

*Estimated annual of burden hours:* 25.

*Additional Information or Comments:*

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**Chuck Mierzwa,**  
Clearance Officer.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47651; File No. SR-CBOE-2003-03]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to the Withdrawal of Approval for Securities Underlying Options Traded on the Exchange

April 8, 2003.

On January 27, 2003, the Chicago Board Options Exchange, Inc. ("CBOE") filed with the Securities and Exchange Commission ("Commission"), 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> a proposed rule change to amend CBOE rule 5.4, which governs the withdrawal of approval for securities underlying options traded on the Exchange.

The Exchange proposed to add new Interpretation and Policy .11 to CBOE rule 5.4 to clarify the manner in which the Exchange determines whether the so-called "float" of the underlying security was fewer than 6.3 million shares ("float" requirement) or the number of "holders" of the underlying security was fewer than 1,600 ("holders" requirement). Specifically, the Exchange proposed to expressly state that in determining whether any of the events specified in Interpretation and Policy .01(a) or (b) to CBOE rule 5.4 have occurred, the Exchange would monitor on a daily basis news sources for information of corporate actions, including stock splits, mergers and acquisitions, distribution of special cash dividends, recapitalizations, and stock

buy backs. If a corporate action indicates that an underlying security no longer meets the Exchange's requirements for continued approval under Interpretation and Policy .01(a) or (b) to CBOE rule 5.4, the Exchange would not open additional series of option contracts of the class covering the underlying security. If, however, information of a corporate action does not indicate that any of the events specified in Interpretation and Policy .01(a) or (b) to CBOE rule 5.4 have occurred, the Exchange shall consider the requirements set forth in Interpretation and Policy .01(a) and (b) to have been satisfied.<sup>3</sup>

The proposed rule change was published for comment in the **Federal Register** on March 4, 2003.<sup>4</sup> The Commission received no comments on the proposal.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange<sup>5</sup> and, in particular, the requirements of section 6 of the Act<sup>6</sup> and the rules and regulations thereunder. The Commission finds that the proposed rule change is consistent with section 6(b)(5) of the Act,<sup>7</sup> because it clarifies how the Exchange determines whether the "float" and "holder" requirements set forth in Interpretation and Policy .01(a) and (b) to CBOE rule 5.4 respectively are satisfied. Specifically, the Commission believes it is reasonable to permit the Exchange to monitor on a daily basis news sources for information of corporate actions indicating whether the events specified in Interpretation and Policy .01(a) and (b) to CBOE rule 5.4 have occurred to establish whether an underlying security of a class of options no longer meets the Exchange's requirements for continued approval.

<sup>3</sup> The Exchange represents that existing Interpretation and Policy .03 to CBOE rule 5.4 would continue to apply when the Exchange considers whether any of the events specified in Interpretation and Policy .01 have occurred with respect to an underlying security. Specifically, Interpretation and Policy .03 to CBOE rule 5.4 provides that the Exchange shall ordinarily rely on information made publicly available by the issuer and/or markets in which such security is traded. Telephone conversation between Patrick Sexton, CBOE, and Frank N. Genco, Attorney, Division of Market Regulation, Commission, on February 11, 2003.

<sup>4</sup> See Securities Exchange Act Release No. 47400 (February 25, 2003), 68 FR 10286.

<sup>5</sup> In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

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

It is therefore ordered, pursuant to section 19(b)(2) of the Act<sup>8</sup>, that the proposed rule change (File No. SR-CBOE-2003-03) be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Margaret H. McFarland,**

Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47657; File No. SR-PHLX-2002-86]

### Self-Regulatory Organizations; Notice of Filing of a Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Automatic Execution of Booked Customer Limit Orders

April 10, 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 December 20, 2002, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange"), filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in items I, II, and III below, which items have been prepared by the Exchange. On February 27, 2003, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>3</sup> On March 28, 2003, the Exchange filed Amendment No. 2 to the proposed rule change.<sup>4</sup> On April 9, 2003, the Exchange filed Amendment No. 3 to the proposed rule change.<sup>5</sup> The Commission is publishing this notice to solicit comments on the proposed rule

<sup>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</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 letter from Richard S. Rudolph, Director and Counsel, Phlx to Deborah Lassman Flynn, Assistant Director, Division of Market Regulation ("Division"), Commission, dated February 26, 2003 ("Amendment No. 1"). In Amendment No. 1, the Phlx replaces in its entirety the original proposed rule change.

