

CATEGORIES OF RECORDS IN THE SYSTEM:

This system contains names, addresses, and contact information for anyone who intervenes in a proceeding before the Postal Rate Commission; submissions, filings, answers, exhibits, and any other record provided to the Commission and made public under Commission rule 3001.42(b).

AUTHORITY FOR MAINTENANCE OF THE SYSTEM:

39 U.S.C. 3603.

PURPOSE:

These records are used under the Postal Rate Commission's rules and procedures in Commission proceedings, decisions, opinions, and other activities authorized by law.

ROUTINE USES OF RECORDS MAINTAINED IN THE SYSTEM, INCLUDING CATEGORIES OF USERS AND THE PURPOSES OF SUCH USES:

All records in this system are public and will be disclosed to any person upon request.

POLICIES AND PRACTICES FOR STORING, RETRIEVING, ACCESSING, RETAINING, AND DISPOSING OF RECORDS IN THE SYSTEM:**STORAGE:**

Records are stored in paper, in folders, in file cabinets, and on the Postal Rate Commission's computer network.

RETRIEVABILITY:

Records may be retrieved by name or docket number.

SAFEGUARDS:

Records are maintained in the Postal Rate Commission's Docket Room, on computer networks, and on the Commission website. All records and computer facilities are maintained in Commission offices, and public access to Commission offices is controlled.

RETENTION AND DISPOSAL:

Records are disposed of in accordance with approved record schedules. Most records pertaining to Commission decisions are retained permanently.

SYSTEM MANAGER(S) AND ADDRESS:

Chief Administrative Officer, Postal Rate Commission, 1333 H Street NW., Suite 300, Washington, DC 20268-0001.

NOTIFICATION PROCEDURE:**RECORD ACCESS PROCEDURES:**

All requests should be directed to the System Manager. Requesters will be required to provide adequate identification, such as a driver's license, employee identification card, or other identifying document, and dates of employment.

CONTESTING RECORD PROCEDURE:

All requests should be directed to the System Manager. Requesters will be required to provide adequate identification, such as a driver's license, employee identification card, or other identifying document, and dates of employment.

RECORD SOURCE CATEGORIES:

Information in this system of records is obtained from intervenors in Postal Rate Commission proceedings and from Commission staff.

EXEMPTIONS CLAIMED FOR THE SYSTEM:

None.

[FR Doc. 99-23303 Filed 9-7-99; 8:45 am]

BILLING CODE 7710-FW-P

SECURITIES AND EXCHANGE COMMISSION**Proposed Collection; Comment Request**

Upon Written Request, Copies Available From: Securities and Exchange Commission, Office of Filings and Information Services, Washington, DC 20549.

Extension:

Form 40-F, SEC File No. 270-335;

OMB Control No. 3235-0381

Schedule 13E-4, SEC File No. 270-190; OMB Control No. 3235-0203

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.), the Securities and Exchange Commission ("Commission") is soliciting comments on the collection of information summarized below. The Commission plans to submit these existing collections of information to the Office of Management and Budget for extension and approval.

Form 40-F is used by certain Canadian issuers to register securities pursuant to Section 12 of the Securities Exchange Act of 1934 ("Exchange Act") or as an annual report pursuant to Section 13(a) or 15(d) of the Exchange Act. The information required under cover of Form 40-F can be used by security holders, investors, broker-dealers, investment banking firms, professional securities analysts and others in evaluating securities and making investment decisions with respect to securities of certain Canadian companies. Form 40-F takes approximately 2 hours to prepare and is filed by an estimated 100 respondents for a total annual response of 200 burden hours. It is estimated that 25% (50 hours) of the 200 hours would be prepared by the company.

Schedule 13E-4 is filed pursuant to Section 13(e)(1) of the Exchange Act by issuers conducting a tender offer. This information is needed to provide full and fair disclosure to the investing public. Schedule 13E-4 takes approximately 232 hours to prepare and is filed by an estimated 121 respondents annual for a total of 28,072 burden hours.

Written comments are invited on: (a) whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Michael E. Bartell, Associate Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549.

Dated: August 26, 1999.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc 99-23236 Filed 9-7-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-27071]

Filings Under the Public Utility Holding Company Act of 1935, as amended ("Act")

August 31, 1999.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendments is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s)

should submit their views in writing by September 27, 1999, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549-0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues or facts of law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After September 27, 1999, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

SCANA Corporation (70-9521)

SCANA Corporation ("SCANA"), 1426 Main Street, Columbia, South Carolina 29201, a South Carolina public utility holding company exempt from registration under section 3(a)(1) of the Act, has filed an application under sections 5, 9(a)(2), 10, and 11 of the Act.

