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]

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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

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[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.

[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.

the definition found in the Exchange's rules to note that the meaning of the term ''current market value'' is as defined in Regulation T. Because the Exchange and other OSROs intend to seek a change in the Regulation T definition, a linkage to the Regulation T definition will keep the Exchange's definition equivalent without requiring a future rule filing.

The Exchange also seeks to adopt definitions for the ''butterfly spread'' and ''box spread'' options strategies. The definitions are an important part of the Exchange's proposal to recognize and specify cash and margin account requirements for butterfly and box spreads. These proposals are outlined below in Sections II(A)(1) (c) and (d). The Exchange believes that the definitions are necessary to establish in specific terms what multiple options positions, if held together, qualify for classification as butterfly or box spreads, and consequently are eligible for proposed cash and margin treatment.

Finally, the Exchange seeks to define the term ''listed.'' Because the term ''listed'' is frequently used in the Exchange's margin rules, the Exchange believes it would be more efficient to define the term once rather than specifying the meaning of the term each time it is used.

b. *Extension of Credit on Long Term Options, Stock Index Warrants, Foreign Currency Warrants, and Currency Index Warrants.* The Exchange proposes to permit the extension of credit on certain listed, long term options and warrant products (including currency and index warrants, but excluding traditional stock warrants issued by a corporation on its own stock).[7] Only those long term options or warrants that are more than 9 months from expiration will be eligible for credit extension. The proposal requires initial and maintenance margin of not less than 75% of the current market value of a listed, long term option or warrant. Therefore, a broker-dealer would be able to loan up to 25% of the current market value of a listed, long term option or warrant.

The proposal also will permit the extension of credit on long term options and warrants not listed or traded on a registered national securities exchange or a registered securities association (''OTC options''). However, in addition to being more than 9 months from expiration, an OTC option or warrant must be in-the-money and guaranteed by the carrying broker-dealer. The proposal requires initial and maintenance margin of not less than 75% of the OTC's option's (warrant's) in-the-money amount (*i.e.*, intrinsic value), plus 100% of the amount, if any, by which the current market value of the OTC option or warrant exceeds the in-the-money amount.

When the time remaining until expiration for an option or warrant (listed and OTC) on which credit has been extended reached 9 months, the maintenance margin requirement will become 100% of the current market value.

c. *Extension of Credit on Long Box Spread Comprised Entirely of European-style Options.* The Exchange also proposes to allow the extension of credit on a long box spread comprised entirely of European-style options. A long box is a strategy comprised of four option positions that essentially lock-in the ability to buy and sell the underlying component or index for a profit, even after netting the cost of establishing the long box. The two exercise prices embedded in the strategy determine the buy and the sell price. The Exchange believes that because the cost of establishing the long box spread is covered by the profit realizable at expiration, there is no risk in carrying the debit incurred to establish the long box spread. Although the Exchange believes that 100% of the debit could be loaned, the Exchange proposes a margin requirement that approximates 50% of the debit. The Exchange's proposal will require 50% of the aggregate difference in the two exercise prices (buy and sell), which results in a margin requirement slightly higher than 50% of the debit typically incurred. This is both an initial and maintenance margin requirement. The proposal will afford a long box spread position a market value for margin equity purposes of not more than 100% of the aggregate exercise price differential.

d. *Cash Account Treatment of Butterfly and Box Spreads.* The proposal will make butterfly and box spreads in cash-settled, European-style options eligible for the cash account. To qualify for carrying in the cash account, the butterfly and box spreads must meet the specifications contained in the proposed definition section. The proposal will require full cash payment of the debit that is incurred when a long butterfly or long box spread strategy is established. The Exchange believes that if the debit is fully paid, there is no market risk to the carrying broker-dealer.

Short butterfly spreads generate a credit balance when established. However, in the worst case scenario, where all options are exercised, a debit (loss) greater than the initial credit balance received would accrue to the account. This debit or loss, however, is limited. To pose no market risk to the carrying broker-dealer, the proposal will require that the initial credit balance, plus an amount equal to the difference between the initial credit and the total risk, must be held in the account in the form of cash or cash equivalents. The total risk potential in a short butterfly spread comprised of call options is the aggregate difference between the two lowest exercise prices. With respect to short butterfly spreads comprised of put options, the total risk potential is the aggregate difference between the two highest exercise prices. Therefore, to carry short butterfly spreads in the cash account, the proposal will require that cash or cash equivalents equal to the maximum risk must be held or deposited.

Short box spreads also generate a credit balance when established. The net credit received from selling a box spread will cover nearly all, but not 100%, of the debit (loss) that would accrue to the account if held to expiration. The Exchange believes that the credit should be retained in the account. Therefore, the proposal will require that cash or cash equivalents covering the maximum risk, which is equal to the aggregate difference in the two exercise prices involved, must be held or deposited.