<sup>4</sup> See letter from Richard S. Rudolph, Director and Counsel, Phlx to Deborah Lassman Flynn, Assistant Director, Division, Commission, dated March 27, 2003 ("Amendment No. 2"). In Amendment No. 2, the Phlx replaces in its entirety Amendment No. 1.

<sup>5</sup> See letter from Richard S. Rudolph, Director and Counsel, Phlx to Deborah Lassman Flynn, Assistant Director, Division, Commission, dated April 9, 2003 ("Amendment No. 3"). In Amendment No. 3, the Phlx incorporates changes to the text of the Exchange rule 1080 that have been made in separate proposed rule change filings since the time the current proposed rule change was submitted.

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

<sup>2</sup> 17 CFR 240.19b-4.

change, as amended, from interested persons.

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

The PHLX proposes to amend PHLX rule 1080, Philadelphia Stock Exchange Automated Options Market ("AUTOM") and Automatic Execution System ("AUTO-X"),<sup>6</sup> to provide for the automatic execution of eligible inbound customer and off-floor broker-dealer limit orders<sup>7</sup> against booked customer limit orders at the Exchange's disseminated price. Specifically, the Exchange is proposing to amend PHLX rule 1080(g) to reflect that the contra-side of an eligible inbound customer or off-floor broker-dealer limit order executed via AUTO-X may be a booked customer limit order. The text of the proposed rule change is set forth below. Proposed new language is in italics; proposed deletions are in brackets.

\* \* \* \* \*

Philadelphia Stock Exchange  
Automated Options Market (AUTOM)  
and Automatic Execution System  
(AUTO-X)

Rule 1080. (a) No change

(b) (i)(A)—(B) No change.

(C) Off-floor broker-dealer limit orders, up to the minimum number of contracts permitted by the Exchange, subject to the restrictions on order entry set forth in Commentary .05 of this rule. Generally, orders up to 1,000 contracts, depending on the option, are eligible for AUTOM order delivery on an issue-by-

issue basis, subject to the approval of the Options Committee. The Options Committee may determine to increase the eligible order delivery size to an amount greater than 1,000 contracts, on an issue-by-issue basis. The following types of broker-dealer limit orders are eligible for AUTOM: day, GTC, Immediate or Cancel ("IOC"), simple cancel, simple cancel to reduce size (cancel leaves), cancel to change price, cancel with replacement order. *For purposes of this rule 1080, the term "off-floor broker-dealer" means either: (1) A broker-dealer that delivers orders from off the floor of the Exchange for the proprietary account(s) of such broker-dealer; or (2) a market maker located on an exchange or trading floor other than the Exchange's trading floor who elects to deliver orders via AUTOM for the proprietary account(s) of such market maker.*

(ii) The Exchange's Options Committee may determine to accept additional types of orders as well as to discontinue accepting certain types of orders.

*(A) In accordance with this subparagraph (ii), the Options Committee has determined to allow a customer limit order to be submitted in conjunction with a proprietary contra-side order via AUTOM; these orders must be labeled with a "K" (for the customer limit order) and "L" (for the proprietary order which is an immediate-or-cancel order that is not eligible for automatic execution) indicator, respectively. The customer limit order labeled "K" may be executed by the specialist or crowd, except that it may not be executed against the proprietary order labeled "L" until the customer limit order labeled "K" has been exposed to the trading crowd for not less than 30 seconds.*

(iii) No change.

