the executing broker. Subsequently, the prime broker settles with the executing broker and the customer according to normal settlement procedures.

Prime broker participants also will have the option to disaffirm trades. Disaffirmation involves the reversal of an affirmed confirmation back to an unaffirmed confirmation status. A disaffirming prime broker will notify both Philadep and the executing broker through Philadep's terminal system, Philanet, that a previously affirmed ID prime broker trade is being disaffirmed. Philadep will verify that each disaffirmation instruction matches an existing ID trade, and on a ''best efforts'' basis, Philadep will attempt to contact the executing broker by telephone to inform it of the disaffirmation. Philadep then will determine the settlement mode of the disaffirmed trade (*e.g.*, trade-for-trade or continuous net settlement [''CNS'']). If a disaffirmed trade is scheduled to settle trade-for-trade or outside Philadep, Philadep will not take any further action.[6]

If a disaffirmed trade is scheduled to settle in CNS, Philadep will provide information to the appropriate clearing corporation so that the clearing corporation can effect journal entries to reverse the settlement obligations of the prime brokers. This reversal will reestablish the settlement obligations of the executing brokers. On a best efforts basis, the clearing corporation will telephone the executing brokers to advise them of the disaffirmation.

Philadep believes that it will need to make minimal changes to its current system to accommodate this business. Most notably, Philadep will establish two account numbers that will serve to segregate the prime broker activity of its ID participants from other types of activity.

Philadep believes that the proposed change is consistent with Section 17A of Act[7] because it promotes the prompt and accurate clearance and settlement of securities transactions and safeguards securities and funds in Philadep's custody or control.

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

Philadep 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 relating to the proposed rule change have been received. Philadep will notify the Commission of any written comments received by Philadep.

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

Section 17A(b)(3)(F) of the Act[8] requires the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. Additionally, Section 17A(a)(2)(ii) of the Act[9] directs the Commission to facilitate the linked or coordinated facilities for the clearance and settlement of securities transactions. The Commission believes that the proposed rule change is consistent with Philadep's obligations under the Act because the proposal permits Philadep participants to utilize DTC's ID system to settle prime broker trades which should promote the prompt and accurate clearance and settlement of securities transactions whether such trades settle through CNS (*i.e.*, thereby netting prime brokers' and executing brokers' other positions in the same security) or trade for trade through the existing ID system. Furthermore, the Commission believes that the proposed rule change enhances the ID linkage between DTC and Philadep through which Philadep participants will be able to settle prime broker trades.

Philadep 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. The Commission finds good cause for so approving the proposed rule change because accelerated approval will permit Philadep participants to immediately utilize the ID system for prime broker securities transactions. Furthermore, approval of the proposed rule change will allow Philadep to enhance its existing ID linkage with DTC, whose prime brokerage service has already been subject to notice and comment.[10] Although the Commission has received one comment letter supporting the rule proposal, the Commission does not expect to receive additional comment letters on the proposal.[11]

## 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, NW., 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 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 Philadep. All submissions should refer to the file number SR–PHILADEP–96–10 and should be submitted by November 26, 1996.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (File No. SR–PHILADEP–96–10) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[13]

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96–28309 Filed 11–4–96; 8:45 am]

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**[Release No. 34–37887; File No. SR–Phlx–96–39]**

# Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to the Selective Quoting Facility for Foreign Currency Options

October 29, 1996.

## I. Introduction

On August 20, 1996, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section

[6] For trade-for-trade settlement, prime brokers will not deliver on the sell side or will reclaim the transaction on the buy side. For trades settling outside Philadep, prime brokers will block settlement through their agents or correspondents.

[7] 15 U.S.C. 78q–1 (1988).

[8] 15 U.S.C. 78q–1(b)(3)(F) (1988).

[9] 15 U.S.C. 78q–1(a)(2)(ii) (1988).

[10] *Supra* note 3.

[11] In that letter, the commenter asserted that it will be competitively disadvantaged if Philadep is unable to offer prime broker services to its participants. Letter from Robert B. Kaplan, Vice President, BHC Securities, Inc., to Larry E. Bergmann, Senior Associate Director, Division, Commission (July 30, 1996).

[12] 15 U.S.C. 78s(b) (2)(1988).

[13] 17 CFR 200.30–3(a)(12) (1996).

19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend the foreign currency option selective quote facility.

Notice of the proposed rule change was published for comment in the Federal Register on September 20, 1996.[3] No comments were received on the proposal. This order approves the proposal.

II. Description of the Proposal

The foreign currency option (''FCO'') Selective Quoting Facility (''SQF'') establishes criteria to determine whether the bid/ask quotation for each FCO series is eligible for transmission to the Options Price Reporting Authority (''OPRA'') for off-floor dissemination to securities data vendors. Implemented in 1994,[4] the SQF, a feature of the Exchange's Auto-Quote system, was intended to reduce the number of strike prices being continuously updated and disseminated, thus resulting in more timely and accurate FCO quote displays. Specifically, designating as ''inactive'' those series that are away-from-the-money or not recently traded eliminates quote changes in those series that have the least amount of investor interest, thus reducing the dissemination delays caused by thousands of quote changes in volatile trading periods.

