Value.'' Pursuant to Phlx Rule 1057, at 10:30 a.m. (E.T.), on every expiration date for 3D FCOs, the market information vendor(s), acting as the Exchange's designated agent will determine the final settlement value. The Exchange has retained Reuters to calculate the settlement value which the Exchange disseminates.[9]

The market information vendor(s) will collect a bid and offer quotation, from 10 a.m. (E.T.) until 10:30 a.m. (E.T.), for the current Japanese yen spot price from the quotations submitted by 15 interbank foreign participants, which the designated agent will select randomly from a list created by the Phlx of at least 25 active interbank foreign exchange market participants.[10] After discarding the five highest offers and five lowest bids, the designated agent will arithmetically average the remaining ten bids and ten offers to arrive at a closing settlement value. This value will be calculated and sent to the Phlx every 30 seconds until 10:30 a.m. when the designated agent will determine the final settlement value. At that time, the settlement value will be automatically entered into the Phlx's systems, and then the Phlx disseminates it to OPRA and the OCC for entry into the OCC clearing systems.

The Exchange represents that there are two Reuters terminals within the Exchange Regulatory Services area which calculate the settlement value and both are connected to a digital feed. If one terminal has a complication with any 30 second calculation, the other terminal takes over. If there is a communication problem between Reuters and the Exchange, the Exchange can telephone Reuter's New York office to have the value provided verbally, as it is also calculated on a terminal in New York. In the event of a broad based shut down of Reuters, the Exchange would directly contact a group of banks and ask for their current spot quote, and calculate the settlement value using the same methodology as described above. Additionally, if the Reuters program does not generate enough quotes during an inactive period, the Exchange can add quotes from the Reuters international page which shows bank quotes other than the predetermined set of 40 in the normal program.[11]

The position limits and exercise limits for the 3D JY Options will be the same as the position and exercise limit for the physically settled Japanese yen contracts pursuant to Phlx Rule 1001 [12] and Rule 1002 and positions in the 3D JY Options will be aggregated with positions in the physically settled Japanese yen contracts. The Phlx proposes to initially list exercise strike prices for each expiration around the current spot price and new strikes may be added during the life of the option in accordance with Phlx Rule 1012 at half-cent intervals for the one and two weeks and 3 near term months and at one cent intervals for the six and nine month options.[13]

The 3D JY Options will trade in accordance with the rules governing all Phlx FCOs, including sales practice rules and floor trading rules. For example, Phlx Rule 1014, ''Obligations and Restrictions Applicable to Specialists and Registered Options Traders'' provides that bid/ask differentials for 3D FCOs shall be determined by reference to the underlying foreign currency. Further, 3D JY Options will not be subject to customized trading pursuant to Phlx Rule 1069.

The 3D JY Options will have the same customer margin requirements as are provided for the existing Japanese yen FCOs pursuant to Phlx Rule 722, ''Margin Accounts.'' Specifically, for any put or call on 3D options which are issued, guaranteed or carried ''short'' in a customer's account, the required margin shall be 100% of the options premium plus 4% of the value of the underlying contract less any out-of-the-money account, with an adjustment for out-of-the-money options to be not less than 100% of the options premium plus ¾% of the underlying contract margin within five days following the date on which a customer enters into a 3D FCO position and within two days if the option has two weeks or less to expiration.

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), in particular, in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, as well as to protect investors and the public interest by providing foreign currency option users who do not necessarily need to exchange currency at settlement with an alternative cash settled foreign currency option with corresponding expirations.

IV. Commission Finding and Conclusions

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) of the Act.[14] Specifically, the Commission believes that the Exchange's proposal is designed to provide investors with an adequate means to hedge foreign currency portfolios and cash flows from short-term market risk, thereby facilitating transactions in FCOs and providing investors with greater flexibility to tailor foreign currency options positions to satisfy their investment objectives.[15]

The Commission believes that the Phlx's proposal will help to promote the maintenance of a fair and orderly market by extending the benefits of a listed currency market to an instrument designed to meet the investment needs of Japanese currency market participants. The attributes of the Exchange's markets versus the OTC market for short-term FCOs include, but are not limited to, a regulated market

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[9] *See* Amendment No. 2, *supra* note 4.

[10] The Phlx will select the list of interbank market participants by evaluating the number of times each contributor supplies Japanese yen spot quotes to the market information vendor(s) on Monday mornings between 10 a.m. and 10:30 a.m. The pool of quote contributors will be reviewed monthly based on these criteria and substitutions will be made, if necessary. If at any time an interbank market participant ceases to distribute Japanese yen spot quotes or is no longer in the business of making Japanese yen markets, that entity will be replaced. Currently, there are 40 interbank market participants on the list which show bid and offer quotations. Telephone conversation between Michele Weisbaum, Associate General Counsel, Phlx, and John Ayanian, Attorney, OMS, Market Regulation, Commission, on November 15, 1995.

[11] *See* Amendment No. 2, *supra* note 4.

[12] Position and exercise limits on the Japanese yen are 100,000 contracts on either side of the market, however, the Phlx has recently proposed to raise this limit to 200,000 contracts. This proposal is currently under review at the Commission. *See* Securities Exchange Act Release No. 35688 (May 8, 1995), 60 FR 26062 (May 16, 1995).

[13] The Phlx represents that it has adequate systems capacity to process quotations and trades in the proposed 3D JY Options. *See* Letter from William H. Morgan, Vice President, Trading Systems, Phlx, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated November 17, 1995.

The Commission notes that trading of 3D JY Options is contingent upon the Commission's receipt of the Options Price Reporting Authority's representation that it has adequate systems capacity to process quotations and trades in the proposed 3D JY Options. Telephone Conservation between Michele Weisbaum, Associate General Counsel, Phlx, and John Ayanian, Attorney, OMS, Market Regulation, Commission, on November 22, 1995.

[14] 15 U.S.C. 78f(b)(5).

[15] Pursuant to Section 6(b)(5) of the Act the Commission must predicate approval of exchange trading for new products upon a finding that the introduction of the product is in the public interest. Such a finding would be difficult with respect to a product that served no investment hedging or other economic function, because any benefits that might be derived by market participants would likely be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns.