

for the Sale Date of the Qualified Rollover Securities. The Trustee will then countersign the certificate, unless, in the unlikely event that the Trustee disagrees with the closing sales price listed on the certificate, the Trustee immediately informs the Sponsor orally of the disagreement and returns the certificate within five days to the Sponsor with corrections duly noted. Upon the Sponsor's receipt of a corrected certificate, if the Sponsor can verify the corrected price by reference to an independently published list of closing sales prices for the date of the transactions, the Sponsor will ensure that the price of units of the New Series, and distributions to holders of the Rollover Series with regard to redemption of their units or termination of the Rollover Series, accurately reflect the corrected price. To the extent that the Sponsor disagrees with the Trustee's corrected price, the Sponsor and the Trustee will jointly determine the correct sales price by reference to a mutually agreeable, independently published list of closing sales prices for the date of the transaction.

Applicants' Conditions

Applicants agree that the order granting the requested relief will be subject to the following conditions:

1. Each sale of Qualified Rollover Securities by a Rollover Series to a New Series will be effected at the closing price of the Qualified Rollover Securities sold on a Qualified Exchange on the Sale Date, without any brokerage charges or other remuneration except customary transfer fees, if any.

2. The nature and conditions of the transaction will be fully disclosed to investors in the appropriate prospectus of each Rollover Series and New Series.

3. The Trustee of each Rollover Series and New Series will (a) review the procedures relating to the sale of Qualified Rollover Securities from a Rollover Series and the purchase of those Qualified Rollover Securities for deposit in a New Series, and (b) make such changes to the procedures as the Trustee deems necessary that are reasonably designed to comply with paragraphs (a) through (d) of rule 17a-7.

4. A written copy of these procedures and a written record of each transaction pursuant to this order will be maintained as provided in rule 17a-7(f).

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

Jonathan G. Katz,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41256; International Series Release No. 1190; File No. SR-PHLX-98-51]

Self-Regulatory Organizations, Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Customized Cross-Rates Foreign Currency Option Margin Levels

April 6, 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 November 16, 1998, 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, II, and III below, which Items have been prepared by the PHLX. The PHLX amended the proposal on March 15, 1993.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to amend PHLX Rule 722, Margin Accounts, to codify its method of calculating customer margin requirements for customized cross-rate foreign currency options ("CCRs").⁴ The required margin for CCRs is determined by combining the actual cost of the CCR, or the "premium," plus an extra or "add-on" amount that is raised or lowered according to the volatility of the currencies involved.⁵ The proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from Nandita Yagnik, Counsel, PHLX, to Hong-anh Tran, Attorney, Division of Market Regulation ("Division"), Commission, dated March 15, 1999 ("Amendment No. 1").

⁴ CCRs are traded pursuant to PHLX Rule 1069. A CCR is an option to purchase or sell an underlying currency that can be any approved currency as defined pursuant to PHLX Rule 1009(c). Moreover, the option's exercise price is denominated in another approved currency (the trading currency), and neither the underlying nor the trading currency is denominated in U.S. dollars.

⁵ The margin may also be reduced in "out-of-the-money" situations, where the value of the option

method for calculating the margin for all CCRs will be outlined in PHLX Rule 722, Tiers I and II, and Commentary .15, with the exception of the margin for CCRs involving the Mexican peso,⁶ which will be calculated in accordance with Commentary .16 and will be placed in Tier III. Tier IV, which currently addresses Mexican peso CCR margin levels, will be deleted. The text of the proposed rule change follows. Proposed new language is *italicized*; proposed deletions are in [brackets].

* * * * *

Margin Accounts

Rule 722.(a)-(c) No change.

(d) 1-2 No change.

3. Short Positions—Listed Options and Currency, Currency Index or Stock Index Warrants. Subject to the exceptions set forth below, the margin on any put or call option listed or traded on a registered national securities exchange or association and issued by a registered clearing corporation or any currency warrant, currency index warrant or stock index warrant which is issued, guaranteed or carried "short" in a customer's account shall be 100% of the current market value of the option or warrant plus the percentage of the current market value of the underlying security, foreign currency or index specified in column II below.

