

Based on its experience during the pilot program, PTC anticipates that the later opening of processing activity will have no impact on the settlement process. PTC will continue to monitor any effects of the change.

PTC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁵ and the rules and regulations thereunder because it facilitates the prompt and accurate clearance and settlement of securities transactions and provides for the safeguarding of securities and funds in PTC's custody or control or for which PTC is responsible.

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

PTC 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

PTC has not received written comments on the proposed rule change. The pilot program and the proposed permanent opening of security processing activity at 8:30 a.m. was discussed on December 7, 1995, at a meeting of the PTC Operations Committee, which consists of participant representatives. It was the consensus of the Committee members that the 8:30 a.m. opening time should be made permanent and that in addition to the intraparticipant activities that retained the 7:00 a.m. opening time under the pilot program the return of collateral using the CLF mechanism should also open at 7:00 a.m.

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

Within thirty-five 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 ninety 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.

16, 1995), 60 FR 54741 [File No. SR-PTC-95-06] (notice of filing of proposed rule change.

⁵ 15 U.S.C. § 78q-1(b)(3)(F) (1988).

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 in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of PTC. All submissions should refer to file number SR-PTC-95-08 and should be submitted by January 24, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Jonathan G. Katz,
Secretary.

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[Release No. 34-36636; International Series Release No. 910; File No. SR-PHLX-95-62]

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

December 26, 1995.

I. Introduction

On September 18, 1995, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to amend the Selective Quoting Facility ("SQF") for foreign currency options ("FCOs") to reduce the number of FCO strike prices which the Exchange must make available for continuous dissemination

⁶ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1994).

to the public throughout the trading day.

Notice of the proposed rule change was published for comment and appeared in the Federal Register on November 24, 1995.³ No comments were received on the proposal.

II. Description of the Proposal

The SQF, contained in 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," is a feature of the Exchange's Auto-Quote system which establishes criteria to determine whether the bid/ask quotation for each FCO series is eligible for processing through the Options Price Reporting Authority ("OPRA") for off-floor dissemination to vendors. The SQF categorizes each FCO series as either an "update strike" or a "non-update strike." "Non-update" or "inactive" strikes are disseminated with the OPRA indicator "I" and zeroes (e.g., 000-000) in lieu of a market. 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. 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 more quickly. According to the PHLX, approximately 40% of the Exchange's 10,000 FCO strike prices are currently inactive.

Update strikes, for which PHLX quotes must be made available for continuous dissemination to the public throughout the trading day currently include, at the minimum: (1) the four strike prices below and the four strike prices above the underlying price for American-style options⁴ with expiration dates of the three nearest mid-month expirations and the three nearest month-end expirations; and (2) any other European-style⁵ or American-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

³ See Securities Exchange Act Release No. 36473 (November 9, 1995), 60 FR 58124.

⁴ An American-style option can be exercised on any business day prior to its expiration date and on its expiration date.

⁵ A European-style option can only be exercised during a specified period before it expires.

which maintain open interest but have not traded within the previous five days as nonupdate series; and (2) amend the definition of update series to include the approximately 10, 20, 30, 40 and 50 delta⁶ 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 approximately 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.⁷ Because deltas change, the designation of active strikes will also be changed automatically throughout the trading day.

According to the PHLX, recent volatility in the foreign currency markets has caused fluctuating and dramatic movements in foreign currency exchange rates.⁸ This volatility has resulted in the addition of more strike prices as the spot price moves to accommodate the new trading ranges of the underlying currencies. The Exchange believes that these market conditions 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 in which there is apparent customer interest. By eliminating quote change disseminations in series with no probable public investor interest, the proposal will reduce dissemination delays caused by thousands of quote changes in volatile trading periods.

According to the PHLX, categorizing series which maintain open interest but have not traded within the previous five days as non-update series 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 the Options Clearing Corporation ("OCC") with a closing value to mark the market for margin and capital purposes.¹⁰

The proposal also redefines active strikes as those with an approximately 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 would not include a 40 or 50 delta option. The Exchange believes that it is important to define strike prices with a delta up to 50 as update series because these represent the most active, volatile 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. Further, the Exchange notes that the delta associated with a strike changes as the spot price changes, different strikes will become the 10–50 delta strikes, and, thus, the active series. Therefore, the PHLX proposes to amend the SQF to "de-activate" strikes intraday that are no longer around-the-money based on a delta change.¹¹ The PHLX will update and disseminate new around-the-money strikes in response to market changes.

Thus, the Exchange believes that enhancing the SQF should address the strike price and quote change situation in a volatile FCO market. The PHLX estimates that the proposal 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 the OCC, OPRA, and securities information vendors. Finally, 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).

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5).¹² The Commission believes that the proposed amendments to the SQF will result in more timely and accurate FCO quote displays in series of known or probable interest to public customers. Moreover, the Commission believes that the proposal will increase the efficiency of the PHLX's option data transmission lines and increase the speed of the dissemination of FCO quotes to public investors in the series of most interest to market participants, thereby helping the PHLX to maintain fair and orderly options markets.¹³

Specifically, the PHLX proposes to categorize series with open interest that have not traded within the previous five days as non-update series. According to the Exchange, in many series a small

⁶Delta 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.