Currently, the SQF categorizes certain FCO strikes as ''non-update'' or ''inactive'' strikes, which are disseminated with the OPRA indicator ''I'' and zeroes (*e.g.,* 000–000), in lieu of a market. In contrast, ''update'' or ''active'' strikes include, at minimum: (1) Around-the-money strikes in near-term American style options, and (2) strikes with open interest that have traded with the previous five days. Around-the-money strikes were recently [5] defined as those with an approximate 10, 20, 30, 40 and 50 delta.[6] Active strikes may also be added at the initiative of the Exchange or in response to a request by the Specialist or an FCO Floor Official.

When a series is inactive, those bids and offers are no longer updated in the Exchange's Auto-Quote system for dissemination.

However, if interest is then voiced in any such series, it can be activated immediately upon establishment of a quote in that series. Inactive strikes with open interest (that have not traded in the previous five days) are quoted once at the close of trading each day for purposes of mark-to-market valuation. Because inactive series are not continuously updated and disseminated, quotation processing times are reduced such that quotes respecting active strikes are updated and disseminated to customers much more quickly.

The Exchange amended the SQF last year [7] to reduce the number of strikes considered active by: (1) Eliminating from the definition of active strikes those series with open interest that have not traded within the previous five trading days, but nevertheless requiring a closing quotation; (2) ''de-activating'' strikes intra-day that no longer fit the definition of active; and (3) redefining around-the-money active strikes as the five options with an approximate 10, 20, 30, 40 and 50 delta, instead of those four above and four below the spot price. This change was precipitated by volatility in the foreign currency markets causing dramatic fluctuation in foreign currency exchange rates, and, in turn, the addition of many strike prices to accommodate the new trading ranges of the underlying currencies. Therefore, the changes were intended to alleviate this burden and to improve the timeliness and accuracy of FCO quotes.

In building system enhancements to implement this change, testing revealed that the delta-based around-the-money strikes did not most accurately capture around-the-money interest and was not the most efficient or simple method of determining those strikes, as originally contemplated by the FCO floor. The Exchange had previously sought to define active strikes using deltas, in order to correspond to the terminology used by traders and to capture strikes of certain volatilities, which was an improvement upon having a set number. During testing, it was determined that the definition of around-the-money strikes should be revisited, resulting in the proposal at hand.

The purpose of the proposal is to codify certain system enhancements pertaining to the SQF into the governing Rule and Floor Procedure Advice.[8] Specifically, the current proposal redefines around-the-money active strikes as two in-the-money strikes and six out-of-the money strikes for both puts and calls. The purpose of this change is to more accurately reflect the most active series for dissemination of the most significant and meaningful quotes. FCO floor representatives determined that the 10–50 delta range did not necessarily incorporate such strikes. Each morning, under the proposal, the SQF would set eight calls and eight puts for each FCO expiration month. Previously, under the delta-based method, at least ten series were activated, and, in certain cases, more than five strikes out-of-the-money were required to capture the 50 delta and less than five captured the 50 delta in-the-money. Thus, based on specialist experience, the ''two in the six out-of-the-money'' definition garners those strikes that are active daily and have the most trading interest. Furthermore, preliminary testing revealed that 10% fewer strikes in the sample were activated under the new definition. Therefore, the Exchange does not believe that the number of resulting strikes should differ significantly from the delta-based method. The actual number for each FCO depends upon the fluctuations in the underlying currency. Likewise, the Exchange believes that the ''two in the six out'' method is easier to discern for customers, floor traders, Exchange staff, and vendors alike.

Rule 1012, Commentary .04 establishes the minimum strikes to be activated, thus permitting the Exchange to designate other strikes as active. In this regard, the Exchange proposed to add the language ''at minimum'' to the Advice, for consistency with Rule 1012. In implementing the ability to activate other strikes, the Exchange has also designated as active all expiration months (except long-term) and around-the-money European style options. Activating expiration months other than the first three months became necessary due to complex system needs related to disseminating implied volatility levels using an outside vendor. Activation of around-the-money strikes is currently needed in all months to continue disseminating these levels under existing system configurations. With respect to end-of-month FCOs, only the first three expiration months are currently activated. Further, European style options are treated the same as American style options by the SQF system, such that the around-the-money definition activates the same strikes. The Exchange notes that these changes were implemented by FCO Committee

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] Securities Exchange Act Release No. 37688 (September 16, 1996) 61 FR 49515.

[4] Securities Exchange Act Release No. 33067 (October 19, 1993), 58 FR 57658 (October 26, 1993) (File No. SR–Phlx–92–23).

[5] Securities Exchange Act Release No. 36636 (December 26, 1995) 61 FR 209.

[6] ''Delta'' is a measure of how much an option premium changes in relation to changes in the underlying security. For example, a 50 delta represents that for every one point move in the spot price of an underlying foreign currency, the option moves ½.

[7] See Securities Exchange Act Release No. 36636, *supra* note 5.

