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 Exchange. All submissions should refer to File No. SR–Phlx–94–77 and should be submitted by February 28, 1995.

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

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34–35306; File No. SR–Phlx–94–23]

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Approving Proposed Rule Change Relating to Inter-Currency Spread Priority

January 31, 1995.

On August 1, 1994, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b-4 thereunder,[2] a proposed rule change to allow spread priority for eligible spreads between two different foreign currency options (''FCOs'').

Notice of the proposed rule change was published for comment and appeared in the **Federal Register** on December 7, 1994.[3] No comments were received on the proposal. This order approves the proposal.

I. Description of the Proposal

The purpose of this proposal is to amend the current definition of spread order contained in Rule 1066(f)(1) to include transactions involving options in two different foreign currencies (''inter-currency spread'') and to extend the spread priority principles to inter-currency spread orders.

Rule 1066(f)(1) currently defines a spread as an order to buy a stated number of option contracts and to sell the same number of option contracts, in a different series of the same class of options. The Exchange proposes to extend this definition by adopting Rule 1066(f)(1)(A), Inter-Currency Spread Order, as a subcategory of spread order.[4] Furthermore, the Exchange proposes to adopt Rule 1033(i), Inter-Currency Spread Priority, in order to extend the current spread priority principles to inter-currency spreads. As a result, an inter-currency spread involving any two FCOs, American-[5] or European-style[6] expiration, and any expiration date (regular, month-end, or long-term) will not be eligible for spread priority treatment, as described below. Inter-currency spread priority pursuant to the proposed rule change would not, however, be available for cross-rate, cash/spot, or the Exchange's customized FCOs.

Inter-currency spreads are currently executed as contingency orders pursuant to Phlx Rule 1066. For example, an FCO floor broker would quote a French franc market as well as a Swiss franc market, in each respective trading crowd; then, the floor broker would announce ''99 bid for 99 Sep 99 French franc calls if I can sell 99 Dec 99 Swiss franc puts at 99.'' However, each component of the spread must be bid/offered individually, which, according to the Exchange, generally means that each component is executed at a price better than the established bid/offer. In addition, the Exchange believes that because each leg must be executed between the established market, such contingency orders are more likely to be broken up by market interest in one leg, such that the end result may be a different number of contracts for each leg.

The Phlx's current priority rule, Rule 1033(d), allows a spread order (which includes a spread involving only one foreign currency) to be executed as a single transaction at a total net debit or credit with one contra-side. Furthermore, an eligible spread can be afforded priority as long as the net credit/debit improves the established market for the spread, provided, however, that at least one option leg is executed at a better price than the established market for that option and no option leg is executed outside of the established market for that option. The same principles apply to three-way, ratio, and multi-spread transactions in foreign currency.[7]

The Exchange believes that extending priority treatment to inter-currency spreads is appropriate for several reasons. First, the Exchange believes that spread priority for inter-currency spreads will facilitate a more simplified procedure for the execution of such orders. In this context, Phlx notes that the execution of inter-currency spreads as contingency orders may present a logistical problem given that floor brokers must, in exercising due diligence, shuttle between two trading crowds or, to prevent a trade from occurring while the floor broker is in the second crowd, utilize two floor brokers to execute such an order. Second, inter-currency spreads provide a trading strategy for FCO market participants based on the interplay between the currencies of two countries, similar to the advantages and opportunities associated with cross-rate FCOs.[8] The Exchange believes that the availability of such strategies should enhance liquidity in existing FCOs. Finally, the Exchange believes that the requirement in proposed Phlx Rule 1033(i) that each leg os an inter-currency spread be executed at or within the market for the individual leg, and that at least one leg be executed at a price which improves the established market, will benefit investors. The Exchange states that this requirement is also consistent with Phlx Rule 118 which provides that when a bid/offer is clearly established, no bid/offer outside that price shall be established.

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[1] 15 U.S.C. 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1992).

[3] *See* Securities Exchange Act Release No. 35023 (November 29, 1994), 59 FR 63149.

[4] Proposed Phlx Rule 1066(f)(1)(A) defines Inter-Currency Spread Order in the following manner: In the case of foreign currency options, a spread order may consist of an order to buy a stated number of option contracts in one foreign currency and to sell the same number of option contracts in a different foreign currency option.

[5] An American-style option is one that can be exercised at any time prior to expiration of the option.

[6] A European-style option is one that can only be exercised during a specified period immediately prior to expiration of the option.

[7] *See* Securities Exchange Act Release No. 34015 (November 29, 1994).

[8] A cross-rate currency option is an option to purchase or sell a foreign currency at an exercise price that is denominated in another foreign currency. The exercise price, therefore, represents an exchange rate between two foreign currencies.