

arbitrator to be the chairperson of the panel, to eliminate the exception to consolidation of parties' rankings for parties with "sufficiently divergent" interests, and to amend the time frame in proposed Rule 10313 to align it with the time frames set forth in proposed Rule 10312 and 10315. Accordingly, because the changes in Amendment Nos. 3 and 4 are technical in nature and serve to clarify and strengthen the proposal, the Commission believes that it is consistent with Section 15A(b)(6) of the Act to approve Amendment Nos. 3 and 4 to the proposal on an accelerated basis.

Interested persons are invited to submit written data, views, and arguments concerning Amendment Nos. 3 and 4 to the rule proposal, including whether the amendments are consistent with the Act. 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 at the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-98-48 and should be submitted by November 12, 1998.

## V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>108</sup> that the proposed rule change (SR-NASD-98-48), including Amendment Nos. 3 and 4 on an accelerated basis, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>109</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40563; File No. SR-OCC-98-05]

### Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of a Proposed Rule Change Authorizing the Designation of Sunday as a Business Day and Clarifying the Rules for Margining Exercised and Assigned Positions in Currency Options

October 15, 1998.

On June 5, 1998, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-OCC-98-05) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published in the **Federal Register** on August 11, 1998.<sup>2</sup> For the reasons discussed below, the Commission is approving the proposed rule change.

#### I. Description

The rule change provides OCC with the flexibility to designate Sunday as a business day for the purposes of determining the exercise settlement date for foreign currency and cross-rate foreign currency options. The rule change also clarifies the rule governing the calculation of margin with respect to positions in cross-rate foreign currency options following their exercise and assignment.

Currently, the Sunday following an expiration is deemed to be a business day for the purposes of determining the exercise settlement date for expiring foreign currency options.<sup>3</sup> This designation permits expiring foreign currency options to settle on the same day as the foreign currency futures contracts traded on the International Monetary Market ("IMM") and to a lesser degree on the Philadelphia Board of Trade ("PBOT"). IMM futures contracts expire on a quarterly basis, and the coordination of exercise settlement dates among OCC-cleared options, IMM-traded futures contracts, and PBOT-traded futures contracts create hedging opportunities and settlement efficiencies for OCC's membership.

While the use of Sunday as a business day aligned the exercise settlement dates for the above-described contracts,

it resulted in certain operational issues for OCC. For example, non-expiring foreign currency options that were exercised on the same date as expiring foreign currency options were settled on a different exercise settlement date than the expiring options. It is not always necessary to use Sunday as a business day for determining the settlement date for currency options. The opportunity to hedge with the IMM or PBOT futures realistically only occurs four times a year. For twenty other expirations, the benefits derived from using Sunday as a business day are not fully achieved.

The rule change allows OCC to coordinate the date on which exercise settlement occurs for expiring options exercised on Friday and non-expiring options also exercised on Friday. The rule change provides that if Sunday is used as a business day for determining the exercise settlement date of exercised expiring options, it will also be used as a business day for exercised non-expiring options. When Sunday is not designated as a business day, DVP processing will occur on Monday. OCC will notify the membership in advance of when Sunday would be used as a business day for determining an exercise settlement date.<sup>4</sup>

In addition, two amendments are made to Rule 602(f) concerning the calculation of margin on currency option contracts following their exercise and assignment. The first change clarifies Rule 602(f)(2)(i) to state that margin calculations are performed separately on positions in foreign currency options and cross-rate foreign currency options and that a clearing member's positions in cross-rate currency options which generate a net margin credit can be used to offset the clearing member's margin requirement arising from other positions. The second amendment conforms Rule 602 to the changes relating to the designation of Sunday as a business day.

#### II. Discussion

Section 17A(b)(3)(F) of the Act<sup>5</sup> requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that allowing OCC to designate Sunday as a business day will increase settlement efficiency

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

<sup>2</sup> Securities Exchange Act Release No. 40295 (July 31, 1998) 63 FR 42655.

