1992. On November 2, 1992, the registration statement was declared effective and applicant commenced its initial public offering.

2. On January 6, 1995, applicant's board of trustees authorized applicant's liquidation based on then current market conditions. Putnam Investment Management, Inc., applicant's investment adviser (the ''Adviser'') owned a substantial majority of applicant's outstanding shares.

3. On or about February 6, 1995, applicant liquidated all of its 309,549.746 shares to its shareholders of record at net asset value for a total cash distribution of $2,587,834.96. After the final liquidation, $488 remained which applicant used to reimburse its Adviser for management fees and reimbursements. No expenses were incurred in connection with the liquidation and unamortized organization expenses were paid by the Adviser. Applicant disposed of its portfolio securities in the normal course of business incurring brokerage commissions in the amount of $1,902.90.

4. There are no securityholders to whom distributions in complete liquidation of their interests have not been made. Applicant has retained no assets. Applicant has no debts or other liabilities that remain outstanding. Applicant is not a party to any litigation or administrative proceeding.

5. Applicant is not now engaged, nor does it propose to engage, in any business activities other than those necessary for the winding up of its affairs.

6. On August 15, 1995, applicant filed the necessary documentation with Massachusetts authorities to terminate its existence as a Massachusetts business trust.

For the SEC, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34–37726; File No. SR–Amex–96–29; SR–CBOE–96–56; and SR–PSE–96–31]

Self-Regulatory Organizations; Proposed Rule Changes: American Stock Exchange, Inc., et al.

September 25, 1996

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 by the American Stock Exchange, Inc., Relating to Restrictions on the Available Exercise Prices for FLEX Equity Call Options and Elimination of the Requirement that Members Sign the Trade Sheet to Create a Binding FLEX Contract and Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Changes, as Amended, by Chicago Board Options Exchange, Incorporated and Pacific Stock Exchange, Inc. Relating to Restrictions on the Available Exercise Prices for FLEX Equity Call Options

I. Introduction

On July 29, August 20, and August 26, 1996, the American Stock Exchange, Inc. (''Amex''), the Chicago Board Options Exchange, Inc. (''CBOE''), and the Pacific Stock Exchange, Inc. (''PSE'') (collectively the ''Exchanges'') respectively filed proposed rule changes with the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] to restrict the available exercise prices for FLEX equity call options. The Amex further proposes to eliminate the requirement that members sign the Trade Sheet when creating a binding FLEX contract.

Notice of the Amex's proposal was published for comment and appeared in the Federal Register on August 9, 1996.[3] No comment letters were received on the Amex's proposed rule change. The CBOE submitted to the Commission Amendment No. 1 on August 30, 1996.[4] The Amex submitted to the Commission Amendment No. 1 on August 29, 1996.[5] The Commission is approving the Amex's and CBOE's proposal, as amended, and the PSE's proposal. The Commission is also publishing this notice to solicit comments on the CBOE's proposed rule change, as amended, PSE's proposed rule change, and Amex's Amendment No. 1 to its proposed rule change from interested persons, and granting accelerated approval to the foregoing.

II. Description of the Proposal

On February 14, 1996[6] and June 19, 1996,[7] the Exchanges received approval to list and trade flexible options on individual stocks known as FLEX equity options. Similar to the FLEX index options, investors will be able to set the specific terms of each FLEX equity option contract. Among the terms that can be specified are: (1) The expiration date of the option; (2) the exercise price of the option; and (3) the exercise style of the option (American or European). The Exchanges, however, impose some limitations on these flexible terms. For example, the Exchange does not permit the expiration date of a FLEX option to be any business day that falls on or within two business days of the expiration date for standardized non-FLEX equity options.

Although the Exchanges have received approval to trade these products, they have not done so due to a concern that the flexible exercise price feature could result in an available call option that would not be eligible to be a qualified covered call (''QCC'') under Section 1092(c)(4) of the Internal Revenue Code, thus jeopardizing a modest tax benefit currently enjoyed by writers of standardized non-FLEX equity call options. Under the straddle rules of Section 1092 of the Internal Revenue Code, a loss on one position in a straddle is taken into account for tax purposes only to the extent that the amount of the loss exceeds unrecognized gain on the other position(s) in the straddle. In addition, if a taxpayer has held stock for less than the long-term holding period at the time the taxpayer acquires an offsetting position with respect to the stock, the taxpayer's holding period in the stock is forfeited until disposing of the position offsetting the stock.

