

Rule 431 that originally were approved in the March Approval Order is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, this portion of the proposal is consistent with Section 6(b)(5) of the Act,¹⁶ in that it is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.¹⁷

Specifically, the Commission finds, as it has concluded previously,¹⁸ that it is appropriate for the NYSE to apply the existing maintenance margin requirements of NYSE Rule 431(c) to transactions in the new "good faith" account adopted under Regulation T. Although non-equity transactions permitted in the good faith account will not be subject to the initial margin requirements and payment and liquidation time frames of Regulation T, as the NYSE notes, transactions in the good faith account may raise the same safety and soundness concerns with regard to maintenance margin as do transactions in cash and margin accounts. Accordingly, the Commission believes that it is appropriate for the NYSE to apply the existing maintenance margin requirements specified in NYSE Rule 431(c) to transactions in the good faith account. The Commission believes that applying the maintenance margin requirements of NYSE rule 431(c) to transactions in the good faith account will protect investors and the public interest and help to maintain fair and orderly markets by ensuring that good faith accounts contain adequate margin reserves.

In addition, the Commission believes that it is appropriate for the NYSE to revise the definition of "customer" in NYSE Rule 431(a)(2) to codify the Exchange's position that exempt borrowers will remain exempt from the requirements of NYSE Rule 431, except for the proprietary account of a broker-dealer carried by a member pursuant to NYSE Rule 431(e)(6). The Commission believes that it is appropriate for the NYSE to continue to apply the equity requirements of NYSE Rule 431(e)(6) to the proprietary accounts of introducing broker-dealers that qualify as "exempted borrowers" under Regulation T if these accounts are carried by another Exchange member. By continuing to apply the equity requirements of NYSE

Rule 431(e)(6) to these proprietary accounts, the Commission believes that the proposal will help to ensure that these accounts contain adequate margin, thereby protecting investors and the public interest.¹⁹

The Commission finds good cause for approving the portion of the proposed rule change requesting approval for six months, until January 27, 1999, of the changes to NYSE Rule 431 that were approved in the March Approval Order prior to the thirtieth day after the date of publication of notice in the **Federal Register** to ensure that the changes to NYSE Rule 431 that were approved in the March Approval Order remain in effect without interruption. The Commission continues to believe that the changes to NYSE rule 431 that were approved in the March Approval Order should help to ensure appropriate margin requirements for good faith accounts and for the proprietary accounts of introducing broker-dealers that qualify as exempted borrowers which accounts are carried by Exchange members. Accordingly, the Commission finds that it is consistent with Sections 6(b) and 19(b)(2) of the Act to grant accelerated approval to the portion of the NYSE's proposal that extends for six months, until January 27, 1999, or until the Commission approves the proposal permanently, whichever occurs first, the changes to NYSE Rule 431 that were approved in the March Approval Order.

The Commission also finds good cause for approving Amendment No. 1 to the proposal on an accelerated basis. In Amendment No. 1, the NYSE clarified several provisions in its proposal and requested accelerated approval of a six-month extension, through January 27, 1999, of the changes to NYSE Rule 431 that were approved in the March Approval Order. The Commission believes that it is appropriate to approve Amendment No. 1 on an accelerated basis to permit the changes to NYSE Rule 431 that were approved in the March Approval Order to continue to apply without interruption. Therefore, the Commission believes that Amendment No. 1 is consistent with Sections 6(b) and 19(b)(2) of the Act.

V. 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.

¹⁹ As noted above, because exempted borrowers are exempt from Regulation T, the provision in NYSE Rule 431(e)(6) requiring adherence to Regulation T will not apply to the proprietary accounts of exempted borrowers.

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 request to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission any 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 NYSE. All submissions should refer to File No. SR-NYSE-98-16 and should be submitted by August 24, 1998.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²⁰ that the portion of the NYSE's proposal (SR-NYSE-98-16), as amended, to extend the changes approved by the Commission in the March Approval Order on an accelerated basis until January 27, 1999, or until the Commission approves the proposal permanently, whichever occurs first, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40263; File No. SR-PCX-98-27]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Pacific Exchange, Inc. Relating to the Automatic Execution of Option Orders

July 24, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 12, 1998, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities Exchange Commission ("Commission") the proposed rule

²⁰ 15 U.S.C. 78s(b)(2).

²¹ 17 CFR 200.30-3(a)(12).

¹ U.S.C. 78s(b)(1).

