Because the proposed policy helps to remove impediments to and perfect the mechanism of a free and open market by making more efficient the process by which members receive and execute orders on the floor of the Exchange, the Commission finds that accelerating the operative date of the rule change is consistent with the protection of investors and the public interest. The Commission also finds that the proposal is sufficiently similar to a previously approved policy of the American Stock Exchange LLC.[11] Thus, the Commission designates May 25, 1999, the date of this notice, as the operative date of this filing.

IV. Solicitation Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549–0609. 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 Phlx. All submissions should refer to File No. SR–Phlx–99–14 and should be submitted by June 23, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[12]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99–13929 Filed 6–1–99; 8:45 am]

BILLING CODE 8010–01–M

[11] *See* Securities Exchange Act Release No. 37728 (September 26, 1996), 61 FR 51476 (October 2, 1996).

[12] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–41440; File No. SR–Phlx–98–09]

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Approving Proposed Rule Change to Amend Exchange Rule 1101A and Revise the Intervals Between Index Option Strike Prices

May 24, 1999.

I. Introduction

On February 5, 1998, the Philadelphia Stock Exchange, Inc. (''Exchange'' or ''Phlx'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change that would revise Exchange Rule 1101A(a) to modify the strike price intervals for index options. The proposed rule change was published for comment in the **Federal Register** on May 13, 1998.[3] The Commission did not receive any comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

During recent years, the number of new option products and total series listed by the national securities exchanges has significantly risen. This growth in new options products has increased the number of continuous quote changes disseminated by the exchanges to the Options Price Reporting Authority (''OPRA'')[4] and by OPRA to securities information vendors. In an effort to curb the growth of strike price dissemination and to more accurately reflect the strike prices currently being listed, the Exchange proposes to amend Exchange Rule 1101A(a), ''Terms of Options Contracts,'' to revise the intervals between index option strike (exercise) prices. The Exchange believes the revisions will facilitate the prompt dissemination of quote information and more accurately reflect the strike prices currently being listed.

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

[2] 17 CFR 240.19b–4.

[3] Securities Exchange Act Release No. 39964 (May 6, 1998), 63 FR 26667 (May 13, 1998).

[4] OPRA is a National Market System Plan under Section 11A of the Act that provides for the collection and dissemination of last sale and quotation information on options that are traded on the member exchanges. The five exchange markets that are members of the OPRA Plan are the American Stock Exchange, Chicago Board Options Exchange, New York Stock Exchange, Pacific Exchange, and Phlx.

Presently, Exchange Rule 1101A(a) establishes a formula for strike price intervals which takes into consideration the index value and time remaining until expiration. The Rule establishes a stroke price interval of $5, except: (i) Where the strike price exceeds $500, the strike price interval may be $10; and (ii) where the strike price exceeds $1,000, the interval may be $20. The Exchange may also determine to list strike prices at wider intervals in ''out-of-the money'' for far term series, generally $25, except: (i) Where the strike price exceeds $500, the interval may be $50; and (ii) where the strike price exceeds $1,000, the interval may be $100. Furthermore, where strike price intervals would be greater than $5, the Exchange may list additional strike prices at alternative $5 intervals in response to demonstrated customer interest or specialist request.

The current version of Exchange Rule 1101A(a) was adopted in 1996,[5] and was intended to improve the Exchange's strike price dissemination policy. Based on its experience implementing Rule 1101A(a), the Exchange has determined to revise and simplify the Rule for easier administration. The Exchange believes the revised Rule will more accurately reflect the needs of the marketplace. The Exchange has concluded that basing the strike price interval on an option's value (in the case of options greater than $500 or $1000) has not proven useful. The Exchange believes that widening the interval in far-term series should help to reduce the number of outstanding series listed.

The Exchange's proposed rule change would establish new strike price intervals of: (i) $5 for the three consecutive near-term months; (ii) $10 for the fourth month; and (iii) $30 for the fifth month. However, the Exchange would retain the ability to list additional strike prices at alternative $5 intervals in response to demonstrated customer interest or specialist request. The Exchange believes the continued ability to add strike prices at alternative $5 intervals in response to customer interest will maintain flexibility in the marketplace and preserve specific trading opportunities.

