

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42884; File No. SR-OCC-99-16]

### Self Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Relating to Exercises by Put Holders During a Shortage of the Underlying Security

June 1, 2000.

On November 2, 1999, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-99-16) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published in the **Federal Register** on March 29, 2000.<sup>2</sup> On April 10, 2000, OCC filed an amendment to the proposed rule change.<sup>3</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

#### I. Description

OCC is amending Article VI, Section 19 of its By-laws to eliminate OCC's authority to prohibit exercises by put holders that would be unable to deliver the underlying security due to a shortage of the underlying security. In lieu thereof, the amended By-laws give OCC the right to suspend settlement until it can determine whether the unavailability of the underlying stock will extend past the option expiration date and upon making that determination to take the appropriate action under Article VI, Section 19(b) or (c). Thus, the rule change allows OCC to protect the benefit of the put holder's bargain and to treat puts and calls equally when there is a shortage of the underlying securities.

A similar change will be made to Article XV, Section 3 and Article XX, Section 3 with respect to dollar-denominated and cross-rate foreign currency options by deleting Article XV, Section 3 (b)(2) and Article XX, Section 3(b)(2). The deletions will conform the treatment of foreign currency puts to the treatment of equity puts by eliminating OCC's authority to prohibit exercises by put holders who would be unable to deliver the underlying interest. OCC already has the authority to fix cash settlement prices for foreign currency puts in appropriate circumstances.

Finally, Article XXIV, Section 5 of OCC's By-laws, which relates to buy-write options unitary derivatives (BOUNDS),<sup>4</sup> has been amended to conform OCC's treatment of BOUNDS put holders in shortage situations with its treatment of equity and foreign currency options holders in similar situations.

#### II. Discussion

Section 17A(b)(3)(F)<sup>5</sup> of the Act requires that the rules of a clearing agency not be designed to permit unfair discrimination among participants in the use of the clearing agency. The Commission finds that OCC's rule change is consistent with OCC's obligation under the Act because it amends OCC's rules so that put and call holders are treated similarly when there is a shortage of the underlying security.

#### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-99-16) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42861; File No. SR-PCX-99-45]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Pacific Exchange, Inc. Relating to House-Keeping Amendments to Rules on Floor Brokers

May 30, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rules 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 5, 1999, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. Additionally, on March 23, 2000, the Exchange filed with the Commission Amendment No. 1 to the proposal.<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 on the Terms of Substance of the Proposed Rule Change

The Exchange is proposing to modify its options Floor Broker rules by renumbering certain Options Floor Procedure Advices ("OFPAs"), clarifying existing provisions, eliminating superfluous provisions, and incorporating current policies and procedures into the text of Rule 6. The text of the proposed rule change is available at the PCX 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 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 Exchange has prepared summaries, set

<sup>10</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> Securities Exchange Act Release No. 42563 (Mar. 22, 2000), 65 FR 16679.

<sup>3</sup> OCC amended its proposed rule change to extend the proposed change to cover foreign currency options and cross-rate foreign currency options. Because the amendment made no substantive changes to OCC's proposal other than to include additional option products OCC clears, republication of notice was not required.

<sup>4</sup> See Securities Exchange Act Release No. 37603 (Aug. 26, 1996) 61 FR 46500 (Sept. 3, 1996), for amendments to OCC's By-laws and Rules to provide for the issuance, clearance, and settlement of BOUNDS.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>6</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 from Robert P. Pacileo, Senior Attorney, Regulatory Policy, PCX, to Nancy Sanow, Senior Special Counsel, Division of Market Regulations, SEC, dated March 22, 2000. The Amendment corrects several typographical errors and clarifies the wording of the proposed rule change.