Although stock and an offsetting option (*e.g.,* a short call) constitute a straddle for purposes of Section 1092, a straddle consisting solely of stock and a QCC has been exempted from these rules provided, among other things, that the call option is not ''deep-in-the-money.'' Under certain conditions a ''deep-in-the-money'' call option is defined to mean an option having an exercise price lower than the highest

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

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 37522 (August 9, 1996), 61 FR 41669.

[4] In Amendment No. 1, the CBOE clarifies in Interpretation .01 to CBOE Rule 24A.4(c)(2) that the available exercise price intervals for FLEX equity call options are limited to the same exercise price intervals that are available for Non-FLEX equity call options pursuant to Rule 5.5 and Interpretations and Policies thereunder. *See* Letter from Michael Meyer, Attorney, Schiff Hardin & Waite, to John Ayanian, Attorney, Office of Market Supervision (''OMS''), Division of Market Regulation (''Market Regulation''), Commission, dated August 28, 1996 (''CBOE Amendment No. 1'').

[5] In Amendment No. 1, the Amex proposed a technical clarification to its proposed rule change. Specifically, the Exchange makes clear that the available exercise prices available for FLEX equity call options, are those available pursuant to Amex Rule 903 for Non-FLEX equity call options. *See* Letter from Claire McGrath, Managing Director and Special Counsel, Derivative Securities, Amex, to Ivette Lopez, Assistant Director, OMS, Market Regulation, Commission, dated August 28, 1996 (''Amex Amendment No. 1'').

[6] *See* Securities Exchange Act Release No. 36841 (February 14, 1996), 61 FR 6666 (February 21, 1996) (order approving SR–CBOE–95–43 and SR–PSE–95–24).

[7] *See* Securities Exchange Act Release No. 37336 (June 19, 1996), 61 FR 33558 (June 27, 1996) (order approving SR–Amex–95–57).

available exercise price which is less than the previous day's closing price of the stock. For example, using standardized options, if stock XYZ closed yesterday at $54 and opened at that price today, the standardized exercise price of $50 for a call option would *not* be ''deep-in-the-money'' because $50 would be the highest available exercise price that is less than the applicable stock price. A standardized exercise price of $45, however, would be ''deep-in-the-money'' and would *not* be a QCC. Thus, if a FLEX equity call option were written with an exercise price of $53, the standardized exercise price of $50 might be considered ''deep-in-the-money'' because the FLEX equity call option with an exercise price of $53 could be considered the highest available exercise price and the only qualified covered call for that option. Another interpretation might consider any call option struck at or below $53¾ ''deep-in-the-money'' because FLEX Equity Call Option strikes of $53⅞ and $53¾ could be created.

While the Exchanges hope to petition the Treasury Department for relief from these latter interpretations of the straddle rules, in the interim, the Exchanges propose to go forward with the FLEX equity option program by prohibiting the writing of FLEX equity call options with exercise prices other than those exercise prices allowed for standardized non-FLEX equity call options.[8]

Although this proposal will place limitations on a product designed to be flexible and free of such standardized terms, the Exchanges believe that the proposed limitations appropriately balance the needs of investors with concerns that flexible exercise prices for FLEX equity call options could disrupt the existing framework for determining whether a standardized option is a qualified covered call. FLEX equity put options would have no restrictions placed on exercise prices because the exemption from the straddle rules is available only for call options. In addition, the Exchanges anticipate that they will seek to eliminate the proposed restriction on the exercise prices of FLEX equity call options when it receives guidance and relief from the Treasury Department.

The Amex further proposes to eliminate the requirement that acceptance of the best bid or offer will take place only when each party to the FLEX transaction signs a trade sheet, thus creating a binding contract. Since the Amex began trading FLEX Index Options in 1993, the fully manual process for executing transactions has been automated. Currently, trade information is input into the Amex's Intra-Day Comparison (IDC) System for FLEX Index Options after completion of a trade in a manner similar to that for non-FLEX options. IDC input results in the immediate comparison of FLEX option trades. The Exchange believes that requiring signed trade sheets is unnecessary and time consuming.

