

Repo Service allows GSCC's non-inter-dealer broker netting members to trade general collateral repos involving U.S. Government securities throughout the day without requiring trade for trade settlement on a delivery versus payment basis.

GSCC has been activating the generic CUSIP numbers representing the securities that are eligible for GCF Repo processing in stages. U.S. Treasury securities with a maturity of ten years or less and U.S. Treasury securities with a maturity of thirty years or less were the first products to be made eligible for GCF Reprocessing. At the beginning of this year, GSCC also began accepting non-mortgage-backed agency securities for GCF Repo processing and more recently began accepting mortgage-backed agency securities ("MBS") for GCF Repo processing.<sup>4</sup>

Having gained the experience of operating the GCF Repo Service for more than two years, GSCC is now enhancing the service in certain ways in order to make it more responsive to its members' needs and to clarify certain risk management practices, each in a manner consistent with market practice.

#### *(i) Authority To Deliver Comparable or U.S. Treasury Securities*

The first enhancement by GSCC applies to the collateral allocation obligations of securities lenders<sup>5</sup> in GCF Repo transactions. Securities lenders will now be permitted to satisfy their collateral allocation requirements<sup>6</sup> in connection with their GCF Repo activity with, in addition to "comparable securities"<sup>7</sup> and cash, U.S. Treasury securities (*i.e.*, bills, notes, or bonds). Market participants consider comparable securities to be acceptable substitutes because securities that fall

within the same generic CUSIP number tend to have the same level of liquidity. U.S. Treasury securities are also acceptable substitutes securities because of their high level of liquidity.

The second enhancement by GSCC applies where the securities borrower due to reasons beyond its control and despite its exercising best efforts is not able to return in a timely manner the securities that were delivered on the day before by the securities lender. In such a situation, the securities borrower will now have the right to return (1) comparable securities, (2) U.S. Treasury bills, notes, or bonds, or (3) cash. The securities borrower will be responsible make the securities lender whole (through GSCC) for any actual damages directly suffered by the securities lender as a result of its not receiving back the same securities that it originally loaned.

#### *(ii) Insolvency Situation Involving Mortgage-Backed Securities*

The third enhancement by GSCC clarifies its risk management procedures associated with the CGF Repo Service to reflect the nature of MBS and MBS market practice. In the event of a securities borrower's insolvency, it may be impractical or even impossible for GSCC to obtain the identical types of MBS that were originally lent. Moreover, MBS market practice in such a situation is that securities lenders in repurchase transactions would not expect to receive the same MBS back.

GSCC's Rule 22, section 4 is being amended to give GSCC the authority in an insolvency situation, where MBS were the underlying collateral, to delivery back to a securities lender comparable securities or U.S. Treasury bills, notes, or bonds. Alternatively, the rule will permit GSCC to give a securities lender the right to close out the transaction by buying comparable securities or U.S. Treasury bills, notes, or bonds in return for a cash payment by GSCC equal to the value of the securities it bought. However, if GSCC determines that the price paid by the securities lender is unreasonably high, GSCC will be entitled to pay the securities lender a reasonable price as determined by an independent third party pricing source for the comparable securities or U.S. Treasury bills, notes, or bonds.

## II. Discussion

Section 17A(b)(3)(F)<sup>8</sup> of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and

to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes that the proposed rule change is consistent with these obligations because it should further enable GSCC to help facilitate the prompt and accurate clearance and settlement of GCF repos involving U.S. Government securities and to remove impediments to and help perfect the mechanism of the national clearance and settlement system for securities transactions.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-00-05) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44207; File No. SR-Phlx-2001-11]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Automatic Display of Customer Limit Orders

April 20, 2001.

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 February 2, 2001, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change 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.

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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

dealers that use a different clearing bank. Securities Exchange Act Release No. 41303 (April 16, 1999), 64 FR 20346 (April 26, 1999) [File No. SR-GSCC-99-01].

<sup>4</sup> On March 20, 2000, GSCC activated the generic CUSIP number representing Federal Home Loan Mortgage Corporation and Federal National Mortgage Association fixed-rate MBS.

<sup>5</sup> As provided in GSCC's Rule 46, the use of borrowing and lending terminology in this proposed rule change filing and in GSCC's rules and agreements shall not be deemed to affect the intent of members as to their characterization of their transactions in agreements entered into by the members with each other or with third parties with respect to such transactions.

