[Release No. 34–35410; File No. SR–PSE– 95–04]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by Pacific Stock Exchange, Inc. Relating to Earlier Listing of Options on Securities Issued by Companies in Certain Corporate Restructuring Transactions

February 22, 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 February 15, 1995, the Pacific Stock Exchange, Inc. ("PSE" 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. On February 21, 1995, the Exchange submitted to the Commission Amendment No. 1 to the proposed rule change in order to make certain technical corrections to the text of the proposal.1 The 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 Exchange proposes to amend its rules to permit the earlier listing of options on securities issued by companies in connection with certain corporate restructuring transactions. The text of the proposed rule change is available at the Office of the Secretary, PSE, and at the Commission.

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

1. Purpose

The Exchange proposes to amend its rules to permit the earlier listing of options on securities issued by companies in connection with certain corporate restructuring transactions ("New Securities"). Currently, certain of the Exchange's rule preclude the listing of options on any security until that security has been actively traded at or above a specific price level for a certain period of time. For example, under PSE Rule 3.6(a)(3), trading volume in an underlying security must be at least 2,400,000 shares during the preceding twelve months (the "Volume Test"). Further, under PSE Rule 3.6(a)(4), the market price for an underlying security must be at least \$7.50 for the majority of business days during the three calendar month period preceding the date the security is selected as an underlying security (the "Price Test").

The proposed rule change would facilitate the earlier listing of options on New Securities by permitting the Exchange to determine whether a New Security satisfies the Volume Test and Price Test by reference to the trading volume and market price history of an outstanding equity security (the 'Original Security'') previously issued by the issuer of the New Security (or an affiliate thereof). Specifically, if (a) the aggregate market value, assets or revenue attributable to a New Security is at least a stated percentage of the same measure attributable to the Original Security and if a stated minimum value of assets or revenues represented by the New Security, as applicable, is satisfied or (b) the aggregate market value of the New Security is not less than \$500 million,²

then the Exchange would be permitted to determine whether a New Security satisfied the Volume Test and Price Test by reference to the trading volume and market price history of the Original Security. Reference may be made to the trading volume and market price history of the Original Security only for trading days occurring prior to the ex-date for the transaction in which the New Security is issued ³ and prior to any trading day for which these tests are determined to be satisfied by reference to the trading volume and market price history of the New Security. If reference is made to either the trading volume or market price history of the Original Security for this purpose for any period of time, then reference must be made to both such criteria in respect of the Original Security for that period.

In addition, if the New Security is to be listed on an exchange or in an automatic quotation system that has an initial listing requirement equivalent to the requirement of PSE Rule 3.6(a)(2) (number of shareholders must be at least 2,000), that requirement would be deemed to be satisfied. Finally, if at least 40 million shares of a New Security will be outstanding in a restructuring, the Exchange may assume that the New Security will satisfy the listing criteria of both PSE Rule 3.6(a)(1) (sufficient public float) and PSE Rule 3.6(a)(2). Before relying on either of the assumptions described above, the Exchange must make a reasonable investigation as to the number of shareholders and public float of the New Security and must not have determined that the requirements of PSE Rules 3.6(a)(1) and 3.6(a)(2) will, in fact, not be satisfied.

(3) The aggregate market value represented by the New Security is at lease five hundred million dollars (\$500,000,000).

¹ See letter from Michael D. Pierson, Senior Attorney, Market Regulation, PSE, to Beth A. Stekler, Attorney, Division of Market Regulation, SEC, dated February 17, 1995 ("Amendment No. 1").

² The proposed rule change would apply to a New Security if at least one of the following conditions is met:

⁽¹⁾ Any one or more of (A) the aggregate market value of the New Security, (B) the aggregate book value of the assets attributed to the business represented by the New Security, or (C) the revenues attributed to the business represented by the New Security are at least 25% of the same measure determined with respect to the Original Security or the business represented by the Original Security, as applicable, calculated in a comparable manner on a basis that reflects the inclusion of the business represented by the New Security, provided that in the case of the qualification of a Ne Security under clause (B), the aggregate book value of the assets attributed to the business represented by the New Security is not less than \$50 million, and in the case of the qualification of a New Security under clause (C), the revenues to the business represented by the New Security are not less than \$50 million;

⁽²⁾ Any one or more of (A) the aggregate market value of the New Security, (B) the aggregate book value of the assets attributed to the business represented by the New Security, or (C) the revenues attributed to the business represented by the New Security are at least 33 1/3% of the same measure determined with respect to the Original Security or the business represented by the Original Security, as applicable, calculated in a comparable manner on a basis that reflects the exclusion of the business represented by the New Security, provided that in the case of the qualification of a New Security under clause (B), the aggregate book value of the assets attributed to the business represented by the New Security is not less than \$50 million, and in the case of the qualification of a New Security under clause (C), the revenues attributed to the business represented by the New Security are not less than \$50 million; or

³ Under the proposed rule change, options contracts may not initially be listed for trading in respect of a New Security until such time as shares of the New Security are issued and outstanding and are the subject of trading that is not on a "when issued" basis or in any other way contingent on the issuance or distribution of the shares.