

opening sale transaction for 5 contracts, resulting in a net short position of 5 contracts. If the market maker then purchases 20 contracts, the purchase will be deemed a closing purchase for 5 contracts and an opening purchase for 15 contracts, resulting in a net long position 15 contracts. Under the proposed rule, the market maker would be permitted to exercise only those 15 contracts. In the absence of the proposed rule, the market maker would have been able to exercise 30 contracts, representing his gross long position, before netting against this position the 15 contracts sold.

The Exchange notes that the proposed rule is not intended to affect OCC's processing rules and procedures. If a member submitted an exercise notice to OCC in violation of the proposed CBOE rule, the exercise would be processed by OCC in accordance with its procedures. In that case, the proposed CBOE rule would be enforced solely through the Exchange's disciplinary procedures.

The Exchange emphasizes that the proposed rule has been adopted to eliminate the perception that a holder's ability to exercise options that had been the subject of closing transactions might create enhanced risk to writers of OEX options. However, it is not clear that the writers of in-the-money OEX options will, in fact, be subject to less risk as the result of the proposed rule. Such writers should continue to anticipate that they could be assigned an exercise of their options positions, especially as expiration approaches. (For example, the proposed rule would not prohibit the exercise of an OEX option held in a net long position before—even seconds before—an opening sales transaction in that option has been effected.) It is possible that the early exercise of OEX options will continue at the same level after the proposed rule becomes effective as before.

Upon the effectiveness of the proposed rule, the Exchange would modify Regulatory Circular RG 96-11 to describe the proposed rule. Three examples were given in the Regulatory Circular as originally published on January 17, 1996. These three examples would be modified to read as follows (italicized language is proposed to be added; language in brackets is proposed to be deleted):

Example 1: Investor X is long 15 call option contracts of a series at the opening of a trading day other than the final trading day. During that day, X purchases 20 contracts of that series in opening purchase transactions and sells 10 contracts in closing sale transactions. X will be able *under OCC's rules* to exercise 35 contracts of that series that

day. *However, in the case of American-style index options only (i.e., OEX options), CBOE Rule 24.18 would prohibit a member who knows or has reason to know of the closing sale transactions from exercising on X's behalf more than the net long position of 25 contracts at any time at or after the closing sale of 10 contracts.*

Example 2: Investor Y is short 20 call option contracts of a series at the opening of such a trading day. During the day, Y purchases 20 contracts of that series in opening purchase transactions. Y will be able to exercise 20 contracts of that series that day, and will remain short the 20 contracts. *However, in the case of OEX option contracts, if Y's transactions had been effected in a market-maker's account, the purchase would have been deemed to have been a closing transaction for the purposes of CBOE Rule 24.18 and would have been offset by Y's short position, resulting in no net long position to exercise.*

Example 3: Market-maker Z is short 100 call options contracts at the opening of that trading day. During the day, Z purchases 100 contracts and sells 100 contracts of that series[, and Z does not mark the transactions as opening or closing]. Z will be able to exercise 100 contracts of that series that day *under OCC's rules. However, in the case of OEX option contracts, CBOE Rule 24.18 would prohibit Z from exercising any contracts without regard to the sale transactions, since the purchase transactions would be deemed to be closing transactions, and would be netted against his beginning short position, resulting in no net long position to exercises.*

III. Commission Finding and Conclusions

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, the requirements of Section 6(b)(5) of the Act.⁸ Specifically, the Commission finds that the Exchange's proposal strikes a reasonable balance between the Commission's mandates under Section 6(b)(5) to remove impediments to and perfect the mechanism of a free and open market and a national market system, while protecting investors and the public interest.

The Commission believes that it is reasonable for the Exchange to conclude that permitting holders of American-style index options series to exercise positions greater than their "net long"

position, as described above, may lead to a possible perception of unfairness to retail investors and American-style index option writers. Effectively, the proposal creates an option exercise restriction upon holders of American-style index options, preventing such holders from exercising positions in excess of their net long position. The Commission believes that the imposition of a restriction on exercise requires a careful balancing of the Exchange's need for such a restriction with the impact that such a restriction will impose upon options market participants, including market professionals and individual investors.