(c) AUTO-X.—AUTO-X is a feature of AUTOM that automatically executes eligible market and marketable limit orders up to the number of contracts permitted by the Exchange for certain strike prices and expiration months in equity options and index options, unless the Options Committee determines otherwise. AUTO-X automatically executes eligible orders using the Exchange disseminated quotation (except if executed pursuant to the NBBO Feature in subparagraph (i) below) and then automatically routes execution reports to the originating member organization. AUTOM orders not eligible for AUTO-X are executed manually in accordance with Exchange rules. Manual execution may also occur when AUTO-X is not engaged, such as pursuant to subparagraph (iv) below.

An order may also be executed partially by AUTO-X and partially manually.

The Options Committee may for any period restrict the use of AUTO-X on the Exchange in any option or series provided that the effectiveness of any such restriction shall be conditioned upon its having been approved by the Securities and Exchange Commission pursuant to section 19(b) of the Securities Exchange Act of 1934 and the rules and regulations thereunder. Any such restriction on the use of AUTO-X approved by the Options Committee will be clearly communicated to Exchange membership and AUTOM users through an electronic message sent via AUTOM and through an Exchange information circular. Such restriction would not take effect until after such communication has been made.

Currently, the Exchange's maximum allowable AUTO-X guarantee is 250 contracts. With respect to options on the Nasdaq-100 Index Tracking Stock ("QQQ")<sup>SM</sup>, orders of up to 2,000 contracts in the first two (2) near term expiration months, and 1,000 contracts for all other expiration months, are eligible for AUTO-X.

For each option, there shall be a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size, as determined by the specialist and subject to the approval of the Options Committee.

The Exchange shall provide automatic executions for eligible customer and broker-dealer orders up to the Exchange's disseminated size as defined in Exchange rule 1082 (except with respect to orders eligible for "Book Match" as described in rule 1080(g)(ii) below), subject to a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size (up to a size of 250 contracts).

- If the Exchange's disseminated size is greater than the minimum guaranteed AUTO-X size, and less than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to Exchange's disseminated size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is less than the minimum guaranteed AUTO-X size for that option, inbound eligible orders shall be automatically executed up to such minimum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is greater than the maximum guaranteed

<sup>6</sup> AUTOM is the Exchange's electronic order delivery, routing, execution and reporting system, which provides for the automatic entry and routing of equity option and index option orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution feature, AUTO-X. Equity option and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange members into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor. See Phlx rule 1080.

<sup>7</sup> In April of 2002, the Commission approved, on a six-month pilot basis, the Exchange's proposal to allow off-floor broker-dealers to submit proprietary limit orders directly onto the limit order book via AUTOM (the "pilot"). See Securities Exchange Act Release No. 45758 (April 15, 2002), 67 FR 19610 (April 22, 2002) (SR-Phlx-2001-40). In the pilot, the Exchange defined "off-floor broker-dealer" as (a) a broker-dealer that delivers orders from "upstairs" for the proprietary account(s) of such broker-dealer, or (b) a market maker located on an exchange or trading floor other than the Exchange's trading floor who elects to deliver orders via AUTOM for the proprietary account(s) of such broker-dealer. The Commission approved the pilot on a permanent basis in October 2002. See Securities Exchange Act Release No. 46660 (October 15, 2002), 67 FR 64951 (October 22, 2002) (SR-Phlx-2002-50).

AUTO-X size, inbound eligible orders shall be automatically executed up to such maximum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist.

The minimum and maximum guaranteed AUTO-X size applicable to each option shall be posted on the Exchange's Web site.

The Options Committee may, in its discretion, increase the size of orders in one or more classes of multiply-traded equity options eligible for AUTO-X to the extent necessary to match the size of orders in the same options eligible for entry into the automated execution system of any other options exchange, provided that the effectiveness of any such increase shall be conditioned upon its having been filed with the Securities and Exchange Commission pursuant to section 19(b)(3)(A) of the Securities Exchange Act of 1934.

(c)(i)-(iii) No change.

(iv) (A)-(D) No change.

(E) when the specialist posts a bid or offer that is better than the specialist's own bid or offer (*except with respect to orders eligible for "Book Match" as described in rule 1080(g)(ii) below*);

(F)-(I) No change.

(v) No change.

(d)-(f) No change.