Notwithstanding the margin required below, the minimum margin on any put or call or any warrant issued, guaranteed or carried "short" in a customer's account may be reduced by any "out-of-the-money-amount" (as defined below), but shall not be less than 100% of the current market value of the option or warrant plus the percentage of current market value of the underlying security, foreign currency or index specified in column II below with the exception that the minimum margin required on each such put option contract shall not be less than the current option market value plus the minimum percentage set forth in column III of the option's aggregate exercise price amount.

does not accord with current market conditions. Notwithstanding, the margin cannot be reduced to less than 100% of the current market value of the premium plus .75% of the underlying component value.

⁶ The Exchange currently has Commission approval to trade, as CCRs, the Mexican peso only against the Canadian dollar. Thus, CCR options involving the Mexican peso include Canadian dollar/Mexican peso and Mexican peso/Canadian dollar contracts. See PHLX Rule 1069(a)(1)(B).

I. Type of option	II. Initial and/or maintenance margin re- quired	III. Minimum margin required	IV. Underlying component value
(1)		No change	
(2)		No change	
(3)		No change	
(4) Foreign Currencies	(#)	¾%	The product of Units per foreign currency contract and the closing spot price.
(5) Cross-Rate	4%	¾%	The products Units per cross-rate contract and the closing spot price.
(6) Tier I Customized Cross-rate currency options.	4%	¾%	The product of Units per cross-rate contract and the closing spot price.
(7) Tier II Customized Cross-rate currency options.	6%	¾%	The product of Units per cross-rate contract and the closing spot price.
(8) Tier III Customized Cross-rate currency options.	[7%]##	¾%	The product of Units per cross-rate contract and the closing spot price.
[(9) Tier IV Customized Cross-rate currency options.	17%	¾%	The product of Units per cross-rate contract and the closing spot price.
[(10)] ⁹⁷		No change.	
[(11)] ¹⁰		No change.	
[(12)] ¹¹		No change.	
[(13)] ¹²		No change.	

The margin requirement for foreign currency options will be determined pursuant to Commentary .16 of this Rule 722.

The margin requirement for Tier III customized cross-rate foreign currency options will be determined pursuant to Commentary .15 and .16 of this Rule 722.

Rule 722(d)4-5 No change.
Rule 722(e)-(i) No change.

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Commentary

.01-.14 No change.

.15 For purposes of this rule, the Exchange shall designate the tier level of the customized cross-rate currency options. The Exchange shall make such determination for Tier I and Tier II options based upon the correlation between the currency pairs. Currency pairs which exhibit a correlation less than .25 over the preceding two year period shall be placed in Tier II while all other currency pairs shall be placed in Tier I. The correlations between the currency pairs in these two tiers shall be reviewed no less frequently than on a monthly basis. Tier III will include customized cross-rate currency options which involve [either the Italian lira or Spanish peseta. Tier IV will include customized cross-rate currency options which involve] the Mexican peso[.] and the margin requirement will be determined according to the methodology pursuant to Commentary .16 below.

.16 The margin requirement for any foreign currency put or call option listed or traded on the Exchange and issued by a registered clearing corporation which is issued, guaranteed or carried "short" in a customer's account, except for

⁷ Pursuant to a telephone conversation between Nandita Yagnik, Counsel, PHLX, and Hong-anh Tran, Attorney, Division, Commission, dated April 6, 1999, the PHLX proposes to renumber items (10) through (13) as items (9) through (12).

cross-rate currency options *other than customized cross-rate currency options based on the Mexican peso*, shall be the amount provided in paragraph (d)(3) of this Rule 722 and shall be calculated as follows:

(a) The Exchange will review five day price movements over the most recent three year period for each foreign currency underlying options traded on the Exchange and will set a margin level which would have covered the price changes over the review period at least 97.5% of the time ("confidence level").

(b) Subsequent reviews of five day price changes over the most recent three year period will be performed quarterly on the 15th of January, April, July and October of each year.

(c) If the results of subsequent reviews show that the confidence level for any currency has fallen below 97%, the Exchange will increase the margin requirement for that currency up to a 98% confidence level. If the results show a confidence level between 97% and 97.5%, the currency will be monitored monthly until the confidence level exceeds 97.5% for two consecutive months. If the results of a monthly review show that the confidence level has fallen below 97%, the margin requirement will be increased to a 98% confidence level. If the results of any review show that the confidence level has exceeded 98.5%, the margin level would be reduced to a level which would provide a 98% confidence level.

(d) The Exchange will also review each currency for large price movements outside the margin level ("extreme

outlier test"). If the results of any review show a price movement, either positive or negative, of greater than two times the current margin level, the margin requirement for that currency will be increased to a confidence level of 99%.

