

those that apply to FLEX Index Options, except that unless the Exchange decides otherwise, there will not be FLEX Appointed Market-Makers¹⁰ who are obligated to respond to Requests for Quotes in respect of FLEX Equity Options as there are in respect of FLEX Index Options. Instead, the PSE proposes to have five or more "FLEX Qualified Market-Makers" appointed to each class of FLEX Equity Option who must satisfy essentially the same standards of qualification as FLEX Appointed Market-Makers (including the requirement for a specific clearing member letter of guarantee for FLEX Options),¹¹ and who may, but without obligation to do so, enter quotes in response to a Request for Quotes in a class of FLEX Equity Options in which the Market-Maker is qualified. In addition, FLEX Qualified Market-Makers will be obligated to make responsive quotes when called upon to do so by a FLEX Post Official¹² in the interests of a fair and orderly market. Quotes of FLEX Qualified Market-Makers must satisfy the minimum size parameters discussed above for FLEX Equity Options and must be entered within the time periods provided in the PSE's FLEX Options Rules.¹³

The PSE represents that the rules governing priority of bids and offers for FLEX Equity Options are also much the same as those that apply to FLEX Index Options, except that in the case of FLEX Equity Options, no guaranteed minimum right of participation is provided to an Exchange member that initiates a Request for Quotes and indicates an intention to cross or act as principle on the trade;¹⁴ as to such a member the Exchange's regular rules of price and time priority shall apply.¹⁵

The PSE represents that position limits and exercise limits for FLEX Equity Options are proposed to be larger than the limits applicable to Non-FLEX Equity Options, in the same manner and for the same reasons that the position and exercise limits for FLEX Index Options are larger than those applicable to Non-FLEX Index Options. Position and exercise limits for FLEX Equity Options are proposed to be five times the limits for Non-FLEX Equity Options on the same underlying security. Also, as is currently the case for FLEX Index Options, it is proposed that there will be no aggregation of positions or exercises

in FLEX Equity Options with positions or exercises in Non-FLEX Equity Options for purposes of position or exercise limits. The PSE believes that the larger position and exercise limits for FLEX Options and the nonaggregation of positions and exercises in FLEX Options and Non-FLEX Options reflect the institutional nature of the market for FLEX Options and the fact that the PSE must compete with over-the-counter markets throughout the world, many of which do not impose any position or exercise limits whatsoever.

Also, the Exchange proposes to provide that the expiration date of a FLEX Equity Option may not fall on a day that is within two business days of the expiration date of a Non-FLEX Equity Option. This is intended to eliminate the possibility that the exercise of FLEX Equity Options at expiration will cause any untoward pressure on the market for underlying securities at the same time as Non-FLEX Options expire. The Exchange proposes that this change will also apply to FLEX Index Options.¹⁶

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to

90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. 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 at 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 PSE. All submissions should refer to SR-PSE-95-24 and should be submitted by December 4, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36457; File No. SR-Phlx-95-60]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Regarding Alternate Specialists

November 3, 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 September 15, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange

¹⁷ 17 CFR 200.30-3(a)(12).

¹⁰ See Rule 8.109.

¹¹ See, e.g., PSE Rules 8.109, 8.113, 8.114, and 8.115.

¹² See PSE Rule 8.100(b)(7).

¹³ See PSE Rule 8.103.

¹⁴ See PSE Rule 8.103(c).

¹⁵ See PSE Rule 6.75.

¹⁶ Current PSE Rule 7.52(b)(4) provides that the expiration date of a FLEX Index Option may not fall within three business days of the expiration date of a Non-FLEX Index Option.

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. On November 1, 1995, the Exchange submitted to the Commission Amendment No. 1 to the proposed rule change.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 Phlx, pursuant to Rule 19b-4 of the Act, proposes to amend Phlx Rule 202A, Responsibilities of Alternate Specialists, to reduce the number of equity issues in which an individual can serve as Alternate Specialist from the current maximum, which is all of the Exchange's approximately 2,300 securities, to a new level of 60 securities.

Moreover, under the proposed rule change, the Exchange would permit the "50% on-floor requirement" to be met by trade volume, rather than share volume. The proposed rule change would also allow Alternate Specialists to count trades effected on another national securities exchange through the Intermarket Trading System ("ITS") towards their 50% on-floor requirement provided that the Alternate Specialist's on-floor trades outnumber his/her ITS trades by a minimum ratio of three-to-one. An Alternate Specialist's ITS trades in excess of that ratio could not be used to satisfy the 50% requirement. Moreover, unexecuted orders of 500 shares or more placed with the Specialist on the Exchange at a price on or in-between the consolidated market and maintained on the book for an extended period of time would be eligible for the 50% on-floor requirement.²

The Exchange also proposes that, once a member has been assigned as an Alternate Specialist, the member must maintain such assignment for at least 30 business days, after which the member may terminate the assignment by providing written notification to the Exchange on a form prescribed by the

Exchange.³ Terminations will become effective as of the opening of trading on the equity floor on the business day following the submission.

