

aggressive quoting by market makers in competition for large-sized orders, and, in turn, better-priced executions. For these reasons, the Commission waives the 30-day pre-operative period.

#### 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. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-PCX-2005-25 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. All submissions should refer to File Number SR-PCX-2005-25. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 Section. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-PCX-2005-25 and should be submitted on or before April 1, 2005.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>17</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. E5-1020 Filed 3-10-05; 8:45 am]

BILLING CODE 8010-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-51322; File No. SR-Phlx-2005-17]

### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Position Limits and Exercise Limits

March 4, 2005.

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> notice is hereby given that on March 3, 2005, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Phlx. On March 3, 2005 the Phlx filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Exchange has filed the proposal as a "non-controversial" rule change pursuant to Section 19(b)(3)(A) of the Act<sup>4</sup> and Rule 19b-4(f)(6) thereunder,<sup>5</sup> which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Phlx proposes to amend Exchange Rule 1001 to increase the standard position and exercise limits for equity options contracts and options on the Nasdaq-100 Index Tracking Stock ("QQQQ") on a six month pilot basis beginning on the effective date of the proposed rule change. The text of the proposed rule change is available on the Phlx's Web site (<http://www.phlx.com>), at the Phlx's Office of the Secretary, and at the Commission's Public Reference Room.

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

<sup>1</sup> 15 U.S.C. 78s(b)(1).

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

<sup>3</sup> Amendment No. 1 made certain technical changes to Exhibit 5 to the filing.

<sup>4</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>5</sup> 17 CFR 240.19b-4(f)(6).

#### 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 proposed rule change is to amend Exchange Rule 1001, Position Limits, to establish increased position and exercise limits for equity options and options overlying QQQQ, on a six-month pilot basis. Position limits impose a ceiling on the number of option contracts in each class on the same side of the market relating to the same underlying security that can be held or written by an investor or group of investors acting in concert. Exchange Rule 1002 (not proposed to be amended herein) establishes corresponding exercise limits.<sup>6</sup> Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

Exchange Rule 1001 subjects equity options to one of five different position limits depending on the trading volume and outstanding shares of the underlying security. Exchange Rule 1002 establishes exercise limits for the corresponding options at the same levels as the corresponding security's position limits.<sup>7</sup>

<sup>6</sup> As clarified by the Phlx, although the proposed rule change would not amend the text of Exchange Rule 1002 itself, the proposed amendment to Exchange Rule 1001 would have the effect of increasing the exercise limits established in Exchange Rule 1002 for the same six-month pilot period. Telephone conversation between Richard S. Rudolph, Vice President and Counsel, Phlx, and Ira L. Brandriss, Assistant Director, Division of Market Regulation, Commission, on March 4, 2005. See also *infra*, note 7 and accompanying text.

<sup>7</sup> Exchange Rule 1002 states, in relevant part, " \* \* no member of member organization shall exercise, for any account in which such member or member organization has an interest of for the account of any partner, officer, director or employee thereof or for the account of any customer, a long position in any option contract of a class of options dealt in on the Exchange (or, respecting an option not dealt in on the Exchange, another exchange if the member or member organization is not a

*Standard Position and Exercise Limits.* The Exchange proposes to adopt a pilot program for a period of six

months during which the standard position and exercise limits for equity options traded on the Exchange and for

options overlying QQQQ would be increased to the following levels:

Current Equity Option Contract Limit	Proposed Equity Option Contract Limit
13,500	25,000
22,500	50,000
31,500	75,000
60,000	200,000
75,000	250,000
Current QQQQ Option Contract Limit	Proposed QQQQ Option Contract Limit
300,000	900,000

In 1998, the Commission approved an Exchange proposal (and similar proposals of other options exchanges) to increase standard option position and exercise limits to their current levels.<sup>8</sup> Since that time, there has been a steady increase in the number of accounts that, (a) approach the position limit; (b) exceed the position limit; and (c) are granted an exemption to the standard limit. Several member organizations have petitioned the Exchange to either eliminate position limits, or in lieu of total elimination, increase the current levels and expand the available hedge exemptions. A review of available data indicates that the majority of accounts that maintain sizable positions are in those options subject to the 60,000 and 75,000 tier limits. There also has been an increase in the number of accounts that maintain sizable positions in the lower three tiers. In addition, overall volume in the options market has continually increased over the past five years. The Exchange believes that the increase in options volume and lack of evidence of market manipulation occurrences over the past twenty years justifies the proposed increases in the position and exercise limits.

