services[3] 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'').[4]

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 and class II will be increased by one director. The board of directors will also be increased by three additional nonindustry[5] directors by the 1999 annual election to serve for staggered terms so as to balance the classes as determined by the nominating committee.[6] The result of the reduction of board members and the realignment of the classes will be fifty percent representation of nonindustry directors on MCC's and MSTC's board of directors.

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.[7]

(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.

[3] Securities Exchange Act Release No. 36684 (January 5, 1995), 61 FR 1195 [File Nos. SR–MCC–95–04, SR–MSTC–95–10] (order approving proposed rule changes relating to the withdrawal of the Chicago Stock Exchange, Incorporated [''CHX''] from the clearance and settlement and securities depository businesses, conducted principally through its subsidiaries, MCC and MSTC).

[4] Securities Exchange Act Release No. 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). Historically, the MCC's and MSTC's board of directors have been the same as the 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. *Id.*

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

[7] 15 U.S.C. 78q–1.

(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.[8]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–10605 Filed 4–21–98; 8:45 am]

BILLING CODE 8010–01–M

[8] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[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''),[1] and Rule 19b–4 thereunder,[2] 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.[3] 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)(c) 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

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

[2] 17 CFR 200.19b–4.

[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, 199*8*[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 proposed rule change herein would extend the hedge exemption pilot program for an additional one year, or through December 31, 1998.

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] and where each option 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 exemption, the investor may exercise all 75,000 contracts during five consecutive business days.

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

[4] Position limits impose a ceiling on the number of options contracts in each class on the same side of the market, *i.e.*, aggregating long calls and short puts and long puts and short calls, that can be held or written by an investor or group of investors acting in concert. Rule 2860(b)(3)(A) currently provides that equity option position limits are 4,500, 7,500, 10,500, 20,000, and 25,000 contracts, depending on the trading volume and number of outstanding shares of the underlying stock.

[5] Exercise limits restrict the number of options contracts that an investor or group of investors acting in concert can exercise within five consecutive business days. Under NASD Rules, exercise limits correspond to position limits, such that investors in options classes on the same side of the market are allowed to exercise, during any five consecutive business days, only the number of options contracts set forth as the applicable position limit for those options classes. *See* NASD rule 2860(b)(3).

[6] Exchange Act Release No. 33783 (March 18, 1994), 59 FR 14229 (March 25, 1994).

[7] Exchange Act Release No. 36657 (December 29, 1995), 61 FR 434 (January 5, 1996).

[8] The four exempted hedge positions are: (1) long stock and short calls; (2) long stock and long puts; (3) short stock and long calls; and (4) short stock and short puts.

[9] The Commission notes that NASD Regulation determines on a case-by-case basis whether an instrument that is being used as the basis for the underlying hedged positions is readily convertible into, or economically equivalent to, the security underlying the corresponding option position. In this regard, NASD Regulation generally finds that an instrument that is not presently convertible into a security, but which will be at a future date, is not a "convertible" security for purposes of the hedge exemption. In addition, NASD Regulation notes that if a convertible security used to hedge an option position is called for redemption by the issuer, the security would have to be converted into the underlying security immediately or the corresponding option position would have to be reduced accordingly.

[10] *See, e.g.*, American Stock Exchange Rule 904; Chicago Board Options Exchange Rule 4.11; Philadelphia Stock Exchange Rule 1001; Pacific Stock Exchange Rule 6.8.

[11] 15 U.S.C. § 78*o*–3.

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 as 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 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.

[FR Doc. 98–10600 Filed 4–21–98; 8:45 am]

BILLING CODE 8010–01–M

[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).

[13] *See* Exchange Act Release Nos. 36657 (December 29, 1995), 61 FR 434 (January 5, 1996) (accelerated approval extending effectiveness of hedge exemption pilot program through December 31, 1997); 33783 (March 18, 1994), 59 FR 14229 (March 25, 1994) (accelerated approval extending effectiveness of hedge exemption pilot program through December 31, 1995).

[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.

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

[16] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39875; File No. SR–PCX–98–02]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to LMM Book Pilot Program Expansion to Allow Book Staffing by Employees of the LMM

April 15, 1998.

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 January 23, 1998, the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.[3]

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

PCX is proposing to expand its Lead Market Maker (''LMM'') Book Pilot Program by allowing qualified LMMs to manage their own employees in operating the options public limit order book under the pilot program.

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.

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

[2] 17 CFR 240.19b–4.

[3] On April 13, 1998, the PCX submitted a letter, in response to Commission staff questions, providing a brief explanation of its proposed method for admitting employees to participate in the LMM Program and concerning its proposed surveillance of the LMM Program employees and operations. *See* Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX, to Marie D'Aguanno Ito, Special Counsel, Division of Market Regulation, Commission, dated April 13, 1998.