

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38606; File No. SR-Phlx-97-20]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Philadelphia Stock Exchange, Inc., Relating to Specialist Wheel Rotation Frequency

May 9, 1997.

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 April 24, 1997, 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 self-regulatory organization. On May 9, 1997, the Phlx submitted Amendment No. 1 to the proposed rule change.<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 of the Terms of Substance of the Proposed Rule Change

The Phlx proposes to amend Floor Procedure Advice ("Advice") F-24, AUTO-X Contra-Party Participation (the "Wheel"), regarding Wheel rotations to the specialist. The Wheel is an automated mechanism for assigning floor traders (i.e., specialists and registered options traders ("ROTs")), on a rotating basis, as contra-side participants to AUTO-X orders. AUTO-X is the automatic execution feature of the Exchange's Automated Options Market ("AUTOM") system,<sup>4</sup> which provides customers with automatic executions of eligible option orders at displayed markets. Currently, the Wheel allocates the first trade of every day to the specialist. Thereafter, if four or less ROTs are participating on the Wheel, the specialist participates in a normal rotation. However, if five or more ROTs

have signed-on the Wheel, the specialist receives every fifth execution.

At this time, the Exchange proposes to amend Advice F-24(e) to reduce the rotation frequency for the specialist in larger crowds. Specifically, if there are, on average, five to 15 Wheel participants (including the specialist), the specialist would receive every fifth execution, and if there are, on average, 16 or more Wheel participants, the specialist would receive every tenth execution. Where the Wheel will be set to "every tenth execution," the specialist's rotation frequency will thereafter be automatically reduced from every tenth execution to a normal, consecutive rotation, when the number of signed-on Wheel participants becomes less than ten. Thus, where there were 16 or more Wheel participants on average, once only nine participants are signed-on, the specialist rotation frequency drops to a normal rotation. In contrast, in trading crowds averaging five to 15 Wheel participants, the specialist rotation would be every fifth execution, including where there are nine Wheel participants; if this crowd dropped to three Wheel participants, the specialist would receive a normal rotation (every fourth execution).

The average number of Wheel participants would be determined, in accordance with procedures established by the Exchange, upon implementation of this proposal, and adjusted thereafter by request from a participant on that Wheel (except where adjusted automatically under this proposal, as explained above). Specialist Wheel rotation frequency would otherwise carry over from day-to-day. Adjustments would become effective as soon as practicable the following trading day (allowing staff time to count, input and activate a different rotation level). The Exchange may establish procedures and limitations in order to reasonably process such requests without impairing Wheel operations, based on the availability of regulatory/surveillance and systems staff, and with due regard for prevailing market conditions.

The Exchange also proposes to adopt a new provision into advice F-24(e) permitting the Options Committee (or its designees) to establish a larger minimum Wheel rotation increment than the current two-five-ten lot rotation dependent upon the AUTO-X guarantee in that issue, if requested by the specialist and Wheel participants. Any such larger rotation cannot exceed ten contracts, such that this provision would permit rotations of three—ten contracts in specific issues.

The complete 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 self-regulatory organization included statements concerning the purpose of an 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 section 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's Wheel provisions were approved by the Commission in 1994 as Advice F-24.<sup>5</sup> The purpose of the Wheel is to increase the efficiency and liquidity of order execution through AUTO-X by including all floor traders in the automated assignment of contra-parties to incoming AUTO-X orders. Previously, only the specialist could be the *automatic* contra-side participant to AUTO-X trades, with ROT participation requiring manual intervention by the specialist. The Wheel is intended to make AUTO-X more efficient, as contra-side participation will be assigned automatically, and no longer entered manually. The Wheel is also intended to promote liquidity by including ROTs, as opposed to solely Specialists, as a contra-side to AUTO-X orders.

The floor-wide roll-out of the Wheel was completed the week of April 21, 1997. In November, 1996, the Exchange filed a proposed rule change to rotate the Wheel in a two-five-ten lot rotation, depending on the size of the AUTO-X guarantee.<sup>6</sup> As a result of that proposal, experience and input from the continued roll-out and an in-depth review by the sub-committee and committee processes, an additional change to the Wheel procedures is proposed at this time. The proposed change to the specialist wheel rotation frequency is intended to address the comments and concerns of the membership, including improving the

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

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

<sup>3</sup> See Letter from Philip H. Becker, Senior Vice President and Chief Regulatory Officer, Phlx to Michael Walinskas, Senior Special Counsel, Division of Market Regulation, SEC, dated May 8, 1997 ("Amendment No. 1"). In Amendment No. 1, the Phlx designated File No. SR-Phlx-97-20 be submitted pursuant to Section 19(b)(2) of the Act, rather than pursuant to Section 19(b)(3)(A), as originally requested.