Moreover, to avoid repetition and improve the clarity of Rule 202A, the Phlx proposes to amend several provisions that focus on the coordination of Alternate Specialist activities with the respective Specialist, the Alternative Specialist's participation on openings, and the handling of orders. Specifically, the Exchange proposes to consolidate into Rule 202A(a) the provisions relating to an Alternate Specialist's affirmative and negative market making obligations, which were previously covered by paragraphs (b)-(e) of Rule 202A. Under the proposed rule change, Rule 202A(a) defines an Alternate Specialist as an individual member of the Exchange registered as an equity Specialist on the floor who, in addition to those securities for which he serves as Specialist, has agreed to provide liquidity on demand as an Alternate Specialist in the execution of customer orders in certain other securities on the Exchange. The responsibilities of the Alternate Specialist are defined as follows: to provide a bid and/or offer in the security upon the request of a Floor Broker or Specialist holding a customer order and to only participate in the execution of such orders in a manner reasonably calculated to contribute to the maintenance of a fair and orderly market.

Finally, the Exchange proposes to incorporate certain requirements previously contained in the Supplementary Materials into new Rule 202A(c), which will list the criteria for qualifying and maintaining the status of an Alternate Specialist. The Exchange also proposes to delete the remaining requirements in the Supplementary Materials because the Exchange finds them unnecessary in light of other existing Exchange rules.

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

Currently, Rule 202A, which was adopted in 1987, outlines the responsibilities of Alternate Specialists on the Exchange. The Rule presently permits equity Specialists to trade in an Alternate Specialist capacity in all securities traded on the equity floor. As a result, the current rule does not encourage Alternate Specialists to focus liquidity in small groups of stocks where more concentration of activity could result in a higher degree of liquidity. Therefore, the proposal limits the maximum number of Alternate Specialist issues to 60 per member. The primary purpose of the proposed rule change is to bolster liquidity provided by the Phlx's Alternate Specialist program by concentrating Alternate Specialist activities in a more focused manner.

The current rule also provides that Alternate Specialists must comply with two quarterly trading requirements. First, 50% of an Alternate Specialist's quarterly share volume (excluding share volume in securities in which he is registered as Specialist) must be in issues to which he is assigned. In situations where a Floor Official requests an Alternate Specialist to participate in trading an issue in which he is not assigned, to share volume so accumulated will be included as part of the volume required to satisfy the 50% requirement. Second, 50% of the quarterly share volume that creates or increases a position ("opening") in an alternative specialist account must result from transactions consummated on the Exchange.

This proposal deletes the first requirement that 50% of the Alternate Specialist's share volume must be in assigned issues because the Exchange has limited the maximum number of Alternate Specialist securities to 60. The other 50% requirement (i.e., that 50% of the Alternate Specialist's "opening" volume must be effected on the Phlx) is retained.⁴ The Exchange, however, proposes to replace the "50% of quarterly opening share volume" requirement with "50% of quarterly trade volume." The Exchange states that it has determined that the requirement should no longer be limited to

¹ See letter from Gerald D. O'Connell, First Vice President, Phlx, to Glen Barrentine, Team Leader, Division of Market Regulation, SEC, dated October 30, 1995. In Amendment No. 1, the Exchange clarifies that the "50% of quarterly opening share volume" requirement has been replaced with "50% of quarterly trade volume."

² According to the Exchange, an "extended period of time" will be determined by the Exchange on a case by case basis. Telephone conversation between Edith Hallahan, Special Counsel, Regulatory Services, Phlx, and Jennifer S. Choi, SEC, on October 11, 1995.

³ The Exchange notes that the general provision pertaining to assignment of Alternate Specialists is Phlx Rule 201A.

⁴ See Phlx Rule 202A(c)(iv).

“opening” positions because measuring all trade volume each quarter to ensure that 50% is executed on the Exchange should fulfill the Phlx’s intent to monitor for true alternate specialist activity and obligations. The Exchange also notes that opening transactions are difficult to monitor because floor tickets are not marked with an opening or closing distinction on the equity floor.

