

available for inspection and copying in 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 GSCC. All submissions should refer to File No. SR-GSCC-95-02 and should be submitted by October 17, 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. 34-36248; File No. SR-PHLX-95-39]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Increasing the Maximum Size of Options Orders Eligible for Automatic Execution

September 19, 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 August 21, 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

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.¹ The PHLX proposed to increase the maximum AUTO-X order size eligibility for public customer market and marketable limit orders for all equity and index 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 increase the maximum order size eligibility for AUTO-X from 25 to 50 contracts. The PHLX notes that this number represents the maximum size of a permissible AUTO-X order, which is determined by the specialist in that option. Under the 10-up rule,² the minimum 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, 1995,³ is the PHLX's electric order routing, delivery, execution and

² See PHLX Rule 1033(a), "Size of Bid/Offer and 10-up Guarantee."

³ See Securities 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 Nos. 25540 (March 31, 1988), 53 FR 11390 (order approving AUTOM on a pilot basis); 25868 (June 30, 1993), 53 FR 35563 (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, extending pilot through December 31, 1991); 29662 (September 9, 1991), 56 FR 46816 (order approving File No. SR-PHLX-91-31, permitting AUTO-X orders up to 20 contracts in Duracell options only); 29837 (October 18, 1991), 56 FR 36496 (order approving File No. SR-PHLX-91-33, increasing size of AUTO-X orders from 10 contracts to 20 contracts); 32906 (September 15, 1993), 58 FR 15168 (order approving File No. SR-PHLX-92-38, permitting AUTO-X orders up to 25 contracts in all options); and 33405 (December 30, 1993), 59 FR 790 (order approving File No. SR-PHLX-93-57, extending pilot through December 31, 1994).

reporting system for equity and index options. AUTOM is an on-line system that allows electronic delivery of options orders from member firms directly to the appropriate specialist on the Exchange's trading floor.

Certain orders are eligible for AUTOM's automatic execution feature, AUTO-X.⁴ AUTO-X orders are executed automatically at the disseminated quotation price on the Exchange and reported to the originating firm. Orders that are not eligible for AUTO-X are handled manually by the specialist.

The Commission approved the use of AUTO-X as part of the AUTOM pilot program in 1990.⁵ In 1991, the Commission approved a PHLX proposal to extend AUTO-X to all equity options.⁶ As noted earlier, orders for up to 500 contracts are eligible for AUTOM and orders for up to 25 contracts, in general, are eligible for AUTO-X.

The PHLX believes that the proposed expanded AUTO-X parameter should improve the AUTOM system by offering the benefits of AUTO-X, including prompt and efficient automatic executions at the displayed price, to additional customer orders. The Exchange states that the proposed AUTO-X increase from a maximum of 25 to 50 contracts is in line with prior changes. For example, the PHLX notes that the Commission previously has approved other PHLX proposals to increase the maximum AUTO-X contract size limit.⁷

Further, the Exchange believes that it is appropriate to permit automatic executions of option orders up to 50 contracts for several reasons. First, the PHLX states that AUTO-X affords each order the opportunity for price improvement, such that the price discovery mechanism is not impaired. Specifically, AUTO-X orders, although immediately reported with the best bid/offer as the execution price, may be subject to price improvement by the specialist, if a better bid/offer is

⁴ Orders for up to 500 contracts are eligible for AUTOM and public customer orders for up to 25 contracts, in general, are eligible for AUTO-X. See Securities Exchange Act Release Nos. 35782 (May 30, 1995), 60 FR 30136 (June 7, 1995) (order approving File No. SR-PHLX-95-30); and 32000 (March 15, 1993), 58 FR 15168 (March 19, 1994) (order approving File No. SR-PHLX-92-38). As noted above, public customer orders for up to 50 contracts in TPX options are eligible for AUTO-X. See Securities Exchange Act Release No. 35781, *supra* note 1.

⁵ See Securities Exchange Act Release No. 27599 (January 9, 1990), 55 FR 1751 (January 18, 1990) (order approving File No. SR-PHLX-89-03).

