

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,

Deputy Secretary.

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Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Listing and Trading of Options on the PHLX Super Cap Index

May 10, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 10, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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 proposes to list and trade options on the Phlx Super Cap Index ("Super Cap Index" or "Index"), a capitalization weighted index developed by the Phlx composed of the

five largest stocks, by capitalization, traded on the New York Stock Exchange ("NYSE"). Exchange Rules 1000A, Applicability and Definitions; 1001A, Position Limits; 1006A, Other Restrictions on Options Transactions and Exercises; 1047A, Trading Rotations, Halts or Reopenings; 1101A, Terms of Option Contracts; and 722, Margin Accounts will be amended to include reference to this proposed Index. The text of the proposed rule changes is available at the Office of the Secretary, the Exchange, 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 Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange 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 Phlx proposes to list for trading an European-style option³ on the Phlx Super Cap Index which is composed of the five largest capitalized common stock issues traded on the New York Stock Exchange.

The Phlx believes there are numerous benefits to listing the Super Cap Index options. First, the Exchange believes that the Super Cap will appeal to individual investors as well as program and basket traders because the Index reflects the direction and pricing of some of the nation's largest and most important companies. These stocks are frequently found in investor and trader portfolios alike and currently account for 10% of the capitalization on the NYSE.⁴ Second, because the Super Cap Index is based on a relatively small number of actively traded stocks, replication of the Index for hedging purposes with underlying stocks can be readily accomplished with complete accuracy. Thus, the Phlx believes that the proposed Super Cap Index is unique and will fill a current market void. Third, the Exchange does not believe that the Super Cap Index will be susceptible to manipulation as the stocks comprising the Super Cap Index are some of the largest and most widely held common stocks in the country.

The Phlx represents that as of April 5, 1995, the market capitalization of the individual stocks in the Index ranged from a high of \$93.8 billion to a low of \$59.7 billion. The market capitalization of all five of the stocks in the Index was approximately \$394 trillion. As of that same date, no one stock accounted for more than 23.81%, or less than 15.17%, of the Index's total value.

The formula for calculating the Super Cap Index "Current Index Value" is as follows:

$$\text{Current Index Value} = \frac{\text{total capitalization}}{\text{divisor}}$$

total capitalization = the sum of the market values (price times shares outstanding) for all of the component issues

$$\text{divisor} = \frac{\text{total capitalization}}{\text{old index value}}$$

The index value was set at a starting value of 200 as of January 12, 1995. In order to maintain continuity in the value of the Index, the Index divisor will be adjusted for changes in capitalization of any of the component issues resulting from, among other things, mergers, acquisitions, delistings, and substitutions. Adjustments in the value of the Index which are necessitated by the addition and/or the

deletion of an issue from the Index are made by adding and/or subtracting the market value (price times shares outstanding) of the relevant issues. The value of the index as of the close of trading on Wednesday, April 5, 1995 was 214.42.

The Super Cap Index value will be updated dynamically at least once every 15 seconds during the trading day. The Phlx has retained Bridge Data, Inc. to

compute and do all necessary maintenance of the Index. Pursuant to Phlx Rule 1100A, updated Index values will be disseminated and displayed by means of primary market prints reported by the Consolidated Tape Association and over the facilities of the Options Price Reporting Authority. The Index value will also be available on broker/dealer interrogation devices to subscribers of the option information.

¹⁷ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ European-style options can be exercised only during a specific time period prior to expiration of the options.

⁴ New York Stock Exchange's Fact Book 1994.

In accordance with Phlx Rule 1009A, if any change in the nature of any stock in the Index occurs as a result of delisting, merger, acquisition or otherwise, the Exchange will take appropriate steps to delete that stock from the Index and replace it with another stock which is in the top five, as measured by capitalization, of issue traded on the NYSE at the time the Phlx makes the substitution.

The Phlx shall evaluate the index annually to ensure that the index is an accurate representation of the five largest stocks, measured by capitalization, traded on the NYSE. Public notice of any changes will be made immediately and the Phlx will then make any substitutions, if necessary, of the component issues of the Index on the first business day after the January expirations for the Super Cap Index options.

The Exchange represents that all of the stocks comprising the Index are options eligible⁵ and have overlying options currently trading. If at any time, any of the component issues are not options eligible, the Exchange will submit a Rule 19b-4 filing to the Commission before opening any new series of options on the Index for trading. Additionally, if at any time, the Exchange determines to increase or decrease the number of component issues, the Exchange will submit a new Rule 19b-4 filing.

The settlement value for the Index options will be based on the opening values of the component securities on the date prior to expiration. Index options will expire on the Saturday following the third Friday of the expiration month, and the last day for trading in an expiring series will be the second business day (ordinarily a Thursday) preceding the expiration date.

The Phlx proposes to employ the same position limit applicable to the Exchange's other narrow-based indexes pursuant to Phlx Rule 1001A(b)(i). Specifically, the Phlx proposes to codify in Rule 1001A(c) that for Super Cap Index options, the position limit will be 5,500 contracts on the same side of the market. The Super Cap Index option

will not be subject to a hedge exemption.

The Super Cap Index is an index which does not neatly meet the traditional criteria of either a broad-based or narrow-based index. Unlike a typical broad-based index, the Super Cap Index consists of a relatively small number of stocks. Unlike a traditional narrow-based index, the stocks comprising the Super Cap are diversified and not industry specific. The Exchange understands that a concern may arise that investors could use the Index to circumvent the option position limits on the 5 individual component issues. The Exchange believes that by imposing a small position limit it will discourage investors from using the product for that purpose.