<sup>4</sup> AUTOM is an electronic order routing and delivery system for option orders.

<sup>5</sup> See Securities Exchange Act Release No. 35033 (November 30, 1994), 59 FR 63152 (December 7, 1994) (SR-Phlx-94-32).

<sup>6</sup> See Securities Exchange Act Release No. 37977 (November 25, 1994), 59 FR 63899 (December 2, 1994) (SR-Phlx-94-32).

efficiency of the Wheel and eliminating a disproportionate allotment to the specialist in larger crowds. This proposal specifically addresses the issue of specialist rotation frequency raised by commenters on the aforementioned proposed rule change.<sup>7</sup>

Specifically, Advice F-24(e) is proposed to be amended such that the specialist would receive every tenth execution, if there are 16 or more Wheel participants in a particular issue. As stated above, the purpose of this change is to more equitably allocate Wheel participation in larger crowds. The Exchange notes that a greater participation level for specialists in smaller crowds is currently applicable pursuant to Rule 1014(g)(ii) and (iii), the enhanced specialist participation provisions.

The Exchange is also proposing to enable the Options Committee to establish a different rotation increment not to exceed ten contracts. Currently, as explained above, the Wheel rotates in different increments, depending upon the size of the AUTO-X guarantee in that issue. For instance, where the AUTO-X guarantee is for one to ten contracts, the Wheel rotates in two lot increments, meaning a ten lot would be divided in two lots to five Wheel participants. Where the AUTO-X guarantee is 11-25 contracts, the Wheel rotates in five lot increments, and where the guarantee exceeds 25 contracts (up to the maximum permissible 50 contracts), the Wheel rotates in ten lot increments. At this time, the Exchange proposes to allow the Wheel to rotate in an increment larger than permissible under the current framework, but no greater than ten contracts. The Options Committee may determine to allow a differing rotation, if requested by the Specialist and wheel participants, and following adequate notice to the trading floor.

The purpose of this provision is to improve the efficiency of the Wheel by allowing a greater rotation increment, meaning fewer participants and reports generated, in specific situations. Certain options may be subject to a lower, ten contract guarantee due to the high volatility associated with the underlying security(ies), yet, due to heavy volume, warrant a larger, more efficient wheel rotation increment. Also, very small trading crowds (with few Wheel participants) may request a larger rotation increment to reduce the number of executions received by each participant, preferring to accept larger but more infrequent execution reports. The Exchange believes that this

provision should improve Wheel efficiency by recognizing that the trading patterns and dynamics of trading crowds differ extensively across the options floor.

The Exchange notes that this proposal does not affect the price or time of AUTO-X executions. AUTO-X trades receive an automatic execution with immediate reporting, and the Wheel determines only the identity of the contra-side participant, as opposed to the process, time of price of the actual execution.

For these reasons, the Exchange believes the proposed rule change is consistent with Section 6 of the Act<sup>8</sup> in general, and in particular, with Section 6(b)(5),<sup>9</sup> in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and does not permit unfair discrimination between customers, issuers, brokers and dealers, by more fairly allocating Wheel trades to specialist in larger crowds.

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

The Phlx 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*

Although no written comments were either solicited or received specifically on this proposal, the Exchange received a petition dated January 20, 1997 generally requesting changes to the Wheel.

#### **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 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, NW, Washington, DC 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, NW, Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR-Phlx-97-20 and should be submitted by June 6, 1997.

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

**Margaret H. McFarland,**  
Deputy Secretary.

[FR Doc. 97-12882 Filed 5-15-97; 8:45 am]

BILLING CODE 8010-01-M

#### **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-38615; International Series Release No. 1079; File No. SR-ISCC-96-05]

#### **Self-Regulatory Organizations; International Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Election of Directors**

May 12, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on October 11, 1996, the International Securities Clearing Corporation ("ISCC") filed with the Securities and Exchange Commission ("Commission") and on October 17, 1996, December 11, 1996, March 21, 1997, and May 8, 1997, filed amendments to the proposed rule change (File No. SR-ISCC-96-05) as described in Items I, II, and III below, which items have been prepared primarily by ISCC. The Commission is publishing this notice to solicit

<sup>8</sup> 15 U.S.C. 78f.

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

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

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

<sup>7</sup> See SR-Phlx-96-49.