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Deputy Secretary.
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Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Index Options Exercise Advices

April 5, 1996.

I. Introduction

On December 28, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" 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 Phlx Rule 1042A, Exercise of Option Contracts, and Floor Procedure Advice ("Advice") G-1, Exercise Requirements. The Phlx proposes to extend the deadline for the receipt or preparation of a memorandum to exercise, as well as the submission of an exercise advice form, from five minutes after the close of trading to 4:30 p.m. In addition, as minor changes to paragraph (ii) will result in the inclusion of the National Over-the-Counter Index option, Phlx Rule 1042A(a)(iii) will be deleted.

The proposed rule change appeared in the Federal Register on February 27, 1996.³ No comments were received on the proposed rule change. This order approves the Phlx's proposal.

II. Background and Description

Phlx Rule 1042A and Advice G-1 govern the exercise of index options. These provisions state that with respect to index option contracts, clearing members are required to follow the procedures of the Options Clearing Corporation ("OCC") for tendering exercise notices. Phlx member organizations are also required to comply with the following procedures. First, a memorandum to exercise any American-Style index option must be received or prepared by the Phlx member organization no later than five minutes after the close of trading on the day of exercise. Thus, the current deadline is 4:15 p.m. for narrow-based index options and 4:20 p.m. for broad-based index options. Second, when exercising 25 or more American-style

index option contracts, other than an option contract on the National Over-the-Counter Index, submission of an exercise advice form to the Exchange is required no later than five minutes after the close of trading on the day of exercise. Third, with respect to options on the National Over-the-Counter Index, the deadline for compliance with the above provisions is 4:20 p.m. or five minutes after the close of trading.

Pursuant to Phlx Rule 1042A(b), however, the above requirements are not applicable with respect to any series of stock index options on the last day of trading prior to the expiration date of such series of options. The above stated requirements are also not applicable to European-style index options which, by definition, cannot be exercised prior to expiration. Lastly, the Exchange notes that the procedures for exercising equity option contracts contained in Phlx Rule 1042, are not affected by this rule proposal.

The Phlx proposes to establish a 4:30 p.m. deadline for both a memorandum to exercise and exercise advice forms for all index options. This will extend the cut-off time by 15 minutes for narrow-based index options and by 10 minutes for broad-based index options. According to the Phlx, the purpose of this rule change is to provide additional time for the preparation and transmission of the required exercise information. After the close of trading, index option position holders are not instantly aware of their final positions, including hedges in the underlying security and futures contracts. According to the Phlx, knowing the exact, final position is often crucial to making a determination of whether to exercise.

In addition, the current procedure for these submissions presents logistical problems for compliance within five minutes after the close of trading. For example, the distance between trading stations for certain index options on the Phlx trading floor (e.g., Gold/Silver Index) and the depository for advice submissions is not easy to traverse within five minutes, especially at the close of trading when there is a great deal of movement on the trading floor. If a trade occurs during the final minute of trading, this situation is exacerbated since additional time might be used to ensure that the trade ticket and participation was properly submitted. And, as stated above, reports from futures orders placed to hedge option positions must still be ascertained, usually by going to another location on the floor (e.g., the booth where telephones and clerks are located). The

Phlx believes that it is in the interest of order and safety to change this process.

The Phlx believes that the current deadline not only creates time pressure and uncertainty, but may also force index option traders not to participate in large or complex trades, especially near the close, thereby hampering liquidity. The Phlx believes that the extra time is reasonable under these circumstances.

Lastly, to improve clarity, the Exchange proposes to delete paragraph (a)(iii) of Phlx Rule 1042A and incorporate the exercise requirements pertaining to options on the National Over-the-Counter Index in paragraph (a)(ii).

III. Discussion

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, with the requirements of Section 6(b)(5),⁴ in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and will serve to protect investors and the public interest. Specifically, the Commission believes that the amendments to Phlx Rule 1042A and Advice G-1 to extend the deadline for submitting exercise advice forms will benefit market participants by allowing them to make investment decisions based on the evaluation of their final positions after having completed trading for the day.

The Commission also believes that the proposal will benefit the market in general by fostering higher quality markets at the close of the trading day. First, market makers will not be preoccupied with the process of submitting exercise advice forms prior to the actual close of the market and, therefore, can concentrate more fully on proving a quality market at the close. Second, market participants will be able to determine whether or not their orders on other related markets were executed, such as orders intended to hedge their options positions. If their hedging transactions in other markets are not executed by 4:30 p.m., then, under the proposal, market participants will still be able to exercise their options positions and not remain in an unhedged position. Third, the proposal will give market participants additional time to evaluate the closing prices of the stocks that are used to calculate the indexes and determine whether or not to exercise their positions.

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1994).

³ See Securities Exchange Act Release No. 36862 (February 20, 1996), 61 FR 7297 (February 27, 1996).

⁴ 15 U.S.C. 78f(b) (1988).

In addition, the Commission believes that the proposal to delete paragraph (a)(iii) to Phlx Rule 1042A and to incorporate that provision into paragraph (a)(ii) will help to clarify the application of the rule.

