

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

This rule change is filed pursuant to paragraph (A) of Section 19(b)(3) of the Act, and paragraphs (e)(5)(i), (ii), and (iii) of Rule 19b-4 thereunder. The NYSE PRIME program will entail enhancements to the Exchange's CMS (common message switch), SuperDOT and Post Trade systems. This program does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and does not have the effect of limiting access to or availability of any Exchange order entry or trading system. As such, this rule change, as amended on November 16, 1995,⁴ may take effect immediately upon filing with the Commission, to modify the program described in SR-NYSE-95-35.⁵ At any time within 60 days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of the Act.

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 Exchange. All submissions should refer to File No. SR-NYSE-95-37 and should be submitted by December 15, 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. 34-36473; International Series Release No. 884; File No. SR-PHLX-95-62]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Selective Quoting Facility for Foreign Currency Options

November 9, 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 18, 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. 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

Commentary .04 to PHLX Rule 1012, "Series of Options Open for Trading," and Floor Procedure Advice ("Advice") F-18, "FCO Expiration Months and Strike Prices," establish the Selective Quoting Facility ("SQF") for foreign currency options ("FCOs"). The SQF, a feature of the Exchange's Auto-Quote system, categorizes each FCO series as either an "update strike" or a "non-update strike." Update strikes, for which PHLX quotes must be made available for continuous dissemination to the public throughout the trading day include, at the minimum: (1) The four strike prices below and the four strike prices above the underlying price for American-style options¹ with expiration dates of the three nearest mid-month expirations and the three nearest month-end expirations; and (2) any other European-style² or American-

¹ An American-style option can be exercised on any business day prior to its expiration date and on its expiration date.

² A European-style option can only be exercised during a specified period before it expires.

style series where there is open interest as of the commencement of that date. In addition, update series may be activated intra-day at the initiative of the PHLX or in response to a request from either the respective specialist or from an FCO floor official. The PHLX proposes to amend Exchange Rule 1012, Commentary .04 and Advice F-18 to (1) categorize series which maintain open interest but have not traded within the previous five days as non-update series;³ and (2) amend the definition of update series, which are set at the commencement of each trading day, to include the 10, 20, 30, 40 and 50 delta⁴ strikes below and above the underlying price rather than the four strike prices above and below the underlying price. The proposal to amend the definition of update series to include the 10, 20, 30, 40, and 50 delta strikes below and above the underlying price will not result in additional strike price intervals; rather, it will identify the existing strike prices which will be classified as update series.⁵

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.

³ For non-update series, continuous dissemination of Exchange quotes to the public is not required. Although the proposal classifies series which maintain open interest but have not traded within the previous five trade days as non-update series, the proposal also provides that such series must have one bid/ask quote disseminated at the close of each trade day.

⁴ Delta is a measure of how an option premium changes in relation to the price of the underlying instrument. For example, a delta of 50 means that for every one point move in the spot price of an underlying foreign currency, the option premium moves 1/2.

⁵ Telephone conversation between Edith Hallahan, Special Counsel, Regulatory Services, PHLX, and Yvonne Fraticelli, Attorney, Options Branch, Division of Market Regulation, Commission, on October 6, 1995.

⁴ See *supra* note 1.

⁵ See *supra* note 2.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The PHLX proposes to amend the SQF, contained in PHLX Rule 1012, Commentary .04, and in Advice F-18, to reduce the number of FCO strike prices continuously updated and disseminated by the Exchange. Advice F-18 establishes criteria to determine for each FCO series whether its bid/ask quotation is eligible for processing through the Options Price Reporting Authority ("OPRA") for off-floor dissemination to vendors. The Exchange proposes to eliminate updating and disseminating strike prices in FCO series of no immediate investment interest to customers.

Currently, the SQF, which is a feature of the Exchange's Auto-Quote system, categorizes certain FCO strikes as "non-update" or "inactive" strikes, which are disseminated with the OPRA indicator "I" and zeroes (e.g., 000-000) in lieu of a market. In contrast, "update" or "active" strikes include at a minimum: (1) Around-the-money strikes in near-term American-style options; and (2) strikes with open interest. Update series may also be added at the initiative of the Exchange or in response to a request by the specialist or an FCO floor official.