In addition, the proposal will allow an escrow agreement to be used in lieu of the cash or cash equivalents required to carry short butterfly and box spreads in the cash account.

e. *Margin Account Treatment of Butterfly and Box Spreads.* Currently, the Exchange's margin rules do not recognize butterfly and box spreads for margin purposes. Therefore, margin requirements tailored to the risks of these respective strategies, which the Exchange believes have limited risk, are not currently provided. A butterfly spread is a paring of two standard spreads, one bullish and one bearish. The two spreads (bullish and bearish) must be margined separately under the Exchange's current margin rules. The Exchange believes that this practice requires more margin than necessary because the two spreads serve to offset each other with respect to risk. The Exchange believes that the two individual spreads should be viewed in combination to form a butterfly spread, and that commensurate with the lower combined risk, investors should receive the benefit of lower margin requirements.

The Exchange's proposal would recognize as a distinct strategy butterfly spreads held in margin accounts, and

[7] Throughout the entirety of this notice, the term ''warrant(s)'' means this type of warrant.

specify requirements that are the same as the cash account requirements for butterfly spreads.[8] Specifically, in the case of a long butterfly spread, the net debit must be paid in full. For short butterfly spreads comprised of call options, the initial and maintenance margin must equal at least the aggregate difference between the two lowest exercise prices. For short butterfly spreads comprised of put options, the initial and maintenance margin must equal at least the aggregate difference between the two highest exercise prices. The net credit received from the sale of the short option components may be applied towards the margin requirement for short butterfly spreads.

The proposed requirements for box spreads held in a margin account, where all option positions making up the box spread are listed or guaranteed by the carrying broker-dealer, also are the same as those applied to the cash account. With respect to long box spreads, where the component options are not European-style, the proposal would require full payment of the net debit that is incurred when the spread strategy is established. For short box spreads held in the margin account, the proposal would require that cash or cash equivalents covering the maximum risk, which is equal to the aggregate difference in the two exercise prices involved, be deposited and maintained. The net credit received from the sale of the short option components may be applied towards the requirement.

Generally, long and short box spreads will not be recognized for margin equity purposes; however, the proposal will allow loan value for one type of long box spread where all component options have a European-style exercise provision and are listed or guaranteed by the carrying broker-dealer. As noted above in Section II(A)(1)(c), the margin required for a long box spread comprised entirely of European-style options is 50% of the aggregate difference in the two exercise prices framing the strategy. This is both an initial and maintenance margin requirement. For margin equity purposes, a long box spread made up of European-style options could not be valued at more than 100% of the aggregate exercise price differential.

f. *Margin Account Treatment of Stock Positions Held with Options Positions.* In addition to butterfly and box spreads, the Exchange proposes to recognize five options strategies that are designed to limit the risk of a position in the underlying component. The five strategies are: (i) Long Put/Long Stock; (ii) Long Call/Short Stock; (iii) Conversion; (iv) Reverse Conversion; and (v) Collar. Proposed Exchange Rule 462(d)(10)(B)(iv), ''Exceptions,'' will identify and set forth the margin requirements for these hedging strategies.

the five strategies are summarized below in terms of a stock position held in conjunction with an overlying option (or options). However, the proposal is structured to also apply to components that underlie index options and warrants.

The Exchange's proposal only addresses maintenance margin relief for the stock component (or other underlying instrument) of the five proposed strategies. The Exchange believes that a reduction in the initial margin requirement for the stock component of these strategies is not currently possible because the 50% initial margin requirement in Regulation T continues to apply, and the Exchange has no independent authority to lower the initial margin requirement for stock. However, the Exchange notes that the Federal Reserve Board is considering recognizing the reduced risk afforded stock by these options strategies for the purpose of lowering initial stock margin requirements, and is also considering other changes that would facilitate risk-based margins.

The ''Long Put/Long Stock'' and the ''Long Call/Short Stock'' hedging strategies are very similar to the ''Collar'' and ''Reverse Conversion'' strategies, respectively, and are addressed below in reference to the Collar and Reverse Conversion descriptions.

A ''Conversion'' is a long stock position held in conjunction with a long put and a short call. The put and call must have the same expiration and exercise price. The long put/short call is essentially a synthetic short stock position that offsets the long stock, and the exercise price of the options acts like a predetermined sale price. The short call is covered by the long stock and the long put is a right to sell the stock at a predetermined price—the put exercise price. Regardless of any decline in market value, the stock is, in effect, worth no less than the put exercise price.

