

## II. Discussion

Section 17A(b)(3)(F)<sup>15</sup> of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of transactions. The Commission believes DTC's proposed rule change is consistent with DTC's obligations under the Act because it will make cent-denominated shares and fractional shares eligible for deposit at DTC and thus eligible for other DTC services. The rule change will allow DTC participants to remove cent-denominated securities and fractional share certificates from their vaults and to deposit them at DTC. Including cent-denominated securities and fractional shares in the class of securities eligible for deposit at DTC should help to eliminate the costly, cumbersome, and inefficient physical processing of these securities thus promoting the prompt and accurate clearance and settlement of transactions in these types of securities.

## 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-95-14) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>16</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36784; File No. SR-Phlx-95-79]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Bid Test Exemption

January 29, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 2, 1996, the Philadelphia Stock

Exchange, Inc. ("Phlx" 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 Phlx proposes to amend its Rule 1072, Reporting Requirements Applicable to Short Sales in NASD/NM Securities, to permit affiliated Registered Option Traders ("ROTs") to trade for each other's account pursuant to the market maker exemption contained therein. Rule 1072 establishes specific criteria exempting Phlx specialists and ROTs from the NASD's "bid test" applicable to Nasdaq/National Market ("NM") securities. The NASD bid test, with certain exception, prohibits short sales at or below the current inside bid when that bid is below the previous inside bid.<sup>2</sup> Specifically, the Phlx proposes to extend its market maker exemption to include short sales by affiliated ROTs as "by or for a qualified options market maker" consistent with Rule 1072(c)(2). The proposed language in Rule 1072(c)(2)(iii)(A) would thus permit ROTs of the same member organization to trade pursuant to the exemption, even when the ROT trading the account has not designated that NM issue.

#### 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

In 1994, the NASD adopted a bid test rule applicable to NM securities traded

through Nasdaq prohibiting short sales of NM securities at or below the current inside bid when that bid is below the previous inside bid.<sup>3</sup> An exemption from this rule exists for option market makers hedging options positions with the related underlying securities, and the qualifying short sales are referred to as "exempt hedge transactions." Pursuant to this market maker exemption, the Phlx adopted Rule 1072 establishing specific criteria for a short sale to qualify as an "exempt hedge transaction" in "designated" NM issues.<sup>4</sup> Generally, option specialists may rely on the exemption for short sales in NM securities underlying their specialist equity options, and index options if at least 10% of the value of the index is comprised of NM securities. In addition, ROTs must be assigned in that option to rely on the exemption and may only use the exemption in 20 designated NM issues.

The Phlx now proposes to permit affiliated ROTs to trade one another's accounts pursuant to Rule 1072. Specifically, the amendment would allow an ROT to effect bid test exempt short sales in a Nasdaq/NM security which that ROT has not designated as qualifying for the exemption, provided that the security is a designated Nasdaq/NM security of another ROT of the same member organization, and further provided that such other ROT is not also present or represented by a Floor Broker in the same trading crowd at the time of the bid test exempt sale. The Exchange notes that this amendment is similar to a CBOE proposal to permit nominees of a market maker organization to qualify for the exemption.<sup>5</sup>

The Phlx believes that the proposed amendment should facilitate ROT activity by allowing member organizations to manage better their market making activities. Managing these obligations and monitoring positions is especially critical when a ROT is absent from the trading floor. The Exchange also believes that the proposed provision is consistent with the intent of the market maker exemption to the short sale rule, in that the exemption continues to be limited to those Nasdaq/NM securities which are

<sup>3</sup> Securities Exchange Act Release No. 34277 (June 6, 1994), 59 FR 34885 (granting temporary approval).

<sup>4</sup> Securities Exchange Act Release No. 34632 (September 2, 1994), 59 FR 46999. The other options exchanges adopted rules similar to Phlx Rule 1072. See Chicago Board Options Exchange ("CBOE") Rule 15.10, New York Stock Exchange ("NYSE") Rule 759A, American Stock Exchange ("Amex") Rule 957, and Pacific Stock Exchange ("PSE") Rule 4.19. *Id.*

<sup>5</sup> Securities Exchange Act Release No. 35281 (January 26, 1995), 60 FR 6575.

