

17. Accordingly, Applicants request an order of the Commission pursuant to Section 17(b) of the Act to permit the substitutions and related transactions described in this application. Applicants submit the proposed substitutions are consistent with the policies of each of the Applicant separate accounts and the Underlying Funds and with the general purposes of the Act.

18. Applicants assert that the Commission, in recent years, has issued several orders pursuant to Sections 17(b) and 26(b) of the Act under circumstances similar to those presented in their application, each of which provides substantial precedent for the relief requested by this application. Applicants submit that these orders involved transactions in which registered separate accounts that serve as funding vehicles for variable contract were permitted to substitute, by means of in-kind redemptions and subsequent purchases, shares of one mutual fund for shares and another affiliated mutual fund. Applicants state that certain of the transactions also were followed by a consolidation of the underlying sub-accounts. Applicants maintain that these orders were conditioned on certain representations by the respective applicants, which they believe appear to fall into five categories:

(i) The funds to be substituted have objectives, policies and restrictions sufficiently similar to the objective of the replaced funds so that the policy owners objectives can continue to be met;

(ii) Variable contract owners would be given sufficient notice of information about the substitutions and an opportunity to "opt out" of the substitution and transfer their policy values, without charge, to any other investment option available under the policy held;

(iii) Substitutions would take place at relative net asset value and without the imposition of any additional expense or charge, such that no change in the amount of any variable contract owners's investment or expenses would result;

(iv) Neither the rights of variable contract owners, nor the obligations of applicant insurance companies under the variable contract would be altered as a result of the substitutions; and

substitutions because: (i) affiliations among the Applicants do not rise solely by reason of having common investment advisers, director and/officers; and (ii) the contemplated redemptions and subsequent purchases of shares of IGIF may be effected in-kind and not for cash.

(v) All necessary regulatory requirements would be satisfied prior to the effective date of the substitutions, including compliance with applicable insurance law and the issuance of the Commission's order approving the substitution.

Applicants represent that the facts and circumstances underlying their application meet each of the conditions listed in (i) through (v) above and are sufficient to assure that the substitutions and any subsequent account combination will be carried out in a manner that is consistent with Sections 17(b) and 26(a) of the Act.

19. Applicants request that the Commission issue an order pursuant to Section 17(b) of the Act exempting them from the provisions of Section 17(a) of the Act to the extent necessary to permit the Applicant insurance companies to carry out the substitution transactions described herein. The Applicants represent that, for all the reasons stated above, the terms of the proposed substitutions as set forth herein, including any consideration to be paid and received, are reasonable and fair and do not involve overreaching on the part of any person concerned. Furthermore, the Applicants represent that the proposed substitutions will be consistent with the policies of the Applicant insurance companies and the Underlying Funds as stated in the current registration statement and reports filed under the Act by each and with the general purposes of the Act.

Conclusion

Applicants submit that for the reasons and upon the facts set forth above, the requested order of approval pursuant to Section 26(b) and the requested order granting exemptive relief pursuant to Section 17(b) should be granted.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 00-12132 Filed 5-12-00; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42769; File No. SR-OCC-00-01]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Relating to Exercise Settlement Values for Expiring Index Options

May 9, 2000.

On January 19, 2000, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange

Commission ("Commission") a proposed rule change (File No. SR-OCC-00-01) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") and on March 14, 2000, amended the proposed rule change.¹ Notice of the proposal was published in the **Federal Register** on March 31, 2000.² No comments letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change adds new subparagraph (3) to Article XVII, Section 4 of OCC's By-Laws³ to allow OCC to establish the exercise settlement value for expiring index options in conformity with the establishment of the final settlement value for related index futures and options on index futures when the primary market(s) for one or more component securities of the index is closed on the last trading day before expiration.⁴ OCC's current method for setting the exercise settlement amount for an underlying index when the primary market(s) for securities representing a substantial portion of the value of the index are closed on the last trading day before expiration is to use the reported level of the underlying index at the close of trading on the last preceding day for which a closing index level was reported.⁵

However, the valuation method that would be used by the Chicago Mercantile Exchange ("CME") is to set the settlement value for index futures whenever the primary market for a single component stock of the index is closed the last trading day before expiration. In such a situation, CME would determine the settlement value of the index by using the reported opening values for index stocks affected by the closing when the primary market(s) for such stocks reports.⁶ The use of

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 42575 (March 24, 2000), 65 FR 17328.