Based on representations of the Exchange, the Commission believes that the proposed limited restriction on exercise is reasonable and should not adversely impact (1) the options exercise practices of existing OEX options market participants, (2) market participants' ability to utilize the options markets, or (3) trading in American-style index options generally. Particularly, the Commission believes that the Exchange has reasonably balanced the impact of the proposed rule change on option holders with its desire to eliminate the possible perception of unfairness on behalf of retail customers and American-style index option writers.

The Commission expects the Exchange to promptly modify Regulatory Circular RG96-11 to describe the proposed rule and distribute the new circular to its membership. Moreover, the Commission notes that the CBOE has established surveillance guidelines that should help to ensure compliance with the new policy.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-CBOE-96-29) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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BILLING CODE 8010-01-M

[Release No. 34-37718; File No. SR-Phlx-96-13]

Self-Regulatory Organizations; Proposed Rule Changes; Philadelphia Stock Exchange, Inc.

September 24, 1996.

Self-Regulatory Organizations;
Philadelphia Stock Exchange, Inc.; Order

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).

⁸ 15 U.S.C. 78f(b)(5).

Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 Thereto Relating to Trading Hours and Expiration Times for Customized Foreign Currency Options.

On May 7, 1996, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to: (1) Adjust the time that all customized FCOs cease trading on expiration day from 9:00 a.m. and 2:30 p.m. until 8:00 a.m. (all time references are to eastern standard time); (2) adopt a uniform expiration time for all customized FCOs of 10:15 a.m. (instead of 11:59 p.m.); and (3) make all customized FCOs subject to pro-rata assignment.

Notice of the proposed rule change was published for comment and appeared in the Federal Register on June 18, 1996.³ No comments were received on the proposal. On July 15, 1996, the Phlx submitted Amendment No. 1 ("Amendment No. 1") to the filing.⁴ This order approves the proposal, as amended.

I. Description of the Proposal

The Exchange has two types of customized FCOs: custom-dated FCOs and non-custom dated FCOs. Both types of these customized FCOs, however, have different expiration times and procedures and trading hours. Custom-dated FCOs (which expire on any trading day except a regular mid-month or end-of-month expiration) currently cease trading at 9:00 a.m., expire at 10:15 a.m. on their expiration date, and are subject to a pro-rata assignment process.

Non-custom dated FCOs do not have a custom date (*i.e.*, mid-month or end-of-month expiration date,⁵ they cease trading at 2:30 p.m., expire at 11:59 p.m., and are subject to random assignment. The Exchange proposes to change this scheme to correspond to that of custom dated FCOs. Accordingly, Phlx proposes to alter the expiration

times for non-custom dated FCOs so that they cease trading at 8:00 a.m.,⁶ expire at 10:15 a.m. on their expiration date, and are subject to pro-rata assignment. As a result, all customized FCOs (*i.e.*, custom-dated and non-custom dated) will have the same expiration process regardless of when they expire.

According to Phlx, customized FCOs are mainly traded by institutional customers who often buy the options as a hedge against over-the-counter contracts. Because the over-the-counter options typically expire at 10:00 a.m., these customers cannot effectively hedge their risk with customized FCOs unless they know their assignment exposure at the same time. Thus, custom dated options have been a very useful trading vehicle for the institutional market due to their 10:15 a.m. expiration and pro-rata exercise notification at 10:00 a.m. Non-custom dated FCOs, however, have not been as useful for offsetting purposes since customers do not know their assignment exposure until the following day. Therefore, the Exchange believes that by having all customized FCOs expire at 10:15 a.m., and by implementing a pro-rata exercise regime, it will add liquidity to the market and encourage institutions to take advantage of all types of exchange traded FCOs. Furthermore, the Phlx believes that by revising the expiration times for non-custom dated FCOs, it will increase the volume for this type of customized FCO and thereby reduce the amount of paperwork at expiration.

