

("Commission") 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.

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

The CBOE proposes to rescind certain customer equity options fees. The text of the proposed rule change is available at the CBOE and the Commission.

### **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 CBOE 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 CBOE 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 rescind certain customer equity option fees. These fee changes are being implemented by the Exchange pursuant to CBOE Rule 2.22 and will be in effect as of May 1, 2000.

Specifically, the CBOE proposes to rescind transaction fees for manually executed equity options orders for public customers. The CBOE also proposes to eliminate the trade match fee for manually executed equity options orders for public customers.<sup>3</sup> Finally, the CBOE proposes to eliminate the floor brokerage fee assessed to floor brokers for execution of equity options orders of public customers. The Exchange believes this fee change would generate significant savings for its customers.

##### **2. Statutory Basis**

The CBOE believes that the proposed rule change would be consistent with the provisions of Section 6(b) of the Act<sup>4</sup> in general and would further the

objectives of Section 6(b)(4)<sup>5</sup> in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among Exchange members.

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

The CBOE does not believe that the proposed rule change would result in any burden on competition.

#### *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**

Because the foregoing rule change establishes or changes a due, fee, or other charge imposed by the Exchange, it has become effective pursuant to Section 19(B)(3)(A)(ii) of the Act<sup>6</sup> and subparagraph (f)(2) of Rule 19b-4<sup>7</sup> thereunder. At any time within 60 days of the filing of such 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 purpose 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 is consistent with the Act. Persons making written submission 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 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 Exchange. All submissions should refer to File No. SR-CBOE-00-19 and should be submitted by June 16, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Jonathan G. Katz,**  
*Secretary.*

[FR Doc. 00-13241 Filed 5-25-00; 8:45 am]

BILLING CODE 8010-01-M

## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-42801; File No. SR-NASD-00-08]

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc., Relating to Margin Rule Amendments for Non-Equity Securities and Exempt Accounts**

May 19, 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 3, 2000, the National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly-owned subsidiary, NASD Regulation, Inc. ("NASD Regulation") 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 NASD Regulation. 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**

NASD Regulation is proposing to amend Rule 2520 to revise the margin requirements relating to non-equity securities and exempt accounts. Proposed new language is in italics; proposed deletions are in brackets.

\* \* \* \* \*

#### **2520. Margin Requirements**

##### **(a) Definitions**

For purposes of this paragraph, the following terms shall have the meanings specified below:

(a)(1) through (a)(3) No change

(4) The term "designated account" means the account of: [a bank, trust company, insurance company,

<sup>3</sup> The Exchange recently has rescinded transaction fees and trade match fees for public customer equity options orders routed through the Exchange's electronic Order Routing System. See File No. SR-CBOE-00-06.

<sup>4</sup> 17 U.S.C. 78f(b).

<sup>5</sup> 17 U.S.C. 78f(b)(4).

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>7</sup> 17 CFR 240.19b-4(f)(2).

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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

<sup>27</sup> CFR 240.19b-4.

investment trust, state or political subdivision thereof, charitable or nonprofit educational institution regulated under the laws of the United States or any state, or pension or profit sharing plan subject to ERISA or of any agency of the United States or of a state or a political subdivision thereof.]

(A) a bank (as defined in Section 3(a)(6) of the Act),

(B) a savings association (as defined in Section 3(b) of the Federal Deposit Insurance Act), the deposits of which are insured by the Federal Deposit Insurance Corporation,

(C) an insurance company (as defined in Section 2(a)(17) of the Investment Company Act of 1940),

(D) an investment company registered with the Securities and Exchange Commission (SEC) under the Investment Company Act,

(E) a state or political subdivision thereof, or

(F) a pension or profit sharing plan subject to Employee Retirement Income Security Act (ERISA) or of an agency of the United States or of a state or a political subdivision thereof.

(a)(5) through (a)(8) No Change

(9) The term "highly rated foreign sovereign debt securities" means any debt securities (including major foreign sovereign debt securities) issued or guaranteed by the government of a foreign country, its provinces, state or cities, or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top two rating categories by at least one nationally ranked statistical rating organization.

(10) The term "investment grade debt securities" means any debt securities (including those issued by the government of a foreign country, its provinces, states or cities, or a supranational entity), if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top four rating categories by at least one nationally ranked statistical rating organization.