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

With regard to current PCX rules governing activities of Floor Brokers, the Exchange is proposing to make the following changes to the text of Rule 6 ("Options Trading—Rules Principally Applicable to Trading of Options Contracts"):

First, the Exchange proposes to change the procedures on registration of Floor Brokers pursuant to Rule 6.44.<sup>4</sup> Currently, the application for registration as a Floor Broker will be approved when the applicant passes a Floor Broker examination. The Exchange proposes to eliminate the current rule provision stating that the Options Floor Trading Committee ("OFTC") must review and approve each application as outlined in Rule 6.44. The Exchange believes that the OFTC review and approval of each Floor Broker is unnecessary because each Floor Broker's name is routinely posted. If there are any problems with a particular Floor Broker that the Exchange has not otherwise identified, those problems can be brought to the attention of the Exchange's Membership Committee before the Floor Broker's application for membership is approved. In addition, the rule, as amended, will provide that an applicant Floor Broker's name will be posted on the bulletin board of the floor of the Exchange for ten calendar days (rather than three business days, as currently stated).<sup>5</sup>

<sup>4</sup>Rule 6.44 currently states that:

"An applicant for registration as a Floor Broker shall file his application in writing with the Department of Operations on such forms as the Exchange may prescribe. Applications shall be reviewed by the Options Floor Trading Committee, which shall consider an applicant's ability as demonstrated by his passing a Floor Broker examination prescribed by the Exchange, or such other factors as the Option Floor Trading Committee deems appropriate. After reviewing the application, the Options Floor Trading Committee shall either approve or disapprove the applicant's registration as a Floor Broker. Before a registration shall become effective, the Exchange, upon direction of the Options Floor Trading Committee, shall post the name of the applicant on the bulletin board on the Floor of the Exchange for at least three (3) business days. The registration of any person as a Floor Broker may be suspended or terminated by the Options Floor Trading Committee upon a determination that such person has failed to perform properly as a Floor Broker."

<sup>5</sup>Similar changes are proposed for registration of Market Makers under Rule 6.33. See Securities Exchange Act Release No. 42035 (Oct. 19, 1999),

Second, the Exchange proposes to add a provision to Rule 6.45 which states that, regarding FLEX Options, "Floor Brokers may not act as such in respect of FLEX Options contracts unless one or more Letter(s) of Authorization on behalf of such Floor Brokers has been issued by a Clearing Member in accordance with Rule 8.115(b)." This restates the same requirement as provided in Rule 8.115(b), and is being added to centralize the obligations of Floor Brokers in one section of the rules.

Third, the Exchange proposes to renumber OFPA A-10, Subject: Broker Responsibility on Print Throughs, as Rule 6.46(d).<sup>6</sup> The Exchange also proposes to make technical changes to new Rule 6.46(d). Specifically, the Exchange proposes to eliminate the third sentence of OFPA A-10, (proposed Rule 6.46(d)), which states that "[w]ith respect to trading during the day, the Options Floor Trading Committee finds that it is a generally accepted industry practice that a Broker is responsible for whatever number of contracts print-through a limit order." The Exchange proposes to eliminate this language because it believes it is redundant and superfluous given the text of Rule 6.46 pertaining to the responsibilities of Floor Brokers and proposed Rule 6.46(d), which requires that Floor Brokers take responsibility for print-throughs. The Exchange proposes this rule change to centralize the responsibilities of Floor Broker with respect to print-throughs.

645 FR 57681 (Oct. 26, 1999) (File No. SR-PCX-99-13).

<sup>6</sup>OFPA A-10 states that:

"Pursuant to Rule 6.46(a), the Options Floor Trading Committee has made a determination regarding print-throughs on limit orders held either by a Floor Broker, or an Order Book Official. This determination distinguishes print-throughs which occur intra-day from print-throughs occurring on the opening. With respect to trading during the day, the Options Floor Trading Committee finds that it is a generally accepted industry practice that a Broker is responsible for whatever number of contracts print-through a limit order. when a print-through is discovered, the Broker should ascertain whether the limit price or a more favorable price is available. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible at the original limit price for whatever number of contracts have traded through the limit. The Options Floor Trading Committee has determined that print-throughs on the opening should be treated differently than those which occur intra-day. On the opening, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible for the number of contracts which trade-through the customer's limit at the opening price, rather than at the limit price. If a more favorable price than the opening price is available, the order should be filled at the more favorable price."

Fourth, the Exchange proposes to renumber OFPA A-11, Subject: Broker Responsibility to Cancel Best Bid or Best Offer, as Rule 6.46(e).<sup>7</sup> The Exchange proposes this change to centralize the responsibilities of Floor Brokers with respect to their responsibilities to cancel bids and offers.

