

PCXE Rule 7.12(b)—Firm Quotations: The PCX is amending PCXE Rule 7.12(b), Commentary .05 for the purpose of deleting reference to fractional pricing in the example.

PCXE Rule 7.66(b)(8)(i)(A)(1)—Intermarket Trading System: The PCX is modifying PCXE Rule 7.66(b)(8)(A)(1) relating to price changes that trigger obligations in order to delete cross-references to fractional pricing in the “applicable price change.”

The PCX is modifying PCXE Rule 7.70(h) relating to the Pacific Computerized Order Access System (“P/COAST”) in order to replace the fractional pricing in the example to decimal values.

The PCX is modifying Rule 7.79(e) relating to information on tape in order to replace the fractional pricing to a decimal value.

Options Trading Rules

PCX Rule 1.15(b)—Point to Point Testing: The PCX is deleting PCX Rule 1.15(b) in its entirety because it relates to testing requirements for the conversion of fractional pricing to decimal pricing. Because the Exchange has fully implemented decimal pricing, the Rule is no longer applicable or necessary.

PCX Rules 6.37(b)(1) and 6.37(b)(3)—Obligations of Market Makers: The PCX is modifying the maximum bid/ask spread differentials to eliminate the cross-references to fractional pricing.

PCX Rules 6.47(b)(4)(A) and 6.47(b)(4)(B)—Crossing Orders: The PCX is modifying the examples relating to crossing markets in order to eliminate cross-references to fractional pricing.

PCX Rule 6.64 Commentary .01(c) and (d)—Trading Rotations: The PCX is modifying the examples relating to the determination of opening prices in order to eliminate cross-references to fractional pricing.

PCX Rule 6.72(a)(2) and Commentary .01—Trading Differentials: The PCX is amending its Rules to delete text relating to treatment of option issues quoted in fractions. Because the Exchange and all Member and Member Organizations have fully-implemented decimal pricing, the contingency language is no longer applicable.

PCX Rule 6.75(a)—(e)—Priority of Bids and Offers: The PCX is modifying the example relating to bids and offers in order to eliminate cross-references to fractional pricing.

PCX Rule 6.80 Commentary .01—Accommodation Transactions: The PCX is modifying its Rules on cabinet securities to delete cross-references to fractions.

PCX Rule 7.9—Meaning of Premium and Offers: The PCX is modifying its Rules on bids and offers to change the example by deleting cross-references to fractional pricing.

PCX Rule 8.102(f)—Terms of FLEX Options: The PCX is amending its Rules to delete text relating to percentage pricing and to delete cross-references to fractional pricing.

2. Statutory Basis

The Exchange believes the proposal is consistent with the requirements of Section 6(b) of the Act,⁸ in general, and furthers the objectives of Section 6(b)(5),⁹ in particular, in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, protect 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 burden on competition.

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

Written comments on the proposed rule change were neither solicited nor received.

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, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b-4(f)(6) thereunder.¹¹ At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appear 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 proposal 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 PCX. All submissions should refer to file number SR-PCX-2001-39 and should be submitted December 18, 2001.

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

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45080; File No. SR-PCX-2001-24]

Self-Regulatory Organizations; Pacific Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Synchronization of Member Organization Business Clocks

November 19, 2001.

On June 18, 2001, the Pacific Exchange, Inc. (“PCX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change requiring all PCX member organization business clocks, used for purposes of recording order or trade data to the Exchange, to be synchronized to a single time designated by the PCX, and that member organizations adopt those procedures as may be necessary to maintain such synchronization during each trading day.

The proposed rule change was published for comment in the **Federal**

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

¹² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Register on October 18, 2001.³ The Commission received no comments on the proposal.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange⁴ and, in particular, the requirements of Section 6 of the Act⁵ and the rules and regulations thereunder. The Commission finds specifically that the proposed rule change is consistent with Section 6(b)(5)⁶ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, and in general, to protect investors and the public interest.

The Commission notes that it has previously supported a move toward industry-wide synchronization of clocks.⁷ The Commission further notes that the PCX has the regulatory responsibility to design and implement an audit trail sufficient to enable the Exchange to reconstruct markets promptly, conduct efficient surveillance, and enforce its rules.⁸ The Commission believes that the reliability and usefulness of the Exchange's audit trail information should be enhanced by the synchronization of its member organizations' business clocks. In addition, synchronization will be important in evaluating members' compliance with the rules of the Exchange and the Act, including best execution obligations, firm quote rules, and prohibitions on frontrunning customer orders.

