

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43790; International Series Release No. 1243; File No. SR-Phlx-00-66]

### Self-Regulatory Organizations; Order Approving a Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Narrowing of the Exercise Strike Price Interval for Foreign Currency Options on the Euro

January 2, 2001.

#### I. Introduction

On July 12, 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> the Philadelphia Stock Exchange, Inc. ("Phlx") filed with the Securities and Exchange Commission ("Commission") a proposed rule change to reduce, from two cents to one cent, the strike price interval for foreign currency options on the Euro denominated in U.S. dollars ("Euro FCOs"). The proposed rule change and Amendment No. 1 thereto<sup>3</sup> were published for comment and appeared in the **Federal Register** on November 21, 2000.<sup>4</sup> The Commission received no comments on the proposal. This order approves the Phlx's proposed rule change, as amended.

#### II. Description of the Proposal

The Phlx proposes to adopt a narrower strike price interval with respect to American-style and European-style, standardized Euro FCOs with one, two, three, six, nine, and twelve months until expiration. Currently, Euro FCOs are listed at two-cent intervals. The Phlx proposes to reduce the exercise strike price interval of all Euro FCO series to one cent because the spot price of the Euro has declined against the U.S. dollar. For example, the Euro was worth \$1.18738 in 1999, but was worth only \$.8544 by October 2000.<sup>5</sup>

The Phlx's exercise strike price interval policies are administered pursuant to Phlx Rule 1012 ("Series of Options Open for Trading"). In accordance with Phlx Rule 1012, the Phlx lists regular and month-end Euro FCO contracts for each of the six expiration months. The Phlx currently lists Euro FCO contracts at two-cent strike price intervals; for example, it recently listed Euro FCOs at strike prices of \$.80, \$.82, \$.84, \$.86, \$.88, and \$.90 for each expiration month. The Phlx's adoption of the proposed one-cent exercise strike price interval would mean, in this example, that the additional strike prices of \$.81, \$.83, \$.85, \$.87, and \$.89 would become available for trading in all six expiration months.

The Phlx represents that the purpose of the proposed rule change is to respond to customer demand for a narrower strike price interval as a result of a decline in the underlying price of the Euro as expressed in U.S. dollars. The Phlx believes that the proposed rule change makes economic sense because a narrower strike price interval in Euro FCOs would enable market participants to tailor their investment strategies more closely to the precise movement of the Euro. The Phlx notes that the Commission previously has permitted narrower exercise strike price intervals with respect to foreign currency options based on the market value of the respective underlying security.<sup>6</sup> The Phlx represents that it will distribute a memorandum to all of its members and FCO participants notifying them of the change in the exercise strike price interval for Euro FCO contracts, effective as of the date of Commission approval.<sup>7</sup>

The adoption of a narrower price interval for Euro FCOs would mean that additional Euro FCO series would become available for trading at the Phlx. The Phlx notes that its Selective Quoting Facility<sup>8</sup> would apply to all Euro FCO series traded. The Selective

Quoting Facility provides that when the Phlx designates a particular foreign currency option series as a "non-update strike," its quotes are not made available for continuous dissemination to the public throughout the trading day. The Phlx believes that, by reducing the number of strike prices that are continuously updated and disseminated, the Selective Quoting Facility enables more timely and accurate quote displays of foreign currency options. Accordingly, the Phlx believes that the predicted increase in the number of Euro FCO series will not adversely affect its quote traffic and computer processing capacity.

#### III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules thereunder applicable to a national securities exchange, particularly section 6(b)(5) of the Act.<sup>9</sup> The Commission notes that the proposal is consistent with prior Commission orders approving narrow strike price intervals based upon the market values of the underlying securities.<sup>10</sup> Moreover, the Commission believes that the Phlx's proposal to adopt a one-cent strike price interval with respect to Euro FCOs will allow market participants to tailor their Euro FCO positions more finely and manage their currency risk with respect to the Euro more effectively. Accordingly, the Commission believes that the narrowing of the strike price interval for Euro FCOs will promote just and equitable principles of trade.

The Commission notes, however, that the narrowing of the strike price interval may disperse trading interest to a degree that excessively dilutes liquidity in open Euro FCO series. Therefore, in evaluating the appropriate strike price interval for the Euro FCOs, the Commission must weigh the presumed benefit of a wider array of investment opportunities against the potential hazard of a proliferation of illiquid options series. The Commission believes that the Phlx proposal strikes a reasonable balance between those competing concerns. Although the proposal will make additional Euro FCO series available for trading, the Commission expects the Phlx to continue its current policy of delisting options series with no open interest,<sup>11</sup>

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

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

<sup>3</sup> Amendment No. 1 superseded the original filing in its entirety. See letter from Richard S. Rudolph, Counsel, Phlx, to Nancy J. Sanow, Assistant Director, Division of Market Regulation, Commission, dated October 19, 2000.

<sup>4</sup> See Securities Exchange Act Release No. 43539 (November 9, 2000), 65 FR 69982.

<sup>5</sup> The Phlx previously traded options on the European Currency Unit ("ECU"), but delisted the product in July 1997 due to lack of open interest and trading activity. The Phlx reintroduced the ECU options in May 1998 with a two-cent strike price interval. See Securities Exchange Act Release No. 39940 (April 30, 1998), 63 FR 25258 (May 7, 1998) (SR-Phlx-98-17). This provided investors with an investment vehicle during the conversion from the ECU to the Euro, which occurred in January 1999. The Phlx began trading the Euro FCO in January

1999. See Securities Exchange Act Release No. 40953 (January 15, 1999), 64 FR 3734 (January 25, 1999) (SR-Phlx-99-01).

<sup>6</sup> See Securities Exchange Act Release No. 25685 (May 10, 1988), 53 FR 17524 (May 17, 1988) (Order approving narrower strike price intervals with respect to foreign currency options on the British pound denominated in U.S. dollars) (SR-Phlx-88-13); Securities Exchange Act Release No. 35631 (April 20, 1995), 60 FR 20544 (April 26, 1995) (Order approving narrower strike price interval with respect to foreign currency options on the French franc denominated in U.S. dollars) (SR-Phlx-95-06).

