options position. In particular, position and exercise limits are designed to minimize the potential for mini-manipulations [11] and for corners or squeezes of the underlying market. They also impose a ceiling on the maximum position an investor with inside corporate or market information can establish through the use of options. In addition, they serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes. The proposal extends the benefits of the position and exercise limit rules to include all exchange-traded options transactions entered into by PHLX members. The Commission also notes that violations of the PHLX's position and exercise limits rules for transactions that do not comply with the position and exercise limits of another exchange will be subject to the same fines or disciplinary action for position and exercise limit violations as those applicable to PHLX options.[12]

The Commission finds good cause for approving Amendment No. 1 to the proposal prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register Specifically, Amendment No. 1 clarifies and strengthens the PHLX's proposal and therefore raises no new regulatory issues. Accordingly, the Commission believes that it is consistent with Section 6(b)(5) of the Act to approve Amendment No. 1 to the proposal on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1. 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 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 19, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[13] that the amended proposed rule change (File No. SR-PHLX–95–31) is approved.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–24027 Filed 9–27–95; 8:45 am]

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[Release No. 34–36255; International Series Release No. 858 File Nos. SR–Phlx–95–20 and SR–Phlx–95–21]

Self-Regulatory Organizations; Order Approving Proposed Rule Changes and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 to Each of the Proposed Rule Changes by the Philadelphia Stock Exchange, Inc. Relating to the Listing of Customized Foreign Currency Options on the Italian Lira and Spanish Peseta

September 20, 1995.

On April 5, 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 Exchange Commission (''Commission'') two proposed rule changes—one to permit the listing of customized foreign currency options (''Customized FCOs'') on the Italian lira (''Lira'') and the other to list Customized FCOs on the Spanish peseta (''Peseta'').[3] Notices of the proposals appeared in the Federal Register on May 10, 1995.[4] No comment letters were received on either proposed rule change. The Exchange subsequently filed Amendment No. 1 to each of the proposals on August 21, 1995.[5] This order approves both of the Phlx proposals, as amended.

Currently the Phlx offers listed FCOs on the British pound, French franc, Swiss franc, Japanese yen, Canadian dollar, Australian dollar, German mark and European Currency Unit. Since November 1994, the Exchange has offered the ability to trade Customized FCOs on all of these currencies.[6] The Exchange now proposes to add the Lira and Peseta to the list of approved currencies on which Customized FCOs may be listed and traded pursuant to Exchange Rule 1069. Thus, there will be no continuously quoted series of Customized FCO contracts on either the Lira or Peseta.

Phlx Rule 1069(a)(1) provides that Customized FCOs may be traded on any approved underlying foreign currency pursuant to Exchange Rule 1009. Accordingly, the Exchange proposes to amend Rule 1009 to: (1) Add the Lira and Peseta to the list of approved underlying foreign currencies; and (2) specify that the Lira and Peseta are being added to the list of approved currencies solely for purposes of trading Customized FCOs pursuant to Exchange Rule 1069.[7] Additionally, Rules 1014 and 1069 are being amended to provide that there will be no quote spread parameters for Customized FCOs involving either the Lira or the Peseta.[8]

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[11] Mini-manipulation is an attempt to influence, over a relatively small range, the price movement in a stock to benefit a previously established derivatives position.

[12] Minor violations of the PHLX's position and exercise limit rules for equity and index options are subject to Options Floor Procedure Advice F–15, ''Minor Infractions of Position/Exercise Limits and Hedge Exemptions.'' Other violations of the PHLX's position and exercise limits are subject to review by the Exchange's Business Conduct Committee in accordance with the PHLX's Disciplinary Rules (PHLX Rules 960.1 through 960.12).

[13] 15 U.S.C. 78s(b)(2) (1982).

[14] 17 CFR 200.30–3(a)(12) (1994).

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1994).

[3] Customized FCOs provide investors with the ability, within specified limits, to trade FCOs with customized strike prices, cross-rate FCOs on any two approved currencies, and FCOs where the U.S. dollar is the underlying currency. In addition, FCO participants may express quotes for customized FCOs as a percentage of the underlying currency, in addition to quoting in terms of the base currency per unit of the underlying currency. *See* Securities Exchange Act Release No. 34925 (November 1, 1994), 59 FR 55720 (November 8, 1995) (''Exchange Act Release No. 34925'').

[4] *See* Securities Exchange Act Release Nos. 35678 (May 4, 1995), 60 FR 24945 (notice of File No. SR–Phlx–95–20), and 35677 (May 4, 1995), 60 FR 24941 (notice of File No. SR–Phlx–95–21).

