trading. As part of its review of a proposal to list an index derivative product, the Commission must find that the trading of index options or warrants will serve to protect investors, promote the public interest, and contribute to the maintenance of fair and orderly markets. Accordingly, the Commission does not believe that the issuance of index warrants upon previously approved broad-based stock indexes will adversely impact the underlying component securities. In addition, because index warrants are issued by various individual issuers who set their own terms, it is likely that expirations among similar index products will be varied, thereby reducing the likelihood that unwinding hedge activities would adversely affect the underlying cash market. Finally, as discussed above, the Commission believes the NASD's enhanced surveillance procedures applicable to stock index warrants are adequate to surveil for manipulation and other abuses involving the warrant market, component securities and issuer hedge unwinding transactions.

Second, the NASD has proposed margin levels for stock index and currency warrants equivalent to those in place for stock index and currency options. The Commission believes these requirements will provide adequate customer margin levels sufficient to account for the potential volatility of these products. In addition, options margin treatment is appropriate given the options-like market risk posed by warrants. The Commission notes that the customer spread margin treatment applicable to warrants is subject to a one year pilot program. This will allow the NASD to analyze the pricing relationships between listed options and warrants on the same index in order to determine whether to revise or approve on a permanent basis the proposed spread margin rules.28

Third, the NASD has established reasonable position and exercise limits for stock index warrants, which will serve to minimize potential manipulation and other market impact concerns.

V. Conclusion

The Commission believes that the adoption of these uniform listing and trading standards for broad-based index warrants will provide an appropriate

regulatory framework.29 These standards will also benefit the NASD by providing them with greater flexibility in structuring warrant issuances and a more expedient process for listing warrants without further Commission review pursuant to Section 19(b) of the Act. As noted above, additional Commission review of specific warrant issuances will generally only be required for warrants overlying any nonapproved broad-based index that has not been previously approved by the Commission for warrant or options trading. If Commission review of a particular warrant issuance is required, the Commission expects that, to the extent that the warrant issuance complies with the uniform criteria adopted herein, its review should generally be limited to issues concerning the newly proposed index. This should help ensure that such additional Commission review could be completed in a prompt manner without causing any unnecessary delay in listing new warrant products.

Finally, the Commission finds good cause for approving the proposed rule change and Amendments No. 1, 2 and 3 to the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the Federal Register in order to allow the NASD to begin listing index warrants without delay. As discussed above, the proposal is substantially identical to those submitted by the other SROs.30 These other index warrant proposals were subject to the full notice and comment period and, as discussed above, were modified in response to the Seward & Kissell Letter. Furthermore, Amendment No. 1 to the proposal ensures that NASD members do not accept and/or execute an order to sell short any index warrants from any person that is the subject of an NASD order to liquidate a position in excess of applicable position limits. The Commission notes that this change also comports with rules currently in effect at other SROs applicable to the liquidation of index warrant positions in excess of applicable position limit rules. Amendment No. 2 to the proposal reduces the position limits on the MidCap Index to 7.5 million warrants. The Commission notes that this number is consistent with the level approved for

the American Stock Exchange. Accordingly, the amendment does not raise any new or unique regulatory issues. Finally, Amendment No. 3 clarifies that opening price settlement will be utilized for warrants that are valued on valuation date or on either of the two business days preceding valuation date. The Commission notes that this change brings the NASD's proposal into conformity with those of the other exchanges and, therefore, does not believe the amendment raises any new or unique regulatory issues. For these reasons, the Commission believes it is consistent with Sections 15A(b)(6) 31 and 19(b)(2) 32 of the Act to approve the proposed rule change and Amendments No. 1, 2 and 3 to the proposal on an accelerated basis.

VI. 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. 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 October 26, 1995.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,³³ that the proposed rule change (SR–NASD–95–37) is approved, as amended, with the portion of the rule change relating to spread margin treatment being approved on a one year pilot program basis, effective beginning September 28, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁴

²⁸The Commission notes that the margin levels for currency index warrants will be set at a level determined by the NASD and approved by the SEC. Issuances of warrants listed prior to the approval of this order will continue to apply the margin level applicable to them at the time of their listing.

²⁹ As noted above, the NASD does not have the authority to list currency or currency index warrant issuances. *See supra* note 11. Nevertheless, the regulatory framework adopted herein as also applicable to stock index, currency and currency index warrants which are traded by NASD members (or customers thereof) who are not members of the exchange on which the warrant is listed or traded.

³⁰ See supra note 13.

^{31 15} U.S.C. § 780-3(b)(6) (1988).

^{32 15} U.S.C. § 78s(b)(2) (1988).

^{33 15} U.S.C. § 78s(b)(2) (1988).

^{34 17} CFR § 200.30-3(a)(12) (1994).