Moreover, the 50% on-floor requirement is proposed to be amended both to employ trade volume rather than share volume in the calculation as well as to include: (1) ITS trades and (2) unexecuted orders placed on the Phlx at prices on or between the consolidated market. In this regard, the Phlx notes that, consistent with their regulatory responsibility to provide fair and orderly markets, Alternate Specialists must provide liquidity on the Exchange in assigned alternate issues. The ability to inventory or offset securities positions is a critical aspect of the National Market System, which links equity markets, including the Phlx and seven other equity markets, with the goal of best-execution pricing. Thus the Exchange believes that it is appropriate to allow one-quarter of the 50% on-floor requirement to be met by ITS trades effected away from the Exchange, because ITS enhances liquidity and provides the linkage vital to a true National Market System. Only those ITS trades that do not exceed a ratio of three Phlx trades to one ITS trade may be counted. For example, if an Alternate Specialist needs to employ ITS trades to meet his on-floor requirement, and has executed a total of 2,000 trades in that quarter, the requirement could be met by effecting 250 off-floor ITS trades and 750 on-floor trades.

Second, the Exchange notes that Alternate Specialists serve an important role in providing liquidity and stabilizing the marketplace in their Alternate Specialist securities. In offsetting positions or responding to market needs, Alternate Specialists routinely place orders on the Exchange that add liquidity to the Exchange’s market, regardless of whether the orders are subsequently availed upon by a customer’s agent, to facilitate customer interest. In order to give proper credit to such stabilizing and liquidity-providing orders placed on the Exchange floor by Alternate Specialists that are not executed, the Exchange also proposes to count toward the 50% requirement orders placed on the Exchange on or in-between the consolidated market, notwithstanding that the orders are not executed. The Alternate Specialist must evidence for any such claim that the

respective bid or offer was maintained for an extended period of time.

As part of the proposed simplification of the Rule, the Phlx proposes to delete certain existing provisions, namely former Supplementary Material .06, .07 and .09. First, the Exchange proposes to delete Commentary .06, which states that Alternate Specialists as a group are entitled to participate in opening a security on the Exchange with equal standing with respect to any net imbalance (after Specialist participation) of purchase and sale orders on the Exchange. This provision is being deleted because the Exchange believes that the priority of orders is already adequately addressed in Rules 119 and 120,⁵ which fairly allot participation levels to all members, including Alternate Specialists.⁶

Second, the Phlx also proposes to delete Commentary .07, which provides that following the opening, when the bids or offers of one or more Alternate Specialists are equal in price to those of the Specialist, the Alternate Specialist as a group are entitled to participate in the transactions effected thereon to the extent of one-third of the total shares involved (excluding those needed to satisfy public orders). This provision also is being deleted because existing parity and priority provisions of Rules 119 and 120 satisfactorily allocate shares in today’s market environment.⁷

Third, the Exchange also proposes to delete Commentary .09, which states that, when requested by a Floor Broker, an Alternate Specialist must accept and guarantee execution of all 100 share agency orders to which his assignment extends that are not accepted by the Specialist. This provision is being deleted because the affirmative obligation of this provision only pertains to 100 share orders and will be largely superseded by new Rule 202A(c)(iv), where the Alternate Specialist’s affirmative obligation to maintain an adequate presence in his assigned issues is more pronounced.⁸

⁵ See Phlx Rule 119 (Precedence of Highest Bid) and Phlx Rule 120 (Precedence of Offers at Same Price).

⁶ Therefore, in accordance with Phlx’s rules of priority and precedence, the level of Alternate Specialists participation would depend on price and size. Telephone conversation between Gerald O’Connell, Vice President, Phlx, and Jennifer S. Choi, SEC, on October 25, 1995.

⁷ Under the Phlx’s rules of priority and precedence, the number of shares that an Alternate Specialist and a regular specialist would be entitled to would depend on price, time, and size. Telephone conversation between Gerald O’Connell Vice President, Phlx, and Jennifer S. Choi, SEC, on October 25, 1995.

⁸ The Commission notes that new provision 202A(c)(iv) requires that the Alternate Specialist “maintain an adequate presence in the Exchange’s

2. Statutory Basis

The proposed rule change is consistent with Section 6 of the Act in general, and in particular, with Section 6(b)(5), in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, as well as to protect investors and the public interest. The Exchange believes that the proposed changes to Rule 202A strengthen its requirements by limiting the number of Alternate Specialist issues, which, in turn, should prevent fraudulent and manipulative acts and practices, and foster consistency with the principles underlying the National Market System and Section 11A, as well as favorable specialist margin treatment.⁹ Nevertheless, the Exchange also believes that the proposed changes with respect to the 50% requirements should protect investors and the public interest as well as promote just and equitable principles of trade by facilitating the inventory needs of Alternate Specialists.

B. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the Federal Register or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to

market with respect to assigned alternate issues and related trade activities for the alternate account,” and sets forth the 50% on floor requirement. This provision, however, does not require the alternate specialist to guarantee execution of any specific number of shares.

