

or (ii) alters the exchange rate or exchange characteristics of its currency. Euros, however, will not be issued by the countries of origin of the currencies that they replace.

The proposed rule change clarifies that when a trading currency or an underlying currency is replaced, affected options may be adjusted whether or not the replacement currency is issued by the country of origin of the replaced currency. Similarly, the rule change clarifies that when a currency's exchange rate or exchange characteristics are officially altered, affected options may be adjusted whether or not the alteration is made by the currency's country of origin.

The proposed rule change also amends OCC's by-laws and rules applicable to the settlement of currency related options to accommodate the introduction of the euro. As described above, OCC will continue to use legacy currencies during the euro transition period. The proposed rule change authorizes members to deliver euros in lieu of the legacy currencies during the transition period specified by the European Union provided that the euros are delivered to the OCC agency bank that would have received the specified legacy currency. OCC's agent banks will determine if the amount of euros delivered is equivalent (based on the official conversion rate) to the amount of legacy currency called for in OCC's settlement instruction. OCC will not permit members to net obligations to deliver euros under any new euro-denominated contracts against obligations to receive legacy currencies or vice versa as such netting would be inconsistent with OCC's credit arrangements.

OCC's rules currently provide that Belgium is the country of origin for delivery of ECUs unless OCC specifies otherwise. The proposed rule change similarly specifies Germany as the country of origin for delivery of the euros unless OCC otherwise directs. OCC is also authorized to elect to receive euros through a multi-currency account outside the specified country of origin.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A because it clarifies OCC's authority to adjust outstanding foreign currency options in the event that the European Union converts to the euro and to prescribe the procedures for settlement in euros.<sup>3</sup>

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

OCC 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*

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been received.

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

Section 17A(b)(3)(F)<sup>4</sup> requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that OCC's rule change is consistent with OCC's obligations under Section 17A(b)(3)(F) because it clarifies the adjustment and settlement procedures applicable to currency-related options in anticipation of the European Union's scheduled conversion to the euro. This clarification of procedures should help increase the number of transactions which settle promptly and on a timely basis during the euro transition period.

OCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing. Because the European Union is scheduled to introduce the euro on January 1, 1999, the Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing.

**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, 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, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the File No. SR-OCC-98-13 and should be submitted by January 7, 1999.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-98-13) be and hereby is approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 98-33362 Filed 12-16-98; 8:45 am]

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-40757; File No. SR-Phlx-98-39]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to an Increase in Position and Exercise Limits for Narrow-Based Index Options**

December 7, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 3, 1998, 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 self-regulatory organization. Phlx filed an amendment to the proposed rule change on September 28, 1998.<sup>3</sup> The Commission is publishing this notice to solicit

<sup>5</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>3</sup> See Letter to Michael Walinskas, Deputy Associate Director, Division of Market Regulation, Commission, from Nandita Yagnik, Attorney, Phlx, dated September 25, 1998 ("Amendment No. 1"). Amendment No. 1 clarified that the Exchange intended to propose a tripling of the current position and exercise limits for narrow-based index options, not a doubling of the limits as stated in the original filing.

<sup>3</sup> 15 U.S.C. 78q-1.

<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F).

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 proposed to amend Phlx Rule 1001A(b)(1) by increasing narrow-based (industry) index option position limits,<sup>4</sup> which are subject to a three-tier position limit determination. Specifically, the current levels of 9,000, 12,000 and 15,000 contracts are proposed to be increased to 27,000, 36,000 and 45,000 contracts—a tripling of the current limits.

Exchange exercise limits,<sup>5</sup> which are contained in Phlx Rule 1002A, are established by reference to position limits, such that any increase in position limits would also increase exercise limits. Accordingly, the Phlx is proposing to increase its exercise limits to correspond to the proposed increases in position limits.

### **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**

The purpose of the proposed rule change is to increase industry index option position and exercise limits in order to attract additional trading interest and, thus, promote depth and liquidity in Phlx index options. The Exchange believes that the current limits constrain certain investors from trading index options. Pursuant to Rule 1001A, the three-tiered levels of

<sup>4</sup> Position limits impose a ceiling on the number of option contracts in each class on the same side of the market (*i.e.*, aggregating long calls and short puts or long puts and short calls) that can be held or written by an investor or group of investors acting in concert.

