agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes that PTC's proposed rule change is consistent with PTC's obligations under the Section 17A of the Act. Each transaction processed through the PTC system, including both deliveries versus payment and free redeliveries, is tested to ensure that both the delivering and receiving participant's accounts will not have negative NFE after giving effect to the transaction. PTC's NFE controls will block any free redelivery where the deduction of the securities from the account of the delivering participant will cause its NFE to be negative thereby reducing the risk that the amount of collateral available with respect to a participant's account is not sufficient to cover the participant's debit balance. The elimination of cash prefunding will not diminish PTC's NFE controls. In addition, the elimination of cash prefunding will release collateral previously required by PTC which should increase participants' liquidity while PTC should not incur any additional risks by such release.

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–PTC–96–04) be and hereby is approved.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–28001 Filed 10–31–96; 8:45 am]

BILLING CODE 8010–01–M

[8] 17 CFR 200.30–3(a)(12) (1996).

[Release No. 34–37863; File No. SR–Phlx–96–33]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to an Increase in Narrow-Based Index Option Position and Exercise Limits

October 24, 1996.

I. Introduction

On August 2, 1996, 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 Exchange Rules 1001A(b)(1) and 1002A to increase the position and exercise limits for narrow-based index options from 6,000, 9,000, or 12,000 contracts to 9,000, 12,000, or 15,000 contracts.

The proposed rule change appeared in the Federal Register on September 10, 1996.[3] No comments were received on the proposed rule change. This order approves the Phlx's proposal.

II. Background and Description

According to the Phlx, the purpose of the proposed rule change is to increase narrow-based index option position and exercise limits[4] in order to attract additional trading interest and, thus, promote depth and liquidity in Phlx index options. The Exchange believes that the current limits constrain certain investors from trading index options.

Currently, Exchange Rules 1001A(b)(1) and 1002A establish the following position and exercise limits for narrow-based (industry) index options: (i) 6,000 contracts for an index where a single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of narrow-based index option position limits; (ii) 9,000 contracts for an index where a single component stock accounted, on average, for 20% or more of the index value or any five component stocks together accounted, on average, for more than 50% of the index value but no single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of narrow-based index option position limits; and (iii) 12,000 contracts where the conditions requiring a limit of 6,000 contracts or 9,000 contracts have not occurred. The Phlx proposes to amend Exchange Rules 1001A(b)(1) and 1002A to increase the position and exercise limits for narrow-based index options from 6,000, 9,000, or 12,000 contracts to 9,000, 12,000, or 15,000 contracts.[5]

The Exchange believes that the proposed increase is appropriate in light of the Exchange's more than ten years experience trading index options. In 1983, the Gold/Silver Index (''XAU'') was the first narrow-based index option to be traded on the Phlx, listed with a position limit of 4,000 contracts.[6] Since that time, the Exchange has honed its experience in monitoring and surveilling index options trading by developing and implementing an increasingly sophisticated regulatory program. This program has benefitted from technological advances and has matured alongside index options trading. Moreover, the market for index options has also evolved, as more investors are familiar with the product and its uses. This is reflected in the appreciable growth in index options volume not only since 1983 but in more recent years as well.[7]

The Exchange recognizes that the purposes of these limits are to prevent manipulation and to protect against disruption of the markets for both options as well as the underlying securities. The Exchange has considered the effects of increased position limits on the marketplace and believes that concerns regarding manipulation and disruption are adequately addressed by the Phlx's regulatory program. The Phlx continues to monitor the markets for evidence of manipulation or disruption caused by investors with positions at or near current position or exercise limits and the new limits will not diminish the surveillance function in this regard.

The current levels for narrow-based index options have been in place since September 1995.[8] Since that time, however, index options have continued

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 37629 (September 3, 1996), 61 FR 47775 (September 10, 1996).

[4] Position limits impose a ceiling on the number of option contracts which an investor or group of investors acting in concert may hold or write in each class of options on the same side of the market (*i.e.*, aggregating long calls and short puts or long puts and short calls). Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

[5] The Phlx trades options on the following seven narrow-based indexes, with their current position limits noted: (1) Gold/Silver Index (''XAU'') 6,000 contracts; (2) Utility Index (''UTY'') 12,000 contracts; (3) Phlx/KBW Bank Index (''BKX'') 12,000 contracts; (4) Phone Index (''PNX'') 6,000 contracts; (5) Semiconductor Index (''SOX'') 12,000 contracts; (6) Airline Sector Index (''PLN'') 12,000 contracts; and (7) Forest/Paper Products (''FPP'') 12,000 contracts.

[6] *See* Securities Exchange Act Release No. 20437 (December 2, 1983), 48 FR 55229 (December 9, 1983) (File No. SR–Phlx–83–17).

[7] According to the Phlx, index options volume increased 48% (from 998,780 contracts to 1,483,585 contracts) from the period January–June 1995 to January–June 1996.

