Commission is cognizant that many countries have embarked on ambitious reforms with respect to auditor oversight, and that the International Organization of Securities Commissions has issued a statement noting the basics of robust and effective oversight. Given these developments, we are confident that the Board and its foreign counterparts will make progress in developing workable cooperative arrangements.

B. Other Aspects of the Registration System

Many of the comment letters submitted by accounting firms and professional groups related to specific aspects of the registration form. A continuing theme of many of the comment letters was the desire for clarification of certain definitions, rules and registration form line items. It is not surprising that first-time users of a registration form and those seeking to work through a complex registration system would find areas of ambiguity. We believe that some of the issues raised by commenters in this group can be addressed by the PCAOB through formal or informal interpretations and clarifications, and, in this connection, we understand that the Board is considering the publication of ''Frequently Asked Questions'' and responses. We encourage the Board to use this and other means to assist applicants in complying with the registration rules. We also encourage the Board to review the registration form after the Board has gained more experience with the registration process, to determine whether amendments to the form can be made to make the registration process more efficient.

Finally, with respect to the comments submitted by NASBA, we appreciate the efforts of that organization and its members to work with the PCAOB on the important task of auditor regulation and oversight. We believe that both the Board and state regulatory bodies will benefit from continued close cooperation.

V. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rules are consistent with the requirements of the Act and the securities laws and are necessary and appropriate in the public interest and for the protection of investors.

It is therefore ordered, pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934, that the proposed rules (File No. PCAOB–2002–03) be and hereby are approved.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 03–18497 Filed 7–18–03; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48176; File No. SR–DTC–2002–19]

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Establish an Inventory Management System

July 14, 2003.

I. Introduction

On December 19, 2002, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') proposed rule change SR–DTC–2002–19 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'').[1] Notice of the proposal was published in the **Federal Register** on May 21, 2003.[2] For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

The industry's prolonged discussions of the development of a new matching model that would promote straight through processing (''STP'') for institutional transactions identified a series of deficiencies in the current processing systems used in settling those transactions.[3] Industry members, particularly members of the Securities Industry Association's Institutional Trade Processing Committee, pressed DTC to develop a series of capabilities which would permit participants to centrally manage their own settlements as a way of furthering STP in the settlement process itself. A working group under the Settlement Advisory Board of The Depository Trust & Clearing Corporation (''DTCC'') assisted in crafting the framework for IMS.

Today, participants control the processing of their institutional deliveries received from a matching utility (such as Omgeo) through DTC's Authorization and Exception system (''ANE''). ANE prevents a delivery from being sent to DTC's processing system without an affirmative authorization from the delivering participant. This affirmative authorization is given either on an item-by-item basis or through a ''global'' authorization. A participant can submit exceptions to explicitly withhold a delivery from processing. Conversely, deliveries from the National Securities Clearing Corporation's (''NSCC's'') Continuous Net Settlement system (''CNS'') are automatically processed unless the participant instructs NSCC otherwise via an exemption. Other deliveries, such as Night Deliver Orders (''NDOs''), along with authorized institutional deliveries and CNS deliveries are processed by DTC at predefined times. All of these transactions may recycle (*i.e.*, pend) in the event of a position deficiency or a problem with system controls. Recycles are processed based on one of two recycle options; a ''First In First Out'' process or a DTC preestablished recycle queue.

Participants generally have sought greater control over the processing of their deliveries than these procedures permit. Therefore, participants have built internal inventory management systems or adopted internal manual procedures that exempt deliveries from automatic processing so that the participants can control the sequence and timing of their deliveries. This has caused the industry to build redundant systems, has increased the number of reclaims, and is contrary to achieving STP.

Implementation of the IMS allows a participant to choose how it wants to authorize its deliveries. The key components of IMS include:

(1) New authorization capabilities (which replace the ANE system) that allow participants to stage transactions for automated settlement;

(2) A new ''profiling'' system that allows participants greater control over the timing and order of their deliveries using predefined profiles, based on transaction type and asset class, to eliminate today's frequent direct intervention in the settlement process that inhibits STP;

(3) Capabilities permitting the linkage of transactions so particular receive

[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 47826 (May 9, 2003), 68 FR 27876.