The proposal would also adopt a new equity hedge exemption to the existing exemptions currently provided under Commentary .07 to Exchange Rule 1001. Specifically, new Commentary .07(5) to Rule 1001 would allow for a "reverse collar" hedge exemption, where a long call position is accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put, and where each long call and short put position is hedged with 100 shares of the underlying security (or

other adjusted number of shares). Neither side of the long call/short put can be in-the-money at the time the position is established. The Exchange believes this is consistent with existing Commentary .07(4) to Exchange Rule 1001, which provides for an exemption for a "collar," and Commentary .07(2) and (3), which allow for a hedge exemption for "reverse conversions" and "conversions," respectively.

*Manipulation.* The Exchange believes that position and exercise limits, at their current levels, no longer serve their stated purpose. The Commission has previously stated that:

Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of options contracts that a member or customer could hold or exercise. These rules are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In particular, position and exercise limits are designed to minimize the potential for manipulations and for corners or squeezes of the underlying market. In addition such limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes.<sup>9</sup>

As the anniversary of listed options trading approaches its thirty-fifth year, the Exchange believes that the existing surveillance procedures and reporting requirements at the Phlx, other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity. In addition, routine oversight inspections of the Exchange's regulatory programs by the Commission have not uncovered any material inconsistencies or shortcomings in the manner in which the Exchange's market surveillance is

conducted. These procedures utilize daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and in underlying stocks. Furthermore, the significant increases in unhedged options capital charges resulting from the September 1997 adoption of risk-based haircuts in combination with the Exchange margin requirements applicable to these products under Exchange rules, serve as a more effective protection than do position limits.<sup>10</sup>

Furthermore, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.<sup>11</sup> Options positions are part of any reportable positions and, thus, cannot be legally hidden. In addition, Exchange Rule 1003, which requires members to file reports with the Exchange for any customer who held aggregate long or short positions of 200 or more option contracts of any single class for the previous day, will remain unchanged and will continue to serve as an important part of the Exchange's surveillance efforts.

The Exchange believes that restrictive equity position limits prevent large customers, such as mutual funds and pension funds, from using options to gain meaningful exposure to individual stocks. This can result in lost liquidity in both the options market and the equity market. In addition, the Exchange has found that restrictive limits and narrow hedge exemption relief restrict member firms from adequately facilitating customer order flow and offsetting the risks of such facilitations in the listed options market. The fact that position limits are calculated on a

member of that exchange) if as a result thereof such member or member organization, or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in that class (put or call) as set forth as

the position limit in Exchange Rule 1001, in the case of options on a stock or an Exchange-Traded Fund Share. \* \* \*

<sup>8</sup> See Securities Exchange Act Release No. 40875 (December 31, 1998), 64 FR 1842 (January 12, 1999) (Order approving SR-Phlx-98-36; SR-Amex-98-22; SR-CBOE-98-25; and SR-PCX-98-33).

<sup>9</sup> See Securities Exchange Act Release No. 39489 (December 24, 1997), 63 FR 276 (January 5, 1998) (SR-CBOE-97-11).

<sup>10</sup> See Securities Exchange Act Release No. 38248 (February 6, 1997), 62 FR 6474 (February 12, 1997) (File No. S7-7-94) (adopting Risk-Based Haircuts).

<sup>11</sup> 17 CFR 240.13d-1.

gross rather than a delta basis also is an impediment.

