

[Release No. 34-38157; File No. SR-PHLX-96-46]

**Self-Regulatory Organizations;
Philadelphia Stock Exchange, Inc.;
Notice of Filing and Immediate
Effectiveness of Proposed Rule
Change Relating to the Listing and
Trading of European-Style Options on
the Philadelphia Stock Exchange
Semiconductor Index**

January 10, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 18, 1996, 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, III below, which Items have been prepared by PHLX. On December 30, 1996, and January 6, 1997, PHLX amended the filing ("Amendment No. 1" and "Amendment No. 2," respectively).² 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**

PHLX proposes to list and trade European-style index options³ and LEAPS⁴ on the PHLX Semiconductor index. The European-style index options would trade side-by-side with the existing American-style Semiconductor index options.⁵ With the exception of the exercise style, the two indices are otherwise identical.⁶

**II. Self-Regulatory Organization's
Statement of the Purpose of, and
Statutory Basis for, the Proposed Rule
Change**

In its filing with the Commission, PHLX 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. PHLX 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**

PHLX proposes to list and trade European-style options on PHLX's Semiconductor index.⁷ This index would trade side-by-side with the American-style Semiconductor index options presently listed and trading on the Exchange. The proposed index options would have the same specifications as the American-style index options with the exception of the exercise style.⁸ PHLX would differentiate the proposed European-style Semiconductor index options by using the symbol SXE, while the symbol for the American-style index options would remain SOX. The Exchange will provide notice to its membership and the public prior to the effectiveness of this filing emphasizing the difference between the symbols and the exercise style of both index options. Following Commission approval, the Exchange agrees that on a quarterly basis, it will notify its membership of the differentiation between the two index options, their exercise styles, and the aggregation of position limits for European-style and American-style options on PHLX's Semiconductor index.

The Exchange received numerous customer requests for a European-style Semiconductor Index option indicating that many investors prefer to trade index options that cannot be exercised except on the last trading day prior to expiration. European-style index options have certain advantages, including the elimination of the risk of early exercise. For example, investors holding spread positions would not have to be concerned that one leg of a short position can be exercised prior to expiration. The elimination of the early exercise also allows the investor to engage in long range planning and long

range strategies. However, the Exchange also recognizes the great success of the existing American-style option which allows those investors who like the early exercise feature to have that ability.

The exercise price of the options will be set at 5 point intervals. Additional exercise prices will be added in accordance with PHLX Rule 1101A(a). The last trading day for expiring contracts will be the Thursday before the third Friday of the expiration month. PHLX will trade consecutive and cycle month series of the options pursuant to Rule 1101A. Specifically, there will be three expiration months from the March, June, September, December cycle plus at least two additional near term months. LEAPS will also be traded on the Index pursuant to Exchange Rule 1101A(b)(iii). The Semiconductor index is an industry index, and therefore the PHLX will employ position limits and exercise limits pursuant to PHLX Rules 1001A(b)(i) and 1002A respectively. The position and exercise limits will be aggregated with the American-style index options presently trading on the Semiconductor index. Therefore, the aggregated position limit will be 15,000 contracts.⁹ The options will trade during the hours of 9:30 a.m. and 4:10 p.m. eastern time.

The options will be traded pursuant to current PHLX rules governing the trading of the index options, particularly PHLX Rules 1000A through 1102A and generally, PHLX Rules 1000 to 1072. The Exchange also represents that surveillance procedures currently used to monitor the trading in each of the Exchange's other index options will also be used to monitor trading in options on the Index. These procedures include having complete access to the trading activity in the underlying securities which are all traded on either the NYSE or NASDAQ. In addition, the Intermarket Surveillance Group Agreement ("ISG Agreement") dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of options on the index.

PHLX believes the proposed rule change is consistent with Section 6 of the Act in general, and in particular, with Section 6(b)(5),¹⁰ in that it is designed to promote just and equitable principles of trade, facilitate transactions in securities, while protecting investors and the public

¹ 15 U.S.C. 78s(b)(1).

² Letters from Nandita Yagnik, Esq., New Product Development, PHLX, to Margaret Blake, Office of Supervision, Division of Market Regulation, Commission (December 23, 1996 and January 2, 1997).

³ A European-style option may be exercised only during a specified period before the option expires.

⁴ LEAPS are long-term index options having up to 36 months to expire.

⁵ See Securities Exchange Act Release No. 34546 (August 4, 1994) 59 FR 43881 (order approving the listing and trading of options and long term options on the PHLX Semiconductor Index).

⁶ A list of the specific stocks together with their price, market value, and weight in the index is attached as Exhibit B to the filing and is available for review in the Public Reference Section of the Commission, or the principal office of the PHLX.

