

for this purpose no later than the prescribed deadline for the event. The book-entry delivery into the account will constitute the delivery of the securities required by the terms of the reorganization event. DTC will deliver the certificates evidencing the subject securities no later than three business days after the applicable deadline.

Under the ACAP procedures, DTC's delivery of the agent's message or electronic instruction letter, as the case may be, to the reorganization agent will satisfy the terms of the reorganization event, in the form required by the reorganization event, as to the execution and delivery of either (1) the warrant/conversion/put option form by a DTC participant or (2) an instruction letter by a DTC participant to cover a protect (*i.e.*, surrender securities) if the reorganization agent has accepted a notice of guaranteed delivery from a DTC participant outside of DTC.<sup>9</sup>

If DTC presents a certificate to the reorganization agent which the reorganization agent determines to be nontransferable, DTC will within three business days after notice from the reorganization agent either (i) put the certificate into transferable form or replace it with a transferable certificate for the same quantity of that issue of securities or (ii) return to the reorganization agent all funds and all securities of other issues paid to and issued to DTC in exchange for the nontransferable certificate. If a cash dividend or interest payment is payable on the nontransferable certificate during such three business day period, the reorganization agent may deduct the amount of the payment from the total payment due to DTC with respect to that issue of securities. As is generally the case with securities certificates deposited with DTC, DTC will resolve any problems relating to a nontransferable certificate with the participant that deposited the securities.

## II. Discussion

Section 17A(b)(3)(F)<sup>10</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, including the transfer of record ownership, and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The rule change allows DTC to adopt procedures consistent with the proposed

requirements of Rule 17Ad-14. These procedures should make the processing of DTC's participants' participation in ACAP reorganization events more efficient and thereby should promote the prompt and accurate clearance and settlement of these transactions. ACAP should also lead to better coordination and cooperation between DTC and transfer agents acting as reorganization agents for ACAP reorganization events. Therefore, the Commission finds that the rule change is consistent with these obligations under section 17A of the Act.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular 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-DTC-2001-19) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-46181; File No. SR-ISE-2002-18]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the International Securities Exchange, Inc. Relating to the Execution of Complex Orders Involving Options and Single Stock Futures

July 11, 2002.

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 June 27, 2002, the International Securities Exchange, Inc. ("ISE" 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.

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

The Exchange is proposing to adopt rules and procedures governing the execution of complex orders involving options and single stock futures.

The text of the proposed rule change appears below. New text is in italics.

#### Rule 722. Complex Orders

(a) *Complex Orders Defined.* A complex order is any order for the same account as defined below:

\* \* \* \* \*

(5) *Combination orders with non-equity options legs.* One or more legs of a complex order may be to purchase or sell a stated number of units of another security.

(i) *Stock-Option Order.* A stock-option order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with either [(i)] (A) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying stock or convertible security or the number of units of the underlying stock necessary to create a delta neutral position; or [(ii)] (B) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock, as and on the opposite side of the market from, the stock or convertible security portion of the order.

(ii) *SSF-Option Order.* A SSF-option order is an order to buy or sell a stated number of units of a single stock future or a security convertible into a single stock future ("convertible SSF") coupled with either (A) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of stock underlying the single stock future or convertible SSF, or the number of units of stock underlying the single stock future or convertible SSF necessary to create a delta neutral position; or (B) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of underlying stock, as and on the opposite side of the market from, the stock underlying the single stock future or convertible SSF portion of the order.

\* \* \* \* \*

<sup>9</sup> Upon completion of ACAP automation, DTC participants will be able to submit through ACAP notices of guaranteed delivery to reorganization agents.

<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>11</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.

(b) Applicability of Exchange Rules. Except as otherwise provided in this Rule, complex orders shall be subject to all other Exchange Rules that pertain to orders generally.

\* \* \* \* \*

(2) Complex Order Priority.

Notwithstanding the provisions of Rule 713, a complex order, as defined in paragraph (a) of this Rule, may be executed at a total credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such total credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Public Customer limit order, the price of at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace. Under the circumstances described above, the option leg of a stock-option order[,] as defined in subparagraph (a)(5)(i)(A) of this Rule, or *SSF-option order as defined in subparagraph (a)(5)(ii)(A) of this Rule*, has priority over bids and offers established in the marketplace by Non-Customer orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Public Customer Orders. The option legs of a stock-option order as defined in subparagraph (a)(5)(ii)(B), or *SSF-option order as defined in subparagraph (a)(5)(ii)(B)*, consisting of a combination order with stock or single stock futures, as the case may be, may be executed in accordance with the first sentence of this subparagraph (b)(2).

Supplementary Material to Rule 722

.01 This Rule 722 will be in effect until October 18, 2002.

.02 A bid or offer made as part of a stock-option order[,] (as defined in (a)(5)(i) above)[,] or a *SSF-option order (as defined in (a)(5)(ii) above)* is made and accepted subject to the following conditions: (1) the [stock-option] order must disclose all legs of the order and must identify the *security (which in the case of a single stock future requires sufficient identification to determine the market(s) on which the single stock future trades)* and the price at which the non-option leg(s) of the order is to be filled; and (2) concurrent with the execution of the options leg of the order, the initiating member and each member that agrees to be a contra-party on the non-option leg(s) of the order must take steps immediately to transmit the non-option leg(s) to a non-Exchange market(s) for execution. Failure to observe these requirements will be

considered conduct inconsistent with just and equitable principles of trade and a violation of Rule 400.

A trade representing the execution of the options leg of a stock-option or *SSF-option* order may be cancelled at the request of any member that is a party to that trade only if market conditions in any of the non-Exchange market(s) prevent the execution of the non-option leg(s) at the price(s) agreed upon.