[8] *See* Securities Exchange Act Release No. 36194 (September 6, 1995), 60 FR 47637 (September 13, 1995) (File No. SR–Phlx–95–16) (increasing position and exercise limits for narrow-based index options to 6,000, 9,000, or 12,000 contracts) (''Securities Exchange Act Release No. 36194'').

to experience heavy and steady volume, with a concomitant increase in open interest. In this light, the Exchange believes that the proposed limits of 9,000, 12,000, or 15,000 contracts should further increase the depth and liquidity of the markets for index options by attracting additional investor interest. The Phlx also believes that higher position limits would further accommodate the hedging needs of Exchange market makers and specialists, who are restricted by current levels.

Further, the Exchange believes that the proposed increases are reasonable. The Phlx states that in prior releases approving increased position limits, the Commission has acknowledged that a gradual, evolutionary approach has been adopted in increasing position and exercise limits. Accordingly, the Phlx proposes a 25% increase in the highest tier (from 12,000 to 15,000 contracts); a 33% increase in the middle tier (from 9,000 to 12,000 contracts); and a 50% increase in the lowest tier (from 6,000 to 9,000 contracts). The Exchange believes that these proposed increases are consistent with the gradual evolution cited by the Commission, as the proposed levels represent reasonable increases which are in line with prior changes.[9]

The Exchange believes that the 1995 changes were so modest (20% or less) that position limit increases are once again needed. Since the 1995 changes were implemented, the Exchange has been requested by its members and customers to again propose an increase in position limits, arguing that these limits hamper their ability to execute investment strategies. In light of the large portfolios common to institutional trading and the large-sized transactions that are required to execute complicated, cross-market strategies, such requests emphasize that institutional hedging needs and trading objectives may exceed current limits. Floor members have also expressed the resulting deleterious effect on index options trading in an exchange environment. Based on such member and customer requests, the Exchange believes that the current position limit levels continue to discourage market participation by large investors and the institutions that compete to facilitate the trading interests of large investors. Accordingly, this proposal aims to accommodate the liquidity and hedging needs of large investors as well as the facilitators of those investors.

Concurrent with the proposed increase in position limits, the Exchange is also proposing a corresponding increase to narrow-based index option exercise limits. The Exchange believes that this increase is necessary and appropriate for the same reasons as the rationale cited above for proposed increases in position limits. Furthermore, exercise limits constrict trading strategies by preventing investors from exercising positions larger than the limit within five consecutive business days. The Exchange also notes that most of its index options currently are or will become European-style, exercisable only during a specified period at expiration, such that the manipulation and market disruption concerns associated with large exercises will be limited.[10]

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),[11] in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, as well as to protect investors and the public interest. In addition, the Commission believes that the proposal should remove impediments to and perfect the mechanism of a free and open market by providing market opportunity to investors constricted by current position limit levels.

Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of option contracts that a member or customer can hold or exercise. These rules are intended to prevent the establishment of large options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. At the same time, the Commission has recognized that option position and exercise 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 specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market.

In this regard, the Phlx has stated that the current position limits discourage market participation by certain large investors and the institutions that compete to facilitate their trading. In addition, the Phlx notes that index option trading volume has increased significantly since 1995, when the current industry index option position limits were established. In light of the increased volume of narrow-based index option trading and the needs of investors and market makers, the Commission believes that the Phlx's proposal is a reasonable effort to accommodate the needs of market participants.

In addition, the Commission notes that the proposal, while increasing the positions limits for narrow-based index options, continues to reflect the unique characteristics of each index option and to maintain the structure of the current three-tiered system. Specifically, the lowest proposed limit, 9,000 contracts, will apply to narrow-based index options in which a single underlying stock accounts for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option positions limits. A position limit of 12,000 contracts will apply if any single underlying stock accounts, on average, for 20% or more of the index value or any five underlying stocks account, on average for more than 50% of the index value, but no single stock in the group accounts, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits. The 15,000 contract limit will apply only if the Exchange determines that the conditions requiring either the 9,000 contract limit or the 12,000 contract limit have not occurred.

The Commission believes that the proposed increases for the three tiers of 25%, 33%, and 50%, for highest to lowest, respectively, appear to be appropriate and consistent with the Commission's evolutionary approach to position and exercise limits. In this regard, the absence of discernible manipulative problems under the current three-tiered position and exercise limit system for narrow-based index options leads the Commission to conclude that the increases proposed by the Exchange are warranted. The Commission recognizes that there are no ideal limits in the sense that options positions of any given size can be stated conclusively to be free of any

[9] *See, e.g.,* Securities Exchange Act Release No. 36194, *supra* note 8, where the Phlx's narrow-based position limit changes represented a 9% increase in the lowest tier (from 5,500 to 6,000 contracts); a 20% increase in the middle tier (from 7,500 to 9,000 contracts); and a 14% increase in the highest tier (from 10,500 to 12,000 contracts).

[10] *See, e.g.,* Securities Exchange Act Release No. 37575 (August 15, 1996), 61 FR 43289 (August 21, 1996), File No. SR–Phlx–96–18) (order approving change in exercise style of Phlx's National Over-the-Counter Index from American-style to European-style).