Fifth, the Exchange proposes to renumber OFPA D-4, Use of Order Which Specify More than One Contract, as Rule 6.46(f).<sup>8</sup> The Exchange proposes to clarify the types of orders referred to in this rule. Specifically, where Floor Brokers may accept orders that bid for or offer a specified number of contracts and no less, the Exchange proposes to codify that these orders include designated as "fill or kill," "all or none," or "immediate or cancel," (including such orders specifying that any unfilled portion of a multiple order is to be immediately canceled). However, the Floor Brokers must assure that all such orders (including the contingency) are vocalized in the trading crowd, and that the bid or offer is not disseminated. The Exchange proposes this change to clarify and centralize the responsibilities of Floor Brokers with respect to trading responsibilities.

Sixth, the Exchange also proposes to change Rule 6.46, Commentary .02, which currently requires Floor Brokers to make all persons in the trading crowd aware of each request for a quote. Since this requirement is not feasible when applied to large, active trading crowds, the Exchange proposes to modify the rule to require Floor Brokers to make reasonable attempts to make all persons in the crowd aware of such requests.

Seventh, the Exchange proposes to add Rule 6.47(c)(5), relating to crossing

<sup>7</sup>OFPA A-11 states that:

"Under certain circumstances a best bid or best offer is disseminated as a result of an order presented by a Floor Broker. It shall be the responsibility of the Floor Broker holding such order to instruct the Order Book staff to remove such bid or offer when it is canceled or when such order which represented such best bid or offer has been filled in its entirety."

<sup>8</sup>OFPA D-4 states that:

"Rule 6.74 states in part: 'A bid or offer for more than one option contract shall be deemed to be for that amount or any lesser number of option contracts, unless specified otherwise.' This Rule permits Floor Brokers to accept orders which bid for or offer a specified number of contracts and no less. Thus the Rule permits vocalization of such bids or offers in the trading crowds. However, any Floor Broker making a bid or offer contingent upon the execution of a specified amount of contracts must vocalize such contingent [sic] and should use diligence in assuring that the posted market does not reflect such bid or offer. 'Immediate or cancel' orders which specify that any unfilled portion of a multiple order is to be immediately canceled, are covered by this provision."

of solicited orders, to allow a Floor Broker to step out of a crowd to solicit interest, after announcing an order, and then return to the crowd without re-announcing the order if he continued to be within hearing distance while outside the crowd. Specifically, the Exchange proposes that if a Floor Broker announces an order in the trading crowd, and then steps out of the trading crowd to solicit interest, but continues to be within hearing distance, the Floor Broker need not re-announce the order upon returning to the trading crowd. This change is intended to codify the current practice on the trading floor.

Eighth, the Exchange proposes to renumber OFPA A-6, Subject: Responsibility of Floor Brokers in Effecting A Cross Transaction as new PCX Rules 6.47(d), (e) and (f).<sup>9</sup> Specifically, the Exchange proposes to renumber paragraph one of OFPA A-6, pertaining to the requirement of a Floor Broker to allow members in the trading crowd a reasonable period in which to respond to the bid and/or offer prior to consummating a cross transaction, as Rule 6.47(d).

The Exchange also proposes to renumber the second and third paragraphs of OFPA A-6 as Rule

<sup>9</sup> "Floor Brokers are cautioned that they must allow members in the trading crowd a reasonable period in which to respond to the bid and/or offer prior to consummating the cross transaction. While the Options Floor Trading Committee will not attempt to define a reasonable period in terms of a specific time limit, they will deem an obvious attempt to execute the cross in an uninterrupted sequence with the announcement of the bid and offer to be a violation of Rule 6.47, and grounds for objection to the cross transaction. In some instances, a Floor Broker may deem it necessary to place one side of the proposed cross transaction on the Order Book with the intention of effecting the cross transacting with the Order Book. To effect such a transaction, the Floor Broker must use the following procedure: Following the announcement of the new bid or offer by the Order Book Official or his clerk, the Floor Broker must again request a market in the series, and upon determination that the bid or offer represented by the Order Book is the best market, he may then execute the cross by trading with the order on the Book. When a stock/option order is taken to a crowd for execution, the stock transaction must be effected prior to the option transaction pursuant to Rule 6.47, Commentary .04. The following procedure should be observed: After agreement with other members of the crowd has been reached as to the terms of the transaction, the option order tickets shall be written up and time-stamped. However, the order tickets should not be turned in to the Order Book Official at this time. The members shall attempt to immediately effect the transaction in the underlying or related security. If the stock transaction cannot be executed immediately or is effected at a price different than the agreed-upon price, the members shall not be held to the option transaction. If the stock transaction is effected at the agreed-upon price, then all the members who participated in the option transaction shall be held to their agreed-upon price. At the time the stock transaction is effected, the option trade tickets should be given to the Order Book Official. This procedure applies to all executions of stock/option orders."