The Super Cap Index is comprised of the top 5 capitalized issues on the NYSE, thus the overlying issues are all likely to be in the category of options which have the highest position limit (10,500 contracts on the same side of the market). Further, all of the U.S. options exchanges currently have pilot programs wherein their position limit rules allow an investor to double the applicable limit by hedging their position with stock.⁶ Given the minimal position limit that the Phlx proposes to invoke for the Super Cap Index, it is unlikely that someone would buy Super Cap Index options in order to control more contracts on one component issue. For example, if an investor held the maximum amount of options on all 5 underlying issues and was hedged on all of them, he could control 105,000 contracts (21,000 X 5). Buying 5,500 Super Cap Index options could only increase his position by 5%. This is no different from the situation with any other index where someone buys the options on underlying components and then buys the index options. By definition, the investor has increased his control over the individual component issues. Specifically, the Commission's Generic Narrow-Based Index approval order⁷ allows exchanges to list options on indexes with a minimum of 10 component stocks. Assuming as a best case, that all the component issues have overlying options traded on them, and the options on the index are subject to a 10,500 contract position limit, the same 5% incremental control of position could be achieved. The Exchange therefore,

believes that it has proposed a reasonable approach to deal with the issue.

Exercise price intervals will be set at five point intervals in terms of the current value of the Index. Additional exercise prices will be added in accordance with Phlx Rule 1011A(a).

As with the Exchange's other indexes, the multiplier for options on the Super Cap Index will be 100. The Super Cap Index options will trade from 9:30 a.m. to 4:15 p.m. eastern time.

The Phlx will trade consecutive and cycle month series pursuant to Phlx Rule 1101A. Specifically, there will be three expiration months from the March, June, September, December cycle plus two additional near-term months so that the three nearest term months will always be available.

Super Cap Index options will be traded pursuant to current Phlx rules governing the trading of index options.⁸ The Exchange notes that procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor the trading of options on the Super Cap Index. These procedures included having complete access to trading activity in the underlying securities which are all traded on the NYSE via the Intermarket Surveillance Group Agreement ("ISG Agreement") dated July 14, 1983, as amended on January 29, 1990.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5),⁹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to facilities transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market.

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

The Exchange does not believe that the proposed rule change will impose any 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 were solicited or received with respect to the proposed rule change.

⁵ The Phlx's options listing standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements: (1) the public float must be at least 7,000,000 shares; (2) there must be a minimum of 2,000 stockholders; (3) trading volume in the U.S. must have been at least 2.4 million over the preceding twelve months; and (4) the U.S. market price must have been at least \$7.50 for a majority of the business days during the preceding three calendar months. See Phlx Rule 1009, Commentary .01.

⁶ See Phlx Rule 1001, Commentary .07, AMEX Rule 904, Commentary .09, PSE Rule 6.8, Commentary .07, CBOE Rule 4.11, Interpretation .04, and NYSE Rule 704(b)(ii).

⁷ See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994).

⁸ See Phlx Rules 1000A through 1103A, and 1000 through 1070.

⁹ 15 U.S.C. 78f(b)(5) (1988).

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

Within 35 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 90 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 file 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 at 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 the Phlx. All submissions should refer to SR-Phlx-95-22 and should be submitted by June 6, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35694; File No. SR-PHLX-95-16]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Modifications of the Position and Exercise Limits for Narrow-Based Index Options

May 9, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on March 6, 1995, 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. 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

Currently, PHLX Rule 1001A, "Position Limits,"¹ establishes the following position limits for industry (or narrow-based) index options (i) 5,500 contracts for an index where a single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; (ii) 7,500 contracts for an index where a single component stock accounted, on average, for 20% or more of the index value or any five component stocks together accounted, on average, for more than 50% of the index value but no single component stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or (iii) 10,500 contracts where the conditions requiring a limit of 5,500 contracts or 7,500 contracts have not occurred. The PHLX proposes to amend Exchange Rule 1001A(b)(1) and Exchange Rule 1002A, "Exercise Limits,"² to increase the position and exercise limits for industry index options from 5,500, 7,500, or 10,500 contracts to 6,000, 9,000, or 12,000 contracts.

¹ Position limits impose a ceiling on the number of option contracts which an investor or group of investors acting in concert may hold or write in each class of options on the same side of the market (i.e., aggregating long calls and short puts or long puts and short calls).

² Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

The 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 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. The self-regulatory organization has prepared summaries, set forth in sections (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 PHLX proposes to amend PHLX Rule 1001A to raise the position limits for its narrow-based index options. Specifically, the PHLX proposes to amend PHLX Rule 1001A(b)(1) to establish narrow-based index option position limits of 6,000, 9,000, or 12,000 contracts. In addition, the PHLX proposes to amend PHLX Rule 1002A to establish a corresponding increase in exercise limits for industry index options.

Currently, the PHLX trades options on the following narrow-based indexes:

- (1) Gold/Silver Index ("XAU"): 5,500 contracts
- (2) Utility Index ("UTY"): 10,500 contracts
- (3) PHLX/KBW Bank Index ("KBX"): 10,500 contracts
- (4) Phone Index ("PNX"): 5,500 contracts
- (5) Semiconductor Index ("SOX"): 7,500 contracts
- (6) Airline Sector Index ("PLN"): 10,500 contracts

These position limits, which are standard among all of the options exchanges for narrow-based index options, are based on the degree of concentration of a component stock of the index.³ Currently, under PHLX Rule 1001A, the three-tiered levels of position and exercise limits are 5,500, 7,500, or 10,500 contracts. For the reasons stated below, the PHLX proposes to increase these limits to 6,000, 9,000, or 12,000 contracts.

First, the Exchange notes that the current levels have been in place since

¹⁰ 17 CFR 200.30-3(a)(12).

³ See PHLX Rule 1001A.