(11) The term "major foreign sovereign debt" means any debt securities issued or guaranteed by the government of a foreign country or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding

obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in the top rating category by at least one nationally recognized statistical rating organization.

(12) The term "mortgage related securities" means securities falling within the definition in Section 3(a)(41) of the Act.

(13) The term "exempt account" means a member, non-member broker/dealer registered as a broker or dealer under the Act, "designated account," or any person having a net worth of at least forty-five million dollars and financial assets of at least forty-million dollars.

(14) The term "non-equity securities" means any securities other than equity securities as defined in Section 3(a)(11) of the Act.

(15) The term "listed non-equity securities" means any non-equity securities that: (A) are listed on a national securities exchange; or (B) have unlisted trading privileges on a national securities exchange.

(16) The term "other marginable non-equity securities" means:

(A) Any debt securities not traded on a national securities exchange meeting all of the following requirements:

(i) At the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding;

(ii) The issue was registered under Section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to Section 13(a) or 15(d) of the Act or is an insurance company which meets all of the conditions specified in Section 12(g)(2)(G) of the Act; and

(iii) At the time of the extensions of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; or

(B) Any private pass-through securities (not guaranteed by any agency of the U.S. government) meeting all of the following requirements:

(i) An aggregate principal amount of not less than \$25,000,000 (which may be issued in series) was issued pursuant to a registration statement filed with the SEC under Section 5 of the Securities Act of 1933;

(ii) Current reports relating to the issue have been filed with the SEC; and

(iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent

is meeting its material obligations under the terms of the offering.

(b)(1) through (e)(1) No change

(e)(2) Exempted Securities, [Marginable Corporate Debt Securities] Non-equity Securities and Baskets

(A) Obligations of the United States and Highly Rated Foreign Sovereign Debt Securities

On net "long" or net "short" positions in obligations (including zero coupon bonds, i.e., bonds with coupons detached or non-interest bearing bonds) issued or guaranteed as to principal or interest by the United States Government or [issued or guaranteed] by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury, or in obligations that are highly rated foreign sovereign debt securities, the margin to be maintained shall be the percentage of the current market value of such obligations as specified in the applicable category below:

- (i) Less than one year to maturity—1 percent
- (ii) One year but less than three years to maturity—2 percent
- (iii) Three years but less than five years to maturity—3 percent
- (iv) Five years but less than ten years to maturity—4 percent
- (v) Ten years but less than twenty years to maturity—5 percent[, or]
- (vi) Twenty years or more to maturity—6 percent

Notwithstanding the above, on zero coupon bonds with five years or more to maturity the margin to be maintained shall not be less than 3 percent of the principal amount of the obligation.

When such obligations other than United States Treasury bills are due to mature in thirty calendar days or less, a member, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation and use the margin held on the maturing obligation to reduce the margin required on the new obligation, provided the customer has given the member irrevocable instructions to redeem the maturing obligation.

(B) All Other Exempted Securities

On any positions in exempted securities other than obligations of the United States, the margin to be maintained shall be [15]7 percent of the current market value [or 7 percent of the principal amount of such obligation, whichever amount is greater].

## (C) [Non-Convertible Corporate Debt] Non-Equity Securities

On any positions in [non-convertible corporate debt] *non-equity* securities, [which are listed or traded on a registered national securities exchange or qualify as an "OTC margin bond," as defined in Section 220.2(t) of Regulation T of the Board of Governors of the Federal Reserve System], the margin to be maintained (*except where a lesser requirement is imposed by other provisions of this Rule*) shall be:

(i) 10 percent of the current market value in the case of investment grade debt securities; and

(ii) 20 percent of the current market value or 7 percent of the principal amount, whichever amount is greater, in the case of all other listed non-equity securities, and all other marginable non-equity securities as defined in paragraph (a)(16) of this Rule [except on mortgage related securities as defined in Section 3(a)(41) of the Act the margin to be maintained for an exempt account shall be 5 percent of the current market value. For purposes of this subparagraph, an exempt account shall be defined as a member, non-member broker/dealer, "designated account" or any person having net tangible assets of at least sixteen million dollars.]

## (D) and (E) No Change

## (F) [Cash] Transactions With [Customers] Exempt Accounts Involving Certain "Good Faith" Securities

[When a customer purchases an issued exempted security from or through a member in a cash account, full payment shall be made promptly. If, however, delivery or payment therefor is not made promptly after the trade date, a deposit shall be required as if it were a margin transaction, unless it is a transaction with a "designated account."]

