

and other violations of Exchange rules and the Act.

The Commission believes that the proposal may expedite and make more efficient the process by which customer orders can be received and executed on the floor of the Exchange. The Commission also believes that the proposed rule change should increase the efficiency of transmitting orders from a member firm booth to Floor Brokers in the trading crowd by reducing the amount of time required before these orders may be represented in the crowd.

In determining to approve this proposal, the Commission notes that the Exchange represents the proposal is necessary to ensure that, as the number of option orders transmitted and represented electronically on the Exchange increases, manual orders represented by Floor Brokers are not placed at a competitive disadvantage. The Commission believes that the proposal should foster coordination with persons engaged in facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market, and protect investors and the public interest by expediting and making more efficient the process by which orders can be received and executed on the floor of the Exchange. Accordingly, the Commission finds that the proposal is consistent with Section 6(b)(5)¹⁵ of the Act.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (SR-PCX-99-17) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 00-13532 Filed 5-30-00; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42811; File No. SR-PHLX-00-14]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Regarding Listing and Trading Options on the Wireless Telecom Sector Index

May 23, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 24, 2000,³ the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Phlx. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange, pursuant to Rule 19b-4 of the Act, proposes to list and trade European style, cash-settled options, on the Wireless Telecom Sector Index ("Index"), an equal dollar-weighted, A.M.-settled, narrow-based, index of twenty companies, involved in various aspects of wireless telecommunications services and equipment. A list of the specific companies comprising the Index, their capitalizations, six-month share volumes and the percentage weightings of these companies, as of April 10, 2000, is available from the Exchange.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in Sections A, B,

and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposal is to list for trading European style, cash-settled options on the Index, a new index developed pursuant to Exchange Rule 1009A(b). Options on the Index will provide an important hedging vehicle for basket traders who engage in trading securities that comprise this subsector of the telecommunications industry.

The following is a more detailed description of the proposed Index option:

Ticker Symbol: YLS.

Settlement Value Symbol: YSO.

Underlying Index: The Index is an equal dollar-weighted index composed of twenty stocks involved in wireless telecommunications services and equipment all of which are traded on the New York Stock Exchange ("NYSE") or Nasdaq Stock Market ("Nasdaq"), and are, therefore, reported securities as defined in Rule 11Aa3-1 under the Act. Further, all of the stocks presently meet the Exchange's listing criteria for equity options contained in Exchange Rule 1009 and are currently the subject of listed options on U.S. options exchanges.

The Exchange notes that most of the companies represented in the Index are U.S. companies. However, to the extent that non-U.S. companies are part of or are added to the Index (such as American Depositary Receipts) and therefore are not subject to comprehensive surveillance sharing agreements, those components do not and will not account for more than 20% of the weight of the Index.

As of April 10, 2000, the market capitalization of all the stocks in the Index exceeded \$1 trillion and such individual capitalizations ranged from approximately \$1 billion to \$176 billion. All twenty component issues in the Index had monthly trading volumes in excess of one million shares over each of the past six months.

Index Calculation: The methodology used to calculate the Index is an equal dollar-weighted method, meaning that each of the component stocks is represented in the Index in approximately equal dollar amounts. The Exchange believes that this method of calculation is appropriate because it will provide each component issue with equivalent influence on the movement of the Index value instead of allowing

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ On March 30, 2000 and April 13, 2000, the Exchange submitted Amendment Nos. 1 and 2 to the proposed rule change, respectively, the substance of which has been incorporated into this notice. See letters from John Kenney, Jr., Counsel, Phlx, to John Roeser, Attorney, Commission, dated March 29, 2000 ("Amendment No. 1") and April 13, 2000 ("Amendment No. 2").

¹⁵ 15 U.S.C. 78f(b)(5).

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ 17 CFR 200.30-3(a)(12).

one highly capitalized stock to dominate the movement of the Index. To determine the initial dollar weighting of the stocks, the Exchange calculated the number of shares of each that would represent an investment of approximately \$10,000 in each of those stocks comprising the Index based on closing prices on July 16, 1999. The value of the Index equals the current market value of the sum of the assigned number of shares of all of the stocks in the Index divided by the current Index divisor. The Index divisor was set to yield an initial Index value of 150 at the opening on July 19, 1999.

