

sealed envelope or "shell" with no more than 200 coupons contained in any one shell.<sup>4</sup> Mutilated coupons must be guaranteed by the depositing participant and placed into separate shells.<sup>5</sup> DTC requires that each shell contain the following information on its face: (i) CUSIP number; (ii) a description of the issue including municipality, state, purpose, series, date of issue, and maturity date; (iii) payable date; (iv) quantity of coupons enclosed; (v) dollar value of individual coupons; (vi) total shell value; (vii) participant number; and (viii) contact name and telephone number of the depositing participant. All shells must be accompanied by a completed deposit ticket that includes: (i) DTC participant number; (ii) shell quantity; (iii) total dollar value; (iv) CUSIP number per shell; (v) coupon quantity per shell; (vi) dollar value per shell; and (vii) whether the coupons are payable on a future date or are pastdue.<sup>6</sup>

DTC will verify the number of shells listed on the deposit ticket and will give the depositing participant a time-stamped copy of the ticket. If the number of shells listed on the deposit ticket does not agree with the physical number of shells, DTC will immediately reject the entire deposit and will return it to the participant. DTC will neither inspect nor verify shells' contents prior to presentation to paying agents. The depositing participant is responsible for the integrity of the shells' contents. In the event of a coupon shell loss, the participant must provide DTC with a full description (including certificate numbers) of the coupons contained in the shell.

The paying agent may reject and return coupons to DTC for a variety of reasons. The most common reasons for rejection are likely to include: (i) mixed shell contents including mixed payable

dates, mixed series or purposes, or mixed maturity years; (ii) incorrect count of shell contents; (iii) called certificate; (iv) mutilated coupon; (v) stopped certificate;<sup>7</sup> or (vi) issue in default.

DTC will pass rejected shells to its participants in the form received from the paying agent together with any paying agent documentation. DTC will not inspect or verify the contents of rejected shells. For shells rejected after the payable date, DTC will debit appropriate funds from the depositing participant's account on the day the rejected coupons are returned to the participant.

DTC will credit interest to its participants on the payable date for coupons that are deposited (i) at least eight business days prior to payable date if the paying agent for the coupons is located outside of New York City or (ii) at least five business days prior to the payable date if the paying agent is located in New York City. Coupons not deposited within the time frames described above and past-due coupons will be credited to participants (i) ten business days following the date of deposit if the paying agent is located outside New York City or (ii) seven business days following the date of deposit if the paying agent is located in New York City.<sup>8</sup>

DTC will credit the accounts of its depositing participants on the foregoing payable dates without regard to whether DTC actually has received payment from the issuer or paying agent as of such date.<sup>9</sup> All coupons deposited after 11 a.m. will be considered to be received the following business day. In addition, during the first quarter of 1996, DTC will make available a new Participant Terminal System ("PTS") function which will enable DTC participants to view the status of their coupon deposits.

DTC will charge its participants the following fees for this service:

Shells deposited a minimum of 15 days before payable date .....	\$4.50
Shells deposited less than 15 days before payable date (including past-due coupons) .....	5.25
Rejected shells .....	15.00

## II. Discussion

Section 17A(b)(3)(F)<sup>10</sup> of the Act requires that the rules of a clearing agency be designed to remove impediments to and to perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions and to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that DTC's proposed rule change is consistent with DTC's obligations under the Act because the new service presents a more efficient method of settling the payment of bearer bond coupons and should allow DTC participants to reduce the labor needed to deal with may different issuers or paying agents in connection with the collection of coupons and the receipt of interest payments. Furthermore, DTC participants should be better able to track the status of the coupon receipt and interest payment process because these activities will be reported directly to them through the new PTS function.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-95-18) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 96-1474 Filed 1-26-96; 8:45 am]

BILLING CODE 8010-01-M

<sup>4</sup> Only coupons for the same CUSIP number, series, and payable date can be enclosed in any one shell.

