

security.⁸ These requests will place the specialist and other market makers on notice that the floor broker is intending to "cross" within the bid-offer spread. This arrangement is intended to ensure that a specialist or market maker retains the opportunity to better the cross price by updating their quote, but will preclude them from breaking up a cross transaction after the cross transaction is presented.

2. Statutory Basis

The CHX believes the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of section 6(b).⁹ The CHX believes the proposal is consistent with section 6(b)(5) of the Act¹⁰ in that it is designed to promote just and equitable principles of trade, to remove impediments to, and to perfect the mechanism of, 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 Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

I. 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

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 CHX consents, the Commission will:

- (A) by order approve the 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 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, 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 the CHX. All submissions should refer to File No. SR-CHX-2002-05 and should be submitted by April 12, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45568; File No. SR-ISE-2001-32]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto by the International Securities Exchange LLC To Increase the Minimum Quote Size for Certain Option Classes

March 15, 2002.

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 November 16, 2001, the International Securities Exchange LLC ("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 ISE amended its proposal on February 13, 2002³ and on March 13,

2002.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The ISE proposes to adopt a three-month pilot program establishing greater size requirements for certain quotations in specified options. The text of the proposed rule change is available at the ISE 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 ISE included statements concerning the purpose of and basis for the proposed rule change, as amended, 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 ISE 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

Currently, ISE market makers must establish and maintain quotations that are firm for at least 10 contracts for customers and 1 contract for non-customers. The ISE now wishes to adopt a three-month pilot program in which ISE market makers would be required to establish and maintain quotations of a larger minimum size in a limited number of option classes. Specifically, the details of the three-month pilot program are as follows:

- The pilot would apply to the following options:⁵ Nasdaq 100 Trust; Sun Microsystems; EMC Corp.; Qualcomm; Wells Fargo & Co.; Oracle; Lucent; Juniper Networks; Intel; AOL

February 12, 2002 ("Amendment No. 1"). In Amendment No. 1, the ISE proposes to replace the original rule filing in its entirety and specifies the options to be included in the pilot program rather than allowing Primary Market Makers ("PMMs") to choose the options to be included in the pilot.

⁴ See letter from Michael Simon, Senior Vice President and General Counsel, ISE, to Nancy Sanow, Assistant Director, Division, Commission, dated March 12, 2002 ("Amendment No. 2"). In Amendment No. 2, the ISE proposes to clarify that, in the pilot program, new enhanced size levels would apply to customer and broker-dealer orders, but not to the orders of market makers on either the ISE or other exchanges.

⁵ For the purpose of the three-month pilot program, an "option" refers to all put and call options on the same underlying security.

⁸ These updated quotes are not directed solely to the floor broker. Anyone at the post may respond to the updated quotes.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 17 CFR 200.30-3(a)(912).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Michael Simon, Senior Vice President and General Counsel, ISE, to Nancy Sanow, Assistant Director, Division of Market Regulation ("Division"), Commission, dated

Time Warner; Tyco; Citigroup; Cisco; Applied Materials; Microsoft; General Electric; Broadcom; Nokia; and Siebel Systems.⁶

- The pilot would last for three months.

- For PMMs, the minimum size for quotes would be 100 contracts for customers and 50 contracts for broker-dealers.⁷ For Competitive Market Makers ("CMMs"), the size requirements would be half of the PMM requirement: 50 contracts for customers and 25 contracts for broker-dealers. The enhanced broker-dealer size would not apply to executions against other market makers, where the minimum size would continue to be 1 contract.⁸

- These enhanced size requirements would apply only to the options series in the three months closest to expiration. Moreover, the pilot would not apply to "deep-in-the-money" options⁹ or an option in the last three days of that option's trading. That is, the pilot would not apply for the last three days of trading during an option series' expiration week.

The ISE's intent in establishing the pilot program is to help determine the potential effect that increased minimum size requirements would have on the quality of the ISE's market and on the Exchange's ability to attract order flow. The ISE believes that it is likely that larger size guarantees would help the Exchange attract more order flow. However, the Exchange is concerned that requiring larger size could lead to a degradation of the quality of the Exchange's quotation. The Exchange believes that limiting the pilot to the specified options would tend to limit any adverse effects of the higher minimum size requirement. Specifically, the included options represent 19 of the 22 options with the highest trading volume in the industry, and thus, are the most liquid options. The Exchange chose these pilot stocks in consultation with its PMMs and CMMs.¹⁰

The Exchange intends to monitor the effects of the pilot closely. Prior to the

expiration of the pilot, the Exchange would determine whether to end the pilot or whether to continue an enhanced size requirement in this or some other form. If the Exchange determines to continue an enhanced size requirement, it would file the appropriate rule change with the Commission.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹² in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

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

The Exchange does not believe that the proposed rule change, as amended, will impose any 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 solicited or received with respect to the proposed rule change, as amended.

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, 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 the ISE. All submissions should refer to File No. SR-ISE-2001-32 and should be submitted by April 12, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45563; File No. SR-MBSCC-2001-02]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Granting Approval of a Proposed Rule Change Implementing a Real-Time Trade Matching Service

March 14, 2002.

I. Introduction

On September 19, 2001, MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-MBSCC-2001-02 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹. On September 26, 2001, MBSCC filed an amendment to the proposed rule change. Notice of the proposal was published in the **Federal Register** on January 25, 2002.² No comment letters were received. For the reasons discussed below, the Commission is

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 45299, (January 17, 2002), 67 FR 3762.

⁶ See Amendment No. 1, *supra* note 3.

⁷ This enhanced quotation size requirement will not affect the PMM's obligation under ISE Rule 803(c)(1) to disseminate a quotation of at least 10 contracts when the quotation consists, in part, of a customer order for less than 10 contracts.

⁸ See Amendment No. 2, *supra* note 4.

⁹ The proposed rule change defines "deep-in-the-money" as all options with strike prices that are in the money by four or more pricing intervals in relation to the at-the-money strike price. See proposed Supplementary Material .03 to ISE Rule 804.

¹⁰ Telephone conversation between Michael Simon, Senior Vice President and General Counsel, ISE, and Cyndi Nguyen, Attorney, Division, Commission, on March 15, 2002.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).