

Nasdaq this authority will help prevent fraudulent practices and protect investors in accordance with Section 15A(b)(6) of the Act.²³ Moreover, this authority will help ensure that Nasdaq disseminates fair and accurate quotes, and that the dissemination of quotes is done in an orderly manner pursuant to the requirements of Section 15A(b)(11) of the Act.²⁴

The Commission believes the proposed rule will benefit investors because it will grant Nasdaq the authority to halt trading and quotations in OTCBB securities when the OTCBB security is a derivative or component of a security listed on a domestic exchange, foreign exchange or Nasdaq and the domestic exchange, foreign exchange or Nasdaq imposes a trading halt in the underlying listed security. This will help assure accurate pricing of OTCBB derivatives and components, as the price of these securities is derived from the price of the underlying security. Market makers will be unable to quote or trade an OTCBB derivative or component when no accurate pricing information on the underlying security is available.

In addition, without this rule in place, the purpose of a trade halt in the underlying security could be frustrated. For example, if Nasdaq imposed a trade halt on a Nasdaq security in order to allow for dissemination of material news regarding the issuer, but quoting and trading of a derivative of that security continued on the OTCBB, the goal of the original halt would not be fully accomplished. Rather, before the material news could be fully absorbed by the public, trading based on incomplete or inaccurate information would take place. The NASD's new rule will prevent this.

Finally, the proposed rule will authorize Nasdaq to halt trading in an OTCBB security when there is a failure to timely provide the NASD with information mandated by Rule 10b-17 under the Act, which if not timely disseminated could have an impact on the pricing and trading of OTCBB issues. Thus, the Commission finds that the proposed rule is designed to protect investors and to produce fair and informative quotations, prevent fictitious or misleading quotations and to promote orderly procedures for collecting, distributing, and publishing quotations.

IV. Conclusion

For the foregoing reasons, the Commission finds that the proposed

rule change is consistent with the Exchange Act and the rules and regulations thereunder applicable to the NASD and, in particular, Sections 15A(b)(6) and 15(b)(11).²⁵

It is therefore ordered, pursuant to Section 19(b)(2) of the Act²⁶ that the proposed rule change (SR-NASD-99-33) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁷

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42805; File No. SR-PHLX-00-10]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Reduce the Value of the Over-the-Counter Prime Index ("OTX")

May 22, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 31, 2000, the Philadelphia Stock Exchange, ("Phlx" 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 proposed rule change has been filed by the Phlx as a "non-controversial" rule change under Rule 19b-4(f)(6)³ of the Act. 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, pursuant to Rule 19b-4 of the Act,⁴ proposes to reduce the value of its Over-The-Counter prime Index ("Index") option ("OTX") to one-fourth its present value by quadrupling the base market divisor used to calculate the

Index. In addition, the position and exercise limits applicable to OTX will be quadrupled until the last expiration then trading. The Index is a price weighted, A.M. settled index composed of fifteen stocks which are considered to be the "most active" stocks traded on the Nasdaq market.

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

In its filing with the Commission, 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. 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 this proposed rule change, as discussed more fully below, is to attract additional liquidity to OTX.

a. Background. The Exchange began trading OTX in 1998.⁵ As of March 21, 2000, the index value was 714 and the near-month in-the-money call premium was \$57.75 per contract. The Exchange proposes to conduct a "four-for-one split" of the Index, such that the value would be reduced to one-quarter of the current value. The number of OTX contracts will be quadrupled, such that for each OTX contract currently held, the holder would receive four contracts at the reduced value with a strike price one quarter of the original strike price. For instance, the holder of an OTX 800 call will receive four OTX 200 calls. In addition to the strike price being reduced by one-quarter, the position and exercise limits applicable to OTX will be quadrupled, from 25,000 contracts to 100,000 contracts until the last expiration then trading. The result would be an index value of 178.50 and a near-month at-the-money call premium of \$14.44. This procedure is similar to the one employed respecting equity options where the underlying security is subject to a four-for-one stock split. The trading symbol will remain as OTX.

In conjunction with the split, the Exchange will list strike prices surrounding the new, lower index

²⁵ In approving this rule proposal, the Commission notes that it has also considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁶ 15 U.S.C. 78s(b)(2)

²⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁴ 17 CFR 240.19b-4

⁵ See Securities Exchange Act Release No. 40058 (June 2, 1998), 63 FR 31543 (June 9, 1998).

²³ 15 U.S.C. 78o-3(b)(6).

²⁴ 15 U.S.C. 78o-3(b)(11).

value, pursuant to Phlx Rule 1101A. The Exchange will announce the effective date by way of an Exchange memorandum to the membership, also serving as notice of the strike price and position exercise limit changes.

b. *Purpose.* As stated above, the purpose of the proposal is to attract additional liquidity to OTX. A four-for-one split, thus reducing the value of the Index, should have a positive effect on overall transaction volumes by making the option premiums more attractive for retail investors. A reduced value should thus encourage additional investor interest. By reducing the value of the Index, investors will be able to utilize this trading vehicle while extending a smaller outlay of capital. This should attract additional investors, and, in turn, create a more active and liquid trading environment.

2. Statutory Basis

For these reasons, Phlx believes that the proposed rule change is consistent with Section 6 of the Act⁶ in general, and in particular, with Section 6(b)(5),⁷ in that it is designed to promote just and equitable principles of trade, as well as to protect investors and the public interest, by establishing a lower index value, which should, in turn, facilitate trading in OTX options. The Exchange believes that reducing the value of the Index should not raise manipulation concerns and should not cause adverse market impact, because the Exchange will continue to employ its surveillance procedures and has proposed an orderly procedure to achieve the index split, including adequate prior notice to market participants.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition.

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

The proposed rule change has been filed by the Exchange as a "non-controversial" rule change pursuant to Section 19(b)(3)(A) of the Act⁸ and Rule 19b-4(f)(6) thereunder.⁹ Because the

foregoing proposed 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,¹⁰ it has become effective pursuant to Section 19(b)(3)(A)¹¹ of the Act and Rule 19b-4(f)(6)¹² thereunder. The Exchange has requested that the Commission accelerate the operative date of the rule change to permit the Exchange to implement it immediately. The Commission has determined, consistent with the protection of investors and the public interest, to make the proposed rule change operative upon filing, pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii). Under Rule 19b-4(f)(6)(iii), a proposed "non-controversial" rule change does not become operative for 30 days after the date of filing, unless the Commission designates a shorter time. The Commission believes that it is consistent with the protection of investors and the public interest to make the proposed rule change operative upon filing because reducing the value of the Index should enable more investors to participate in the market, thereby promoting liquidity in the marketplace. 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.

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 at the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR-PHLX-00-10 and should be submitted by June 20, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42800; File No. SR-Phlx-00-28]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Divide Its Allocation, Evaluation and Securities Committee Into Two Separate Committees: the Equity Allocation, Evaluation and Securities Committee and the Option Allocation, Evaluation and Securities Committee

May 19, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 28, 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. 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 Exchange proposes to amend Exchange By-Law, Article X, Section 10-7 and Exchange Rule 500, each concerning its Allocation, Evaluation and Securities Committee ("AESC"), to divide the AESC into two separate committees: the Equity Allocation, Evaluation and Securities Committee and the Option Allocation, Evaluation

⁶ 15 U.S.C. 78f.

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6).

¹⁰ The Exchange provided the Commission with the five business day notice required by Rule 19b-4(f)(6) of the Act on March 3, 2000.

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.