III. Commission Finding and Conclusions

The Commission finds that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.[9] Specifically, the Commission finds that the Exchanges' proposals strike a reasonable balance between the Commission's mandates under section 6(b)(5) to remove impediments to and perfect the mechanism of a free and open market and a national market system, while protecting investors and the public interest.

The Commission believes that the Exchanges' proposals to restrict exercise prices as described above, reasonably balances the desire of sophisticated portfolio managers and other institutional investors to trade flexible equity options products, with the need to eliminate the potential that the trading of such options could inadvertently impact a tax benefit currently provided to writers of standardized call options that qualify as QCCs.[10] In approving the Exchanges' proposals, the Commission recognizes that the Exchanges will restrict the flexibility of investors in determining an essential term of FLEX equity call options contracts (*i.e.*, the exercise price). Nevertheless, investors will still be able to designate contract terms for exercise style (*i.e.*, American, European, or capped) and expiration date.[11] Based on this and the current tax framework for QCCs, the Commission believes the limitations imposed by the proposals are appropriate and should still provide investors with a more flexible product than one with standardized option terms while protecting investors in the standardized equity call options market.[12]

The Commission also believes that in light of Amex's development of the IDC system for FLEX options, as described above, it is reasonable for the Amex to eliminate the current requirement that each party to a FLEX transaction sign a trade sheet to create a binding FLEX contract.

The Commission finds good cause for approving the CBOE's proposed rule change, as amended, and PSE's proposed rule changes prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. Specifically, the Commission believes that the CBOE's and PSE's proposals conform its rules concerning available exercise prices for FLEX equity call options to the proposed rule change of the Amex and raises no new regulatory issues. Additionally, the Amex proposal was subject to a full notice and comment period, and no comments were received. Accordingly, the Commission believes, consistent with section 6(b)(5) of the Act, that good cause exists, to approve the CBOE's proposed rule change, as amended, and PSE's proposed rule change, on an accelerated basis.

The Commission finds good cause for approving Amendment No. 1 to Amex's proposed rule changes prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. Specifically, the Amex proposes to amend the proposed rule by clarifying that exercise price intervals available to Non-FLEX equity call options pursuant to Amex Rule 903, will be available for FLEX equity call options. The Commission believes that the Amex's amendment clarifies the scope of the proposed rule change and raises no new regulatory issues. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the

[8] The Exchanges' proposals provide that exercise prices for FLEX equity call options may be fixed only at prices that are integer multiples of the applicable minimum interval, in order to assure that exercise prices for FLEX equity call options coincide with exercise prices for non-FLEX equity call options fixed by the Exchanges pursuant to their rules. For example, where 2½ point minimum intervals apply, exercise prices may be fixed only at numbers evenly divisible by 2½, such as 17½, 20, 22½, and 25. *See* Amex Amendment No. 1, *supra* note 5.

[9] 15 U.S.C. 78f(b)(5).

[10] The Commission notes that the Exchanges must file a proposed rule change with the Commission, pursuant to section 19(b) of the Act, to withdraw or modify this exercise price policy regarding FLEX equity call options.

[11] Of course, investors will also be able to designate exercise price for FLEX equity put options.

[12] The Commission notes that The Options Clearing Corporation must submit to the Commission a supplement to its Options Disclosure Document (''ODD'') that will inform investors of the limitation of exercise price intervals when writing FLEX equity call options. Accordingly, the Exchanges will only be allowed to trade FLEX equity call options pursuant to this proposal when the proposed supplement to the ODD becomes effective pursuant to Rule 9b-1 under the Act.

Act, that good cause exists, to approve Amendment No. 1 to Amex's proposed rule change on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the CBOE's and PSE's proposed rule changes and CBOE Amendment No. 1 and Amex Amendment No. 1. 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 in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal offices of the Exchanges. All submissions should refer to File Nos. SR–Amex–96–29, SR–CBOE–96–56, or SR– PSE–96–31 and should be submitted by October 23, 1996.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,[13] that the Amex's proposed rule change (File No. SR–Amex–96–29), as amended, is approved, and the CBOE's and PSE's proposed rule changes (File Nos. SR–CBOE–96–56 (as amended) and SR–PSE–96–31) are approved on an accelerated basis.[14]

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

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[13] 15 U.S.C. 78s(b)(2).

