

described above, also is consistent with the Act and the Rules thereunder. Specifically, the Commission believes that these extensions should serve to provide the Participants with more time to conclude their financial negotiations and with more information to evaluate the effects of and proposed course of action for the pilot program. This, in turn, should further the objects of the Act in general, and specifically those set forth in Sections 12(f) and 11A of the Act and in Rules 11Aa3-1 and 11Aa3-2 thereunder.

It is therefore ordered, pursuant to Sections 12(f) and 11A of the act and (c)(2) of Rule 11Aa3-2 thereunder, that Amendment No. 4 to the Joint Transaction Reporting Plan for Nasdaq/National Market securities traded on an exchange on an exchange on an unlisted or listed basis is hereby approved, and trading pursuant to the Plan is hereby approved on a temporary basis through October 12, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(29).

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36236; File No. SR-PSE-95-18]

Self-Regulatory Organizations; Pacific Stock Exchange, Inc.; Order Granting Partial, Accelerated Approval of a Proposed Rule Change Relating to the PSE Technology Index and Opening Price Settlement of Component Securities

September 14, 1995.

On August 21, 1995, the Pacific Stock Exchange, Inc. ("PSE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to increase the existing position and exercise limits for options on the PSE Technology Index ("Technology Index" or "Index") and change the terms of option contracts overlying the Index from closing price (p.m.) settlement to opening price (a.m.) settlement.

Notice of the proposed rule change was published for comment and appeared in the Federal Register on August 31, 1995.³ No comments were

received on the proposal. This order grants partial accelerated approval of that portion of the proposal relating to a.m. settlement of options on the Index.⁴

I. Description of the Proposal

On November 26, 1991, the Commission approved an exchange proposal to re-classify the Technology Index as a broad-based index for position limit and margin purposes.⁵ The Index is a price-weighted, European-style⁶ index comprised of 100 stocks that are intended to represent a broad spectrum of companies principally engaged in manufacturing and service-related products within advanced technology fields.

The Exchange is proposing that options on the Index be settled based on opening market prices for the underlying securities rather than based on closing market prices for such underlying securities as originally approved. Accordingly, the last day of trading for options on the Index shall be the business day preceding the last day of trading in the underlying securities prior to expiration. This day will generally be the Thursday preceding an expiration Friday. The current index value at the expiration of an opening price settled index option shall be determined based on opening prices on the last day of trading in the underlying securities prior to expiration (*i.e.*, the Friday immediately preceding the third Saturday of the month). In this regard, for settlement purposes, the first reported sale (opening) prices of the underlying securities on such day would be used, except that the last reported sale price of such a security from the previous day would be used in any case where the security does not open for trading on that day. There are no currently outstanding Technology Index option series.

II. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the

⁴ In partially approving the PSE proposal, the Commission is not approving, at this time, the portion of the proposal relating to increasing the position and exercise limits on the Technology Index from 15,000 contracts to 37,500 contracts, with no more than 22,500 of such contracts in the series with the nearest expiration month. That portion of the proposal has been published for comment. The comment period expires on September 21, 1995.

⁵ Securities Exchange Act Release No. 29994, 56 FR 63536 (Dec. 4, 1991). The Commission initially approved options trading on the Index in November 1983. See Securities Exchange Act Release Nos. 20424, 48 FR 54557 (Dec. 5, 1983); and 20499, 48 FR 58880 (Dec. 23, 1983).

⁶ A European-style option may only be exercised during a specified period prior to expiration.

rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5),⁷ in particular, in that it should help remove impediments to and perfect the mechanism of a free and open market, promote just and equitable principles of trade and protect investors and the public interest. Moreover, the Commission believes that the PSE's proposal to reclassify the Technology Index option from a closing price settled contract to an opening price settled contract may help ameliorate the price effects associated with expirations of Technology Index options.

Further, the Commission believes that the PSE's Technology Index option opening price settlement proposal is a reasonable attempt to address and ameliorate the effects on the equity markets that have been associated with, but not necessarily the result of, the expiration of index options.

The Commission has identified several benefits to opening-price settlement for broad-based index options. First, an opening price settlement method for Technology Index options can help facilitate the development of contra-side interest to alleviate order imbalances in underlying markets from the unwinding of index-related positions. In contrast to expirations associated with closing price settled options, firms providing contra-side interest will not necessarily assume overnight or weekend position risks because they will have the rest of the day to liquidate or trade out of their positions. Second, even if the opening price settlement results in a significant change in underlying stock prices, participants in the markets for those stocks will have the remainder of the trading day to adjust to those price movements and to determine whether those movements reflect changes in fundamental values or rather short-term supply/demand considerations. In addition, settling Technology Index options at the underlying market opening will allow corresponding stock positions associated with expiring Technology Index contracts to be subject to the NYSE's auxiliary opening procedures implemented on expiration Fridays, where applicable. These procedures provide for the orderly entry, dissemination and matching of orders. The Commission also notes that because currently there are no Technology Index options series with closing settlement values outstanding, approval of the proposal will not result in investor confusion. This will also

⁷ 15 U.S.C. 78f(b)(5)(1982).