⁶ See Securities Exchange Act Release No. 28978 (March 15, 1991), 56 FR 12050 (March 21, 1991) (order approving File No. SR-PHLX-90-34).

⁷ See Securities Exchange Act Release No. 29837, *supra* note 3.

¹⁷ 17 CFR 200.30-3(a)(12) (1994).

¹ 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).

available. For example, a superior Registered Options Trader ("ROT") bid/offer established immediately prior to the receipt of an AUTO-X order may not be disseminated in time to be matched with such order electronically, but the superior bid/offer is matched with the AUTO-X order through the trade adjustment function of the system. In view of this opportunity for price improvement by manual specialist intervention, the Exchange believes that permitting the automatic execution of 26 to 50 lots does not raise pricing concerns.

Second, according to the PHLX, there are many safeguards incorporated into Exchange rules and policies to ensure the appropriate handling of AUTO-X orders. Although AUTO-X orders are by definition executed automatically at the disseminated quotation, there are procedures in place in the event that the quotes are not accurate. The PHLX states that these safeguards protect customer orders in the event quotations are not up-to-date, not disseminating, or otherwise malfunctioning. At the same time, specialists and (ROTs) are also protected from incorrect executions. For example, in extraordinary (fast) market conditions, quotations are disseminated with an "F" once the 10-up guarantee on screen markets is suspended pursuant to Option Floor Procedure Advise ("Advice") F-10, "Extraordinary Market Conditions (Fast Markets)." ⁸ In addition, Advice A-113, "Auto Execution Engagement/Disengagement Responsibility," allows a specialist to disengage AUTO-X in extraordinary circumstances, upon approval by two floor officials. PHLX believes that these provisions serve to protect the integrity of AUTO-X by preventing inaccurate executions.

Third, the Exchange notes that specialists have the flexibility to establish the AUTO-X guarantee size for each option up to the maximum permissible size. In addition, the Exchange's "Wheel" for electronically assigning AUTO-X participation (although not yet operational) is voluntary for ROTs and will provide executions in 10-lot increments.⁹ Thus,

⁸ Under Advice F-10, when a fast market is in effect, displayed options quotes are not firm and the 10-up guarantee is not applicable, although specialists and trading crowds are required to use best efforts to update quotes and fill incoming orders in accordance with the 10-up rule.

⁹ The Wheel is an automated mechanism for assigning specialists and ROTs, on a rotating basis, as contra-side participants for AUTO-X orders. Specialists must participate on the Wheel and ROTs may participate on the Wheel in assigned issues. On the Wheel, the specialist receives the first assignment of trades for the day in each respective option. Thereafter, the Wheel assigns trades to

the PHLX believes that increasing the maximum AUTO-X order size up to 50 contracts does not raise financial viability concerns because ROTs can choose whether to participate on the Wheel and because the Wheel assigns order in 10-lot increments. With respect to the financial integrity of PHLX specialists and ROTs, the Exchange notes that it monitors compliance with PHLX Rules 703, "Financial Responsibility and Reporting," and 722, "Margin Accounts," on a regular basis.

The Exchange states that the proposed expansion of the AUTO-X maximum order size should not impose significant burdens on the operation and capacity of the AUTOM system. Instead, the PHLX believes that the proposal may enhance AUTOM's effectiveness by increasing the number of orders eligible for automatic execution, thereby reducing manual processing.

The PHLX believes that the proposal is consistent with Section 6(b) 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, by extending the benefits of AUTO-X to a larger number of customer orders.

(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

ROTs in an order standardized for that day on a random basis. Each 10 lot or order (whichever is smaller) constitutes an assignment. See Securities Exchange Act Release No. 35033 (November 30, 1994), 59 FR 63152 (December 7, 1994) (order approving File No. SR-PHLX-94-32).

(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. 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 17, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-26253; International Series Release No. 856; File No. SR-CBOE-95-41]

Self-Regulatory Organizations; Order Granting Accelerated Approval of a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, and 3 to the Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to Warrants on the Japanese Export Stock Index

September 19, 1995.

I. Introduction

On August 7, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed a proposed rule change with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities

¹⁰ 17 CFR 200.30-3(a)(12) (1994).