

number of FCO positions creates open interest, which remains without fluctuation or additional trading volume; the PHLX believes that classifying series with open interest that have not traded within the previous five days as non-update series will eliminate a significant number of quote changes. This, in turn, should decrease FCO quotation processing times so that active quotes are updated and disseminated more quickly to public investors.

In addition, the PHLX proposes to amend the definition of update series to include the approximately 10, 20, 30, 40, and 50 delta strikes below and above the underlying price. The delta associated with a strike changes as the spot price changes, so that different strikes become the approximately 10–50 delta strikes and, thus, the active series. According to the PHLX, strike prices with a delta up to 50 represent the most active, volatile options, for which the dissemination of quotations is meaningful. Because the proposal provides that the approximately 10–50 delta strikes above and below the underlying price will be classified as update series, it benefits investors and helps the PHLX to maintain fair and orderly markets by allowing for the updating and dissemination of the quotations that are most useful to FCO market participants.

The PHLX proposes further to deactivate strikes intra-day that no longer fit the definition of active, thus eliminating quote change disseminations in series of improbable public investor interest and helping the PHLX to provide timely and accurate FCO quotes in series of interest to investors.<sup>14</sup> At the time, the Exchange proposes to update and disseminate strikes which become active due to market changes, thereby helping to ensure that the most active FCO strikes are updated and disseminated throughout the trading day.

In addition, the Commission believes that the proposal protects market participants by providing for the dissemination of one bid/ask quote at the end of each trading day for non-update series with open interest. This quote will provide option holders with an indication of the market for that option and will provide the OCC with a closing value to mark the market for margin and capital purposes.

<sup>14</sup> A strike that is no longer around-the-money based on a delta change may qualify as an update strike if there is open interest in the series and the series has traded within the previous five trading days. In addition, update series may be activated intra-day at the PHLX's initiative or in the response to a request from a specialist or an FCO floor official.

The Commission continues to believe, as it has concluded previously,<sup>15</sup> that the SQF, as amended, will not create an advantage to FCO participants on the trading floor with respect to the trading of options series not disseminated to the public. Public customers are protected by the feature of the SQF which requires a quotation to be disseminated after an options series is activated but before a trade can be entered. Accordingly, a participant who is physically on the trading floor will learn of the specialist's market for a given options series when the series is activated and a quote is published, nearly identical in time to a potential customer watching a vendor screen off-floor.

#### IV. Conclusion

For the foregoing reasons, the Commission finds that the PHLX's proposal to amend the SQF is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>16</sup> that the proposed rule change (SR-PHLX-95-62) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>17</sup>

Jonathan G. Katz,

Secretary.

[FR Doc. 96-00038 Filed 1-2-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36637; File No. SR-Phlx-95-74]

#### 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 Big Three Auto Sector Index

December 26, 1995.

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> notice is hereby given that on September 25, 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. On December 20, 1995, the Exchange submitted to the Commission Amendment No. 1 to the

proposed rule change.<sup>3</sup> The Commission is publishing this notice, as amended, 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 Big Three Auto Sector Index ("Big Three Auto Index" or "Index"), a capitalization weighted index developed by the Phlx composed of all of the U.S. automobile manufacturing company stocks. The text of the proposed rule change 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 option<sup>4</sup> on the Phlx Big Three Auto Sector Index which is an index representing the domestic automobile industry. The Phlx believes that the Big Three Auto Index will appeal to individual investors as well as program and basket traders because the Index reflects the direction and pricing of the nation's entire domestic automobile industry. Because the Big Three Auto Index is based on a small number of actively traded stocks, the Exchange believes that replication of the Index for hedging purposes with underlying stocks can be readily accomplished with complete accuracy. Thus, the Phlx believes that the

<sup>3</sup> The Exchange proposes to amend its position limit rule to state that the position limit for options on the Big Three Auto Index is 5,500 contracts total. Additionally, the Exchange proposes to amend the filing to change the method of calculating the Index from equal-dollar weighting to capitalization weighting. See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated December 20, 1995 ("Amendment No. 1").

<sup>4</sup> European-style options can be exercised only during a specific time period prior to expiration of the options.

<sup>15</sup> See SQF Approval Order, *supra* note 9.

<sup>16</sup> 15 U.S.C. § 78s(b)(2) (1988).

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

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

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

proposed Big Three Auto Index is unique and will fill a current market void. The Exchange does not believe that the Big Three Auto Index will be susceptible to manipulation as the stocks comprising the Big Three Auto Index represent extremely large, liquid, and widely held common stocks. The Exchange represents that all three underlying component securities are traded on the New York Stock Exchange and are therefore, "report securities" as defined in Rule 11Aa3-1 under the Act. Further, the Exchange represents that all three underlying component securities currently meet the Phlx's listing criteria for equity options contained in Exchange Rule 1009 and are the subject of options trading on U.S. options exchanges.

