

in the securities of the above listed company.

Therefore, it is ordered, pursuant to Section 12(k) of the Securities Exchange Act of 1934, that trading in the above listed company is suspended for the period from 9:30 a.m. EST, January 14, 1999, through 11:59 p.m. EST, on January 28, 1999.

By the Commission.

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40932; File No. SR-NASD-98-92]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to a Change in Position Limits for Standardized Equity Options

January 11, 1999.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 11, 1998, the National Association of Securities Dealers, Inc. ("NASD"), through its wholly-owned subsidiary, NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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

NASD Regulation proposes to amend Rule 2860(b)(3)(A) of the National Association of Securities Dealers, Inc. ("NASD" or "Association"), to triple the position limits on standardized (exchange-traded) equity options and make them equivalent to the limits on conventional (over-the-counter) equity options overlying the same security.

Below is the text of the proposed [rule change. Proposed new language is in italics; proposed deletions are in brackets.

Rule 2860. Options

(3) Position Limits.

(A) Stock Options—Except in highly unusual circumstances, and with the prior written approval of the Association pursuant to the Rule 9600 Series for good cause shown in each instance, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, an opening transaction through Nasdaq, the over-the-counter market or on any exchange in a stock option contract of any class of stock options if the member has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate equity options position in excess of:

(i) [4,500] 13,500 option contracts of the put class and the call class on the same side of the market covering the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options; or

(ii) [7,500] 22,500 options contracts of the put class and the call class on the same side of the market covering the same underlying security, providing that the [7,500] 22,500 contract position limit shall only be available for option contracts on securities which underlie Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of [7,500] 22,500 option contracts; or

(iii) [10,500] 31,500 option contracts of the put class and the call class on the same side of the market covering the same underlying security providing that the [10,500] 31,500 contract position limit shall only be available for option contracts on securities which underlie Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of [10,500] 31,500 option contracts; or

(iv) [20,000] 60,000 options contracts of the put and the call class on the same side of the market covering the same underlying security, providing that the [20,000] 60,000 contract position limit shall only be available for option contracts on securities which underlie

Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of [20,000] 60,000 option contracts; or

(v) [25,000] 75,000 options contracts of the put and the call class on the same side of the market covering the same underlying security, providing that the [25,000] 75,000 contract position limit shall only be available for option contracts on securities which underlie Nasdaq or exchange-traded options qualifying under applicable rules for a position limit of [25,000] 75,000 option contracts; or

* * * * *

(ix) Conventional Equity Options.

a. For purposes of this paragraph (b), standardized equity options contracts of the put class and call class on the same side of the market overlying the same security shall not be aggregated with conventional equity options contracts or FLEX Equity Options contracts overlying the same security on the same side of the market. Conventional equity options contracts of the put class and call class on the same side of the market overlying the same security shall be subject to a position limit equal to the greater of:

1. [three times] the basic limit of [4,500] 13,500 contracts, or

2. [three times] any standardized equity options position limit as set forth in subparagraphs (b)(3)(A)(ii) through (v) for which the underlying security qualifies or would be able to qualify.

b. In order for a security not subject to standardized equity options trading to qualify for an options position limit of more than [4,500] 13,500 contracts, a member must first demonstrate to the Association's Market Regulation Department that the underlying security meets the standards for such higher options position limit and the initial listing standards for standardized options trading.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purposes 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 self-regulatory organization 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.

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

1. Purpose

NASD Regulation is proposing to amend the options position limits prescribed by Rule 2860(b)(3)(A) to triple the position limits on standardized (exchange-traded) equity options and make them equivalent to the limits on conventional (over-the-counter) equity options overlying the same security.

