

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 in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to file number SR-NASD-95-04 and should be submitted by March 21, 1995.

#### IV. Commission's Findings and Order Granting Accelerated Approval of 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 the NASD and, in particular, with the requirements of Sections 15(b)(7), 15A(b)(6), and 15A(g)(3) of the Act.<sup>5</sup> Section 15(b)(7) states that a registered broker or dealer may not effect any transaction in, or induce the purchase or sale of, any security unless such broker or dealer meets such standards of operational capability and all those associated with such broker or dealer meet certain standards of training, experience, competence, and such other qualifications as the Commission finds necessary or appropriate in the public interest or for the protection of investors. Section 15A(b)(6) requires, in relevant part, that the rules of a registered securities association be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and to protect investors and the public interest. Section 15A(g)(3) provides that a registered securities association may deny membership to, or condition the membership of, a registered broker or dealer if such broker or dealer does not meet the requisite levels of knowledge and competence.

The Commission believes that revising the Series 7 exam, specifications, and content outline should help to ensure that only those securities representatives with a comprehensive knowledge of current NASD rules, as well as an understanding of the Act, will be able to solicit, purchase or sell securities for the

accounts of customers. The Commission believes that the revised topics covered by the Series 7 examination, specifications and content outline are appropriate and include a sufficiently broad range of subject matter to ensure an appropriate level of expertise by general securities registered representatives. The revised examination focuses on relevant subject matter in view of changes in applicable laws, rules, regulations, products, and industry practices. By ensuring this requisite level of knowledge, the Commission anticipates that general securities registered representatives will demonstrate an acceptable level of securities knowledge to carry out their responsibilities.

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice of filing thereof in the **Federal Register**. The Commission believes that accelerated approval is appropriate given the recent approval of two parallel and substantively identical filings by the NYSE,<sup>6</sup> and the importance of industry-wide implementation of the revised content outline and Series 7 examination as soon as practicable.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>7</sup> that the proposed rule change SR-NASD-95-04 be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35400; SR-PHLX-95-01]

#### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Listing and Trading of DIVS, ZIPS and SPECS

February 21, 1995.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on January 5, 1995, the Philadelphia Stock Exchange Inc. ("PHLX"), 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 self-regulatory organization. The

<sup>6</sup> See note 4, *supra*.

<sup>7</sup> 15 U.S.C. Section 78s(b)(2).

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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 PHLX, pursuant to Rule 19b-4 of the Act, hereby proposes to list for trading "DIVS" (Dividend Value of Stock), "ZIPS" (Zero Income Principal of Stock) and "SPECS" (Speculative Equity Component Stock) (collectively hereinafter referred to as the "Products"), which are new hybrid options developed by Americus Stock Process Corp. ("ASPC").

#### 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 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.

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

The PHLX proposes to list a new product developed by and licensed to the PHLX by ASPC that allows the purchase or sale of any of three economic interests inherent in a share of common stock. Each of these new instruments, called DIVS, ZIPS and SPECS, will be traded separately on the PHLX's equity options floor. The Exchange believes that the Products, combined, will have all the characteristics of a share of the underlying common stock, including voting rights, and that the ability to trade the Products as separate component instruments will provide new hedge, arbitrage, speculation and investment opportunities.

The Products will be regulated, except as described herein, by the rules governing standardized options. Position limits of 1 million DIVS, ZIPS and SPECS respectively shall be established respecting any particular stock. See Rule 1001C. The sales practice rules applicable to options (Rules 1024 through 1029) will also be applicable to sales of DIVS, ZIPS and SPECS. (See Rule 1000C(a)). The

<sup>5</sup> 15 U.S.C. Sections 78o(b)(7), 78o-3(b)(6), 78o-3(g)(3).

Options Clearing Corp. ("OCC") will be the exclusive issuer of the Products which the Exchange proposes to issue in accordance with the disclosure scheme provided for under Rule 9b-1 of the Act ("Rule 9b-1"). The Products will be issued in separate series with each series having its own distinct CUSIP number and trading symbol. The Products will be issued in book-entry form. DIVS, ZIPS and SPECS will be created when opening buy and sell orders are executed, and the additional execution of such orders will increase the open interest. Quotations and transaction reporting will occur through the facilities of the Options Price Reporting Authority.