[5] In Amendment No. 1 to each proposal, as discussed more fully herein, the Phlx: (1) increased the proposed margin levels for Customized FCOs on the proposed currencies; (2) proposed that cross-rate Customized FCOs involving the Lira or Peseta be subject to these increased margin requirements; (3) amended Phlx Rule 1009 to state in the rule that Exchange-traded FCOs on the Lira and Peseta are limited to Customized FCOs; and (4) made certain clarifying non-substantive amendments (*e.q.*, renumbering rule sections) that were necessary in order to incorporate the addition of both proposed currencies into the Exchange's rules. *See* Letter from Michele Weisbaum, Associate General Counsel and Assistant Vice President, Phlx, to Michael Walinskas, Branch Chief, Office of Market Supervision (''OMS''), Division of Market Regulation (''Division''), Commission, dated August 21, 1995 (''Amendment No. 1'').

[6] *See* Exchange Act Release No. 34925, *supra* note 3.

[7] *See* Amendment No. 1, *supra* note 5. The definitions of ''foreign currency'' and ''unit of underlying foreign currency'' in Rule 1000(a) are also being amended to add references to the Lira and the Peseta.

[8] Pursuant to Exchange Rule 1069(j)(1), quote spread parameters for customized strike FCOs on currently approved foreign currencies are twice

Continued

Consistent with the Phlx's other approved foreign currencies, Exchange Rule 1033 will be amended to specify the bid and offer rules for Customized FCOs based on the Lira and Peseta. Similarly, Rule 1034 will be amended to provide that the Exchange will determine the minimum fractional change applicable to Customized FCOs on the Lira and Peseta.

Contract Specifications

Customized FCOs based on the Lira will have the following characteristics: (1) the contract size will be 50,000,000 Lira; [9] (2) the premiums will be quoted in thousandths of a cent per unit for U.S. dollar/Italian lira contracts; and (3) the minimum premium will be $0. (00000) 01 per unit (*i.e.,* $5.00).

Customized FCOs based on the Peseta will have the following characteristics: (1) The contract size will be 5,000,000 pesetas; [10] (2) the premiums will be quoted in thousandths of a cent per unit for U.S. dollar/Spanish peseta contracts; and (3) the minimum premium will be $0. (0000) 01 per unit (*i.e.,* $5.00).

Customer Margin

For customer margin purposes, the Exchange is proposing to amend Rule 722 to set the customer margin ''add-on'' [11] percentage for Customized FCOs on both the Lira and Peseta at 7% for both initial and maintenance margin, with no adjustment for out-of-the-money Customized FCOs.[12] The Exchange will conduct a regular review of the margin levels for Customized FCOs involving either the Lira or Peseta.[13] In this review, which will be conducted at least quarterly,[14] the Exchange will determine the frequency distributions reflecting the percentage price returns for the Lira and Peseta, each in relation to the U.S. dollar, for all seven day periods during the preceding three year period. If the Exchange determines as a result of one of these reviews that the current margin add-on for each currency is not sufficient to cover at least 97.5% of all seven day price returns during that period, the Exchange will take immediate steps to increase the margin levels for each currency to one that will cover at least 97.5% of all such instances and will immediately notify the Commission of any such increases. In no event will the Exchange reduce the margin levels for Customized FCOs involving either the Lira or Peseta below the 7% level without the prior approval of the Commission pursuant to Section 19(b) of the Act. Whenever the customer margin levels for Customized FCOs on either the Lira or Peseta are changed, the Exchange will promptly notify the Exchange's membership and the public.

Customized Cross-Rates

Pursuant to Phlx Rule 1069(a)(1)(B), the Exchange may list cross-rate Customized FCOs on any two approved currencies, exclusive of the U.S. dollar (''Customized Cross-Rates'').[15] Customized Cross-Rates are currently margined using a two-tier system.

