9. A Fund's borrowings through the credit facility, as measured on the day when the most recent loan was made, will not exceed the greater of 125% of the Fund's total net cash redemptions and 102% of sales fails for the preceding seven calendar days.

10. Each Interfund Loan may be called on one business day's notice by the lending Fund and may be repaid on any day by the borrowing Fund.

11. A Fund's participation in the credit facility must be consistent with its investment policies and limitations and organizational documents.

12. Price's Credit Facility Team will calculate total Fund borrowing and lending demand through the credit facility, and allocate loans on an equitable basis among the Funds without the intervention of any portfolio manager of the Funds. The Credit Facility Team will not solicit cash for the credit facility from any Fund or prospectively publish or disseminate loan demand data to portfolio managers. Price will invest any amounts remaining after satisfaction of borrowing demand in accordance with the standing instructions from portfolio managers or return remaining amounts for investment to the Funds.

13. Price will monitor the interest rates charged and the other terms and conditions of the Interfund Loans and will make a quarterly report to the Directors concerning the participation of the Funds in the credit facility and the terms and other conditions of any extensions of credit under the facility.

14. The Directors of each Fund, including a majority of the Independent Directors: (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 the transactions; (b) will establish the Bank Loan Rate formula used to determine the interest rate on Interfund Loans and review no less frequently than annually the continuing appropriateness of the Bank Loan 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 the 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 Lending Agreement, Price will promptly refer the loan for arbitration to an independent arbitrator selected by the Directors of the Funds involved in the loan who will serve as arbitrator of disputes concerning Interfund Loans.[5] 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 Trustees 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 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 on the loan, the rate of interest available at the time on short-term repurchase agreements and bank borrowings, and such other information presented to the Fund's Directors in connection with the review required by conditions 13 and 14.

17. Price will prepare and submit to the Directors for review an initial report describing the operations of the credit facility and the procedures to be implemented to ensure that all Funds are treated fairly. After commencement of operations of the credit facility, Price will report on the operations of the credit facility at the Directors' quarterly meetings.

In addition, for two years following the commencement of the credit facility, the independent public accountant for each Fund that is a registered investment company shall prepare an annual report that evaluates Price's assertion that it has established procedures reasonably designed to achieve compliance with the conditions of the order. The report shall be prepared in accordance with the Statements on Standards for Attestation Engagements No. 3 and it shall be filed pursuant to Item 77Q3 of Form N–SAR. In particular, the report shall address procedures designed to achieve the following objectives: (a) that the Interfund Rate will be higher than the Repo Rate, and if applicable the yield of the Reserve Investment Funds, but lower than the Bank Loan Rate; (b) compliance with the collateral requirements as set forth in the application; (c) compliance with the percentage limitations on interfund borrowing and lending; (d) allocation of interfund borrowing and lending demand in an equitable manner and in accordance with procedures established by the Directors; and (e) that the interest rate on any Interfund Loan does not exceed the interest rate on any third party borrowings of a borrowing Fund at the time of the Interfund Loan.

After the final report is filed, the Fund's external auditors, in connection with their Fund audit examinations, will continue to review the operation of the credit facility for compliance with the conditions of the application and their review will form the basis, in part, of the auditor's report on internal accounting controls in Form N–SAR.

18. No Fund will participate in the credit facility upon receipt of requisite regulatory approval unless it has fully disclosed in its SAI 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. 98–30893 Filed 11–18–98; 8:45 am]

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[5] If the dispute involves Funds with separate Boards of Directors, the Directors of each Fund will select an independent arbitrator that is satisfactory to each Fund.

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40662; File Nos. SR–AMEX–98–21; SR–CBOE–98–29; SR–PCX–98–31; and SR–PHLX–98–26]

Self-Regulatory Organizations; American Stock Exchange, Inc., Chicago Board Options Exchange, Inc., Pacific Exchange, Inc. and Philadelphia Stock Exchange, Inc.; Order Approving Proposed Rule Change and Amendments Thereto Relating to Expansion and Permanent Approval of the 2½ Point Strike Price Pilot Program

November 12, 1998.

I. Introduction

On June 17, 1998, the American Stock Exchange, Inc. (''AMEX''); on June 30, 1998, the Chicago Board Options Exchange, Inc. (''CBOE''); on June 19, 1998, the Pacific Exchange, Inc. (''PCX''); and on July 1, 1998, the Philadelphia Stock Exchange, Inc. (''PHLX'') (referred to individually as ''Exchange'' and collectively as ''Exchanges'') 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 extend and subsequently expand and

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

permanently approve the 2½ Point Strike Price Pilot Program.

