

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendments Nos. 1, 2, and 3. 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 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 the CBOE. All submissions should refer to File No. SR-CBOE-94-44 and should be submitted by May 17, 1995.

#### V. Conclusion

For the reasons discussed above, the Commission finds that the proposal is consistent with the Act, and, in particular, Section 6 of the Act.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>15</sup> that the proposed rule change (File No. SR-CBOE-94-44), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>16</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35631; International Series Release No. 805; File No. SR-Phlx-95-06]

#### Self-Regulatory Organizations; Order Approving a Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to British Pound Strike Price Intervals

April 20, 1995.

#### I. Introduction

On January 30, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") 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> filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to revise its strike price policy respecting foreign currency options on the British pound by changing from: a \$.025 interval to a \$.01 interval in the nearest three expiration months; a \$.025 interval to a \$.02 interval in the next three nearest expiration months; and a \$.05 interval to a \$.04 interval for long-term British pound options, which have 12 to 36 months until expiration.

Notice of the proposal was published for comment and appeared in the **Federal Register** on March 3, 1995.<sup>3</sup> No comment letters were received on the proposed rule change. This order approves the Exchange's proposal.

#### II. Description of the Proposal

The Phlx has proposed to revise its strike price policy respecting foreign currency options on the British pound pursuant to Phlx Rule 1012—Series of Options Open for Trading by adopting shorter strike price intervals than currently used. Currently, British pound options are listed at 2½ cent intervals; long-term options are listed at 5 cent intervals. Pursuant to Phlx Rule 1012, six expiration months are currently listed in regular foreign currency options, with one, two, three, six, nine, and twelve months until expiration. Additionally, two long-term options are currently listed (in June and December) with 18 and 24 months until expiration. Fluctuations in the spot price of the British pound currently result in additional listings at 2½ cent intervals.<sup>4</sup>

The Exchange proposes to revise its strike price policy respecting foreign currency options on the British pound by changing from a \$.025 interval to a \$.01 interval in the nearest three expiration months and from a \$.025 interval to a \$.02 interval in the next three nearest expiration months. In addition to reducing the strike price interval from 2½ cents to 1 and 2 cents, respectively, the Exchange also proposes to reduce the strike price interval for long-term British pound options, which have 12 to 36 months until expiration, from \$.05 to \$.04.

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 35420 (February 27, 1995), 60 FR 11999 (March 3, 1995).

<sup>4</sup> Currently, the addition of strike prices, which is governed by Phlx Rules 1012 and 1101A, is determined by the movement of the underlying stock, index, or foreign currency, such that strike prices reasonably close to the value of the underlying security are listed for trading. When the Exchange plans to add a new strike price, a memorandum is distributed to the trading floor as well as over electronic systems notifying the membership and their customers of the new strike. See Securities Exchange Act Release No. 34349 (July 11, 1994), 59 FR 36469 (July 18, 1994).

The Exchange states that the purpose of the proposed rule change is to address certain market needs that have arisen as a result of recent lower volatility respecting the British pound (in relation to the U.S. dollar), which has created a customer need for narrower strike price intervals.<sup>5</sup> The Exchange represents that the lower volatility of the British pound has resulted in a narrower trading range for the currency option, sometimes limiting the availability of sufficient near- or at-the-money series.

Additionally, the Exchange believes the proposal is necessary to ensure that the British pound foreign currency option contract remains competitive and consistent with the contract terms applicable to British pound foreign currency futures (and futures options) traded on the Chicago Mercantile Exchange ("CME"). Recently, the CME determined to list certain options on British pound futures (the three near months) as \$.01 intervals.

The Phlx asserts that the proposed rule change will initially create 496 new strike prices.<sup>6</sup> Additionally, both the Phlx and the Options Price Reporting Authority ("OPRA") represent that the predicted increase in the number of British pound options series will not adversely affect their respective computer processing capacities to accommodate the additional strike prices.<sup>7</sup>

The Exchange further states that its general policy with respect to the delisting of inactive options series, subject to the assigned option specialist's approval, is to delist series in which there is no open interest beginning with the highest or lowest strike for that month. The Exchange, however, may not delist a series if such

<sup>5</sup> The Commission has previously approved certain Phlx proposals that shortened foreign currency option strike price intervals. See e.g., Securities Exchange Act Release Nos. 25685 (May 10, 1988), 53 FR 17524 (May 17, 1988) (French franc from \$.05 to \$.025 strike price intervals) (File No. SR-Phlx-86-14), and 24103 (February 13, 1987), 52 FR 5605 (February 25, 1987) (British Pound from \$.05 to \$.025 strike price intervals) (File No. SR-Phlx-86-14).

<sup>6</sup> The total number of new strikes includes both puts and calls for American and European style options on the British pound. See Letter from Gerald O'Connell, First Vice President, Phlx, to Michael Walinskas, Office of Market Supervision ("OMS"), Division of Market Regulation ("Division"), Commission, dated April 10, 1995 ("O'Connell Letter No. 1").

<sup>7</sup> See Letter from William H. Morgan, Vice President, Phlx, to Michael Walinskas, OMS, Division, Commission, dated April 12, 1995 ("Morgan Letter"). See also Letter from Joseph P. Corrigan, Executive Director, OPRA, to William Terrell, Vice President, Phlx, dated April 6, 1995 ("OPRA Letter").

<sup>15</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>16</sup> 17 CFR 200.30-3(a)(12) (1994).

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