The Phlx represents that as of December 19, 1995, the market capitalization of the individual stocks in the Index ranged from a high of \$37.37

billion (General Motors Corp.) to a low of \$20.51 billion (Chrysler Corporation). The market capitalization of all three of the stocks in the Index was approximately \$88.23 billion. The total number of shares outstanding on October 31, 1995 for the stocks in the Index ranged from a high of 1.07 billion shares (Ford Motor Company) to a low of 382 million shares (Chrysler Corporation). Additionally, the average monthly trading volume in the U.S. of the stocks in the Index, for the twelve-month period from November 1, 1995 to October 31, 1995, ranged from a high of 69 million shares per month (Ford Motor Company) to a low of 50.9 million shares per month (General Motors Corp.). Lastly, as of December 19, 1995, no one stock accounted for more than 42.57% (General Motors Corp.), or less than 23.19% (Chrysler Corporation), of the Index's total value.<sup>5</sup>

The Big Three Auto Index will be calculated using a capitalization-weighting methodology. The representation of each security in the Index will be proportional to the security's last sale price multiplied by the total number of shares outstanding, in relation to the total market value of all the securities in the Index. The Exchange believes that this capitalization weighting methodology is appropriate because many investors who might use this Index as a hedging vehicle own stock baskets containing shares of each of the three component stocks in amounts proportionate to their respective market capitalizations. The Index value was set at a starting value of 200 as of September 29, 1995. The value of the Index as of the close of trading on December 19, 1995 was 199.58. The formula for calculating the "Current Index Value" is as follows:

$$\text{Current Index Value} = \frac{\text{Total Capitalization}}{\text{Divisor}}$$

Where:

Total Capitalization = Sum of Market Values (price x shares outstanding) for all component securities

Divisor = The number which, when divided from the total capitalization when the Index was initially

calculated (on September 29, 1995), yielded an Index value of 200.

In order to maintain continuity in the value of the Index, the Index divisor will be adjusted to reflect non-market changes in the capitalization of the component securities as well as changes

in the composition of the Index.

Changes that may result in divisor adjustments include, but are not limited to, stock splits and dividends, spin-offs, certain rights issuances, and mergers and acquisitions. The formula for adjusting the divisor is as follows:

$$\text{Divisor} = \frac{\text{Total Capitalization (as a result of adjustments)}}{\text{Index Value}}$$

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 Big Three Auto 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.

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 domestic automobile industry stock. If no replacement is available, the Exchange will submit a proposed rule change pursuant to Section 19(b) of the Act and that proposal would have to be

specifically approved by the Commission before the Exchange is able to open any new series of options on the Index for trading.

The Phlx will evaluate the Index quarterly, following the close of trading on the third Friday at each March, June, September, and December to ensure that it is an accurate representation of the intended market character of the Index. The Exchange represents that all of the stocks comprising the Index are options eligible<sup>6</sup> and have overlying options currently trading. If at any time, any of the component issues are not options eligible, the Exchange will submit a new proposed rule change pursuant to

<sup>5</sup> The weightings of all 3 components of the Big Three Auto Index as of October 31, 1995 are as follows: General Motors Corp.—42.57%; Ford Motor Company—34.22%; and Chrysler Corporation—23.19%.

<sup>6</sup> 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.

Section 19(b) of the Act and that proposal would have to be specifically approved by the Commission before the Exchange is able to open 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 proposed rule change pursuant to Section 19(b) of the Act.

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 Super Cap Index pursuant to Phlx Rule 1001A(b). Specifically, the position and exercise limits for the Big Three Auto Index options, will be 5,500 contracts on the same side of the market.<sup>7</sup> The Big Three Auto Index option will not be subject to a hedge exemption.

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 Big Three Auto Index will be 100. The Big Three Auto Index options will trade from 9:30 a.m. to 4:10 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 at least two additional near-term months so that the three nearest term months will always be available. LEAPS will also be traded on the Index pursuant to Phlx Rule 1101A(b)(iii).

Big Three Auto Index options will be traded pursuant to current Phlx rules governing the trading of index options.<sup>8</sup> The Exchange notes that surveillance 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 Big Three Auto 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),<sup>9</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to facilitate 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.

**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-95-74 and should be submitted by January 24, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

Jonathan G. Katz,

Secretary.

[FR Doc. 96-00037 Filed 1-2-96; 8:45 am]

BILLING CODE 8010-01-M

**DEPARTMENT OF TRANSPORTATION**

**Aviation Proceedings; Agreements Filed During the Week Ending 12/22/95**

The following Agreements were filed with the Department of Transportation under the provisions of 49 U.S.C. 412 and 414. Answers may be filed within 21 days of date of filing.

*Docket Number:* OST-95-944.

*Date filed:* December 18, 1995.

*Parties:* Members of the International Air Transport Association.

*Subject:* TC23 Reso/P 0726 dated December 5, 1995 r-1-13, Expedited Europe-Southwest Pacific resos, Intended effective date: February 1, 1996.

*Docket Number:* OST-95-954.

*Date filed:* December 21, 1995.

*Parties:* Members of the International Air Transport Association.

*Subject:* TC2 Reso/P 1868 dated December 1, 1995 r-1-15, TC2 Reso/P 1869 dated December 1, 1995 r-16-38, TC2 Reso/P 1870 dated December 1, 1995 r-39-48, Intended effective date: April 1, 1996.

*Docket Number:* OST-95-955.

*Date filed:* December 21, 1995.

*Parties:* Members of the International Air Transport Association.

*Subject:* TC12 Reso/P 1708 dated November 24, 1995, South Atlantic-Europe/Middle East Resos r-1-20, Intended effective date: April 1, 1996.

*Docket Number:* OST-95-956.

*Date filed:* December 21, 1995.

*Parties:* Members of the International Air Transport Association.

*Subject:* Pursuant to Sections 41308 and 41309 of Title 49 of the United States Code and Parts 303.03, 303.05 and 303.30(c) of Title 14 of the Code of Federal Regulations, it is hereby

<sup>7</sup> See Amendment No. 1, *supra* note 3.

<sup>8</sup> See Phlx Rules 1000A through 1103A, and 1000 through 1070.

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 17 CFR 200.30-3(a)(12).