The AMEX submitted to the Commission Amendment No. 1 to its proposed rule change on July 13, 1998.[3] The CBOE submitted to the Commission Amendment No. 1 to its proposal on July 15, 1998.[4] The PCX submitted to the Commission Amendment No. 1 to its proposed rule change on July 7, 1998,[5] and Amendment No. 2 to its proposal on July 10, 1998.[6] The PHLX submitted to the Commission Amendment No. 1 to its proposed rule change on July 2, 1998,[7] and Amendment No. 2 to its proposal on July 8, 1998.[8]

On July 24, 1998, the proposed rule change and amendments were published for comment in the **Federal Register**[9] and the Commission granted accelerated approval to the portion of the proposal relating to the extension of the 2½ Point Strike Price Pilot Program for a six-month period ending on January 15, 1999, or until the Commission approves the request to expand the program and approve it permanently, whichever occurs first. The Commission received no comments on the proposal. This order approves the portions of the proposed rule change, as amended, relating to the expansion and permanent approval of the 2½ Point Strike Price Pilot Program.

II. Description of the Proposal

The 2½ Point Strike Price Pilot Program enables the Exchanges to each list a specified number of options trading at a strike price greater than $25 but less than $50 at 2½ point intervals. The Commission approved the original 2½ Point Strike Price Pilot Program proposed by the Exchanges and the New York Stock Exchange (''NYSE''), which is no longer a participant in the program, on July 19, 1995.[10] Pursuant to the original pilot program, the Exchanges, including the NYSE, were permitted to use 2½ point strike price intervals for a joint total of up to 100 option issues. Currently, each participating Exchange is allocated a whole number of classes based on the sum of the following: (1) one quarter of the first 50 issues; and (2) a percentage of the remaining 50 classes determined by each Exchange's *pro rata* share of the total number of equity option listings as of July 1, 1997.[11] In addition, the options originally selected by the NYSE, which have not been subsequently decertified or delisted, continue to be eligible for the pilot program, but are not counted against any Exchange's allotment. However, these classes may not be replaced by another selection in the event a class becomes ineligible or is decertified.

Because the program is limited to 100 option classes industry-wide and because each Exchange is allocated a specific number of option classes, some of the Exchanges have had to refuse requests to add option classes to the program. As a result, the Exchanges are proposing to expand the program from 100 to 200 eligible option classes. Generally, to provide for the orderly introduction of the new classes and insure that the Exchanges' systems capacity remains sufficient throughout the expansion, the Exchanges propose to add only 20 classes each calendar quarter for the 5 quarters following the Commission's grant of permanent approval of the program. Overall, each Exchange will be allocated a whole number of additional option classes based on the sum of the following: (1) one quarter of the first 50 issues; and (2) a percentage of the remaining 50 classes determined by each Exchange's *pro rata* share of the total number of equity option listings as of October 1, 1998.[12] Each Exchange will receive its allocation of additional option classes over the 5 quarters following the Commission's grant of permanent approval of the program. In addition, the options originally selected by the NYSE, which have not been subsequently decertified or delisted, will continue to be eligible for the program, but are not counted against any Exchange's allotment.

The Exchanges also are proposing to make the 2½ Point Strike Price Pilot Program permanent based on the success of the pilot program over a three-year period. The Exchanges and the Options Price Reporting Authority (''OPRA'') represent that sufficient computer capacity is available to accommodate the proposed expansion and permanent approval of the 2½ Point Strike Price Pilot Program.[13]

III. Discussion

After careful review, the Commission finds that the proposed rule change, as amended, relating to the expansion and permanent approval of the 2½ Point Strike Price Pilot Program is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[14] Specifically, the Commission believes that the proposal is consistent with the requirements of Section 6(b)(5) of the Act[15] in that the expansion and permanent approval of the program should remove impediments to and perfect the mechanism of a free and open market in a manner consistent with the protection of investors and the public interest.

The Commission believes that expanding the 2½ Point Strike Price Pilot Program by 100 option classes will provide investors with greater flexibility to tailor their positions in equity options with a strike price greater than $25 but less than $50. The Commission also believes that the proposed addition of 100 option classes to the program strikes a reasonable balance between the Exchange's desire to accommodate market participants by offering a wide array of investment opportunities and

[3] *See* Letter from Scott G. Van Hatten, Legal Counsel, AMEX, to Richard Strasser, Assistant Director, Division of Market Regulation (''Division''), Commission, dated July 10, 1998 (''AMEX Amendment No. 1'').