The Exchange believes that listing far-term series at wider strike price intervals should improve the efficiency of quotation dissemination and facilitate speedy pricing by reducing the number of listed strike prices. The Exchange predicts the immediate effect should be a reduction in the number of index option strike prices. Furthermore, the Exchange believes it will experience a

[5] *See* Securities Exchange Release No. 37003 (Mar. 21, 1996), 61 FR 13913 (Mar. 28, 1996).

reduction in its systems capacity and usage as well as its operational burdens. For instance, strike prices currently occupy trading floor screen space and consume transmission line traffic to OPRA and outside vendors that disseminate Exchange trading information. Lastly, the Exchange believes the proposal will enhance the role of the specialist in monitoring multitudes of strike prices.

III. Discussion

For the reasons discussed below, 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, with the requirements of Section 6(b).[6] Specifically, the Commission believes the proposed rule change is consistent with the Section 6(b)(5) [7] requirements that the rules of an exchange market be 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, in general, protect investors and the public interest.[8]

Compared to the equity securities that underlie many exchange-traded derivative products, option contracts generate significant quote volume because of the various contract months, differentiation between puts and calls, and multiple strike prices. Although trading in option contracts accounts for a small percentage of securities transactions in the aggregate, some have estimated that options quotes—reflecting the numerous classes and series—comprise more than 50% of all quote traffic.[9] In some cases, vendors lacking technological capacity have resorted to screening options quotes and selectively disseminating those quotes believed to be of most interest to customers.[10]

In addition, the number of new option products and total series listed by the national securities exchanges has grown dramatically, thereby increasing the number of continuous quote changes disseminated by the exchanges to the OPRA.

The Commission believes the Exchange's proposal is reasonable and will help to ameliorate quote traffic by reducing the number of index option strike prices. In particular, the proposal will establish new strike price intervals of: (i) $5 for the three consecutive near-term months; (ii) $10 for the fourth month; and (iii) $30 for the fifth month. The Exchange will retain the ability to list additional strike prices at alternative $5 intervals in response to demonstrated customer interest or specialist request.

The Commission believes the wider strike price intervals for the fourth and fifth month series reasonably balances the Exchange's interest in limiting the number of outstanding strike prices in less active series with its interest in accommodating the needs of investors. Generally, index option series nearest to expiration attract most of the trading activity while those farther out tend to attract less interest from customers and floor traders. Although far-term index option series are more likely to have no open interest,[11] their quotes nonetheless contribute to the congestion. Therefore, eliminating, some of the quotes for less active, far-term index option series through wider strike price intervals will help to decrease quote traffic without disrupting the active trading in near-term index option series. By maintaining the $5 strike price interval for the three consecutive near-term months, the Exchanger has ensured that the revised strike price intervals will not affect the overwhelming majority of index options trading that now regularly occurs in near-term months. Thus, the proposed reduction of strike prices for index options will be limited to the series with the least active trading interest.

The Commission notes that the revised strike price intervals will apply only to index options and will not modify the strike price intervals for equity or currency options traded on the Exchange. At the present, the Exchange offers options on 14 different stock indexes.[12] Although the quote traffic relating to a substantial segment of the Exchange's options products will therefore remain unaffected by the proposal,[13] the Commission believes the Exchange's proposal is a practical initiative that addresses the problem of increasing quote traffic.

To evaluate the impact of the proposal, the Exchange analyzed the distribution of strike prices for several of its actively traded stock indexes. The review indicates that in some cases the number of strike prices can be expected to significantly drop as a result of the revised intervals. For example, the number of strike prices for options on the Gold/Silver Sector Index would fall from 75 to 59, a 21% reduction. Likewise, the number of strike prices for options on the Oil Service Sector Index would drop 17%, from 58 to 48.[14] The Commission believes the reduction in strike prices will help to alleviate the quote traffic that currently flows from the Exchange.