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ In approving this portion of the proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁸ See March Approval Order, *supra* note 3.

change as described in Items I, II, and III below, which Items have been prepared by the PCX. On July 14, 1998, the Exchange submitted to the Commission Amendment No. 1 to the proposed rule change.² The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange is proposing to amend PCX Rule 6.87 ("Automatic Execution System") to permit automatic executions of option orders on the Exchange at prices reflecting the National Best Bid or Offer ("NBBO"). The text of the proposed rule change is available at the principal office of the PCX 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 PCX 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 PCX 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

Orders entered via the Exchange's Member Firm Interface ("MFI") are delivered to one of three destinations: (a) to the Exchange's Automatic Execution System for options trading ("Auto-Ex"), where they are automatically executed at the disseminated bid or offering price; (b) to Auto-Book, which maintains non-marketable limit orders based on limit price and time of receipt; or (c) to a Member Firm's default destination, a particular firm booth or remote entry site, if the order fails to meet the eligibility criteria necessary for using either Auto-Ex or Auto-Book or if the Member Firm requests such default for

²In Amendment No. 1 the Exchange altered the proposed rule language to clarify that exceptions to the rule would be applied on an option issue by option issue basis. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, to Ken Rosen, Attorney, Division of Market Supervision, Commission, dated July 13, 1998 ("Amendment No. 1").

its orders.³ Only non-broker/dealer customer orders for up to ten option contracts (or 20 option contracts, depending on the option issue) are eligible to be executed on Auto-Ex.⁴

The Exchange is now proposing to adopt new PCX Rule 6.87(d), which would provide that the Exchange's Options Floor Trading Committee ("OFTC") may designate electronic orders in an option issue to receive automatic executions at prices reflecting the NBBO, provided that the OFTC may designate, for an option issue, that an order will default for manual representation by a floor broker in the trading crowd if (1) the order would be executed at a price that is more than one trading increment away from the PCX disseminated market price; or (2) the NBBO is crossed or locked.

For example, under the proposal, if the PCX market in an option series is 6 bid, 6½ asked, and if another market is disseminating a market in the same series of 6¾ bid, 6¾ asked—so that the NBBO is 6¾ bid, 6½ asked, then, in the absence of the OFTC designating the orders for manual representation, the PCX will automatically execute customer sell orders at 6¾ even though the PCX disseminated bid is only 6, and will automatically execute customer buy orders at 6½.

The proposal would also allow the OFTC to designate, for an option issue, that an order will default for manual representation by a floor broker in the trading crowd if the order would be executed at a price that is more than one trading increment away from the PCX market price.⁶ Should such a designation be made, for the example above, where the PCX bid is 6 and the competing market's bid is 6¾, a customer sell order entered on the PCX would default for manual representation because 6¾ is more than one trading increment away from the PCX disseminated bid price of 6.⁶ But if the PCX bid is 6 and the competing market's bid is 6½, a customer sell order on the PCX would be executed at 6½ because

³ See Securities Exchange Act Release No. 27633 (January 18, 1990) 55 FR 2466 (January 24, 1990); Securities Exchange Act Release No. 39970 (May 7, 1998) 63 FR 26662 (May 13, 1998).

⁴ See PCX Rule 6.87.

⁵ The Exchange notes that the Chicago Board Options Exchange proposed a similar feature for its Retail Automatic Execution System (RAES), designated as the "RAES Auto-Step-Up." See Securities Exchange Act Release No. 39992 (May 14, 1998) 63 FR 28019 (May 21, 1998); Securities Exchange Act Release No. 40096 (June 16, 1998) 63 FR 34209 (June 23, 1998) (approving feature).

⁶ See PCX Rule 6.72, which provides that bids and offers above \$3 must be expressed in eighths of one dollar (e.g., 3¼) and bids and offers below \$3 must be expressed in sixteenths of one dollar (e.g., 1¼).

6½ is only one trading increment away from the PCX disseminated bid of 6.

The proposal would also permit the OFTC to designate, for an option issue, that if the NBBO is crossed (e.g., 6½ bid, 6 asked) or locked (e.g., 6 bid, 6 asked), then customer orders to buy or sell the series would default for manual representation in the trading crowd. However, the Exchange is proposing to maintain the flexibility to provide for automatic executions on the Exchange when the NBBO is locked or crossed. Such action may be appropriate, for example, when there is a large influx of electronic orders and a fair and orderly market would be better served by a reduction in the number of orders that default to a firm booth for manual representation in the trading crowd. In such situations, public customers would receive very favorable prices on their orders.

