

change is available at CBOE and at 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, 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. 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 change is to elaborate the Exchange's existing policy prohibiting harassment and other improper conduct by CBOE employees and certain non-employees including harassment directed against any member or other market participant for acting or seeking to act competitively, or in connection with a listing proposal made by such member or market participant. Although the Exchange believes that these prohibitions are encompassed within the Exchange's extensive Employee Handbook provisions dealing with harassment and other improper employee conduct, the Exchange seeks to provide expressly in its Employee Handbook that such specific conduct is prohibited and against CBOE policy. The Exchange believes that codifying the policy in the Employee Handbook will serve to highlight the policy to CBOE employees and non-employees and reinforce the Exchange's prohibition on any such anti-competitive conduct.

Specifically, the added language will explicitly provide that it is against CBOE policy for any employee, officer, director, committee member, and other official or agent of CBOE to harass, threaten, intimidate, or retaliate against any member of CBOE or any other market participant for acting, or seeking to act, competitively, or because of a listing proposal made by such member or market participant to any exchange or other market, or such member's or market participant's advocacy or proposal concerning listing or trading on any exchange or market, or such member or market participant making markets in or trading any option on any exchange or other market.

This change compliments a recently adopted rule change submitted by the Exchange concerning a similar prohibition on COBE members.³

2. Statutory Basis

The Exchange believes that, because the proposed rule change will elaborate the Exchange's long-standing policy regarding the Exchange's prohibition against harassment and other similar practices, by employees and other non-members, the proposed change is consistent with Section 6 of the Act,⁴ in general, furthers the objectives of Section 6(b)(5)⁷ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade.

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

The CBOE does not believe that the proposed change will impose any burden on competition 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 has neither solicited nor received written comments with respect to the proposed change.

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

The foregoing proposed rule change is concerned solely with the administration of the Exchange. Therefore, the proposed rule change has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act⁶ and Rule 19b-4(f)(3) thereunder.⁷ 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 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 whether the proposed change is

³ See Securities Exchange Act Release No. 43227 (August 30, 2000).

⁴ 15 U.S.C. 78f.

⁵ 15 U.S.C. 78f(b)(5).

⁶ 15 U.S.C. 78s(b)(3)(A)(iii).

⁷ 17 CFR 240.19b-4(f)(3).

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 file 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 CBOE. All submissions should refer to File No. SR-CBOE-00-45 and should be submitted by October 5, 2000.

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. 34-43256; File No. SR-CHX-00-25]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change and Amendment Nos. 1, 2, and 3 by The Chicago Stock Exchange, Incorporated Relating to the Securities Industry's Transition to Decimal Pricing

September 6, 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 July 28, 2000, the Chicago Stock Exchange, Incorporated ("CHX" 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 CHX. The CHX amended the proposal on August

⁸ 17 CFR 200.30-(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

7, 2000,³ August 9, 2000,⁴ and August 31, 2000,⁵ respectively. 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 certain CHX rules to implement the securities industry's Decimals Implementation Plan submitted to the Commission on July 24, 2000. The text of the proposed rule change is available at the Commission and the CHX.

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 CHX 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 CHX 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

On June 8, 2000, the Commission issued an order ("Order")⁷ requiring the national securities exchanges and the National Association of Securities Dealers, Inc. ("Participants") to act

³ See Letter dated August 4, 2000, from Ellen J. Neely, Vice President and General Counsel, CHX, to Alton S. Harvey, Office Head, Division of Market Regulation ("Division"), Commission ("Amendment No. 1"). Amendment No. 1 makes certain technical corrections to the proposed rule change, converts the filing to a non-controversial filing under Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder, and requests the Commission to waive the 5 day pre-filing notice requirement and the 30-day operative period. Amendment No. 1 also conforms CHX Rule 39 to recent amendments to the Intermarket Trading System Plan ("ITS Plan") relating to decimal pricing.

⁴ See Letter dated August 22, 2000, from Paul B. O'Kelly, Executive Vice President, CHX, to Alton S. Harvey, Office Head, Division, Commission ("Amendment No. 2"). Amendment No. 2 withdraws the portion of Amendment No. 1 that extends CHX Rule 23 to Nasdaq National Market securities.

⁵ See Letter dated August 30, 2000, from Ellen J. Neely, Vice President and General Counsel, CHX, to Sonia Patton, Attorney, Division, Commission ("Amendment No. 3"). Amendment No. 3 makes certain technical corrections to the proposed rule change.

⁷ See Securities Exchange Act Release No. 42914 (June 8, 2000), 65 FR 38010 (June 19, 2000).

jointly in planning, discussing, developing, and submitting to the Commission a plan that will begin phasing in the implementation of decimal pricing in equity securities and options on or before September 5, 2000 ("Plan"). The Commission directed the Participants to submit the Plan to the Commission by July 24, 2000, and further directed each Participant to file the rule changes necessary to implement the phase-in plan.

The Exchange proposes to amend certain CHX rules to implement the Plan. The proposed rule change: (i) Establishes a minimum price variation ("MPV") of \$.01 for issues pricing in decimals; (ii) establishes the procedures that will be used during the conversion from pricing in fractions to pricing in decimals; (iii) conforms CHX Rule 39 to recent amendments to the ITS Plan relating to decimals; and (iv) provides a decimals reference to accompany and, ultimately, replace the fractional references set forth in the current version of certain CHX rules.