³ Section 4 sets forth OCC's procedures for establishing the exercise settlement value for an index option when the current value for the index is unavailable or inaccurate.

⁴ The rule change will only apply to series of index options introduced after the later of: (1) The date of the Commission's approval of this rule filing or (2) the date specified in a new Options Disclosure document or supplement thereto that discloses the substance of this rule change.

⁵ OCC By-laws, Article XVII, Section 4(a)(2).

⁶ For example, CME Rule 4003 states, "[I]f the New York Stock Exchange (NYSE) does not open on the day scheduled for the determination of the Final Settlement Price [of S&P 500 index futures], then the NYSE-stock component of the Final Settlement Price shall be based on the next opening prices of NYSE stocks."

different dates and hence potentially different index values for fixing the final settlement values for options and futures on the same index creates uncertainty and risk.⁷ Therefore, OCC is amending its By-Laws so that if the primary market(s) for one or more component securities of an index does not open for trading on the last trading day before expiration of a series of options on the index, an adjustment panel acting pursuant to Article XVII may fix the exercise settlement amount for such options by using the opening prices of the affected security or securities when the primary market reopens.

OCC also is amending Article XVII to make clear that (1) OCC has the discretion to determine which market is a security's primary market and (2) when OCC fixes a settlement price based on an index level at the close of trading, the price will be fixed based on the index level at the close of regular trading hours, as determined by OCC.

II. Discussion

In Section 17A, Congress stated its finding that the development of uniform standards and procedures for clearance and settlement will reduce unnecessary costs and increase the protection of investors and persons facilitating transactions by and acting on behalf of investors. Congress then directed the Commission to facilitate the establishment of coordinated facilities for the clearance and settlement of transactions in securities, securities options, futures, and options on futures.⁸ The Commission believes that the approval of OCC's rule change is in line with this finding and directive of Congress. The current practice of using different dates and hence potentially different index values for fixing the final settlement values for options and futures on the same index has the potential to create uncertainty and risks for many market participants. This risk should be minimized by OCC's new procedure which will allow OCC to conform its method of establishing the expiration settlement value for index options with that used for establishing the final settlement price for related index futures and options on index futures.

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-OCC-00-01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 00-12134 Filed 5-12-00; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42764; File No. SR-PHLX-00-06]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Giving Preference to Options Specialist Units Which Resign From Option Trading Privileges in the Best Interest of the Exchange in Future Allocation Decisions Regarding Such Options

May 8, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,¹ notice is hereby given that on February 1, 2000, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II 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. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

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

Phlx proposes new Rule 513, Voluntary Resignation of Options Privileges, which provides that when an option specialist unit voluntarily resigns from trading privileges in an option in the best interest of the Exchange, the option specialist unit which last traded that option will be given preference in

any future allocation decision regarding that option, barring any performance or disciplinary issues. The text of the proposed rule is as follows:

Voluntary Resignation of Options Privileges

Rule 513. (a) If an option specialist unit voluntarily resigns from registration in a particular option and the Committee determines such resignation to be in the best interest of the Exchange, and that option is subsequently delisted, barring any specialist performance or disciplinary issues, the option specialist unit which last traded that option will be given preference in any future allocation decision regarding that option.

(b) The preference set forth in Section (a) of this rule shall be in effect for a period of one year from the date of resignation from trading privileges by the specialist unit.

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

In its filing with the Commission, Phlx 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 III below. The Exchange has prepared summaries, set forth in Sections 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

Currently, the Exchange and the Options Price Reporting Authority ("OPRA") have serious concerns regarding mitigation of quote traffic and maximizing computer capacity. To address those concerns, proposed Rule 513 is intended to provide incentive for options specialists to create more computer capacity by resigning from relatively low volume/high quote traffic options. To provide that incentive, proposed Rule 513 states that the specialist unit which last traded that option will be given preference in any future allocation decision regarding that option.

Mitigation of excessive quote traffic and concomitant preservation of computer capacity is currently an industry-wide concern, and the Exchange believes that a preference provision such as the one contemplated

⁷ For example, many market participants use trading strategies whereby they trade index options and index futures based on the expectation that the settlement values will have a predictable relationship.

⁸ 15 U.S.C. 78q-1(a)(1)(D).

⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.