

approach, Congress would delegate certain registration and examination responsibilities to state regulators, while the Commission would retain exclusive responsibility for larger investment advisers, whose activities tend to be more complicated and have an effect on national markets. The states would regulate and examine smaller advisers who tend to operate locally. The conferees are expected to discuss legislative proposals in this area and other approaches to improving the efficiency of investment adviser regulation and examinations.

Toward the same end, the Commission in July 1995 proposed improved disclosure requirements for money market funds. The revised standards would simplify money market fund prospectuses considerably, making them less costly to prepare and allowing investors to focus on a short document that contains the most essential information about the fund. The conferees are expected to discuss this proposal and the comments the Commission has received.

(4) Enforcement Issues

In addition to the above-stated topics, the state and federal regulators will discuss various enforcement-related issues which are of mutual interest.

(5) Investor Education

The Commission is pursuing a number of programs for investors on how to invest wisely and to protect themselves from fraud and abuse. The States and NASAA have a longstanding commitment to investor education and the Commission is intent on coordinating and complementing those efforts to the greatest extent possible. The participants at the conference will discuss investor education and potential joint projects in some of the working group sessions.

(6) General

There are a number of matters which are applicable to all, or a number, of the areas noted above. These include EDGAR, the Commission's electronic disclosure system, rulemaking procedures, training and education of staff examiners and analysts and sharing of information.

The Commission and NASAA request specific public comments and recommendations on the above-mentioned topics. Commenters should focus on the agenda but may also discuss or comment on other proposals which would enhance uniformity in the existing scheme of state and federal regulation, while helping to maintain high standards of investor protection.

Dated: April 3, 1996.

By the Commission.

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37058; File No. SR-CBOE-96-17]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Options on the CBOE Oil Index

April 2, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on March 15, 1996, the Chicago Board Options Exchange, Incorporated ("CBOE" 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 CBOE proposes to list and trade options on the CBOE Oil Index ("Oil Index" or "Index").

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 an 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

The purpose of the proposed rule change is to permit the exchange to list and trade cash-settled, European-style stock index options on the CBOE Oil

Index. The Index currently meets all of the generic criteria for listing options on narrow-based indexes as set forth in Exchange Rule 24.2 and the Commission's order approving that Rule (the "Commission Order").² In accordance with Rule 24.2, CBOE proposes to list and trade options on the Oil Index beginning 30 days from the filing date of this proposed rule change.

The Oil Index consists of 15 stocks of large and widely held intergrated oil companies. Options on the Index will provide investors with a low-cost means to participate in the performance of this sector or to hedge against the risk of investing in this sector.

Index Design

All of the Oil Index stocks are U.S. securities and currently trade on the New York Stock Exchange ("NYSE"). Additionally, all of the stocks are "reported securities" as defined in Rule 11Aa3-1 under the Exchange Act.

Each Index stock has a market capitalization in excess of \$3 billion. Specifically, the stocks comprising the Index range in capitalization from \$3.2 billion to \$101.6 billion as of February 21, 1996. The total capitalization as of that date was \$432 billion. The mean capitalization was \$28.8 billion. The median capitalization was \$18.3 billion.

In addition, each of the component stocks in the Index have had average monthly trading volume well in excess of 1 million shares over the six month period through January of 1996. The average monthly volumes for these stocks over the six month period ranged from a low of 3.6 million shares to a high of 27.5 million shares. As of February 21, 1996, 100% of the weight of the Index and 100% of the number of components are eligible for options trading.

The largest stock in the Index by weight comprises 13.72% of the Index, while the smallest represents 1.86% of the Index. The top 5 stocks in the Index account for 54.03% of the Index. Accordingly, the Exchange's generic listing standards for narrow based indexes are met with respect to the criteria of market capitalization, weighting constraints, options eligibility, and trading volume.

Calculation

The Index will be calculated on a real-time basis using last-sale prices by CBOE or its designee, and will be disseminated every 15 seconds by CBOE. If a component stock is not currently being traded, the most recent

¹ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062.

price at which the stock traded will be used in the Index calculation. The value of the Index at the close on February 21, 1996 was 186.35.

The Index is price-weighted and reflects changes in the prices of the component stocks relative to the Index base date, January 3, 1995 when the Index was set to 150. Specifically, the Index value is calculated by adding the prices of the component stocks and then dividing this sum by the Index divisor. The Index divisor is adjusted to reflect non-market related changes in the prices of the component securities as well as changes in the composition of the Index. Changes which may result in divisor changes include, but are not limited to, stock splits and dividends, spin-offs, certain rights issuances, and mergers and acquisitions.

