

## 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 Statutory Basis for, the Proposed Rule Change

AUTOM is the Exchange's electronic order routing, delivery, execution, and reporting system for equity and index options. AUTOM is an on-line system that allows electronic delivery of options orders from member firms directly to the appropriate specialists on the Phlx options trading floor, with electronic confirmation of order executions. Certain orders are eligible for AUTOM's automatic execution feature, AUTO-X. AUTO-X orders are executed automatically at the disseminated quotation price on the Exchange and reported to the Options Price Reporting Authority ("OPRA") and to the originating firm. Generally, the specialist is the contra-side to AUTO-X trades.<sup>2</sup> Those orders not eligible for AUTO-X are executed manually by the specialist, and, upon execution of the order, are entered into the Exchange's systems for reporting to OPRA and to the firm that placed the order.

The AUTOM system has operated on a pilot basis since 1988, when it was first approved by the Commission for market orders of up to five contracts for all exercise prices in the near-month covering 12 Phlx-traded equity options.<sup>3</sup> Since that time, AUTOM has been extended and amended several times.<sup>4</sup>

<sup>2</sup> See Securities Exchange Act Release No. 35033 (November 30, 1994), 59 FR 63152 (December 7, 1994) (order approving a "wheel" execution system to automatically assign the specialist and participating Registered Options traders, on a rotating basis, as the contra-side to AUTO-X trades).

<sup>3</sup> See Securities Exchange Act Release No. 25540 (March 31, 1988), 53 FR 11390 (April 6, 1988).

<sup>4</sup> See Securities Exchange Act Release Nos.: 25868 (June 30, 1988), 53 FR 25563 (July 7, 1988) (order extending the pilot program to include 25 additional equity options and extending the pilot through December 31, 1988); 26354 (December 13, 1988), 53 FR 51185 (December 20, 1988) (order extending pilot program through June 30, 1989); 26522 (February 3, 1989), 54 FR 6465 (February 10,

The purpose of the proposed rule change is to extend the AUTOM pilot program until December 31, 1995. The Phlx believes that this extension of the pilot program should provide the Exchange, as well as the Commission, with additional time to study the effectiveness of AUTOM prior to either a further extension or permanent approval of the pilot program. During this extension, the Exchange intends to monitor the implementation of certain enhancements to AUTOM as well as to codify the entire pilot program as an Exchange rule.<sup>5</sup>

Generally, the Exchange believes that since the last extension of the pilot program,<sup>6</sup> AUTOM has functioned properly and efficiently, without any material problems reported by Phlx members of AUTOM users, and without significant malfunctions or operational failures.

The Exchange believes that AUTOM provides small customer option orders with the benefits of electronic delivery and reporting, while AUTO-X provides automatic executions as well. Accordingly, the Exchange believes that AUTOM increases the speed and efficiency of order delivery, execution and reporting. This, the Exchange believes, promotes both liquidity and fair and orderly markets. For these reasons, the Phlx believes that extending the AUTOM pilot program

1989) (order extending pilot through December 31, 1989); 27599 (January 9, 1990), 55 FR 1751 (January 18, 1990) (order extending pilot through June 30, 1990); 28265 (July 26, 1990), 55 FR 31274 (August 1, 1990) (order extending pilot through December 31, 1990); 28978 (March 15, 1991), 56 FR 12050 (March 21, 1991) (order extending pilot through December 31, 1991 and approving the use of AUTO-X as part of the AUTOM pilot program); 29662 (September 9, 1991), 56 FR 46816 (September 16, 1991) (order permitting AUTO-X orders up to 20 contracts in Duracell operations only); 29782 (October 3, 1991), 56 FR 51247 (October 10, 1991) (order permitting AUTO-X for all strike prices and expiration months); 29837 (October 18, 1991), 56 FR 55146 (October 24, 1991) (order extending pilot through December 31, 1993); 32000 (March 15, 1993), 58 FR 15168 (March 19, 1993) (order approving the delivery of orders for up to 100 contracts through AUTOM and execution of orders for up to 25 contracts through AUTO-X); 32906 (September 15, 1993), 58 FR 49345 (September 22, 1993) (order permitting AUTO-X orders up to 25 contracts in all equity options); 33405 (December 30, 1993), 59 FR 790 (January 6, 1994) (order extending pilot through December 31, 1994) ("Exchange Act Release No. 33405"); and 34920 (October 31, 1994), 59 FR 55510 (November 7, 1994) (order approving use of AUTOM and AUTO-X for index option orders).

<sup>5</sup> Separately, the Exchange is proposing to limit the eligibility of National Over-the-Counter Index options for execution through AUTO-X. See File No. SR-Phlx-94-60. Additionally, the Exchange is proposing to codify the types of orders eligible for AUTOM and AUTO-X. See File No. SR-Phlx-94-62. See also, *supra* note 2.

<sup>6</sup> See Exchange Act Release No. 33405, *Supra* note 4.

until December 31, 1995, is consistent with Section 6 of the Act, in general, and, Section 6(b)(5), the particular, in that the proposal is designed to promote just and equitable principles of trade, and to protect investors and the public interest. In addition, the Exchange believes that the proposed rule change is consistent with Section 11A(a)(1)(B) of the Act in that the AUTOM is intended to improve, through the use of new data processing and communications techniques, the efficiency with which transactions in Phlx equity and index options are executive. Further, the Exchange believes that AUTOM fosters competition among options exchanges, which have similar systems in place.

### (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 of Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were either solicited or received by the Exchange.

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

The Exchange has requested that the proposed rule change be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act.<sup>7</sup>

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, the requirements of Sections 6 and 11A.<sup>8</sup> Specifically, the Commission continues to believe that the development and implementation of the AUTOM system provides for more efficient handling and reporting of orders in Phlx options through the use of new data processing and communications techniques, thereby improving order processing and turnaround time.<sup>9</sup> The Commission also

<sup>7</sup> See Amendment No. 1, *supra* note 1.

<sup>8</sup> 15 U.S.C. §§ 78f and 78k-1 (1988).

<sup>9</sup> The Commission notes that in the last extension of the pilot program, the Commission stated that prior to granting permanent approval or any further extension of the pilot, the Phlx would be required to submit a full report: (1) describing certain system modifications then in progress by the Exchange and describing the effect those modifications have subsequently had on AUTOM; and (2) updating a report submitted by the Phlx dated November 24,