<sup>5</sup> The depositing participant will guarantee the validity of the coupon number, bond number, payable date, and payable amount of the mutilated coupon by a stamp affixed to the coupon executed by an authorized officer of such participant. In cases of a badly mutilated coupon, DTC may require a letter of indemnity. In the event a paying agent rejects a mutilated coupon, DTC will reverse any credit made to the depositing participant's account with respect to such coupon. Telephone conversation between Piku K. Thakkar, Assistant Counsel, DTC; Ann Reich, DTC; and Mark Steffensen, Attorney, Division, Commission (October 17, 1995).

<sup>6</sup> When payments on the coupons are due in the future, each deposit ticket can have up to 50 shells attached to it, but all of the coupons in each of the attached shells must have the same payable date. For past-due coupons, shells with different payable dates may be listed on the same deposit ticket. Letter from Piku K. Thakkar, Assistant Counsel, DTC, to Mark Steffensen, Esq., Division, Commission (October 26, 1995).

<sup>7</sup> A stopped certificate is a certificate for which a stop transfer instruction has been requested. A stop transfer instruction typically is initiated as the result of a lost or stolen stock certificate. Telephone conversation between Piku K. Thakkar, Assistant Counsel, DTC, and Mark Steffensen, Attorney, Division, Commission (September 26, 1995).

<sup>8</sup> DTC will accept past-due coupons into the coupon selection service program for up to three years after the original coupon payment date.

<sup>9</sup> According to DTC, payments due DTC from issuers and paying agents are received on or before the payable date between 97 and 98 percent of the time. Typically, late payments are the result of transmission problems or equipment failure which is unrelated to the ability of the issuer or paying agent to actually make such payments. Telephone conversation between Piku K. Thakkar, Assistant Counsel, DTC; Ann Reich, DTC; and Mark Steffensen, Attorney, Division, Commission (October 17, 1995).

<sup>10</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).

<sup>11</sup> 17 CFR 200.30-3(a)(12) (1994).

[Release No. 34-36757; File No. SR-NASD-95-55]

**Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc., To Add Two Position and Exercise Limit Tiers for Qualifying Equity Option Classes**

January 22, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 20, 1995, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The NASD has requested accelerated approval for the proposal. This order approves the NASD's proposal on an accelerated basis and solicits comments 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 Article III, Section 33(b)(3)(A) of the NASD Rules of Fair Practice to add two new position limit tiers for option classes overlying equity securities that meet certain criteria for high liquidity. Specifically, the NASD proposes to add a 20,000-contract position limit tier and a 25,000-contract position limit tier.

The NASD requests that the Commission find good cause, pursuant to Section 19(b)(2) of the Act, to approve the proposed rule change prior to the thirtieth day after publication in the Federal Register.

**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 III 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**

**1. Purpose**

The NASD proposes to amend its rules governing position and exercise limits for equity options<sup>3</sup> to conform to similar proposals by the options exchanges which were recently approved by the Commission.<sup>4</sup> NASD rules currently provide that position and exercise limits are determined according to a "three-tiered" system. Specifically, depending upon the trading volume and public float of the underlying security, the position limit for an equity option is either 4,500, 7,500, or 10,500 contracts.<sup>5</sup>

In particular, the 10,500-contract position limit applies to: (1) Exchange-listed options traded by "access"<sup>6</sup> firms with a corresponding 10,500-contract position limit imposed by the options exchange(s) on which the option is traded;<sup>7</sup> (2) all conventional options overlying equity securities which underlie exchange-traded options that have a 10,500-contract position limit;<sup>8</sup>

<sup>3</sup> Position limits impose a ceiling on the number of option contracts in each class on the same side of the market (*i.e.*, aggregating long calls and short puts and long puts and short calls) that can be held or written by an investor or group of investors acting in concert. Exercised limits restrict the number of options contracts which an investor or group of investors acting in concert can exercise within five consecutive business days. Under NASD Rules, exercise limits correspond to position limits, such that investors in options classes on the same side of the market are allowed to exercise, during any five consecutive business days, only the number of options contracts set forth as the applicable position limit for those options classes. See Sections 33(b) (3) and (4) of Article III of the NASD Rules of Fair Practice.