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-PCX-2001-24) be, and it hereby is, approved.

³ See Securities Exchange Act Release No. 44922 (October 11, 2001), 66 FR 52954.

⁴ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁵ 15 U.S.C. 78f.

⁶ 15 U.S.C. 78f(b)(5).

⁷ See Securities Exchange Act Release No. 39279 (March 6, 1998), 63 FR 12559 (March 13, 1998) (File No. SR-NASD-97-56) (Order approving the National Association of Securities Dealers' proposed audit trail system).

⁸ See In the Matter of Certain Activities of Options Exchanges, Securities Exchange Act Release No. 37538 (September 11, 2000), Administrative Proceeding File No. 3-10282.

⁹ 15 U.S.C. 78s(b)(2).

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45082; File No. SR-Phlx-2001-92]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendments Nos. 1 and 2 by the Philadelphia Stock Exchange, Inc. Relating to the Listing and Trading of Index-Linked Exchangeable Notes

November 19, 2001.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 4, 2001, 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 and II below, which Items have been prepared by the Exchange. Amendment No. 1 was filed on November 2, 2001.³ Amendment No. 2 was filed on November 19, 2001.⁴ The Commission

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from John Dayton, Assistant Secretary and Counsel, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation ("Division"), Commission, dated November 1, 2001 ("Amendment No. 1"). In Amendment No. 1, the Phlx stated that it would highlight in its circular to members concerning the proposed new product, index-linked exchangeable notes, the various call and redemption features that makes this product different from other products listed on the Exchange. The Phlx also stated that rules applying to members trading for their own account, specialists, odd-lot brokers, and the handling of orders and reports would also apply to the trading of these products.

⁴ See letter from John Dayton, Assistant Secretary and Counsel, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation ("Division"), Commission, dated November 16, 2001 ("Amendment No. 2"). In Amendment No. 2, the Phlx amended subsection (ii) in proposed rule 803(m)(4)(ii) to add the requirement that in addition to the standards stated there, such index qualifying under that subsection will also meet the requirements of Phlx Rule 1009A(b)(12). In addition, the Exchange represents that with respect to any future rules adopted by the Exchange pursuant to Rule 19b-4(e), the Exchange commits, in its Section 19(b)(2) filings to adopt such new rules, to state and discuss whether or not it proposes to apply the new rule standards to index-linked exchangeable notes.

is publishing this notice to solicit comments on the proposed rule change 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 adopt listing standards for a new product to be known as index-linked exchangeable notes. The text of the proposed rule change, as amended, follows. Additions are in *italics*.

* * * * *

Rule 803(a)-(1) No Change.

(m) Index-Linked Exchangeable Notes
Index-linked exchangeable notes which are exchangeable debt securities that are exchangeable at the option of the holder (subject to the requirement that the holder in most circumstances exchange a specified minimum amount of notes), on call by the issuer or at maturity for a cash amount (the "Cash Value Amount") based on the reported market prices of the Underlying Stocks of an Underlying Index will be considered for listing and trading on the Exchange pursuant to Rule 19b-4(e) under the Securities Exchange Act of 1934, provided:

(1) Both the issue and the issuer of such security meet the criteria set forth in Rule 803(f)1-4, except that the minimum public distribution shall be 150,000 notes with a minimum of 400 public note-holders, except, if traded in thousand dollar denominations, then no minimum number of holders.

(2) The issue has a minimum term of one year.

(3) The issuer will be expected to have a minimum tangible net worth in excess of \$250,000,000, and to otherwise substantially exceed the earnings requirements set forth in Rule 803(f). In the alternative, the issuer will be expected:

(i) to have a minimum tangible net worth of \$150,000,000 and to otherwise substantially exceed the earnings requirements set forth in Rule 803(f); and

(ii) not to have issued index-linked exchangeable notes where the original issue price of all the issuer's other index-linked exchangeable note offerings (combined with other index-linked exchangeable note offerings of the issuer's affiliates) listed on a national securities exchange or traded through the facilities of Nasdaq exceeds 25% of the issuer's net worth.

(4) The Index to which an exchangeable-note is linked shall either be (i) indices that have been created by a third party and been reviewed and