**Financial Requirements.** The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns that a member or its customer may try to maintain an inordinately large unhedged position in an equity option. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin and/or capital that a member must maintain for a large position held by itself or by its customer. It should also be noted that the Exchange has the authority under Exchange Rule 722(d)(1), (d)(4) and (i)(8) to impose a higher margin requirement upon a member or member organization when the Exchange determines a higher requirement is warranted. In addition, the Commission's net capital rule, Rule 15c3-1 under the Act,<sup>12</sup> imposes a capital charge on members to the extent of any margin deficiency resulting from the higher margin requirement.

Finally, equity position limits have been gradually expanded from 1,000 contracts in 1973 to the current level of 75,000 contracts for the largest and most active stocks. To date, the Exchange believes that there have been no adverse affects on the market as a result of these past increases in the limits for equity option contracts.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>13</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>14</sup> in particular, in that it is designed to perfect the mechanisms of a free and open market and the national market system, protect investors and the public interest and promote just and equitable principles of trade, by establishing higher equity option position limits on a six-month pilot basis.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate 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 either solicited or received.

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

The proposed rule change has been designated by the Phlx as a "non-controversial" rule change pursuant to Section 19(b)(3)(A) of the Act<sup>15</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>16</sup>

The foregoing rule change: (1) Does not significantly affect the protection of investors or the public interest, (2) does not impose any significant burden on competition, and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest. Consequently, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and Rule 19b-4(f)(6) thereunder.<sup>18</sup>

Pursuant to Rule 19b-4(f)(6)(iii), a proposed "non-controversial" rule change does not become operative for 30 days after the date of filing, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, and the Exchange gave the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.<sup>19</sup> The Phlx has requested that the Commission waive the five-day pre-filing notice requirement and the 30-day operative delay. The Commission has determined that it is consistent with the protection of investors and the public interest to waive the five-day pre-filing notice requirement and the 30-day operative delay.<sup>20</sup> Waiving the pre-filing requirement and accelerating the operative date will allow the Phlx to immediately conform its position and exercise limits and its equity hedge

exemption strategies to those of another exchange, which were recently approved by the Commission.<sup>21</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Act.

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

#### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-Phlx-2005-17 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609.

All submissions should refer to File No. SR-Phlx-2005-17. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change;

<sup>15</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f)(6).

<sup>19</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>20</sup> For the purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>21</sup> See Securities Exchange Act Release No. 51244 (February 23, 2005), 70 FR 10010 (March 1, 2005) (SR-CBOE-2003-30).

<sup>12</sup> 17 CFR 240.15c3-1.

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-Phlx-2005-17 and should be submitted on or before April 1, 2005.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>22</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

[FR Doc. E5-1018 Filed 3-10-05; 8:45 am]  
BILLING CODE 8010-01-P

**SMALL BUSINESS ADMINISTRATION**

[Disaster Declaration # 10007 and # 10008]

**Indiana Disaster Number IN-00001**

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Amendment 2.

**SUMMARY:** This is an amendment of the Presidential declaration of a major disaster for the State of Indiana (FEMA-1573-DR), dated January 21, 2005.

*Incident:* Severe Winter Storms and Flooding.

*Incident Period:* January 1, 2005, through February 11, 2005.

**DATES:** *Effective Date:* February 11, 2005.

*Physical Loan Application Deadline Date:* March 22, 2005.

*EIDL Loan Application Deadline Date:* October 21, 2005.

**ADDRESSES:** Submit completed loan applications to: U.S. Small Business Administration, Disaster Area Office 1, 360 Rainbow Blvd. South 3rd Floor, Niagara Falls, NY 14303.

**FOR FURTHER INFORMATION CONTACT:** A. Escobar, Office of Disaster Assistance, U.S. Small Business Administration, 409 3rd Street, Suite 6050, Washington, DC 20416.

**SUPPLEMENTARY INFORMATION:** The notice of the President's major disaster declaration for Indiana, dated January 21, 2005, is hereby amended to establish the incident period for this disaster as beginning January 1, 2005, and continuing through February 11, 2005.

All other information in the original declaration remains unchanged.

