

Exchange is amending the following Phlx rules: Rule 101—Hours of Business; Rule 229—Philadelphia Stock Exchange Automated Communication and Execution System ("PACE"); Rule 232—Handling Orders When the Primary Market is Not Open for Free Trading (EXP, PPS, GTX Orders); and Equity Floor Procedure Advice EF-1—Designating Orders for Execution in Instances Where the Primary Market is Not Open in an Issue for which the Phlx is Open for Free Trading.

As indicated above, Phlx Rule 101 will be amended to reflect the extension of the hours of business. Second, the Exchange is amending Phlx Rule 229, governing the operation of PACE, to designate PACE as an eligible order routing system for PPS eligible orders. PACE will not, however, be available as an order execution mechanism during PPS.<sup>5</sup>

Third, Phlx Rule 232 currently only governs after-hours trading (crossing session) of GTX orders. The Exchange is amending it, however, so that it will specify that GTX orders are executable after the PPS close, and also encompass (1) PPS, and (2) rules governing trading on the Phlx when the primary market is not open for free trading in an issue at a time that the Phlx is open for free trading. Rather than assigning PPS a new rule number, the applicable PPS provision is being added to Phlx Rule 232 in order to group into a single rule the three Exchange provisions relating to trading on the Phlx during periods when the primary market is not open for free trading.<sup>6</sup>

With respect to the PPS provision, Rule 232 will: require that orders be designated PPS to be eligible for execution during the PPS; and specify that since PPS is merely an extension of the Exchange's auction market, whereby bids and offers are dynamically updated for trading under normal auction market principles, that Exchange rules applicable to floor trading during the "regular" session will continue to apply. In this regard, market, limit and contingent order types currently acceptable under Exchange rules will be accepted for PPS if so designated.<sup>7</sup>

<sup>5</sup> Orders received by 4:00 p.m. Eastern Time as determined electronically by the PACE system are eligible for execution during regular trading hours (*i.e.*, before the PPS). See Phlx Rule 229 Commentary .17.

<sup>6</sup> With respect to equities, "free" trading is that which occurs after the initial opening of a security, but not during a trading halt.

<sup>7</sup> For example, pursuant to Phlx Rule 207, a "GTC PPS" (such an order is good 'til cancelled but executable during PPS, and differs from a GTX order in that the later is eligible for execution after the close of the Exchange) order will be eligible for PPS execution, and, if not executed, will be eligible

Finally, the GTX provisions will be renumbered as paragraph (c) of Phlx Rule 232.

With respect to the situation addressed in Equity Floor Procedure Advice EF-1—where the Phlx is open for trading before the primary market is open, or during a non-regulatory halt in trading on the primary market—this will be codified into Phlx Rule 232(a). In addition, the use of the yellow ticket, designating orders eligible for execution when the Phlx is open for trading in such a circumstance, will be replaced with the use of the designator "EXP" (meaning ex-primary) to parallel the designators "PPS" and "GTX" in Rule 232.<sup>8</sup>

The Commission finds that the proposed rule change to extend the Phlx's auction market trading session to 4:15 p.m. 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).<sup>9</sup> In particular, the Commission believes the proposal is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public, in that it is reasonably designed to promote just and equitable principles of trade, and, in general, perfect the mechanism of a free and open national market system.

The Commission believes that the decision to change the Exchange's trading hours does not raise any new regulatory concerns. Currently, auction market trading after 4:00 p.m. (EST) occurs on the Pacific Stock Exchange ("PSE").<sup>10</sup> The Phlx system will operate in a substantially similar manner and enable the Phlx to compete with the PSE for after hours volume. Specifically, the Phlx PPS will continue to provide full transparency by disseminating quotes through the Consolidated Quotation System and reporting trades to the consolidated tape. In addition, there will continue to be complete access to the Phlx market during PPS and the

for execution during ensuing days because of the GTC designation.

<sup>8</sup> The Phlx is also making a few minor changes to clarify that the Phlx may not be open for free trading during a regulatory trading halt on the primary market, and to reword the three-year cycle for imposing fines (*i.e.*, the fine schedule is structured such that successive violations committed during a three-year time span result in successive increased fines).

<sup>9</sup> 15 U.S.C. § 78f(b) (1988).

<sup>10</sup> See Securities Exchange Act Release No. 29631 (August 30, 1991), 56 FR 46025 (September 9, 1991).

usual auction market rules will continue to apply. Moreover, in order to preserve the execution quality of limit orders placed on the specialists' books during "regular" trading hours, such orders will not automatically migrate to the PPS, but rather will do so only if the order is so designated (*i.e.*, with an EXP indicator on the ticket). Finally, the Commission has not received any comment letters from the public or Phlx members raising any regulatory issues in connection with the extension of the Phlx auction market hours to 4:15 p.m.

The Commission notes, however, that during the proposed extension of trading hours, the PSE is the only other national securities exchange that will be operating an auction market. In this regard, the Phlx has represented to the Commission that the Intermarket Trading System ("ITS") will be in operation as a link between the two exchanges during the PPS.<sup>11</sup> Thus, ITS commitments will be able to be routed back and forth, just as during the regular trading hours.

Although the NYSE is operating its Off-Hours Trading ("OHT") facility and the Amex is operating its after-hours trading session during this time period, these sessions are limited to accepting single stock orders priced at either the NYSE or Amex closing price, respectively, or effecting portfolio trades. Because the PPS trading session will not overlap the 5:00 p.m. executions in Crossing Session I of the NYSE's OHT facility or the Amex's after-hours trading facility, the proposal being approved today does not raise market structure issues regarding the interaction between the PPS and these two after-hours systems.

Accordingly, the Commission does not believe that an extension of the Phlx's auction market trading hours to 4:15 p.m. will have an adverse effect on the maintenance of fair and orderly markets or disadvantage public customers.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>12</sup> that the proposed rule change (SR-Phlx-94-46) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority,<sup>13</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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<sup>11</sup> See letter from Gerald O'Connell, First Vice President, Phlx, to Amy Bilbija, Attorney, Commission, dated December 28, 1994.

<sup>12</sup> 15 U.S.C. § 78s(b)(2) (1988).

<sup>13</sup> 17 CFR 200.30-3(a)(12) (1991).