<sup>5</sup> Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

position and exercise limits are currently 9,000, 12,000 or 15,000 contracts. These position limits, which are standard among all of the options exchanges respecting narrow-based index options, are based on the degree of concentration of a component stock of the index.<sup>6</sup> For the reasons given below, the Exchange proposes to increase these limits to 27,000, 36,000 or 45,000 contracts.

The Exchange believes that the proposed increase is appropriate at this time, in light of the Exchange's nearly 15 years experience trading index options. In 1983, the Gold/Silver Index, XAU, was the first narrow-based index option to be traded on the Phlx, listed with a position limit of 4,000 contracts.<sup>7</sup> Since that time, the Exchange has listed additional index options, many of which have been successful products. Currently, the Phlx trades options on the following ten narrow-based indexes, noting the current position limits:

- (1) Gold/Silver Index ("XAU"): 9,000 contracts
- (2) Utility Index ("UTY"): 15,000 contracts
- (3) Phlx/KBW Bank Index ("BKX"): 15,000 contracts
- (4) Phone Index ("PNX"): 12,000 contracts
- (5) Semiconductor Index ("SOX"): 12,000 contracts
- (6) Airline Sector Index ("PLN"): 15,000 contracts
- (7) Forest and Paper ("FPP"): 15,000 contracts
- (8) Box Maker Index ("BMX"): 9,000 contracts
- (9) OTC Prime Index ("OTC"): 12,000 contracts
- (10) Oil Service Index ("OSX"): 12,000 contracts

The market for index options has also evolved, as more investors are familiar with the product and its uses.

The Exchange recognizes that the purposes of these limits are to prevent

<sup>6</sup> Specifically, Rule 1001A(b)(1) currently provides the following position limits for industry index options: (i) 9,000 contracts for an index where a single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits; (ii) 12,000 contracts for an index where a single component stock accounted, on average, for 20% or more of the index value or any five component stocks together accounted, on average, for more than 50% of the index value but not single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits; or (iii) 15,000 contracts where the conditions requiring a limit of 9,000 or 12,000 contracts have not occurred.

<sup>7</sup> Exchange Act Release No. 20437 (December 2, 1983)(SR-Phlx-83-17).

manipulation and protect against disruption of the markets for both the option as well as the underlying security. The Exchange has considered the effects of increased position limits on the marketplace, and believes that manipulation and disruption concerns are addressed by a tripled position limit and are offset by the market need for the increased limits. Specifically, the Phlx continues to monitor the markets for evidence of manipulation or disruption caused by investors with positions at or near current position or exercise limits; the new limits will not diminish the surveillance function in this regard.

The current levels has been in place since October 1996,<sup>8</sup> such that a review of the current position limits is appropriate. The Exchange believes that the proposed increases are reasonable. In prior releases approving increased position limits, the Commission acknowledged that a gradual, evolutionary approach has been adopted by the Commission and the various options exchanges in increasing position and exercise limits. In light of the nearly 2 years since limits were changed, the Exchange believes that these increases are reasonable.<sup>9</sup>

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 continues to believe that increases are needed for traders and investors. The Exchange has been requested by its members and customers, who have repeatedly expressed that these limits hamper the ability to execute investment strategies, to again propose an increase in position limits. Such requests emphasize that institutional hedging needs and trading objectives may exceed current limits, in view of the large portfolios common to institutional trading and that certain sized transactions are required to execute complicated, cross-market strategies. Floor members have expressed the resulting deleterious effect on index options trading in an exchange environment. Based on such

<sup>8</sup> See Exchange Act Release No. 37863 (October 24, 1996) (SR-Phlx-96-33). Previously, position limits were increased in 1983, 1993 and 1995.

