

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

Delta does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purpose of the Act.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

Comments were neither solicited nor received.

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

Within thirty-five 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 ninety 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. Persons making written submissions should rule 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 in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of Delta. All submissions should refer to File No. SR-DCC-97-03 and should be submitted by July 9, 1997.

For the Commission by the Division of Market Regulation pursuant to delegated authority.<sup>7</sup>

Margaret H. McFarland,

Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-38735; File No. SR-Phlx-97-14]

**Self-Regulatory Organizations; Order Granting Partial Accelerated Approval to a Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Rule 722, Margin Accounts**

June 11, 1997.

**I. Introduction**

On May 8, 1997, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to amend certain sections of the Exchange's rules to comply with changes to Regulation T which became effective June 1, 1997. Phlx submitted Amendment No. 1 on May 20, 1997.<sup>1</sup> Phlx submitted Amendment No. 2 on May 28, 1997.<sup>2</sup> Phlx submitted Amendment No. 3 on May 30, 1997.<sup>3</sup>

The proposed rule change, including the amendments, was published for comment, and partial accelerated approval of the proposal was granted in Securities Exchange Act Release No. 38711 (June 2, 1997).<sup>4</sup>

This order grants partial approval to a portion of the proposed rule change.

<sup>1</sup> See Letter from Michele R. Weisbaum, Vice President and Associate General Counsel, Phlx, to Michael Walinskas, Senior Special Counsel, Division of Market Regulation ("Market Regulation"), Commission, dated May 19, 1997 ("Amendment No. 1"). Amendment No. 1 supersedes the original rule filing in its entirety by addressing technical changes by making corrections to certain typographical errors appearing in the rule filing. Amendment No. 1 also makes a number of substantive changes.

<sup>2</sup> See Letter from Michele R. Weisbaum, Vice President and Associate General Counsel, Phlx, to Michael Walinskas, Senior Special Counsel, Market Regulation, Commission, dated May 28, 1997 ("Amendment No. 2"). Amendment No. 2 supersedes Amendment No. 1 with regard to certain portions of the rule filing the Commission is approving today by accelerated approval.

<sup>3</sup> See Letter from Diane Anderson, Vice President, Examinations Department, Phlx, to Michael Walinskas, Senior Special Counsel, Market Regulation, Commission, dated May 30, 1997 ("Amendment No. 3"). Amendment No. 3 corrects an inadvertent omission to Amendment No. 2).

<sup>4</sup> The Notice and Order has not been published in the Federal Register as of June 11, 1997. See SEC Release No. 34-38711 for a discussion of those provisions of the proposed rule change that were approved in that release.

**II. Description of the Proposal**

The full description of the proposed rule change set forth in File No. SR-Phlx-97-14 can be found in SEC Release No. 34-38711. The following description covers only those sections of Rule 722 ("Rule") being approved through this order, specifically paragraph (d) of Rule 722—*Covered Margin Accounts—Derivative Securities*.

*Customer Margin Accounts*

The Exchange is proposing to rearrange Rule 722 so that all provisions concerning customer margin accounts are in the same section. Specific provisions relevant to options and warrants will be covered in paragraph (d) of the Rule, entitled *Derivative Securities*.

New proposed section (d) of Rule 722 is entitled *Customer Margin Accounts—Derivative Securities*, and will contain all of the provisions applicable to options and warrants in customer margin accounts. The first paragraph of proposed Rule 722(d) states that active securities dealt in on a recognized exchange will be valued at current market prices but that other securities will be valued conservatively and that substantial additional margin will be required where the securities are unusually volatile or illiquid. This provision is being moved, unchanged, from section (c)(1) of the Rule.

The next provision of the Rule sets forth the continuing rule that long positions in listed options and warrants will not have any loan value for purposes of computing margin in customer accounts. It is being moved from current paragraph (c)(2) and is renamed, *Long Positions—Listed Options and Currency, Currency Index or Stock Index Warrants*.

Paragraph (d)(3) of Rule 722 restates the existing provisions of current paragraph (c)(2)(B)(i) regarding short listed options and warrants. The paragraph and accompanying chart sets forth the margin requirements for equity options, index options, foreign currency options, currency warrants, currency index warrants and stock index warrants listed or traded on a national securities exchange. It is not applicable to OTC options which are provided for in section (f) of the rule (current subsection (ii) to paragraph (c)(2)(B) which dealt with OTC options is also being deleted at this time). The one addition to the existing rule is the exception for short put options that would cap the margin requirement at no less than the option market value plus the minimum percentage applicable to that type of option in column II of the

<sup>7</sup> 17 CFR 200.30-3(a)(12).

option's aggregate exercise price amount. The purpose of this cap is to assure that the margin requirement does not continue to increase as the risk of the put position decreases as it becomes farther out-of-the-money.

Existing paragraph (c)(2)(C) of the Rule is being renumbered as (d)(4) and certain omitted words caused by typographical errors are being corrected.