SCANA proposes to acquire, by means of the transactions described below, Public Service Company of North Carolina, Incorporated ("PSNC"), a North Carolina corporation and gas public-utility company. PSNC would become a wholly owned subsidiary company of SCANA and the third public utility company, within the meaning of the Act, owned by SCANA. Following its acquisition of PSNC, SCANA would register under section 5 of the Act.

SCANA, PSNC, and their respective subsidiaries have also filed in File No. 70-9533 an application-declaration related to financing SCANA's proposed registered holding company system and the establishment of a service company for that system. A notice of that filing is being issued simultaneously with this notice.

SCANA is engaged primarily in providing electric and gas service to customers in South Carolina. SCANA's two current public utility company subsidiaries are South Carolina Electric and Gas Company ("SCE&G") and South Carolina Generating Company, Inc. ("GENCO"). SCE&G generates and sells electricity to wholesale and retail customers, and purchases, sells, and transports natural gas at retail. SCE&G also provides public transit service in Columbia, South Carolina. GENCO owns and operates the Williams Station generating facility and sells electricity solely to SCE&G. As of December 31, 1998, SCANA provided electric utility service to 517,447 customers and gas utility service to 256,842 customers. As

of February 26, 1999, 103,572,623 shares of SCANA common stock, no par value, were issued and outstanding. SCANA's principal executive office is located in Columbia, South Carolina.

SCANA has thirteen direct, wholly owned, nonutility subsidiary companies that engage in a wide range of energy and telecommunications-related services. For the year ended December 31, 1998, SCANA had total assets of \$5.281 billion, net utility assets of \$3.787 billion, total operating revenues of \$1.632 billion, and net income of \$115 million. SCANA neither owns nor operates any physical properties. As of December 31, 1998 SCANA employed, in conjunction with its subsidiaries, a total of 4,697 full-time employees.

PSNC is a public utility company franchised to serve a 31-county area in North Carolina. It transports, distributes, and sells natural gas to approximately 340,000 residential, commercial, and industrial customers in 95 cities in North Carolina. In connection with its natural gas distribution business, PSNC promotes, sells, and installs both new and replacement natural gas appliances and equipment. PSNC has seven partially or wholly owned nonutility subsidiaries that engage primarily in energy-related activities.

For the fiscal year ended September 30, 1998, 20,274,332 shares of PSNC common stock, \$1 par value, were outstanding, and PSNC had total assets of \$618,753,000, operating revenues of \$330,672,000, and net income of \$24,837,000. As of May 11, 1999 it had approximately 1,000 employees. PSNC owns 750 miles of transmission pipelines, 6,727 miles of distribution mains, and ownership and leasehold interests in various buildings used in connection with its operations.

Under an Amended and Restated Agreement and Plan of Merger ("Merger Agreement"), dated as of February 16, 1999 and amended and restated as of May 10, 1999 by and among PSNC, SCANA, New Sub I, Inc. ("New Sub I")¹ and New Sub II, Inc. ("New Sub II"),² New Sub I will be merged with and into SCANA, with SCANA as the surviving

¹ New Sub I will be incorporated under the laws of South Carolina prior to the consummation of the First Merger and will be a wholly owned subsidiary of SCANA. SCANA states that at no time will New Sub I have any operations other than the activities contemplated by the Merger Agreement as necessary to merge New Sub I with and into SCANA.

² New Sub II will be incorporated under the laws of South Carolina prior to the consummation of the Preferred Second Merger and will be a wholly owned subsidiary of SCANA. SCANA states that at no time will New Sub II have any operations other than the activities contemplated by the Merger Agreement as necessary to merge PSNC with and into New Sub II.

corporation ("First Merger"). PSNC will be merged with and into New Sub II, with New Sub II as the surviving corporation ("Preferred Second Merger" and, together with the First Merger, "Mergers").³ As a result of the Preferred Second Merger, PSNC will become a wholly owned subsidiary company of SCANA.

