1993.[4] However, there have been no further increases in position limits since 1993, despite substantial changes in the marketplace. Most notable among these changes, according to the PHLX, is an appreciable growth in index options trading. This marked increase in index options volume has significantly increased liquidity in PHLX-traded index options, as open interest has similarly increased.[5]

Second, the Exchange believes that the proposed increases are reasonable. The PHLX states that in prior releases approving increased position limits, the Commission acknowledged that a gradual, evlutionary approach has been adopted by the Commission and the various options exchanges in increasing position and exercise limits. Accordingly, the PHLX proposes a 33% increase in the lowest tier (from 5,000 to 6,000 contracts); a 31% increase for options currently at the 7,500 contract limit; and a 20% increase in the highest tier, which is currently at 10,500 contracts. The Exchange believes that these proposed increases are consistent with the gradual evolution cited by the Commission, because the proposed levels represent reasonable increases which are in line with prior changes.[6]

Third, the Exchange believes that the proposed increases are needed by traders and investors. According to the PHLX, Exchange members and customers have asked the Exchange to propose an increase in position limits. The PHLX states that the requests have focused on the inability of interested trading participants to meet their investment needs at current position limit levels and the deleterious effect this inability is having on these products. Based on such member and customer requests, the Exchange has realized that the current position limit levels discourage market participation by large investors and the institutions that compete to facilitate the trading interests of large investors.

Accordingly, the PHLX proposes to raise position limits to accommodate the liquidity and hedging needs of large investors and the facilitators of those investors. Specifically, certain institutional traders handling industry funds deal in securities valued many times higher than the maximum permissible position under PHLX rules.

In addition, the Exchange believes that the proposed limit of 6,000, 9,000, and 12,000 contracts should increase the depth and liquidity of the markets for index options. The PHLX also believes that higher position limits would further accommodate the hedging needs of Exchange market makers and specialists, who are also restricted by current levels.

The Exchange has considered the effects of increased position limits on the marketplace, recognizing the purposes of these limits in preventing manipulation and protecting against disruption of the markets for both the option as well as the underlying security. The PHLX notes that it nevertheless continues to monitor the markets for evidence of manipulation or disruption caused by investors with positions at or near current position or exercise limits and that the new limits will not diminish the surveillance function in this regard. Additionally, surveillance procedures have become increasingly sophisticated and automated.

For these reasons, the Exchange believes that the proposal to increase narrow-based index option position limits 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 and to prevent fraudulent and manipulative acts and practices, as well as to protect investors and the public interest. The Exchange believes that the proposal should remove impediments to and perfect the mechanism of a free and open market by providing market opportunity to investors constricted by current position limit levels. The PHLX also believes that by stimulating market participation and thereby increasing option market depth and liquidity, the proposed rule change should promote just and equitable principles of trade. At the same time, the PHLX believes that the proposed position limits should continue to prevent fraudulent and manipulative acts and practices as well as protect investors and the public interest by limiting the ability to disrupt and manipulate the markets for options as well as the underlying securities.

(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 received or requested.

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 June 6, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[7]

Margaret H. McFarland,

Deputy Secretary.

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[4] *See* Securities Exchange Act Release No. 33288 (Dec. 3, 1993), 58 FR 65221 (Dec. 13, 1993) (order approving File No. SR–PHLX–93–07).

[5] The PHLX states that index options volume increased 450% (from 354,614 contracts to 1,957,171 contracts) in 1994 as compared to 1993.

[6] According to the PHLX, the most recent position limit changes in 1993 represented changes of 38% (from 4,000 to 5,500 contracts); 25% (from 6,000 to 7,500 contracts); and 31% (from 8,000 to 10,500 contracts).

[7] 17 CFR 200.30–3(a)(12) (1994).