Minimum Variation. The Exchange's existing rules set forth the minimum variations for quoting various issues on the Exchange.⁶ Proposed Rule 22 establishes a \$.01 MPV for all issues quoted in decimals. Proposed Interpretation and Policy .06 to Rule 22 provides that the Exchange may not establish an MPV that is inconsistent with the Plan while the Plan is in effect.⁷

Conversion from Fractional to Decimal Pricing. Proposed Article XXB contains rules relating to the transition from pricing in fractions to pricing in decimals. Specifically, proposed Rule 1 implements the process that will be used to convert open orders from fractions to decimals. Proposed Rule 2 provides that member firms may allow open orders to be converted as provided in Rule 1, or may cancel and re-enter those orders. Proposed Rule 3 describes

⁶ See Article XX, Rule 22 of the CHX rules.

⁷ The Plan provides for minimum price variations for equities and options of no less than one cent. The Order requires the Participants to submit joint or individual studies two months after Full Implementation (as defined in the Plan) regarding the impact of decimal pricing on systems capacity, liquidity, and trading behavior, including an analysis of whether there should be a uniform minimum quoting increment. If a Participant wishes to move to quoting in an increment of less than one cent, the Participant should include in its study a full analysis of the potential impact of such trading on the Participant's market and the markets as a whole. Within thirty days after submitting the study, and absent Commission action, the Participants individually must submit for notice, comment, and Commission action, proposed rule changes under Section 19(b) of the Exchange Act to establish their individual choice of minimum increments by which equities or options are quoted on their respective markets.

the conversion-related handling of securities quoted "ex-dividend," "ex-distribution," "ex-rights" or "ex-interest." Proposed Rule 4 notes that these conversion rules will automatically expire one month after all issues have been successfully converted to decimals. Finally, proposed Rule 5 provides that securities trading on the Exchange in fractions will be governed by CHX rules relating to fractions and securities trading on the Exchange in decimals will be governed by CHX rules relating to decimals.

ITS Plan. The proposed rule change amends CHX Rule 39 to conform to recent proposed amendments to the ITS Plan relating to decimals.⁸

Decimals References. The remaining proposed changes simply add a decimal reference in applicable CHX rules to supplement the existing fractional references. These proposed changes do not effect any substantive change in the CHX rules or the operations on the Exchange.

2. Statutory Basis

The CHX believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.⁹ In particular, the CHX believes that the proposed rule change is consistent with Section 6(b)(5)¹⁰ in that it is designed to promote just and equitable principles of trade, to remove impediments to 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.

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

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

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 proposed rule change does not: (1) Significantly affect

⁸ See Amendment No. 1, *supra* n.3.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative on 30 days from the date on which it was filed, or such shorter time as the Commission may designate,¹¹ it has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6)¹³ thereunder. 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.

The CHX has requested that the Commission accelerate the operative date. The Commission believes that it is consistent with the protection of investors and the public interest and therefore finds good cause to designate the proposal to become immediately operative upon filing. Acceleration of the operative date will ensure that the CHX is able to operate in accordance with the terms and conditions of the Plan. For these reasons, the Commission finds good cause to designate that the proposal become operative immediately upon filing.¹⁴

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 persons, 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

¹¹ The Exchange requested the Commission to waive 5 day pre-filing notice requirement and 30-day operative period. See Amendment No. 1, *supra* n.3.

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19-4(f)(6).

¹⁴ For purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁵ 17 CFR 200.30-3(a)(12).

Room. Copies of such filing will also be available for inspection and copying at the principal office of CHX. All submissions should refer to the File No. SR-CHX-00-25 and should be submitted by October 5, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43263; File No. SR-NASD-00-53]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to the Extension of the Effective Date of Phase Three for Order Audit System Rules

September 8, 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 August 31, 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 in 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 proposes to amend Rule 6957 to extend the effective date of the implementation of Phase Three of the Order Audit Trail System ("OATS") Rules to December 15, 2000.

Below is the text of the proposed rule changes. Proposed new language is underlined; proposed deletions are in brackets.

NASD Systems and Programs

6950. Order Audit Trail System

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

6957. Effective Date

The requirements of the Order Audit Trail System shall be effective in accordance with the following schedule:

- (a) and (b) No change.
- (c) Manual Orders.

The requirements of the Order Audit Trail System shall be effective on *December 15, 2000* [October 31, 2000], for all manual orders, provided that firms shall be required to report information item (18) specified in Rule 6954(b) only to the extent such item is available to them and shall not be required to record and report information items (4) and (5) specified in Rule 6954(b) and information item (1) specified in Rule 6954(c).

- (d) Rule 3110.

The requirements of Rule 3110(h)(1)(A) and Rule 3110(h)(1)(B) shall be effective on March 1, 1999, and the requirements of Rule 3110(h)(1)(C) shall be effective on *December 15, 2000* [October 31, 2000]. The requirements of Rule 3110(h)(2) and Rule 3110(h)(3) shall be effective on March 1, 1999.

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

On March 6, 1998, the SEC approved NASD OATS Rules 6950 through 6957.³ OATS provides a substantially enhanced body of information regarding orders and transactions that improves NASD Regulation's ability to conduct surveillance and investigations of member firms for violations of Association rules. In addition, OATS is intended to fulfill one of the undertakings contained in the order issued by the SEC relating to the settlement of an enforcement action against the NASD for failure to

³ See Securities Exchange Act Release No. 39729, 63 FR 12559 (March 13, 1998) (order approving File No. SR-NASD-97-56).

⁴ See In the Matter of National Association of Securities Dealers, Inc., Securities Exchange Act Release No. 37538 (August 8, 1996); Administrative Proceeding File No. 3-9056 ("SEC Order").

⁵ *Id.*