

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 comments on the proposed rule change.

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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 at 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 the File No. SR-Amex-00-46 and should be submitted by November 6, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-43421; File No. SR-PHLX-00-05]

**Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment Nos. 1-4 by the Philadelphia Stock Exchange, Inc. Relating to Decimal Pricing**

October 6, 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 January 10, 2000, the Philadelphia Stock Exchange, Inc. ("PHLX" 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 PHLX. On August 7, 2000, the Exchange filed an amendment to the proposed rule change, which amendment completely replaced and superseded the original filing.<sup>3</sup> Subsequently, the PHLX filed three additional amendments to the proposed rule change.<sup>4</sup> The PHLX filed the proposal pursuant to Section 19(b)(3)(A) of the Act,<sup>5</sup> and Rule 19b-4(f)(6) thereunder,<sup>6</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See August 4, 2000 letter from Jurij Trypupenko, Esq. ("Trypupenko"), PHLX, to Alton S. Harvey ("Harvey"), Division of Market Regulation ("Division"), SEC, and attachment ("Amendment No. 1"). Amendment No. 1 converts the original filing to a non-controversial proposal pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder, which renders the proposal effective upon filing with the Commission. The Commission accepts the original proposal as notice of the PHLX's intention to file the proposed rule change as a non-controversial proposal. See 15 U.S.C. 78s(b)(3)(A) and 17 CFR 240.19b-4(f)(6)(iii).

<sup>4</sup> See August 31, 2000 letter from Trypupenko, PHLX, to Harvey, Division, SEC and attachment ("Amendment No. 2"). In Amendment No. 2, the PHLX deleted references to decimal "trading" and added language to refer to "quoting" and "pricing" in decimals. Amendment No. 2 also included proposed language to reflect an amendment to the Intermarket Trading System Plan regarding decimal pricing. See also September 7, 2000 letter from Trypupenko, PHLX, to Harvey, Division, SEC ("Amendment No. 3"). In Amendment No. 3, the Exchange deleted section (c) of proposed Rule 1034. See also October 6, 2000 letter from Trypupenko, PHLX, to Harvey, Division, SEC ("Amendment No. 4"). In Amendment No. 4, the PHLX made minor, technical corrections to certain proposed rule language.

<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

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

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The PHLX proposes to amend its rules to provide for the implementation of decimal pricing, in accordance with the joint submission to the Commission by the PHLX and other interested parties dated July 24, 2000, entitled "Decimals Implementation Plan for the Equities and Options Markets" ("Decimal Plan").

Proposed new PHLX Rule 134 establishes that, during the decimalization phase-in period established by the Decimals Plan, securities will be priced in fractions and in decimals, and that the Exchange may issue decimalization guidelines to its members, member organizations, participants, and participant organizations regarding, among other things, what equities and options on equities will be quoted in decimals and when, the timing of partial or full conversion to decimal pricing, and open order conversion and dividend processing.

In addition, the PHLX proposes to amend the following Options Advices: A-9, All-or-None Option Orders; A-11, Responsibility to Make Ten-Up Markets; B-11, Crossing, Facilitation and Solicited Orders; and F-6, Option Quote Parameters. The Exchange believes that the proposed amendments to these provisions are non-controversial in nature, and are necessary for the Exchange to convert from fraction to decimal pricing in accordance with the Decimals Plan.

Finally, the PHLX proposes to amend Rule 2001 to conform to the rule to amendments made to the Intermarket Trading System Plan.

The text of the proposed rule change, as amended, is available at the PHLX 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 PHLX included statements concerning the purpose of and basis for its proposal and discussed any comments it received regarding the proposal. The text of these statements may be examined at the places specified in Item IV below. The PHLX has prepared summaries, set forth in Sections A, B and C below, of the most significant aspects of such statements.

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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

1. Purpose

The PHLX proposes to amend certain Exchange Rules and Options Advices to comply with the implementation of decimal pricing pursuant to the Commission's June 8, 2000 Order.<sup>7</sup> The PHLX believes these changes are needed to implement decimal pricing on August 28, 2000, and thereafter in phases in accordance with the Decimals Plan.

The proposed amendments to certain Rules and Options Advices would clarify existing language that refers only to pricing in fractions. The PHLX proposes to add language that is applicable to both fractional and decimal pricing. Other PHLX Rules and Options Advices contain examples in fractions. The Exchange proposes to add decimal equivalents.

The proposed rule changes incorporate the quoting increment requirements of the Decimals Plan. Thus, the proposed amendment to PHLX Rule 125 establishes the \$.01 Minimum Price Variation ("MPV") for equities pricing in decimals. The proposed amendment to PHLX Rule 1034 establishes the \$3.00 or higher and the \$.05 MPV for options quoting at under \$3.00, while PHLX Rule 1014 establishes quote spread parameters in fractions and decimals. Proposed PHLX Rule 134 allows the Exchange to issue guidelines to members as needed throughout the decimalization phase-in period.

2. Statutory Basis

The PHLX believes that the proposal is consistent with Section 6 of the Act<sup>8</sup> in general, and with the provisions of Section 6(b)(5) of the Act<sup>9</sup> in particular, in that it is designed to promote just and equitable principals of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

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

The PHLX does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

No written comments were either solicited or 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 Act<sup>10</sup> and Rule 19b-4(f)(6) thereunder.<sup>11</sup> 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 PHLX has requested that the Commission accelerate the operative date. The Commission finds good cause to designate the proposal, as amended, to become immediately operative upon filing, because such designation is consistent with the protection of investors and the public interest.<sup>12</sup>

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(6).

<sup>12</sup> The Decimals 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 implementing 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.

The Decimals Plan provides for minimum price variations for equities and options of no less than one cent. The Commission's June 8th Order requires the Participants to submit joint or individual studies two months after Full Implementation (as defined in the Decimals 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

Acceleration of the operative date will ensure that the PHLX is able to operate in accordance with the terms and conditions of the Decimals Plan. For these reasons, the Commission finds good cause to designate that the proposal, as amended, become operative immediately upon filing.<sup>13</sup>

**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, 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 PHLX. All submissions should refer to file number SR-PHLX-00-05 and should be submitted by November 6, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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absent Commission act, the Participants individually must submit for notice, comment, and Commission action, proposed rule changes under Section 19(b) of the Act to establish their individual choice of minimum increments by which equities or options are quoted on their respective markets.

<sup>13</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). For purposes of calculating the 60-day abrogation period, the Commission considers the period to begin as of the date of filing of the most recent substantive amendment, September 7, 2000.

<sup>14</sup> 17 CFR 200.30-3(a)(12).

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

<sup>8</sup> 15 U.S.C. 78f.

<sup>9</sup> 15 U.S.C. 78f(b)(5).