

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 CBOE. All submissions should refer to File No. SR-CBOE-2003-06 and should be submitted by April 11, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

Margaret H. McFarland, Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47505; File No. SR-CHX-2003-09]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to the Execution of Odd Lot Orders

March 14, 2003.

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 March 6, 2003, the Chicago Stock Exchange, Inc. ("CHX" 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 proposes to amend certain provisions of CHX Article XXXI,

Odd Lots and Odd-Lot Dealers, Dual System, rule 9, Execution of Odd-Lot Orders During the Primary Session, which governs execution of odd-lot orders on the CHX. Specifically, the CHX seeks to add a provision that would permit inclusion of 100-share primary market quotations in the CHX's calculation of the adjusted Intermarket Trading System best bid or offer ("ITS BBO"). The text of the proposed rule change is below. Proposed new language is in italics.

Chicago Stock Exchange Rules Article XXXI Odd Lots and Odd-Lot Dealers, Dual System

\* \* \* \* \* Rule 9. Execution of Odd-Lot Orders During the Primary Trading Session \* \* \* \* \*

(b) Nasdaq/NM Securities and Dually Traded Issues. As to Nasdaq/NM Securities, market orders will be accepted for execution as an odd lot based on the best bid disseminated pursuant to SEC rule 11Ac1-1 on a sell order or the best offer disseminated pursuant to SEC rule 11Ac1-1 on a buy order in effect at the time the order is presented at the specialist post, provided the order is for a number of shares less than the full lot in said stock. Any market order to purchase or sell a Dual Trading System issue in an odd-lot amount, which is transmitted for execution to an odd-lot dealer or its agent shall be executed, unless otherwise provided herein, at the price of the adjusted ITS bid (in the case of an order to sell) or adjusted ITS offer (in the case of an order to purchase) in the security at the time the order is received by the Exchange system designated to process odd-lot orders (the "odd lot system").

\* \* \* \* \* (c) General \* \* \* \* \*

(vi) In instances in which quotation information is not available, e.g., the quotation collection or dissemination facilities are inoperable, or the primary market in the security has been determined to be in non-firm mode (as referenced in Interpretation and Policy .01), standard, regular way odd-lot market orders shall be executed based on the next primary market round lot sale or shall be executed by the member organization designated by the Exchange as the odd-lot dealer for the issue, at a price deemed appropriate under prevailing market conditions.

\* \* \* \* \* Interpretations and Policies: .01 Adjusted Best Bid or Offer. For purposes of paragraph (b) of this rule,

the terms "adjusted ITS best bid" and "adjusted ITS best offer" for a security shall mean the highest bid and lowest offer, respectively, disseminated by (i) the Exchange or (ii) a market center participating in the Intermarket Trading System; provided, however, that the bid and offer in another ITS market center will be considered in determining the adjusted ITS best bid or adjusted ITS best offer in a security only if (a) the security is included in ITS in that market center; (b) the size of the quotation is greater than 100 shares; provided, however, that 100-share quotations by the primary market may be considered; (c) the bid or offer is no more than \$.25 away from the bid or offer disseminated by the primary market; (d) the quotation conforms to Exchange requirements regarding minimum trading variations; (e) the quotation does not result in a locked market; (f) the market center is not experiencing operational or system problems with respect to the dissemination of quotation information; and (g) the bid or offer is "firm," that is, members of the market center disseminating the bid or offer are not relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of rule 11Ac1-1.

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 the 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. CHX 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 proposed rule change would permit inclusion of 100-share primary market quotations in the CHX's calculation of the adjusted ITS BBO. The Commission previously approved a change to CHX Article XXXI, rule 9, based on rule 124(A) of the New York Stock Exchange.<sup>3</sup> The rule change

<sup>12</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.

<sup>3</sup> See Securities Exchange Act Release No. 46657 (October 11, 2002), 67 FR 64679 (October 21, 2002).

provided for execution of odd-lot orders at the adjusted ITS BBO. Under the version of the rule that was approved, the adjusted ITS BBO was defined to exclude the quotation of another ITS market center if the quotation is 100 shares or less.<sup>4</sup>

In testing the systems functionality that would execute odd-lot orders at the adjusted ITS BBO, the CHX determined that exclusion of 100-share quotations disseminated by the primary market in an issue could result in inferior executions on the CHX, a result not fully anticipated. Accordingly, the CHX seeks approval to modify Interpretation and Policy .01, in order to permit inclusion of 100-share primary market quotations when calculating the adjusted ITS BBO. The CHX believes that the proposed rule change is amply warranted, as it will in many cases result in a superior execution price for the investor.

Because the proposed rule change will modify the execution system change previously approved by the Commission, the CHX has disengaged the adjusted ITS BBO execution algorithm until such time as the algorithm can be reprogrammed to include primary market 100-share quotations.<sup>5</sup> The CHX estimates that this reprogramming can be concluded within a relatively short time frame, in less than 30 days. If the reprogramming effort is not concluded within this 30-day period, the CHX represents that it will seek further relief from the Commission.

## 2. Statutory Basis

The CHX believes that the proposed rule change is consistent with section 6(b) of the Act,<sup>6</sup> generally, and section 6(b)(5) of the Act,<sup>7</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments 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 believes that no burden will be placed on competition as a result of the proposed rule change.

<sup>4</sup> See Article XXXI, rule 9, Interpretation and Policy .01.

<sup>5</sup> While the adjusted BBO algorithm is being reprogrammed, the CHX will execute odd-lot orders under the previous version of Article XXXI, rule 9, which required execution of such orders at the national best bid or offer disseminated pursuant to SEC rule 11 Ac1-1, 17 CFR 240.11Ac1-1.

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

<sup>7</sup> 15 U.S.C. 78f(b)(5).

### *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.

### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Because the proposal effects a change in an existing order-entry or trading system of the Exchange that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not have the effect of limiting the access to or availability of the system, it has become effective pursuant to section 19(b)(3)(A) of the Act<sup>8</sup> and subparagraph (f)(5) of rule 19b-4<sup>9</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### **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 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-2003-09 and should be submitted by April 11, 2003.

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(5).

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-47494; File No. SR-NSCC-2002-10]

### **Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to the Modification of Fixed Income Transaction System in Preparation for the Implementation of Real Time Trade Processing**

March 13, 2003.

On November 5, 2002, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934<sup>1</sup> proposed rule change File No. SR-NSCC-2002-10. Notice of the proposal was published in the **Federal Register** on January 31, 2003.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

#### **I. Description**

NSCC will modify its Trade Comparison Service rules to enhance its Fixed Income Transaction System ("FITS") in order to begin the move to real time trade matching processing ("RTTM") for fixed income securities that are eligible for processing by NSCC.

RTTM was implemented by the Government Securities Clearing Corporation ("GSCC"), an NSCC affiliate, in the fourth quarter of 2000 for the processing of government securities. It was designed with a vision to also use the platform for other fixed income securities. Once RTTM was deployed for government securities, GSCC and MBS Clearing Corporation ("MBSCC") worked together to adapt RTTM to support the requirements of mortgage-backed securities. MBSCC implemented RTTM on September 27, 2002. NSCC believes that the next logical extension of RTTM is to further adapt it for fixed income securities that are eligible for processing by NSCC. NSCC currently

<sup>10</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> Securities Exchange Act Release No. 47206 (Jan. 16, 2003), 68 FR 5067 (Jan. 31, 2003).