(g) [The Wheel-]AUTO-X Contra-Party Participation—*The contra-side to automatically executed orders may be: (i) a Wheel Participant; or (ii) a booked customer limit order.*

(i) *The Wheel*—Contra-party participation for AUTO-X automatic execution shall rotate among Wheel Participants (which are specialists and ROTs signed-up on the Wheel for that listed option) in each option in accordance with procedures established by the Exchange. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions. Specialists on the Options Floor are required to participate on the Wheel in assigned issues.

No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT's total assigned issues, and ROT may only sign-on the Wheel in one assignment area at any given time. In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option.

AUTO-X participation shall be assigned to Wheel Participants on a routine basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in

that listed option. The Wheel shall rotate and assign contracts in accordance with procedures established by the Exchange.

(ii) *Book Match*—*For purposes of this sub-paragraph, the contra-side to automatically executed inbound eligible customer and off-floor broker-dealer orders shall be a customer limit order on the book where: (A) The Exchange's disseminated size includes a customer limit order on the book; and (B) the disseminated price is the National Best Bid or Offer. This feature is called Book Match. The inbound eligible order shall not be automatically executed prior to the expiration of a 10-second timer; the specialist may execute such order prior to the expiration of 10 seconds.*

(h)-(j) No change.

Commentary:

.01-.05. No change.

\* \* \* \* \*

## 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 PHLX 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 PHLX 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 purpose of the proposal is to increase automated options order handling by enabling the Exchange to automatically execute eligible inbound customer and off-floor broker-dealer limit orders delivered via AUTOM against customer limit orders on the specialist's limit order book.<sup>8</sup> The proposal represents the first phase ("Phase I") of the Exchange's "Book Match" system, which the Exchange anticipates will eventually automatically match all eligible inbound order types against orders resting on the

<sup>8</sup>The electronic "limit order book" is the Exchange's automated specialist limit order book, which automatically routes all unexecuted AUTOM orders to the book and displays orders real-time in order of price-time priority. Orders not delivered through AUTOM may also be entered onto the limit order book. See Phlx rule 1080, Commentary .02.

limit order book ("booked limit orders").<sup>9</sup>

Currently, the Exchange's AUTOM System and its automatic execution feature, AUTO-X, do not automatically execute otherwise eligible inbound orders if all or part of the Exchange's disseminated size at the disseminated price consists of a booked limit order. In that situation, inbound orders that would otherwise be eligible for automatic execution are matched manually by the specialist.<sup>10</sup>

The Exchange proposes, pursuant to PHLX rule 1080(g)(ii), that when the Exchange's disseminated price is equal to the National Best Bid or Offer ("NBBO"), and all or part of the Exchange's disseminated size at the NBBO disseminated price includes a customer limit order on the book, eligible inbound customer and off-floor broker-dealer limit orders would be automatically executed against booked customer limit orders at the NBBO, up to the size of the booked customer limit orders at the NBBO.<sup>11</sup> If the inbound customer or off-floor broker-dealer limit order is for a greater size than the Exchange's disseminated size, the remaining portion of the order would be executed manually or placed on the limit order book by the specialist.

The proposal would further provide that inbound eligible customer or off-floor broker-dealer limit orders would be subject to a 10-second timer before execution. The specialist may, however, determine that the booked customer limit order was in the process of being

<sup>9</sup>The Exchange notes that it was required by the Commission to commit to the automatic execution of eligible inbound orders against specialist and Registered Options Trader ("ROT") limit orders entered onto the limit order book through an electronic interface system known as "ROT Access" under the *Order Instituting Public Administrative Proceedings Pursuant to section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions*. See Securities Exchange Act Release No. 43268 (September 11, 2000), Administrative Proceeding File 3-10282 (the "Order"). See also Securities Exchange Act Release No. 46763 (November 1, 2002), 67 FR 68898 (November 13, 2002) (SR-Phlx-2002-04). The Exchange has committed to roll out the system for the automatic execution of orders placed on the limit order book through ROT Access beginning in January 2004. The instant proposal represents the first phase in the eventual rollout of that system.

