

paper-based process that is labor intensive and slow and that often results in transfer delays. Using Profile, DTC participants and DRS limited participants will send automated and standardized instructions which should reduce the possibility that an instruction to move an investor's position will contain erroneous or incomplete information. Because Profile will eliminate the need for paper in transferring an investor's positions, Profile should also greatly reduce the possibility that an investor's instructions to move her position will be misplaced or lost.

In order to implement a more efficient manner in which to move an investor's position than is currently available using the paper-based DRS processing, DTC has decided to make Profile fully operational by using a screen-based indemnification until on an electronic guarantee program is established. Although some transfer agents and issuers do not believe that the screen-based indemnification provides sufficient protection against fraudulent transfers or potential losses resulting from such transfers, that view does not appear to be held by all transfer agents, issuers, or broker-dealers. Many industry participants believe that Profile using the screen-based indemnification provides sufficient protection and have expressed their intention to use it.

As the Commission has stated in prior orders dealing with DRS and Profile, participation in DRS by issuers and DRS limited participants is not mandatory.<sup>22</sup> Issues regarding risks and liabilities to issuers or DRS limited participants are internal business issues and should be addressed prior to an issuer's, transfer agent's, or DRS limited participant's decision to participate or participate further in DRS.

## V. Conclusion

On the basis of the foregoing, the Commission finds that DTC's proposal to modify Profile to include an electronic screen-based indemnification is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

It is Therefore Ordered, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File N. SR-DTC-00-04) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42694; File No. SR-NYSE-00-13]

### Self-Regulatory Organizations: Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the New York Stock Exchange, Inc. Extending the Pilot Program for Amendments to Exchange Rule 123B Until April 26, 2000

April 17, 2000.

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 22, 2000, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval to the proposed rule change.

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

The Exchange requests that the pilot program for commission-free execution of orders received by specialists through the SuperDOT System, and language clarifying the status of an order that is cancelled and replaced, be extended for 60 days.

#### 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 Exchange 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 Exchange has prepared summaries, set

forth in sections A, B, and C, 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 October 4, 1999, the Exchange filed a proposed rule change with the Commission consisting of three amendments to Exchange Rule 123b. One amendment provided for the commission-free execution of all orders received by the Exchange specialists through the SuperDOT system if such orders were executed within five minutes. A second amendment added language to Rule 123B to clarify that if an order placed with the specialist is cancelled and replaced, the replacement order is considered a new order for purposes of the Rule.<sup>3</sup> The Commission approved these changes as a pilot program through February 26, 2000.

The Exchange requests that the pilot be extended for 60 days as it relates to the commission-free policy and the provision in Rule 123B relating to cancelled and replaced orders. The Exchange instituted the pricing initiative of commission-free executions, in conjunction with the Exchange's specialist community, effective with trades executed on December 29, 1999. To date, the procedure has worked well. The Exchange has not received any complaints concerning this policy. As to that portion of Rule 123B on cancelled and replaced orders, the Exchange is not aware of any problems associated with the clarifying language.

##### 2. Statutory Basis

The Exchange believes that the basis under the Act for the proposed rule change is the requirement under Section 6(b)(5)<sup>4</sup> that the Exchange have rules that are designed to promote just and equitable principles of trade, that facilitate transactions in securities, that remove impediments to and 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 Exchange also believes that the basis under the Act for

<sup>3</sup> The third proposed change to Rule 123B related to reports of executions within two minutes for orders stopped by specialists. The Exchange is not requesting extension of this provision at this time. See letter from James E. Buck, Senior Vice President and Secretary, NYSE, to Richard Strasser, Assistant Director, Division of Market Regulation, SEC, dated February 25, 2000. The Commission published notice of these two amendments to Rule 123B. See Exchange Act Release No. 42572 (March 23, 2000), 65 FR 17325 (March 31, 2000) (SR-NYSE-00-09).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

<sup>23</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>22</sup> *Supra* note 5.

the proposed rule change is the requirement under Section 11A(a)(1)(C)<sup>5</sup> which states that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure economically efficient execution of securities transactions, fair competition among brokers and dealers, among exchange markets, and between exchange markets and markets other than exchange markets.