<sup>7</sup> Telephone conversation between Richard Rudolph, Counsel, Phlx, and Hong-Anh Tran, Special Counsel, Division of Market Regulation, Commission, on October 25, 2000.

<sup>8</sup> See Phlx Rule 1012, Commentary .04.

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

<sup>10</sup> See footnote 6, *supra*.

<sup>11</sup> See Securities Exchange Act Release No. 35631 (April 20, 1995), 60 FR 20544 (April 26, 1995) (Order approving narrower strike price intervals with respect to foreign currency options on the

thereby eliminating any illiquid Euro FCO series that may result from the implementation of this proposal.

Furthermore, because the Phlx will apply its Selective Quoting Facility to determine whether to disseminate the quotes of the additional Euro FCO series throughout the trading day, the Commission believes that the Phlx's computer system can manage the additional quote traffic that the new Euro FCO options series are expected to generate. Nevertheless, the Commission requests that the Phlx monitor the volume of additional options series listed as a result of this rule change and ensure that the additional series do not adversely affect the computer system's processing capacity.

#### IV. Conclusion

*It Is Therefore Ordered*, pursuant to section 19(b)(2) of the Act,<sup>12</sup> that the proposed rule change (File No. SR-Phlx-00-66) is approved.<sup>13</sup>

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

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 01-793 Filed 1-10-01; 8:45 am]

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43792; File No. SR-Phlx-00-98]

#### Self-Regulatory Organizations; Order Granting Approval to Proposed By-Law Changes by the Philadelphia Stock Exchange, Inc. to Clarify References in the Exchange's By-Laws and Rules to the Allocation, Evaluation and Securities Committee

January 2, 2001.

#### I. Introduction

On November 7, 2000, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, a proposed by-law change to clarify references in Exchanges by-

laws and rules to the Allocation, Evaluation and Securities Committee. On November 29, 2000, the Commission published the proposal in the **Federal Register**.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed by-law change.

#### II. Description of the Proposal

On July 5, 2000, the Commission approved a proposal to amend Phlx By-Law Article X, Section 10-7, to divide the Exchange's Allocation, Evaluation and Securities Committee into two separate committees: the Options Allocation, Evaluation and Securities Committee and the Equity Allocation, Evaluation and Securities Committee.<sup>4</sup> Currently, various sections of the Exchange's by-laws and rules refer simply to the "Allocation, Evaluation and Securities Committee." Phlx proposes to amend its by-laws to clarify that references to the "Allocation, Evaluation and Securities Committee" in the Exchange by-laws and rules may mean either the Options Allocation, Evaluation and Securities Committee or the Equity Allocation, Evaluation and Securities Committee, as the context requires, and thus to ensure that the by-laws and rules pertaining to each committee remain consistent.

#### III. Discussion

The Commission has determined that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>5</sup> In particular, the Commission finds that the proposal is consistent with section 6(b)(5) of the Act which requires, among other things, that the rules of an exchange be designed to foster cooperation and coordination with persons engaged in regulating and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market, and to protect investors and the public interest.<sup>6</sup> The Commission believes that in clarifying references to the Allocation, Evaluation and Securities Committee—which recently was split into two separate committees—the proposal will help ensure consistency in the Exchange's by-laws and rules which,

therefore, furthers the purposes of the Act.

#### IV. Conclusion

*It Is Therefore Ordered*, pursuant to section 19(b)(2) of the Act,<sup>7</sup> that the proposed rule change (SR-Phlx-00-98) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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**BILLING CODE 8010-01-M**

#### SMALL BUSINESS ADMINISTRATION

#### [Declaration of Disaster #3310]

#### State of Alabama; Amendment #1

In accordance with notices received from the Federal Emergency Management Agency, dated December 22 and December 28, 2000, the above-numbered Declaration is hereby amended to include Cherokee and Jefferson Counties in the State of Alabama as a disaster area due to damages caused by severe storms and tornadoes, and to establish the incident period for this disaster as beginning on December 16, 2000 and continuing through December 22, 2000.

In addition, applications for economic injury loans from small businesses located in the following contiguous counties may be filed until the specified date at the previously designated location: Cleburne County, Alabama, and the counties of Chattooga, Floyd, and Polk in the State of Georgia. All other contiguous counties have been previously declared.

All other information remains the same, *i.e.*, the deadline for filing applications for physical damage is February 16, 2001 and for economic injury the deadline is September 18, 2001.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: January 3, 2001.

**Herbert L. Mitchell,**

*Acting Associate Administrator for Disaster Assistance.*

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British pound denominated in U.S. dollars) (SR-Phlx-95-06).

<sup>12</sup> 15 U.S.C. 78s(b)(2).

<sup>13</sup> In approving the proposal, the Commission has considered the rule's impact on efficiency, competition, and capital formation. 15 U.S.C 78c(f).

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

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

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

<sup>3</sup> See Securities Exchange Act Release No. 43585 (November 17, 2000), 65 FR 71193.

<sup>4</sup> See Securities Exchange Act Release No. 43011 (July 5, 2000), 65 FR 43069 (July 12, 2000) (File No. SR-Phlx-00-28).

<sup>5</sup> In approving this rule, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> 15 U.S.C. 78s(b)(2).

<sup>8</sup> 17 CFR 200.30-3(a)(12).