The Exchange believes that implementation of the proposal will provide public investors with better prices on their orders, thus making the Exchange a more competitive marketplace to which order flow providers may send their option orders for execution.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act, in general, and Section 6(b)(5), in particular, in that it is designed to facilitate transactions in securities; to protect investors and the public interest; to remove impediments to and perfect the mechanism of a free and open market and a national market system; and to promote just and equitable principles of trade.

B. Self-Regulatory Organizations' Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments on the proposed rule change 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, 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, 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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR-PCX-98-27 and should be submitted by August 24, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

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SELECTIVE SERVICE SYSTEM

Form Submitted To The Office of Management and Budget For Clearance

The following form has been submitted to the Office of Management and Budget (OMB) for extension of clearance in compliance with the Paperwork Reduction Act (44 U.S.C. Chapter 35):

SSS FORM—404

Title: Potential Board Member Information.

Need and/or use: Is used to identify individuals willing to serve as members of local, appeal or review boards in the Selective Service System.

Respondents: Potential board members.

Burden: A burden of 15 minutes or less on the individual respondent.

Copies of the above identified form can be obtained upon written request to the Selective Service System, Reports Clearance Officer, 1515 Wilson Boulevard, Arlington, Virginia 22209-2425.

Written comments and recommendations for the proposed extension of clearance of the form should be sent within 30 days of publication of this notice to the Selective Service System, Reports Clearance Officer, 1515 Wilson Boulevard, Arlington, Virginia 22209-2425.

A copy of the comments should be sent to Office of Information and Regulatory Affairs, Attention: Desk Officer, Selective Service System, Office of Management and Budget, New Executive Office Building, Room 3235, Washington, D.C. 20503.

Dated: July 24, 1998.

Gil Coronado,

Director.

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SOCIAL SECURITY ADMINISTRATION

Finding Regarding the Social Insurance System of the Slovak Republic

AGENCY: Social Security Administration.

ACTION: Notice of Finding Regarding the Social Insurance System of the Slovak Republic.

FINDING: Section 202(t)(1) of the Social Security Act (42 U.S.C. 402(t)(1)) prohibits payment of monthly benefits to any individual who is not a United States citizen or national for any month after he or she has been outside the United States for 6 consecutive months, and prior to the first month thereafter for all of which the individual has been in the United States. This prohibition does not apply to such an individual where one of the exceptions described in sections 202(t)(2) through 202(t)(5) of the Social Security Act (42 U.S.C. 402(t)(2) through 402(t)(5)) affects his or her case.

Section 202(t)(2) of the Social Security Act provides that, subject to certain residency requirements of section 202(t)(11), the prohibition

against payment shall not apply to any individual who is a citizen of a country which the Commissioner of Social Security finds has in effect a social insurance system which is of general application in such country and which:

(a) pays periodic benefits, or the actuarial equivalent thereof, on account of old age, retirement, or death; and

(b) permits individuals who are United States citizens but not citizens of that country and who qualify for such benefits to receive those benefits, or the actuarial equivalent thereof, while outside the foreign country regardless of the duration of the absence.

The Commissioner of Social Security has delegated the authority to make such a finding to the Associate Commissioner for International Programs. Under that authority, the Associate Commissioner for International Programs has approved a finding that the Slovak Republic, as of January 1, 1993, has a social insurance system of general application which:

(a) pays periodic benefits, or the actuarial equivalent thereof, on account of old age, retirement, or death; and

(b) permits United States citizens who are not citizens of the Slovak Republic and who qualify for the relevant benefits to receive those benefits, or their actuarial equivalent, while outside of the Slovak Republic regardless of the duration of the absence of these individuals from the Slovak Republic.

Accordingly, it is hereby determined and found that the Slovak Republic has in effect, as of January 1, 1993, a social insurance system which meets the requirements of section 202(t)(2) of the Social Security Act (42 U.S.C. 402(t)(2)).

This is our first finding under section 202(t) of the Social Security Act for the Slovak Republic. Before January 1993, the United States did not recognize the Slovak Republic as an independent nation. Czechoslovakia divided into two separate states, the Czech Republic and the Slovak Republic, on January 1, 1993. At that time, the Slovak Republic adopted the Czechoslovak basic law on social insurance which continues to govern the country's social insurance system.

Although the Slovak Republic added several amendments to the old law, these provisions did not affect the determination under section 202(t)(2) of the Social Security Act. In addition, the Slovak Republic considers itself bound by the Diplomatic Notes on reciprocity of payments which were exchanged between the United States and Czechoslovakia in 1968. Since all such agreements are binding on the Slovak Republic by right of succession, the

⁷ 17 CFR 200.30-3(a)(12).