<sup>10</sup>Phlx rule 1080(c)(iv) sets forth the various situations in which orders otherwise eligible for automatic execution via AUTO-X are handled manually by the specialist, including this situation, where there is a booked limit order. See Securities Exchange Act Release No. 45927 (May 15, 2002), 67 FR 36289 (May 23, 2002) (SR-Phlx-2001-24).

<sup>11</sup>The disseminated price consisting of a booked limit order at which the eligible inbound order would be executed must be the NBBO. For instance, if the Phlx bid is the National Best Bid, but the Phlx offer is not the National Best Offer, an inbound buy order would not be subject to Book Match, but would instead be handled manually.

traded and may execute the inbound order prior to the expiration of the 10-second timer. The Exchange states that the purpose of the timer is to enable the specialist to ascertain whether a member of the trading crowd is in the process of executing the booked customer limit order (thus providing the opportunity for the booked customer limit order to be executed at a better price). In that situation, if the specialist determines that the booked customer limit order is in the process of being executed in the crowd, the specialist would be able to execute the inbound order.<sup>12</sup> Today, because the inbound order is not eligible for automatic execution against a booked limit order and is handled manually by the specialist, there is an opportunity to ascertain this. Under the proposal, if the specialist determines that the booked customer limit order is not in the process of being executed in the crowd, the inbound order would be matched with the booked customer limit order and automatically executed after 10 seconds.

Another purpose of the timer is to allow the specialist to seek price improvement on behalf of the booked customer limit order, both in the crowd and on away markets. Once a customer limit order is booked, a fiduciary responsibility devolves upon the specialist to execute such an order at the best price available, subject to the customer's limit price, when the order becomes marketable. In order to enable the specialist to carry out that fiduciary responsibility, the Exchange believes the specialist should be given a period of time (*i.e.*, 10 seconds) to determine whether there is a better price available at which to execute the booked customer limit order.

#### a. Off-Floor Broker-Dealer Limit Orders Delivered by the Same Broker-Dealer that Delivered the Customer Limit Order on the Book

The Exchange believes that the Book Match proposal could create an opportunity for off-floor member

<sup>12</sup> See rule 11Ac1-1(c)(3)(ii)(B) under the Act provides that no responsible broker or dealer shall be obligated to execute a transaction for any subject security if, at the time the order sought to be executed is presented, such responsible broker or dealer is in the process of effecting a transaction in such subject security, and, immediately after the completion of such transaction, such responsible broker or dealer communicates to its exchange or association pursuant to paragraph (c)(1) of this section, a revised bid or offer; provided, however, that such responsible broker or dealer shall nonetheless be obligated to execute any such order in such subject security as provided in paragraph (c)(2) of this section at its revised bid or offer in any amount up to its published quotation size or revised quotation size.

organizations to internalize orders (*i.e.*, submit a proprietary order as contra-side to their customers' limit orders on the book) without providing the specialist and trading crowd with a sufficient time period to determine to execute the customer limit order.

In order to address this potential issue, the Exchange proposes to establish by rule that member organizations that seek to submit a related proprietary contra-side order (*i.e.*, their own order or that of an affiliate) via AUTOM in conjunction with a customer limit order they deliver to the limit order book, would be required to designate such orders with a special indicator ("K" for the customer limit order, and "L" for the proprietary order). Such orders would not be eligible for AUTO-X or Book Match, and the customer limit order labeled "K" must be exposed to the crowd for a period of 30 seconds before it is eligible to be executed against the proprietary order labeled "L." The proposal would provide that the customer limit order on the book may be executed by the specialist or crowd prior to the expiration of 30 seconds.

The Exchange believes that these new order types, to be delivered via AUTOM in the unique situation where a broker-dealer submits a customer limit order onto the book with an accompanying proprietary contra-side order, combined with the 30-second crowd exposure requirement for the customer limit order, should provide the specialist and trading crowd with a sufficient time frame within which to determine to execute the customer limit order on the book, thus maintaining fairness and orderliness in the Exchange's markets.