⁷ The Semiconductor index is a price weighted index consisting of 16 stocks of companies listed on the New York or NASDAQ stock exchanges which are primarily involved in the design, manufacture, sale and distribution of Semiconductors used in computer and other electronic device manufacturing. As of the close of trading on October 14, 1996 the index had a value at 195.70. The Semiconductor index had a two for one split on July 24, 1995.

⁸ The European-style options on PHLX's Semiconductor index will be a.m. settled like the American-style options currently trading on the Semiconductor index.

⁹ See Securities Exchange Act Release No. 37863 (October 28, 1996), 61 FR 56599 (order approving an increase in Narrow-Based index option position and exercise limits).

¹⁰ 15 U.S.C. § 78f(b)(5).

interest. Specifically the Exchange believes that the proposal provides investors with a choice that allows the investor to choose the exercise style most suitable to their investment needs. In addition, the Exchange believes that the proposal will not create investor confusion regarding the two indices because of the difference in the symbols representing the two index options.

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

PHLX believes that the proposal does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Comments were neither solicited nor received.

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

The foregoing rule change shall become operative 30 days after the date of filing the amended proposal,¹¹ or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest pursuant to section 19(b)(3) of the Securities Exchange Act of 1934 and subparagraph (e) of Securities Exchange Act Rule 19b-4. At any time within 60 days of the filing of such proposed 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 Securities Exchange Act of 1934.

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 in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of PHLX. All submissions should refer to File No. SR-PHLX-96-46 and should be submitted by February 7, 1997.

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

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-38154; File No. SR-PHLX-96-40]

Self-Regulatory Organizations; Philadelphia Stock Exchange, Incorporated; Order Approving of Proposed Rule Change Relating to Equity Margin Rules

January 10, 1997.

I. Introduction

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 1, 1996, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change relating to its equity margin rules. The proposal was published for comment in the Federal Register on November 25, 1996.² No comments were received on the proposed rule change. This order approves the Exchange's proposal.

II. Description of the Proposal

The PHLX has proposed to amend Rules 721, 722, and 723 in order to harmonize the PHLX's margin rules with those of the other self-regulatory organizations ("SROs").

Amended Rule 721 will now provide for initial customer margin requirements that will be identical to the initial customer equity margin requirements of the New York Stock Exchange ("NYSE"), the American Stock Exchange ("AMEX") and the Pacific Stock Exchange ("PSE").³ Specifically, a customer must deposit at least the greater of the amount specified by

Regulation T or \$2,000 equity, except that cash need not be deposited in excess of any security purchased.

The PHLX has proposed to amend Rule 722 to provide for good faith margin in instances where a member organization carries the proprietary account of another broker-dealer in compliance with the requirements of Regulation T. The rule will further provide that the member organization may not carry the account in a deficit position and must deduct from its own net capital the difference between the margin required by other sections of this rule and the equity on deposit. The PHLX proposed adding these provisions so as to parallel its margin rule with that of the NYSE.⁴

The PHLX has proposed to completely restate Rule 723. The pre-amended version of Rule 723 applied to member and member firm trading which is now governed by PHLX Rules 722 and 703.⁵ Exchange research identified that the current text of Rule 723 has not been amended since at least 1937.⁶ Accordingly, the arcane text predates all modern margin and capital rules of the PHLX. In lieu of the outdated provisions of Rule 723, the Exchange proposes replacing such text with the current customer day-trading provisions and the prohibition against free-riding which have been promulgated by the other major SROs.⁷

This rule will require a customer to have sufficient equity to meet the margin required on either the long or short transaction, whichever occurred first on an intra-day basis. For purposes of this rule, the term "customer" will be defined, as it is in Rule 722(e)(2), to not include "a broker or dealer from whom a security has been purchased or to whom a security has been sold for the account of a member organization or its customers."

In addition, a prohibition against free riding in a customer's cash account has been included in order to preclude a customer from making a practice of paying for a security by selling the same security on an intra-day basis.

Other major SROs do not have any intra-day margin requirements

⁴ See NYSE Rule 431(e)(6).

⁵ Rule 722 concerns margin accounts, and Rule 703 concerns financial responsibility and reporting.

⁶ In researching the history of Rule 723 the PHLX reviewed Exchange guides from as far back as the 1930s, wherein, the rule appeared exactly as it now reads. Furthermore, Rule 723 itself makes no reference to ever having been amended. See PHLX Rule 723.

⁷ The PHLX proposes adopting the language promulgated by the New York Stock Exchange. See NYSE Rule 431(f)(8)(B)-(C) and (f)(9).

¹² 17 CFR 200.30-3(a)(12) (1996).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 37962 (November 19, 1996), 61 FR 59919.

³ See NYSE Rule 431(b); AMEX Rule 462; PSE Rules 2.15(e), 2.16(a).

¹¹ PHLX submitted the last amendment on January 6, 1997 and therefore the 30 days will be calculated from this date.