The Commission believes it is important that the Exchange will retain the ability to list additional strike prices at alternative $5 intervals in response to demonstrated customer interest [15] or specialist request. The Commission believes the continued ability to add strike prices at alternative $5 intervals will provide the Exchange with the requisite flexibility to satisfy investor needs and respond to customer interest in specific trading opportunities. Furthermore, the customer request provision should help to ensure the availability of options series that provide investors with a means to adequately hedge their portfolios and implement trading strategies designed to meet their investment objectives. The Commission expects the Exchange to closely monitor the listing of additional strike prices at alternative intervals to ensure that new strike prices are added only in response to demonstrated customer interest or specialist request. Unless the Exchange properly controls the addition of alternative strike prices, the effectiveness of the proposal may be undermined if strike prices proliferate

[6] 15 U.S.C. 78f(b).

[7] 15 U.S.C. 78f(b)(5).

[8] In approving the proposed rule change, the Commission has considered the proposal's impact on efficiency, competition, and capital information. 15 U.S.C. 78c(f).

[9] *See e.g.*, SEC's Lindsey to Host Meeting Tomorrow on Quote Traffic, Wall Street Letter, June 8, 1998, at 6.

[10] *See* Options Marts to oversee Selective Quoting, Wall Street Letter, December 15, 1997, at 9. The screening usually occurs during the first 15–20 minutes of the trading day when vendors receive a wave of options quotes from the options exchanges.

[11] According to some options industry studies, up to 40% of listed options issues have no open interest. *See* Gregory Crawford, No Easy Answers to US Options Quote Volume Problem, Reuters Financial Service, May 4, 1997.

[12] The Exchange offers options on the following stock indexes: Computer Box Maker Sector, KBW Bank Sector, Forest & Paper Products Sector, Gold/Silver Sector, National Over-the-Counter Sector, Oil Service Sector, OTC Prime Sector, Phone Sector, Semiconductor Sector, SuperCap Sector, TheStreet.com Internet Sector, U.S. Top 100 Index, Utility Sector, and Value Line Composite Index.

[13] In addition to offering options on 14 stock indexes, the Exchange lists nearly 870 equity options and 100 currency pairs.

[14] *See* Letter to Michael Loftus, Attorney, Division of Market Regulation, Commission, from Nandita Yagnik, Attorney, Exchange, dated November 6, 1998. The Exchange's analysis further indicates that the number of strike prices for options on the U.S. Top 100 Index would decline from 61 to 54, a 12% reduction.

[15] As defined in Exchange Rule 1101A, the term ''demonstrated customer interest'' includes institutional (firm), corporate, or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by a ROT (Registered Options Trader) with respect to trading for the ROT's own account.

without good cause (*i.e.*, genuine customer interest or specialist request).

The Commission is confident that the Exchange's proposal will not adversely affect or disrupt the current system of option quote collection and dissemination. Specifically, OPRA has advised the Commission that the Exchange's proposal would have no negative impact on the operations of OPRA.[16] In addition, OPRA stated that if the other options exchanges adopted similar proposals, the number of strike prices and the level of quote traffic would be reduced.

The Commission believes the Exchange's proposal is consistent with efforts undertaken to limit the unnecessary proliferation of option strike prices.[17] In recently approving 2½ point strike price intervals for 200 exchange-listed equity options classes, the Commission cited the need to balance an exchange's desire to accommodate market participants by offering a wide array of investment opportunities and the need to avoid unnecessary proliferation of options series.[18] The Commission believes the Exchange's proposal achieves such a balance by reducing the number of index option strike prices but also retaining varied investment opportunities through the listing of alternative, customer-requested strike prices.

Moreover, because strike prices for index options must be displayed on the Exchange's trading floor, disseminated to outside vendors, and monitored by specialists, the Commission believes the proposal should reduce the systems and operational burdens associated with the listing of strike prices in far-term series of index options. By reducing the number of listed strike prices, the proposal should improve the efficiency of quotation dissemination and speedy pricing of index options, thereby helping the Exchange to maintain fair and orderly options markets.

Finally, the Commission believes the Exchange will implement the proposal in an orderly manner that will not disrupt current trading in far-term options series. In particular, the Exchange will begin listing index option strike prices at the new, wider intervals following the first quarterly expiration after Commission approval of the proposed rule change.[19] Therefore, after the next quarterly expiration in June, 1999, the Exchange will implement the proposal by listing strike prices for far-term index option series at wider intervals. The Commission expects the Exchange to issue a circular to members informing them of the new strike price intervals and the scheduled date of implementation. The Commission believes it is important that all market participants be advised of the changes so they are provided with sufficient time and notice to make any necessary adjustments to their positions and strategies.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[20] that the proposed rule change (SR–Phlx–09) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[21]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99–13930 Filed 6–1–99; 8:45 am]

BILLING CODE 8010–01–M

[16] *See* Letter to Michael Loftus, Attorney, Division of Market Regulation, Commission, from Joseph P. Corrigan, Executive Director, OPRA, dated September 10, 1998.

