services and to streamline the structure and composition of their board of directors in order to remain consistent with the changes recently made by the Chicago Stock Exchange, Incorporated ("CHX").

The proposed rule changes will reduce the number of directors from 27 to 24 and will realign the classes for both MCC and MSTC. The directors will still be divided into three classes, but the size and composition will be adjusted as follows. At the 1998 annual election, class I will be reduced by two directors. At the 1999 annual election, class II will be reduced by four directors. At the 2000 annual election, class III will be reduced by one director. The board of directors will also be increased by three additional nonindustry directors by the 1999 annual election to serve for staggered terms so as to balance the classes as determined by the nominating committee. The result of the reduction will be increased by three additional nonindustry directors by the 1999 annual election, class II will be increased by one director. The board of directors will also be increased by three additional nonindustry directors by the 1999 annual election, class III will be reduced by one director. At the 2000 annual election, class I will be reduced by two directors. At the 1999 annual election, class II will be reduced by four directors. At the 2000 annual election, class III will be reduced by one director. The board of directors will also be increased by three additional nonindustry directors by the 1999 annual election, class II will be increased by one director. The board of directors will also be increased by three additional nonindustry directors by the 1999 annual election, class III will be reduced by one director.

MCC and MSTC believe that the proposed rule changes are consistent with Section 17A of the Act because the changes to the structure and composition of their board of directors should promote an enhanced governance structure and thereby will help protect investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

MCC and MSTC do not believe that the proposed rule changes will have an impact on or impose a burden on competition.


4 Securities Exchange Act Release 39603 (January 30, 1998), 63 FR 5982 (order approving a proposed rule change relating to the structure and composition of CHX's board of governors).

5 In an amendment to the proposed rule changes, MCC and MSTC reference the definition of nonindustry as defined by the CHX's constitution.

6 Class I will consist of seven directors, class II will consist of seven directors, and class III will consist of eight directors.


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

No written comments relating to the proposed rule changes have been solicited or received.

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

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which MCC and MSTC consent, the Commission will:

(A) By order approve such proposed rule changes or

(B) Institute proceedings to determine whether the rule changes 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 changes are 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. Copies of the submission, all subsequent amendments, all written statements with respect to the rule changes that are filed with the Commission, and all written communications relating to the rule changes between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, D.C. Copies of such filings will also be available for inspection and copying at the principal office of MCC and MSTC. All submissions should refer to the File Nos. SR-MCC-98-01 and SR-MSTC-98-01 and should be submitted by May 13, 1998.

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

Margaret H. McFarland,
Deputy Secretary.

[BILLING CODE 8010-01-M]

SEcurities and exchange commision

[Release No. 34-39865; File No. SR-NASD-98-02]

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 an Extension of the Option Position Limit Hedge Exemption Pilot Program

April 14, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), and Rule 19b-4 thereunder, notice is hereby given that on January 21, 1998, 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. NASD Regulation filed an amendment to the proposed rule change on March 23, 1998. 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, as amended.

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

NASD Regulation is proposing to amend Rule 2860(b)(3)(A)(vii) of the National Association of Securities Dealers, Inc. ("NASD" or "Association"), to extend, until December 31, 1998, the Association's pilot program for exemptions from equity option position limits for certain hedged positions ("hedge exemption pilot program"). Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

Rule 2860. Options

*(b)(3)(A)(vii) Equity Option Hedge Exemption

a. The following positions, where each option contract is "hedged" by 100

3 See Letter from Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, to Katherine A. England, Assistant Director, Commission, dated March 17, 1998 ("Amendment No. 1"). Amendment No. 1 shortens the requested extension by providing for an extension of the pilot until December 31, 1998, instead of December 31, 1999.
shares of stock or securities readily convertible into or economically
equivalent to such stock, or, in the case of an adjusted option contract, the same
number of shares represented by the
adjusted contract, shall be exempted from established limits contained in (i)
through (vi) above:
1. long call and short stock;
2. short call and long stock;
3. long put and long stock;
4. short put and short stock.
b. Except as provided under the OTC
Collar Exemption contained in
paragraph (b)(3)(A)(viii), in no event
may the maximum allowable position, inclusive of options contracts hedged
pursuant to the equity option position
limit hedge exemption in subparagraph
a. above, exceed three times the
applicable position limit established in
paragraph (b)(3)(A)(i)-(v).
c. The Equity Option Hedge
Exemption is a pilot program authorized
by the Commission through December
31, 1998[7].

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
self-regulatory organization 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
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.