Maintenance

The Index will be maintained by CBOE. In addition, the Index is reviewed on approximately a monthly basis by the CBOE staff. CBOE may change the composition of the Index at any time to reflect changes affecting the components of the Index or the oil industry generally. If it becomes necessary to remove a stock from the Index (for example, because of a takeover or merger), CBOE will only add a stock having characteristics that will permit the Index to remain within the maintenance criteria specified in CBOE's Rules and the Commission Order. CBOE will take into account the capitalization, liquidity, volatility, and name recognition of any proposed replacement stock.

CBOE staff will review the Index on the schedule described above to ensure that the Index satisfies the maintenance listing standards set forth in CBOE Rule 24.2(c), where applicable. Absent prior Commission approval, CBOE will not increase to more than 20, nor decrease to fewer than 10, the number of stocks in the Index. In addition, the CBOE will monitor the composition of the Index to determine whether the maintenance criteria are satisfied, including whether any change has occurred to cause fewer than 90% of the stocks by weight, or fewer than 80% of the total number of stocks in the index, qualifying as stocks eligible for equity options trading under CBOE Rule 5.3.³

If the Index fails at any time to satisfy the maintenance criteria, the Exchange will immediately notify the Commission of that fact and will not open for trading

any additional series of options on the Index unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of options on the Oil Index has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

Index Option Trading

The Exchange proposes to base trading in options on the Oil Index on the full value of that Index. The Exchange may list full-value long-term index option series ("LEAPS"), as provided in Rule 24.9. The Exchange also may provide for the listing of reduced-value LEAPS, for which the underlying value would be computed at one-tenth of the value of the Index. The current and closing index value of any such reduced-value LEAP will, after such initial computation, be rounded to the nearest one-hundredth.

Exercise and Settlement

Oil Index options will have European-style exercise and will be "A.M.-settled index options" within the meaning of the Rules in Chapter XXIV, including Rule 24.9, which is being amended to refer specifically to Oil Index options. The proposed options will expire on the Saturday following the third Friday of the expiration month. Thus, the last day for trading in a expiring series will be the second business day (ordinarily a Thursday) preceding the expiration date.

Exchange Rules Applicable

Except as modified herein, the Rules in Chapter XXIV will be applicable to Oil Index options. Index option contracts based on the Oil Index will be subject to the position limit requirements of Rule 24.4A. Currently the limit is 9,000 contracts. Ten reduced-value options will equal one full-value contract for such purposes.

CBOE has the necessary systems capacity to support new series that would result from the introduction of Oil Index options. CBOE has also been informed that the Options Price Reporting Authority ("OPRA") has the capacity to support such new series.⁴

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act") in general and furthers the objectives of Section 6(b)(5) in particular in that it will permit trading in options based on the Oil

Index pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to invest in options based on an additional index.

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

The CBOE believes that the proposed rule change will impose no burden on competition.

(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

Because the foregoing rule change complies with the standards set forth in the Commission Order,⁵ it has become effective pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(e) thereunder. Pursuant to the Commission Order, the Exchange may not list Index options for trading prior to 30 days after March 15, 1996, the date the proposed rule change was filed with the Commission. At any time within 60 days of the filing of the rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference

³ Telephone conversation between Timothy Thompson, Senior Attorney, CBOE, and Francois Mazur, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, on April 1, 1996.

⁴ Letter from Joseph P. Corrigan, Executive Director, OPRA, to William Speth, CBOE, dated March 1, 1996.

⁵ See *supra* note 2.

Section, 450 Fifth Street, N.W., Washington, D.C. 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 File No. SR-CBOE-96-17 and should be submitted by April 30, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37062; File No. SR-NASD-96-11]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Amendments to the Primary Market Maker Standards

April 2, 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 March 27, 1996, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NASD. 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 NASD is proposing to amend the Primary Market Maker ("PMM") Standards rule by deleting a provision of the rule that allows a market maker to become a PMM in an issue by registering in the stock and refraining from quoting the issue for five days.¹ Below is the text of the proposed rule change. Proposed deletions are in brackets.

Article III

Rules of Fair Practice

* * * * *

Primary Nasdaq Market Maker Standards

Sec. 49.

