

submissions should refer to File No. SR-PCX-00-21 and should be submitted by January 12, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²²

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-43721; File No. SR-Phlx-00-32]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Rule 748, Supervision

December 13, 2000.

On July 31, 2000, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Rule 748, Supervision.³ On October 11, 2000, the Exchange submitted Amendment No. 1 to the proposed rule change.⁴ Notice of the proposed rule change, as amended, was published for comment in the **Federal Register**.⁵ No comments were submitted on the proposed rule change. This order approves the proposed rule change, as amended.

I. Description of the Proposal

The Exchange proposes to amend Rule 748, Supervision, in several respects. First, the proposed amendment to Rule 748 would expand the definition of who must be supervised to include employees and associated persons of members, member organizations, participants, or participant organizations. The proposed

amendment to Rule 748 would also require that all offices, locations, departments, and business activities of members, member organizations, participants, and participant organizations ("members and related organizations") be supervised.

Second, the proposed amendment to Rule 748 would add a requirement for periodic compliance reviews and office inspections. Members and related organizations for which the Exchange is the Designated Examining Authority ("DEA") would have to conduct compliance meetings with their personnel at least on an annual basis. In addition, members and related organizations for which the Exchange is the DEA would have to conduct office inspections according to an inspection cycle established in their written supervisory procedures.

Third, the proposed amendment to Rule 748 would require that members and related organizations have written supervisory procedures that set forth the specific supervisory system and other essential information regarding supervisory personnel.

Fourth, the proposed amendment to Rule 748 would contain standards for supervision and for written supervisory procedures. Written supervisory procedures and the system for applying such procedures would have to be reasonably designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the by-laws and rules of Exchange. A similar standard for supervision would be applicable to those entrusted with the duty to supervise others.⁶

II. Discussion

The Commission finds that the proposed rule change is consistent with the provisions of Section 6(b)(5) of the Act,⁷ which require, among other things, that the rules of the exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with respect to 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.⁸

The Commission believes that the Exchange's proposal to expand the definition of who must be supervised is reasonable and will help to enhance the ability of the members and related organizations to adequately monitor and enforce supervision within their organizations.

The Commission also believes that the Exchange's proposal to add requirements for periodic compliance reviews and office inspections will strengthen the ability of the members and related organizations to carry out their compliance and surveillance functions.

Lastly, the Commission believes that the Exchange's proposal to require that members and related organizations have written supervisory procedures, setting forth the specific supervisory system and other pertinent information, as well as requiring that standards are implemented for supervision and written supervisory procedures, will help to ensure that members and related organizations carry out their supervisory responsibilities efficiently, particularly over branch offices of member firms conducting business away from the floor of the Exchange.

III. Conclusion

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (SR-Phlx-00-32), as amended, be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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²² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Exchange Rule 748, which is generally based on NYSE Rule 342, was originally filed in 1993 and amended once in 1994. See Securities Exchange Act Release Nos. 33303 (Dec. 8, 1993), 58 FR 65609 (Dec. 15, 1993) and 34842 (Oct. 14, 1994), 59 FR 53002 (Oct. 20, 1994).

⁴ See Letter from Jurij Trypupenko, Director of Litigation and Operations, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation, Commission (October 11, 2000). Amendment No. 1 corrected structural errors that appeared in the proposed rule language.

⁵ Securities Exchange Act Release No. 43407 (Oct. 20, 2000), 65 FR 64469 (Oct. 27, 2000) (SR-Phlx-00-32).

⁶ The standard for supervision and standard for written supervisory procedures found in the proposed rule change are based generally on Section 15(b)(4)(E)(i) of the Act. 15 U.S.C. 78o(b)(4)(E)(i).

⁷ 15 U.S.C. 78f(b)(5).

⁸ In approving the proposal, the Commission has considered the rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).