(e) Pursuant to paragraph (i)(8) of this Rule 722, the Exchange may also conduct reviews of currency margin levels at any time that market conditions warrant.

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

In its filing with the Commission, the PHLX included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposal. The text of these statements may be examined at the places specified in Item IV below. The PHLX 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 offers an array of foreign currency option products ("FCOs"), including among others, standardized and customized (the category into which CCRs fall) currency options which have differing

margin requirements. The Exchange currently lists standardized foreign currency options⁸ that include standardized options on eight foreign currencies ("Standardized FCOs").⁹ The Exchange also lists two cross-rate ("Standardized CRs")¹⁰ currency options. The Exchange also presently lists customized foreign currency options ("Customized FCOs")¹¹ that include customized strikes ("Customized Strikes"),¹² customized inverse FCOs ("Customized Inverses"),¹³ and CCRs.

⁸ Standardized options carry specific contract terms for features such as contract size, strike price intervals, expiration dates, price quoting and premium settlement.

⁹ The eight foreign currencies previously approved for listing were the Australian dollar, British pound, Canadian dollar, German mark, European Currency Unit, French franc, Japanese yen and Swiss franc. See PHLX Rule 1009(c). The base currency (which is the currency in which premiums are quoted and paid) for these Standardized FCOs is the U.S. dollar. See Securities Exchange Act Release Nos. 19133 (October 14, 1982), 47 FR 46946 (October 21, 1982) (File No. SR-Phlx-81-4) (regarding the listing and trading of standardized options based on the British pound, German mark, Swiss franc, Canadian dollar and Japanese yen); 20822 (April 4, 1984), 49 FR 14611 (April 12, 1984) (File No. SR-Phlx-84-1) (regarding the listing and trading of Standardized FCOs based on the French franc); 22853 (February 3, 1986), 51 FR 5129 (February 11, 1986) (File No. SR-Phlx-85-10) (regarding the listing and trading of Standardized FCOs based on the European Currency Unit); and 23945 (December 30, 1986), 52 FR 633 (January 7, 1987) (File No. SR-Phlx-86-38) (regarding the listing and trading of Standardized FCOs based on the Australian dollar).

¹⁰ The Exchange presently offers two Standardized CRs, the Deutsche mark/Japanese yen and the British pound/Deutsche mark. The Exchange also has approval to trade a third standardized CR, the British pound/Japanese yen, however, it has not yet been made available for trading. See Securities Exchange Act Release No. 29919 (November 7, 1991), 56 FR 58109 (November 15, 1991) (File Nos. SR-Phlx-90-12; SR-Phlx-91-03; SR-Phlx-91-23).

¹¹ Customized options allow users to customize all aspects of a currency option including: choice of exercise price, the expiration dates of up to two years, and premium quotation as either units of currency or percent of underlying value. Presently, the Exchange lists customized, not standardized, currency options involving the Italian lira, the Spanish peseta, and the Mexican peso. See PHLX Rules 1009(c) and 1069.

¹² The Exchange offers Customized Strikes on any approved currency presently listed under PHLX Rule 1009(c). Customized Strikes provide FCO traders and their customers with the ability, within certain limits, to trade an FCO with any exercise price it chooses on a specific approved currency even if that price does not correspond to an exercise price of a listed standardized FCO. See Securities Exchange Act Release No. 34925 (November 1, 1994), 59 FR 55720 (November 8, 1994) (File No. SR-Phlx-94-18).

¹³ A Customized Inverse is a Customized FCO where the underlying currency (the currency in which an FCO settles) is the U.S. dollar. The Exchange presently provides for the trading of Customized Inverses on any of the approved currencies. See Securities Exchange Act Release No. 34925 (November 1, 1994), 59 FR 55720 (November 8, 1994) (File No. SR-Phlx-94-18).

The add-on margin calculation methodology for Standardized FCOs is based on a methodology, outlined in Commentary .16 to PHLX Rule 722.¹⁴ Standardized CRs presently carry an initial and maintenance add-on margin of 4%, which covers greater than 96% of all seven-day price movements over the preceding one-year period.¹⁵ Customized Inverses and Customized Strikes that trade in U.S. dollars are currently margined following the same methodology as the Exchange's Standardized FCOs (see Commentary .16 to PHLX Rule 722).