The criteria for underlying common stocks upon which the Products will be based are the same criteria as utilized for standardized equity options listed on the PHLX under PHLX Rule 1009. Additionally, only the top 250 capitalized stocks traded on a national securities exchange or the NASDAQ national market will be considered for listing (See Rule 1009C). DIVS, ZIPS and SPECS of a particular series will all be issued for the same length of time, currently proposed to be up to 60 months, and therefore all components of the same series will possess the same termination date ("Termination Date"), as defined in PHLX Rule 1000C(b)(5). The Products will have a European-style<sup>1</sup> settlement similar to standardized options.

ZIPS and SPECS of the same series also will have a coordinate termination claim ("Termination Claim"), as defined in PHLX Rule 1000C(b)(4). The Termination Claim is a preset price established at the time of the issuance of a new series of SPECS and ZIPS and is used to determine these instruments' payout on their Termination Date. In accordance with the PHLX Rule 1004C, Termination Claims will be set at the underlying stock price reflecting the most recent business day's consolidated closing value rounded up to the nearest \$2.50 increment for stocks priced at or below \$25.00 or to the nearest \$5.00 increment for stocks priced above \$25.00. The PHLX may list new series of DIVS, ZIPS and SPECS annually, or at more frequent intervals, depending on market conditions. No new series will be opened nor opening transactions be permitted if open interest in DIVS, ZIPS and SPECS represent more than 10 percent of the outstanding shares of any related underlying stock. See Rule 1012C.

<sup>1</sup> A European-style option may only be exercised during a limited period of time before the option expires.

The PHLX anticipates that the sum of the market prices of DIVS, ZIPS and SPECS on the same underlying security with the same Termination Date and Termination Claim will approximate the actual market price for the related underlying security. Because DIVS, ZIPS and SPECS are each economic interests in a single underlying share, if the combined price of a DIVS, ZIPS and SPECS diverges from that of the underlying security, the Exchange believes that arbitrage opportunities would tend to remove the pricing disparity.

As discussed below, the Products confer voting rights to their purchasers. The voting rights are allocated among the three components, as discussed below. In this regard, sellers of the Products are obligated to deliver the voting rights to the purchasers.

For customer margin purposes, DIVS, ZIPS and SPECS are contemplated to be margined as equity securities pursuant to Regulation T for initial margin and PHLX Rule 722 for maintenance margin.<sup>2</sup>

#### *Characteristics of Individual Components DIVS*

The basic characteristic of DIVS will be the right to receive substitute payments in the same amount (and at the same time) as regular dividends declared and paid on the underlying shares of common stock for all record dates that precede the Termination Date of the particular series of DIVS.

On each ex-dividend date, OCC will notify clearing members of debits they have incurred on OCC's books for any net short DIVS positions. These debits will be charged to such clearing members' accounts at OCC on payment date. Ex dates and payment dates will coincide with that of the underlying common stock. Hence, DIVS sellers assume the obligation to fund the substitute dividend payments with respect to DIVS as they arise. On the Termination Date for a particular series of DIVS, DIVS holders' rights will cease except as to rights to unpaid dividends declared as of a record date occurring prior to the Termination Date.

#### *ZIPS*

Each ZIPS will confer the right to receive on the Termination Date that number of underlying common shares to which the ZIPS relate having an aggregate value (determined solely by reference to the market price) equal to the lesser of (i) the Termination Claim

<sup>2</sup> The PHLX and counsel for ASPC are currently seeking agreement and confirmation of this treatment from the staff of the Board of Governors of the Federal Reserve System.

for that class of ZIPS or (ii) the market price of the common shares on the Termination Date.<sup>3</sup>

For example, if the Termination Claim for a class of ZIPS is \$50, and on the Termination Date of the ZIPS the market price of the related underlying common stock is \$80, a holder of 100 ZIPS would be entitled to receive that number of common shares with an aggregate market value of  $100 \times \$50 = \$5,000$ .  $\$5,000 / \$80$  equals 62.5 shares, so that an owner would be entitled to 62 whole shares and a payment of cash in lieu of the fractional share of \$40.<sup>4</sup> Brokers holding short component positions for clients would make delivery of the shares and cash for any fractional shares. Brokers holding long component positions for their clients would receive the shares and cash for any fractional shares, which they will forward to their clients.