The terms of the First Merger provide holders of SCANA common stock with an opportunity to exchange their shares for a specified cash payment. In the First Merger, each share of SCANA common stock outstanding immediately prior to that merger's effective time will be converted into the right to receive either (i) \$30 in cash or (ii) one share of SCANA common stock. This provision is subject to a requirement that SCANA pay \$700 million in total cash as consideration in the Mergers. If the First Merger occurs, it will be consummated prior to the consummation of the Preferred Second Merger. The First Merger will not involve the acquisition of any securities of a public utility company, and SCANA does not seek any Commission approvals in connection with the First Merger.

The terms of the Preferred Second Merger provide holders of PSNC common stock with an opportunity to exchange their shares for a specified sum of cash, shares of SCANA common stock, or a combination of each. Immediately prior to the effective time of the Preferred Second Merger, each share of PSNC common stock then outstanding will be converted into the right to receive (1) \$33.00 in cash, subject to the limitation that no more than 50% of the aggregate consideration to be paid to PSNC shareholders be in cash, (2) a number of shares of SCANA common stock determined according to a formula described below, or (3) a combination of cash and shares of SCANA common stock. The ratio by which PSNC shares will be exchanged for SCANA shares will be established immediately prior to the Preferred Second Merger and will be based upon the average market price of SCANA common stock over the preceding 20 trading day period. This ratio is subject to the limitation that PSNC shareholders will receive no more than 1.45 and no less than 1.02 shares of SCANA

³ The Merger Agreement also provides that, in the event it is not possible to consummate the Preferred Second Merger, the parties would, subject to certain conditions, carry out an "alternative merger" transaction in which PSNC would be merged directly into SCANA's existing public utility subsidiary, SCE&G. The request for approval made in SCANA's application concerns only the Preferred Second Merger.

common stock for each share of PSNC common stock.

The Preferred Second Merger will be accounted for under the purchase method of accounting, in accordance with Generally Accepted Accounting Principles. As a regulated utility, the assets and liabilities of the acquired company, PSNC, will not be revalued to estimates of fair value, but will be maintained at their recorded amounts. If the Mergers are consummated, SCANA's financial statements will reflect effects of transaction adjustments only from the time Preferred Second Merger is effective. The First Merger will be treated as a reorganization with no change in the recorded amount of SCANA's assets and liabilities. The financial statements of SCANA will become the financial statements of the surviving corporation in the First Merger, and the results of the surviving corporation's operations will include the results of PSNC's operations commencing at the time the Preferred Second Merger becomes effective.

Following the Preferred Second Merger, PSNC will become a wholly owned public utility company subsidiary of SCANA. The Merger Agreement provides that SCANA's principal corporate office will remain in Columbia, South Carolina and that PSNC's principal corporate office will remain in Gastonia, North Carolina.

SCANA Corporation (70-9533)

SCANA Corporation ("SCANA"), a South Carolina public utility holding company exempt from registration under section 3(a)(1) of the Act, and its subsidiaries South Carolina Electric and Gas Company ("SCE&G"); South Carolina Generating Company, Inc. ("GENCO"); South Carolina Fuel Company, Inc.; South Carolina Pipeline Corporation; SCANA Energy Marketing Inc.; SCANA Propane Gas, Inc.; SCANA Propane Storage, Inc.; SCANA Communications, Inc.; Servicecare Inc.; Primesouth, Inc.; SCANA Resources Development Corporation; SCANA Petroleum Resources, Inc.; and SCANA Service Company ("SCANA Service"), all located at 1426 Main Street, Columbia, South Carolina 29201; Public Service Company of North Carolina, Incorporated ("PSNC"), a North Carolina public utility company, and its subsidiaries Sonat Public Service Company LLC; Clean Energy Enterprises; Cardinal Pipeline Company, LLC; Pine Needle LNG Company, LLC; PSNC Blue Ridge Corporation; PSNC Cardinal Pipeline Corporation, all located at 400 Cox Road, Gastonia, North Carolina 28054

(collectively "Applicants"), have filed an application-declaration under sections 6(a), 7, 9(a), 10, 12, and 13(b) of the Act and rules 42, 43, 45, 54, 87, 88, 90, and 91 under the Act.

SCANA has also filed a related application-declaration in File No. 70-9521 seeking approvals required to complete its proposed acquisition of PSNC ("Merger"). a notice of that filing is being issued simultaneously with this notice.

The Applicants propose to enter into numerous types of financing transactions to meet SCANA's capital requirements immediately following the Merger and to plan future financing. They request authorization to engage in these financing transactions for five years commencing on the date of an order issued responding to their application-declaration ("Authorization Period").