⁷Telephone conversation between Edith Hallahan, Special Counsel, Regulatory Services, PHLX, and Yvonne Fraticelli, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, on October 6, 1995.

⁸The PHLX notes that these conditions have been particularly pronounced for Japanese yen options. See Securities Exchange Act Release No. 36539 (November 30, 1995), 60 FR 62910 (December 7, 1995) (File No. SR-PHLX-95-47) (order approving proposed rule change to widen the quote spread parameters for Japanese yen options).

⁹ See Securities Exchange Act Release No. 33067 (October 19, 1993), 58 FR 57458 (October 26, 1993) (order approving File No. SR-PHLX-92-23) ("SQF Approval Order"). 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.

¹¹ Under the proposal, a strike that is no longer around-the-money based on a delta change may qualify as an update strike if there is open interest in the series and the series has traded within the previous five trade dates.

¹² 15 U.S.C. § 78f(b)(5) (1988 & Supp. V 1993).

¹³ The PHLX estimates that the proposal will reduce the number of FCO strike prices currently disseminated each day by approximately 15%, or 1,000 strikes.

number of FCO positions creates open interest, which remains without fluctuation or additional trading volume; the PHLX believes that classifying series with open interest that have not traded within the previous five days as non-update series will eliminate a significant number of quote changes. This, in turn, should decrease FCO quotation processing times so that active quotes are updated and disseminated more quickly to public investors.

In addition, the PHLX proposes to amend the definition of update series to include the approximately 10, 20, 30, 40, and 50 delta strikes below and above the underlying price. The delta associated with a strike changes as the spot price changes, so that different strikes become the approximately 10–50 delta strikes and, thus, the active series. According to the PHLX, strike prices with a delta up to 50 represent the most active, volatile options, for which the dissemination of quotations is meaningful. Because the proposal provides that the approximately 10–50 delta strikes above and below the underlying price will be classified as update series, it benefits investors and helps the PHLX to maintain fair and orderly markets by allowing for the updating and dissemination of the quotations that are most useful to FCO market participants.

The PHLX proposes further to deactivate strikes intra-day that no longer fit the definition of active, thus eliminating quote change disseminations in series of improbable public investor interest and helping the PHLX to provide timely and accurate FCO quotes in series of interest to investors.¹⁴ At the time, the Exchange proposes to update and disseminate strikes which become active due to market changes, thereby helping to ensure that the most active FCO strikes are updated and disseminated throughout the trading day.

In addition, the Commission believes that the proposal protects market participants by providing for the dissemination of one bid/ask quote at the end of each trading day for non-update series with open interest. This quote will provide option holders with an indication of the market for that option and will provide the OCC with a closing value to mark the market for margin and capital purposes.

¹⁴ A strike that is no longer around-the-money based on a delta change may qualify as an update strike if there is open interest in the series and the series has traded within the previous five trading days. In addition, update series may be activated intra-day at the PHLX's initiative or in the response to a request from a specialist or an FCO floor official.

The Commission continues to believe, as it has concluded previously,¹⁵ that the SQF, as amended, will not create an advantage to FCO participants on the trading floor with respect to the trading of options series not disseminated to the public. 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. Accordingly, a participant who is physically on the trading floor will learn of the specialist's market for a given options series when the series is activated and a quote is published, nearly identical in time to a potential customer watching a vendor screen off-floor.

IV. Conclusion

For the foregoing reasons, the Commission finds that the PHLX's proposal to amend the SQF is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (SR-PHLX-95-62) is approved.

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

Jonathan G. Katz,

Secretary.

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[Release No. 34-36637; File No. SR-Phlx-95-74]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Listing and Trading of Options on the PHLX Big Three Auto Sector Index

December 26, 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 September 25, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" 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 December 20, 1995, the Exchange submitted to the Commission Amendment No. 1 to the

¹⁵ See SQF Approval Order, *supra* note 9.

¹⁶ 15 U.S.C. § 78s(b)(2) (1988).

¹⁷ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

proposed rule change.³ The Commission is publishing this notice, as amended, 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 Exchange proposes to list and trade options on the Phlx Big Three Auto Sector Index ("Big Three Auto Index" or "Index"), a capitalization weighted index developed by the Phlx composed of all of the U.S. automobile manufacturing company stocks. 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 Phlx proposes to list for trading an European-style option⁴ on the Phlx Big Three Auto Sector Index which is an index representing the domestic automobile industry. The Phlx believes that the Big Three Auto Index will appeal to individual investors as well as program and basket traders because the Index reflects the direction and pricing of the nation's entire domestic automobile industry. Because the Big Three Auto Index is based on a small number of actively traded stocks, the Exchange believes that replication of the Index for hedging purposes with underlying stocks can be readily accomplished with complete accuracy. Thus, the Phlx believes that the

³ The Exchange proposes to amend its position limit rule to state that the position limit for options on the Big Three Auto Index is 5,500 contracts total. Additionally, the Exchange proposes to amend the filing to change the method of calculating the Index from equal-dollar weighting to capitalization weighting. See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated December 20, 1995 ("Amendment No. 1").

⁴ European-style options can be exercised only during a specific time period prior to expiration of the options.