

Eligibility Standards for Index Components

Components of the Index approved pursuant to this filing shall meet the following criteria: (1) A minimum market value of at least \$75 million, except that up to 10% of the component securities in the Index may have a market value of \$50 million; (2) average monthly trading volume in the last six months of not less than 1,000,000 shares, except that up to 10% of the component securities in the Index may have an average monthly trading volume of 500,000 shares or more in the last six months; (3) 90% of the Index's numerical Index value and at least 80% of the total number of component securities will meet the then current criteria for standardized option trading set forth in Exchange Rule 915; (4) all component stocks will either be listed on the Amex, the New York Stock Exchange, or traded through the facilities of the National Association of Securities Dealers Automated Quotation System and reported National Market System securities; and (5) if any foreign securities or American Depository Receipts ("ADRs") represented in the Index cause a particular foreign country's weight in the Index to initially exceed 20% of the Index's numerical Index value, the Exchange will have in place a surveillance sharing agreement with the appropriate regulatory organization in that country.

Index Calculation

The Index will be calculated using an "equal-dollar weighting" methodology designed to ensure that each of the component securities is represented in an approximately "equal" dollar amount in the Index at the time such Index is established. The Index will initially be set to provide a benchmark value of 100.00 at the close of trading on the day preceding the establishment of the Index.

The multiplier of each component stock in the Index will remain fixed except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, a stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, or similar event with respect to the component stocks. The multiplier of each component stock may also be adjusted, if necessary in the event of a merger, consolidation, dissolution or liquidation of an issuer or in certain other events such as the distribution of property by an issuer to shareholders, the expropriation or nationalization of a foreign issuer or the

imposition of certain foreign taxes on shareholders of a foreign issuer. If the issuer of a stock included in the Index were to no longer exist, whether by reason of a merger, acquisition or similar type of corporate transaction, a value equal to the stock's final value will be assigned to the stock for the purpose of calculating the Index value. For example, if a company included in the Index were acquired by another company, a value will be assigned to the company's stock equal to the value per share at the time the acquisition occurred. If the issuer of stock included in the Index is in the process of liquidation or subject to a bankruptcy proceeding, insolvency, or other similar adjudication, such security will continue to be included in the Index so long as a market price for such security is available. If a market price is no longer available for an Index stock due to circumstances including but not limited to, liquidation, bankruptcy, insolvency, or any other similar proceeding, then the security will be assigned a value of zero when calculating the Index for so long as no market price exists for that security. If the stock remains in the Index, the multiplier of that security in the portfolio may be adjusted to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In all cases, the multiplier 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.

2. Basis

The Exchange 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, 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 Amex does not believe that the proposed rule change will impose any inappropriate 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 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, 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, N.W., Washington, DC. 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 No. SR-Amex-96-27 and should be submitted by August 14, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³

Margaret H. McFarland,
Deputy Secretary.

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³ 17 CFR 200.30-3(a)(12).

[Release No. 34-37448; File No. SR-Amex-96-16]

**Self-Regulatory Organizations;
American Stock Exchange, Inc.; Order
Granting Approval to Proposed Rule
Change and Notice of Filing and Order
Granting Accelerated Approval of
Amendment No. 1 to Proposed Rule
Change Relating to Specialists'
Liquidating Transactions**

July 17, 1996.

I. Introduction

On April 30, 1996, the American Stock Exchange, Inc. ("Amex" or "Exchange") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Amex Rule 170 to permit a specialist to effect a liquidating transaction on a zero minus tick, in the case of a "long" position, or zero plus tick, when covering a "short" position, without Floor Official approval. The Amex also proposes to amend this rule to set forth the affirmative action that specialists would be required to take subsequent to affecting various types of liquidating transactions.

Notice of the proposed rule change, together with its terms of substance, was provided by issuance of a Commission release on June 7, 1996, and by publication of this release in the Federal Register on June 14, 1996.³ No comments were received in response to the Commission release. On July 15, 1996, the Exchange Amendment No. 1 to the Commission.⁴ This order approves the proposed rule change on a pilot basis until September 23, 1996.

II. Description of the Proposal

The proposed rule change amends Amex Rule 170 as it pertains to specialists' liquidating transactions. The Commission previously approved the amendments to this rule on a pilot basis.⁵

The Exchange originally proposed to amend Amex Rule 170 in File No. SR-Amex-92-26.⁶ The proposed rule change, filed as a one-year pilot program, amended Amex Rule 170 to permit specialists to "relinquish" a dealer position by selling "long" on a zero minus tick,⁷ or by purchasing on a zero plus tick⁸ to cover a "short" position, without Floor Official approval. The proposed amendments also emphasized the specialist's affirmative role in providing stabilizing dealer participation to the marketplace where reliquification may be required to facilitate the maintenance of a fair and orderly market.