<sup>9</sup> The most recent position limit change in 1996 represented a 50% percent increase in the lowest tier from 6,000 to 9,000 contracts; a 33% increase in the middle tier from 9,000 to 12,000 contracts and a 25% increase in the highest tier from 12,000 to 15,000 contracts. In 1995, the changes represented a 9% increase in the lowest tier from 5,500 to 6,000 contracts; a 20% increase from 7,500 to 9,000 contracts; and a 15% increase in the highest tier from 10,500 to 12,000 contracts. In 1993, the changes resulted in increases in 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.

member and customer requests, the Exchange has also realized that the current position limit levels continue to discourage market participation by large investors and the institutions that compete to facilitate the trading interests of large investors. Accordingly, this proposal aims to also accommodate the liquidity and hedging needs of large investors and the facilitators of those investors.

Concurrent with the proposed increase to position limits, the Exchange is also proposing a corresponding increase to industry index option exercise limits. The Exchange believes that this increase is necessary and appropriate for the same reasons as the rationale cited herein for the proposed position limit increases. Furthermore, exercise limits constrict trading strategies by preventing investors from exercising positions larger than the limit within five consecutive business days. The Exchange also notes that most of its index options currently are European style, exercisable only during a specified period at expiration, such that the manipulation and market disruption concerns associated with large exercises will be limited.<sup>10</sup>

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act<sup>11</sup> in general, and in particular, with Section 6(b)(5) in that it is designed to promote just and equitable principles trade, prevent fraudulent and manipulative acts and practices, as well as to protect investors and the public interest. The Exchange believes that the proposed rule change 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 level. 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. The Exchange believes that the proposal represents a balance between creating a disincentive to manipulate or disrupt

the marketplace consistent with the purposes of such limits, and setting such limit so low so as to discourage market participation or liquidity providing activity.

### *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*

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 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 reasons for so findings or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

## IV. Solicitation of Comments

Interested person are invited to submit written date, 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, N.W., Washington, D.C. 20549. Copies of the submissions, 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 of 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 Room. Copies of such filing will also be available for inspection and copying at the principal office at the Exchange. All submissions should refer to File No. SR-File-98-39 and should be submitted by January 7, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 98-33361 Filed 12-16-98; 8:45 am]

BILLING CODE 8010-01-M

## DEPARTMENT OF TRANSPORTATION

### Office of the Secretary

### Reports, Forms and Recordkeeping Requirements; Agency Information Collection Activity Under OMB Review

AGENCY: Office of the Secretary, DOT.

ACTION: Notice.

**SUMMARY:** In compliance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), this notice announces that the Information Collection Request (ICR) abstracted below has been forwarded to the Office of Management and Budget (OMB) for review and comment. The ICR describes the nature of the information collections and their expected burden. The **Federal Register** Notice soliciting comments on an interim final rule was published on September 1, 1998 [63 FR 46389-46394].

**DATES:** Comments must be submitted on or before January 19, 1999.

**FOR FURTHER INFORMATION CONTACT:** The following persons at the National Highway Traffic Safety Administration, 400 Seventh Street, SW., Washington, DC 20590: For program issues, Joan Catherine Tetrault, State and Community Services, NSC-01, (202) 366-2674; For legal issues, John Donaldson, Office of the Chief Counsel, NCC-30, (202) 366-1834.

#### SUPPLEMENTARY INFORMATION:

#### National Highway Traffic Safety Administration

*Title:* Uniform Criteria for State Observational Surveys of Seat Belt Use.  
*OMB Number:* 2127-0597.

*Type of Request:* Extension of a currently approved collection

*Abstract:* Section 1403 of the recently enacted Transportation Equity Act for the 21st Century (Pub. L. 105-178) added a new Section 157 to Title 23 of the United States Code (replacing a predecessor Section 157). The new section authorizes a State seat belt incentive grant program covering fiscal years 1999 through 2003. Under this program, the Secretary of Transportation is directed to allocate funds to the States (beginning in fiscal year 1999) based on

<sup>10</sup> The following index options are European style: UTY, BKK, PLN, FPP, BMX, OTC, OSX and SOX (SOX have both European and American style options).

<sup>11</sup> 15 U.S.C. 78f(b).

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