The margin treatment for various related securities positions involving listed options and warrants carried in a customer margin account has been revised and rearranged from what is in the current rule. Current paragraph (c)(2)(D) of the Rule is renumbered as (d)(5)(A)(i) and entitled *Straddles/Combinations*. The provision has not been changed and thus continues to state that where a call option contract (on a stock, index or foreign currency) is carried in a short position for the same customer for which a short put option is held, the margin on the put or call, whichever amount is greater, plus the current market value of the other option is required to be maintained. The first two paragraphs of current subpart (c)(2)(F)(i) of the Rule applicable to warrant straddles has been moved into this section and numbered as (d)(5)(A)(ii) and (iii). Former subparagraph (E) of the Rule is renumbered as (d)(5)(B) and entitled, *Short option offset by long option where long option expires with or after short option*. The substance of the section has not been changed but has been redrafted for the sake of clarity and brevity. The margin treatment for spread positions on stock index, currency and currency index warrants in the present rule (in section (c)(2)(F)(i) is continued in section (d)(5)(C). The margin treatment for covered write convertibles which was formerly in subparagraph (F)(i) of the Rule will now be in subparagraph (d)(5)(D) of the Rule; however, the language in that section applicable to short puts will be deleted because it is covered under a new subsection (d)(5)(E) which is being added for covered calls and covered puts. Finally, a new provision for short equity call options offset by a warrant to purchase the underlying security has been added in new subsection (d)(5)(F) of the Rule. The provision, which is consistent with Regulation T, requires no margin for this position if the warrant to purchase the underlying security does not expire on or before the expiration date of the short call, and if the amount (if any) by which the exercise price of the warrant exceeds the exercise price of the short call is deposited in the account.

### III. Discussion

The Commission finds the following portions of the proposed rule change to be consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b)(5) of the Act:<sup>5</sup> proposed paragraph (d) of Rule 722, *Customer Margin Accounts—Derivative Securities*, with the exception of Rule 722(d)(5)(E) *Covered Calls/Covered Puts* which is not being approved at this time.<sup>6</sup> Section 6(b)(5) requires, among other things, that the Exchange have rules that are designed to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.<sup>7</sup>

The Exchange is proposing to rearrange Rule 722 so that all provisions concerning customer margin accounts are in the same section. Specific provisions relevant to options and warrants will be covered in paragraph (d) of the Rule entitled *Derivative Securities*. These changes are non-substantive and reasonable.

New proposed section (d) of Rule 722 is entitled *Customer Margin Accounts—Derivative Securities*, and will contain all of the provisions applicable to options and warrants in customer margin accounts. The first paragraph states that active securities dealt in on a recognized exchange will be valued at current market prices but that other securities will be valued conservatively and that substantial additional margin will be required where the securities are unusually volatile or illiquid. This provision is being moved, unchanged, from section (c)(1), and, accordingly, raises no new regulatory issues. The Commission finds the relocation of this provision to be reasonable.

The next provision of the Rule is being moved from current paragraph (c)(2) and is renamed, *Long Positions—Listed Options and Currency, Currency Index or Stock Index Warrants*. This provision is also unchanged and, accordingly, raises no new regulatory issues, and is reasonable.

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

<sup>6</sup> The Commission also is not approving at this time (1) proposed Commentary .14 to the Rule, which addresses several items regarding options specialists and market-maker permitted offsets and (2) the definition of "qualified stock basket" in Rule 722(a)(7). Collectively, these are the only portions of the filing that have not been approved as of the date of this order.

<sup>7</sup> In approving this rule, the Commission has considered the proposed rule's impact on efficiency, completion, and capital formation. 15 U.S.C. §78c(f).

Paragraph (d)(3) of the Rule restates the existing provisions of current paragraph (c)(2)(B)(i) regarding short listed options and warrants. The only addition to the existing rule is the exception for short put options that would cap the margin requirement at no less than the option market value plus the minimum percentage applicable to that type of option in column III of the option's aggregate exercise price amount. The Exchange states that the purpose of this cap is to assure that the margin requirement does not continue to increase as the risk of the put position decreases as it becomes farther out-of-the-money. The changes to this provision are substantially identical to changes adopted by the other options exchanges recently, and, accordingly, the Commission finds it reasonable for Phlx to adopt this provision.<sup>8</sup> Existing paragraph (c)(2)(C) of the Rule is being renumbered as paragraph (d)(4) and certain omitted words caused by typographical errors are being corrected. It is not the intention of Phlx to change the meaning of this provisions and, accordingly, this change raises no new regulatory issues. The Commission finds the adoption of this provision reasonable.

Current paragraph (c)(2)(D) of the Rule is renumbered as (d)(5)(A)(i) and entitled *Straddles/Combinations*. The first two paragraphs of current subpart (c)(2)(F)(i) of the Rule applicable to warrant straddles has been moved into this section and numbered as (d)(5)(A)(ii) and (iii). The provisions have not been changed and therefore raise no new regulatory issues. The Commission finds the relocation of these provisions to be reasonable.

