

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38641; File No. SR-NYSE-97-02]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of the Proposed Rule Change by the New York Stock Exchange, Inc. Relating to the Establishment of a 4:02 p.m. Closing Time for Equity and Narrow-Based Index Options Trading

May 14, 1997.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4² thereunder, notice is hereby given that on January 29, 1997, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II 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 and to grant accelerated approval of the proposed rule change.

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

The Exchange is proposing: (1) to change the time pursuant to which a member organization may tender an index stock group option exercise notice to five minutes after the close of trading; and (2) to change the closing time for the trading of equity options and industry index stock group options on the Exchange from 4:10 p.m. to 4:02 p.m. The text of the proposed rule change is available at the Office of the Secretary, NYSE 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

1. Purpose

(a) Exercise Notice Cut-Off Time

Supplementary Material .10 of Exchange Rule 780 (Exercise of Option Contracts) provides that in connection with the exercise of industry index stock group options:

(i) A member organization may not tender an exercise notice unless a memorandum has been prepared by no later than 4:15 p.m.;

(ii) In the case of exercise of 25 or more contracts, an exercise advice must be delivered to the Exchange by 4:15 p.m.; and

(iii) Member organizations must accept exercise instructions until 4:15 p.m.

Because the changes to Exchange Rule 792 (Days and Hours for Options Trading) that the Exchange proposes would change the closing time for trading in industry index stock group options from 4:10 p.m. to 4:02 p.m., the Exchange proposes to reduce the three 4:15 deadlines set forth above by a commensurate amount (that is, from 4:15 p.m. to 4:07 p.m.). The Exchange feels that it is appropriate to make generic the three deadlines (that is, the Exchange prefers "five minutes after the close of trading" to "4:07 p.m.") in light of the fact that trading in the underlying equities need not always close at 4:00 p.m., and similarly, trading in industry index stock group options need not always close at 4:02 p.m. For instance, a day's trading may trigger a "circuit breaker" that ends the trading day early or the Exchange may exercise its discretion to close trading early (as it sometimes does on the eve of holidays).

(b) Equity Option and Industry Index Options Closing Time

Paragraph (a) of Exchange Rule 792 specifies that members may effect equity options transactions on the Exchange Floor on each trading day until ten minutes after the close of equities trading on the Floor and may effect transactions on the Exchange Floor in options on industry or broad index stock groups until fifteen minutes after that close of equities trading. (Equities trading currently closes at 4:00 p.m.)

The Exchange proposes to amend the closing time for both equities option trading and trading in industry index stock group options to two minutes after the close of equities trading. (The Exchange does not propose to amend

the closing time for broad index stock group options at this time.)

The original purpose for the ten-minute differential for equities options and the fifteen minute differential for industry index stock group options was to allow options traders an appropriate opportunity in which to respond to equity trading that might take place just before the close. That opportunity to respond is important because pre-closing equity trades may result in post-closing reports of trades in an equity security. Ten minutes (in the case of equities options) and fifteen minutes (in the case of industry index stock group options) were thought to be necessary because it sometimes took several minutes after the close of equity trading for the tape to display some of those later trades. However, technological improvements in the time it takes to process transactions and to report them over the tape make it no longer necessary to maintain the 10-minute differential for equity options and the 15-minute differential for industry index stock group options.

Shortening the differential to two minutes moves the closing time for options trading much closer to the closing time for equity trading, while maintaining an appropriate opportunity for options traders to respond to last-minute trading on the equity floor.

2. Statutory Basis

The proposed rule changes further the objectives of section 6(b)(5) of the Act, in that they are designed to promote just and equitable principles of trade, and 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.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange states that the proposed rule change does not 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

The Exchange has not solicited, and does not intend to solicit, comments on the proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

¹ 15 U.S.C. § 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Commission finds 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, Section 6(b)(5).³ Section 6(b)(5) requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, perfect the mechanism of a free and open national market, and in general, to further investor protection and the public interest.

The Commission believes that it is reasonable for the Exchange to amend its rules to close trading in equity and narrow-based index options at 4:02 p.m., versus the existing 4:10 p.m. close. Changing the closing time for these options to 4:02 p.m. preserves the Exchange's⁴ stated need to continue trading options for some period of time after the close of trading in the underlying securities. The Exchange has stated that this two minute extension from the close of the stock markets will allow options traders to respond to late reports of closing prices over the consolidated tape, thereby bringing options quotes into line with the closing price of the underlying security. Due to improvements in the processing and reporting of transactions, the Exchange believes that two minutes of options trading after the underlying equities close is sufficient to bring options quotes into line with the closing prices of the underlying securities.

As discussed in similar rule filings submitted to the Commission, the CBOE and the American Stock Exchange, Inc. ("Amex") state that a number of issuers have adopted the practice of disseminating important corporate news after the close of trading on the primary equity exchange in order to minimize the short-term disruptive effect of the news on the market price of the stock by allowing investors the opportunity to digest the significance of the news after the markets have closed.⁵ These announcements, if made while options markets are still trading, impact narrow-based index options, as well as equity

options, because a significant news announcement on one component of a narrow-based index may have substantial impact on that index. As a result, the exchanges are often deluged with option orders as a result of such significant news announcements after 4:00 p.m. The exchanges state that these orders may have a disruptive effect on the options market at a time when the exchanges are attempting to close in a fair and orderly fashion.

Accordingly, the Commission finds that a closing time of 4:02 p.m. for equity and narrow-based index options is a reasonable means to address the Exchange's desire to balance the need for some extended trading period with the need to prevent negative impact from issuers' major news announcements made while only the options markets remain open.

The Commission also finds that it is reasonable for the Exchange to amend its rules to remove the reference to the closing time and instead to specify that index stock group option exercise notices must be given five minutes after the close of trading.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. The Commission notes that it is approving this proposal on the same date that it is approving nearly identical rule change proposals submitted by the Amex, CBOE, and Pacific Exchange, Inc. ("PCX"). These rule filings have been published in the **Federal Register**⁶ and were subject to a full notice and comment period. No comments were received on the proposals. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists to approve the proposed rule change on an accelerated basis.

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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-NYSE-97-02, and should be submitted by June 12, 1997.

V. Conclusion

For the reasons discussed above, the Commission finds that the proposal is consistent with the Act, and, in particular, Section 6 of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (SR-NYSE-97-02) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38649; File No. SR-PSE-96-35]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to the Proposed Rule Change by the Pacific Stock Exchange, Incorporated Relating to Its Rules on Executions of "Odd Lot" Equity Orders

May 16, 1997.

I. Introduction

On September 25, 1996, the Pacific Stock Exchange, Incorporated ("PSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") 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 relating to its rules on executions of odd lot equity orders. On December 17, 1996, the PSE submitted an amendment ("Amendment No. 1") to

³ 15 U.S.C. 78f(b)(5).

⁴ The Commission notes that the NYSE has recently ceased all equity and index options trading on its floor, transferring its options business to the Chicago Board Options Exchange, Inc. ("CBOE"). Release No. 34-38542 (April 23, 1997) (Order approving NYSE-97-05). Nevertheless, the Commission believes it is appropriate to approve the current rule change, particularly since NYSE may reenter the options business at a later date.

⁵ See SR-CBOE-96-71 and SR-AMEX-96-45.

⁶ See SR-AMEX-96-45, Release No. 34-38123 (January 6, 1997); 62 FR 1786 (January 13, 1997); SR-CBOE-96-71, Release No. 34-37988 (November 26, 1996); 61 FR 64405 (December 4, 1996); and SR-PSE-96-41, Release No. 34-37920 (November 4, 1996); 61 FR 58434 (November 14, 1996).

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. § 78s(b)(1).

² 17 CFR 240.19b-4.