6.47(e). The second and third paragraphs of OFPA AA-6 pertain to situations when a Floor Broker may deem it necessary to place one side of the proposed cross transactions on the Order Book with the intention of effecting the cross transaction with the Order Book.

With respect to the renumbering of OFPA AA-6, the Exchange proposes to renumber the fourth and fifth paragraphs of OFPA AA-6, pertaining to stock/option orders, as Rule 6.47(f). The Exchange proposes these changes to centralize rules relating to crossing transactions within Rule 6.47.

Ninth, the Exchange proposes to renumber OFPA AA-9, Subject: Discretionary Transactions (Floor Brokers) as Rule 6.48(b).<sup>10</sup> The Exchange also proposes to renumber OFPA BA-10, Subject: Discretionary Transactions by Market Makers, as Rule 6.48(c).<sup>11</sup> The Exchange proposes to

<sup>10</sup> OFPA A-9 states that:  
"Pursuant to Rule 6.48, the Options Floor Trading Committee has determined that no Floor Broker shall hold concurrently a 'not held' market order to buy [sic] a 'not held' market order to sell (or orders which have the effect of such 'not held' market orders to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Holding such orders will be interpreted as allowing the Floor Broker discretion with respect to whether to purchase or sell such options. A 'not held' order is an order market 'not held,' 'NH' or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed."

<sup>11</sup> OFPA B-10 states that:  
"Rule 6.48 provides that a Floor Broker shall not exercise discretion with respect to choice of class or series of options to be bought or sold, number of contracts to be bought or sold, or whether the transaction shall be a purchase or a sale. It further provides that a Market Maker shall not exercise discretion over an account unless he has a direct interest in such account. The Options Floor Trading Committee has determined that a Market Maker may not exercise discretion over any account other than: (i) A joint account approved pursuant to Rule 6.39, or (ii) an account in which he has a direct interest. For purposes of this Advice and Rule 6.48, the term 'direct interest' in an account shall be limited in its meaning to include only a participation in the profits and losses in such account, or in the case of a partnership or corporation, a representative of such partnership or corporation who has a supervisory responsibility over such account. Furthermore, only persons registered as Market Makers and subject to the performance obligations set forth in Rule 6.37, may exercise discretion over an account. A Market Maker wishing to effect such discretionary transactions for accounts other than his personal account or a joint account must enter the order with a Floor Broker and the procedures set forth in Options Floor Procedure Advice BA-6 shall be applicable with the following modifications: (A) The name of the Market Maker for whom the transaction is being executed must be printed at the bottom of the ticket (BA-6A-1(c)), along with the badge number of the Market Maker exercising discretion (*i.e.*, Joe Trader/M07); and (B) A 'D' shall be placed after the Market Maker's number, for whose account the trade is executed, in the firm box (*i.e.*, M05 D). NOTE: The identification of the order as a discretionary order is required under Rule VI, Section 43(7), 'Record of Orders.'"

renumber OFPA A-9 and B-10 to centralize obligations of Members regarding Discretionary Transactions by Floor Brokers and Market Makers.

Tenth, the Exchange proposes to adopt new Rule 6.49(a) to provide that Floor Brokers who are required to establish and maintain error accounts pursuant to Rule 4.21 may only use such accounts for the purpose of correcting bona fide errors. The Exchange proposes this rule change to clarify the Floor Broker's proper use of an error account. This change is consistent with the provisions of Rule 6.14.