Position limits impose a ceiling on the number of options contracts of each options class on the same side of the market that can be held or written by a member, an investor, or a group of investors acting in concert for purposes of limiting the potential for manipulation that may be associated with options trading. NASD Rule 2860(b)(3)(A) provides that the position limits for equity options are determined according to a five-tiered system in which more actively traded stocks with larger public floats are subject to higher position limits. Currently, the five tiers for standardized equity options³ are 4,500, 7,500, 10,500, 20,000 and 25,000 contracts.⁴ The position limits for conventional equity options⁵ are three times the limits for standardized equity options: 13,500, 22,500, 31,500, 60,000 and 75,000 contracts.⁶ The NASD's limits on standardized equity options are applicable only to those members who are not also members of the exchange on which the option is traded; the limits on conventional equity options are applicable to all members.⁷

The American Stock Exchange, Inc. ("AMEX"), the Chicago Board Option Exchange, Inc. ("CBOE"), the Pacific Exchange, Inc. ("PCX") and the Philadelphia Stock Exchange, Inc. ("PHLX") (collectively "Options Exchanges") have filed proposed rule changes with the Commission to increase the limits for standardized equity options to establish parity with the limits currently in effect for

conventional equity options.⁸ In response to these filings, NASD Regulation is proposing two changes to its rules. First, the proposed rule change would triple the limits for standardized equity options to be consistent with the increase sought by the Options Exchanges. Without such an increase, the NASD's standardized equity options position limits would be lower than those established by the Options Exchanges and would lead to inconsistent treatment as to firms (and customers of such firms) that are NASD members but not members of an options exchange, the category of persons for whom our standardized position limits apply.

Second, the proposed rule change deletes the provisions of Rule 2860(b)(3)(A) that establish that the limits for conventional equity options are three times the standardized equity options overlying the same security. This proposed rule change will not affect the position limits for conventional equity options in numerical terms because of the commensurate increase in the position limits for standardized equity options. The proposed rule change, however, is necessary to eliminate the numerical relationship between standardized and conventional equity options. The NASD's rules currently provide that the position limit for conventional equity options shall be three times the limits for standardized equity options overlying the same security. This language was added as part of a rule change designed to increase the limits on conventional equity options to correspond to the numerical limits that were previously in effect with respect to FLEX Equity Options.⁹

NASD Regulation believes that the proposed rule change is necessary to ensure that the NASD's standardized equity options position limits are consistent with the limits of the Options Exchanges. Without an increase to the NASD's limits, the NASD's standardized equity options position limits would be lower than those established by the

Options Exchanges and would lead to inconsistent treatment as to firms (and customers of such firms) that are NASD members but not members of an Options Exchange, the category of persons for whom its standardized position limits apply. The postponed rule change also provides NASD members (and their customers) with greater flexibility regarding their use of standardized equity options. NASD Regulation believes that the increased limits are appropriate in light of the surveillance by the Options Exchanges and the NASD's reporting requirements pursuant to Rule 2860(b)(3)(A)(5), which it believes provides sufficient protection against potential manipulation of these position levels.

2. Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁰ which requires, among other things, that the Association's rules be designed to prevent fraudulent and manipulative acts and practices, and promote just and equitable principle of trade, and, in general, to protect investors and the public interest. Specifically, NASD Regulation believes that the proposed rule change to increase the position limits for standardized equity options, consistent with the increase sought by the Options Exchanges, will promote just and equitable principles of trade, as well as protect investors and the public interest by providing members and their customers with greater flexibility regarding their use of standardized equity options and ensuring that NASD members are not competitively disadvantaged vis-à-vis members of an Options Exchange.

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

The proposed rule change will impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments were solicited or received with respect to the proposed rule change.

III. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

The Commission finds that the proposed rule change is consistent with

³ Standardized equity options are exchange-traded options issued by the Options Clearing Corporation ("OCC") that have standard terms with respect to strike prices, expiration dates, and the amount of the underlying security.

⁴ NASD rules do not specifically govern how a specific equity option falls within one of the five position limit tiers. Rather, the NASD's position limit rule provides that the position limit established by an options exchange for a particular equity option is the applicable position limits for purposes of the NASD's rule.

⁵ A conventional option is any option contract not issued, or subject to issuance, by the OCC.

⁶ See Exchange Act Release No. 40087 (June 12, 1998), 63 FR 33746 (June 19, 1998).