Index Maintenance: To maintain the continuity of the Index, the divisor will be adjusted to reflect non-market changes in the price of the component securities as well as changes in the composition of the Index. Changes which may result in divisor adjustments include but are not limited to stock splits, dividends, spin-offs, mergers and acquisitions. In accordance with Exchange Rule 1009A, if any change in the nature of any component (e.g., delisting, merger, acquisition or otherwise) in the Index will change the overall market character of the Index, the Exchange will take appropriate steps to remove the stock or replace it with another stock that the Exchange believes would be compatible with the intended market character of the Index. Any replacement components will be reported securities as defined in Rule 11Aa3-1 of the Act.⁴

Currently, the Index is composed of twenty component stocks. Absent Commission approval, the Exchange will not change the number of components to more than twenty-six or fewer than fourteen. The Exchange notes that the component stocks comprising the top 90% of the Index, by weight, will each maintain a minimum market capitalization of \$75 million. The remaining 10% by weight, will each maintain a minimum market capitalization of \$50 million. The component stocks comprising the top 90% of the Index, by weight, will maintain a trading volume of at least 500,000 shares per month. The trading volume for each of the component stocks constituting the bottom 10% of the Index, by weight, will maintain at least 400,000 shares per month. No fewer than 90% of the component issues by weight or fewer than 80% of the total number of the components qualify as stocks eligible for options trading.

If the Index fails at any time to satisfy one or more of the required maintenance criteria, the Exchange will

notify the Commission staff immediately and will not open for trading any additional series of options on the Index, unless the above is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of options on the Index has been approved by the Commission under Section 19(b)(2) of the Act.⁵ In addition to not opening for trading any additional series, the Exchange may, in consultation with the Commission, prohibit opening purchase transactions in series of options previously opened for trading to the extent that the Exchange deems such action necessary or appropriate.⁶

In addition to the maintenance criteria above, no single component of the index shall account for more than 25% of the Index and the five highest weighted component securities shall not account for more than 60% of the Index. If the Index fails to satisfy the maintenance listing standards set forth above, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of Index options has been approved by the Commission under Section 19(b)(2) of the Act.

Rebalancing: Following the close of trading on the third Friday of January, April, July and October the Index portfolio will be adjusted by changing the number of whole shares of each component so that each company is again represented in "equal" dollar amounts. If necessary, a divisor adjustment will be made at the rebalancing to ensure continuity of the Index's value. The newly adjusted portfolio will then become the basis for the Index's value on the first trading day following the adjustment.

The number of shares of each component stock in the Index portfolio will remain fixed between quarterly rebalances except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, stock dividend, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, or similar event with respect to the component stocks. In the case of a merger or consolidation of an issuer of a component stock, if the stock remains in the Index, the number of shares of that security in the portfolio may be adjusted to the nearest whole

share to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In the event of a stock addition or replacement, the average dollar value of the remaining portfolio components will be calculated and that amount invested in the stock of the new component, to the nearest whole share. In all cases, the divisor will be adjusted, if necessary, to ensure Index continuity. All stock replacements and the handling of non-routine corporate action will be announced at least ten business days in advance of such effective change, whenever possible. The Exchange will make this information available to the public through dissemination of an information circular.

Unit of Trading: Each options contract will represent \$100, the Index multiplier, times the Index value. For example, an Index value of 200 will result in an option contract value of \$20,000 (\$100 x \$200).

Exercise Price: The exercise prices will be set in accordance with Phlx Rule 1101A(a).

Settlement: A.M.-settled index options

Settlement Value: The Index value for purposes of settling outstanding Index option contracts upon expiration will be calculated based upon the regular way opening sale prices for each of the Index's component stocks in their primary market on the last trading day prior to expiration. In the case of National Market System securities traded through Nasdaq, the first reported sale price will be used for the final settlement value for expiring Index option contracts. In the event that a component security does not open for trading on the last day before the expiration of a series of Index options, the last sale price for that security will be used in calculating the Index value. However, in the event that The Options Clearing Corporation ("OCC") determines that the current Index value is unreported or otherwise unavailable (including instances where the primary market for securities representing a substantial part of the value of the Index is not open for trading at the time when the current Index value used for exercise settlement purposes would be determined), the OCC shall determine an exercise settlement amount for the Index in accordance with Article XVII, Section 4 of the OCC By-Laws.⁷

Last Trading Day: Last business day prior to the third Friday of the month

⁴ 17 CFR 240.11Aa3-1.

⁵ See Phlx Rule 1009A.

⁶ See Phlx Rule 1010.