[3] The present U.S. system has evolved over time in different ways for different instruments, participants, and marketplaces. While the current system has met the needs of the industry well, the result is an intricate web of processing steps that are not standardized and are quite complex and inflexible. Many participants manage their processing with late-cycle interventions such as (a) withholding or ''exempting'' trades from more automatic processes, subsequently intervening in the system to reintroduce the transaction when they are ready to process it and (b) reversing or ''reclaiming'' problem transactions before or after settlement has occurred. These practices late in the settlement cycle disrupt automated processing and contribute to the incidence of fails, which creates costs and risks for participants and for the system as a whole.

transactions are associated with particular deliveries;[4] and

(4) Controls permitting the retention of failed deliveries for the following settlement day that eliminates participants' need to reinput failed delivery instructions.

Using IMS, a participant can choose to authorize its deliveries either actively or passively. In the active mode, deliveries will not be processed unless an authorization is sent. In the passive mode, deliveries will be immediately authorized upon receipt. Authorizations and exemptions can be on a trade-for-trade basis or a global basis.

To provide flexibility and options, a participant will be able to create authorization profiles for the following asset classes: equity, municipal debt, corporate debt, and money market instruments. Within each asset class, a participant will be able to choose either the active or passive authorization mode as the default for different transaction types.[5] For example, for the asset class equities, a participant could choose to use active mode authorization for matched institutional deliveries and passive mode authorization for CNS deliveries.

All IMS features will be optional. Participants can continue to process their deliveries as they do today if they so wish. Participants will be able to migrate to any or all of the IMS features that they deem valuable. As a result of IMS, participants will be able to centrally manage their own settlements and achieve higher levels of straight through processing.

IMS will be implemented in two phases. Phase I, which includes (1) the new authorization capabilities that replace ANE, (2) the warehousing facility, [6] and (3) the reintroduction of dropped deliveries,[7] is scheduled to begin in July 2003. Phase II, which includes an optional customized delivery and recycle profile,[8] is scheduled to be implemented in December 2003.

[4] Such a linkage will permit customers to associate securities they expected to receive with specific securities they expected to deliver so that they no longer need to exempt a delivery until the receive providing the securities for it has been processed. Securities Exchange Act Release No. 48007 (June 10, 2003), 68 FR 35744 (order approving DTC Transaction Look-Ahead Process).

[5] In Phase I, authorization modes can be assigned for the following transaction types: (1) Institutional deliveries from a matching utility; (2) CNS; (3) NDOs; (4) Reintroduced drops; and (5) ACATS auto deliveries.

[6] The IMS warehouse feature will store delivery instructions on its database and will direct these deliveries into the processing system as NDOs that are due to settle on the appropriate settlement day.

[7] ''Dropped'' deliveries are deliveries from the previous day that were not completed. Under this option, ''drops'' will be retained and reintroduced into the system for processing on the following day. Participants using this service will have the option of having drops automatically resubmitted or of having the system require a reauthorization of dropped delivery instructions before resubmitting.

[8] DTC will file another proposed rule change for Commission approval before implementing Phase II.

III. Discussion

Section 17A(b)(3)(F) 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.[9] The Commission finds that DTC's proposed rule change is consistent with this requirement because it provides for an automated, centrally managed system whereby DTC's participants will have the ability to better manage and control the order and timing of their deliveries. Consequently, the proposed rule change should help reduce the number of late-in-the-day, manual interventions.

IV. 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–2002–19) be and hereby is approved.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03–18393 Filed 7–18–03; 8:45 am]

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[9] 15 U.S.C. 78q–1(b)(3)(F).

[10] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48175; File No. SR–PCX–2003–30]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Changes in Marketing Fees

July 14, 2003.

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 June 30, 2003, the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which the PCX has prepared. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

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

The PCX proposes to expand its marketing fee program to include all options, and also proposes to make other changes to the program as specified below. The text of the proposed rule change is available at the PCX 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 PCX included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it had received. The text of these statements may be examined at the places specified in Item IV below. The PCX has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of those statements.

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

1. Purpose

In July 2000, the Exchange adopted a payment-for-order-flow program under which it imposes a fee on market maker transactions in designated equity option issues as set forth in a Schedule of Rates.[3] Under the program, the PCX collects and segregates the fee proceeds by trading post and makes the funds available to Lead Market Makers (''LMMs'') for their use in attracting orders in the options traded at the posts. The LMMs use the funds to make payments to broker-dealers for the orders they direct to the PCX. Currently, the LMMs determine the specific terms governing the orders that qualify for payment and the amounts to be paid. The LMMs make their determinations in whatever manner they believe is most likely to be effective in attracting order flow to the PCX in the options traded at the LMMs' assigned posts. The

[3] *See* Securities Exchange Act Release No. 43290 (September 13, 2000), 65 FR 57213 (September 21, 2000).