[4] *See* Letter from Timothy H. Thompson, Director—Regulatory Affairs, CBOE, to Deborah Flynn, Attorney, Division, Commission, dated July 14, 1998 (''CBOE Amendment No. 1'').

[5] *See* Letter from Robert P. Pacileo, Staff Attorney, PCX, to Deborah L. Flynn, Attorney, Division, Commission, dated July 2, 1998 (''PCX Amendment No. 1'').

[6] *See* Letter from Robert P. Pacileo, Staff Attorney, PCX, to Deborah L. Flynn, Attorney, Division, Commission, dated July 8, 1998 (''PCX Amendment No. 2'').

[7] *See* Letter from Linda S. Christie, Counsel, PHLX, to Michael Walinskas, Deputy Associate Director, Division, Commission, dated July 1, 1998 (''PHLX Amendment No. 1'').

[8] *See* Letter from Linda S. Christie, Counsel, PHLX, to Michael Walinskas, Deputy Associate Director, Division, Commission, dated July 7, 1998 (''PHLX Amendment No. 2'').

[9] Securities Exchange Act Release No. 40226 (July 17, 1998) 63 FR 39916.

[10] *See* Securities Exchange Act Release No. 35993, 60 FR 38073 (July 25, 1995) (order approving File Nos. SR–PHLX–95–08; SR–AMEX–95–12; SR–PSE–95–07; SR–CBOE–95–19, and SR–NYSE–95–12).

[11] The actual allotment of options issues for each Exchange as of July 1997 is: CBOE (31), AMEX (25), PHLX (23), and PCX (21). However, each Exchange may trade at 2½ point strike price intervals any multiply listed option selected by another Exchange for inclusion in the 2½ Point Strike Price Pilot Program.

[12] Each Exchange will receive the following allocation of the additional 100 option classes: AMEX (26), CBOE (29), PCX (22) and PHLX (23). The total allotment of options issues for each Exchange as of October 1, 1999, will be as follows: AMEX (51), CBOE (60), PCX (43), and PHLX (46). *See* Letters from Timothy Thompson, Director—Regulatory Affairs, CBOE, to Richard Strasser, Assistant Director, Division, Commission, dated November 5, 1998; Scott G. Van Hatten, Legal Counsel, AMEX, to Richard Strasser, Assistant Director, Division, Commission, dated November 4, 1998. Telephone conversations between Nandita Yagnik, Attorney, PHLX; Robert Pacileo, Attorney, PCX; and Terri Evans, Attorney, Division, Commission, on November 10, 1998.

[13] *See* AMEX 19b–4 filing, AMEX–98–21, and Amendment No. 1, *supra* note 3; CBOE 19b–4 filing, CBOE–98–29; PCX Amendment No. 1, *supra* note 5; and PHLX 19b–4 filing, PHLX–98–26.

[14] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[15] 15 U.S.C. 78f(b)(5).

the need to avoid unnecessary proliferation of options series.

In addition, the Commission believes that permanent approval of the pilot program is now appropriate given the length of time the pilot program has been in place and its past success. The Commission notes that the Exchanges have not reported any significant problems with the pilot program since its inception nor has the Commission received adverse comments concerning the operation of the pilot program. The Commission notes that the Exchanges and OPRA have represented that sufficient computer processing capacity is available to accommodate the expansion and permanent approval of the 2½ Point Strike Price Pilot Program. The Commission expects the Exchanges to continue to monitor the applicable options activity closely to detect any proliferation of illiquid options series resulting from the narrower strike price intervals and any capacity problems. Further, the Commission expects the Exchanges to promptly remedy such problems should they arise.

In the event the Exchanges propose to expand the program beyond the 200 option classes currently proposed or eliminate the price limits for the 2½ point strike price intervals, the Exchanges must submit a report to the Commission as well as an Exchange Act Rule 19b–4 filing of such proposal. The report should cover the one-year period prior to the date of the proposal and should include data and written analysis on the open interest and trading volume in affected series, and delisted options series (for all strike price intervals) on the selected program option classes. The report also should discuss any capacity problems that may have arisen and any other data relevant to the analysis of the program, including an assessment of the appropriateness of the 2½ point strike price intervals for the options selected by the reporting exchange.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[16] that the proposed rule change (File Nos. SR–AMEX–98–21; SR–CBOE–98–29; SR–PCX–98–31; and SR–PHLX–98–26), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[17]

[16] 15 U.S.C. 78s(b)(2).

