

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 Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the submission is consistent with the Act. 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 Room, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR-PCX-98-23 and should be submitted by June 18, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40007; File No. SR-PHLX-98-12]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. to Trade Options in Narrower Increments

May 19, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on April 22, 1998, 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 Exchange has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (e)(6) of Rule 19b-4 under the Act<sup>2</sup> which renders the proposal effective upon receipt of this filing by the Commission.<sup>3</sup> 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

The Phlx, pursuant to Rule 19b-4 of the Act, proposes to permit Phlx index and equity options to be traded in narrower increments. Specifically, Rule 1034 is proposed to be amended to give the Board of Governors the authority to establish the minimum trading increments for index and equity options 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

###### 1. Purpose

Currently, Rule 1034 provides that the minimum fractional change for options trading under \$3.00 is one-sixteenth and for options trading at \$3.00 or higher,

<sup>2</sup> CFR 240.19b-4(e)(6).

<sup>3</sup> The Exchange has represented that the proposed rule change: (i) Will not significantly affect the protection of investors or the public interest; (ii) will not impose any significant burden on competition; and (iii) will not become operative for 30 days after the date of this filing, unless otherwise accelerated by the Commission. The Exchange also has provided at least five business days notice to the Commission of its intent to file this proposed rule change, as required by Rule 19b-4(e)(6) under the Act. *Id.*

one-eighth. In the case of LEAPS<sup>4</sup> on the Value Line Composite Index, Rule 1034 provides that the minimum fractional change is one-eighth point in option contracts trading at \$5.00 per index option or higher, and one-sixteenth point in option contracts trading below \$5.00 per index option. In response to recent industry events,<sup>5</sup> the Exchange has determined that Rule 1034 be changed to permit Phlx index and equity options to be traded in narrower increments. Specifically, Rule 1034 is proposed to be amended to give the Board of Governors the authority to establish the minimum trading increments for index and equity option contracts. Until such time as the Board of Governors determines to use its authority to establish the minimum fractional shares, current standards will apply.

The proposal is intended to achieve uniformity with the rules of other options exchanges.<sup>6</sup> The amendments should also improve the Exchange's ability to promptly respond to market changes in trading increments. The proposal will allow the Exchange to revise its minimum fractional changes quickly in response to changes adopted in the minimum trading increments in the markets for securities underlying Phlx options or to changes in the minimum trading increments for one of the other options exchanges. When the Board of Governors determines to change the trading increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 1034 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Act and will file a rule change for immediate effectiveness upon filing with the Commission.

The Exchange notes that there has been a movement within the securities

<sup>4</sup> See Phlx Rule 1101A(b)(iii).

<sup>5</sup> See Securities Exchange Act Release Nos. 38571 (May 5, 1997), 62 FR 25682 (May 9, 1997) (Order approving SR-Amex-97-14, relating to trading equity securities in sixteenths); 38678 (May 27, 1997), 62 FR 30363 (June 3, 1997) (Order approving SR-NASD-97-27, relating to trading certain equity securities in sixteenths); 38897 (August 1, 1997), 62 FR 42847 (August 8, 1997) (Order approving SR-NYSE-97-21, relating to trading equity securities in sixteenths); and 38779 (June 26, 1997), 62 FR 36328 (July 7, 1997) (Order approving SR-Phlx-97-27, relating to trading equity securities in sixteenths).

<sup>6</sup> See Securities Exchange Act Release Nos. 39734 (March 9, 1998), 63 FR 12846 (March 16, 1998) (Order approving SR-Amex-97-41, relating to trading options in narrower increments); 39736 (March 9, 1998), 63 FR 12851 (March 16, 1998) (Order approving SR-CBOE-97-49, relating to trading options in narrower increments); and 39735 (March 9, 1998), 63 FR 12852 (March 16, 1998) (Order approving SR-PCX-97-39, relating to trading options in narrower increments).

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 17 U.S.C. 78s(b)(1).

industry to reduce the minimum trading and quotation increments for equity securities imposed by the various self-regulatory organizations.<sup>7</sup> As derivative securities, the price of options are determined in reference to the underlying securities. Consequently, the Exchange believes that where practicable, the Exchange should have minimum increments comparable to those applicable to the securities underlying the Phlx options.

The Exchange also believes that the proposed rule change would give the Exchange the flexibility to follow the suit of the principal exchanges for the underlying securities without having to update its rules continually, but at the same time would give the Exchange the flexibility it needs to deviate from the minimum increments established by the principal markets for the underlying securities in the event that the Phlx's systems were not immediately able to handle such increments. The Exchange, therefore, believes the quality of the market for Phlx options will be enhanced by allowing more accurate pricing of Phlx options.

Further, the Exchange is proposing to retitle Rule 1034 "Minimum Trading Increments" for consistency with other exchange's rules. The Exchange is also proposing to add express reference to index options for clarity, noting that Rule 1034 currently applies to index options pursuant to Rule 1000A(a). Lastly, the Exchange is proposing to delete Commentary .01 regarding the minimum trading increment for Value Line LEAPs. If needed, any such new product-specific trading increment could be adopted pursuant to the paragraph proposed to be renumbered as Rule 1034 (iii), which provides that different increments may be fixed by the Exchange. The proposal should extend the benefits of trading in a narrower increment to Phlx options, which should, in turn, promote more accurate pricing of options and tighter quotations.

## 2. Statutory Basis

The Exchange represents that the proposed rule change is consistent with Section 6 of the Act<sup>8</sup> in general, and in particular, with Section 6(b)(5),<sup>9</sup> 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, to remove impediments to and perfect the mechanism of a free and open market and a national market system by permitting narrower minimum trading increments in Phlx options. The proposal is also consistent with Section 11A of the Act,<sup>10</sup> in that it promotes competition among the exchanges and market makers.<sup>11</sup>

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

The Exchange 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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

This proposed rule filing has been filed by the Exchange as a "non-controversial" rule change pursuant to Section 19(b)(3)(A)(i) of the Act<sup>12</sup> and subparagraph (e)(6) of Rule 19b-4 thereunder.<sup>13</sup> Consequently, because the foregoing proposed rule change: (1) Does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative until May 23, 1998, more than 30 days from April 22, 1998, the date on which it was filed, and the Exchange provided the commission with written notice of its intent to file the proposed rule change at least five days prior to the filing date, it has become effective pursuant to Section 19(b)(3)(A) of the act and Rule 19b-4(6) thereunder.

At any time within 60 days of the filing of the 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 Act.

<sup>10</sup> 15 U.S.C. 78k-1.

<sup>11</sup> In approving these rules, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>13</sup> 17 CFR 240.19b-4(e)(6).

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing; including whether the proposed rule change is consistent with the Act. 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 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the Phlx.

All submissions should refer to File No. SR-PHLX-98-12 and should be submitted by June 18, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40006; File No. SR-PHLX-98-10]

### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Automatic Price Improvement for Certain PACE Orders

May 19, 1998.

#### I. Introduction

On February 10, 1998, 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")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to adopt rules relating to a new

<sup>14</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>7</sup> *Supra*, note 2.

<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).