<sup>4</sup> See Securities Exchange Act Release Nos. 36371 (October 13, 1995), 60 FR 54269 (October 20, 1995) (order approving File No. SR-CBOE-95-42); and 36409 (October 23, 1995), 60 FR 55399 (October 31, 1995) (Order approving File Nos. SR-NYSE-95-31, SR-PSE-95-25, SR-Amex-95-42, and SR-Phlx-95-71).

<sup>5</sup> In this connection, NASD rules do not specifically govern how a specific equity option falls within one of the three position limit tiers. Rather, the NASD's position limit rule provides that the position limit established by an options exchange(s) for a particular equity option is the applicable position limit for purposes of the NASD's rule.

<sup>6</sup> "Access" firms are NASD members which conduct a business in exchange-listed options but which are not members of any of the options exchanges upon which the options are listed and traded.

<sup>7</sup> To be eligible for the 10,500-contract position limit under the options exchanges' rules, an underlying security must have either (i) trading volume of at least 40 million shares during the most recent six month trading period; or (ii) trading volume of at least 30 million shares during the most recent six month trading period and at least 120 million shares currently outstanding.

<sup>8</sup> Conventional equity options are defined in Article III, Section 33(b)(2)(GG) of the NASD Rules

and (3) all conventional options overlying equity securities that qualify for, but do not underlie, an exchange-traded option with a position limit of 10,500-contracts.

Similarly, the 7,500-contract position limit applies to: (1) Exchange-listed options traded by "access" firms with a corresponding 7,500-contract position limit imposed by the options exchange(s) on which the option is traded;<sup>9</sup> (2) all conventional options overlying equity securities which underlie exchange-traded options that have a 7,500-contract position limit; and (3) all conventional options overlying equity securities that qualify for, but do not underlie, an exchange-traded option with a position limit of 7,500-contracts.

Lastly, the 4,500-contract position limit applies to: (1) Exchange-listed options traded by "access" firms with a corresponding 4,500-contract position limit imposed by the options exchange(s) on which the option is traded;<sup>10</sup> and (2) all conventional options overlying equity securities which either underlie exchange-traded options that have a 4,500-contract position limit or do not underlie an exchange-traded option.

Through this rule filing, the NASD proposes to add two new higher position limit tiers that correspond to the two new "upper" position limit tiers recently approved by the Commission for exchange-traded options.<sup>11</sup> Specifically, the NASD proposes to add a 20,000-contract position limit tier and a 25,000-contract position limit tier. To qualify for the 20,000-contract position limit tier, the underlying security must have at least 240 million shares outstanding with 60 million shares traded in the past six months, or have 80 million shares traded in the past six months. To qualify for the 25,000-contract position limit tier, the underlying security must have at least 300 million shares outstanding with 75 million shares traded in the past six months, or have 100 million shares traded in the past six months. Thus, for NASD members that are "access" firms

of Fair Practice to mean "any option contract not issued, or subject to issuance, by The Options Clearing Corporation."

<sup>9</sup> To be eligible for the 7,500-contract position limit under the options exchanges' rules, an underlying security must have either (i) trading volume of at least 20 million shares during the most recent six month trading period; or (ii) trading volume of at least 15 million shares during the most recent six month trading period and at least 40 million shares currently outstanding.

<sup>10</sup> Under the rules of the options exchanges, all securities that do not qualify for a position limit of 10,500-contracts or 7,500-contracts are subject to the 4,500-contract tier.

<sup>11</sup> See *supra* note 4.

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1994).

or that are involved in conventional equity option transactions, the proposal will conform the NASD's position and exercise limit rules to the position limit tiers recently approved by the Commission for the options exchanges.

The NASD believes that the proposed "upper" position limits are warranted for the following reasons. First, the higher position and exercise limits will afford market participants, particularly investors with sizable holdings, accounts, or assets, greater flexibility to employ larger options positions when effecting their hedging and investment strategies. Second, the higher position limit tiers likely will facilitate greater activity in exchange-listed options and conventional equity options, thereby enhancing liquidity in the markets for exchange-traded options, conventional equity options, and the securities underlying those options. Third, by conforming the NASD's position and exercise limits to the limits imposed by the options exchanges, there will be no confusion by market participants concerning applicable position and exercise limits. Fourth, with respect to equity securities underlying exchange-traded options, market participants will be able to establish conventional options positions on these securities equivalent in size of standardized options positions on these securities.