#### *SPECS*

SPECS will reflect the appreciation in value above the Termination Claim for that series of SPECS. Specifically, SPECS will constitute the right to receive on the Termination Date that number of related common shares having a market value equal to the amount, if any, by which the market price of the related common shares exceeds the Termination Claim.

From the example given in the discussion above of ZIPS, an owner of 100 SPECS with respect to the same series of ZIPS would be entitled to receive the following number of common shares:  $100 \times (\$80 - \$50) = \$3,000$ .  $\$3,000 / \$80$  equals 37.5 common shares, so the owner of the 100 SPECS would be entitled to 37 whole shares and a cash payment in lieu of the fractional share of \$40.<sup>5</sup>

On the Termination Date for a class of ZIPS or SPECS, OCC will instruct delivery, based on information provided by the brokers. Shares of the underlying stock will be delivered from the accounts of investors short the ZIPS or SPECS to satisfy the entitlements of those investors long the ZIPS and SPECS.

<sup>3</sup> All references to market price are to the last sale price on the relevant day as set forth on the appropriate consolidated tape, or if there is no such last sale price, the mean of the closing bid and ask price or as otherwise approved by the Commission prior to the commencement of trading in a series.

<sup>4</sup> If the market price of a share of the related common stock on the Termination Date had been \$50 or less, the owner of the 100 ZIPS would have received 100 shares of the underlying common stock. Exercise procedures in accordance with OCC guidelines would be followed on Termination Date.

<sup>5</sup> If the market price of a common share had been less than \$50 (the Termination Claim), the SPECS would expire worthless.

### Voting Rights

The vote to which the underlying common share is entitled will be allocated among the three components of the same series with the same Termination Date and Termination Claim in proportion to their relative market prices as of the record date for the meeting, consent or authorization.

For example, if there are outstanding DIVS, ZIPS and SPECS with the following market values, each would have the indicated vote percentage:

Security	Market price	Percentage vote
DIVS term 12/31/99 ..	\$20.25	18.75
ZIPS term 12/31/99 ..	78.75	72.92
SPECS term 12/31/99 ..	9.00	8.33
Combined Value .....	108.00	100.00

If a DIVS, ZIPS or SPECS is sold uncovered, the underlying stock must be bought or borrowed by record date in order to enable the original naked seller to deliver the appropriate percentage of the vote to the DIVS, ZIPS or SPECS purchaser.

Holder will receive proxy materials and be able to tender proxies for their respective shares of the vote to any broker or bank carrying their account, and that such broker or bank representing the sellers or shorts will surrender its proxy for the appropriate number of votes representing the components that were sold. Proxy materials will be provided through the mechanisms that banks, brokerage firms and clearing agencies have developed to comply with the requirements of Rules 14a-13, 14b-1 and 14b-2 under the Act. Costs for delivering the proxy materials will probably be borne by DIVS, ZIPS & SPECS holders.

### SPECS

#### Adjustments for Stock Splits or Stock Dividends

With respect to stock splits or stock dividends declared on the related underlying shares, DIVS, ZIPS, and SPECS will be adjusted proportionally, and, in the case of ZIPS and SPECS, the Termination Claim will also be adjusted proportionally on the record date for such event. For example, if a company has a two for one stock split, an owner of 100 DIVS would become the owner of 200 DIVS with the same Termination Date; an owner of 100 ZIPS would become the owner of 200 ZIPS with the same Termination Date and one-half the Termination Claim; and an owner of 100 SPECS would become the owner of 200 SPECS with the same Termination Date

and one-half the Termination Claim on such record date.

