

The proposed changes to the Floor Operation Fees schedule will separate the Specialist Trade Processing fees into two components. The first component, the basic Specialist Trade Processing Fee, will be reduced from \$.75 to \$.50 per order. Additionally, the requirement that an issue be part of the Exchange's Competing Specialist (CSI) Program will be removed. All stocks, regardless of whether or not they are part of the BSE's CSI program, will be capped at the appropriate levels. The Exchange believes that, because most of the stocks in the CTA top 500 now offer competition on the BSE, the condition that a stock be part of the CSI program is no longer necessary. The second component proposed for implementation is a Specialist Clearing Fee of \$.05 per trade. This fee will be levied on all trades executed by BSE specialists and will be used to offset the variable costs of providing clearing services for this segment of business.

The proposed changes to the Transaction Fees schedule will eliminate the monthly transaction fee maximum for all automated BSE volume and will implement a new lower Value Charge rate for those firms that generate in excess of \$50,000 in automated BSE transaction fees. Once a firm generates \$50,000 in automated BSE transaction fees, the current \$.20 per 100 shares rate will be reduced to \$.035 per 100 shares. This rate will only apply to those trades that are eligible to be charged this rate. Additionally, the Exchange proposes to remove the condition on its Value Charges invoice that only non self-directed market and marketable limit orders up to and including 2,500 shares are free. All market and marketable limit orders up to and including 2,500 shares will now not be levied a Value Charge fee.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with section 6(b) of the Act,⁶ in general, and furthers the objectives of section 6(b)(4) of the Act,⁷ in particular, in that the proposed rule change provides for the equitable allocation of reasonable dues, fees, and other charges among the BSE's members.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

The proposed rule change has become effective pursuant to section 19(b)(3)(A)(ii) of the Act⁸ and subparagraph (f)(2) of Rule 19b-4 thereunder,⁹ because it involves a due, fee, or other charge. 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 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 Exchange. All submissions should refer to file number SR-BSE-2002-11, and should be submitted by October 8, 2002.

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

Margaret H. McFarland,

Deputy Secretary.

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⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

⁹ 17 CFR 240.19b-4(f)(2).

¹⁰ 17 CFR 200.30-3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-46462; File No. SR-CBOE-2002-45]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Inc. To Establish CBOE Rule 4.20 Requiring Each Member and Member Organization To Develop and Implement an Anti-Money Laundering Compliance Program

September 5, 2002.

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 21, 2002, the Chicago Board Options Exchange, Inc. ("CBOE" 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 CBOE. 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 CBOE proposes to adopt CBOE Rule 4.20, *Anti-Money Laundering Compliance Program* (the "Rule"). The Rule requires each member and member organization to develop and implement an anti-money laundering compliance program ("Program") consistent with applicable provisions of the Bank Secrecy Act and the regulations thereunder. The text of the proposed rule change is below. Proposed new language is in italics.

Anti-Money Laundering Compliance Program

Rule 4.20 Anti-Money Laundering Compliance Program. Each member organization and each member not associated with a member organization shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the Section 352(a) requirements of the USA PATRIOT Act (Public Law 107-56), amending Section 5318 of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member organization's anti-money laundering program must be approved,

¹ 15 U.S.C. 78s(b)(1)

² 17 CFR 240.19b-4.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(4).

in writing, by a member of senior management. The anti-money laundering programs required by this Rule shall, at a minimum:

(1) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(2) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with Section 5318(h) of the Bank Secrecy Act and the implementing regulations thereunder;

(3) Provide for independent testing for compliance to be conducted by member or member organization personnel or by a qualified outside party;

(4) Designate, and identify to the Exchange (by name, title, mailing address, e-mail address, telephone number, and facsimile number) a person or persons responsible for implementing and monitoring the day-to-day operations and internal controls of the program and provide prompt notification to the Exchange regarding any change in such designation(s); and

(5) Provide ongoing training for appropriate persons.