[17] 17 CFR 200.30–3(a)(12).

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40655; File No. SR–CHX–97–19]

Self-Regulatory Organizations; Chicago Stock Exchange, Incorporated; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1 and 2 to Proposed Rule Change Establishing Rules Relating to Market-at-the-Close Orders

November 10, 1998.

I. Introduction

On September 12, 1997, the Chicago Stock Exchange, Incorporated (''Exchange'' or ''CHX'') filed with 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 establish rules and procedures governing market-at-the-close (''MOC'') orders.

The proposed rule change was published for comment in Securities Exchange Act Release No. 39252 (Oct. 17, 1997), 62 FR 55444 (Oct. 24, 1997). The Commission did not receive any comments on the proposal. The Exchange filed with the Commission Amendment No. 1 to the proposed rule change on November 3, 1997,[3] and Amendment No. 2 on September 29, 1998.[4] This order approves the proposed rule change including, on an accelerated basis, Amendment Nos. 1 and 2.

II. Description of the Proposal

The Exchange does not currently maintain formal rules governing the entry or execution of MOC orders on the Exchange.[5] The Exchange therefore seeks to adopt Article XX, Exchange Rule 44, ''Market-at-the-Close Orders,'' to establish formal procedures and better define the rights and obligations of Exchange members and customers with respect to MOC orders. As defined in the proposed rule change, the term ''MOC order'' means a market order which is to be executed in its entirety at the closing price on the primary market of the stock named in the order, and if not so executed, is to be treated as canceled.[6]

The Exchange proposes to adopt procedures that mirror those used by the New York Stock Exchange (''NYSE'') and the American Stock Exchange (''Amex''). The similarity is intended to ensure that MOC orders sent to the Exchange will receive treatment comparable to MOC orders sent to the NYSE and the Amex. The Exchange has expressed concern that unless its MOC rules are functionally equivalent to those of the NYSE and the Amex, market participants may attempt to execute certain MOC orders on the Exchange that would otherwise be prohibited under the MOC rules of the NYSE and the Amex.

In its original form, the Exchange's proposal contemplated procedures and requirements for MOC orders entered on expiration days (*i.e.,* last trading day before monthly expiration of standardized contracts in derivative products and last trading day before expiration of quarterly index options) that differed from those for MOC orders entered on nonexpiration days. Amendment No. 2 eliminates the disparity and proposes a uniform version of the Exchange's MOC rules that would apply to all MOC orders irrespective of the date of entry.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] Amendment No. 1 revised the proposed rule change by redefining a term used in the rule text. *See* Letter from Charles R. Haywood, Foley & Lardner, to Katherine England, Assistant Director, Division of Market Regulation, Commission, dated October 31, 1997 (''Amendment No. 1'').

[4] Amendment No. 2 eliminates the proposed requirements that the Exchange publish an independent list of MOC order imbalances that occur on the Exchange. In addition, Amendment No. 2 revises the proposal to establish identical procedures for MOC orders entered on expiration and non-expiration days. Finally, Amendment No. 2 provides that MOC orders may be entered on the Exchange after 2:40 P.M., Central Standard Time, only if the specialist determines that such MOC order could have been entered on the primary market. *See* Letter from David T. Rusoff, Foley & Lardner, to Michael Loftus, Attorney, Division of Market Regulation, Commission, dated September 28, 1998 (''Amendment No. 2'').

[5] However, the Exchange does not prohibit the use of MOC orders. Generally, an Exchange specialist will voluntarily accept an MOC order if the specialist believes such order could be accepted on the New York Stock Exchange. Telephone conversation between David T. Rusoff, Attorney, Foley and Lardner; Daniel J. Liberti, Attorney, Exchange; and Michael L. Loftus, Attorney, Division of Market Regulation, Commission (October 16, 1997).

[6] The Exchange's proposed MOC rule and procedures would apply to all securities listed on the Exchange (whether by exclusive listing or dual listing) and all securities traded on the Exchange pursuant to unlisted trading privileges. Electronic mail message from David T. Tusoff, Attorney, Foley and Lardner, to Michael L. Loftus, Attorney, Division of Market Regulation, Commission (November 9, 1998).