* * * * *

(g) In registration situations:

(1) To register and immediately become a Primary Nasdaq Market Maker in a Nasdaq

National Market security, a member must be a Primary Nasdaq Market Maker in 80% of the securities in which it has registered. If the market maker is not a Primary Nasdaq Market Maker in 80% of its stocks, it may qualify as a Primary Nasdaq Market Maker in that stock if:

- (i) the market maker registers in the stock but does not enter quotes for five days; or
- (ii) the market maker registers in the stock as a regular Nasdaq market maker and satisfies the qualification criteria for the next review period.

* * * * *

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 NASD 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 NASD 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

On June 29, 1994, the SEC approved the NASD's short-sale rule applicable to short sales in Nasdaq National Market ("NNM") securities.² The rule, which has been approved by the Commission on a pilot basis through August 3, 1996,³ prohibits member firms from effecting short sales⁴ at or below the current inside bid as disseminated by the Nasdaq system whenever that bid is lower than the previous inside bid.⁵

² See Securities Exchange Act Release No. 34277 (June 29, 1994), 59 FR 34885 (July 7, 1994) (approving, *inter alia*, Article III, Section 48 to the NASD Rules of Fair Practice).

³ See Securities Exchange Act Release No. 36532 (Nov. 30, 1995), 60 FR 62519 (Dec. 6, 1995).

⁴ A short sale is a sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of, the seller. To determine whether a sale is a short sale members must adhere to the definition of a "short sale" contained in SEC Rule 3b-3, which rule is incorporated into Nasdaq's short sale rule by Article III, Section 48(l)(1) of the NASD Rules of Fair Practice.

⁵ Nasdaq calculates the inside bid and the best bid from all market makers in the security (including bids on behalf of exchanges trading Nasdaq securities on an unlisted trading privileges basis), and disseminates symbols to denote whether the current inside bid is an "up bid" or a "down bid." Specifically, an "up bid" is denoted by a green "up" arrow symbol and a "down bid" is denoted by a red "down" arrow. Accordingly, absent an exemption from the rule, a member can not effect a short sale at or below the inside bid in

In order to ensure that market maker activities that provide liquidity and continuity to the market are not adversely constrained when the short sale rule is invoked, the rule provides an exemption to "qualified" Nasdaq market makers.⁶ Even if a market maker is able to avail itself of the qualified market maker exemption, it can utilize the exemption from the short sale rule only for transactions that are made in connection with bona fide market making activity. If a market maker does not satisfy the requirements for a qualified market maker, it can remain a market maker in the Nasdaq system; however, it can not take advantage of the exemption from the rule.

From February 1, 1996 to August 3, 1996, a "qualified" Nasdaq market maker is defined to be a market maker that satisfies the criteria for a PMM found in Section 49 of the NASD Rules of Fair Practice.⁷ To qualify as a PMM, market makers must satisfy at least two of the following four criteria: (1) the market maker must be at the best bid or best offer as shown on the Nasdaq system no less than 35 percent of the time; (2) the market maker must maintain a spread no greater than 102 percent of the average dealer spread; (3) no more than 50 percent of the market maker's quotation updates may occur without being accompanied by a trade execution of at least one unit of trading; or (4) the market maker executes 1½ times its "proportionate" volume in the stock.⁸ If a market maker is a PMM, a "P" indicator is displayed next to its market maker identification to denote that it is a PMM.

The review period for satisfaction of the PMM performance standards is one calendar month. If a PMM has not satisfied the threshold standards after a particular review period, the PMM designation will be removed commencing on the next business day

a security in its proprietary account or an account of a customer if there is a red arrow next to the security's symbol on the screen. In order to effect a "legal" short sale on a down bid, the short sale must be executed at a price at least a 1/16th of a point above the current inside bid. Conversely, if the security's symbol has a green "up" arrow next to it, members can effect short sales in the security without any restrictions. The rule is in effect during normal domestic market hours (9:30 a.m. to 4:00 p.m., Eastern Time).

⁶ Article III, Section 48(c)(1).

⁷ Before the PMM standards went into effect, a "qualified market maker" was defined to be a market maker that had entered quotations in the relevant security on an uninterrupted basis for the preceding 20 business days, the so-called "20-day test."

⁸ For example, if there are 10 market makers in a stock, each dealer's proportionate share volume would be 10 percent; therefore, 1½ times proportionate share volume would mean 15 percent of overall volume.

⁶ 17 CFR 200.30-3(a)(12) (1994).

¹ NASD Manual, Rules of Fair Practice, Art. III, Sec. 49 (CCH) ¶ 22001.