#### b. Linkage Orders

The Exchange further believes that the Book Match function will enable the Exchange to promptly execute orders delivered to the Exchange pursuant to the Plan for the Purpose of Creating and Operating an Intermarket Options Linkage (the "Plan")<sup>13</sup> and PHLX rules 1083-1087 adopted to implement the Plan,<sup>14</sup> by matching eligible inbound linkage orders in a timely fashion. The Exchange represents that its systems are capable of recognizing inbound Linkage Principal Acting as Agent Orders ("P/A

<sup>13</sup> See Securities Exchange Act Release No. 44482 (June 27, 2001), 66 FR 35470 (July 5, 2001); 43573 (November 16, 2000), 65 FR 70851 (November 28, 2000) (Notice of Phlx Joining the Plan); and 43086 (July 28, 2000), 65 FR 48023 (August 4, 2000) (Approval of the Plan).

<sup>14</sup> See Securities Exchange Act Release No. 47296 (January 31, 2003), 68 FR 6528 (February 7, 2003) (SR-Phlx-2002-67).

Orders")<sup>15</sup> and Principal Orders ("P Orders"),<sup>16</sup> and that Book Match would execute eligible linkage orders at the Firm Customer Quote Size<sup>17</sup> in the case of P/A Orders, and at the Firm Principal Quote Size<sup>18</sup> in the case of P Orders.

#### c. Yielding Requirements

The Exchange is proposing to match both inbound marketable customer and off-floor broker-dealer limit orders with customer limit orders on the book at the NBBO. In the case of inbound non-marketable limit orders, the Exchange's rules concerning the establishment of a bid or offer, and yielding requirements in parity situations would apply. Currently, PHLX rule 1080, Commentary .05(ii) provides that off-floor broker-dealer limit orders entered via AUTOM establishing a bid or offer may establish priority, and the specialist and crowd may match such a bid or offer and be at parity, subject to the yield provisions set forth in PHLX rule 1014, which require "controlled accounts"<sup>19</sup> to yield priority to customer orders when bidding or offering at the same price for the same series.

Orders of controlled accounts must yield priority to customer orders (except that PHLX ROTs closing in-person are not currently required to yield priority to orders of customer accounts). Off-floor broker-dealer accounts, a subset of "controlled accounts," must yield priority to customer orders at the same

<sup>15</sup> Phlx rule 1083(j)(i) defines a "P/A Order" as an order for the principal account of a specialist (or equivalent entity on another exchange that is authorized to represent Public Customer orders), reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent.

<sup>16</sup> Phlx rule 1083(j)(ii) defines a "P Order" as an order for the principal account of an eligible market maker and is not a P/A Order.

<sup>17</sup> "Firm Customer Quote Size" with respect to a P/A Order means the lesser of (a) the number of option contracts that the exchange sending a P/A Order guarantees it will automatically execute at its disseminated price in a series of an eligible option class for public customer orders entered directly for execution in that market; or (b) the number of option contracts that the exchange receiving a P/A Order guarantees it will automatically execute at its disseminated price in a series of an eligible option class for public customer orders entered directly for execution in that market. This number shall be at least 10. See Phlx rule 1083(g).

<sup>18</sup> "Firm Principal Quote Size" means the number of options contracts that an exchange guarantees it will execute at its disseminated price for incoming Principal Orders in an eligible option class. This number shall be at least 10. See Phlx rule 1083(h).

<sup>19</sup> Phlx rule 1014(g)(i)(A) provides that an account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer (specialist accounts of Phlx option specialists, however, are not subject to yielding requirements placed upon controlled accounts by this rule). Customer accounts are all other accounts.

price. Therefore, if an off-floor broker-dealer limit order is placed on the limit order book, followed by a customer limit order placed on the limit order book at the same price, the off-floor broker-dealer limit order must yield priority to the customer limit order, even though the customer limit order was placed on the limit order book after the off-floor broker-dealer order.