1. General Terms and Conditions of Financing

Financings by each Applicant would be subject to the following limitations: (i) the effective cost of money on long-term debt securities will not exceed 300 basis points over comparable term U.S. Treasury securities, and the effective cost of money on short-term securities will not exceed 300 basis points over the comparable term London Interbank Offered Rate; (ii) maturity of indebtedness will not exceed 50 years; (iii) the underwriting fees, commissions, or similar remuneration paid in connection with the issue, sale, or distribution of a security will not exceed 5% of the principal amount of the financing; and (iv) at all times during the Authorization Period SCANA's common equity will be at least 30% of its consolidated capitalization.

The proceeds from the sale of securities in external financing transactions would be used for general corporate purposes including: (i) the financing, in part, of the capital expenditures of the SCANA system; (ii) the financing of working capital requirements of the SCANA system; (iii) the acquisition, retirement, or redemption of existing securities; and (iv) direct or indirect investment in companies whose activities the Commission authorizes in connection with the Merger, as well as energy-related and gas-related companies, as defined in rule 58(b), and exempt telecommunications companies, as defined in section 34(a) of the Act.

2. External Financing

SCANA requests authorizations for four types of external financing. First it seeks authorization to issue common

stock, no par value (subject to adjustment to reflect any stock split), up to an aggregate amount of 13.6 million shares, including issuances under its benefit and dividend reinvestment plans. SCANA also proposes to issue common-stock options.

Second, SCANA requests authorization to issue long-term debt securities in an amount, when combined with its issuances of common stock (other than for benefit or dividend reinvestment plans), not to exceed \$1.435 billion. the long-term debt securities would consist of medium-term notes issued under an indenture.

Third, SCANA requests authorization to have outstanding at any one time up to \$950 million of short-term debt, consisting of bank borrowings, commercial paper, or bid notes. The short-term debt would be used to refund pre-Merger short-term debt, to provide for the reissuance of pre-Merger letters of credit, and to provide financing for general corporation purposes, working capital requirements, and capital expenditures for the Applicants other than SCANA until long-term financing can be obtained.

Fourth, SCANA requests authorization to engage in hedging transactions intended to manage the volatility of interest rates, including interest rate swaps, caps, floors, collars, and forward agreements or any other similar agreements. SCANA would employ interest rate swaps to manage the risk associated with any of its outstanding debt authorized by the Commission.

3. Utility Subsidiary Financing

The Applicants request authorization for SCE&G, GENCO, and PSNC ("Utility Subsidiaries") to issue up to \$300 million in short-term debt consisting of commercial paper, unsecured bank loans, and borrowings under a SCANA holding company system money pool. These issuances of securities would comply with the general terms and conditions for financing transactions described above. Any short-term borrowings by the Utility Subsidiaries, when combined with short-term borrowings by SCANA, would not exceed \$1.2 billion at any time during the Authorization Period. In addition, the Applicants request authorization for the Utility Subsidiaries to enter into hedging transactions of the same type under the same conditions as those applicable to SCANA.

4. Nonutility Subsidiary Financing

The Applicants believe that in most cases rule 52(b) under the Act would exempt borrowings by any Applicant

other than SCANA and the Utility Subsidiaries (excluding SCANA, the "Nonutility Subsidiaries") from Commission authorization requirements. However, the Nonutility Subsidiaries request that the Commission reserve jurisdiction over the issuance to nonassociates of securities that are not exempt under rule 52(b). The Nonutility Subsidiaries state that when a proposed issuance of a security is not exempt under rule 52(b) they will file a post-effective amendment requesting the necessary authorization.

5. Other Securities

SCANA may find it necessary or desirable to issue and sell other types of securities during the Authorization Period in addition to those specifically enumerated in the application-declaration. SCANA requests that the Commission reserve jurisdiction over the issuance of additional types of securities.

6. Guarantees

SCANA requests authorization to enter into guarantees, obtain letters of credit, enter into expense agreements, or otherwise provide support that its direct or indirect subsidiaries existing at the time the Merger is consummated or that are subsequently formed ("System Subsidiaries") need in the ordinary course of their respective businesses. The aggregate principal amount of this credit support would not exceed \$305 million. The debt would comply with the general terms and conditions for financing transactions described above.