¹ 15 U.S.C. 78s(b)(1) (1988 & Supp. V 1993).

² 17 CFR 240.19b-4 (1994).

³ See Securities Exchange Act Release No. 36146 (August 23, 1995), 60 FR 45509.

ensure that all series of Technology Index options utilize the same opening price settlement procedures.

The Commission finds good cause for approving that portion of the rule change relating to a.m. settlement prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. As discussed above, and on the basis of the expirations over the past several years, the Commission believes that opening-price settlement of stock index options and futures is beneficial. Opening-price settlement procedures have operated smoothly and effectively and have contributed to dampening expiration Friday volatility. The Commission believes opening price settlement for Technology Index options will permit the market to benefit from the pre-opening procedures described above when positions in the contract are unwound on expiration Fridays. In addition, because there are currently no outstanding Technology Index options series, all new Technology Index options listed in the future will have the same opening settlement procedures, thereby avoiding investor confusion. For these reasons, the Commission believes that it is consistent with Sections 19(b)(2) and 6(b)(5) of the Act to approve the PSE's Technology Index opening price based settlement proposal on an accelerated basis.

It Therefore Is Ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the portion of the proposed rule change (SR-PSE-95-18) relating to the changing of the settlement feature of options on the Technology Index from closing price settlement to opening price settlement is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36239; International Series Release No. 854; File No. SR-Phlx-95-47]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Japanese Yen Quote Spread Parameters

September 15, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on

August 22, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") 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.

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

The Phlx proposes that the quotation spread parameters (bid/ask differentials) applicable to Japanese yen options be widened to reflect added volatility and appreciation in the market for the underlying currency, the Japanese yen. Option quote parameters govern the width of market quotations, establishing the maximum widths between the bid and the offer for an option contract.

Specifically, the Exchange proposes to change the parameters in Rule 1014(c)(ii) and Floor Procedure Advice ("Advice") F-6, Option Quote Parameters, from \$.000004, \$.000006, and \$.000008 to \$.000006, \$.000009, and \$.000012. Under the proposal, the new quote spread parameters will be reflected in Rule 1014 as follows: no more than \$.000006 between the bid and the offer for each option contract for which the bid is \$.000040 or less; no more than \$.000009 where the bid is more than \$.000040 but does not exceed \$.000160; and no more than \$.000012 where the bid is more than \$.000160.

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

In response to worldwide market conditions respecting the Japanese yen, the Exchange proposes to increase the applicable quote spread parameters respecting Japanese yen options. During

recent years, the value of the yen in relation to the U.S. dollar has risen appreciably. As a result, employing the current option quote parameters, which are too narrow for today's prices, deprives investors from identifying price levels from off-floor where liquidity will be available in the sizes most often sought by currency option investors.

Further, because the Japanese yen spot value (in relation to the U.S. dollar) has increased, the U.S. dollar value of each yen option contract has likewise increased. For instance, 20 contracts previously represented \$1 million of yen; currently on 16 contracts represent \$1 million of yen. This, in turn, results in greater risk associated with each option contract. As contract size increases, the risks of market making in these options are amplified. As a result, the Exchange believes that the quote spread parameter should be widened to offset the greater risk. The existence of high strike prices increases this risk.

The increase in the yen spot value has also resulted in wider spreads between the bid and the offer in the spot price. For example, a spot market of 101.50 (bid)—.60 (ask) yen in January 1995 represented \$.009852—.009842 in American terms, which is ten "ticks" wide. Comparatively, a spot market of 85.10—.20 yen in May 1995 represents \$.011751—.011737, which is 14 ticks wide. Thus, as the yen spot value has increased, a former ten tick wide market in European terms has widened to 14 ticks. Similarly, the spreads in Japanese yen futures and forward contracts have also widened. Thus, the Exchange believes that the wider spreads in the spot and futures markets necessitate wider quote spread parameters in yen options for competitive reasons.

The Exchange notes that the Japanese yen quote spread parameters were last amended in 1991² from \$.000004, \$.000008, and \$.000012 to \$.000004, \$.000006, and \$.000008. The spot value in American terms was 68.50 in July 1990 when the proposal was filed and 71.20 when it was approved. At that time, the Exchange cited the competitive implications of quote spread parameters, which do not exist in the over-the-counter market for foreign currency options ("FCOs"). Also, the Commission noted that remaining competitive with such markets is important to the depth and liquidity of Exchange-traded FCOs.

The Exchange believes that its proposal is consistent with Section 6 of the Act in general, and in particular,

² Securities Exchange Act Release No. 28937 (March 4, 1991) 56 FR 10290.

⁸ 15 U.S.C. 78s(b)(2)(1988).

⁹ 17 CFR 200.30-3(a)(12)(1994).

¹ 15 U.S.C. 78s(b)(1) (1988).