

simplify customized foreign currency option ("Customized FCO") trading by conforming the procedure for obtaining quotes and executing trades with existing rules for regular Exchange-traded FCOs. Additionally, the Exchange proposes to adopt Floor Procedure Advice F-20 (Quoting and Trading Customized Foreign Currency Options) which will parallel the provisions of Exchange Rule 1069(b). The text of the proposed rule change is available at the Office of the Secretary, the 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 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. The Phlx 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 the Statutory Basis for, the Proposed Rule Change

On November 1, 1994, the Commission approved the Exchange's proposal to trade customized foreign currency options.¹ The Phlx proposes to amend Exchange Rule 1069(b) in order to eliminate the response period and the special parity rules for assigned Registered Options Traders ("ROTs") that apply during that response period. Presently, when a participant requests a quote for a Customized FCO ("RFQ"), if any participant requests a response time, the preset amount of time applicable to that type of Customized FCO is invoked and the assigned ROTs are given the ability to match any responsive quote that improves their previously voiced responsive quote. The response period was initially set by the Exchange's FCO Committee at two minutes for simple strike options, five minutes for simple spreads, inverses, and cross-rates, and eight minutes for options strategies involving more than three legs.² Once the response period has been invoked, a trade may only occur prior to the end of the response

period if at least two assigned ROTs respond to the RFQ. The Exchange has found that in almost every instance, participants have requested a response period, however, responsive quotes generally are not received until after the end of the response period.³

The Exchange represents that the intent of the response period was to give all participants and customers an equal amount of time to calculate a price in response to a RFQ because Customized FCOs are not continuously quoted FCOs for which participants have readily available trade sheets. Presently, when a RFQ is disseminated, a ROT who intends to respond may have to leave the crowd that he is in, go over to the Customized FCO post to listen to the RFQ, formulate a responsive quote, and then voice the responsive quote in the trading crowd.

The response period and attendant parity rules were intended, according to the Exchange, to assure that the floor traders who are crucial to providing liquidity to the market place were not placed at a competitive disadvantage to the off-floor traders due to their lack of prepared trading sheets. The Exchange has not been able to determine whether this concern is valid or not by reviewing the present level of activity in Customized FCOs. The Exchange has determined, however, that it is important at this time to promote more activity in Customized FCOs and, therefore, it is proposing to eliminate the response period. The Exchange represents that, pursuant to the proposed rule change, Customized FCOs will trade similar to regular Exchange-traded FCOs such that trades will be executable as soon as any responsive quote is made. Moreover, existing parity and priority principles in Exchange Rule 1014(h) will apply to trades in Customized FCOs. As more experience is gained, the Exchange feels that it will be in a better position to review trading activity to ensure that no competitive disparity is actually occurring.

The Phlx also proposes to adopt a new Floor Procedure Advice applicable to the FCO floor. Proposed Advice F-20 (Quoting and Trading Customized Foreign Currency Options), generally follows the text of Rule 1069(b). The Exchange represents that the purpose of Advice F-20 is to codify the trading procedure for Customized FCOs in the Floor Procedure Advice Handbook for ease of reference.

The Exchange believes that the foregoing rule change proposal is consistent with Section 6 of the Act, in general, and with Section 6(b)(5), in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest by simplifying the trading process for Customized FCOs.

(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

No written comments were solicited or received with respect to the proposed rule change.

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

¹ See Securities Exchange Act Release No. 34925 (November 1, 1994), 59 FR 55720 (November 8, 1994).

² The FCO Committee shortened the response period to one minute for all types of RFQs for Customized FCOs on January 16, 1995, effective at the opening on January 17, 1995.

³ Telephone conversation between Michele Weisbaum, Associate General Counsel, Phlx, and Brad Ritter, Senior Counsel, Office of Market Supervision, Division of Market Regulation, Commission, on February 22, 1995.