IV. Conclusion

For the foregoing reasons, the Commission finds that the Phlx's proposal to extend the deadline for the receipt or preparation of a memorandum to exercise, as well as the submission of an exercise advice form, is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁵ that the proposed rule change (SR-Phlx-95-86) is approved.

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

Margaret H. McFarland,

Deputy Secretary.

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DEPARTMENT OF TRANSPORTATION

Federal Highway Administration

Commercial Vehicle Information Systems and Networks (CVISN) Model Deployment Program

AGENCY: Federal Highway Administration (FHWA), DOT.

ACTION: Request for information (RFI).

SUMMARY: The FHWA intends to solicit applications for the CVISN Model Deployment Program. CVISN is essentially information system elements that support commercial vehicle operations (CVO). This includes information systems owned and operated by governments, motor carriers, and other stakeholders. CVISN is not a new national information system, but rather a way for existing systems to exchange information through the use of standards and the US commercially available communications infrastructure. CVISN will enable government agencies, the motor carrier industry, and other parties engaged in commercial vehicle operations, safety, and regulation to exchange information and conduct business transactions electronically. The objectives of CVISN include the following elements:

a. Distribution of safety information to computers at the roadside to target high risk carriers;

b. Use of license plate reader(s) at roadside to electronically identify commercial vehicles and carriers to check safety information;

c. Electronic collection of inspection data from the roadside and uploading to SAFETYNET;

d. Electronic application for credentials by motor carriers;

e. Interfacing of State systems to the International Registration Plan (IRP) clearinghouse;

f. Interfacing of State systems to the International Fuel Tax Agreement (IFTA) clearinghouse; and

g. Electronic clearance at fixed and/or mobile sites.

To assist FHWA in preparing the request for applications, the FHWA is publishing this RFI to solicit comment on issues related to the CVISN model deployment program. This RFI has been sent to all State agencies that have major responsibilities for the State transportation system, Motor Carrier Safety Assistance Program (MCSAP), vehicle registration, and vehicle fuel tax. The RFI outlines FHWA's plans for model deployment of CVISN in seven pilot States. A full text of the CVISN RFI is being provided for comments.

DATES: Comments must be received on or before April 22, 1996.

ADDRESSES: Submit comments to: electronic mail to; Mr. Doug McKelvey at DMCKELVEY@INTERGATE.DOT.GOV; Facsimile to FHWA CVISN RFI at (202) 366-7908; or mail to: Mr. Doug McKelvey, Federal Highway Administration, Office of Motor Carriers, 400 7th Street, S.W., HSA-20, Rm. 3419, Washington, D.C. 20590.

FOR FURTHER INFORMATION CONTACT: Mr. Doug McKelvey, Office of Motor Carriers, (202) 366-0950.

SUPPLEMENTARY INFORMATION: Request for Information on the CVISN Model Deployment Program in support of Intelligent Transportation Systems (ITS) for CVO.

1. Introduction

1.1 Background

Commercial vehicle business practices and systems were originally designed primarily for intrastate trucking, but several factors have changed the way CVO business is conducted. These factors include increased emphasis on safety, improved truck technology, the construction of the Interstate Highway System, the industry's deregulation in 1980, and the interstate agreements for registration and fuel tax being adopted nationwide. The systems supporting CVO operations

have not kept pace. Many of the systems supporting CVO are manual processes requiring redundant data entry and cannot share information within and among States and customers. Additionally, State safety and administrative responsibilities for commercial vehicles are projected to increase over the next several years and State budgets are anticipated to remain stable or face reductions. To address these issues, the United States Department of Transportation (US DOT), through the FHWA, intends to support model deployment of CVISN in a number of States. CVISN is essentially information system elements that support commercial vehicle operations. This includes information systems owned and operated by governments, motor carriers, and other stakeholders. CVISN is not a new information system, but rather a way for existing systems to exchange information through the use of standards and the US commercially available communications infrastructure. CVISN will enable government agencies, the motor carrier industry, and other parties engaged in CVO safety and regulation to exchange information and conduct business transactions electronically. The purpose of investing in model deployment of CVISN in States is (1) to facilitate the development and deployment of ITS services that will increase the safety and productivity of CVO and (2) to ascertain and educate the general public and key State and industry decision makers on the costs and benefits of ITS for CVO.

1.2 Description of CVISN Model Deployment Program

The pilot deployment of CVISN is focused on safety and administrative processes. Safety systems are being pursued to improve safety on the nation's highways and to reduce the burden on safe carriers, and help streamline government processes. Administrative processes are being pursued because of expected benefits to states and the high benefit/cost ratio identified in a recent study for carriers processing 100 or more trucks. Three examples of CVISN include screening for safety, acquiring credentials, and mainline screening. Screening for safety would include Safety and Fitness Electronic Records (SAFER) System information that would provide a carrier safety snap-shot to the state and in-turn to the roadside mobile and/or fixed inspection/weigh facility. A hypothetical scenario would include the following: The vehicle pulls into the facility and the United States Department of Transportation number is obtained. This information is then

⁵ 15 U.S.C. 78s(b)(2) (1988).

⁶ 17 CFR 200.30-3(a)(12) (1994).