

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-PHILADEP-95-07) be, and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

Margaret H. McFarland,

*Deputy Secretary.*

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[Release No. 34-36505; International Series Release No. 889; File No. SR-Phlx-95-42]

**Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc., to List and Trade 3D Foreign Currency Options on the Japanese Yen**

November 22, 1995.

**I. Introduction**

On June 14, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed a proposed rule change with the Securities and Exchange Commission ("SEC" or "Commission"), 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> to list and trade Dollar Denominated Delivery ("3D") foreign currency options ("FCOs") on the Japanese yen. The Exchange filed Amendment No. 1 to the proposal on July 7, 1995.<sup>3</sup> The Exchange filed Amendment No. 2 on November 8, 1995.<sup>4</sup>

Notice of the proposal, and Amendment No. 1, was published for comment and appeared in the Federal Register on August 11, 1995.<sup>5</sup> No comment letters were received on the proposed rule change. This order

approves the Exchange's proposal, as amended.

**II. Background**

In March 1994, the Commission approved the listing and trading of 3D FCOs on the German mark.<sup>6</sup> 3D FCOs are cash-settled, European-style options issued by The Options Clearing Corporation ("OCC") that allow holders to receive U.S. dollars representing the difference between the current foreign exchange spot price<sup>7</sup> and the exercise price of the option. Specifically, upon exercise of an in-the-money 3D FCO structured as a call, the holder will receive, from OCC, U.S. dollars representing the difference between the exercise strike price and the closing settlement value of the 3D FCO contract multiplied by the number of units of currency covered by the contract. For a 3D FCO structured as a put, the holder will receive U.S. dollars representing the excess of the exercise price over the closing settlement value of the 3D FCO contract multiplied by the number of units of foreign currency covered by the contract.

Unlike other Phlx-traded FCOs, 3D FCOs which are in-the-money by any amount on the expiration date will be exercised automatically by OCC. 3D FCOs which are out-of-the-money at expiration will expire worthless.

German 3D FCOs were originally listed with one-week and two-week expirations to provide a hedging vehicle to sophisticated retail customers, portfolio managers and multi-national corporations which needed to hedge their short term foreign currency exposure and also to banks which needed to hedge the risks associated with trading in the forward and cash markets. The Commission recently approved the Phlx's proposal to list German 3D FCO contracts with longer term expirations up to twelve months.<sup>8</sup>

**III. Description of the Proposal**

The Exchange is now proposing to list and trade 3D FCOs on the Japanese yen (U.S. dollar/Japanese yen) ("3D JY Options"). The contract size will be 6,250,000 yen, the same as physically

settled Japanese yen contract. Pursuant to Phlx Rule 1012(a)(ii), the contracts will be listed with expirations at one week and two weeks and one, two, three, six and nine months (twelve month options will not be listed at this time but will be permitted under Phlx rules). The options will be on the March, June, September, December cycle and no month end or long term expirations will be listed. The expiration date for the consecutive and cycle month options will be the Monday preceding the third Wednesday of each month. The Exchange expects that the symbols for these options will be as follows:

XJA	first Monday of month expiration
XJB	second Monday of month expiration
XJC	third Monday of month expiration
XJD	fourth Monday of month expiration
XJE	fifth Monday of month expiration
XJS	settlement symbol

The 1, 2, 3, 6 and 9 month options will be listed with the symbol XJB or XJC depending on whether expiration will be the second or third Monday of that month and will carry that symbol to expiration. For example, a "Sept 1995" option which would expire on Monday September 18, would be listed as an XJC Sept 95 call whereas the "Nov 1995" option which would expire on Monday, November 13, would be listed as an XJB Nov 95 call.

Similar to the 3D German mark contracts, the Exchange proposes that a series of 3D JY Options will trade during normal trading hours for foreign currency options, specifically, 2:30 a.m. to 2:30 p.m. E.T. Monday through Friday. The expiring FCO contract will cease trading at 10:30 a.m. and expire at 11:59 p.m. on its expiration Monday, unless such Monday is an Exchange holiday or an Exchange designated bank holiday, when, under Phlx Rule 1000(b)(21), "Expiration date," as amended, the 3D FCO will expire at 11:59 p.m. on the preceding business date (ordinarily a Friday).

Accordingly, on Exchange holidays and Exchange designated bank holidays, the expiring 3D FCOs will cease trading at 10:30 a.m. on the preceding business day. In addition, when Monday is an exchange holiday, new series will be listed on the following Tuesday at 2:30 a.m. E.T. as opposed to the normal Monday morning listing.

The closing settlement value, which will be disseminated through the Options Price Reporting Authority ("OPRA"), will be determined by a designated agent(s) of the Exchange under Phlx Rule 1057, "3D (Dollar Denomination Delivery) Foreign Currency Option Closing Settlement

<sup>7</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.

<sup>3</sup> The Phlx submitted Amendment No. 1 to the Commission to make certain technical corrections to the proposal. See Letter from Michele Wiesbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated July 7, 1995.

<sup>4</sup> The Phlx submitted Amendment No. 2 to the Commission to explain its proposed provisions for calculating and disseminating the settlement value for the 3D Japanese yen options. See Letter from Michele Wiesbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated November 8, 1995 ("Amendment No. 2").

<sup>5</sup> See Securities Exchange Act Release No. 36062 (August 4, 1995), 60 FR 41140.

<sup>6</sup> See Securities Exchange Act Release No. 33732 (March 8, 1995), 59 FR 12023 (March 15, 1994).

<sup>7</sup> The "spot price" with respect to an option contract on a foreign currency option contract means the price for the sale of one foreign currency for another, quoted by various commercial banks in the interbank foreign exchange market for the sale of a single unit of such foreign currency for the sale of immediate delivery (which generally means delivery within two business days following the date on which the terms of such sale are agreed upon). See Phlx Rule 1000(b)(16).

<sup>8</sup> See Securities Exchange Act Release No. 35756 (May 24, 1995), 60 FR 28638 (June 1, 1995).