## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendments Nos. 1, 2, and 3. 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. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR–CBOE–94–44 and should be submitted by May 17, 1995.

## V. Conclusion

For the reasons discussed above, the Commission finds that the proposal is consistent with the Act, and, in particular, Section 6 of the Act.

*It is therefore ordered,* pursuant to Section 19(b)(2) of the Act,[15] that the proposed rule change (File No. SR–CBOE–94–44), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[16]

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 95–10222 Filed 4–25–95; 8:45 am]

BILLING CODE 8010–01–M

---

**[Release No. 34–35631; International Series Release No. 805; File No. SR–Phlx–95–06]**

## Self-Regulatory Organizations; Order Approving a Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to British Pound Strike Price Intervals

April 20, 1995.

## I. Introduction

On January 30, 1995, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') a proposed rule change to revise its strike price policy respecting foreign currency options on the British pound by changing from: a $.025 interval to a $.01 interval in the nearest three expiration months; a $.025 interval to a $.02 interval in the next three nearest expiration months; and a $.05 interval to a $.04 interval for long-term British pound options, which have 12 to 36 months until expiration.

Notice of the proposal was published for comment and appeared in the **Federal Register** on March 3, 1995.[3] No comment letters were received on the proposed rule change. This order approves the Exchange's proposal.

## II. Description of the Proposal

The Phlx has proposed to revise its strike price policy respecting foreign currency options on the British pound pursuant to Phlx Rule 1012—Series of Options Open for Trading by adopting shorter strike price intervals than currently used. Currently, British pound options are listed at 2½ cent intervals; long-term options are listed at 5 cent intervals. Pursuant to Phlx Rule 1012, six expiration months are currently listed in regular foreign currency options, with one, two, three, six, nine, and twelve months until expiration. Additionally, two long-term options are currently listed (in June and December) with 18 and 24 months until expiration. Fluctuations in the spot price of the British pound currently result in additional listings at 2½ cent intervals.[4]

The Exchange proposes to revise its strike price policy respecting foreign currency options on the British pound by changing from a $.025 interval to a $.01 interval in the nearest three expiration months and from a $.025 interval to a $.02 in the next three nearest expiration months. In addition to reducing the strike price interval from 2½ cents to 1 and 2 cents, respectively, the Exchange also proposes to reduce the strike price interval for long-term British pound options, which have 12 to 36 months until expiration, from $.05 to $.04.

The Exchange states that the purpose of the proposed rule change is to address certain market needs that have arisen as a result of recent lower volatility respecting the British pound (in relation to the U.S. dollar), which has created a customer need for narrower strike price intervals.[5] The Exchange represents that the lower volatility of the British pound has resulted in a narrower trading range for the currency option, sometimes limiting the availability of sufficient near- or at-the-money series.

Additionally, the Exchange believes the proposal is necessary to ensure that the British pound foreign currency option contract remains competitive and consistent with the contract terms applicable to British pound foreign currency futures (and futures options) traded on the Chicago Mercantile Exchange (''CME''). Recently, the CME determined to list certain options on British pound futures (the three near months) as $.01 intervals.

The Phlx asserts that the proposed rule change will initially create 496 new strike prices.[6] Additionally, both the Phlx and the Options Price Reporting Authority (''OPRA'') represent that the predicted increase in the number of British pound options series will not adversely affect their respective computer processing capacities to accommodate the additional strike prices.[7]

The Exchange further states that its general policy with respect to the delisting of inactive options series, subject to the assigned option specialist's approval, is to delist series in which there is no open interest beginning with the highest or lowest strike for that month. The Exchange, however, may not delist a series if such

---

[15] 15 U.S.C. 78s(b)(2) (1988).

[16] 17 CFR 200.30–3(a)(12) (1994).

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

[2] 17 CFR 240.19b–4.

[3] See Securities Exchange Act Release No. 35420 (February 27, 1995), 60 FR 11999 (March 3, 1995).

[4] Currently, the addition of strike prices, which is governed by Phlx Rules 1012 and 1101A, is determined by the movement of the underlying stock, index, or foreign currency, such that strike prices reasonably close to the value of the underlying security are listed for trading. When the Exchange plans to add a new strike price, a memorandum is distributed to the trading floor as well as over electronic systems notifying the membership and their customers of the new strike. See Securities Exchange Act Release No. 34349 (July 11, 1994), 59 FR 36469 (July 18, 1994).

[5] The Commission has previously approved certain Phlx proposals that shortened foreign currency option strike price intervals. See e.g., Securities Exchange Act Release Nos. 25685 (May 10, 1988), 53 FR 17524 (May 17, 1988) (French franc from $.05 to $.025 strike price intervals) (File No. SR–Phlx–86–14), and 24103 (February 13, 1987), 52 FR 5605 (February 25, 1987) (British Pound from $.05 to $.025 strike price intervals) (File No. SR–Phlx–86–14).

[6] The total number of new strikes includes both puts and calls for American and European style options on the British pound. *See* Letter from Gerald O'Connell, First Vice President, Phlx, to Michael Walinskas, Office of Market Supervision (''OMS''), Division of Market Regulation (''Division''), Commission, dated April 10, 1995 (''O'Connell Letter No. 1'').

