

positions. Third, both the options and stock positions must be initiated and liquidated in an orderly manner. This means that a reduction of the options position must occur at or before the corresponding reduction in the stock portfolio position, thereby helping to ensure that the stock transactions are not used to impact the market so as to benefit the options positions. Fourth, the Phlx's Market Surveillance Department must be notified in writing for approval prior to liquidating or initiating any such position as well as of any change in the portfolio or futures positions which materially affects the value of the qualified portfolio. Fifth, the proposal provides a ceiling on the maximum size of the options position by providing that positions established under the proposal may not exceed two-times the limits set forth in Exchange Rule 1001A(a). In addition, the Exchange may determine to grant a position limit exemption for less than the maximum of two-times above the limit.

The Commission notes that the Phlx's surveillance procedures are designed to detect as well as deter manipulation and market disruptions. In particular, the Phlx will monitor the options position of persons utilizing the hedge exemption on a daily basis to ensure that each option contract is hedged by the equivalent dollar amount of component securities.¹⁴ In addition, the Phlx's Market Surveillance Department will monitor trading activity in Phlx traded index options and the stocks underlying those indexes to detect potential frontrunning and manipulation, as well as to review such trading to ensure that the closing of positions subject to the exemption are conducted in a fair and orderly manner. Violation of any of the provisions of the market index hedge exemption, absent reasonable justification or excuse, will result in the withdrawal of the hedge exemption and subsequent denial of an application for hedge exemption thereunder.

Finally, the Commission believes that it is reasonable for the Phlx to allow firm and proprietary traders as well as public customers to utilize the proposed hedge exemption. The Commission believes that extending the broad-based index option hedge exemption to firm and proprietary traders may help to

increase the depth and liquidity of the market for market index options and may help to ensure that public customers receive the full benefit of the exemption. Moreover, the Phlx's monitoring procedures, as described above, should be able to detect abuses and ensure that the options position, whether firm, proprietary trader, or customer, are properly hedged.

IV. Conclusion

For the foregoing reasons, the Commission finds that the Phlx's proposal to establish a hedge exemption from broad-based index option position and exercise limits is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁵ that the proposed rule change (SR-Phlx-96-07) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37323; File No. SR-Phlx-96-11]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Exchange's Calculation of Settlement Values for Cash/Spot Foreign Currency Option Contracts ("3-D Options")

June 18, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on April 30, 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, and III below, which Items have been prepared by the self-regulatory organization. On May 20, 1996, the Exchange submitted to the Commission Amendment No. 1 to the proposed rule change.² The Commission is publishing this notice to solicit

¹⁵ 15 U.S.C. § 78s(b)(2) (1988).

¹⁶ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² See letter from Murrery L. Ross, Vice President and Secretary, Phlx, to Anthony P. Pecora, Attorney, SEC, dated May 17, 1996. In this letter, the Phlx represented that the limitation of liability clause may not be relied upon to limit the Exchange's liability to nonmembers for any intentional or negligent violations of the federal securities laws. In addition, the Exchange made some minor clarifying edits.

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 1057 in order to provide the Exchange with the election to calculate settlement values for the cash/spot Dollar Denominated Delivery foreign currency option contracts ("3-D options"). In addition, the Exchange proposes to amend Phlx Rule 1057 by including a "limitation of liability" clause for the settlement of 3-D options similar to Phlx Rule 1102A, which limits the Exchange's liability in the calculation and dissemination of settlement values.

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

On March 8, 1994, the Commission approved 3-D options for listing on the Phlx.³ Currently, the closing settlement value for 3-D options is calculated by a market information vendor acting as the Exchange's designated agent. The market information vendor will collect the bid and offer quotations for the current foreign exchange spot price from quotations submitted by at least fifteen interbank foreign exchange market participants, which the designated agent will select randomly from a list of twenty-five active interbank foreign exchange market participants. After discarding the five highest and the five lowest bids and offers, the market information vendor averages the remaining ten bids and offers to arrive at a closing settlement price.

The Phlx proposes to amend Phlx Rule 1057 to provide the Exchange with

³ See Securities Exchange Act Release No. 33732 (Mar. 8, 1994), 59 FR 12023 (approving File No. SR-Phlx-93-10).

¹⁴ Market participants granted a hedge exemption are also required to keep their application forms for the hedge exemption current and promptly provide the Phlx with any information concerning the dollar value and composition of the stock portfolio, the current hedged and aggregate options positions, and any stock index futures positions, or economically equivalent positions.

the choice of calculating the settlement value for 3-D options itself rather than employing a designated market information vendor as an agent of the Exchange for that purpose. The Exchange will use the same methodology for calculating the settlement value for 3-D options as described in Phlx Rule 1057.

The Phlx believes that by calculating its own settlement value for 3-D options, the Exchange will be able to exert more control over the calculation of those values. The Exchange also believes that the proposed rule change will reduce the response time in the event there is a problem in the calculation or dissemination of the 3-D options settlement values.

Secondly, the Exchange proposes to amend Phlx Rule 1057 by including a "limitation of liability" clause similar to the one contained in Phlx Rule 1102A that limits the Exchange's liability in the calculation and dissemination of index values. The limitation of liability clause provides added protection to the Exchange and alleviates the threat of potential liability in calculating the 3-D settlement values. If further serves as a more explicit extension of the limitation of liability contained in the Exchange's By-Laws.⁴

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)⁵ of the Act in general and furthers the objectives of Section 6(b)(5)⁶ in particular in that it is designed to facilitate transactions in securities, to remove impediments to and perfect the mechanism of a free and open market.

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

The Exchange believes the proposed rule change will impose no 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.

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 finding 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 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, 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Also, copies of such filing will be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR-Phlx-96-11 and should be submitted by July 16, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37319; File No. SR-Phlx-96-17]

Self-Regulatory Organization; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. – To Reduce the Value of the Super Cap Index

June 18, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on May 24, 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 and III below, which Items have been prepared by the self-regulatory organization. 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 Exchange proposes to reduce the value of its Super Cap Index ("Index") option ("HFX") to one-third its present value by tripling the divisor used in calculating the Index. The Index is comprised of the top five options-eligible common stocks of U.S. companies traded on the New York Stock Exchange, as measured by capitalization. The other contract specifications for the HFX will remain unchanged.

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 Phlx 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 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

The Exchange began trading the HFX in November, 1995.¹ The Index value was created with a value of 350 on its base date of May 31, 1995 which rose to 430 on April 12, 1996. Thus, the value of the Index has increased 23% in less than one year. Consequently, the premium for HFX options has also risen.

As a result, the Exchange proposed to conduct a "three-for-one split" of the Index, such that the value would be reduced to one-third of its present value. In order to account for the split, the number of HFX contracts will be tripled, such that for each HFX contract currently held, the holder would receive three contracts at the reduced value, with a strike price one-third of the

⁴ See Phlx By-Laws, art. XII, § 12-11 (stating that the Phlx is not liable for any damages incurred by a member or member organization utilizing the Exchange's facilities to conduct its business).

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

⁷ 17 C.F.R. 200.30-3(a)(12).

¹ See Securities Exchange Act Release No. 36369 (October 13, 1995), 60 FR 54274 (October 20, 1995).