Second, in order to facilitate back office processing, the Exchange proposes to extend by one hour the amount of time between the period when an FCO ceases trading and expiration. Accordingly, Phlx proposes to have all customized FCOs cease trading at 8:00 a.m. (rather than at 9:00 a.m.) on the day of expiration. Presently, member firms only have one hour (between 9:00 a.m. and 10:00 a.m.) to prepare and accept exercise instructions for custom-dated FCOs and submit them to the Options Clearing Corporation ("OCC"), which then processes and disseminates a preliminary indication of the percent of contracts exercised for each series. The contracts then expire at 10:15 a.m. and a pro-rata assignment process is used. By ceasing trading one hour earlier (8:00 a.m.), the firms would double the amount of time in which they have to process these instructions.

⁶ Although custom-dated FCOs currently cease trading at 9:00 a.m., the Phlx, as discussed below, proposes to amend this time such that all customized FCOs cease trading at 8:00 a.m.

The Exchange proposes to implement these changes to the customized FCOs as follows: first, the portion of the rule filing which changes the time that custom-dated FCOs cease trading to 8:00 a.m. will be implemented immediately upon approval of this filing. Second, Phlx proposes to implement the changes to the non-custom dated FCOs (*i.e.*, cease trading at 8:00 a.m., expiration at 10:15 a.m., and switch to pro-rata assignment) upon subsequent Commission approval of a corresponding OCC filing ("corresponding OCC filing").⁷ However, if open interest exists in any series of non-custom dated FCOs at the time of approval of the corresponding OCC filing, these series will be exempted from the proposed new procedures and will continue to cease trading at 2:30 p.m., expire at 11:59 p.m., and be subject to random assignment.⁸ This exemption will be noted in Phlx Rule 1000(b)(21)(iv) and will be publicized in numerous memoranda to the membership.⁹

II. 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, the requirements of Section 6(b)(5) in that the proposal is designed to foster just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market, and protect investors and the public interest.

Phlx proposes to move the cease trading time for custom-dated FCOs back one hour to 8:00 a.m. By extending the amount of time in which member firms have to process exercise instructions by one hour, the Commission believes that the clearing and settlement process relating to the exercise and assignment of FCOs should benefit and operate in a more efficient manner. Furthermore, upon Commission approval of the corresponding OCC filing, as discussed above, non-custom dated FCOs will

⁷ The OCC filing, which is expected to be filed in October 1996, will, among other things, propose changes in OCC rules to accommodate assignment procedures from random to pro-rata assignment for non-custom dated FCOs.

⁸ Telephone conversation between Michele R. Weisbaum, Phlx, and Stephen Youhn, SEC on August 12, 1996.

⁹ This transitional process will be similar to the one used when the Exchange changed the expiration from the Saturday preceding the third Wednesday of the expiration month to the Friday preceding the third Wednesday. See Securities Exchange Act Release No. 32452 (July 13, 1993).

¹ 15 U.S.C. 78s(b)(1) (1988 & Supp. V 1993).

² 17 CFR 240.19b-4 (1994).

³ See Securities Exchange Act Release No. 37287 (June 7, 1996), 61 FR 30932.

⁴ See Letter from Michele R. Weisbaum, Phlx, to Stephen Youhn, SEC, dated July 15, 1996. Amendment No. 1 codifies a provision relating to pro-rata assignment of customized foreign currency options.

⁵ Non-custom dated FCOs expire on the same day as standardized FCO expiration dates. An example of a non-custom dated FCO would be an FCO which has a custom strike price or is quoted as an inverse option.

have their cease trading and expiration times moved to 8:00 a.m. and 10:15 a.m., respectively, resulting in uniform trading cut-off times and expirations for all customized FCOs. The Commission believes that these changes should serve to enhance liquidity in the FCO market and reduce the possibility of investor confusion created by disparate trading cut-off times and expirations.