Finally, the Exchange proposes to renumber OFPA A-2, Subject: Floor Broker Acting as Both Principal and Agent in the Same Transaction, as Rule 6.50.<sup>12</sup> The Exchange proposes these changes to centralize all rules applicable to Floor Brokers with respect to use of error accounts.

## 2. Basis

The Exchange believes that the proposal is consistent with Section 6(b)<sup>13</sup> of the Act, in general, and Section 6(b)(5)<sup>14</sup> in particular, because it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, and, in general, to protect investors and the public interest.

<sup>12</sup> OFPA A-2 states that:  
"Under Rule 6.43, a Floor Broker 'is an individual \* \* \* who is registered with the Exchange for the purpose, while on the Exchange Floor, of accepting and executing option orders received from members.' Pursuant to this Rule, a Floor Broker holding an agency order shall under no circumstances fill any part of such order as principal unless he inadvertently 'misses the market' for the account of his customer and, owing a report at a specified price or better, cannot effect the necessary transaction except by filling all or some portion of the order as principal. For the purposes of facilitating a customer order via the firm error account, in connection with a broker's 'missing the market,' the Options Floor Trading Committee has determined that the following procedures shall be applicable. (1) Floor Broker errors (positions resulting from a broker's error or omission) shall be liquidated promptly except for unusual circumstances which are beyond the control of such Floor Broker. (2) Error account positions not liquidated by the next business day shall be maintained in a customer (investment) account and subject to customer margin. (3) Error account positions, not initially established as part of an investment transaction (*i.e.*, executed as agent) may not subsequently be transferred, adjusted, or journaled into a market maker account. (4) The price and size of the transaction, if made through the Exchange's adjustment system, must be justified by the market condition at the time the order was entered, if it was a market order and at the limit or better if it was a limit order."

<sup>13</sup> 15 USC 78f(b).

<sup>14</sup> 15 USC 78f(b)(5).

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

The Exchange does not believe that the proposed rule change will 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*

Written comments on the proposed rule change were neither solicited nor 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 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.

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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. 20549-0609. 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. 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-99-45 and should be submitted by June 29, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>15</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-42866; File No. SR-Phlx-00-27]

### **Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Codifying a Provision Implementing a Closing Rotation on the Last Day of Each Calendar Quarter**

May 30, 2000.

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> notice is hereby given that on March 16, 2000, 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 Exchange. 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 proposes to amend Phlx Rule 1047 to codify a provision implementing a closing rotation on the last trading day of each calendar quarter. Specifically, Phlx Rule 1047, Commentary .01(e) would provide that on the last day of each calendar quarter, a closing rotation for some equity options series may be commenced at 4:02 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:02 p.m. The trading floor will be given prior notice regarding which options series will be subject to a closing rotation. The text of the proposed rule is available at the Exchange and at the Commission.

<sup>15</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.

#### **II. Self-Regulatory Organization's Statement of the Purpose of, 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 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 Exchange 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, under Phlx Rule 1047, Commentary .01, two Floor Officials, with the concurrence of a Market Regulation Officer, may direct that a trading rotation be employed to aid in producing a fair and orderly market and shall specify for each trading rotation, the options contracts to be included and the sequence of such options contracts in the rotation. According to the Phlx, this provision is commonly relied upon to permit quarterly rotations.

The Phlx is proposing to amend its Rule 1047 to expressly provide for closing rotations on the last trading day of each calendar quarter, for certain equity options traded on the Phlx. The Exchange will provide prior notice to the trading floor of which options series will be subject to a closing rotation. As with other rotations, the procedures governing quarterly closing rotations will require that two Floor Officials and a Market Regulation Officer may direct that the rotation take place. They will specify the particular equity options contracts to be included and the sequence of such options contracts in the rotation.

The Exchange believes that on the last day of the calendar quarter there is increased order flow in exchange-traded options and in the underlying securities, particularly at the end of the trading day. For instance, many large money managers adjust their positions at the end of the calendar quarter for tax reasons. As a result of this activity in both the underlying and the options market, the last sale print for many stocks is often delayed. Therefore, the Exchange believes that it is important to provide the opportunity for a closing rotation at the end of each calendar quarter to account for late prints and increased order flow. These rotations will allow the Exchange members to