Orders of controlled accounts currently are not required to yield priority to other controlled account orders, except that when both an order of a PHLX ROT closing in-person and some other order of a controlled account are established in the crowd at the same price, and then a customer order is established at that price, the order of the controlled account must yield to the customer order while the order of the PHLX ROT closing in-person does not have to so yield.<sup>20</sup>

## 2. Statutory Basis

For these reasons, the Exchange believes that its proposal is consistent with section 6(b) of the Act<sup>21</sup> in general, and section 6(b)(5)<sup>22</sup> in particular in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest by providing a system that should result in a greater number of automatic executions for customer and broker-dealer orders on the Exchange, and by providing the specialist with the opportunity to determine if a booked customer limit order has already traded,

<sup>20</sup>The Exchange notes that it has filed proposed amendments to its rules, including proposed new rules concerning the allocation of trades on the Exchange's Options Floor, pursuant to an order issued by the Commission in relation to settling *In the Matter of Certain Activities of Options Exchanges*, which requires the Exchange (as well as other options exchanges) to implement certain undertakings. See the "Order," supra note 9. One such undertaking is to adopt new, or amend existing, rules to include any practice or procedure, not currently authorized by rule, whereby market makers determine by agreement the spreads or option prices at which they will trade any option, or the allocation of orders in that option. Specifically, the Order required that by March 12, 2001, draft proposed rules must be filed and the Exchange must take all reasonable steps to promptly stop any such practice or procedure that has not been filed or is not already authorized by rule. See section IV.B.j. of the Order. Among the proposed amendments are the elimination of the exception to the yielding requirements for specialist accounts of option specialists, and the elimination of the exception to the yielding requirement for ROTs closing in person. Therefore, under that proposal, controlled accounts would be required to yield priority to customer accounts without exception. See Securities Exchange Act Release No. 47499 (March 13, 2003), 68 FR 14459 (March 25, 2003) (SR-PHLX-2001-39).

<sup>21</sup> 15 U.S.C. 78f(b).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

and to seek the best price available for the customer, at the time an eligible inbound order is received.

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

The PHLX does not believe that the proposed rule change will impose any inappropriate 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 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 self-regulatory organization 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 PHLX. All submissions should refer to File No. SR-PHLX-2002-86 and should be submitted by May 7, 2003.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

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

[FR Doc. 03-9317 Filed 4-15-03; 8:45 am]

BILLING CODE 8010-01-P

## SMALL BUSINESS ADMINISTRATION

### Region IV Regulatory Fairness Board; Public Federal Regulatory Enforcement Fairness Roundtable

The Small Business Administration Region IV Regulatory Fairness Board and the SBA Office of the National Ombudsman will hold a Public Roundtable on Thursday, May 1, 2003, at 12:30 p.m. at the Sheraton Music City, 777 McGavock Park, Nashville, TN 37214, to provide small business owners and representatives of trade associations with an opportunity to share information concerning the Federal regulatory enforcement and compliance environment.

Anyone wishing to attend or to make a presentation must contact W. Clinton Smith in writing or by fax, in order to be put on the agenda. W. Clinton Smith, U.S. Small Business Administration, Tennessee District Office, 50 Vantage Way, Suite 201, Nashville, TN 37228, phone (615) 736-5039, fax (615) 736-7232, e-mail: [w.smith@sba.gov](mailto:w.smith@sba.gov).

For more information, see our Web site at [www.sba.gov/ombudsman](http://www.sba.gov/ombudsman).

Dated: April 9, 2003.

**Michael L. Barrera,**  
National Ombudsman.

[FR Doc. 03-9297 Filed 4-15-03; 8:45 am]

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## SMALL BUSINESS ADMINISTRATION

### Military Reservist Economic Injury Disaster Loans, Interest Rates for Third Quarter FY 2003

In accordance with the Code of Federal Regulations 13—Business Credit and Assistance § 123.512, the following interest rate is effective for Military Reservist Economic Injury Disaster Loans approved on or after April 14, 2003.

Military Reservist Loan Program—  
2.953%

Dated: April 10, 2003.

**Herbert L. Mitchell,**  
Associate Administrator for Disaster Assistance.

[FR Doc. 03-9296 Filed 4-15-03; 8:45 am]

BILLING CODE 8025-01-P

<sup>23</sup> 17 CFR 200.30-3(a)(12).