

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval to a Proposed Rule Change and Amendment No. 1 by the Philadelphia Stock Exchange, Incorporated, Establishing a Pilot Program Relating to Price Improvement in a Decimals Environment

August 25, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-1 thereunder,² notice is hereby given that on August 22, 2000, the Philadelphia Stock Exchange, Incorporated ("PHLX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. On August 24, 2000, the Exchange amended the proposal.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, 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 proposes to amend PHLX Rule 229, Philadelphia Stock Exchange Automated Communications and Execution System (PACE),⁴ on a pilot basis through February 28, 2001, as part of the industry-wide plan to implement the transition from quoting in fractions in quoting in decimals. The text of the proposed rule change is

available to the PHLX and at the Commission.

The Exchange proposes to amend PHLX Rule 229 at Supplementary Material .07(c)(i) to state that automatically executable market and marketable limit orders of equities that trade in decimals pursuant to PHLX Rules 134 and 125 and are received through PACE shall be provided with automatic price improvements of at least \$.01 from the PACE quote. The PHLX proposes to amend Supplementary Material .07(c)(i)(B) to state that a specialist may choose to provide automatic price improvement where the PACE quote is $\frac{3}{16}$ or greater or $\frac{1}{8}$ or greater for equities trading in fractions, or \$.03 or greater or \$.05 or greater for equities trading in decimals.

The Exchange proposes to amend Supplementary Material .07(c)(ii) respecting mandatory manual double-up/double-down price protection, which currently requires the specialist to provide each protection in any instance where the bid/ask of the PACE quote is $\frac{1}{8}$ or greater. Regarding equities trading in decimals, the specialist would have to provide manual double-up/double-down price protection when the bid/ask of the PACE quote is \$.01 or greater. The definition of double-up/double-down price protection would be updated at Supplementary Material .07(c)(ii) to reflect trades of at least \$.10 from the last regular way sale on the primary market for equities trading in decimals.

The PHLX also proposes to amend Supplementary Material .05 as follows: if the PACE quote at the time of order entry into the system reflects a $\frac{1}{8}$ point spread or less (the difference between the best bid and offer) for equities trading in fractions, or \$.05 or less for equities trading in decimals, that order will be executed immediately without the 30 second delay.

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 III below. The Exchange 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 amend existing PHLX Rule 229 to comply with the implementation of decimal pricing in the securities industry on August 28, 2000, and thereafter in phases. Certain proposes amendment to PHLX Rule 229 would clarify existing language that refers only to pricing in fractions. The Exchange proposes to add language that is applicable to both fractional and decimal pricing. For example, price improvement on PACE would be in fractions as well as in decimals expressed in multiples of the Minimum Price Variation ("MPV") for equities trading in decimals.

Other proposed amendments would add mandatory price protection in multiples of the MPV for equities trading in decimals, where it currently exists only in fractions. The Exchange also proposes to add decimal equivalents of existing fractional values.

2. Statutory Basis

The PHLX believes that the proposed rule change is consistent with Section 6 of the Act,⁵ in general, and with Section 6(b)(5),⁶ in particular, in that it promotes just and equitable principles of trade, fosters cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, removes impediments to and perfects the mechanism of a free and open market and a national market system and, in general, protects 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. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing,

⁵ 15 U.S.C. 78f.

⁶ 15 U.S.C. 78f(b)(5).

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See August 24, 2000 letter from John Dayton, Assistant Secretary and Counsel, PHLX, to Alton Harvey, Esquire, Office Chief, Division of Market Regulation, SEC ("Amendment No. 1"). In Amendment No. 1, the PHLX deleted Supplementary Material .20 to Rule 229 in its entirety, and requested the proposed rule change be implemented as a pilot program through February 28, 2001.

⁴ PACE provides a system of automatic delivery and execution of orders on the Exchange equity floor under predetermined conditions.

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 Exchange. All submissions should refer to file number SR-PHLX-00-08 and should be submitted by September 22, 2000.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission has reviewed carefully the Exchange's proposed rule change, as amended, and finds, for the reasons set forth below, the proposal is consistent with the requirements of Section 6 of the Act⁷ and the rules and regulations thereunder applicable to a national securities exchange. Specifically, the Commission finds the proposal, as amended, is consistent with Section 6(b)(5) of the Act⁸ because the proposal is designed to promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of a free and open market. The Commission believes that the proposed rule change may help to facilitate a smooth transition from quoting in fractions to decimalization. Additionally, the Commission believes the proposal will benefit investors and the public interest by allowing the PHLX to continue to provide an opportunity for price improvement for equities that are quoted in decimals.

The Commission believes it is consistent with the protection of investors and the public interest and therefore finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice thereof in the **Federal Register**. The proposed rule change is designed to permit a smooth transition to decimal pricing, which is scheduled to begin in certain securities on August 28, 2000.

Accelerated approval would afford investors the benefits to be realized under this proposal without delay. In light of these factors, the Commission finds good cause to approve the proposed rule change on an accelerated basis.

The Commission also believes that it is consistent with the protection of investors and the public interest and therefore finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Amendment No. 1 requests that the proposed rule change be approved on a pilot basis through February 28, 2001. The Commission believes it is prudent and reasonable to allow the proposed rule change to be implemented on a pilot basis, so as to afford investors the benefits to be realized under this proposal without delay. In light of these factors, the Commission finds good cause to approve Amendment No. 1 on an accelerated basis.

For these reasons, and because the proposal is unlikely to raise new issues, the Commission deems it appropriate to approve the proposed rule change, as amended, on an accelerated basis. The Commission finds, therefore, that good cause exists, consistent with Section 19(b)⁹ and Section 6(b)¹⁰ of the Act, to grant accelerated approval of the proposed rule change, as amended.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-PHLX-00-08), as amended, is hereby approved on an accelerated basis through February 28, 2001.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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⁹ 15 U.S.C. 78s(b).

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43211; File No. SR-Phlx-00-02]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendments No. 1 and 2 by the Philadelphia Stock Exchange, Inc. Amending Its Certificate of Incorporation To Authorize the Issuance of Trading Permits

August 25, 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 January 12, 2000, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") 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 the Exchange. The Exchange filed amendments to the proposed rule change on May 30, 2000³ and July 12, 2000.⁴ The substance of these amendments has been incorporated into this filing. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to amend its Certificate of Incorporation to add a new article authorizing the Board of Governors to issue trading permits. The text of the proposed new article is as follows:

TWENTY-FIRST: In addition to all other powers granted to the Board of Governors by law, this Certificate of Incorporation or otherwise, the Board of Governors shall have the power to issue permits to conduct business on the securities exchange provided by the Corporation, and to adopt by

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19-4.

³ Letter from Carla Behnfeldt, Counsel, Phlx, to Sonia Patton, Staff Attorney, Division of Market Regulation ("Division"), Commission, dated May 25, 2000 ("Amendment No. 1"). Amendment No. 1 clarifies that the Exchange would be required to file a proposed rule change with the Commission to the extent required by Section 19(b) of the Act if it adopts by board resolution rules governing permits to conduct business on the Exchange. Amendment No. 1 also revises Section III.C. of the proposed rule change to include comments received from members on trading permits.

⁴ Letter from Carla Behnfeldt, Counsel, Phlx, to Sonia Patton, Staff Attorney, Division, Commission, dated July 11, 2000 ("Amendment No. 2"). Amendment No. 2 makes certain clarifying changes to the Exchange's summary of comments received from members, participants, and others set forth in Section II.C. of this filing.

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).