

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-00-42 and should be submitted by October 26, 2000.

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. 34-43369; File No. SR-PCX-00-23]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment Nos. 1 and 2 by the Pacific Exchange, Inc. Relating to the Conversion to Decimal Pricing

September 27, 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 August 8, 2000, the Pacific Exchange, Inc. ("PCX" 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 Exchange filed the proposal pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission.<sup>5</sup> The Exchange filed amendments to the proposed rule change on August 25, 2000 and September 22, 2000, respectively.<sup>6</sup> 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 PCX 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 PCX 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, the PCX 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 PCX has prepared summaries, set forth in section 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")<sup>7</sup> requiring the national securities exchanges and the National Association of Securities Dealers, Inc. ("Participants") to act 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. In compliance with the Order, the Exchange submitted the proposed rule change to implement the Plan.

Equity Trading Rules. The Exchange proposes to amend PCX Rule 7.10(b) to

1 makes certain technical corrections to the proposed rule change. See also Letter dated September 21, 2000, from Hassan Abedi, Attorney, Regulatory Policy, PCX, to Nancy Sanow, Assistant Director, Division, Commission ("Amendment No. 2"). Amendment No. 2 conforms PCX Rule 7.66 to a recent proposed amendment to the Intermarket Trading System Plan ("ITS Plan") relating to decimal pricing.

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

establish a \$.01 minimum price variation ("MPV") for equity securities pricing in decimals, as required by the Plan,<sup>7</sup> and to amend Commentary .01 to Rule 7.10 to clarify that the Exchange is prohibited from changing the MPV for securities pricing in decimals while Plan is in effect.<sup>8</sup> The Exchange is also proposing to amend Rule 7.19(c)(1) to provide that a bid or offer will have price priority over another bid or offer only if its price exceeds the price of the other bid or offer by the MPV. The Exchange is proposing to add commentary .06 to PCX Rule 7.41(b) to clarify that for the purposes of the rule, the term "closest trading differential" means the MPV. In addition, the Exchange is proposing to add Commentary .01 to PCX Rule 7.29(a) to clarify that for purposes of the rule, the term "price improvement" means an improvement in price by at least the MPV. The Exchange is also proposing to amend Rule 7.66 to conform the rule to recent amendments to the ITS Plan. Finally, the remaining proposed changes add a decimal reference to Rule 7.12(b), Commentary .05, Rule 7.66(b)(8)(i)(A)(1), and Rule 7.79(e) to supplement the existing fractional references.

#### Options Trading Rules

PCX Rule 6.37(b)(1) currently specifies the maximum bid/ask spread differentials that an options market maker is permitted to create in the course of maintaining a fair and orderly market.<sup>9</sup> The Exchange is proposing to amend this rule to provide the bid/ask spread differentials in decimals. In addition, the Exchange is proposing to amend PCX Rule 6.37(b)(3) and Commentary .10, Rule 6.75, Commentaries .02-.03, Rule 6.80, Commentary .01, Rule 8.102(f), and Rule

<sup>7</sup> The Plan provides for MPVs 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.

<sup>8</sup> See Amendment No. 1, *supra* n.6.

<sup>9</sup> For example, if a market maker's bid price is between \$2 and \$5, the maximum difference between that bid price and the corresponding offering price will be  $\frac{1}{2}$  of \$1 (*i.e.*, \$.40).

<sup>11</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>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> The Commission agreed to waive the 5-day pre-filing notice requirement. The Commission also finds good cause to waive the 30-day pre-operative waiting period. See Rule 19b-4(f)(6)(iii). 17 CFR 240.19b-4(f)(6)(iii).

<sup>6</sup> See Letter dated August 24, 2000, from Hassan Abedi, Attorney, Regulatory Policy, PCX, to Nancy Sanow, Assistant Director, Division of Market Regulation ("Division"), Commission ("Amendment No. 1"). Amendment No. 1 clarifies that the Exchange is prohibited from changing the minimum price variation for securities pricing in decimals while the Decimals Implementation Plan submitted to the Commission on July 24, 2000 is in effect. Amendment No. 1 also withdraws proposed amendments to PCX Rule 7.40, governing short sales, and clarifies that the minimum price variation for SPDRs and MidCap SPDRs trading in decimals will be \$.01. In addition, Amendment No.

6.64, Commentary .03(c)–(d) to replace fractional references with decimal references. The Exchange is also proposing to amend PCX Rule 6.47(a)(2) and (b)(2), governing non-facilitation crosses, to require floor brokers to bid above the highest bid or below the lowest offer by at least the MPV before crossing orders.

Finally, the PCX proposes to adopt new Rule 6.72 to explicitly state and give effect to the minimum price increments for options mandated by the Plan. Thus, to the extent an option class is pricing in decimals, the MPVs would be as follows: For options quoting under \$3 a contract, the MPV would be \$.05; and for options quoted at \$3 a contract or greater, the MPV would be \$.10.<sup>10</sup> This rule would replace current Rule 6.72, which requires bids and offers above \$3 to be expressed in eighths of the one dollar and bids and offers below \$3 to be expressed in sixteenths of one dollar.

## 2. Statutory Basis

The PCX believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>11</sup> In particular, the PCX believes that the proposed rule change is consistent with Section 6(b)(5)<sup>12</sup> 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 PCX 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.

<sup>10</sup> The Plan contemplates that the options exchanges may wish to consider a pilot program for one-cent minimum price variations for quoting in a limited number of options ("Penny Pilot") at some point in the implementation process. The Commission expects that, before implementing a Penny Pilot, the options exchanges will carefully coordinate on such issues as the selection and number of options to be included in the pilot to ensure the continued orderly operation of the markets and clearing organizations. In particular, the Commission expects that the options exchanges will consult with the Commission regarding the impact on market-wide capacity. Before implementing a Penny Pilot, each options exchange should also submit appropriate rule filings to the Commission under Section 19(b) of the Exchange Act.

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

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

The Exchange did not solicit or receive written comments on 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: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate,<sup>13</sup> it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6)<sup>15</sup> 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 PCX 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 PCX 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, as amended, become operative immediately upon filing.<sup>16</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, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent

<sup>13</sup> The Exchange requested the Commission to waive 5 day pre-filing notice requirement and the 30-day operative period.

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19-4(f)(6).

<sup>16</sup> 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).

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 PCX. All submissions should refer to the File No. SR-PCX-00-23 and should be submitted by October 26, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>17</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43384; File No. SR-PCX-00-31]

### **Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. Relating to PACEX Reports for Options Order Flow Providers**

September 29, 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 August 18, 2000, the Pacific Exchange, Inc. ("PCX" 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 PCX. 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 PCX proposes to begin furnishing Pacific Exchange Customer Execution ("PACEX") Reports to its order flow providers on a daily basis. PACEX Reports are designed to provide objective data on option order executions so that PCX order flow

<sup>17</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.