The Commission granted temporary approval of the Amex's proposal on a one-year pilot basis and requested that the Exchange submit a report evaluating the effects of the amendments.⁹ The Commission then granted a three-month extension of the pilot on April 21, 1995 to enable the pilot to continue on an uninterrupted basis while the Commission considered the Exchange's request for permanent approval.¹⁰ The Commission subsequently granted an extension of the pilot until July 21, 1996 to enable the Commission to review the Amex's use of the pilot program procedures and to enable the pilot to continue without interruption during the Commission's review.¹¹ The reports submitted by the Exchange concerning the pilot program noted that the amendments to the Rule appear to be working well in enabling specialists to reliquify appropriately to meet the needs of the market. However, the Exchange is seeking to extend the pilot program until September 23, 1996 so that the Exchange and the Commission can review certain issues associated with the pilot program further.

III. Commission's Findings and Order Granting Accelerated Approval of the Amended Proposed Rule Change

After careful consideration, the Commission concludes 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, with the

requirements of Section 6(b) and Section 11 of the Act.¹² Specifically, the Commission believes the proposal is consistent with the Section 6(b)(5)¹³ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest. The Commission also believes the proposal is consistent with Section 11(b) of the Act¹⁴ and Rule 11b-1¹⁵ thereunder, which allow exchanges to promulgate rules relating to specialists in order to maintain fair and orderly markets.

Under the pilot program, a specialist may liquidate a position by selling stock on a direct minus tick or by purchasing stock on a direct plus tick only if such transactions are reasonably necessary for the maintenance of a fair and orderly market and only if the specialist has obtained the prior approval of a Floor Official. Liquidations on a zero minus or a zero plus tick, which previously required Floor Official approval, can be effected under the pilot procedures without a Floor Official's approval, but continue to be subject to the restriction that they be effected only when reasonably necessary to maintain a fair and orderly market. In addition, the specialist must maintain a fair and orderly market during the liquidation.

After the liquidation, the specialist is required to reenter the market on the opposite side of the market from the liquidating transaction to offset any imbalances between supply and demand. During any period of volatile or unusual market conditions resulting in significant price movement in a specialist's specialty stock, the specialist's re-entry into the market must reflect, at a minimum, his or her usual level of dealer participation in the specialty stock. In addition, during such periods of volatile or unusual price movements, re-entry into the market following a series of transactions must reflect a significant level of dealer participation.

In the 1994 Approval Order, the Commission requested that the Amex submit a report setting forth the criteria developed by the Exchange to determine whether any reliquifications by specialists were necessary and appropriate in connection with fair and orderly markets.¹⁶ The Commission also asked, among other things, that the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 37288 (June 7, 1996), 61 FR 30268.

⁴ Amendment No. 1 changed the proposal from a request for permanent approval of this pilot program to an extension of this pilot program until September 23, 1996. See letter from Claudia Crowley, Special Counsel, Amex, to Anthony Pecora, Attorney, Division of Market Regulation, SEC, dated July 12, 1996.

⁵ See Securities Exchange Act Release No. 33957 (Apr. 22, 1994), 59 FR 22188 ("1994 Approval Order") (approving File No. SR-Amex-92-26); Securities Exchange Act Release No. 35635 (Apr. 21, 1995), 60 FR 20780 ("April 1995 Approval Order") (approving File No. SR-Amex-95-11); Securities Exchange Act Release No. 36014 (July 21,

1995), 60 FR 38870 ("July 1995 Approval Order") (approving File No. SR-Amex-95-19).

⁶ See 1994 Approval Order, *supra* note 5.

⁷ A zero minus tick is a price equal to the last sale where the last preceding transaction at a different price was at a higher price.

⁸ A zero plus tick is a price equal to the last sale where the last preceding transaction at a different price was at a lower price.

⁹ See 1994 Approval Order, *supra* note 5.

¹⁰ See April 1995 Approval Order, *supra* note 5.

¹¹ See July 1995 Approval Order, *supra* note 5.

¹² 15 U.S.C. 78f(b) and 78k.

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ 15 U.S.C. 78k(b).