Because the margin add-on percentage for Customized FCOs on the Lira and Peseta are initially being set at levels significantly higher than those for the Phlx's other approved currencies, the Phlx will begin using a three-tier system for Customized Cross-Rates: [16] Tier I will consist of all approved currency pairings not involving the Lira or Peseta whose daily price changes have a correlation greater than or equal to .25 during the most recent 24 month period; Tier II will consist of all remaining pairings of approved currencies not involving the Lira or Peseta; and Tier III will consist of all Customized Cross-Rates involving the Lira or the Peseta. The initial and maintenance margin requirements for Tier I and Tier II Customized Cross-Rates will remain at current levels (*i.e,* 100% of the underlying value plus 4% and 6%, respectively), subject to any changes resulting from the Phlx's periodic reviews of margin adequacy.[17]

The initial and maintenance margin requirements for Tier III Customized Cross-Rates will initially be set at 100% of the underlying value plus 7%.[18] the Phlx will continue to conduct its regular periodic reviews of the margin adequacy for all approved currency combinations, however, Tier III currency pairings will not be eligible to be moved to either Tier I or Tier II based on such reviews. As a result, for Tier III currency pairings, the Phlx will need to conduct only the second stage of the review that it presently conducts for Customized Cross-Rates in Tiers I and II,[19] as modified below. Specifically, on at least a quarterly basis,[20] the Exchange will determine whether the actual margin level for Tier III (*i.e.,* 7% add-on) is adequate to cover seven day price changes for all possible cross-rate combinations within Tier III. If the margin add-on is not sufficient to cover at least 97.5% of all such changes during the preceding three year period, the Exchange will take immediate steps to increase the margin level to one that will cover at least 97.5% of all such instances and will immediately notify the Commission of such increases. In no event will the initial or maintenance

those provided in Rule 1014(c). Because the Phlx does not list regular FCOs on either the Lira or Peseta (and will not be able to list regular FCOs on either currency pursuant to this approval order), Rules 1014(c) and 1069 will provide that there will be no quote spread parameters for Customized FCOs involving either the Lira or Peseta. The Exchange will conduct a study of the markets for Customized FCOs based on the Lira and Peseta to build an historical pricing reference database on which to analyze whether quote spread parameters should be imposed in the future for these Customized FCOs. Telephone conversation between Michele Weisbaum, Assistant General Counsel and Assistant Vice President, Phlx, and Brad Ritter, Senior Counsel, OMS, Division, Commission, on September 7, 1995.

[9] Based on an exchange rate of 1,615.00 Italian lira/U.S. dollars on August 23, 1995, as published in *The Wall Street Journal,* this would correspond to an opening position for an Italian lira customized FCO transaction (*i.e.,* 100 contracts) valued at approximately $3,096,000.

[10] Based on an exchange rate of 126.25 Spanish pesetas/U.S. dollars on August 23, 1995, as published in *The Wall Street Journal,* this would correspond to an opening position for a Spanish peseta customized FCO transaction (*i.e.,* 100 contracts) valued at approximately $3,960,000.

[11] For these purposes, ''add-on'' is the percentage of the current market value of the currency a Customized FCO that the holder of a ''short'' position must pay in addition to the current market value of each Customized FCO.

[12] According to the Exchange, the 7% margin add-on level is sufficient to cover 98.84% and 99.10% of all seven day price changes during the past three years involving the Lira and Peseta, respectively, in relation to the U.S. dollar. *See* Amendment No. 1, *supra* note 5.

[13] Telephone conversation between Michele Weisbaum, Associate General Counsel and Assistant Vice President, Phlx, and Brad Ritter, Senior Counsel, OMS, Division, Commission, on August 30, 1995.

[14] *Id.*

[15] *See* Exchange Act Release No. 34925, *supra* note 3.

[16] *See* Amendment No. 1, *supra* note 5.

[17] The Exchange conducts a regular two-step review of the margin levels for Customized Cross-Rates. The first review, which is conducted at least monthly, examines the correlations between all of the possible combinations of approved currencies for the most recent two-year period. If a monthly or any special review reveals that a combination of approved currencies should be in another tier based on the correlation of those approved currencies, the Exchange will take immediate steps to implement the change. The second review examines whether the actual margin levels are adequate to cover seven day price changes for all possible cross-rate combinations within Tiers I and II. Frequency distributions of seven day price movements for all currency combinations are reviewed on a monthly basis to determine whether the percentage of margin ''add-on'' is sufficient to cover 95% of all instances over the preceding two year period for all currency combinations within each tier. If the percentage falls to less than 95%, the Exchange will take steps to increase the margin level for those pairings to one that will cover at least 97.5% of all instances. If the margin adequacy level is greater than 99%, the Exchange will take steps to lower the margin requirements for those pairings to one which will cover 99%. In no event, however, will the initial or maintenance margin levels for any pairing of approved currencies be reduced below the 4% and 6% levels discussed above without the prior approval of the Commission. *See* Exchange Act Release No. 34925, *supra* note 3.

[18] *See* Amendment No. 1, *supra* note 5.

[19] *See supra* note 17.