[17] For example, the American Stock Exchange delisted 250 inactively traded index option series in September, 1997, in an attempt to reduce quote traffic. *See* Amex Delists Index Options Series, Wall Street Letter, September 1, 1997, at 4.

[18] *See* Securities Exchange Act Release No. 40662 (Nov. 12, 1998), 63 FR 64297 (Nov. 19, 1998) (joint order approving File Nos. SR–Amex–98–21, SR–CBOE–98–29, SR–PCX–98–31, and SR–Phlx–98–26).

[19] Telephone conversation between Michael Loftus. Attorney, Division of Market Regulation, Commission, and Nandita Yagnik, Attorney, Exchange (Dec. 17, 1998). The Commission notes that this practice is consistent with the one employed by the Exchange in 1996 to implement previous revisions to index option strike price intervals. *See* Securities Exchange Act Release No. 37003 (Mar. 21, 1996), 61 FR 13913 (Mar. 28, 1996).

[20] 17315 U.S.C. 87s(b)(2).

[21] 17 CFR 200.30–3(a)(12).

DEPARTMENT OF STATE

[Public Notice No. 3056]

Bureau of Economic and Business Affairs; Guidelines Implementing Title XXII, Section 2225(a) of the Foreign Affairs Reform and Restructuring Act of 1998

AGENCY: Bureau of Economic and Business Affairs.

ACTION: Notice.

SUMMARY: Section 2225(a), of the Foreign Affairs Reform and Restructuring Act of 1998 (''Act''), provides that

Except as otherwise provided in section 401 of the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1996 (Public Law 104–114), and subject to subsection (b), the Secretary of State may deny the issuance of a visa to any alien who—

(1) through the abuse of position, including a governmental or political party position, converts or has converted for personal gain real property that has been confiscated or expropriated, a claim to which is owned by a national of the United States, or who is complicit in such a conversion; or

(2) induces any of the actions or omissions described in paragraph (1) by any person.

The following guidelines will be used by the Department of State for the purpose of implementing Sec. 2225 of the Act.

EFFECTIVE DATE: This notice is effective on June 2, 1999.

FOR FURTHER INFORMATION CONTACT: Robert Watts, Office of Investment Affairs, Bureau of Economic and Business Affairs, Department of State, 2201 C Street, NW, Washington, D.C. 20520, 202–736–4012.

SUPPLEMENTARY INFORMATION: Department of State Guidelines for Implementation of Title XXII, Section 2225 of the Foreign Affairs Reform and Restructuring Act of 1998.

1. Purpose and Authority. These guidelines will be used by the Department of State (''Department'') for the purpose of implementing Section 2225 of the Foreign Affairs Reform and Restructuring Act of 1998, P.L. 105–277, and other applicable legislation as appropriate.

2. Delegation of Authority. The Secretary of State has delegated authority to the Assistant Secretary of State for Economic and Business Affairs to make determinations under section 2225(a) of the Act, in consultation with the Assistant Secretary of State for the regional bureau or bureaus with jurisdiction over the country where the confiscation or expropriation took place and the country of which the alien who is to be denied a visa is a national, and others as appropriate.

3. Point of Contact. The Office of Investment Affairs in the Bureau of Economic and Business Affairs at the Department is the central point of contact for all inquiries about implementation of Sec. 2225 of the Act. The Office may be contacted in Room 3336, U.S. Department of State, Washington, DC 20520; telephone number 202–736–4012.

4. Collection of Information:

a. The Department will collect information from available sources on whether property abroad, a claim to which is owned by a U.S. national, has been confiscated or expropriated and converted for personal gain by a person in a position covered by the Act. U.S. Embassies will also collect information and provide information and recommendations to the responsible bureaus in the Department of State