If the related underlying company declares a stock dividend, the Products will be adjusted proportionally. For example, in the case of a declared 5% stock dividend, DIVS and ZIPS and SPECS with a Termination Claim of \$50 would be adjusted as follows: an owner of 100 DIVS would become the owner of 105 DIVS; an owner of 100 ZIPS would become the owner of 105 ZIPS with a Termination Claim of \$47.62; and an owner of 100 SPECS would become the owner of 105 SPECS with a Termination Claim of \$47.62.

#### Liquidating, Special or Partial Liquidating Dividends

With regard to full liquidating dividends to shareholders, payments would be allocated among owners of DIVS, ZIPS and SPECS of the same class as follows:

- DIVS would receive the discounted present value at the date of distribution of the liquidating dividend of an imputed dividend stream. It would be assumed that the most recent four quarterly dividends (unless the issuer of the related common stock has announced a change in its dividend policy, in which case assumed dividends complying with the policy would be used) of the issuer would continue through the latest record date preceding the Termination Date. That cash stream would be discounted to present value assuming payment on the usual dividend payment dates, using as the discount rate the interest rate on U.S. Treasury Notes having the closest maturity to the Termination Date.
- The remaining amount would be allocated between ZIPS and SPECS of the same series, based upon an adjusted Termination Claim. The Termination Claim would be adjusted by discounting the Termination Claim to its present value at the date of distribution of the liquidating dividend. The discount rate used would be the interest rate on U.S. Treasury Notes having the closest maturity to the Termination Date. ZIPS will receive the amount of the distribution up to the adjusted Termination Claim (less the amount allocated to DIVS), with any excess going to the SPECS.

Any adjustments made to the terms of the contract, as a result of any of these "triggering" events, would be handled for these instruments in the same manner as standardized options and would be in accordance with any applicable OCC rules.

Transmission of money to beneficial owners would be accomplished through OCC and its participants in the same manner in which the substitute dividends would be transmitted from short DIVS to long DIVS.

For purposes of allocating distributions among DIVS, ZIPS and

SPECS, special dividends are those dividends which are declared as such by the issuer of the common shares, if that issuer does not also declare that it is changing its dividend policy by reducing or increasing the amount of its regular dividends. Special dividends would be allocated among DIVS, ZIPS and SPECS as follows:

- DIVS would be allocated and receive that portion of the special dividend equal to the quotient of (a) the annual dividend divided by (b) the last sale price<sup>6</sup> of the stock on the day prior to the ex-distribution date reduced by the amount of the special dividend which quotient is multiplied by (c) the amount of the special dividend.
- If the remaining portion of the special dividend were less than the present value of the Termination Claim, the Termination Claim for ZIPS and SPECS would be reduced, but not below zero, by the future value at the Termination Date of the remaining portion of the special dividend. All determinations of present value and future value are computed using the maximum potential internal rate of return ("IRR") for ZIPS. The maximum potential IRR for ZIPS is computed assuming purchase on the ex-distribution date at a price equal to the average closing price for the 10-day trading period preceding the announcement of the special dividend and receipt of the Termination Claim on the Termination Date (such discount rate being hereinafter the "maximum potential IRR for ZIPS").
- The remaining portion would be allocated and paid to the ZIPS.
- If the remaining portion of the special dividend equals or exceeds the present value of the Termination Claim, ZIPS would receive that portion of the special dividend equal in amount to such present value; the Termination Claim would be adjusted to zero and any additional amount of the special dividend would be allocated and paid to the SPECS. Any further liquidating, special or partial liquidating dividends would be allocated between DIVS and SPECS; the ZIPS having received in full an adjusted Termination Claim.

For purposes of allocating distributions made by the issuer of the related common shares among DIVS, ZIPS and SPECS, partial liquidating dividends are all dividends other than regular dividends, liquidating dividends and special dividends. It is assumed that partial liquidating dividends would be accompanied by an announcement of a reduction in the regular dividends paid by the issuer.

Partial liquidating dividends would be split among the three components as follows:

- DIVS would be allocated and receive that portion of the partial liquidating dividend equal to the discounted present value of

<sup>6</sup>If there is no last sale price, the mean of the closing bid and ask prices will be used.

the amount of the reduction in the quarterly dividend as stated in the newly announced policy of the issuer. This computation would be made assuming payment on the usual dividend payment dates, using as the discount rate the interest rate on U.S. Treasury Notes having the closest maturity to the Termination Date.

