemed it desirable to enable members to trade these equity derivative securities³ subject to Rule 958 (which affords specialist "good faith" margin treatment and an exemption from stabilization requirements) instead of the more restrictive provisions of Rules 111 and 114 applicable to Registered Equity Market Makers because the Exchange believed that application of Rules 111 and 114 to index warrants would make it unlikely that members would trade such securities. However, the 1992 rule change also had the effect of exempting members trading as ROTs from the short sale policy given their market making activities in index warrants.

The Exchange now proposes a narrow modification to its short sale policy which would require members who register as ROTs and trade equity derivatives pursuant to Rule 958 to make prior arrangements to borrow these securities or obtain other acceptable assurances that delivery can be made on settlement date when selling short into the stabilizing bid of an underwriting syndicate. Implementation of the modified short sale policy is expected to provide increased stability to the market for listed Amex equity derivative securities

¹ See Securities Exchange Act Release No. 27542 (Dec. 15, 1989).

² See Securities Exchange Act Release No. 24277 (June 8, 1992). The SEC has recently approved an Amex proposal to allow regular members to trade currency warrants for their own account subject to the provisions of Amex Rule 958. See Securities Exchange Act Release No. 36852 (Feb. 15, 1996).

³ The term "equity derivative security" refers to an underwritten security the value of which is determined by reference to another security, or to a currency, commodity, interest rate or index of the foregoing. Such securities are commonly listed pursuant to Exchange Company Guide Sections 106, 107, 118 or Amex rule 1102.