<sup>6</sup> "Collateral Allocation Obligation" is defined in GSCC's Rules as "the obligation of a Netting Member to allocate securities or cash for the benefit of the Corporation to secure such Member's GCF Net Funds Borrower Position."

<sup>7</sup> In its Rules, GSCC has defined the term "Comparable Securities" to mean "a security or securities that are represented by a particular Generic CUSIP Number, any other security or securities that are represented by the same Generic CUSIP Number."

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

The Phlx proposes to amend Commentary .01 to Exchange Rule 1080 to make modifications to the Exchange's Auto-Quote system that would automatically display booked limit orders for those options traded by specialists that use Auto-Quote.<sup>3</sup> The text of the proposed rule change is set forth below. New text is in italics.

### Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)

Rule 1080. (a)-(j) No change.

Commentary:

.01 Automatic Quotation (Auto-Quote) is the Exchange's electronic options pricing system, which enables specialists to automatically monitor and instantly updated quotations.

*Auto-Quote will automatically display booked limit orders for those options traded by specialists that use the Exchange's Auto-Quote feature.*

*For Phlx specialist firms using proprietary systems (called "Specialized Quote Feeds" or "SQFs"), rather than the Exchange's Auto-Quote feature, the Exchange, upon the request of SQF users, will provide SQF users with real-time order and trade information in a manner that would enable SQF users wishing to modify their own systems to display limit orders automatically.*

\* \* \* \* \*

## II. Self-Regulatory Organization's Statements 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, 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 Phlx 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 enable Exchange specialists using Auto-Quote to display limit orders as soon as practicable, and under normal market conditions, no later than

30 seconds after receipt.<sup>4</sup> The proposed system change would function as an automated "fail-safe" feature to assist specialists in their compliance with the immediate limit order display requirement.<sup>5</sup>

The proposed system change would enable Auto-Quote to automatically display limit orders placed on the specialist's book that improve the displayed quote.<sup>6</sup> If the specialist is unable to display a limit order immediately, the proposed system change would enable Auto-Quote to automatically display a customer limit order within 30 seconds of receipt. In addition, the proposed system change would allow specialists, on an issue-by-issue basis, to configure the system to display limit orders within a shorter time period.

For Phlx specialist firms using proprietary systems (called "Specialized Quote Feeds" or "SQFs"), rather than the Exchange's Auto-Quote feature, additional systems changes would enable Exchange staff, upon the request of SQF users, to provide SQF users with real-time order receipt and trade information in a manner that would enable SQF users to modify their own systems to display limit orders automatically should they choose to do so. This information could be integrated into the SQF user's system to enable them to build a system that would function similarly to the proposed automatic display feature of Auto-Quote.

The Exchange currently anticipates deploying the modifications to Auto-Quote in the second quarter of 2001.

<sup>4</sup> Currently, Option Floor Procedure Advice ("OFPA") A-1, Responsibility of Displaying Best bids and Offers, requires a specialist to use due diligence to ensure that the best available bid and offer is displayed for those option series in which he is assigned. The Exchange has filed proposed rule changes to OFPA A-1 and Exchange Rule 1020, Registration and Functions of Options Specialists, that provide that a specialist shall immediately display customer limit orders, *i.e.*, as soon as practicable, and under normal market conditions, no later than 30 seconds after receipt. The proposed rule change has been published for public comment and has not yet been approved by the Commission. See Securities Exchange Act Release No. 43126 (August 7, 2000), 65 FR 49621 (August 14, 2000) (SR-Phlx-00-34).

<sup>5</sup> The Exchange acknowledges that the proposed rule changes to Rule 1020 and OFPA A-1 would require specialists to display customer limit orders immediately. The system change is not intended to relieve specialists from the immediate display requirement. Rather, the system change is intended to ensure that customer limit orders would be displayed within the 30-second time limit set forth in the proposed rules. The Exchange's Market Surveillance Department will enforce the immediate display requirement, regardless of the 30-second "window."

<sup>6</sup> Phone call between Rick Rudolph, Counsel, Phlx, and Sonia Patton, Staff Attorney, Division of Market Regulation, Commission (April 5, 2001).