(Catalog of Federal Domestic Assistance Numbers 59002 and 59008)

**Herbert L. Mitchell,**  
*Associate Administrator for Disaster Assistance.*

[FR Doc. 05-4782 Filed 3-10-05; 8:45 am]  
BILLING CODE 8025-01-P

**SMALL BUSINESS ADMINISTRATION**

[Disaster Declaration #10066 and #10067]

**Louisiana Disaster #LA-00001**

**AGENCY:** Small Business Administration.

**ACTION:** Notice.

**SUMMARY:** This is a notice of an Administrative declaration of a disaster for the State of Louisiana, dated 03/03/2005.

*Incident:* Severe Storms and Tornadoes.

*Incident Period:* 11/23/2004.

*Effective Date:* 03/03/2005.

*Physical Loan Application Deadline*

*Date:* 05/02/2005.

*EIDL Loan Application Deadline Date:* 12/05/2005.

**ADDRESSES:** Submit completed loan applications to: U.S. Small Business Administration, Disaster Area Office 1, 360 Rainbow Blvd. South 3rd Floor, Niagara Falls, NY 14303.

**FOR FURTHER INFORMATION CONTACT:** A. Escobar, Office of Disaster Assistance, U.S. Small Business Administration, 409 3rd Street, Suite 6050, Washington, DC 20416.

**SUPPLEMENTARY INFORMATION:** Notice is hereby given that as a result of the Administrator's disaster declaration on 03/03/2005, applications for disaster loans may be filed at the address listed above or other locally announced locations.

The following areas have been determined to be adversely affected by the disaster:

*Primary Parish:* La Salle.

*Contiguous Parishes:* Louisiana, Avoyelles, Caldwell, Catahoula, Grant, Rapides, Winn.

The Interest Rates are:

	Percent
Homeowners with credit available elsewhere .....	5.875
Homeowners without credit available elsewhere .....	2.937
Businesses with credit available elsewhere .....	5.800
Businesses & small agricultural cooperatives without credit available elsewhere .....	4.000
Other (including non-profit organizations) with credit available elsewhere .....	4.750

	Percent
Businesses and non-profit organizations without credit available elsewhere .....	4.000

The number assigned to this disaster for physical damage is 10066 C and for economic injury is 10067 O.

The State which received an EIDL Declaration # is Louisiana.

(Catalog of Federal Domestic Assistance Numbers 59002 and 59008)

Dated: March 3, 2005.

**Hector V. Barreto,**  
*Administrator.*

[FR Doc. 05-4784 Filed 3-10-05; 8:45 am]  
BILLING CODE 8025-01-P

**SMALL BUSINESS ADMINISTRATION**

[Disaster Declaration # 10022]

**West Virginia Disaster Number WV-00002**

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Amendment 1.

**SUMMARY:** This is an amendment of the Presidential declaration of a major disaster for Public Assistance Only for the State of West Virginia (FEMA-1574-DR), dated February 1, 2005.

*Incident:* Severe storms, flooding, and landslides.

*Incident Period:* January 4, 2005, through January 25, 2005.

**DATES:** *Effective Date:* January 25, 2005.

*Physical Loan Application Deadline Date:* April 4, 2005.

**ADDRESSES:** Submit completed loan applications to: U.S. Small Business Administration, Disaster Area Office 1, 360 Rainbow Blvd. South 3rd Floor, Niagara Falls, NY 14303.

**FOR FURTHER INFORMATION CONTACT:** A. Escobar, Office of Disaster Assistance, U.S. Small Business Administration, 409 3rd Street, Suite 6050, Washington, DC 20416.

**SUPPLEMENTARY INFORMATION:** The notice of the President's major disaster declaration for Private Non-Profit organizations in the State of West Virginia, dated February 1, 2005, is hereby amended to establish the incident period for this disaster as beginning January 4, 2005, and continuing through January 25, 2005.

All other information in the original declaration remains unchanged.

<sup>22</sup> 17 CFR 200.30-3(a)(12).