A ''Reverse Conversion'' is a short stock, short put, and long call trio. Again, the put and call must have the same expiration and exercise price. The long call/short put is essentially a synthetic long stock position that offsets the short stock, and the exercise price of the options acts like a predetermined purchase (buy-in) price. The short put is covered by the short stock and the long call is a right to buy the stock (in this case closing the short position) at a predetermined price—the call exercise price. Regardless of any rise in market value, the stock can be acquired for the call exercise price; in effect, the short position is valued at no more than the call exercise price. The Long Call/Short Stock hedge described above is a Reverse Conversion without the short put, or simply short stock offset by a long call.

A ''Collar'' is a long stock position held in conjunction with a long put and a short call. A Collar differs from a Conversion in that the exercise price of the put is lower than the exercise price of the call in the Collar strategy; therefore, the options do not constitute a pure synthetic short stock position. The Long Put/Long Stock hedge mentioned above is similar to a Collar without the short call, or simply long stock hedged by a long put.

The proposal would establish reduced maintenance margin requirements for the stock component of these five strategies as follows:

1. Long Put/Long Stock

The lesser of:

- 10% of the put exercise price, plus 100% of any amount by which the put is out-of-the money; or
- 25% of the long stock market value.

2. Long Call/Short Stock

The lesser of:

- 10% of the call exercise price, plus 100% of any amount by which the call is out-of-the-money; or
- the maintenance margin requirement on the short stock

3. Conversion

- 10% of the exercise price.

The stock may not be valued at more than the exercise price.[9]

4. Reverse Conversion

- 10% of the exercise price, plus any in-the-money amount.[10]

5. Collar

The lesser of:

[8] The margin requirements would apply to butterfly spreads where all option positions are listed or guaranteed by the carrying broker-dealer.

[9] The writer of a call option has an obligation to sell the underlying component at the call exercise price. The writer cannot receive the benefit of a market value that is above the call exercise price because, if assigned an exercise. The underlying component would be sold at the exercise price, not the market price.

[10] The writer of a put option has an obligation to buy the underlying component at the put exercise price. If assigned an exercise, the underlying component would be purchased (the short position effectively closed) at the exercise price, even in the event the market price is lower. To offset the benefit to the account of a lower market value, the put in-the-money amount is added to the requirement.

- 10% of the put exercise price, plus 100% of any amount by which the put is out-of-the-money; or
- 25% of the call exercise price.

The stock may not be valued at more than the call service price.

These same maintenance margin requirements will apply, for example, when these strategies are used with a mutual fund or a stock basket underlying index option or warrants.

g. *Effect of Mergers and Acquisitions on the Margin Required for Short Equity Options.* The Exchange proposes to adopt Commentary .10 to Exchange Rule 462 to provide an exception to the margin requirement for short equity options in the event trading in the underlying security ceases due to a merger or acquisition. Under this exception, if an underlying security ceases to trade due to a merger or acquisition, and a cash settlement price has been announced by the issuer of the option, margin would be required only for in-the-money options and would be set at 100% of the in-the-money amount.

h. *Determination of Value for Margin Purposes.* The proposal will revise Exchange Rule 462(d)(1) to make it consistent with the other portion of the Exchange's proposal that allows the extension of credit on certain long term options. Currently, Exchange Rule 462(d)(1) does not allow the market value of long term options to be considered for margin equity purposes. The revision will allow options and warrants eligible for loan value pursuant to proposed Exchange Rules 462(c) and (d) to be valued at current market prices for margin purposes. The Exchange believes this change is necessary to ensure that the value of the option or warrant (the collateral) is sufficient to cover the debit carried in conjunction with the purchase.

i. *OTC Options.* The proposal makes some minor corrections to the table in Exchange Rule 462 that displays the margin requirements for short OTC options.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act.[11] in general, and furthers the objectives of Section 6(b)(5),[12] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, and does not permit unfair discrimination between customers, issuers, brokers, and dealers.

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

The Exchange believes that the proposed rule change will not impose any burden on competition.

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

The Exchange did not solicit or receive comments with respect to the proposed rule change.

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

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

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549–0609. Copies of the submissions, 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 persons, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR–Amex–99–27 and should be submitted by September 29, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc 99–23239 Filed 9–7–99; 8:45 am]

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[11] 15 U.S.C. 78f(b).

[12] 15 U.S.C. 78f(b)(5).

[13] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–41814; File No. SR–BSE–99–11]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Boston Stock Exchange, Inc., Implementing a Post Primary Session

August 31, 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 13, 1999, the Boston Stock Exchange, Inc. (''BSE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the 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 extend the close of trading on the BSE from 4:00 p.m.[3] to 4:15 p.m., creating a new Post Primary Session (''PPS'') . The text of the proposed rule is available at the BSE, and at the Commission.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] All references to time are Eastern Time.