After the deployment of the Auto-Quote modifications, the Exchange will commence assisting SQF users (upon request) in receiving required information to upgrade their systems.<sup>7</sup>

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of section 6(b)(5)<sup>9</sup> in particular, in that it is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest, by enabling specialists to discharge their obligation to display customer limit orders.

### 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 Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange did not solicit or receive written 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 Phlx 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 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

<sup>7</sup> The Exchange will notify all Phlx options specialists via circular when it is ready to begin testing and deploying the new Auto-Quote feature.

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

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

<sup>3</sup> Auto-Quote is the Exchange's electronic options pricing system, which enables specialists to automatically monitor and instantly update quotations, based on incremental changes in the price of the security underlying the option.

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 the File No. SR-Phlx-2001-11 and should be submitted by May 17, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44198; File No. SR-PHLX-2001-47]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Adopt an Annual Fee of \$200 for Members and Participants Retention and Renewal of the Print Loose Leaf Subscription to the Phlx Guide, Containing the Charter, By-Laws and Rules of the Exchange

April 18, 2001.

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 April 9, 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, II, and III, below, which Items have been prepared by the Phlx. 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 Phlx proposes to adopt an annual fee of \$200 for members and participants retention and renewal of

the print loose leaf subscription to the Phlx Guide, containing the Charter, By-Laws and Rules of the Exchange.

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

In its filing with the Commission, the Phlx 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 Phlx has prepared summaries, set forth in sections A, B, C below, of the most significant aspects of such statements periods.

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

The purpose of the proposed rule change is to adopt a fee of \$200 for retention and annual renewal of a print subscription to the Phlx Guide.<sup>3</sup> The Exchange has had a policy to provide a subscription at no charge for each member requesting one for their member organization. The Exchange is in the process of offering the membership free internet access to the Phlx Guide by establishing a linkage to click upon the Exchange's website. The Exchange will continue to offer those members and participants that want to continue to receive the print loose-leaf subscription to the Phlx Guide for the charge of \$200, a discount from the costs to the Exchange for this service. The expenditures to support the availability to provide free internet access to the Exchange's By-Laws and Rules while maintaining a minimum number of print loose leaf subscription to the Phlx Guide requires this modest annual fee charge of \$200 for those retaining a print subscription to Phlx Guide. The Exchange will continue to provide a Phlx Guide print subscription without charge to new members and member organizations for the balance of the year of initial admission to the Exchange.

This charge is intended to partially defray the costs associated with servicing and maintenance of the print subscription for the loose leaf subscription to the Phlx Guide.

<sup>3</sup> A conforming change to the description of the proposed rule change with the text of the proposal was made pursuant to a telephone conversation between Murray L. Ross, Vice President and Secretary, Phlx, and Marc McKayle, Special Counsel, Division of Market Regulation, Commission on April 18, 2001.

The Exchange has determined that its fee for retention and subscription maintenance services is appropriate and only reflects partial costs recovery. The charge of \$200 per print subscription is a discounted price available through the Exchange to members and participants. This partial cost recovery will assist the Exchange in offering the investing public an opportunity to access the Phlx Guide at no cost via internet access linkage at the Phlx web site, Phlx.com.<sup>4</sup>

For these reasons, the Exchange believes that its proposal to amend its schedule of dues, fees and charges to include a fee of \$200 to retain a print subscription to the Phlx Guide is consistent with section 6(b) of the Act,<sup>5</sup> in general, and furthers the objectives of section 6(b)(4),<sup>6</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among its members and other persons using its facilities.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate 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 either solicited or received.

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

The foregoing proposed rule change has been designated as a fee change pursuant to section 19(b)(3)(A) of the Act,<sup>7</sup> and Rule 19b-4(f)(2) thereunder.<sup>8</sup> Accordingly, the proposal will take effect upon filing with the Commission. 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

<sup>4</sup> This fee is not eligible for the monthly credit of up to \$1000.00. See Securities Exchange Act Release No. 43567 (November 15, 2000), 65 FR 71187 (November 29, 2000) (SR-Phlx-00-100).

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

<sup>6</sup> 15 U.S.C. 78f(b)(4).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(2).

<sup>10</sup> 17 CFR 200.30-(9)(12).

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

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