[20] *See supra* note 13.

margin levels for any Tier III pairing be reduced below the 7% level discussed above without the prior approval of the Commission pursuant to Section 19(b) of the Act.[21]

As with Customized FCOs currently being listed by the Phlx, the Options Clearing Corporation (''OCC'') will clear and settle all trades in Customized FCOs involving the Lira or Peseta. Because quotes in these options will not be continuously updated or otherwise priced by the Phlx, the OCC will generate a theoretical price based on the prices and quotes of the Customized FCOs and the closing value of the relevant underlying currency. The OCC will use this price to make the Customized FCO contracts involving the Lira and Peseta daily and to calculate margin requirements.

The Commission finds that the proposed rule changes are 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).[22] First, the Commission believes that the trading of listed Customized FCOs on the Lira and Peseta should provide investors with a hedging and risk transfer vehicle that will reflect the overall movement of the Lira and Peseta in relation to the U.S. dollar and the other Phlx approved currencies. In this regard, Customized FCOs on the Lira and Peseta should provide investors with an efficient and effective means of managing risk associated with those currencies.

Second, Customized FCOs on both the Lira and Peseta will trade within the Exchange's existing framework for Customized FCOs which the Commission has previously found to adequately address the Commission's regulatory concerns.[23] Specifically, this framework includes, among other things, rules pertaining to: obligations of specialists and registered options trades (Rule 1014); position limits (Rule 1001); exercise limits (Rule 1002); bids and offers (Rule 1033); minimum fractional changes (Rule 1034); and trading rotations, halts, and suspensions (Rule 1047).[24]

Third, the Exchange has proposed adequate customer margin requirements for Customized FCOs on both proposed currencies. The proposed add-on margin (*i.e.*, 7% for both the Lira and Peseta) provides sufficient coverage to account for historical and potential volatility in the Lira and the Peseta in relation to the U.S. dollar. As noted above, the 7% customer margin add-on level would cover 98.84% and 99.10% of all seven day price changes over the prior three-year period in the Lira and Peseta, respectively, in relation to the U.S. dollar. Moreover, all Customized Cross-Rates involving either the Lira or Peseta will be margined at the 7% margin add-on level as opposed to either the 4% or 6% levels that apply to Customized Cross-Rates involving the Exchange's other approved currencies. In addition, the Exchange must conduct periodic reviews of the volatility in the two currencies and must take immediate steps to increase the existing customer margin levels if the Exchange determines that the existing levels are no longer adequate.[25] As a result, the Commission believes that the proposed customer margin levels and the review and maintenance criteria for those margin levels will result in adequate coverage of contract obligations and are designed to reduce risks arising from inadequate margin levels for Customized FCOs (including Customized Cross-Rates) involving either the Lira or Peseta.

The Commission finds good cause for approving Amendment No. 1 to each of the proposed rule changes prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. First, the changes increasing the margin levels for Customized FCOs (including Customized Cross-Rates) involving the Lira or Peseta serve an investor protection purpose by reducing the risks that can arise from inadequate margin levels. Additionally, the Commission notes that these changes impose more restrictive standards than those contained in the original proposals which were published in the Federal Register for the full 21-day comment without any comments being received by the Commission.

Second, the changes to the language in the Phlx's rules specifying that FCOs on the Lira and the Peseta are limited to Customized FCOs (including Customized Cross-Rates) and the remaining clarifying amendments in Amendment No. 1 serve to minimize any potential for investor confusion from the proposed rule changes.

Third, accelerated approval of the proposed amendments to the rule changes will allow the Exchange to begin offering these products without further delay to those investors who desire an exchange-traded product to hedge their currency exposure to the Lira and Peseta.

Accordingly, the Commission believes that the proposed rule changes are consistent with Section 6(b)(5) of the Act and that good cause exists to approve Amendment No. 1 to each of the Phlx's proposals on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1 to each of the proposals. 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 Phlx. All submissions should refer to the File No. SR–Phlx–95–20 or File No. SR–Phlx–95–21, as appropriate, and should be submitted by October 19, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[26] that the proposed rule changes (File Nos. SR–Phlx–95–20 and SR–Phlx–95–21), as amended, are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[27]

Margaret H. McFarland,

Deputy Secretary.

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[21] *See* Amendment No. 1, *supra* note 5.

[22] 15 U.S.C. 78f(b)(5) (1988).

[23] *See* Exchange Act Release No. 34925, *supra* note 3.

[24] *id.*

[25] *See* ''Customer Margin'' and ''Customized Cross-Rates,'' *supra*.

[26] 15 U.S.C. 78s(b)(2) (1988).

[27] 17 CFR 200.30–3(a)(12) (1994).