[7] *See* Letter from William H. Morgan, Vice President, Phlx, to Michael Walinskas, OMS, Division, Commission, dated April 12, 1995 (''Morgan Letter''). *See also* Letter from Joseph P. Corrigan, Executive Director, OPRA, to William Terrell, Vice President, Phlx, dated April 6, 1995 (''OPRA Letter'').

delisting would create a gap in consecutive strikes.[8]

The Exchange believes that the proposed reduction in the strike price interval should provide investors and traders of British pound foreign currency options with the ability to more closely tailor investment and hedging strategies to British pound trading levels and movement. The Exchange further believes that the proposed rule change is designed to promote just and equitable principles of trade by enabling more effective management of foreign currency risk respecting the British pound.

## III. Commission Finding and Conclusions

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 exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.[9] Specifically the Commission finds that the Exchange's proposal to revise its strike price policy respecting foreign currency options on the British pound by changing from a $.025 interval to a $.01 interval in the nearest three months; from $.025 interval to $.02 interval in the next three nearest expiration months; and from $.05 to $.04 interval for long-term British pound options, which have 12 to 36 months until expiration, is a reasonable attempt to perfect the mechanism of a free and open market and a national market system.

The Commission recognizes that any narrowing of strike price intervals increases the flexibility accorded market participants and allows options positions to be more finely tailored to achieve intended investment objectives. At the same time, however, narrower strike price intervals create the possibility of dispersing trading interest to the degree that there is an excessive dilution of liquidity in open options series.

Accordingly, an evaluation of the appropriate strike price interval for an option contract requires a balancing of the need to accommodate market participants by providing a wide array of investment opportunities and the need to avoid causing excessive proliferation of illiquid options series. The Commission believes that the Phlx proposal strikes such a reasonable balance. Although the proposal makes available a significant number of new options series, the Commission notes that Phlx generally seeks to delist options series (including British pound foreign currency options) with no open interest.[10] Therefore, the Phlx should be able to eliminate any illiquid series that might result from the implementation of the new strike price proposal. Accordingly, the Commission expects the Phlx to monitor British pound foreign currency options activity closely in order to detect any proliferation of illiquid series possibly resulting from the narrower strike price intervals and to act promptly to remedy this situation should it occur.

In addition, based on representations from the Phlx [11] and OPRA,[12] the Commission believes that the predicted increase in the number of British pound options series should not adversely affect the computer processing capacity to accommodate the additional strike prices. More specifically, both the Phlx and OPRA have represented that their respective systems can adequately handle the additional options transaction-related traffic generated by the projected new series. Nevertheless, the Commission requests that the Exchange monitor the volume of additional options series listed as a result of this rule change and continue to ensure that these additional series will not adversely impact processing system capacity.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,[13] that the proposed rule change (File No. SR–Phlx–95–06) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[14]

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 95–10182 Filed 4–25–95; 8:45 am]

BILLING CODE 8010–01–M

---

**[Rel. No. IC–21024; 812–9524]**

## Equity Income Fund, Select Ten Portfolio

April 20, 1995.

**AGENCY:** Securities and Exchange Commission (''SEC'').

**ACTION:** Notice of application for exemption under the Investment Company Act of 1940 (the ''Act'').

**APPLICANT:** Equity Income Fund, Select Ten Portfolio.

**RELEVANT ACT SECTIONS:** Order requested under section 6(c) of the Act that would exempt applicant from section 12(d)(3) of the Act.

**SUMMARY OF APPLICATION:** Applicant requests an order on behalf of its series (the ''Series'') and the Series' component trusts (the ''Trusts'') to permit each Trust to invest up to ten percent of its total assets in securities of issuers that derived more than fifteen percent of their gross revenues in their most recent fiscal year from securities related activities.

**FILING DATE:** The application was filed on March 14, 1995 and amended on April 20, 1995.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on May 15, 1995 and should be accompanied by proof of service on the applicant, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 5th Street, N.W., Washington, D.C. 20549. Applicant, c/o Merrill Lynch, Pierce Fenner & Smith Incorporated, P.O. Box 9051, Princeton, N.J. 08543–9051.

**FOR FURTHER INFORMATION CONTACT:** Marianne H. Khawly, Staff Attorney, at (202) 942–0562, or C. David Messman, Branch Chief, at (202) 942–0564 (Division of Investment Management, Office of Investment Company Regulation).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application may be obtained for a fee from the SEC's Public Reference Branch.

## Applicant's Representations

1. Each Series will be a series of Equity Income Fund, Select Ten Portfolio, a unit investment trust registered under the Act, composed of one or more separate Trusts. Merrill Lynch, Pierce, Fenner & Smith Incorporated (''Merrill Lynch''), Prudential Securities Incorporated, PaineWebber Incorporated, Smith Barney Inc., and Dean Witter Reynolds

---

[8] *See* Letter from Gerald O'Connell, First Vice President, Phlx, to Michael Walinskas, Branch Chief, OMS, Division, Commission, dated April 12, 1995 (''O'Connell Letter No. 2'').

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

[10] *See* O'Connell Letter No. 2, *supra* note 8.

[11] *See* Morgan Letter, *supra* note 7. *See also* O'Connell Letter No. 1, *supra* note 6.

[12] *See* OPRA Letter, *supra* note 7.

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

[14] 17 CFR 200.30–3(a)(12).