

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

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 CBOE. All submissions should refer to File No. SR-CBOE-00-41 and should be submitted by January 30, 2001.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43787; File No. SR-CHX-00-28]

Self-Regulatory Organizations; The Chicago Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Automatic Execution of Agency Limit Orders for Dual Trading System Issues

January 2, 2001.

I. Introduction

On September 14, 2000, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change relating to automatic execution of agency limit orders for dual trading system issues. The proposed rule change was published for comment in the **Federal Register** on November 16, 2000.³ The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to amend CHX Rule 37(b)(6) under Article XX relating to the automatic execution of agency limit orders for dual trading system issues in the event of a trade-through. Under the proposal, a specialist would be allowed 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. The current rule provides that agency limit orders (that are not marketable when entered into the Exchange's MAX automatic execution system) will automatically be filled at the limit price when there is a price penetration of the limit price in the primary market for the subject security or securities. Under the proposal, automatic execution of such limit orders will no longer be required. A CHX specialist may elect to provide for automatic execution of agency limit orders at the limit price when there is a price penetration of the limit price in the primary market for the subject security or securities. The obligation to fill the order at the limit price remains the same, whether executed manually or automatically. The Exchange believes that the proposed amendment

reasonably anticipates the impact that the decimal pricing environment will have on the national market system, where the number of small orders executed at multiple price levels may increase the number of inadvertent trade-throughs that could otherwise lead to unwarranted automatic executions of large orders in a CHX specialist's limit order book, exposing the specialist to increased liability in a decimal pricing environment.

III. Discussion

The Commission has reviewed carefully the CHX's proposed rule change and finds, for the reasons set forth below, that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange,⁴ and with the requirements of Section 6(b).⁵ In particular, the Commission finds the proposal is consistent with Section 6(b)(5)⁶ in that it is designed to promote just and equitable principles of trade, to remove impediments 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. The Commission believes the proposal is reasonably designed to guard against the possible situation where the number of small orders executed on the Exchange at multiple price levels increases the number of inadvertent trade-throughs that could otherwise lead to unwarranted automatic executions of large orders in a specialist's limit order book, resulting in increased liability to CHX specialists. The Commission believes the proposal is designed to provide a safeguard as the national market system converts to a decimal pricing environment, and should result in grater stability during the transition. Furthermore, the Commission finds that the proposal is consistent with the section 6(b)(5) requirement that the Exchange's rules be designed to promote just and equitable principles of trade, because the obligation to fill orders at the limit price remains constant, regardless of whether executions are manual or automatic.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the

⁴ In approving this rule, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

⁷ 15 U.S.C. 78s(b)(2).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 43530 (November 7, 2000), 65 FR 69355.

⁸ 17 CFR 200.30-3(A)(12).

proposed rule change (SR-CHX-00-28), is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43791; File No. SR-GSCC-00-02]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to the Enhancement of Risk Management Processes

January 2, 2001.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on April 17, 2000, the Government Securities Clearing Corporation ("GSCC") 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 primarily by GSCC. 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 proposed rule change will enhance one of the components of GSCC's clearing fund formula by reducing the liquidation amount from 25 percent to 10 percent.

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

In its filing with the Commission, GSCC 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. GSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.²

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

As part of its ongoing review of its risk management process, GSCC is seeking authority to enhance one of the components of its clearing fund formula. Specifically, GSCC is proposing to lower the liquidation amount from 25 percent to 10 percent. GSCC believes that this would more appropriately balance the level of margin it collects against the liquidity needs of its members.

Background

A netting member's clearing fund requirement is based on a formula designed to take into account the three basic risks posed to GSCC by netting members. These risks include: (1) That a member might not pay a funds only settlement amount due to GSCC; (2) that a member may fail to settle a long-term repo; and (3) that a member might not deliver or take delivery of securities that comprise a net settlement position.

As a result, there are three components to each member's clearing fund deposit requirement, as described below, with the sum of the three being a member's overall requirement:

Funds Adjustment (FAD) Component

This component is based on each member's average funds only settlement amount. The relevant variable in this calculation is the size of the settlement amount. It does not matter whether the funds are to be collected from the member or paid to the member.

Repo Volatility Component

This component reflects the interest rate exposure incurred by GSCC in guaranteeing the contractual rate of interest on a repo transaction. The repo volatility factor essentially represents an estimate of the amount that repo.

Receive/Deliver Settlement Component

This component is based on the size and nature of net settlement positions. The margin collected on net settlement positions is determined by applying margin factors that are designed to estimate security price movements. The factors are expressed as percentages and are determined by in historical daily price volatility. By multiplying security settlement values by their corresponding margin factors, GSCC estimate the amount of loss to which it is potentially exposed from price changes.

Margin amounts on receive (long) and deliver (short) positions are allowed to offset each other. The extent to which

an offset is allowed is determined by product and the degree of similarity in time remaining to maturity.

GSCC computes four receive/deliver settlement amounts each day. The four results are compared daily, and the largest amount is applied to the clearing fund requirement. The four receive/deliver computations are as follows:

(1) *Post-Offset Margin Amount (POMA)*: This computation offsets gains against losses in liquidating a member's positions that are anticipated based on historical experience. The POMA essentially is the total margin on the current day's positions and forward net settlement positions taking into account allowable offset percentages.

(2) *Average POMA*: This computation is based on the member's twenty highest POMA amounts occurring in the most recent 75 business days.

(3) *Adjusted POMA*: This computation is the same as the POMA with the exception that it excludes all trades that are scheduled to settle on the current day. This is done based on the assumption that those trades will in fact settle on the current day and that calculating POMA in this manner will more accurately reflect GSCC's settlement exposure during the current day.

(4) *Liquidation Amount*: This computation is a floor amount designed to ensure that if the margin offsets ordinarily allowed in calculating the receive/deliver settlement component do not reflect actual market conditions during a liquidation period, GSCC nonetheless will have a sufficient level of collateral protection. In other words, this minimum requirement, which is 25 percent of the total margin on all net long and short positions without offsets, protects against the risk that during a liquidation period the yield curve will be aberrational. In such a situation, collection of a minimum amount of margin based on gross calculation should ensure that GSCC will have sufficient collateral to cover liquidation losses.

Proposed Change

GSCC proposes to lower the percentage calculated on the net long and net short positions in the liquidation amount calculation from 25 percent to 10 percent. GSCC believes that 25 percent is overly conservative for the reasons set forth below.

First, the current received/deliver settlement component calculation is overly conservative. GSCC's experience has demonstrated that its POMA and average POMA calculations provide adequate protection against potential settlement risks. The POMA, by itself, is

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified parts of these statements.