On any position resulting from a transaction [in issued] *involving* exempted securities, *mortgage related securities*, or *major foreign sovereign debt securities* [made for a member, or a non-member broker/dealer, or] made for or with [a "designated"] an "exempt account," no margin need be required and *any marked to the market loss* on such position need not be [marked to the market] *collected*. However, [where such position is not marked to the market, an amount equal to the loss at the market in such position] *the amount of any uncollected marked to the market loss* shall be [charged against] *deducted in computing* the member's net capital as provided in SEC Rule 15c3-1, *subject to the limits provided in paragraph (e)(2)(H) below*.

## (G) Transactions With Exempt Accounts Involving Highly Rated Foreign Sovereign Debt Securities and Investment Grade Debt Securities

*On any position resulting from a transaction made for or with an "exempt account" (other than a position subject to paragraph (e)(2)(F), the margin to be maintained on highly rated foreign sovereign debt and investment grade debt securities shall be, in lieu of any greater requirements imposed under this Rule, (i) 0.5 percent of current market value in the case of highly rated foreign sovereign debt securities, and (ii) 3 percent of current market value in the case of all other investment grade debt securities. The member need not collect any such margin, provided the amount equal to the margin required shall be deducted in computing the member's net capital as provided in SEC Rule 15c3-1, subject to the limits provided in paragraph (e)(2)(H) below.*

## (H) Limits on Net Capital Deductions for Exempt Accounts

(i) *Member organizations shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraphs (e)(2)(F) and (e)(2)(G) which shall be made available to the Association upon request.*

(ii) *In the event that the deductions of securities positions from net capital deductions taken by a member as a result of marked to the market losses incurred under paragraphs (e)(2)(F) and (e)(2)(G) (exclusive of the percentage requirements established thereunder) exceed:*

a. on any one account or group of commonly controlled accounts, 5 percent of the member's tentative net capital, or

b. on all accounts combined, 25 percent of the member's tentative net capital,

and, such excess exists on the fifth business day after it was incurred, the member shall give prompt written notice to the Association and shall not enter into any new transaction(s) subject to the provisions of paragraphs (e)(2)(F) or (e)(2)(G) that would result in an increase in the amount of such excess under, as applicable, subparagraph a. or b. above.

\* \* \* \* \*

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

In its filing with the Commission, NASD Regulation 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. NASD Regulation 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

NASD Regulation is proposing amendments to Rule 2520 to revise the margin requirements for certain non-equity securities and to expand the types of non-equity securities eligible for exempt account treatment. Currently, Regulation T<sup>3</sup> of the FRB, which establishes initial margin requirements, provides that transactions in non-equity securities are subject to "good faith" requirements<sup>4</sup> when effected in a margin account. Securities that are transacted in a "good faith" account are not subject to Regulation T margin requirements,<sup>5</sup> but are subject to the margin required by the creditor in "good faith" or the percentage set by the regulatory authority where the trade occurs, whichever is greater. As a result, the margin requirements of NASD Rule 2520 apply to non-equity positions maintained in customers' accounts and are important in providing ongoing safety and soundness levels. In this regard, NASD Regulation believes that the proposed rule change provides for margin requirements for non-equity securities that are commensurate with the risks associated with positions in such securities held by customers.

In addition, NASD Regulation is proposing several changes with regard to exempt accounts. Specifically, the proposed rule change will modify the definition of "exempt account," including increasing the financial threshold for a customer to be considered an exempt account, and will revise margin requirements for exempt account transactions involving mortgage-related securities, major

<sup>3</sup> 12 CFR 220. The Board of Governors of the Federal Reserve System ("FRB") issued Regulation T pursuant to Section 7(c) of the Act.

<sup>4</sup> The term "good faith" in this context generally means that such transactions are subject to the requirements of the applicable self-regulatory organization and that such requirements shall be applicable for initial and maintenance margin purposes.

<sup>5</sup> In 1998, amendments to Regulation T established "good faith" accounts, which can be used for transactions in non-equity securities in lieu of a margin or cash account. See Board of Governors of the Federal Reserve Docket Nos. R-0923, and R-0944 (January 8, 1998), 63 FR 2706 (January 16, 1998).

foreign sovereign debt securities, highly rated foreign debt securities and other investment grade debt securities.

