

seat or serve on an Exchange committee in the place of the active member.³

If an interim member is not allocated the membership held by the active member within one year of approval by the Exchange's Membership Services Department, the individual's eligibility for interim membership would be terminated. To become eligible again for interim member status, the individual would have to requalify for membership pursuant to Article IV of the Exchange Constitution by repaying all fees, passing the test, and updating the application.

The Exchange believes that a confluence of competitive factors, such as the advent of the International Securities Exchange and the multiple listing of options, coupled with rising seat prices, make it critical for Exchange members to maximize their use of personnel and capital resources. This Interim Seat Allocation Program is an effort by the Exchange to assist its members in accomplishing that goal.

2. Statutory Basis

Amex believes that the proposed rule change would be consistent with the provisions of section 6(b) of the Act⁴ in general and would further the objectives of section 6(b)(5)⁵ in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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; and is not designed to permit unfair discrimination between customers, issuers, brokers, and dealers.

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

The Exchange does not believe that the proposed rule change would result in any burden on competition that is 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

Written comments were neither solicited nor received.

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 Amex 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, 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 Exchange. All submissions should refer to File No. SR-AMEX-00-19 and should be submitted by June 28, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42834; File No. SR-Amex-00-07]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange LLC Relating to the Amendment of Rule 126 on a Pilot Program Basis

May 26, 2000.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934,¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 3, 2000, the American Stock Exchange LLC ("Amex" or "Exchange") filed with the Securities and Exchange 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.

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

The Exchange proposes to amend Amex Rule 126 on a six month pilot program basis by adding a new Commentary .03 to implement a program for processing electronically transmitted orders for the common stock of business corporations admitted to dealings on the Exchange ("eQPrioritysm"). Below is the text of the proposed rule change, which is entirely new.

* * * * *

.03. Orders Delivered Electronically to the Specialist. At all times other than an opening or a reopening (Rule 108) or a block sold at a "clean-up" price (Rule 155), a round lot, regular way order for the common stock of a business corporation admitted to dealings on the Exchange that is sent to the specialist electronically and is executable according to its terms in whole or in part shall be handled in the following manner. Upon receipt of the electronic order by the specialist's order book, the specialist shall announce the order to the crowd and the order shall establish priority with respect to all other bids and offers. Once the specialist has announced the order, members who have bids or offers incorporated in the Amex Published quote ("APQ" shall not be permitted to withdraw or modify their interest except to provide price improvement (i.e., an execution between the APQ) to the incoming order.

³ Telephone conversation between Ivonne T. Lugo, Assistant General Counsel, Legal and Regulatory Division, Amex, and Michael Gaw, Attorney, Division of Market Regulation, Commission, on May 22, 2000.

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Following the announcement of the order, the specialist and members in the crowd shall have a brief opportunity to provide price improvement to the incoming order. In the event that the incoming order is price improved but not entirely filled at the improved price, the sale shall not remove all bids and offers, and the incoming order shall retain priority over other bids and offers up to the full size of the APQ that was displayed at the time of the announcement of the order less any interest that provided price improvement to the order. In the event that the incoming order is larger than the size displayed in the APQ, the order shall be executed according to these procedures and any unfilled balance of the order shall be handled according to the Exchange's customary auction market processes.

This Commentary .03 will expire six months from the date the SEC approval. The SEC approved this rule change on (insert date of Approval Order when known).

* * * * *

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

Order execution has become increasingly automated and competitive. To encourage investors and order flow providers to send orders to the Exchange, the Amex is proposing to add a new Commentary .03 to Amex Rule 126. Commentary .03 would be effective for a six months pilot period. The commentary is intended to assure investors who send equity orders to the Exchange that their orders will be filled either (i) at the Amex Published Quote ("APO")³ at the time the specialist

announces the order up to the depth of the quote, or (ii) at an improved price.⁴ Specifically, the proposed rule change would require that members may not withdraw or modify their bids and offers incorporated into the APQ during the processing of electronically delivered orders except to provide price improvement. The proposed rule change also provides that an incoming electronic order retains priority over other bids and offers on the Floor until the exhaustion of the APQ displayed at the time the specialist announces the electronic order.⁵

An example best illustrates how the program will work. Assume the APQ is 20 to 20¹/₈, 3,000 by 3,000 and that the bid consists of a broker in the crowd working a buy order (3,000 shares reflected in the APQ). Assume that the offer consists of a customer limit order (1,000 shares) and the specialist as principal (2,000 shares). (There is also a broker in the crowd working a sell order who has chosen not to reflect any of his interest in the APQ.) Assume that the

President, Laurence McDonald, Managing Director, Lauren Brophy, Vice President, Amex, and Joshua Kans, Special Counsel, Madge Hamilton, Special Counsel, Division of Market Regulation ("Division"), Commission, April 5, 2000.

⁴ Current practices do not guarantee that an incoming electronic order will interact against the APQ. When an electronic order arrives on the Exchange, the specialist in the security will announce a crossing market in an attempt to provide price improvement to the order. For example, if an electronic market order to buy arrives on the Exchange, the specialist will announce a bid at a minimal fractional variation away from the APQ ask price, and the specialist will announce an offer at the APQ ask price. This gives floor brokers an opportunity to price improve the order by selling to the bid. This method of crossing, however, may also permit a floor broker to take the offer despite the presence of the electronic order. If an electronic market order to sell arrives, a floor broker similarly has the opportunity to sell to the bid first.