<sup>3</sup> Securities Exchange Act Release No. 23781 (November 17, 1986) 51 FR 41556.

<sup>4</sup> Changes are made to Rules 602, 1602, 1604, 1605, 1606, 2102, 2104, 2105 and 2106 (either in the text or in the Interpretations and Policies thereto) to conform them to the proposed changes for the reasons stated above. The complete text of the proposed changes to the Rules is included in OCC's filing, which is available for inspection and copying at the Commission's public reference room and through OCC.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>108</sup> 15 U.S.C. 78s(b)(2).

<sup>109</sup> 17 CFR 200.30-3(a)(12).

and limit confusion regarding when exercise settlement is to occur. In addition, the Commission believes that permitting an OCC clearing member's net margin credit from exercised cross-rate currency options to offset any other margin requirement also promotes the coordination of settlement across markets. Therefore, the Commission believes that OCC's rule change is consistent with its obligation under Section 17A(b)(3)(F) to promote the prompt and accurate clearance and settlement of securities transactions.

### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with Section 17A of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-98-05) be and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

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

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40554; File No. SR-PHLX 98-24]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Amend Floor Procedure Advice A-1 (Responsibility of Displaying Best Bid and Offer Prices Established on the Equity Floor)

October 14, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on July 13, 1998, 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 Exchange Phlx submitted Amendment No. 1 on September 14, 1998.<sup>2</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 Exchange, pursuant to Rule 19b-4 of the Act, proposes to update and amend its Equity Floor Procedure Advice A-1 to more closely track the SEC's customer limit order display rules. Proposed new language is italicized; proposed deletions are in brackets.

\* \* \* \* \*

#### Specialists

A-1 Responsibility of Displaying Best Bid and Offer Prices Established on the Equity Floor

#### FINE SCHEDULE

[Implemented on a three year running calendar basis]

A-1:	
1st Occurrence .....	[\$100.00] <i>Written Warning</i>
[2nd Occurrence] .....	[\$250.00]
2nd Occurrence and Thereafter .....	<i>Sanction is discretionary with Business Conduct Committee</i>
[3rd Occurrence] .....	[\$500.00]
[4th Occurrence and Thereafter] .....	<i>[Sanction is discretionary with Business Conduct Committee]</i>

## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, 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. Phlx has prepared

## Primary-Listed Equities Issues on the Exchange

(i) A Specialist shall use due diligence to ensure that the best available bid price and offer price on the floor in each "primary stock issue" assigned to him is properly and timely displayed for dissemination purposes throughout the trading day.

## Secondary—Unlisted Trading Privileges Issues

(ii) [A Specialist shall use due diligence to ensure proper and timely display of any bid or offer price of any order on the book in a "secondary issue" assigned to him for so long as such bid or offer is equal or superior to the consolidated best bid or offer of those disseminated by the national securities exchanges.] *Specialists are required to comply with SEC Rule 11Ac1-4 display requirements for certain customer limit orders. Specifically, under normal market conditions, specialists must immediately (but no later than 30 seconds) display the price and full size of customer limit orders (i) better than the Specialist's quote, and (ii) where the Specialist's quote is the NBBO, that add more than 10% to the size of the Specialist's quote, with certain exceptions contained in SEC Rule 11Ac1-4.*

[(iii) For the purposes of the above paragraphs, the fine schedule below will apply in any instance of any Exchange review which identifies that five percent or more of such orders have not been properly displayed in a timely fashion for the review period.]

summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

<sup>2</sup> See Letter from Nandita Yagnik, Phlx, to Michael Walinskas, Deputy Associate Director, Division of Market Regulation, Commission, dated September 10, 1998 ("Amendment No. 1"). Amendment No. 1 replaces the original rule filing in its entirety.

<sup>6</sup> 17 CFR 200.30-3(a)(12).

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