

number of specialists or co-specialists who register in additional securities. The report should also include data on (1) the rate of deregistration at the specialist's request, and (2) the number of specialists applying to register in securities that do not have a specialist already assigned, and compare that data for the pilot year to the prior year. In addition, the Commission requests that the CHX submit by July 8, 1998, any proposed rule change pursuant to Rule 19b-4 under the Act<sup>11</sup> to further extend or seek permanent approval of the pilot program.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>12</sup> that the proposed rule change (SR-CHX-97-15) is approved on a one year pilot basis through September 8, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39031; File No. SR-DTC-97-07]

### Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Disclosure Requirements for Transactions Involving Inflation Indexed Securities Through the Institutional Delivery System

September 8, 1997.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 ("Act"), notice is hereby given that on May 19, 1997, The Depository Trust Company ("DTC") 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 primarily by DTC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The purpose of the proposed rule change is to amend Section M of DTC's participant operating procedures in accordance with certain disclosure requirements for transactions involving inflation indexed securities processed through DTC's Institutional Delivery ("ID") system.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC 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. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>2</sup>

##### (A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

PSA The Bond Market Trade Association ("PSA") on behalf of its members and all other registered brokers and dealers, received no-action and interpretive relief from the Commission and the Treasury (collectively "interpretive relief")<sup>3</sup> regarding the application of certain regulations to inflation indexed securities issued by the U.S. Treasury Department ("Treasury"). The purpose of the proposed rule change is to enable broker-dealers that use DTC's ID system for generating confirmations for their customer transactions to comply with the disclosure requirements set forth in the interpretive relief.

The interpretive relief requires broker-dealers to disclose in confirmations for inflation indexed securities that yield to maturity may vary due to inflation adjustments or provide disclosure to similar effect. A broker-dealer using the ID system can enter data in the security type field identifying the security as an inflation

indexed security by using a designated acronym (*i.e.*, "ITS"). Under the proposed rule change, DTC will add procedures to its ID system to provide that when the designated acronym identifying an inflation indexed security appears in the security type field of the ID confirmation, the required disclosure will be deemed to be a part of the ID confirmation for that transaction.

The interpretative relief also requires confirmations involving inflation indexed securities for when-issued transactions and for transactions in the Treasury's Separate Trading of Registered Interest and Principal of Securities ("STRIPS") program to disclose the real yield (*i.e.*, nominal yield not adjusted for inflation) for the securities.<sup>4</sup> Under the proposed rule change, a broker-dealer using the ID system to send confirmations for such transactions will be able to disclose the real yield by entering that figure either in the yield field or in the special instructions field of trade data submitted to the ID system.

DTC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>5</sup> and the rules and regulations thereunder because the proposed rule change will assure the safeguarding of securities and funds which are in the custody or control of DTC by facilitating the confirmation of transactions in inflation indexed securities through the use of DTC's ID system.

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

DTC perceives no impact on competition by reason of the proposed rule change.

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

The proposed rule change was developed through discussions with PSA acting on behalf of its members and with several participants. Written comments from DTC participants or others have not been solicited or received on the proposed rule change.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>6</sup> of the Act and pursuant

<sup>11</sup> 17 CFR 200.19b-4.

<sup>12</sup> 15 U.S.C. § 78s(b)(2).

<sup>13</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> The Commission has modified the text of the summaries prepared by DTC.

<sup>3</sup> Letter from Robert L.D. Colby, Deputy Director, Division of Market Regulation, Commission, to Paul Saltzman, Senior Vice President and General Counsel, PSA The Bond Market Association, (January 17, 1997); letter from Richard L. Gregg, Commissioner, Bureau of the Public Debt, Department of the Treasury, to Michael A. Macchiaroli, Associate Director, Division of Market Regulation, Commission (January 17, 1997).

<sup>4</sup> PSA The Bond Market Association Trading Practice Guidelines for Inflation Indexed Securities (December 18, 1996).

<sup>5</sup> 15 U.S.C. 78q-1.

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

to Rule 19b-4(e)(4)<sup>7</sup> promulgated thereunder because the proposal effects a change in an existing service of a registered clearing agency that does not adversely affect the safeguarding of securities or funds in the custody or control of DTC or for which it is responsible and does not significantly affect the respective rights or obligations of DTC or persons using the service. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

On August 25, 1997, notice of filing of File No. SR-DTC-97-07 was incorrectly published in the **Federal Register** as a proposed rule change filed pursuant to Section 19(b)(2).<sup>8</sup> This notice of the proposed rule change supersedes that release and correctly publishes notice of filing of File No. SR-DTC-97-07 as a proposed rule change filed pursuant to Section 19(b)(3)(A). The proposed rule change became immediately effective upon filing with the Commission on May 19, 1997.