7. Money Pool

SCANA and the Utility Subsidiaries request authorization to establish a utility money pool, and the Nonutility Subsidiaries request authorization to establish a Nonutility money pool. The Utility Subsidiaries, to the extent that a transaction is not exempt under rule 52, request authorization to make unsecured short-term borrowings from the utility money pool, contribute surplus funds to the utility money pool, and lend and extend credit to (and acquire promissory notes from) one another through the utility money pool.

The Nonutility Subsidiaries may participate in a Nonutility money pool. The application-declaration states that rule 52 exempts the Nonutility money pool activities of the Nonutility Subsidiaries from the Act's prior-approval requirements. SCANA is requesting authorization to contribute surplus funds and to lend and extend credit to (a) the Utility Subsidiaries through the utility money pool and (b)

the Nonutility Subsidiaries through the Nonutility money pool.

SCANA Service will administer the utility and Nonutility money pools on an "at cost" basis and will maintain separate records for each money pool. Surplus funds of the two money pools may be combined in common short-term investments, but SCANA Service will maintain separate records of these funds. The Applicants request the Commission to reserve jurisdiction over participation in a money pool by future companies formed by SCANA until a post-effective amendment is filed naming the new participant.

8. Changes in Capital Stock

The Applicants request authority to change the terms of the authorized capital stock of any wholly owned System Subsidiary by an amount SCANA or an immediate parent company deems appropriate. The application-declaration states that a System Subsidiary would be able to change the par value, or change between par and no-par stock, without additional Commission approval. Any action of this type by a Utility Subsidiary would be subject to, and would be taken only upon receipt of, necessary approvals by the state commission in the state or states where the Utility Subsidiary is incorporated and doing business.

9. Payment of Dividends

The Applicants request authorization to pay dividends out of the additional paid-in-capital account of PSNC up to the amount of PSNC's aggregate retained earnings just prior to the Merger and out of earnings before the amortization of the goodwill thereafter.

10. Financing Entities

The Applicants seek authorization for any Applicant other than SCANA to organize new corporations, trusts, partnerships, or other entities created for the purpose of facilitating financings through issuance of securities to third parties. The Applicants also request authority for (1) the issuance of debt instruments by an Applicant other than SCANA to a financing entity in return for the financing proceeds, (2) the acquisition by an Applicant other than SCANA of voting interests or equity securities issued by a financing entity, and (3) the guarantee by the Applicant of the financing entity's obligations. Each of the Applicants other than SCANA requests authorization to enter into expense agreements with its respective financing entity, under which it would agree to pay all expenses of that entity. Any amounts issued by financing entity to a third party would

be included in the overall external financing limitation authorized for the financing entity's immediate parent.

11. Service Company

SCANA Service will be incorporated in South Carolina and will act as the SCANA holding company system's service company following the Merger. It will provide a variety of administrative, management, and support services. The Applicants anticipate that SCANA Service will be staffed through a transfer of personnel from SCANA, SCE&G, and PSNC. The Applicants state that SCANA Service's accounting and cost allocation methods will comply with Commission standards for service companies in registered holding-company systems, and that its billing system will follow the Commission's Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies. Except as permitted by the Act or the Commission, all services that SCANA Service provides to affiliated companies will be performed on an "at cost" basis in accordance with rules 90 and 91.

To ensure adequate oversight and realize economies of scale, some administrative and service functions for the SCANA holding company system will be consolidated and provided through SCANA Service. As a general rule, the individual system companies will perform those services that can best be done at the company level, with SCANA Service offering system-wide coordination, strategy, oversight, and other services when that proves to be more efficient.

12. Other Services

SCE&G, PSNC and other associate companies of SCANA request authorization to enter into leases of office or other space with associate companies. The Utility Subsidiaries may also provide services to each other that are incidental to their utility businesses, such as maintenance and emergency repairs and the services of personnel with special expertise. The Utility Subsidiaries will enter into software license agreements with other companies in the SCANA holding company system. The Applicants state that all of these agreements and services will comply with the requirements of rules 87, 90, and 91.

SCANA Fuel Company, Inc. ("SCANA Fuel") enters into contracts with SCE&G to provide environmental and fuel-related services. SCANA Fuel provides these services "at cost," as determined under rules 90 and 91.