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

1. Purpose

On February 9, 1990, the Commission
approved the NASD's proposal to
implement a pilot program pursuant to
which certain fully hedged equity
option positions would be automatically
exempt from established position[4] and
exercise[5] limits. On March 18, 1994, the
Commission extended the NASD's
hedge exemption pilot program through
December 31, 1995.[6] On December 29,
1995, the Commission again extended the
NASD's hedge exemption pilot program
through December 31, 1997.[7] The
discussion herein would extend the hedge exemption pilot program for an
additional one year, or through December
The NASD's hedge exemption
provides for an automatic exemption
from equity option position limits for
accounts that have established one of the
four most commonly used hedged
positions[8] where and where each option
can be held contract is either (i) hedged by 100
shares of stock, (ii) hedged by securities
that are readily convertible into, or
economically equivalent to, such stock,[9]
or (iii) in the case of an adjusted options
contract, hedged by the number of
shares represented by the adjusted
contract.
Under the NASD's hedge exemption,
the largest options position (combining
hedged and unhedged positions) that
may be established may not exceed
three times the basic position limits, i.e.,
13,500, 22,500, 31,500, 60,000, or
75,000 contracts, depending on the
basic position limit of the underlying
security. The exercise limit for options
positions established pursuant to the
hedge exemption are commensurate
with the position limits that may be
established pursuant to the hedge
exemption. Thus, for example, if the
position limit for an option is 25,000
contracts and an investor has
established a position of 75,000
contracts pursuant to the hedge

1. Purpose

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The proposed rule change would extend
the effective date of the pilot program is
necessary to enable market participants
to continue to avail themselves of the
hedge exemption and to create parity
and consistency with the other self-
regulatory organizations which have in
effect an equity hedge exemption.[10] The
proposed rule change extends the
effective date until December 31, 1998.

2. Statutory Basis

NASD Regulation believes the
proposed rule change is consistent with
Section 15A(b)(6) of the Act.[11] Section
15A(b)(6) requires that the rules of a
national securities association be
designed to prevent fraudulent and
manipulative acts and practices, to
promote just and equitable principles of
trade, to foster cooperation and
coordination with persons engaged in
regulating, clearing, settling, processing
information with respect to, and
facilitating transactions in, securities,
to remove impediments to and perfect the
mechanism of a free and open market
and a national system and, in general, to
protect investors and the public
interest. Specifically, the NASD believes
that extending the effectiveness of the
hedge exemption pilot program may
increase the depth and liquidity of the
options markets by permitting investors
to hedge greater amounts of stock than
would otherwise be permitted under
NASD rules. Extending the effectiveness
also will promote consistency among
the rules of the NASD and the other
options self-regulatory organizations.
The NASD notes that the higher
position limits currently available by
virtue of the hedge exemption have not
resulted in the disruptions of the
underlying stock market. However, the
NASD will continue to monitor the
market effects, if any, from the hedge
exemption to ensure that members are
complying with all applicable
requirements.

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

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

Chicago Board Options Exchange Rule 4.11;
Philadelphia Stock Exchange Rule 1003; Pacific
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 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). Specifically, the Commission believes that the proposed extension of the NASD's equity option position limit hedge exemption pilot program will accommodate the needs of investors and market participants while at the same time furthering investor protection and the public interest.12

The Commission finds good cause to approve the proposed rule change, as amended prior to the 30th day after the date of publication of notice of filing thereof in the Federal Register. Specifically, by accelerating the approval of the NASD's rule proposal, the operation of the hedge exemption pilot program, which has been in place since 1990, will continue on an uninterrupted basis until December 31, 1998. The Commission previously extend the effectiveness of the equity option hedge exemption pilot program on an accelerated basis on two prior occasions.13 The Commission believes that Amendment No. 1 improves the proposed rule change by shortening the extension of the pilot program only until December 31, 1998, instead of December 31, 1999. An extension until December 31, 1998, instead of December 31, 1999 will give NASD Regulation sufficient time to consider the operation of the equity option hedge exemption program without allowing the program to drag on for another two years on a pilot basis.14 The Commission believes that good cause exists to accelerate approval of the proposed rule change, as amended, because expressly continuing the hedge exemption pilot program by rule will reduce the potential for confusion about the status of such exemption, which expired on December 31, 1997, and will promote consistency among the options markets all of which are a similar exemption. Accordingly, the Commission believes that it is consistent with Section 15A(b)(6) of the Act to approve the proposed rule change on an accelerated basis.

IV. Solicitation of Comments

Interested person 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. 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-98-02 and should be submitted by May 13, 1998.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,15 that the proposed rule change (SR-NASD-98-02) is approved on a pilot basis until December 31, 1998. For the Commission, by the Division of Market Regulation, pursuant to delegated authority.16

Margaret H. McFarland, Deputy Secretary.

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12 In approving this rule, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).
14 The Commission notes that NASD Regulation initially requested that the equity option hedge exemption pilot program be extended until December 31, 1999. At the Commission's request, the proposed rule change was amended to shorten the requested extension only until December 31, 1998. Given that the equity option hedge exemption program has been running on a pilot basis for eight years, the Commission recommends that NASD Regulation either take steps to adopt the program on a permanent basis in the near future or eliminate it.