[14] *See supra* note 12.

[15] 17 CFR 200.30–3(a)(12).

[Release No. 34–37728; File No. SR–AMEX–96–10]

Self-Regulatory Organizations; American Stock Exchange, Inc.; Order Granting Approval To Proposed Rule Change Relating to the Implementation of a Wireless Data Communications Infrastructure

September 26, 1996.

I. Introduction

On March 27, 1996, the American Stock Exchange, Inc. (''Amex'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission'' or ''SEC''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend Exchange Rules 60 and 220 and to adopt a policy regarding the use of wireless data communications devices at the Exchange (''Wireless Communications Policy'').[3]

The proposed rule change was published for comment in Securities Exchange Act Release No. 37161 (May 2, 1996), 61 FR 20871 (May 8, 1996). Two comment letters, from the same commenter, were received on the proposal.[4] The Amex submitted one letter supporting its proposal and responding to Comment Letter No. 1.[5] For the reasons discussed below, the Commission has decided to approve the Amex proposal.

II. Description of the Proposal

The Exchange has undertaken the development of an infrastructure (''Infrastructure'') to accommodate the use of hand-held wireless data communications devices on the Trading Floor. In connection with the implementation of the Infrastructure, the Exchange seeks to amend Rule 220 to explicitly provide that the Exchange may regulate communications between points on the Floor. The Exchange also seeks to adopt a Wireless Communications Policy regarding the use of wireless data communications devices at the Exchange. The Wireless Communications Policy will address the following issues:

1. The ability of the Exchange to administer wireless data communications on a real time basis (*e.g.*, the implementation of a protocol for prioritizing and/or managing message traffic during periods of extraordinary use);
2. Surveillance of wireless data communications;
3. Member, member firm and Exchange preservation of records of orders and trades;
4. Security with respect to confidential wireless transmissions and access to the Infrastructure;
5. Review and approval of member and member firm applications to use wireless data communications devices;
6. The fair allocation of a finite resource (*i.e.*, radio frequency bandwidth);
7. Exchange fees and allocation of expenses associated with the implementation, operation of, and enhancements to, the Infrastructure;
8. Sanctions for violations of the Exchange's Wireless Communications Policy;
9. Inspection and oversight of wireless data communications technology; and
10. The design and implementation of the Infrastructure.

In addition, the Exchange proposes to adopt new Commentary .03 to Rule 60 which will provide that, in connection with member or member organization use of any electronic system, service, or facility provided by the Exchange to members for the conduct of their business on the Exchange: (i) The Exchange may expressly provide in the contract with any vendor providing all or part of such electronic system, service, or facility to the Exchange, that such vendor and its subcontractors shall not be liable to members or member organizations for any damages sustained by a member or member organization growing out of the use or enjoyment of such electronic system, service, or facility by the member or member organization; and (ii) members and member organizations shall indemnify the Exchange and any vendor and subcontractor covered by subsection (i) above with regard to any third party claims relating to the member or member organization's use of such electronic system, service, or facility.

III. Summary of Comments

The Commission received two comment letters regarding the Wireless Communications Policy.[6] The commenter discussed the following aspects of the Wireless Communications Policy: (1) The requirement that all wireless communications that leave, enter or travel between points on the Floor must first pass through a Gateway Subsystem, (2) the fair allocation of

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

[2] 17 CFR 240.19b–4.

[3] The Exchange also submitted a letter discussing the impact of the Infrastructure on the Exchange's surveillance program. See Letter from Bill Floyd-Jones, Jr., Assistant General Counsel, Amex, to Jon E. Kroeper, SEC, dated April 4, 1996.

[4] See Letter from Bradford L. Jacobowitz, General Counsel, Interactive Brokers LLC, to Jonathan G. Katz, Secretary, SEC, dated May 29, 1996 (''Comment Letter No. 1''), and Letter from Bradford L. Jacobowitz, General Counsel, Interactive Brokers LLC, to Elisa Metzger, SEC, dated August 12, 1996 (''Comment Letter No. 2'').

[5] See Letter from Bill Floyd-Jones, Jr., Assistant General Counsel, Amex, to Elisa Metzger, SEC, dated July 11, 1996 (''Amex Letter'').

[6] See supra note 4.