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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 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 III below. The CBOE has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

On October 26, 2001, President Bush signed into law the USA PATRIOT Act (the "PATRIOT Act"), which amends among other laws the Bank Secrecy Act as set forth in Title 31 of the United States Code (the "Code"). The PATRIOT Act expands government powers to fight the war on terrorism and requires that financial institutions,³ including broker-

dealers, implement policies and procedures to that end.

Title III of the PATRIOT Act, separately known as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 ("MLAA"), focuses on the requirement that financial institutions establish anti-money laundering monitoring and supervisory systems. Specifically, MLAA Section 352, which amends Section 5318(h) of the Code, requires each financial institution to establish anti-money laundering programs by April 24, 2002 that include, at minimum: (1) The development of internal policies, procedures, and controls; (2) the designation of a compliance officer; (3) an ongoing employee training program; and (4) an independent audit function to test programs.

Proposed CBOE Rule 4.20 incorporates MLAA Section 352 requirements and also requires that the Program be in writing and approved, in writing, by member organizations' senior management; that a designated "contact person" or persons, primarily responsible for each member's or member organization's Program, be identified to the Exchange; and that the Program's policies, procedures, and internal controls be reasonably designed to achieve compliance with applicable provisions of the Bank Secrecy Act and the implementing regulations thereunder, as they become effective.

Further, the Rule addresses members' and member organizations' obligation to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) ("Reporting of Suspicious Transactions") and the implementing regulations thereunder. This reflects the MLAA Section 356 directive that the Department of the Treasury ("Treasury") publish such implementing regulations, specifically applicable to registered broker-dealers, in the **Federal Register** by specified dates.

Accordingly, the Financial Crimes Enforcement Network ("FinCEN"), through authority granted by the Secretary of the Treasury, filed proposed amendments⁴ to the Bank Secrecy Act regulations on December 28, 2001. MLAA Section 356 requires publication of these regulations in final form not later than July 2, 2002.

⁴ Financial Crimes Enforcement Network; Proposed Amendments to the Bank Secrecy Act Regulations—"Requirement of Brokers or Dealers in Securities to Report Suspicious Transactions;"—66 FR 67670 (December 31, 2001).

Generally, FinCEN's proposed regulations require the filing of Suspicious Activity Reports ("SARs") in a central location, to be determined by FinCEN, within a specified timeframe initiated by the detection of facts constituting a basis for the filing. Proposed reporting criteria stress the development of a sound risk-based program.

The Rule also highlights members' and member organizations' existing and ongoing obligation to comply with applicable provisions of the Bank Secrecy Act and the implementing regulations thereunder, as they become effective.

Accordingly, and particularly in light of the PATRIOT Act amendments, members and member organizations should be cognizant of all existing and pending Bank Secrecy Act requirements. These include, but are not limited to: (1) MLAA Section 313 ("Prohibition on United States Correspondent Accounts with Foreign Shell Banks")—Effective 12/25/01, covered financial institutions operating in the United States must sever correspondent banking relationships with foreign "shell banks," *i.e.*, banks without a physical presence in any country, that are not affiliated with a bank that both has a physical presence in a country and is subject to supervision by a banking authority that regulates the affiliated bank; (2) MLAA Section 312 ("Special Due Diligence for Correspondent Accounts and Private Banking Accounts")—Effective 7/23/02, financial institutions must be prepared to apply "appropriate, specific, and, where necessary, enhanced, due diligence" with respect to foreign private banking customers and international correspondent accounts; and (3) MLAA Section 326 ("Verification of Customer Identity")—Effective 10/26/02, financial institutions must comply with a regulation issued by the Secretary of the Treasury requiring the implementation of "reasonable procedures" with respect to the verification of customer identification upon opening an account, maintaining records of information used for such verification, and the consultation of a government-provided list of known or suspected terrorists.

