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

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–43448; File No. SR–CBOE–00–35]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to Manual Handling of RAES Orders in Certain Limited Situations

October 17, 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 August 9, 2000, the Chicago Board Options Exchange, Incorporated (''CBOE'' 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to approve the extension of a pilot program through February 21, 2001.

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

The CBOE proposes to amend Exchange Rule 6.8(c) in order to extend, for an additional six-month period, the pilot program that currently provides for certain orders to be rejected from RAES for manual handling under certain limited conditions (''Pilot''). The text of the proposed rule change is available at the CBOE and 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 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 IV below. The CBOE 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 purpose of the proposed rule change is to extend the Pilot for an additional six-month period. The Pilot provides that orders be rejected from RAES in the limited situation when an Autoquote-generated bid or offer for a particular series of options has become locked or crossed with the Exchange's best bid or offer as established by a booked order.[3] The Exchange is requesting an extension of the Pilot [4] so that RAES kick-out procedures may continue in effect while the Commission is considering the approval of two proposed rule changes. The Exchange represents that these proposed rule changes, currently pending before the Commission, were developed to obviate the need for RAES kick-outs under the circumstances covered by the Pilot.

In the first extension of the Pilot,[5] the CBOE stated that the Exchange would continue to seek other alternatives to having RAES orders rejected in the limited situation where quotations generated by the Autoquote system become locked or crossed with a booked order.[6] During the 6-month period of the first extension of the Pilot, CBOE developed two systems changes which the Exchange represents would, if implemented, virtually eliminate RAES kick-outs under the Pilot. The systems changes are the subject of the two proposed rule changes currently pending at the Commission.

The first systems change is an enhancement to the Automated Book Priority System (''ABP''), called ABP Split Price, that would allow incoming RAES orders utilizing ABP to be executed against the book price up to the applicable book volume, or a larger amount as predetermined by the appropriate Floor Procedure Committee, for the subject option class.[7] The balance of these orders would trade at the next best available price, whether: (1) Against another booked order; or (2) against market-makers logged onto RAES. If traded against market makers, the balance of such orders would trade at the best market-maker quote, whether generated by Autoquote or verbalized by a market maker.

The second systems change for which the CBOE has sought approval is called Autoquote Triggered EBook Execution (''Trigger'').[8] Trigger is an enhancement to the electronic limit order book (''EBook'') that would allow certain booked orders to be automatically executed up to the RAES contract limit applicable to the particular series of options. Trigger would become operative in the limited situation where the bid or offer generated by Autoquote (or any Exchange-approved proprietary quote generation system) for a particular options series locks or crosses the Exchange's best bid or offer for that series as established by a booked order. By providing for automatic execution of these booked orders, Trigger would eliminate the vast majority of RAES kick-outs which result when firms seeking out pricing anomalies detect a skewed quote and submit a RAES eligible order or orders to trade at the book price.

2. Statutory Basis

The proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act [9] in that it is designed to remove impediments to a free and open market 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 a burden on competition that is not necessary or appropriate in furtherance of 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 change.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule

[1] 15 U.S.C. 78s(b)(1).

[2] 17 C.F.R. 240.19b–4.

[3] Securities Exchange Act Release No. 42168 (November 22, 1999), 64 FR 66952 (November 30, 1999) (notice of rule proposal filing and accelerated approval of order establishing Pilot) (''Original Notice''); Securities Exchange Act Release No. 42615 (April 3, 2000), 65 FR 19401 (April 11, 2000) (notice of rule proposal filing and accelerated approval of order granting extension of Pilot) (''First Extension Notice'').

[4] The Pilot was due to expire on August 21, 2000.

[5] First Extension Notice at 65 FR 19403.

[6] Id.

[7] *See* SR–CBOE–00–21. The proposed rule change was published for public comment in Securities Exchange Act Release No. 34–43430 (October 11, 2000).

[8] *See* SR–CBOE–00–22.

[9] 15 U.S.C. 78f(b)(5).

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 CBOE. All submissions should refer to File No. SR–CBOE–00–35 and should be submitted by November 13, 2000.

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

After careful review, the Commission finds that the proposal is consistent with Section 6 of the Act.[10] In particular, the Commission finds the proposal consistent with Section 6(b)(5) of the Act,[11] which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade and to protect investors and the public interest.

The Commission finds that it is in the public interest to encourage the Exchange to expand its implementation of ABP. The broader the implementation of ABP, the more likely customer limit orders will, where appropriate, be given priority over other interest on the Exchange. On the other hand, implementation of ABP may also expose market makers to an unfair risk of financial loss where the market in an underlying stock moves significantly and quickly in a direction that makes a price established by a booked order substantially better than the price calculated by CBOE's Autoquote formula.[12] The Commission approves this extension of the Pilot in order to permit the mitigation of these risks while encouraging the Exchange to more broadly implement ABP. At the same time, this extension will provide the Commission an opportunity to evaluate, while the Pilot is still in effect, the Trigger and ABP Split price proposals designed to reduce the number of RAES rejects pursuant to the Pilot.

Finally, the Commission plans to evaluate the continued impact of the Pilot on ABP executions, as well as the impact of any related rule proposals approved and implemented during the Pilot, based on statistical data provided by the Exchange. Accordingly, the Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,[13] that the proposed rule change (SR–CBOE–00–35) is hereby approved through February 21, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[14]

Margaret H. McFarland,

Deputy Secretary.

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[10] 15 U.S.C. 78f.

[11] 15 U.S.C. 78f(b)(5).

[12] Original Notice at 63 FR 66952.

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–43444; File No. SR–CHX–00–32]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating to Partial Automatic Execution of Orders for NASDAQ/NM Issues

October 13, 2000.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice hereby is given that on October 10, 2000, the Chicago Stock Exchange, Incorporated (''CHX'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as constituting a ''non-controversial'' rule change under paragraph (f)(6) of Rule 19b–4 under the Act,[3] which renders the proposal effective upon receipt of this filing by the Commission.[4] 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 Exchange proposes to amend the CHX rule governing automatic execution of orders for NASDAQ/NM issues. Specifically, the Exchange proposes to amend CHX Article XX, Rule 37(b)(7)(ii), to provide order-sending firms with the option to select partial automatic execution of orders that are larger than the specialist's auto-execution threshold in instances where a specialist's quote is away from the national best bid or offer (''NBBO''). The text of the proposed rule change is available at the Commission or the CHX.

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 regarding the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange 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

The Exchange proposes to amend the CHX rules governing the execution of NASDAQ/NM Securities. Specifically, the Exchange proposes to amend CHX Article XX, Rule 37(b)(7)(ii) to give order-sending firms the option to receive partial automatic executions if their orders are larger than the specialist's auto-execution threshold when the specialist's quote is away from the NBBO, or have these orders manually executed in their entirety as they are handled under the current rule. The proposed amendments are intended to bring the Exchange's rules in line with the practices that currently exist in other markets with respect to the trading of NASDAQ/NM Securities.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] 17 CFR 240.19b–4(f)(6).

[4] The Exchange has represented that the proposed rule change: (i) Will not significantly affect the protection of investors or the public interest; (ii) will not impose any significant burden on competition; and (iii) will not become operative for 30 days after the date of this filing, unless otherwise accelerated by the Commission. The Exchange also has provided at least five business days notice to the Commission of its intent to file this proposed rule change, as required by Rule 19b–4(f)(6) under the Act. *Id.*