Former subparagraph (E) of the Rule is renumbered as (d)(5)(B) and entitled, *Short option offset by long option where long option expires with or after short option*. The Exchange states that the substance of the section has not been changed but has been redrafted for the sake of clarity and brevity. The Commission concurs that the provision is substantially identical to a similar provision contained in the CBOE's rules.<sup>9</sup> Accordingly, the change raises no new regulatory issues and is reasonable.

The margin treatment for spread positions on stock index, currency and currency index warrants in the present rule (in section (c)(2)(F)(i) is continued in section (d)(5)(C) of the Rule. This section has not been changed, and,

<sup>8</sup> See, e.g., SEC Release No. 34-38709 (June 2, 1997) approving changes to the Chicago Board Options Exchange's ("CBOE") margin rules.

<sup>9</sup> See CBOE Rule 12.3(c)(5)(B)(3).

accordingly, raises no new regulatory issues. The Commission finds the provision to be reasonable.

The margin treatment for covered write convertibles which was formerly in subparagraph (F)(i) of the Rule will now be in (d)(5)(D) of the Rule; however, the language in that section applicable to short puts is being deleted because it will be covered under proposed subsection (E) relating to covered calls and covered puts. Subparagraph (d)(5)(D) is not being changed substantively and raises no new regulatory issues. The Commission finds it reasonable for the Exchange to delete the language relating to short puts from this subparagraph, but notes that proposed subsection (E) is not being approved at this time.

Finally, a new provision for short equity call options offset by a warrant to purchase the underlying security has been added in new subsection (d)(5)(F). The proposed treatment for a short listed call covered by a warrant is new to Rule 722 but it is substantially similar with the current treatment under Regulation T, 12 CFR 220.4(b) and, accordingly, is reasonable.<sup>10</sup>

The Commission finds good cause for approving the portions of the proposed rule change discussed above prior to the thirtieth day after the date of publication thereof in the **Federal Register**.<sup>11</sup> The portions of the filing approved today are either (1) non-substantive changes that move or consolidate existing Phlx margin provisions or (2) nearly identical to provisions contained in the existing margin rules of the CBOE. Together, the changes make Phlx's margin provisions easier to understand and more uniform with the margin provisions of the other options exchanges.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>12</sup> that the portions of the proposed rule change and amendments (SR-Phlx-97-14) relating to proposed Rule 722, paragraph (d), *Customer Margin Accounts—Derivative Securities* (with the exception of proposed paragraph (d)(5)(E)) are approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

<sup>10</sup> The Commission notes that other exchanges have recently adopted identical provisions. See, e.g., SEC Release 34-38709 (June 2, 1997).

<sup>11</sup> The Commission invited interested persons to submit written data, views and arguments concerning the proposed rule change and amendments in SEC Release 34-38711 (June 2, 1997). See, IV *Solicitation of Comments*.

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

<sup>13</sup> 17 CFR 200.30-3(a)(12).

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38738; File No. SR-Phlx-97-20]

### Self-Regulatory Organizations; Order Granting Accelerated Approval To Proposed Rule Change and Amendment No. 1 Thereto by the Philadelphia Stock Exchange, Inc. Relating to Specialist Wheel Rotation Frequency

June 11, 1997.

On April 24, 1997, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") 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> a proposed rule change to amend Floor Procedure Advice ("Advice") F-24, AUTO-X Contra-Party Participation (the "Wheel"), regarding Wheel rotations to the specialist. On May 9, 1997, the Phlx submitted Amendment No. 1 to the proposed rule change.<sup>3</sup>

The proposed rule change was published for comment in the **Federal Register** on May 16, 1997.<sup>4</sup> No comments were received on the proposal. This order grants accelerated approval to the proposal.

## II. Description of the Proposal

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>5</sup> which provides customers with automatic executions of eligible equity option and index 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.

The proposal would 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.

The proposal also would enable the Options Committee to establish a different rotation increment not to exceed ten contracts. Currently, the Wheel rotates in different increments, depending upon the size of the AUTO-X guarantee in that issue. For example, 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 to 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. The proposal would 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.

## III. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review, 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. Specifically, the Commission believes the proposal is consistent with the requirements of Section 6 of the Act<sup>6</sup> in general, and in particular, with Section 6(b)(5).<sup>7</sup> Section 6(b)(5) provides that the rules of the

<sup>1</sup> 15 U.S.C. 78s(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 as submitted pursuant to Section 19(b)(2) of the Act, rather than pursuant to Section 19(b)(3)(A), as originally filed.

<sup>4</sup> See Securities Exchange Act Release No. 38606 (May 9, 1997), 62 FR 27099 (May 16, 1997).

<sup>5</sup> AUTOM is an electronic order routing and delivery system for options orders.

<sup>6</sup> 15 U.S.C. 78f.

<sup>7</sup> 15 U.S.C. 78f(b)(5).