⁹ Phlx specialists and alternate specialist qualify for favorable margin treatment under Rule 12 of Regulation T.

which the self-regulatory organization consents, the Commission will:

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. 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, NW., Washington, DC 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, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-Phlx-95-60 and should be submitted by December 4, 1995.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36456; File No. SR-Phlx-95-67]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Increasing the Maximum Size of Placer Dome Options Orders Eligible for Automatic Execution

November 3, 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 September 22, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described

in Items I, II and III below, which Items have been prepared by the self-regulatory organization.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

Generally, public customer market and marketable limit orders for up to 25 option contracts are eligible for execution through the automatic execution ("AUTO-X") feature of the Phlx's Automated Options Market ("AUTOM") system.² The Phlx proposes to implement a six-month pilot program that increases the maximum AUTO-X order size eligibility for public customer market and marketable limit orders for Placer Dome, Inc. ("PDG") options from 25 contracts to 50 contracts.

The text of the proposed rule change is available at the Office of the Secretary, Phlx, 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

The purpose of the proposal is to implement a six-month pilot program that increases the maximum AUTO-X order size eligibility for PDG options from 25 to 50 contracts.³ The Phlx has

¹ On October 30, 1995, the Phlx amended its proposal to request that the proposal be implemented on a six-month pilot basis. See Letter from Gerald D. O'Connell, First Vice President, Market Regulation and Trading Operations, Phlx, to Michael Walinskas, Branch Chief, Office of Market Supervision, Division of Market Regulation, Commission, dated October 30, 1995 ("Amendment No. 1").

² For USTOP 100 Index ("TPX") options, public customer market and marketable limit orders for up to 50 contracts are eligible for AUTO-X. See Securities Exchange Act Release No. 35781 (May 30, 1995), 60 FR 30131 (June 7, 1995) (File No. SR-Phlx-95-29).

³ See Amendment No. 1, *supra* note 1.

traded PDG options since 1987.

According to the Exchange, PDG, which is traded on the New York Stocks Exchange, has moved in price from 18³/₈ in January 1995 to 27⁵/₈ in September 1995. This, in turn, has caused increased volatility in the overlying options. In addition, the Phlx notes that PDG options have consistently been one of the most active equity options traded on the Phlx. According to the Phlx, the daily trading volume in PDG options has averaged 1,641 contracts per day throughout 1995, and open interest was 69,425 contracts on September 8, 1995.

Because of this recent activity, the Phlx proposes to implement a six-month pilot program allowing up to 50 PDG contracts to be executed automatically by AUTO-X. Generally, a maximum of 25 equity option contracts are eligible for AUTO-X, although USTOP 100 Index options are subject to a 50 contract AUTO-X maximum.⁴ In addition, the Phlx recently filed a proposal with the Commission to increase the maximum AUTO-X order size to 50 contracts for all equity and index options.⁵ Accordingly, the purpose of the proposal at hand is to afford expedited treatment to PDG options to provide a sample, which can be reviewed while consideration is given to File No. SR-Phlx-95-39.

The Phlx notes that the proposed 50 contracts for PDG options represents the maximum size of a permissible AUTO-X order in PDG options, which is determined by the specialist in PDG options. Under the 10-up rule,⁶ the maximum size of the Exchange's AUTO-X guarantee is 10 contracts.

AUTOM, which has operated on a pilot basis since 1988 and was most recently extended through December 31, 1995, is the Phlx's electronic order

⁵ See File No. SR-Phlx-95-39.

⁶ See Phlx Rule 1033(a), "Size of Bid/Offer and 10-up Guarantee."

⁷ See Securities and Exchange Act Release No. 35183 (December 30, 1994), 60 FR 2420 (January 9, 1995) (order approving File No. SR-Phlx-94-41). See also Securities Exchange Act Release No. 25540 (March 31, 1988), 53 FR 11390 (order approving AUTOM on a pilot basis); 25868 (June 30, 1988), 53 FR 25563 (order approving File No. SR-Phlx-88-22, extending pilot through December 31, 1988); 26354 (December 13, 1988), 53 FR 51185 (order approving File No. SR-Phlx-88-33, extending pilot program through June 30, 1989); 26522 (February 3, 1989), 54 FR 6465 (order approving File No. SR-Phlx-89-1, extending pilot through December 31, 1989); 27599 (January 9, 1990), 55 FR 1751 (order approving File No. SR-Phlx-89-03, extending pilot through June 30, 1990); 28625 (July 26, 1990), 55 FR 31274 (order approving File No. SR-Phlx-90-16, extending pilot through December 31, 1990); 28978 (March 15, 1991), 56 FR 12050 (order approving File No. SR-Phlx-90-34).

Continued