

In 1985, the Commission published its policy to extend UTP to national securities exchanges in certain OTC securities provided certain terms and conditions are satisfied.<sup>7</sup> The Commission's policy stated that UTP approval would be conditioned, in part, on the approval of a plan to consolidate and disseminate exchange and OTC quotation data and transaction data upon which UTP is granted. As noted above, in 1990, the Commission approved the Plan which provides for the collection, consolidation, and dissemination of quotation and transaction information for Nasdaq/NMS securities listed on an exchange or traded on an exchange pursuant to a grant UTP.<sup>8</sup> Transactions in securities pursuant to the Plan are and will continue to be reported in the consolidated transaction reporting system established under the Plan.

The Commission has emphasized that Phlx specialists trading Nasdaq/NMS securities pursuant to the grant of UTP are subject to Plan requirements as well as the Phlx OTC/UTP Pilot Program and Phlx By-Laws and Rules, in general.<sup>9</sup> Moreover, the Commission has stated its intent to monitor any potential abuse of the informational advantage that options traders could acquire from the Phlx equity floor with respect to securities traded under the Phlx OTC/UTP Pilot Program.<sup>10</sup> These requirements and the Commission's intent to monitor for abuses will continue in effect, particularly if the Phlx removes its temporary suspension of trading pursuant to its OTC/UTP Pilot Program and the Plan.

The Commission believes that it is appropriate to extend the Phlx OTC/UTP Pilot Program through August 12, 1995, while the Commission evaluates the overall program for OTC/UTP and any enhancements or changes to the program that may be necessary to further the purposes of the Act. In the interim, however, the Commission continues to believe that the Phlx OTC/

UTP Pilot Program, as limited by the Joint OTC/UTP Plan, generally furthers the objectives of a national market system and is consistent with the maintenance of fair and orderly markets and the protection of investors as required by Sections 6(b)(5), 11A and 12(f) of the Act.

## V. Conclusion

For the reasons stated above, the Commission believes that it is appropriate to extend the Phlx OTC/UTP Pilot Program through August 12, 1995.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. In light of the previously scheduled expiration of the Phlx OTC/UTP Pilot Program on June 30, 1995, the Commission believes that accelerated approval of the proposal is appropriate in order to allow the Phlx to continue to have rules in place for OTC/UTP trading. Further, the Phlx OTC/UTP Pilot Program and the accompanying rules have been noticed previously in the **Federal Register** for the full statutory period, and the Commission received no comments on the proposal.<sup>11</sup>

*It is Therefore ordered*, pursuant to Section 19(b)(2) <sup>12</sup> that the proposed rule change is hereby approved on a pilot basis through August 12, 1995.

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

**Jonathan G. Katz,**

*Secretary.*

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## Self-Regulatory Organizations; Order Approving a Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Response Period for Customized Foreign Currency Options

July 7, 1995.

On February 21, 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 ("Commission") a proposed rule change

to eliminate the response period and the special parity rules that apply following a request for quote ("RFQ") for a customized foreign currency option ("FCO"). Notice of the proposal appeared in the **Federal Register** on April 24, 1995.<sup>3</sup> No comment letters were received on the proposed rule change. This order approves the Phlx proposal.

The purpose of the proposed rule change is to amend Exchange Rule 1069(b) in order to eliminate both the response period permitted following an RFQ for a customized FCO and the special parity rules for assigned Registered Options Traders ("ROTs") that apply during that response period.<sup>4</sup> Currently, when a participant submits an RFQ, any other participant may request a preset response time.<sup>5</sup> Once the response period has been invoked, a trade may occur prior to the end of the response period only if at least two assigned ROTs respond to the RFQ.

The special parity provisions in Rule 1069 provide that any assigned ROT who enters a responsive quote that is improved upon during the response time by another participant is entitled to participate on a parity basis with that other participant by announcing immediately thereafter, and prior to the execution of the order, that he or she is matching the best bid or offer. This ability to match is available to assigned ROTs until the execution of the trade or the end of the response time period, whichever occurs first.

The Phlx now proposes to amend Rule 1069 to eliminate the response time period and the special parity provisions. As a result, the Exchange represents that customized FCOs would trade more like other FCOs listed on the Exchange in that trades would be executable as soon as any responsive quote <sup>6</sup> is made and the Exchange's existing parity and priority provisions in Phlx Rule 1014(h) would apply.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder

<sup>3</sup> See Securities Exchange Act Release no. 35615 (April 17, 1995), 60 FR 20133.

<sup>4</sup> The proposal also adopts Floor Procedure Advice F-20 (Quoting and Trading Customized Foreign Currency Options) which will parallel the provisions in Exchange Rule 1069(b), as amended.

<sup>5</sup> The response period was initially set by the Exchange's FCO Committee at two minutes for simple strike options, five minutes for simple spreads, inverses, and cross-rates, and eight minutes for options strategies involving more than three legs. The FCO Committee shortened the response period to one minute for all types of RFQs for customized FCOs on January 16, 1995, effective at the opening on January 17, 1995.

<sup>6</sup> See *infra* note 8.

to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Section 11A provides, among other things, that it is in the public interest and appropriate for the protection of investors to assure fair competition among brokers and dealers, among exchange markets, and between exchange markets and markets other than exchange markets. Section 12(f), as recently amended by the UTP Act of 1994, provides, among other things, that exchange may extend UTP to securities that are registered, but not listed on any exchange, provided that certain conditions are met.

<sup>7</sup> See Securities Exchange Act Release No. 22412 (September 16, 1985), 50 FR 38640.

<sup>8</sup> See note 3, *supra*.

<sup>9</sup> See note 4, *supra*.

<sup>10</sup> *Id.*

<sup>11</sup> See *supra* note 4.

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

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

<sup>1</sup> 15 U.S.C. 73s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1994).