¹⁵ 17 CFR 240.11b-1.

¹⁶ See 1994 Approval Order, *supra* note 5.

Exchange provide information regarding the Exchange's monitoring of liquidation transactions effected by specialists on any destabilizing tick. In both of the 1995 approval orders, the Commission requested that the Amex continue to monitor the pilot and update its report where appropriate.¹⁷ In particular, the Commission asked the Amex to report any noncompliance with the Rule and the action the Amex took as a result of such noncompliance.

The Amex submitted its reports concerning the pilot program to the Commission in May 1995 and April 1996. As noted above, the Amex believes the pilot procedures appear to be working well in enabling specialists to reliquify appropriately to meet the needs of the market. After reviewing the data, the Commission agrees with the Exchange that the pilot generally is working well. In particular, the Commission believes the report indicates that specialists generally are entering the aftermarket after effecting liquifying transactions when appropriate.

The Commission believes, however, that certain issues concerning the pilot need to be revisited before permanent approval can be granted. In this regard, the Exchange should continue to emphasize the requirements of Amex Rule 170, including the necessity for Floor Official approval of specialists' purchases and sales on direct plus or minus ticks, and that such transactions can only be effected if reasonably necessary for the maintenance of fair and orderly markets. In addition, where proper procedures are not followed, the Amex should take appropriate disciplinary action.¹⁸

The Commission finds good cause for approving Amendment No. 1 prior to the thirtieth day after the date of publication of notice of filing thereof. This will permit the pilot program to continue on an uninterrupted basis. In addition, the Exchange proposes to continue using the identical procedures contained in the pilot program. These procedures have been published in the Federal Register on several occasions for the full comment period,¹⁹ and no

comments have been received. Furthermore, the Commission approved a similar rule change for the NYSE also without receiving comments on the proposal.²⁰ For these reasons, the Commission finds that accelerating approval of the proposed rule change is consistent with Section 19(b)(2) of the Act.²¹ Any requests to modify this pilot program, to extend its effectiveness, or to seek permanent approval for the pilot program also should include an update on the disciplinary actions taken for violations of these procedures.

IV. Solicitation of Comments

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 at the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-96-16 and should be submitted by August 14, 1996.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²² that the proposed rule change (SR-Amex-96-16) is approved for a pilot period ending on September 23, 1996.

For the Commission, by the Division, of Market Regulation, pursuant to delegated authority.²³

Margaret H. McFarland,

Deputy Secretary.

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²⁰ See Securities Exchange Act Release No. 31797 (Jan. 29, 1993), 58 FR 7277 (approving File No. SR-NYSE-92-20).

²¹ 15 U.S.C. 78s(b)(2).

²² 15 U.S.C. 78s(b)(2).

²³ 17 CFR 200.30-3(a)(12).

[Release No. 34-37444; File No. SR-Amex-96-28]

Self-Regulatory Organizations; Notice of Filing of a Proposed Rule Change by American Stock Exchange, Inc. Relating to the Listing and Trading of Indexed Term Notes

July 16, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on July 15, 1996, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the Securities and Exchange Commission the proposed rule change as described in Items I and II below, which Items have been prepared by the Amex. 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 Substance of the Proposed Rule Change

The Amex proposes to approve for listing and trading under Section 107A of the Amex *Company Guide*, Indexed Term Notes based in whole or in part on changes in the value of a portfolio of common stocks representing the ten highest yielding stocks in the Dow Jones Industrial Average (the "Select Ten").

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 the Statutory Basis for, the Proposed Rule Change

(1) Purpose

Under Section 107A of the Amex *Company Guide*, the Exchange may approve for listing and trading securities which cannot be readily categorized under the listing criteria for common and preferred stocks, bonds, debentures, or warrants.¹ The Amex now proposes

¹ See Securities Exchange Act Release No. 27753 (March 1, 1990).

¹⁷ See April 1995 Approval Order and July 1995 Approval Order, *supra* note 5.

¹⁸ Failure to obtain the required Floor Official approval when establishing, increasing, or liquidating a position should be enforced by the Exchange through its Minor Rule Violation Fine System unless more serious action is warranted through full disciplinary proceedings. See Amex Rule 590.

¹⁹ See 1994 Approval Order, *supra* note 5; April 1995 Approval Order, *supra* note 5; July 1995 Approval Order, *supra* note 5; Securities Exchange Act Release No. 37288 (June 7, 1996), 61 FR 30268 (publishing notice of File No. SR-Amex-96-16).