When a series is added to the inactive category, those bids and offers are no longer updated in the Exchange's Auto-Quote system for dissemination; however, if interest is voiced in any such series, it can be activated immediately upon establishment of a quote in that series. Because inactive series are not continuously updated and disseminated, quotation processing times are shortened so that quotes of interest are updated and disseminated to customers much more quickly. According to the PHLX, approximately 40% of the Exchange's 10,000 FCO strike prices are currently inactive.

At this time, the Exchange proposes to amend the SQF to recategorize certain active strikes as inactive. Specifically, the PHLX proposes to categorize as non-update FCO strikes with open interest that have not traded within the previous five days. The PHLX believes that this should reduce the number of strikes continuously updated and disseminated and thereby further expedite the processing and dissemination times of those strike prices in which there is apparent customer interest. In addition to being disseminated with zeroes and an "I" intra-day, these strikes with open interest will also be quoted once at the close of trading each day for purposes of mark-to-market of positions and

general day-end valuations for the benefit of the position holders.

Further, instead of defining around-the-money strikes as those four above and four below the spot price, the proposal provides that the five options with an approximate 10, 20, 30, 40 and 50 delta will be considered around-the-money. The PHLX notes that because deltas change, the designation of active strikes will also be changed automatically throughout the trade day. Thus, the requirement that active strikes remain active throughout the trade day will also be eliminated.

According to the PHLX, recent volatility in the foreign currency markets has caused fluctuating and dramatic movements in foreign currency exchange rates. This, in turn, has created the addition of considerably more strike prices as the spot price moves to accommodate the new trading ranges of the underlying currencies. The PHLX notes that these conditions have been particularly pronounced for Japanese yen options.⁶ The Exchange believes that these market conditions now impose an onerous burden on FCO specialists to maintain updated markets in strike prices for which, on occasion, there is little or no customer interest. The purpose of the proposal is to alleviate this burden and, thus, to improve the timeliness and accuracy of FCO quotes.

According to the PHLX, the SQF was adopted in 1994 with the goal, similar to that of the current proposal, of reducing the number of strike prices for which markets are continuously updated and disseminated.⁷ In adopting the SQF, the PHLX established criteria to provide more timely and accurate FCO quote displays by eliminating quote change disseminations in series with no probable public investor interest. The PHLX states that eliminating such quote changes reduces dissemination delays caused by thousands of quote changes in volatile trading periods.

In analyzing different approaches to alleviating this burden, the PHLX considered the impact on customers, floor traders, Exchange staff, and vendors, among others, to achieve a solution. For instance, the PHLX states that simply deleting strikes with no open interest creates confusion for

customers when gaps in the sequential orders of strike prices result.⁸ Further, the PHLX notes that delisting and re-listing strikes as the spot price fluctuates imposes administrative and systems burdens on both the Options Clearing Corporation ("OCC") and vendors displaying FCO quotes.

Therefore, the PHLX proposes to make certain changes to the SQF, which are intended to reduce the number of FCO series subject to continuous quote change dissemination. First, under the proposal, update series will no longer include series with open interest if such series did not trade within the previous five trading days; a closing quotation will nevertheless be disseminated in such series. The Exchange believes this change will eliminate a significant number of quote changes, because in many series a small number of FCO positions create open interest, which remains without fluctuation or additional trading volume. The PHLX notes that public customers, like all market participants, continue to be protected by the SQF feature which requires a quotation to be disseminated before a trade can be entered.⁹ In addition, the PHLX believes that the proposal protects public investors because one quote will be disseminated at the end of the trading day for any inactive series with open interest. The purpose of this quote is to provide option holders with an indication of the market for that option as well as to provide OCC with a closing value to mark the market for margin and capital purposes.¹⁰

Second, the proposal redefines active strikes as those with an approximate 10, 20, 30, 40, or 50 delta around the underlying price. According to the PHLX, the purpose of this change is to categorize strike prices in the terminology used by FCO market participants. The PHLX notes that, in some instances, the fourth strike price below the spot price could be a 30 delta option, so that the activated around-the-money series do not include a 40 or 50 delta option. The Exchange believes that it is important to include strike prices with a delta up to 50 because these represent the most active, volatile

⁸ Thus, although the Exchange is committed to delisting unnecessary strike prices, the effectiveness of this policy is limited by the potential for customers confusion and inconsistency among series.