Moreover, the NASD believes that the proposed larger position limit tiers will not compromise the integrity of the options markets or jeopardize the stability of the securities markets underlying exchange-traded equity options or conventional equity options. Specifically, because the eligibility standards for the higher position limit tiers will ensure that only those securities with a sufficiently large capitalization and public float will be eligible for the higher limits, the NASD does not believe that the higher position limit tiers will have an adverse market impact. In addition, as noted in the Chicago Board Options Exchange, Inc.'s ("CBOE") rule filing concerning the higher position limit tiers, the largest dollar value that could be controlled in any equity options class by any one investor or group of investors acting in concert under the proposal would not exceed .7 percent of the market capitalization of any security eligible for one of the higher position limit tiers.<sup>12</sup> Accordingly, the NASD believes that the proposed position limit tiers would involve a very modest increase in position limits. Furthermore, the NASD notes that it will continue to apply its options surveillance procedures and

that it and the options exchanges will continue to be members of the Intermarket Surveillance Group ("ISG").

## 2. Statutory Basis

The NASD believes that the proposed rule change is consistent with Section 15A(b)(6) of the Act.<sup>13</sup> Section 15A(b)(6) requires that the rules of a national securities association be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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. Specifically, the NASD believes that the proposal will promote the maintenance of fair and orderly markets because it will, among other things, serve to avoid investor confusion concerning applicable equity option position and exercise limits as well as to facilitate the use of equity options by investors, without compromising the integrity of the equity options markets or the markets for the securities underlying equity options.

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

The NASD does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

Comments were neither solicited nor received with respect to the proposed rule change.

## III. 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 changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filings also will be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-95-55 and should be submitted by February 20, 1996.

## IV. Commission's Findings and Order Granting Accelerated Approval of 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 association, and, in particular, with the requirements of Section 15A(b)(6). Specifically, the Commission believes that the proposed addition of position and exercise limit tiers of 25,000-contracts and 20,000-contracts for qualifying equity options will accommodate the needs of investors and market participants. The Commission also believes that the proposed rule change will increase the potential depth and liquidity of the equity options market as well as the underlying cash market without significantly increasing concerns regarding intermarket manipulations or disruptions of the market for the options or the underlying securities. Accordingly, as discussed below, the Commission believes that the rule proposal is consistent with the requirements of Section 15A(b)(6), that association rules facilitate transactions in securities while continuing to further investor protection and the public interest.

In approving the increased limits, the Commission recognizes that securities with active and deep trading markets, as well as with broad public ownership, are more difficult to manipulate or disrupt than securities having less active and deep markets and having smaller public floats. The proposed additional position and exercise limit tiers recognize this by seeking to minimize the restraints on those options classes that can accommodate larger limits without significantly increasing manipulation concerns.<sup>14</sup> In particular,

<sup>14</sup> The Commission continues to believe that proposals to increase position and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for the two new tiers, the Commission has concluded that the proposed exercise limit additions do not raise manipulation problems or increase concerns over market disruption in the underlying securities.

<sup>12</sup> See *supra* note 4.

<sup>13</sup> 15 U.S.C. § 78f(b)(5) (1988).

the proposed limit of 25,000-contracts and 20,000-contracts for options on the most actively traded, widely held securities, permits the Commission to avoid placing unnecessary restraints on those options where the manipulative potential is the least and the need for increased positions likely is the greatest. Accordingly, the Commission believes that the additional position and exercise limit tiers is warranted.

The Commission believes that the proposed additions to the NASD's position and exercise limit tiers appears to be both appropriate and consistent with the Commission's gradual, evolutionary approach. There are no ideal position limits in the sense that options positions of any given size can be stated conclusively to be free of any manipulative concerns. The Commission, however, is relying on the absence of discernible manipulation problems under the current framework as an indicator that the proposed additional limit tiers are justified.