—If the remaining portion of the partial liquidating dividend were less than the present value of the Termination Claim, the Termination Claim for ZIPS and SPECS would be reduced, but not below zero, by the future value at the Termination Date of the remaining portion of the partial liquidating dividend. The determination of present value and future value for ZIPS will be computed using the maximum potential IRR for ZIPS. In this case, the maximum potential IRR for ZIPS is computed assuming purchase on the ex-distribution date at a price equal to the average closing price for the 10-day trading period preceding the announcement of the partial liquidating dividend and receipt of the Termination Claim on the Termination Date.

—That remaining portion would be allocated and paid to the ZIPS.

—If the remaining portion of the partial liquidating dividend equals or exceeds the present value of the Termination Claim, ZIPS would receive that portion of the liquidating dividend equal in amount to such present value; the Termination Claim would be adjusted to zero and any additional amount of the partial liquidating dividend would be allocated and paid to the SPECS. Any further liquidating or partial liquidating dividends would be allocated between DIVS and SPECS; the ZIPS having received in full an adjusted Termination Claim.

#### *Spin-offs and Split-ups*

In the case of spin-off or split-up transactions, each DIVS, ZIPS and SPECS holder would become the owner of two issues of DIVS, ZIPS and SPECS—one for each company and each having the same number of such securities with the same Termination Date. The Termination Claim would be allocated between the two issues of ZIPS and the two issues of SPECS based upon the ratio of the prices of the two issues (*i.e.*, the underlying common shares and the spun-off company) at the opening of trading on the effective date of the spin-off or split-up transactions.

#### *Mergers*

If the company that issued the common shares from which the DIVS, ZIPS and SPECS were created were to be the surviving company, there would be no adjustment to the terms of the DIVS, ZIPS and SPECS unless, as part of such transaction, there was a stock split, stock dividend, partial liquidating dividend or other corporate transaction that would require adjustment. If the

issuer were not the surviving entity, each owner of DIVS, ZIPS and SPECS would vote his interest in accordance with his voting rights, and, if the merger was approved, he would receive his share of the compensation given for each common share as if a liquidating dividend was paid or an exchange offer was made, as appropriate.

#### *Rights Offerings*

If the issuer of stock from which DIVS, ZIPS and SPECS were created were to make a rights offering, the rights would be allocated to the ZIPS and the Termination Claim would be reduced by the future value of the rights calculated to the Termination Date. The future value would be computed using as the interest rate, the maximum potential IRR for ZIPS and using the average closing sale price for the first 10 days of trading in the rights.

#### *Exchange or Tender Offers*

If there were an exchange or tender offer for the common shares to which DIVS, ZIPS and SPECS related, OCC's existing option procedures and practices would apply.

These particularized procedures for adjusting the contract specifications of any open interest in any particular DIVS, ZIPS and SPECS series will be well documented in the eventual disclosure document to be published by the issuer, OCC.

The PHLX believes the proposed rule change is consistent with Section 6(b)(5) of the Act which provides in part that the rules of the Exchange be designed to prevent fraudulent and manipulative acts and practices, to facilitate transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and to protect investors and the public interest.

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

The PHLX does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

No written comments were either received or requested.

### **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 in the **Federal Register** or within such longer period (i) as the Commission may designate up to

90 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 the PHLX consents, the Commission will:

(A) By order approve such 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. 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 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 above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by March 21, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Rel. No. IC-20910; 811-4376]

### **State Street Fund for Foundations and Endowments; Notice of Application**

February 22, 1995.

**AGENCY:** Securities and Exchange Commission ("SEC").

**ACTION:** Notice of Application for Deregistration under the Investment Company Act of 1940 (the "Act").

**APPLICANT:** State Street Fund for Foundations and Endowments.

**RELEVANT ACT SECTION:** Order requested under section 8(f).

<sup>7</sup> 17 CFR 200.30-3(a)(12) (1994).