2. Statutory Basis

The CBOE believes that the proposed rule is consistent with Section 6(b) of the Act⁵ in general and further, the objectives of Section 6(b)(5)⁶ in particular, in that they are designed to

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

³ As defined in 31 U.S.C. 5312(a)(2).

promote just and equitable principles of trade and to protect investors and the public interest.

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

The CBOE 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.

III. 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 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 CBOE. All submissions should refer to File No. SR-CBOE-2002-45 and should be submitted by October 8, 2002.

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

The Commission has reviewed carefully the CBOE's proposed rule change and finds, for the reasons set forth below, the proposed rule change 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 proposed rule change is consistent with Section 6(b)(5) of the Act⁸ because it will promote just and equitable

principles of trade and protect investors and the public interest by requiring the CBOE's members and member organizations to establish, implement, and improve anti-money laundering compliance programs.

The Commission finds good cause for approving the proposed rule change before the 30th day after the date of publication of notice thereof in the **Federal Register**. The Commission notes that the Rule is substantially similar to anti-money laundering compliance program rules adopted by The New York Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. that the Commission approved after full notice and comment.⁹ The Commission believes, therefore, that granting accelerated approval of the proposed rule change is appropriate and consistent with Section 6 of the Act.¹⁰

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-CBOE-2002-45) is hereby approved on an accelerated basis.

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. 34-46475; File No. SR-CHX-2001-32]

Self-Regulatory Organizations; Order Granting Accelerated Approval of Proposed Rule Change and Amendment Nos. 1 and 2 by the Chicago Stock Exchange, Incorporated, Relating to CHX Article XX, Rule 37 Governing Automatic Execution of Market and Marketable Limit Orders

September 9, 2002.

On December 26, 2001, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule

⁹ See Securities Exchange Act Release No. 45798 (April 22, 2002), 67 FR 20854 (April 26, 2002) (order approving SR-NASD-2002-24 and SR-NYSE-2002-10).

¹⁰ 15 U.S.C. 78f.

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).

¹³ 15 U.S.C. 78s(b)(1).

19b-4 thereunder,² a proposed rule change that would amend CHX Article XX, Rule 37, which governs, among other things, automatic execution of market and marketable limit orders, to provide CHX order-sending firms with greater flexibility relating to automatic execution of orders by CHX specialists. Specifically, the proposed rule change would (a) in the case of Dual Trading System issues, commonly referred to as listed issues, permit immediate execution (or execution in 15 seconds or less) of orders if there is no expression of market interest by a person physically present at the specialist's post; and (b) refine existing CHX algorithms relating to automatic execution of partial orders and price improvement of such orders. On June 19, 2002, the CHX amended the proposal.³ The CHX again amended the proposed rule change on July 26, 2002.⁴ Notice of the proposed rule change, as amended by Amendment Nos. 1 and 2, was published for comment in the **Federal Register** on August 15, 2002.⁵ The Commission received no comments on the proposal.

The Commission has reviewed carefully the proposed rule change, as amended, and finds that it is consistent with the Act and the rules and regulations promulgated thereunder applicable to a national securities exchange and, in particular, with the requirements of Section 6(b).⁶ Specifically, the Commission finds that approval of the proposed rule change is consistent with Section 6(b)(5)⁷ in that it is designed to promote just and equitable principles of trade, to remove impediments 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. For these reasons, the Commission finds that the proposed rule change is consistent with the

² 17 CFR 240.19b-4.

³ See June 18, 2002 letter from Kathleen M. Boege, Associate General Counsel, CHX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation ("Division"), SEC, and attachments ("Amendment No. 1"). Amendment No. 1 completely replaced and superseded the original filing.

⁴ See July 25, 2002 letter from Kathleen M. Boege, Associate General Counsel, CHX, to Nancy J. Sanow, Assistant Director, Division, SEC, and attachments ("Amendment No. 2"). Amendment No. 2 completely replaced and superseded Amendment No. 1.

⁵ Securities Exchange Act Release No. 46321 (August 7, 2002), 67 FR 53369.

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

⁷ 15 U.S.C. 78f(b)(5).

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).