

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-36424A; File No. SR-PSE-95-26]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Stock Exchange, Inc., Relating to the Amendment of the Schedule of Rates for Exchange Services

November 6, 1995.

Correction

In notice document 95-27129 beginning on page 55628 in the issue of Wednesday, November 1, 1995, make the following correction.

On page 55628, in the third column, under the Purpose heading, the second sentence should read as follows:

The Exchange is proposing to establish a rate \$0.25 per contract side where the premium is \$1 or more per contract for contracts in a block trade over the first 400.

In the initial notice of this proposed rule change, the Commission erroneously stated that the PSE's reduced fee schedule would apply to the first 400 of such contracts, as opposed to the Exchange's intent that this reduced fee be applicable to contracts over the first 400. In all other respects, the PSE's initial proposal is unchanged.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36452; File No. SR-PSE-95-24]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Pacific Stock Exchange Incorporated, Relating to the Listing and Trading of Flexible Exchange Options on Specified Equity Securities

November 2, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 5, 1995, the Pacific Stock Exchange Incorporated ("PSE" 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 Exchange. On October 25, 1995, the Exchange filed with the Commission Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to amend its rules to provide for the listing and trading of Flexible Exchange Options ("Flex Options") on specified equity securities ("FLEX Equity Options"). The text of the proposed rule change is available at the Office of the Secretary, the Exchange, 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 Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (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 proposed rule change is to expand the PSE's FLEX Options rules⁴ to permit the introduction of trading in FLEX Options on specified equity securities that satisfy the Exchange's listing standards for equity options. Currently, FLEX Options are listed and traded on the PSE in respect of several broad market indexes of equity securities ("FLEX Index Options").⁵

³ In Amendment No. 1, the Exchange first proposes to add the definition of "FLEX Post Official" to PSE Rule 8.100(b)(7). Second, the Exchange proposes to add as new PSE Rule 8.114, the provision on financial requirements for FLEX Appointed Market Makers, which had been inadvertently deleted from the proposed rule change as originally filed. Third, the Exchange proposes to re-number PSE Rule 8.114, as PSE Rule 8.115. See Letter from Michael D. Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, dated October 26, 1995.

⁴ See PSE Rules 8.100 through 8.114.

⁵ Specifically, the Commission has approved the listing by the PSE of FLEX Options on the Wilshire

For the most part, the PSE represents that the current rules governing FLEX Index Options will apply unchanged to FLEX Equity Options. Certain changes to the PSE's existing FLEX Options rules, however, are proposed to deal with the special characteristics of FLEX Equity Options. Specifically, the PSE proposes to add several new definitions to rule 8.100 to accommodate the introduction of trading in FLEX Equity Options,⁶ and to revise certain other PSE rules describing FLEX Options and governing their trading, as described below.

The PSE proposes to revise Rule 8.102 concerning the terms of FLEX Options to make specific reference to the terms of FLEX Equity Options. Specifically, FLEX Equity Options will have (1) a maximum term of three years, (2) a minimum size of 250 contracts for an opening transaction in a new series, and (3) a minimum size of 100 contracts for an opening or closing transaction in a series in which there is already open interest (or any lesser amount in a closing transaction that represents the remaining underlying size). The minimum value size for FLEX Quotes⁷ by a single Market-Maker in response to a Request for Quotes⁸ in FLEX Equity Options is the lesser of 100 contracts or the remaining underlying size in a closing transaction.

The PSE also proposes to allow exercise prices and premiums for FLEX Equity Options to be stated in dollar amounts or percentages, with premiums rounded to the nearest minimum tick and exercise prices rounded to the nearest one-eighth. The exercise of FLEX Equity Options will be by physical delivery, and the exercise-by-exception procedures of The Options Clearing Corporation ("OCC") will apply.⁹

The PSE represents that the trading procedures applicable to FLEX Equity Options will be mostly the same as

Small Cap and PSE Technology Indexes. See Securities Exchange Act Release No. 34364 (July 13, 1994), 59 FR 36813 (July 19, 1994) (approval of FLEX Options on the Wilshire Small Cap and PSE Technology Indexes).

⁶ In addition to the term FLEX Equity Options, the proposal also defines the terms "FLEX Index Options," "Non-FLEX Options," "Non-FLEX Equity Option," and "Applicable Floor Procedure Committee."

⁷ See PSE Rule 8.100(b)(7).

⁸ See PSE Rule 8.100(b)(12).

⁹ OCC Rule 805 provides for automatic exercise of in-the-money options at expiration without the submission of an exercise notice to the OCC if the price of the security underlying the option is at or above a certain price (for calls) or at or below a certain price (for puts); and the non-exercise of an option at expiration if the price of the security underlying the option does not satisfy such price levels. See OCC rule 805.

¹ 17 CFR 200.30-3(a)(12) (1994).

¹⁵ U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.