The Commission does not believe that the addition of the two new higher limit tiers will have any adverse effects on the options markets. In approving the initial two-tiered position limit system, the Commission stated that it did not believe that requiring traders to keep track of two limits rather than one was burdensome or confusing or would lead to accidental violations.<sup>15</sup> The Commission does not believe that a change from the current three tiers to five tiers should change this conclusion.

The Commission believes that although position and exercise limits for options must be sufficient to protect the options and related markets from disruptions by manipulations, the limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent market makers from adequately meeting their obligations to maintain a fair and orderly market. The Commission believes that the NASD's proposal is a reasonable and appropriately tailored effort to accommodate the identified needs of options market participants. In this regard it is important to note that the proposals only add higher position and exercise limit tiers for classes of options involving the most liquid stocks. As a result, the proposal affects only a small number of equity option classes that are traded. In addition, based on the NASD's experience, the Commission

believes that the proposed additional limit tiers should result in little or no additional risk to the marketplace.<sup>16</sup>

The Commission finds good cause to approve the proposed rule changes prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, by accelerating the approval of the NASD's rule proposal, the Commission is conforming the NASD's position and exercise limits with those levels recently approved for the options exchanges.<sup>17</sup> Accelerated approval of the proposed rule change will thereby provide for the desired uniformity for position and exercise limits within the exchange traded options market. Any other course of action could lead to unnecessary investor confusion. In addition, the CBOE's proposal was notified for the entire twenty-one day comment period and generated no negative responses.<sup>18</sup> Accordingly, the Commission believes that it is consistent with Section 15A(b)(6) of the Act to approve the proposed rule change on an accelerated basis.

#### V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) <sup>19</sup> of the Act that the proposed rule change (File No. SR-NASD-95-55) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>20</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

[FR Doc. 96-1475 Filed 1-26-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36756; File No. SR-NYSE-95-45]

#### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the New York Stock Exchange, Inc. Relating to Additions to "List of Exchange Rule Violations and Fines Applicable Thereto Pursuant to Rule 476A"**

January 22, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

<sup>16</sup> The Commission notes that to the extent the potential for manipulation increases because of the additional tiers, the Commission believes the NASD's surveillance programs will be adequate to detect as well as to deter attempted manipulative activity. The Commission will, of course, continue to monitor the NASD's surveillance programs to ensure that problems do not arise.

<sup>17</sup> See *supra* note 4.

<sup>18</sup> *Id.*

<sup>19</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>20</sup> 17 CFR 200.30-3(a)(12) (1994).

("Act"), 15 U.S.C. § 78s(b)(1), notice is hereby given that on December 28, 1995, the New York Stock Exchange, Inc. ("NYSE" 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 proposed rule change consists of revisions to the "List of Exchange Rule Violations and Fines Applicable Thereto Pursuant to Rule 476A" (the Rule 476A Violations List) by adding to the List: (1) misstatements or omission of fact on any submission filed with the Exchange as provided in NYSE Rule 476(a)(10); (2) failure to comply with the requirements of NYSE Rule 95 with respect to its order identification requirements or prohibition of transactions by members on the Floor involving discretion; and (3) failure to comply with certain requirements for execution of block cross transactions under NYSE Rule 127. The Exchange believes it is appropriate to make the failure to comply with the provisions of the above-named rules subject to the possible imposition of a fine under Rule 476A procedures.<sup>1</sup>

#### **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.

<sup>1</sup> Concurrently with the proposed rule change, the Exchange is seeking to amend its Rule 19d-1(c)(2) reporting plan for Rule 476A violations ("Minor Rule Violation Plan") to include the items proposed for addition to the list of rules subject to Rule 476A. See letter from Daniel Parker Odell, Assistant Secretary, NYSE, to Glen Barrentine, Team Leader, Division of Market Regulation, SEC, dated December 27, 1995.

<sup>15</sup> In this regard, the Commission notes that the options exchanges and the NASD routinely review the trading characteristics of the underlying stocks to determine the appropriate position and exercise limit tiers for the option classes.