

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44488; File No. SR-CHX-2001-13]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Stock Exchange, Incorporated To Extend Pilot Rules for Decimals

June 28, 2001.

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 June 26, 2001, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(6)<sup>4</sup> thereunder, which renders the proposal effective upon filing with the Commission.<sup>5</sup> 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 Term of Substance of the Proposal

The Exchange proposes to extend through November 5, 2001 the pilot rule changes amending certain CHX rules that were impacted by the securities industry transition to a decimal pricing environment. The pilot currently is due to expire on July 9, 2001. The CHX does not propose to make any substantive changes to the pilot; the only change is an extension of the pilot's expiration date through November 5, 2001.<sup>6</sup> The text of the proposed rule change is available at the Commission and at the CHX.

#### 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 CHX included statements concerning the purpose of and basis for its proposal and discussed any comments it received

regarding the proposal. The text of these statements may be examined at the places specified in Item IV below. The CHX has prepared summaries, set for in Section 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

On August 24, 2000, the Commission approved, on a pilot basis through February 28, 2001, changes proposed by the Exchange to amend certain CHX rules that would be impacted by the securities industry transition to a decimal pricing environment.<sup>7</sup> Following one extension of the pilot through July 9, 2001,<sup>8</sup> the Exchange now requests an extension of the same pilot through November 5, 2001.<sup>9</sup>

The pilot for which the Exchange seeks an extension amended certain CHX rules that were impacted by the securities industry transition to a decimal pricing environment. Specifically, the exchange proposed continued pilot approval of these groups of changes to CHX Article II, rule 37, which would (1) allow specialists to elect, on an issue by issue basis, to either manually or automatically execute limit orders when a trade-through occurs in the primary market; (2) remove the "pending auto-stop" functionality in the Exchange's systems; and (3) allow a specialist, on an issue by issue basis, to establish an auto execution guarantee that is not dependent on the ITS Best Bid or Offer ("ITS BBO") or National Best bid or Offer ("NBBO") size. The Exchange

<sup>7</sup> See Securities Exchange Act Release No. 43204 (August 24, 2000), 65 FR 53065 (August 31, 2000)(SR-CHX-00-22).

<sup>8</sup> See Securities Exchange Act Release No. 43874 (February 16, 2001), 66 FR 11621 (February 26, 2001)(SR-CHX-2001)(SR-CHX-03).

<sup>9</sup> As noted above, in February, 2001, the CHX extended the effective date of its decimal-related pilot rules through July 9, 2001, the date by which national securities exchanges and the National Association of Securities Dealers, Inc. were required to submit their rule filings to establish minimum price variations for the quoting of equity securities or options. See Securities Exchange Act Release No. 42914 (June 8, 2000), 65 FR 38010 (June 19, 2000). These rule filings were scheduled to follow the submission of studies by each market that describe the impact of decimalization on trading behavior, capacity and liquidity and that likely would offer insights into any other rule changes that would be necessary to maintain fair and orderly markets. The Commission subsequently extended the dates by which both these studies and related rule filings must be submitted. See Securities Exchange Act Release No. 44336 (May 22, 2001), 66 FR 29368 (May 30, 2001). The Exchange is now requesting that its decimalization-related pilot rules be extended through November 5, 2001, the new date for filing of exchange rule changes.

believes that decimal pricing is likely to continue to affect the CHX trading environment, and the interaction between the CHX and the national market system, in a manner that necessitates extension of these pilot rule amendments, that are designed to minimize the adverse impact of decimalization on trading operations.<sup>10</sup>

###### 2. Statutory Basis

The CHX believes the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b).<sup>11</sup> The CHX believes the proposal is consistent with Section 6(b)(5) of the Act<sup>12</sup> in that it is designed to promote just and equitable principles of trade, to remove impediments to, and to perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors and the public interest.