⁹ See SQF Approval Order, *supra* note 7. In the SQF Approval Order, the Commission noted that public customers are protected by the feature of the SQF which requires a quotation to be disseminated after an options series is activated but before a trade can be entered.

¹⁰ See PHLX Rule 722(e)(i). See also SEC Rule 15c3-1.

⁶ See Securities Exchange Act Release No. 36239 (September 15, 1995), 60 FR 49032 (September 21, 1995) (File No. SR-PHLX-95-47) (notice of filing of proposal to widen the quote spread parameters for Japanese yen options).

⁷ See Securities Exchange Act Release No. 33067 (October 19, 1993), 58 FR 57658 (October 26, 1993) (order approving File No. SR-PHLX-92-23) ("SQF Approval Order").

options, for which the dissemination of quotes is meaningful.

The PHLX recognizes that redefining active strikes in terms of a delta figure may result in a greater number of strikes as well. Further, the Exchange notes that the delta associated with a strike changes as the spot price changes, so that different strikes become the 10–50 delta strikes, and, thus, the active series. Therefore, the PHLX proposes to amend the SQF to “deactivate” strikes intra-day that no longer fit the definition of active. For instance, those series which are no longer around-the-money based on a delta change would be de-activated. New around-the-money strikes, in response to market changes, will be updated and disseminated. However, a former update strike may qualify as an update strike due to, for example, open interest and trading volume.¹¹

Thus, the Exchange believes that enhancing the SQF should address the strike price and quote change situation in a volatile FCO market. As an estimate, the PHLX anticipates these steps will reduce the number of strike prices currently disseminated each day by approximately 15%, or 1,000 strikes, which will improve the Exchange’s ability to provide timely and accurate quotes, including quotes in new FCO products that may be traded on the Exchange in the future.

The Exchange believes that the proposal 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, as well as to protect investors and the public interest. Specifically, the Exchange believes that the proposal should promote just and equitable principles of trade by facilitating speedier dissemination of FCO markets. The PHLX states that the proposal is also designed to facilitate coordination between the Exchange and OCC, OPRA, and securities information vendors. The PHLX notes that the protections of the SQF will include an end-of-day quote for inactive series with open interest, consistent with the protection of investors and the public interest. In sum, the PHLX believes that the

proposed changes to the SQF should facilitate the specialists’ ability to focus on active series, which should, in turn, result in tighter, more liquid markets, consistent with Section 6(b)(5).

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

The PHLX 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 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 reason 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. 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 December 15, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95–28619 Filed 11–22–95; 8:45 am]

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[Release No. 34–36369A; File No. SR–Phlx–95–22]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Accelerated Approval of Amendment Nos. 1, 2, 3, 4, and 5 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Listing and Trading of Options on the Phlx Super Cap Index; Correction

November 13, 1995.

In notice document 95–26004 beginning on page 54274 in the issue of Friday, October 20, 1995, make the following correction:

On page 54276, in footnote number 25, in the third column, the first sentence should read as follows:

²⁵ Pursuant to proposed amendment to Phlx Rule 1047A, the opening rotation for Super Cap Index options *may* be held after underlying securities representing 75% of the current index value of all the securities underlying the index have opened for trading on the primary market.

In footnote number 25 of the initial approval order for this proposed rule change, the Commission inadvertently stated that opening rotations for industry index options also require that 75% of the securities underlying the index have opened for trading on the primary market. In all other respects, the approval order is unchanged.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95–28620 Filed 11–22–95; 8:45 am]

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[Release No. 34–36482; File No. SR–PHLX–95–73]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to New Organizational Structures for Members

November 14, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

¹² 17 CFR 200.30–3(a)(12) (1994).

¹ 17 CFR 200.30–3(a)(12) (1994).

¹¹ Under the proposal, update strikes are defined to include not only the 10, 20, 30, 40, and 50 delta strikes, but also any other series where there is open interest at the commencement of the day, if that series has traded within the previous five trade dates.