Also, if an electronic order is filled in part at an improved price, current practice allows floor brokers to interact with the APQ on parity with the remainder of the electronic order. This is because Amex Rules 126(e)(3) and 126(f) provide that each sale cancels all bids and offers. In that case, Amex Rules 126(e)(2) and 126(f) require the bids or offers on parity to be filled as equally as practicable. Conversations between Bill Floyd-Jones, Assistant General Counsel, Arne Michelson, Senior Vice President, Laurence McDonald, Managing Director, Lauren Brophy, Vice President, Amex and Joshua Kans, Special Counsel Madge Hamilton, Special Counsel, Division, Commission, March 31, 2000 and April 5, 2000.

⁵ The proposed rule change further provides that once the specialist announces the order, the specialist and members of the crowd will have a brief opportunity to provide price improvement. If part of the order is filled at an improved price, the sale would not remove bids and offers, and the incoming order retains priority over other bids and offers up to the full size of the APQ less any interest that provided price improvement. If the incoming order is larger than the size displayed in the APQ, the unfilled portion will be handled according to the customary auction market procedures.

specialist receives an electronic order to buy 3,000 shares at the market. Once the specialist announces the order, no one would be permitted to withdraw his or her interest from the APQ except to provide price improvement to the incoming electronic order. In this example, the specialist would announce to the crowd that there are 3,000 shares to buy. Both the specialist and the broker working the sell order each could sell, 1,500 shares to the incoming electronic order at an improved price of 20¹/₈.⁶ If, however, the broker in the crowd were unwilling to price improve the order, and the specialist were willing to sell, 3,000 at 20¹/₈, then the electronic order would buy 3,000 at 20¹/₈ from the specialist. If neither the specialist nor the broker in the crowd were willing to price improve the order, it would be filled at 20¹/₈ against the customer limit order and the specialist's offer. The electronic order would have priority over all other purchasers at the Amex until the APQ displayed at the time it is announced is exhausted.

The Exchange's proposed eQPriority program is not limited to institutional size orders. In addition, the Exchange's program is available with respect to all interest displayed in the APQ at the time the order is announced. The Exchange believes that eQPriority will provide investors with the optimal combination of price improvement possibilities together with speed and certainty of execution.

The eQPriority program only will apply to the common stock of business corporations admitted to dealings. The Exchange believes that it would be inappropriate to apply eQPriority to options and equity derivatives because the Amex is not the price discovery market for these securities and the value of the underlying instruments may change very rapidly. The Exchange also believes that the program should not apply to openings and reopenings. Openings involve a balancing of supply and demand to reach a consensus price that, by definition, is the best execution. The program also will not apply to "clean-up" sales of blocks. The Exchange believes that the current

⁶ This example presumes that the floor broker and the specialist simultaneously sell to the bid. In that situation, Amex Rules 126(e)(2) and 126(f) provide that all such bids and offers are on parity and any securities to be sold in execution of bush bids or offers are divided as equally as practicable between the specialist and the brokers, except when the specialist has an accumulation of orders on his book representing a substantial amount of the security at the same price. Conversation between Bill Floyd-Jones, Assistant General Counsel, Arne Michelson, Senior Vice President, Laurence McDonald Managing Director, Amex, and Joshua Kans, Special Counsel, Madge Hamilton, Special Counsel, Division, Commission, March 31, 2000.

³ The APQ is the best bid or offer that Amex conveys to the Consolidated Quotation System. Conversation between Bill Floyd-Jones, Assistant General Counsel, Arne Michelson, Senior Vice

procedure for affecting a clean-up sale at a single price outside the APQ is fairest to all parties and, accordingly, does not propose to amend this process.

The Exchange is proposing to adopt eQPriority on a six-month pilot program basis to assess its benefits and costs.

2. Statutory Basis

The proposed rule change is consistent with section 6(b) of the Act in general and furthers the objectives of section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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; and is not designed to permit unfair discrimination between customers, issuers, brokers and dealers.

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

The proposed rule change will impose no 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 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 self-regulatory organization 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 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 in Washington, D.C. 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-00-07 and should be submitted June 28, 2000.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42857; File No. SR-CBOE-00-02]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Governing the Final Settlement Value of Index Options in the Event of a Primary Market Closure

May 30, 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 February 15, 2000, 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, II, and III below, which Items have been prepared by the Exchange. On February 25, 2000, the CBOE submitted Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to

solicit comments on the proposed rule change from interested persons and to approve the proposal on an accelerated basis.

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

The CBOE proposes to amend its rules governing the settlement procedures for its index options in certain unusual circumstances. The text of the proposed rule change is available at the CBOE 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 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 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

Based on recent events, the Exchange proposes to change settlement procedures for index options when a primary market for underlying stocks in an index does not open on the scheduled settlement day. Under such circumstances, the proposed rule change will allow the use of the next available opening prices for the affected underlying securities to calculate the settlement value of the index options.

On Thursday, September 16, 1999, it was feared that the New York Stock Exchange, Inc. ("NYSE") would not open for business the next day as Hurricane Floyd traveled up the Eastern seaboard. In the event that the NYSE had not opened on Friday, September 17, an expiration Friday, the settlement of index options and futures contracts would have been affected. A review of this situation demonstrates the critical need for this rule change.

Current CBOE index option settlement rules do not expressly address a situation when an entire primary market, such as the NYSE, fails to open for business. The closest applicable rules, such as CBOE Rule 24.9(a)(4), provide that a specific underlying security in an index does not open, the *last* reported sale price of such a security will be used to determine the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the CBOE corrected the filing number, changing it from SR-CBOE-99-02. See letter from Christopher R. Hill, Attorney, Office of Enforcement, CBOE, to Nancy Sanow, Assistant Director, Division of Market Regulation, Commission, dated February 24 ("Amendment No. 1").