⁷ NASD Rule 2860(b)(1)(A).

⁸ The Commission notes that it recently approved the proposed rule changes by the Options Exchanges. See Exchange Act Release No. 40875 (December 31, 1998) (approving File Nos. SR-CBOE-98-25, SR-Amex-98-22, SR-PCX-98-33, and SR-Phlx-98-36) ("Exchanges' Position Limit Approval Order").

⁹ FLEX Equity Options are exchange-traded options issued by the OCC that give investors the ability, within specified limits, to designate certain terms of the options (i.e., exercise price, exercise style, expiration date, and option type). The Commission has approved a two-year pilot program eliminating position limits for FLEX Equity Options on the AMEX, CBOE and the PCX. See Exchange Act Release No. 39032 (September 9, 1997), 62 FR 48638 (September 16, 1997).

¹⁰ 15 U.S.C. 78o-3.

the requirements of the Act and the rules and regulations thereunder applicable to a national securities association and, in particular, with the requirements of section 15A(b)(6).¹¹ Specifically, the Commission believes that the proposed rule change is designed to prevent just and equitable principles of trade, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.¹²

The Commission finds good cause to approve the proposed rule change prior to the 30th day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, the Commission notes that the proposed rule change would make the NASD's position limits for standardized equity options equivalent to the increases of the Options Exchanges that were recently approved by the Commission.¹³ Accelerating the NASD proposed rule change will ensure consistent treatment for persons trading in standardized equity options in that an NASD member from that is not a member of an Options Exchange and its customers will have the same position limits for standardized equity option as an NASD member firm that is also a member of an Options Exchange. The Commission believes that failing to approve the conforming rule change for position limits for standardized equity options would result in confusion, as well as inconsistent treatment as to firms that are NASD's member but not members of an Options Exchange, the category of persons for whom the NASD's standardized equity option position limits apply. Accordingly, the Commission believes it is consistent with section 15A of the Act to approve the proposed rule change on an accelerated basis.

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, 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 at the Commission's Public Reference Room. 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-NASD-98-92 and should be submitted by February 9, 1999.

V. Conclusion

It is therefore ordered, pursuant to section 19(b)(2) of the Act,¹⁴ that the proposed rule change (SR-NASD-98-92) is approved.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99-1044 Filed 1-15-99; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40893; File No. SR-PCX-98-64]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Mandatory Year 2000 Testing

January 7, 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 December 31, 1998, the Pacific Exchange, Inc. ("PCX" OR "Exchange") filed with the Securities and Exchange Commission ("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 and to approve the proposal on an accelerated basis.

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

The Exchange proposes that members and member organizations that have either direct electronic order flow or electronic clearing connections with the Exchange participate in testing of computer systems designed to prepare for year 2000.

The text of the proposed rule change is below. Proposed new language is italicized.

* * * * *

Year 2000 Testing Requirements

Rule 1.15.(a) Each member not associated with a member organization and each member organization that has either direct electronic order flow or electronic clearing connections with the Exchange must participate in testing of computer systems designed to provide reports related to such testing as requested by the Exchange.

(b) The Exchange may exempt a member or member organization from this requirement if that member or member organization cannot be accommodated in the testing schedule by the organization conducting the test or if the member of member organization does not have or use computer systems in the conduct of their business (other than those supplied by the Exchange), or for other good reasons.

(c) A member of member organization that is subject to this rule and fails to participate or provide requested reports may be subject to disciplinary action pursuant to PCX Rule 10.

(d) Every member or member organization that clears securities transactions on behalf of other broker-dealers must take reasonable measures to ensure that each broker-dealer for which it clears securities transactions conducts testing with such member.

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 and 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.

¹¹ 15 U.S.C. 78o-3(b)(6).

¹² In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation, consistent with section 3 of the Act. 15 U.S.C. 78c(f).

¹³ See Exchanges' Position Limit Approval Order, *supra* note 8. The Commission incorporates by reference into this discussion its findings and rationale set forth in the Exchanges' Position Limit Approval Order *See id.*

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.