##### 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

Because the foregoing proposed rule change does not:

- (i) Significantly affect the protection of investors or the public interest;
- (ii) Impose any significant burden on competition; and
- (iii) Become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>13</sup> and Rule 19b-4(f)(6)

<sup>10</sup> This submission does not concern "typographical" amendments to CHX rules, where the sole change that was proposed by the Exchange was the substitution of a decimal price increment for the fractional price increment set forth in certain CHX rules. The proposed "typographical" amendments were the subject of a separate submission previously approved by the Commission on a permanent basis. See Securities Exchange Act Release No. 43256 (September 6, 2000), 65 FR 55659 (September 14, 2000).

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

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

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

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

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

<sup>5</sup> The Exchange provided the Commission with written notice of its intent to file the proposal on June 15, 2001, pursuant to Rule 19b-4(f)(6). 17 CFR 240.19b-4(f)(6).

<sup>6</sup> Telephone conversation between Kathleen M. Boege, Associate General Counsel, CHX, and Joseph P. Morra, Special Counsel, Division of Market Regulation, SEC, June 28, 2001.

thereunder.<sup>14</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 purposes of the Act.

The Exchange has requested that the Commission accelerate the operative date. The Commission finds good cause to designate the proposal to become operative immediately because such designation is consistent with the protection of investors and the public interest. Acceleration of the operative date will allow the pilot to continue uninterrupted through November 5, 2001, the deadline for which self-regulatory organizations must file proposed rule changes to set the minimum price variation for quoting in a decimals environment. For these reasons, the Commission finds good cause to designate that the proposal is both effective and operative upon filing with the Commission.<sup>15</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposal is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Security and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission 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 CHX. All submissions should refer to file number SR-CHX-2001-13 and should be submitted by July 27, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>16</sup>

**Jonathan G. Katz,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44485; File No. SR-NSCC-2001-12]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Regarding the Discontinuance of Trade Comparison Services for Transactions Matched at or by the Relevant Market

June 28, 2001.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on June 14, 2001, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") and on June 22, 2001, amended the proposed rule change as described in Items I and II below, which items have been prepared primarily by NSCC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposal.

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

The proposed rule change modifies NSCC's Rules and Procedures to provide that as the various securities markets move to assume the full responsibility for trade comparison, NSCC will discontinue providing trade comparison services for trades executed in those markets.

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections (A), (B),

and (C) below, of the most significant aspects of such statements.<sup>2</sup>

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

Having the trade comparison function and locking-in trades at the marketplace where the trades occur is necessary step as the securities industry moves towards straight-through-processing and shortening the clearance and settlement cycle. Over the years, the stock exchanges and marketplaces have increasingly assumed this responsibility because it is faster and more efficient for comparison to be done by the marketplace at the time of execution. Comparison at the exchanges and marketplaces allows discrepancies to be identified and resolved more quickly and thus reduces the risk of failed trades. As a result, today close to 99 percent of all street-side equity trades are compared at the time of execution on a real-time basis and are submitted to NSCC as locked-in for trade recording. NSCC's Rules and Procedures currently recognize and provide for trades to be submitted on a locked-in basis from self-regulatory organizations, service providers, and special representatives.<sup>3</sup> The remaining transactions are sent to NSCC for trade comparison.

In preparation for the move towards shortened settlement cycles, NSCC has been working with the securities exchanges and markets as they move to assume the entire responsibility for comparing their respective trades. The first entity that will assume full responsibility for comparing or locking-in all its equity trades is the New York Stock Exchange ("NYSE"). The NYSE will take on this responsibility effective June 28, 2001. As a result, from and after June 28, 2001, NSCC will cease providing comparison services for equity transactions executed on the NYSE.

Subsequently, it is anticipated that the Amex and Nasdaq marketplace will assume full responsibility for comparison of equity trades executed on their marketplaces by year-end 2001 and by the end of the first quarter 2002, respectively. As each entity fully assumes the responsibility for comparing such trades, NSCC will

<sup>2</sup> The Commission has modified the text of the summaries prepared by NSCC.

<sup>3</sup> NSCC's Rule 7 (Comparison Operation) and Rule 39 (Special Representative/Index Receipt Agent).

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

<sup>15</sup> For 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>16</sup> 17 CFR 200.30-3(a)(12).

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