The add-on margin requirements for CCRs,¹⁶ however, developed differently from that of Standardized FCOs, or Standardized CRs. The Exchange developed a method for determining add-on margin levels for currency pairs using a tiered system, believing that it would prove burdensome to determine the margin level for each currency pair due to the numerous combinations of approved currencies.¹⁶ Under the tiered system, margin levels are determined based upon the correlations between all the possible combinations of approved currencies, thus significantly reducing the burden on the Exchange to calculate the margin levels for each individual currency pair.

Changes to the Margin for CCRs Involving Italian Lira and Spanish Peseta

There are four tiers in the system (I-IV), each of which provides an overall margin for short CCR positions, which include an add-on percentage amount for both initial and maintenance margins (e.g., 4% for Tier I) as well as a set minimum add-on margin requirement, which is currently ¾% for each tier. Currently, Tier III applies to CCRs involving the Italian lira and the Spanish peseta, such that any CCRs involving those currencies would have an add-on margin requirement of 7%.¹⁸

¹⁴ See Securities Exchange Act Release No. 40208 (July 5, 1998), 63 FR 39388 (July 22, 1998) (File No. SR-Phlx-97-63).

¹⁵ See Securities Exchange Act Release No. 29919 (November 7, 1991), 56 FR 58109 (November 15, 1991) (File No. SR-Phlx-90-12); SR-Phlx-91-03; SR-Phlx-91-23).

¹⁶ The add-on margin treatment for Customized Strikes based on CCRs (i.e., a CCR with a customized strike price) follows the same tiered system as CCRs.

¹⁷ See Securities Exchange Act Release No. 34925 (November 1, 1994), 59 FR 55720 (November 8, 1994) (File No. SR-Phlx-94-18).

¹⁸ The Exchange indicates that when the Commission approved CCRs on the Italian lira and the Spanish peseta, the margin level of 7% was determined by the frequency of distributions method reflecting at least 97.5% of all seven day price movements over the preceding three-year period. Specifically, the 7% margin covered 98.84%

The Exchange now proposes to set add-on margins for CCRs involving the Italian lira and the Spanish peseta following the same correlation method used for CCRs other than the Mexican peso.¹⁹ For a pair of approved currencies, this method examines the correlation between the daily price change for one of those currencies with the daily price change for the other currency for the preceding two-year period. If the correlation is greater than or equal to .25, then the add-on margin level is 4% for that currency pair (i.e., Tier I). If the correlation is below .25, then the add-on margin level for the currency pair is 6% (i.e. Tier II). Commentary .15 to PHLX Rule 722 (as well as the chart within that Rule) will be amended to reflect these changes to the status of CCRs involving the Italian lira and the Spanish peseta.

The PHLX Examinations Department will review the correlation between the currency of pairs monthly. The currency pairs underlying the customized cross-rate options may move between Tiers I and II depending upon their correlation to each other in the preceding period. If the monthly review reveals that any combination of approved currencies should be in a different tier based on the correlation, the Exchange will implement the change immediately, and promptly notify the membership and Commission.

The Exchange also proposes including an additional adjustment for "out-of-the-money amounts" in those CCRs involving the Italian lira or the Spanish peseta. This adjustment is currently applied to the overall initial and maintenance margin for all the currency pairs currently in Tiers I and II, but not to those involving the Italian lira or the Spanish peseta.²⁰

Changes to Add-On Margin for CCRs Involving the Mexican Peso

Tier IV presently applies to CCRs involving the Mexican peso.²¹ Tier IV

and 99.10% of all seven day price changes over the three-year review period involving the Italian lira and the Spanish peseta, respectively.

¹⁹ The PHLX represents that the Italian lira and Spanish peseta have become more established currencies in the currency market, and therefore should be margined in accordance with margins for other approved currencies in a customized cross-rate context. Specifically, the risks involved in trading CCRs involving the lira or peseta have now been reduced so that the 7% customer margin add-on percentage for either case, based on at least 97.5% confidence level, is no longer necessary.

²⁰ See Securities Exchange Act Release 34925 (November 1, 1994), 59 FR 55720 (November 8, 1994) (File No. SR-Phlx-94-18); and See Securities Exchange Act Release No. 40208 (July 5, 1998), 63 FR 39338 (July 22, 1998) (File No. SR-Phlx-97-63).