In addition, by switching the assignment methodology for non-custom dated FCOs from random to pro-rata assignment, the Commission believes that writers of non-custom dated FCOs will be able to more quickly gauge their exercise exposure. The Commission notes that OCC provides preliminary notification to members shortly before expiration as to the total amount of exercised contracts for each FCO series. Despite this notification, however, with random assignment, shorts do not know until the next day whether they have been assigned. Pro-rata assignment allows members to ascertain their exercise exposure in a more expedient manner. Accordingly, the Commission believes that pro-rata assignment may help increase liquidity in the FCO market and reduce the possibility of undue risk to investors. Also, this change will result in all customized FCOs having pro-rata assignment, which should also reduce the possibility of investor confusion created by disparate assignment procedures.

As discussed above, the Commission notes that the changes to the features of the non-custom dated FCOs will create uniformity for all customized FCOs (*i.e.*, 8:00 a.m. cease trading time, 10:15 a.m. expiration, and pro-rata assignment). These changes, however, will become effective only upon Commission approval of the corresponding OCC filing needed to accommodate the Phlx changes¹⁰ and apply only to new series of non-custom dated FCOs opened after that date. Outstanding series of non-custom dated FCOs at the time of OCC approval will be "grandfathered" (*i.e.*, they will continue to cease trading at 2:30 p.m., expire at 11:59 p.m., and be subject to random assignment). Prior to implementation of these changes, Phlx will issue a circular to members that will clarify which series of FCOs will be affected by the proposal. The Commission believes this should ensure investors will be adequately apprised of these changes and the affected series.

In summary, the Commission believes the proposed changes will be implemented in a fair manner and will not result in changing the terms of

outstanding contracts. Moreover, the Commission believes the proposal will foster investor protection and facilitate transactions in securities consistent with Section 6(b)(5) of the Act by achieving uniformity between the different types of customized FCOs. The Commission also believes the proposal may help to reduce the confusion attendant to disparate expiration times and assignment procedures for customized FCOs.

The Commission finds good cause for approving Amendment No. 1 to the proposal prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. The Commission notes that the Amendment simply codifies a rule change that was previously discussed in the original proposal. As such, the Amendment does not raise any new or unique regulatory issues. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists to approve Amendment No. 1 to the proposal on an accelerated basis.

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1. 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, NW., 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 the file number SR-Phlx-96-13 and should be submitted by October 23, 1996.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-Phlx-96-13) is approved, as amended. That portion of the rule filing which amends the cease trading and expiration times, as well as the assignment methodology for non-custom dated FCOs, is approved

contingent upon subsequent Commission approval of a corresponding OCC filing.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 96-25154 Filed 10-1-96; 8:45 am]

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SOCIAL SECURITY ADMINISTRATION

Agency Information Collection Activities: Proposed Collection Request

The Social Security Administration publishes a list of information collection packages that will require submission to the Office of Management and Budget (OMB) for clearance in compliance with Public Law 104-13 effective October 1, 1995, The Paperwork Reduction Act of 1995. The information collection(s) listed below requires extension of the current OMB approval.

(Call the SSA Reports Clearance Officer on (410) 965-4125 for a copy of the form(s) or package(s), or write to her at the address listed below the information collection(s).)

1. Privacy and Disclosure of Official Records and Information; Availability of Information and Records to the Public—20 CFR 401 and 402;—0960-NEW. The respondents are individuals requesting access to their SSA records, correction of their SSA records and disclosure of SSA records. The information is required to:

(a) Identify individuals who request access to their records;

Number of Respondents: 10,000.

Frequency of Response: On occasion.

Average Burden Per Response: 11 minutes.

Estimated Annual Burden: 1,833 hours.

(b) Designate an individual to receive and review a recordholder's sensitive medical records in accordance with 20 CFR 401.55, and for the disclosure of such records to the recordholder by his/her designee.

Number of Respondents: 3,000.

Frequency of Response: On occasion.

Average Burden Per Response: 2 hours (This includes the time needed for the designee to review the recordholder's medical records.)

Estimated Annual Burden: 6,000.

(c) Correct or amend records;

Number of Respondents: 100.

Frequency of Response: On occasion.

Average Burden Per Response: 10 minutes.

¹⁰ See *supra* note 7.

¹¹ 15 U.S.C. 78s(b)(2) (1988).

¹² 17 CFR 200.30-3(a)(12) (1994).