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. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR–Phlx–95–05 and should be submitted by May 15, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35616; File No. SR-Phlx-95-11]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Listing of Long-Term Index Options Series ("LEAPS") With a Duration of up to Sixty Months Until Expiration

April 17, 1995.

On February 8, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") 1 and Rule 19b-4 thereunder,² filed with the Securities and Exchange Commission ("Commission") a proposed rule change to permit the listing of long-term index options series ("LEAPS") with a duration of up to sixty months (five years) until expiration. Notice of the proposal appeared in the Federal Register on February 22, 1995.³ No comment letters were received on the proposed rule change. The Exchange filed Amendment No. 1 to the proposal on February 23, 1995.4 This order

 3 See Securities Exchange Act Release No. 35376 (February 14, 1995), 60 FR 9880.

⁴ In Amendment No. 1, the Phlx proposed to: (1) Amend Rule 1101A to specify that ten additional expiration months may be added for the proposed longer-term index LEAPS, as opposed to the six additional months currently allowed for LEAPS; and (2) provide that the proposal will apply to all indexes, both broad-based and narrow-based, previously approved for the trading of standardized index options on the Exchange. See Letter from Edith Hallahan, Special Counsel, Phlx, to Michael Walinskas, Branch Chief, Office of Market Supervision, Division of Market Regulation, Commission, dated February 23, 1995. approves the Phlx proposal, as amended.

The purpose of the proposed rule change is to permit the Exchange to list index LEAPS with a duration of up to sixty months (five years).⁵ Presently, the Exchange has authority pursuant to Phlx Rule 1101A(b)(iii) to list index LEAPS that expire from twelve to thirty-six months from the time they are listed. The Exchange represents that there has been increasing member firm and customer interest in longer term instruments. The Exchange, therefore, is proposing to amend Exchange Rule 1101A to permit the listing of index options with up to sixty months until expiration. In addition, the Exchange proposes to amend Rule 1101A(b)(iii) to allow for up to ten expiration months for index LEAPS, as opposed to the six months currently allowed.⁶ The proposal does not change any other rule regarding the listing and trading of index LEAPS.7

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 Section 6(b)(5).8 Specifically, the Commission believes the proposal is designed to provide investors with additional means of hedging equity portfolios from longterm market risk with an exchangetraded security (i.e., a standardized option), thereby facilitating transactions in options and contributing to the protection of investors and the maintenance of fair and orderly markets.9

Currently, institutional customers use index options to hedge the risks associated with holding diversified equity portfolios. The Commission continues to believe, as originally stated in its approval of the listing of index LEAPS by the Exchange, that allowing investors to lock in their hedges with longer-term index LEAPS will permit institutions to protect better their portfolios from adverse market moves.¹⁰

⁷ See Phlx Rule 1101A(b)(iii) and Securities Exchange Act Release No. 28910 (February 22, 1991), 56 FR 9032 (March 4, 1991) ("Exchange Act Release No. 28910").

⁹ The Commission also finds that extending the maximum term for Index LEAPS from three to five years does not alter the Commission's designation of index LEAPS as standardized options pursuant to Rule 9b–1(a)(4) of the Act.

¹⁰See Exchange Act Release No. 28910, *supra* note 7.

Further, the Commission believes that index LEAPS with up to five years until expiration will allow this protection at a known and limited cost.¹¹ Moreover, the proposal will provide institutions with an additional securities product with which to hedge their portfolios as an alternative to hedging with futures positions or off-exchange customized index options.¹² Accordingly, the Commission believes that the proposed rule change will better serve the longterm hedging needs of institutional investors.¹³

Finally, although as with index LEAPS presently trading on the Exchange, specific strike price interval, bid/ask differential, and price continuity rules will not apply until the proposed longer-term index LEAPS have less than 12 months until expiration,14 the Commission notes that Phlx's general rule obligating market makers to maintain fair and orderly markets will continue to apply to the proposed longer-term index LEAPS.¹⁵ The Commission believes that the requirements of Phlx Rules 1014 and 1020 are broad enough, even in the absence of strike price interval, bid/ask differential, and continuity requirements, to provide the Exchange with the authority to make a finding of inadequate market maker performance should market makers enter into transactions or make bids or offers (or fail to do so) in the proposed longerterm index LEAPS that are inconsistent with the maintenance of a fair and orderly market.

The Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, Amendment No. 1 provides that the Exchange may list up to ten additional expiration months when listing the proposed longer-term index LEAPS. The Commission believes this is consistent with the original approval of index LEAPS which allowed for up to six additional expiration months for LEAPS expiring 36 months from the date of

¹³ The Commission's findings are predicated on the somewhat limited length of five-year index LEAPS. Any subsequent proposal to list index LEAPS with expirations beyond five years could alter the nature of the product and would raise new regulatory concerns, including, among other things, the appropriate margin treatment, disclosure, and trading rules for the product.

¹⁴ See Exchange Act Release No. 28910, *supra* note 7.

⁴¹⁷ CFR 200.30-3(a)(12) (1994).

¹15 U.S.C. 78s(b)(1) (1988).

^{2 17} CFR 240.19b-4 (1994).

⁵ The proposal would permit five-year LEAPS on both broad-based and narrow-based indexes on which LEAPS have been approved for trading on the CBOE. *Id.*

⁶ Id.

⁸15 U.S.C. 78f(b)(5) (1988 & Supp. V 1993).

¹¹ Id.

¹² Id.

¹⁵ See Phlx Rules 1014, 1020, and 1000A(a).