²¹ The Mexican peso may only be traded as CCRs against the Canadian dollar. See PHLX Rule

requires an initial and/or maintenance add-on margin of 17%, and covers 99% of all five-day price movements over the preceding three-year period. Currently, under Tier III, there is a 7% initial and/or maintenance add-on margin. Under the proposal, the 7% add-on will be eliminated and the margin requirement for Tier III CCRs will be determined pursuant to Commentary .15 and .16 of PHLX Rule 722, as amended.²² The Exchange now proposes to delete Tier IV and to amend Tier III to apply to margin levels for CCRs involving the Mexican peso. Under the proposed method for calculating the add-on margin for CCRs involving the Mexican peso, the Exchange will still review five-day price movements over the most recent three-year period but the calculation as proposed would cover at least 97.5% of all such five-day price movements rather than the current 99%. This determination is the same as that currently applied to Standardized FCOs covered by Commentary .16 to PHLX Rule 722. The PHLX Examinations Department will review margin levels for CCRs involving the Mexican peso quarterly, at the same time such review is conducted for Standardized FCOs. The Exchange indicates that applying the add-on margin methodology outlined in Commentary .16 to Mexican peso CCRs will eliminate the need to state the actual add-on margin levels for Canadian dollar/Mexican peso and Mexican peso/Canadian dollar CCR contracts. Instead, the Exchange proposed to provide notice of the add-on margin levels for Mexican peso CCRs quarterly via circulars to the membership, the other market participants, and the Commission. The notice will follow the schedule outlined for quarterly reviews conducted for Standardized FCOs.

2. Statutory Basis

The proposed rule change is consistent with Section 6 of the Act,²³ and specifically Section 6(b)(5) thereof,²⁴ in that it is designed (a) to promote just and equitable principles of

1069(a)(1)(B); See Securities Exchange Act Release No. 34925 (November 1, 1994), 59 FR 55720 (November 8, 1994) (File No. SR-Phlx-94-18).

²¹ The Exchange is proposing to amend Commentary .15 to remove the Italian lira and Spanish peseta CCRs from Tier III, to remove a reference to Tier IV, and to move CCRs involving Mexican pesos to Tier III, to note that margin for Mexican peso CCRs is to be calculated pursuant to Commentary .16. The Exchange is proposing to amend Commentary .16 to clarify that CCRs involving the Mexican peso are to be calculated under the formula set out in that commentary.

²² 15 U.S.C. 78f(b).

²³ 15 U.S.C. 78f(b)(5).

trade; (b) to foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information with respect in CCRs; and (c) to facilitate transactions in securities by establishing a methodology for the calculation of margin levels for CCRs that will remain consistent and ease the burden of determining new margin levels for each currency traded in the customized environment.

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 solicited or received.

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 Exchange 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, 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 20549-0609. 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 with 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 office of the Exchange.

All submissions should refer to File No. SR-Phlx-98-51 and should be submitted by May 6, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.²⁵

Margaret H. McFarland,
Deputy Secretary.

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DEPARTMENT OF TRANSPORTATION

Coast Guard

[USCG-1999-4974]

Port Access Routes Study; Strait of Juan de Fuca and Adjacent Waters

AGENCY: Coast Guard, DOT.

ACTION: Notice of meeting; extension of comment period.

SUMMARY: The Coast Guard is announcing a public meeting to collect data and information for the ongoing study of port-access routes for the Strait of Juan de Fuca and adjacent waters. The meeting will focus on the issues raised and questions listed in the **Federal Register** notice announcing the study. The Coast Guard is also extending the comment period to May 31, 1999 to allow additional time for public comment.

DATES: The meeting will be held on May 12, 1999 from 1 p.m. to 4 p.m. Comments and related material must reach the Docket Management Facility on or before May 31, 1999.

ADDRESSES: The meeting will be held in the auditorium of Building 9, NOAA Western Regional Center, 7600 Sand Point Way NE, Seattle, WA 98115.

You may submit your written comments and related material by only one of the following methods:

(1) By mail to the Docket Management Facility, (USCG-1999-4974), U.S. Department of Transportation, room PL-401, 400 Seventh Street SW., Washington, DC 20590-001.

(2) By hand to room PL-401 on the Plaza level of the Nassif Building, 400 Seventh Street SW., Washington, DC, between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. The telephone number is 202-366-9329.

(3) By fax to the Docket Management Facility at 202-493-2251.

²⁵ 17 CFR 200.30-3(a)(12).