#### 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, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of DTC. All submissions should refer to File No. SR-DTC-97-07 and should be submitted by October 6, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39030; File No. SR-PHLX-97-25]

#### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 Thereto, Relating to Elimination of the Enhanced Parity Split for the Specialist in the 3D German Mark Foreign Currency Options

September 8, 1997.

#### I. Introduction

On May 29, 1997, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), 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> a proposed rule change to eliminate from Exchange Rule 1014(h) ("Rule") the enhanced parity split for the specialist in the dollar denominated delivery German Mark ("3D") foreign currency options ("FCOs").

The proposed rule change was published for comment in the **Federal Register** on July 10, 1997.<sup>3</sup> No comments were received on the proposal. On August 6, 1997, the Phlx submitted Amendment No. 1 to the proposed rule change.<sup>4</sup> This order approves the proposal as amended.

#### II. Description of the Proposal

In January, 1995, the Exchange amended the Rule to adopt an enhanced split for its specialist in 3D FCOs<sup>5</sup> in

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Securities Exchange Act Release No. 38808 (July 1, 1997), 62 FR 37111 (July 10, 1997).

<sup>4</sup> See letter from Michele R. Weisbaum, Vice President and Associate General Counsel, Phlx to David Sieradzki, Attorney, SEC, dated August 6, 1997 ("Amendment No. 1"). In Amendment No. 1, the Phlx proposed to amend Option Floor Procedure Advice B-7, Time Priority of Bids/Offer in Foreign Currency Options, to delete text describing the enhanced specialist split for 3D options.

<sup>5</sup> 3D FCOs are cash-settled, European-style, cash/spot FCO contracts on the German mark that trade in one-week and two-week expirations. See

order to encourage the specialist to make deeper markets to attract order flow.<sup>6</sup> The Rule provides that the Foreign Currency Option Committee ("the Committee") would conduct a review of the entitlement to the enhanced parity split at the end of the first year and then every 6 months thereafter. Pursuant to the most recent review, the Committee determined to eliminate the enhanced split which was only applicable to this one product traded on the Foreign Currency Option Floor of the Exchange. The specialist in the product has not objected to the elimination of the enhanced split. In fact, the specialist firm trading this product has indicated that enhanced split is not particularly useful to the firm and that the firm does not generally take advantage of it.<sup>7</sup> In addition, the Exchange has represented that the order size in this product is generally not large enough to trigger the enhanced split.<sup>8</sup> Although the Exchange is proposing to eliminate the enhancement at this time, it represents it is continuing to study the potential use of enhanced splits for the Foreign Currency Option Floor on a broader basis.<sup>9</sup> By eliminating the current enhanced split, parity and priority will be determined in accordance with Exchange Rule 119 and the remainder of section (h) to Rule 1014.

#### 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).<sup>10</sup> Specifically, the Commission believes the proposal is consistent with the Section 6(b)(5)<sup>11</sup> requirements that the

Securities Exchange Act Release No. 33732 (Mar. 8, 1994), 59 FR 12023 (Mar. 15, 1994).

<sup>6</sup> See Securities Exchange Act Release No. 35177 (Dec. 29, 1994), 60 FR 2419 (Jan 9, 1995) ("Original Split Approval Order").

<sup>7</sup> See letter from Michele R. Weisbaum, Vice President and Associate General Counsel, Phlx to David Sieradzki, Attorney, SEC, dated June 30, 1997 ("Phlx Letter").

<sup>8</sup> Telephone conversation between Michele R. Weisbaum, Vice President and Associate General Counsel, Phlx, James T. McHale, Special Counsel, SEC and David Sieradzki, Attorney, SEC (June 19, 1997). Rule 1014(h) provides that "[t]his enhanced split will not apply where a customer bid/offer for under 100 contracts has time priority."

<sup>9</sup> The Exchange represents that it is in the process of considering new and different types of parity splits that, if adopted, would be applicable to all products traded by specialists on the foreign currency option floor or at least to a broader range of specialist traded products. See Phlx Letter, *supra* note 7.

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> 17 CFR 240.19b-4(e)(4).

<sup>8</sup> Securities Exchange Act Release No. 38950 (August 19, 1997), 62 FR 44997.