[8] Phlx Rule 1012, Commentary .04 and Floor Procedure Advice (''Advice'') F–18, FCO Expiration Months and Strikes Prices—Selective Quoting Facility.

representatives to facilitate the smooth operation of the SQF, and this proposal codifies this result by adding the permissive language from the Rule into the Advice.

The Exchange believes that the proposed rule change is consistent with Section 6[9] of the Act in general, and in particular, with Section 6(b)(5),[10] 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, as well as to protect investors and the public interest. Specifically, the Exchange believes the proposal promotes just and equitable principles of trade by facilitating speedier dissemination of FCO markets. Although the proposal may, but does not necessarily, result in a greater number of active strikes, the Exchange believes that any additional activation of strikes is necessary to ensure that SQF dissemination includes truly active strikes. Thus, the proposal balances the need to prevent excessive quote disseminations with preserving meaningful dissemination of FCO quotes. The proposal is also designed to facilitate coordination between the Exchange, the Options Clearing Corporation (''OCC''), OPRA and securities information vendors. A quote will always be disseminated when a trade occurs in a previously-inactive series and quotes in inactive series can always be requested from the trading crowd, consistent with the protection of investors and the public interest. In sum, the Phlx believes that the proposed changes to the SQF should facilitate the specialists' ability to focus on active series, which should, in turn, result in tighter, more liquid markets, consistent with Section 6(b)(5).

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, the requirements of Section 6(b)(5).[11] The Commission believes that the proposed amendments to the SQF will result in timely and accurate FCO quote displays in series of known or probable interest to public customers, rather than those with improbable public investor interest, thereby helping the Phlx to maintain fair and orderly options markets.

Specifically, the Phlx proposes to redefine around-the-money active strikes as two in-the-money strikes and six out-of-the-money strikes for both puts and calls. According to the Exchange, the purpose of this change is to more accurately reflect the most active series for dissemination of the most significant and meaningful quotes. The Exchange states that FCO floor representatives determined that the 10–50 delta range did not necessarily incorporate such strikes. Each morning, under the proposal, the SQF will set eight calls and eight puts for each FCO expiration month. Previously, under the delta-base method, at least ten series were activated, and, in certain cases, more than five strikes out-of-the-money were required to capture the 50 delta and less than five captured the 50 delta in-the-money.

According to the Exchange, based on specialist experience, the ''two in and six out-of-the-money'' definition garners those strikes that are active daily and have the most trading interest. The Exchange states that the number of resulting strikes should not differ significantly from the delta-based method. The Exchange states that preliminary testing revealed that 10% fewer strikes in the sample were activated under the new definition, though the actual number for each FCO depends upon the fluctuations in the underlying currency. The Exchange also believes that the ''two in and six out'' method is easier to discern for customers, floor traders, Exchange staff, and vendors alike. Therefore, the Commission finds that the proposal may benefit investors and help the Phlx maintain fair and orderly markets by allowing for the updating and dissemination of quotations that are most useful to FCO market participants.

Rule 1012, Commentary .04 establishes the minimum strikes to be activated, thus permitting the Exchange to designate other strikes as active. In this regard, for consistency with Rule 1012, the Exchange proposed to add the language ''at minimum'' to the Advice. The Commission finds this conforming change appropriate.

In addition, the Commission believes that the proposal protects market participants by providing for the dissemination of one bid/ask quote at the end of each day for non-update series with open interest. This quote will provide option holders with an indication of the market for that option and will provide the OCC with a closing value to mark the market for margin and capital purposes.

The Commission continues to believe, as it has concluded previously,[12] that the SQF, as amended, will not create an advantage to FCO participants on the trading floor with the trading of options series not disseminated to the public. Public customers are protected by the feature of the SQF which requires a quotation to be disseminated after an options series is activated but before a trade can be entered. Accordingly, a participant who is physically on the trading floor will learn of the specialist's market for a given options series when the series is activated and a quote is published, nearly identical in time to a potential customer watching a vendor screen off-floor.

IV. Conclusion

*It is therefore ordered,* pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule change (File No. SR–Phlx–96–39) is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[14]

Margaret H. McFarland,

*Deputy Secretary.*

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[9] 15 U.S.C. 78f.

[10] 15 U.S.C. 78f(b)(5).

[11] 15 U.S.C. 78f(b)(5).

[12] See Securities Exchange Act Release No. 33067 (October 19, 1993), 58 FR 57458 (order approving SQF, SR–Phlx–92–23); Securities Exchange Act Release No. 36636, *supra* note 5.

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30–3(a)(12).

## DEPARTMENT OF STATE

### Office of the Secretary

**[Public Notice 2462]**

### Extension of the Restriction on the Use of United States Passports for Travel To, In, or Through Libya

On December 11, 1981, pursuant to the authority of 22 U.S.C. 211a and Executive Order 11295 (31 FR 10603), and in accordance with 22 CFR 51.73(a)(3), all United States passports were declared invalid for travel to, in, or through Libya unless specifically validated for such travel. This restriction has been renewed yearly because of the unsettled relations between the United States and the Government of Libya and the possibility of hostile acts against Americans in Libya.

The Government of Libya still maintains a decidedly anti-American stance and continues to emphasize its willingness to direct hostile acts against