[11] 15 U.S.C. § 78f(b) (1988).

manipulative concerns. However, based upon the absence of discernible manipulation or disruption problems under current limits, the Commission believes that the proposed limits can be safely considered. Accordingly, the Commission believes that the Phlx's proposed increases of existing position and exercise limits for narrow-based index options is now appropriate.[12]

The Commission notes that the Exchange has had considerable experience monitoring the current three-tiered framework in narrow-based index options. The Commission has not found that differing position and exercise limit requirements based on the particular options product to have created programming or monitoring problems for securities firms, or to have led to significant customer confusion. Based on the current experience in handling position and exercise limits, the Commission believes that the proposed increase in position and exercise limits for narrow-based index options will not cause significant problems.

Finally, the Phlx has indicated that its surveillance procedures have become increasingly sophisticated and automated. The Commission believes that the Exchange's surveillance programs are adequate to detect and deter violations of position and exercise limits as well as to detect and deter attempted manipulative activity and other trading abuses through the use of such illegal positions by market participants.[13]

IV. Conclusion

For the foregoing reasons, the Commission finds that the Phlx's proposal to increase the position and exercises limits for narrow-based index options 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,[14] that the proposed rule change (SR–Phlx–96–33) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[15]

Margaret H. McFarland,
Deputy Secretary.

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[12] The Commission continues to believe that proposals to increase position limits and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for each tier, the Commission has concluded that the proposed exercise limit increases for the three-tiered framework do not raise manipulation problems or increase concerns over market disruption in the underlying securities.

[13] The Commission emphasizes that the Phlx must closely monitor compliance with position and exercise limits and to impose appropriate sanctions for failures to comply with the Exchange's position and exercise limit rules.

[14] 15 U.S.C. 78s(b)(2) (1988).

[15] 17 CFR 200.30–3(a)(12).

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(s).

(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 collections.)

1. Statement of Funds You Provided to Another; Statement of Funds You Received—0960–0481. The information collected on forms SSA–2854 and SSA–2855 is used by the Social Security Administration to determine if money borrowed on an informal basis from a noncommercial lender (friend or relative) is income to the borrower/claimant. The information is needed to insure that an individual is properly eligible for Supplemental Security Income (SSI) payments. The respondents are applicants for and recipients of SSI payments.

Number of Respondents: 40,000.

Frequency of Response: 1.

Average Burden Per Response: 10 minutes.

Estimated Annual Burden: 6,667 hours.

2. Physical Residual Functional Capacity Assessment; Mental Residual Functional Capacity Assessment—0960–0431. The information collected on forms SSA–4734–U8 and SSA–4734 SUP is needed by the Social Security Administration to assist in the adjudication of disability claims involving physical and/or mental impairments. The forms assist the State Disability Determination Services (DDS) to evaluate impairment(s) by providing a standardized data collection format to present findings in a clear, concise and consistent manner. The respondents are State DDSs administering title II and title XVI disability programs.

Number of Responses: 1,693,425.

Frequency of Response: 1.

Average Burden Per Response: 20 minutes.

Estimated Annual Burden: 564,475 hours.

Written comments and recommendations regarding the information collection(s) should be sent within 60 days from the date of this publication, directly to the SSA Reports Clearance Officer at the following address: Social Security Administration, DCFAM, Attn: Judith T. Hasche, 6401 Security Blvd., 1–A–21 Operations Bldg., Baltimore, MD 21235.

In addition to your comments on the accuracy of the agency's burden estimate, we are soliciting comments on the need for the information; its practical utility; ways to enhance its quality, utility and clarity; and on ways to minimize burden on respondents, including the use of automated collection techniques or other forms of information technology.

Submission for OMB Review; Comment Request

The Social Security Administration publishes a list of information collection packages that have been submitted to the Office of Management and Budget (OMB) for clearance in compliance with P.L. 104–13 effective October 1, 1995, The Paperwork Reduction Act of 1995. The information collection(s) listed below, which was published in the Federal Register on September 3, 1996, has been submitted to OMB.

(Call the SSA Reports Clearance Officer on (410) 965–4125 for copies of the form(s) or package(s).)

OMB Desk Officer: Laura Oliven.

SSA Reports Clearance Officer: Judith T. Hasche.

1. Application for Supplemental Security Income—0960–0229. The information on form SSA–8000 is used by the Social Security Administration to determine a claimant's eligibility for benefits and the amount payable in claims for SSI. The respondents are certain applicants for SSI.

Number of Respondents: 1,316,678.

Frequency of Response: 1.

Average Burden Per Response:

35 minutes for paper application

25 minutes for automated collection of information

Estimated Annual Burden: 581,533 hours.

2. Statement of Living Arrangements, In-Kind Support and Maintenance—0960–0174. The information on form SSA–8006 is used by the Social Security Administration to determine if an applicant or recipient meets the income