13. Tax Allocation Agreement

The Applicants have requested approval of an agreement to allocate consolidated taxes among SCANA and the other Applicants ("Tax Allocation Agreement"). The Applicants require this approval because the Tax allocation Agreement allows SCANA to retain certain payments for tax losses it has incurred, rather than allocate them to the other Applicants without payment, as rule 45(c)(5) would otherwise require. SCANA will create tax credits through the Merger that are nonrecourse to the other Applicants. The Applicants state that SCANA should retain the benefits of those tax credits.

For the Commission by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99-23237 Filed 9-7-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41808; File No. SR-Amex-99-27]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange LLC To Revise the Exchange's Margin Requirements

August 30, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 23, 1999, the American Stock Exchange LLC ("Exchange" or "Amex") 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 Exchange. 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 Exchange proposes to revise Exchange Rule 462, "Minimum Margins." Principally, the revisions would permit the extension of credit on certain long term options and warrants (*i.e.*, more than 9 months from expiration); revise the margin requirements for butterfly spreads and box spreads; and modify the

maintenance margin requirements for hedging strategies that pair stock positions with options (*e.g.*, conversions, collar).

The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and 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 Exchange has prepared summaries, set forth in section 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 Exchange proposes to revise Exchange Rule 462, "Minimum Margins," to: (i) permit the extension of credit on certain long term options and warrants, and certain long box spreads comprised entirely of European-style options; (ii) recognize butterfly and box spread strategies for purposes of margin treatment and establish appropriate margin requirements; (iii) recognize various strategies involving stock (or other underlying instruments) paired with a long option, and provide for lower maintenance margin requirements on such hedged stock positions; (iv) expand the types of short positions that would be considered "covered" in a cash account; specifically, certain short positions that are components of limited risk spread strategies (*e.g.*, butterfly and box spreads); (v) allow a bank issued escrow agreement to serve as cover for certain spread positions held in a cash account; and (vi) update and improve, as necessary, current margin rules.

Previously, the margin requirements governing options were set forth in Regulation T, "Credit by Brokers and Dealers."³ However, amendments to Regulation T that became effective June 1, 1997, modified or deleted certain margin requirements regarding options transactions in favor of rules to be adopted by the options self-regulatory

organizations ("OSROs"), subject to approval by the Commission.⁴ In a rule filing approved by the Commission in 1997, the Exchange adopted various margin requirements pertaining to options that were to be deleted from Regulation T.⁵ That previous margin filing also contained several necessary changes that clarified certain provisions and established better consistency with the margin rules of the New York Stock Exchange.

In accordance with Regulation T, the OSROs have the ability, subject to SEC approval, to adopt rules governing the margin treatment of options.⁶ The Exchange therefore proposes to revise its margin rules to implement enhancements long desired by Exchange members and member firms, public investors, and Exchange staff. The Exchange believes that certain multiple options position strategies and other strategies that combine stock with option positions warrant recognition for purposes of establishing more equitable margin requirements. Currently, the components of such strategies must be margined separately. The Exchange believes the risk limitation that results in the component positions are viewed collectively is not reflected in current margin requirements. The Exchange further believes that market participants should have the ability to utilize these strategies for the least amount of margin necessary. The other significant change sought by the Exchange would permit the extension of credit on certain long term options and warrants.

In developing this proposal, the Exchange reviewed all of its margin rules with a view toward updating or improving margin provisions as necessary. The Exchange also found it necessary to propose minor changes to certain rules because they are closely related to, and will be impacted by, the more substantive proposals.

a. Definitions Section. Presently, the Exchange's definition of "current market value" is equivalent to the definition found in Regulation T. Instead of repeating the Regulation T definition, the proposal would revise

⁴ See Board of Governors of the Federal Reserve System Docket No. R-0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

⁵ See Securities Exchange Act Release No. 38710 (June 2, 1997), 62 FR 31638 (June 10, 1997).

⁶ The Chicago Board Options Exchange ("CBOE"), New York Stock Exchange ("NYSE"), and Pacific Exchange ("PCX") have filed similar margin proposals with the Commission. The CBOE proposal was approved on July 27, 1999. See Securities Exchange Act Release No. 41658 (July 27, 1999), 64 FR 47736 (Aug. 5, 1999). The NYSE and PCX margin proposals are still pending with the Commission. See File Nos. SR-NYSE-99-03 and SR-PCX-98-59.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 12 CFR 220 *et seq.* The Board of Governors of the Federal Reserve System adopted Regulation T pursuant to Section 7(a) of the Act.