*Non-Equity Securities* NASD Regulation believes that the proposed rule change will provide for margin requirements on non-equity securities that are commensurate with the risks associated with positions in such securities held by customers. Under the proposed rule change, the margin requirements for highly rated foreign sovereign debt securities will be the amounts specified in NASD Rule 2520 for U.S. debt securities.<sup>6</sup> In addition, the proposed rule change will reduce the margin requirement for exempted securities<sup>7</sup> other than U.S. debt securities from 15 percent to 7 percent of the current market value, and reduce the margin requirement for investment grade debt securities, including investment grade debt securities issued by the government of a foreign country, from 20 percent to 10 percent of the current market value. The margin requirement for all other marginable non-equity securities will remain at the greater of 20 percent of the current market value or 7 percent of the principal amount. The proposed rule change will result in margin requirements for investment grade debt securities and exempted securities other than U.S. debt securities that are comparable to the highest haircut percentages under the SEC's net capital rule<sup>8</sup> for proprietary positions in similar securities.

*Exempt Accounts.* Currently, NASD Rule 2520 contains margin requirements specifically addressing transactions by exempt accounts in exempted securities and mortgage-related securities. These requirements are lower than those applicable to transactions in such securities effected in accounts other than exempt accounts. The proposed rule change will define "exempt account" as a member organization, non-member broker/dealer registered as a broker or dealer pursuant to the Act or "designated account,"<sup>9</sup> and will

increase the financial threshold for a person to be considered an exempt account to require a net worth of at least \$45 million and financial assets of \$40 million.

The proposed rule change also will provide lower margin requirements for exempt account transactions in highly rated foreign sovereign debt, investment grade foreign sovereign debt, and other investment grade non-equity securities. According to NASD Regulation, the proposed rule change recognizes both the quality of the securities as well as the creditworthiness of the customer and, as such, is intended to maintain reasonable safety and soundness standards. For transactions in these types of securities by exempt accounts, members will be required either to collect margin equal to the marked to market losses and any percentage requirements under the rule or to take a net capital charge, subject to the limits provided in proposed NASD Rule 2520(e)(2)(H). Under the proposed rule change, the percentage requirements will be 3 percent of current market value for all investment grade corporate debt and for foreign sovereign debt in the lower two investment grade categories and 0.5 percent of current market value for foreign sovereign debt in the second highest investment grade category (*i.e.*, highly rated foreign sovereign debt securities). These terms are also defined in the proposed rule change.

For major foreign sovereign debt securities and mortgage-related securities in exempt accounts, the proposed rule change provides the same margin treatment for these securities as U.S. Government securities in exempt accounts, in that no margin will be required and marked to the market losses need not be collected, subject to the limits proposed in NASD Rule 2520(e)(2)(H).

Proposed NASD Rule 2520(e)(2)(H) will also limit the amount of any uncollected marked to market losses which are being deducted from a member's net capital to 5 percent for each exempt account and 25 percent for all exempt accounts combined. When marked to market losses exceeding these limits continue to exist on the fifth business day after they were incurred, the member will be required to provide the Association with written notification and will be prohibited from entering into any new transactions that

would increase the amount of the excess.

*Other Provisions.* The proposed rule change will provide new definitional provisions, which, among other things, will define the following types of non-equity securities: highly rated foreign sovereign debt securities; investment grade debt securities; major foreign sovereign debt securities; listed non-equity securities; and other marginable non-equity securities. The defined terms categorize certain types of non-equity securities for purposes of prescribing the applicable margin requirements. In addition, the proposed rule change will require that, as good business practice and for safety and soundness considerations, members maintain written procedures for assessing credit extended to exempt accounts.

## 2. Statutory Basis

NASD Regulation believes that the proposed rule change is consistent with the provisions of section 15A(b)(6)<sup>10</sup> of the Act which requires, among other things, that the Association's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade and, in general, to protect investors and the public interest. NASD Regulation believes that the proposed rule change will promote the safety and soundness of member firms and is consistent with the rules and regulations of the FRB for the purpose of preventing the excess use of credit for the purchase or carrying of securities.

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

NASD Regulation does not believe that the proposed rule change will result in 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

Written comments were neither solicited nor received.

## 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

<sup>6</sup> The margin required for U.S. government obligations under NASD Rule 2520 varies according to the length of time to maturity.