**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

Last year the Commission approved Exchange rules defining various types of "complex orders," including orders involving multiple options legs and stock/options orders.<sup>3</sup> In addition, the Exchange recently adopted procedures for executing stock/options complex orders.<sup>4</sup> The purpose of this proposed rule change is to authorize the execution of complex orders involving options and single stock futures pursuant to procedures that are virtually identical to the stock/options procedures. The Exchange states that this proposed rule change, if approved by the Commission, would become part of the complex order pilot program approved to operate through October 18, 2002.<sup>5</sup>

The proposed rules would permit Exchange members to enter option-stock future complex orders. As with stock/options orders, the option leg of the transaction would have priority over non-customer orders at the same price. The Exchange states that it would execute the options leg of the trade and the parties then would seek to execute

<sup>3</sup> See Securities Exchange Act Release No. 44955 (October 18, 2001), 66 FR 53819 (October 24, 2001) (File No. SR-ISE-2001-18).

<sup>4</sup> See Securities Exchange Act Release No. 45985 (May 24, 2002), 67 FR 38533 (June 4, 2002) (File No. SR-ISE-2002-14).

<sup>5</sup> See Securities Exchange Act Release No. 44955, *supra* note 3.

the stock futures leg on an appropriate exchange. Because the stock futures products may not be fungible between markets, the complex order would need to specify the market of execution for the stock futures leg. As with stock/options orders, if the parties are unable to execute the single stock futures leg of the transaction due to a change in market conditions, the Exchange states that it would cancel the options leg of the transaction at the request of a party to the trade.

(2) Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements under Section 6(b)(5) of the Act<sup>6</sup> that an exchange have rules that are designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The proposed rule change does not impose 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*

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

**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.

<sup>6</sup> 15 U.S.C. 78f(b)(5).

#### 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. Copies of such filings will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-ISE-2002-18 and should be submitted by August 7, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 02-17977 Filed 7-16-02; 8:45 am]

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-46180; File No. SR-MSRB-2002-07]

#### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Rule G-14, on Reports of Sales or Purchases

July 10, 2002.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("the Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 3, 2002 the Municipal Securities Rulemaking Board ("Board" or "MSRB") filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed rule change (File No. SR-MSRB-2002-07) as described in Items I, II, and III below, which Items have been prepared by the MSRB. 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 MSRB has filed with the Commission a proposed rule change with regard to Rule G-14, on reports of sales or purchases, to increase transparency in the municipal securities market. The proposed rule change would not change the wording of Rule G-14.

#### 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 MSRB 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 texts of these statements may be examined at the places specified in Item IV below. The MSRB 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 MSRB has a long-standing policy to increase price transparency in the municipal securities market, with the ultimate goal of disseminating comprehensive and contemporaneous pricing data. Since 1995, the MSRB has expanded the scope of the public transparency reports in several steps. Each step has provided industry participants and the public successively more information about the market.<sup>3</sup>

In May, 2001, the MSRB announced its plan to begin reporting trades in "real time" on a schedule coordinated with the industry's timetable for migration to an environment of next-day settlement of securities transactions.<sup>4</sup> To attain real-time reporting, the MSRB intends in the future to file an

<sup>3</sup> The MSRB's report summarizing prices for issues that are frequently traded on the inter-dealer market began operation in 1995; in 1998, dealer-customer prices were added in a second summary report; in January 2000, a report with details of trades in frequently traded issues was added; in October 2000, a monthly comprehensive report, covering all transactions effected during the previous month, began operation; and in November 2001, a daily comprehensive report was begun, with trades effected two weeks earlier.

<sup>4</sup> See "Real-Time Reporting of Municipal Securities Transactions," *MSRB Reports*, Vol. 21, No. 2 (July 2001) at 31-36.

amendment to Rule G-14 to require dealers to report their trades within 15 minutes of the time they are effected. The planned implementation date for real-time reporting is now set for mid-2004.

Prior to the implementation of real-time transaction reporting, the MSRB intends to continue to increase transparency in the market using the currently available data. As its next step, the MSRB is now proposing to disseminate the Daily Comprehensive Report with a one-week delay. The proposed Report would contain details of all municipal securities transactions that were effected during the trading day one week earlier. Data about each trade on the proposed Report would be the same as that on the current Daily Comprehensive Transaction Report. For each trade, the proposed Report, like the current report, would show the trade date, the CUSIP number of the issue traded, a short issue description, the par value traded, the time of trade reported by the dealer, the price of the transaction, and the dealer-reported yield of the transaction, if any. Each transaction would be categorized as a sale by a dealer to a customer, a purchase from a customer, or an inter-dealer trade.

The current Daily Comprehensive Report began operation on November 1, 2001.<sup>5</sup> The proposed Report, with a one-week delay, would replace the current report that has a two-week delay.

#### Description of Service

Like the current two-week delayed report, the new Report will be available daily to subscribers. Subscribers to the current two-week delayed report would continue to access the proposed Report via the Internet and download copies from the MSRB's computer using a password-protected FTP account. The MSRB expects that the proposed Report would be available within two weeks of approval by the Commission.

The MSRB will continue the established annual fee for the Service of \$2,000. The fee is structured approximately to defray the MSRB's costs for production of daily data sets, operation of telecommunications lines, and subscription maintenance. Subscription fees that have been paid for the two-week delayed report will be applied toward the one-week delayed report.

To enable the MSRB to compile a comprehensive trades database for enforcement purposes, dealers report a small amount of data after trade date,

<sup>5</sup> See Release No. 34-44894 (October 2, 2001), 66 FR 51485 (October 9, 2001).

<sup>7</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.