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

<sup>16</sup> 17 CFR 200.30-3(a)(12) (1995).

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

<sup>2</sup> NASD Rules of Fair Practices, Art. III, Section 48.

used to hedge option transactions in the primary classes in which the member organization makes markets.

For these reasons, the Exchange believes that its proposal is consistent with Section 6 of the Act in general, and in particular with Section 6(b)(5) in that it is designed to promote just and equitable principals of trade, and remove impediments to and perfect the mechanism of a free and open market while preventing fraudulent and manipulative acts and practices.

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

The Phlx 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*

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**

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (a) By order approve such proposed rule change, or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

**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 NW., Washington, DC 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

Section, 450 Fifth Street, N.W., Washington, DC. 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-Phlx-95-79 and should be submitted by February 28, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

Margaret H. McFarland,  
Deputy Secretary.

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**[Release No. 34-36794 File No. SR-Amex-95-56]**

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the American Stock Exchange, Inc., Relating to the Listing and Trading of Warrants on the Emerging Markets Debt Index**

January 31, 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 December 26, 1995, the American Stock Exchange, Inc. ("Amex" 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 Amex. On January 16, 1996 the Amex filed Amendment No. 1 to the proposed rule change.<sup>1</sup> The Commission is publishing this notice and Amendment No. 1 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 Exchange proposes to list and trade warrants based on the Emerging Markets Debt Index ("EMDX" sm).<sup>2</sup>

<sup>6</sup> 17 CFR 200.30-3(a)(12)(1994).

<sup>1</sup> In Amendment No. 1, the Amex states that it will list EMDX warrants under Section 107 of the Amex Company Guide ("Other Securities") rather than under Section 106 ("Currency and Index Warrants"). However, the account opening, trading, advertising, suitability and other provisions of Part VII of the Exchange's rules (Rules 1100 through 1110) applicable to broad based stock index warrants will apply to EMDX warrants. See Letter from William Floyd-Jones, Jr., Assistant General Counsel, Legal and Regulatory Policy, Amex, to Michael Walinskas, Branch Chief, Office of Market Supervision ("OMS"), Division of Market Regulation ("Division"), Commission, dated January 11, 1996 ("Amendment No. 1").

<sup>2</sup> EMDX is a servicemark of the New York Cotton Exchange.

The text of the proposed rule change is available at the Office of the Secretary, the Amex, 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 Exchange 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 Amex 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**

Pursuant to Section 107 of the Amex Company Guide, the Exchange is proposing to list index warrants on the EMDX. Futures contracts and futures options on the EMDX currently trade on the FINEX division of the New York Cotton Exchange ("NYCE"). The Commission recently provided to the Commodity Futures Trading Commission ("CFTC") a non-objection letter regarding the trading of EMDX futures and futures options.<sup>3</sup>

**Index Description**

The EMDX is an index of U.S. dollar-denominated, Brady par bonds<sup>4</sup> of four major Latin American countries. The Index is calculated by multiplying the market price of the Brady par bonds of Mexico, Argentina, Brazil and Venezuela by their corresponding bond weight and summing their products. According to the Exchange, these Brady par bonds are the most liquid and

<sup>3</sup> See letter from Jonathan G. Katz, Secretary, Commission, to Elisse B. Walter, General Counsel, CFTC, dated October 10, 1995 ("non-objection letter").

<sup>4</sup> Brady bonds are issued pursuant to the plan proposed by former Secretary of the Department of the Treasury, Nicholas Brady, which allows developing countries to restructure their commercial bank debt by issuing long-term dollar denominated bonds. There are several types of Brady bonds, but "par Bradys" and "discount Bradys" represent the great majority of issues in the Brady bond market. In general, both par Bradys and discount Bradys are secured as to principal at maturity by U.S. Treasury zero-coupon bonds. Additionally, usually 12 to 18 months of interest payments are also secured in the form of a cash collateral account, which is maintained to pay interest in the event that the sovereign debtor misses an interest payment.