⁷ See, e.g., OCC Article XVII, Section 4 and Securities Exchange Act Release No. 37315 (June 17, 1996), 61 FR 32471 (June 24, 1996) (SR-OCC-95-19).

for options which expire on the Saturday following the third Friday of that month.

Trading Hours: 9:30 a.m. to 4:02 p.m., E. T.

Position and Exercise Limits: The Index is an industry or narrow-based index; therefore, the Exchange will employ position and exercise limits pursuant to Phlx Rules 1001A(b) and 1002A, respectively. The position and exercise limits will be 31, 500 contracts.

Expiration Cycles: Three months from the March, June, September, December cycle, plus two additional near-term months.

Exercise Style: European.

Premium Quotations: Premiums will be expressed in terms of dollars and fractions of dollars pursuant to Phlx Rule 1033A. For example, a bid or offer of 1½ will represent a premium per options contract of \$150 (1½×100).

The Index value will be disseminated every 15 seconds during the trading day. The Phlx has contracted with Bridge Data Inc. to compute and do all the necessary maintenance of the Index.⁸ Pursuant to Phlx Rule 1100A, updated Index values will be disseminated and displayed by means of primary market prints reported by the Consolidated Tape Association and over the facilities of the Options Price Reporting Authority. The Index value will also be available on broker-dealer interrogation devices to subscribers of options information. The Exchange represents that it will not list or trade this Index unless and until it has sufficient capacity to process the additional message traffic generated by the Index.⁹

The options will be traded pursuant to current Phlx rules governing the trading of index options including provisions addressing sales practices, floor trading procedures, position and exercise limits, margin requirements and trading halts and suspensions.¹⁰ The Exchange also represents that surveillance procedures currently used to monitor trading in index options will be applicable to this Index option. These procedures include having complete access to trading activity in the underlying securities which are all traded on the NYSE or Nasdaq. In

addition, the Intermarket Surveillance Group Agreement dated July 14, 1983, as amended on January 29, 1990 and June 20, 1994 will be applicable to the trading of options on the Index.

2. Statutory Basis

The proposed rule change is consistent with Section 6 of the Act in general, and in particular, with Section 6(b)(5), in that it is designated to promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest. Specifically, the Exchange believes that the introduction of the proposed the Index will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with a means of hedging exposure to market risks associated with the securities issued by companies that comprise this subsector of the telecommunications industry. The trading of options on the Index will permit investors to participate in the price movements of the twenty securities on which the Index is based. The trading of options on the Index will allow investors holding positions in some or all of the securities underlying the Index to hedge the risks associated with these securities. Accordingly, the Exchange believes that options on the Index will provide investors with an additional trading and hedging mechanism that outweighs any potential for manipulation that would diminish public confidence. Further, the Exchange believes that the proposed Index will have a specific impact on efficiency, competition and capital formation consistent with Section 3(f) of the Act.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange is filing this rule change as constituting a stated policy, practice or interpretation with respect to the administration of Phlx Rule 1009A within the meaning of Section 19(b)(3)(A) of the Act and subparagraph (f) of Rule 19b-4 thereunder.¹¹ Accordingly, pursuant to the Commission's Generic Index Option Approval Order ("Approval Order"),¹² the Exchange is requesting immediate effectiveness so that options on the Phlx Wireless Telecom Index may begin trading 30 days after the date of this filing. The Phlx believes that this product complies with the Approval Order, as described above.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. 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 in the Commission's Public Reference Room. 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-00-14 and should be submitted by June 21, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 00-13533 Filed 5-30-00; 8:45 am]

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⁸ As a back-up to Bridge Data Inc., the Phlx will utilize its own internal index calculation system called the Index Calculation Engine System.

⁹ See Amendment No. 1, *supra* note 3. The Options Price Reporting Authority ("OPRA") represents that it has the capacity to handle the additional traffic generated by the Index. See letter from Joe Corrigan, Executive Director, OPRA, to Mathew Holm, Director, New Product Development, Phlx, dated March 23, 2000.

¹⁰ See particularly, Phlx Rule 722, Phlx Rules 1000A through 1102A, and generally, Phlx Rules 1000 to 1080.

¹¹ In amendment No. 1, the Exchange designated the proposal as filed pursuant to subparagraph (f) of Rule 19b-4. See *supra* note 3.

¹² See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994).

¹³ 17 CFR 200.30-3(a)(12).