<sup>7</sup> NASD Rule 2520(a)(6) provides that exempted securities have the meaning provided in Section 3(a)(12) of the Act.

<sup>8</sup> See SEC Rule 15c3-1.

<sup>9</sup> NASD Regulation proposes to revise the definition of "designated account." Specifically, the proposal defines "designated account" to mean the account of: (1) a bank, as defined in Section 3(a)(6) of the Act; (2) a savings association, as defined in Section 3(b) of the Federal Deposit Insurance Act, the deposits of which are insured by the Federal Deposit Insurance Corporation; (3) an insurance company, as defined in Section 2(a)(17) of the Investment Company Act of 1940; (4) an investment company registered with the SEC under the

Investment Company Act of 1940; (5) a state or a political subdivision thereof; or (6) a pension or profit sharing plan subject to ERISA or of an agency of the United States or of a state or a political subdivision thereof.

<sup>10</sup> 15 U.S.C. 78o-3(b)(6).

(ii) as to which the NASD consents, the Commission will:

A. By order approve the 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, 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. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-00-08 and should be submitted by June 16, 2000.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 00-13260 Filed 5-25-00; 8:45 am]

BILLING CODE 8010-01-M

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42802; File No. SR-Phlx-00-42]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Adopt a New Transaction Fee of \$0.20 Per Trade for Specialists Trading on the Philadelphia Stock Exchange Automated Communication System

May 19, 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 hereby is given that on May 8, 2000, 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, II, and III below, which Items have been prepared by the Exchange.<sup>3</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 Terms of Substance of the Proposed Rule Change

The Phlx proposes to amend its schedule of dues, fees, and charges to initiate a transaction fee of \$0.20 per trade for equity specialists using the PACE System. The proposed fee would be effective on June 1, 2000. The following is the text of the proposed addition to the Phlx fee schedule:

"EQUITY FLOOR SPECIALIST TRANSACTION FEE \$.20 per trade for each trade conducted on PACE"

#### 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 regarding 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 proposed rule change would amend the Exchange's fee schedule to include a transaction fee of \$0.20 per trade for those specialists trading

<sup>3</sup>The current proposal replaces File No. SR-Phlx-00-36, which the Phlx has withdrawn. See Letter from John Kenney, Jr., Counsel, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation, Commission, dated May 5, 2000. In file No. SR-Phlx-00-36, the Phlx proposed to establish a monthly transaction fee of \$0.20 per \$1000 of value traded for equity specialists' trades transacted through the Philadelphia Stock Exchange Automated Communication and Execution ("PACE") System. According to the Phlx, the Exchange inadvertently filed File No. SR-Phlx-00-36 with the Commission. Telephone conversation between John Kenney, Jr., Counsel, Phlx, and Michael Gaw, Attorney, Division of Market Regulation, Commission, on May 16, 2000 ("May 16 Conversation")

through the PACE system on the equity floor of the Exchange. PACE is the Exchange's automated order entry, routing, and execution system. The purpose of the fee is to generate revenues for the Exchange that would strengthen its overall financial and competitive posture. For example, the Exchange may continue to incur costs respecting PACE system development, such as decimalization efforts and other planned improvements. Of course, the Phlx is seeking to raise revenues for overall Exchange use. The Exchange believes that the fee is both reasonable and equitable because Phlx specialists are not currently charged any Phlx fee respecting PACE trades.

###### 2. Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>4</sup> in general and Section 6(b)(4) of the Act<sup>5</sup> in particular in that it is intended to provide for the equitable allocation of reasonable dues, fees, and other charges among its members and other persons using its facilities.<sup>6</sup>

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

The Phlx does not believe that the proposed rule change would 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 foregoing rule change establishes or changes a due, fee, or other charge imposed by the Exchange and, therefore, has become effective pursuant to Section 19(B)(3)(A)(ii) of the Act<sup>7</sup> and Rule 19b-4(f)(2)<sup>8</sup> thereunder. The Exchange intends to implement the fee effective June 1, 2000. At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or

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

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

<sup>6</sup> The Phlx represents that the proposed fees would be charged exclusively to members and not to public customers. See May 16 Conversation, *supra* note 3. The Commission notes that this proposed rule change is, therefore, properly filed under Section 19(b)(3)(A)(ii) of the Act. 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>8</sup> 17 CFR 240.19b-4(f)(2).

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

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

<sup>27</sup> CFR 240.19b-4.