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

These enhancements will provide the Exchange the opportunity to compete more effectively for order flow with other marketplaces. Thus, the Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange reviewed the proposed rule change with members and organizations representing various constituencies of the Exchange and the responses to the proposed rule changes were positive. The Exchange has not otherwise solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>6</sup> Eliminating specialist commissions on orders executed within five minutes will improve the cost competitiveness of Exchange executions, which the Exchange believes will inure to the benefit of investors. Additionally, this may assist broker-dealers in fulfilling their best execution duties for their customers. The Commission notes that the proposed rule change also extends provisions of a previously approved pilot program.<sup>7</sup>

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Approval of the proposal will allow the Exchange to continue the pilot program. Therefore, the Commission believes it is consistent with Section 6(b)(5) and Section 11A(a)(1)(C) of the Act<sup>8</sup> to grant accelerated approval to the proposed rule change.<sup>9</sup>

#### **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, N.W., Washington, D.C. 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 at the Commission's Public Reference Room, located at the above address. 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-NYSE-00-13 and should be submitted by May 16, 2000.

#### **V. Conclusion**

*It is Therefore Ordered*, pursuant to Section 19(b)(2) of the Act,<sup>10</sup> that the proposed rule change (SR-NYSE-00-13) extending the pilot program for amendments to Exchange Rule 123B until April 26, 2000 is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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#### **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-42700; File No. SR-Phlx-99-39]

#### **Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Approving Proposed Rule Change Regarding Specialist Enhanced Participation**

April 18, 2000.

#### **I. Introduction**

On October 4, 1999, the Philadelphia Stock Exchange, Inc. ("Exchange" or "Phlx") submitted to the Securities and Exchange Commission ("Commission"), 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> a proposed rule change seeking to amend Exchange Rule 1014, "Obligations and Restrictions Applicable to Specialists and Registered Options Traders," and its corollary Option Floor Procedure Advice B-6 to revise the enhanced participation available to Exchange specialists. The proposal was amended on November 4, 1999.<sup>3</sup> Notice of the proposed rule change and Amendment No. 1 appeared in the **Federal Register** on November 30, 1999.<sup>4</sup> The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

#### **II. Description of the Proposal**

On August 26, 1994, the Commission approved the Exchange's proposal to adopt an enhanced participation for Exchange specialists in equity options.<sup>5</sup> The enhancement, or "enhanced parity split," provides Exchange specialists with a greater participation in parity trades than the specialists would otherwise be entitled to receive.

On November 30, 1994, the Commission approved the Exchange's proposal to make the enhanced parity split available to index option specialists.<sup>6</sup> The enhanced parity split was later revised with respect to

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

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

<sup>3</sup> In Amendment No. 1, the Exchange made technical changes to the proposal. See Letter from Nandita Yagnik, Phlx, to Richard Strasser, Assistant Director, Division of Market Regulation, Commission, dated November 3, 1999 ("Amendment No. 1").

<sup>4</sup> See Securities Exchange Act Release No. 42161 (November 19, 1999), 64 FR 66958.

<sup>5</sup> See Securities Exchange Act Release No. 34606 (August 26, 1994), 59 FR 45741 (September 2, 1994). Initially, the enhanced parity split was approved as a one year pilot expiring August 26, 1995.

<sup>6</sup> See Securities Exchange Act Release No. 35028 (November 30, 1994), 59 FR 63151 (December 7, 1994).

<sup>5</sup> 15 U.S.C. 78k-1(a)(1)(C).

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> In approving this rule change, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>8</sup> 15 U.S.C. 78k-1(a)(1)(C).

<sup>9</sup> 15 U.S.C. 78f(b)(5) and 78s(b)(2).

<sup>10</sup> 15 U.S.C. 78s(b)(2).

<sup>11</sup> 17 CFR 200.30-3(a)(12).