

For the Commission, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42652; File No. SR-Amex-00-17]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 by the American Stock Exchange LLC Relating to Auto-Match

April 7, 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 April 6, 2000, the American Stock Exchange LLC ("Amex" 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 Amex.³ 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 Amex proposes to enhance the Amex Order Display Book ("AODB") to automatically match and execute limit orders on the specialist's book that represent the displayed best bid or offer in select option classes. The text of the proposed rule change is available at the Amex and at the Commission's Public Reference Room.

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 IV 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 Exchange proposes to enhance the AODB to automatically match and execute limit orders on the specialist's book that represent the displayed best bid or offer in select option classes. These limit orders will be automatically matched with incoming Auto-Ex eligible market or marketable limit orders and then automatically executed at the limit order's displayed best bid or offer. This will provide for a faster, more efficient execution of market and marketable limit orders, as well as more efficient handling of limit orders on the specialist's book. The AODB enhancement initially will be used in selected less-active option classes.

The AODB is an electronic specialist's book that provides for the handling of options orders and the executing and reporting of options transactions. The AODB handles both market and limit orders routed to the specialist through the Amex Order File ("AOF"). Limit orders that better the current displayed bid or offer become the Amex's displayed best bid or offer and market orders to buy or sell are executed at these prices. When a limit order represents the displayed best bid or offer, market and marketable limit orders sent through AOF to Auto-Ex for execution at the displayed bid or offer by-pass Auto-Ex and are sent directly to the AODB for handling and execution by the specialist with the limit order as contra-party to the trade. The Auto-Ex system is bypassed in these situations to prevent the specialist and any registered options traders signed on Auto-Ex from trading ahead of customer limit orders on the specialist's book in violation of Amex Rule 950.

The Exchange now proposes to enhance the AODB so that market and marketable limit orders that have

bypassed Auto-Ex for handling by the specialist will instead be automatically matched with the customer limit order representing the best bid or offer displayed on the AODB and automatically executed in the AODB. This enhancement initially will be used only in selected less-active option classes. Once experience is gained using this feature and the further enhancements discussed below are implemented, the staff, in consultation with the membership, will review the program and determine whether to expand it to other option classes.

It should also be noted that orders eligible for Auto-Ex execution are limited in size.⁴ Therefore, if the limit order on the AODB is greater in size than the Auto-Ex eligible order, the limit order will be partially executed for the size of the Auto-Ex order and the remainder will be displayed on the AODB until it is canceled, replaced by a more competitive bid or offer, or completely executed. If the limit order on the AODB is smaller in size than the Auto-Ex eligible order, the limit order will be executed in full and the remaining contracts from the Auto-Ex order will be bought or sold by the specialist. For example, a limit order to buy 10 contracts represents the best bid in an option class whose Auto-Ex eligible size is 20 contracts and a market order of 20 contracts to sell is routed to the AODB. Under the proposal, 10 contracts will be matched and executed against the limit order and the remaining 10 contracts will be executed by the specialist. A further enhancement to AODB, expected by the end of the third quarter of 2000, will allow the excess portion of the Auto-Ex eligible order to be allocated to the specialist and any registered options traders participating in the crowd for that option class. Until this further enhancement is put in place, the automatic execution feature for AODB will only be used in those option classes that have no trading crowd and no participating registered options traders.

This will provide for a faster, more efficient execution of market and marketable limit orders as well as more efficient handling of limit orders on the specialist's book. More importantly, it will also assure that limit orders on the specialist's book retain priority, where appropriate, over other interest on the

⁴ The current size parameters for Auto-Ex eligible order are 50, 20 and 10 contracts. Of the approximately 1256 options classes currently traded on Amex: 206 or 16.4% allow orders for 50 contracts to be automatically executed at the best bid or offer; 941 or 74.9% of option classes allow orders for 20 contracts, and 109 or 8.7% of option classes allow orders for 10 contracts.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Amex originally submitted the proposal on April 5, 2000, and requested that the proposal become immediately effective pursuant to Rule 19b-4(f)(5) under the Act. On April 6, 2000, the Amex submitted a letter from Scott Van Hatten, Legal Counsel, Derivative Securities, Amex, to Elizabeth King, Associate Director, Division of Market Regulation, Commission, amending the proposal ("Amendment No. 1"). In Amendment No. 1, the Amex requested that the Commission consider and review the proposal under Rule 19b-4(f)(6). Because this proposal was filed pursuant to Section 19(b)(3)(A) of the Act, it must be complete at the time it is filed. Therefore, the date of the amendment is deemed the date of the filing of the proposal.

Exchange. Thus, the proposed rule change will benefit customers using the Auto-Ex system, as well as those customers whose orders are on the AODB.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)⁵ of the Act, in general, and furthers the objectives of Section 6(b)(5)⁶ of the Act, in particular, in that 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 facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Amex 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

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: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act⁷ and subparagraph (f)(6) of Rule 19b-4 thereunder.⁸ Although Rule 19b-4(f)(6) requires that an Exchange submit a notice of its intent to file at least five business days prior to the filing date, the Commission waived this requirement at the Amex's request.

The Commission also notes that under Rule 19b-4(f)(6)(iii), the proposal does not become operative for 30 days after date of its filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The

Amex requested a waiver of this 30 day period to permit the immediate integration of the proposed systems change into the Exchange's trading systems. Amex believes that this systems change will provide faster and more efficient executions to market and marketable limit orders, and promote more efficient handling of limit orders on the specialist's book. Amex also believes that the proposed change will assure that limit orders on the specialist's book retain priority, where appropriate, over other interest on the Exchange. For the reasons discussed above, the Commission finds that the waiver of the 30 day period is consistent with the protection of investors and the public interest.⁹

At any time within 60 days of the filing of the proposed rule change, as amended, 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 rule is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 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 Amex. All submissions should refer to File No. SR-Amex-00-17 and should be submitted by May 5, 2000.

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. 34-42653; File No. SR-CHX-99-20]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to Minimum Net Capital and Excess Net Capital Requirements for Members

April 7, 2000.

I. Introduction

On September 24, 1999, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4² thereunder, a proposed rule change. In its proposal, CHX seeks to modify its minimum net capital and excess net capital requirements for members who are specialists or who carry the accounts of specialist. The proposed rule change was published for comment in the **Federal Register** on December 22, 1999.³ The Commission received no comments on the filing. This order approves the proposal.

II. Description of the Proposal

The Exchange proposes to amend Article XI, Rule 3 of the Exchange's rules to modify the minimum net capital and excess net capital requirements applicable to members who are specialists or who carry accounts of specialists. CHX is amending its rules because it and the Midwest Clearing Corporation ("MCC") have determined to discontinue the sponsored account program on June 30, 2000, after which time the MCC will be dissolved and the Exchange will no longer guarantee the MCC's obligations to qualified clearing agencies.⁴

Currently, the rules of the Exchange and the MCC permit floor members for

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 42239 (December 15, 1999), 64 FR 71835.

⁴ "Qualified clearing agencies" is a defined term in the Midwest Clearing Corporation ("MCC") Rules. See MCC Rules, Art. XI, Rule 1.

⁵ 15 U.S.C. 78f.

⁶ 15 U.S.C. 78f(b)(5).

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 CFR 240.19b-4(f)(6).

⁹ The Commission notes that this proposal is similar to a Chicago Board Options Exchange, Inc. proposal that the Commission approved in 1999. See Release No. 34-41995 (October 8, 1999), 64 FR 56547 (October 20, 1999) (File No. SR-CBOE-99-29).