public regarding odd-lot execution procedures applicable to trading Nasdaq securities, and that the Amex submit any proposal to extend, or permanently approve, the pilot at least two months before the expiration of the six-month pilot.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposal 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. Comments may also be submitted electronically at the following e-mail address: *rule-comments@sec.gov.* All comments letters should refer to File No. SR–Amex–2003–102. This file number should be included in the subject lien if e-mail is used. To help the Commission process and review your comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. 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 Exchange. All submissions should refer to File No. AR–Amex–2003–102 and should be submitted by January 21, 2004.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[16]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03–32184 Filed 12–30–03; 8:45 am]

BILLING CODE 8010–01–M

[16] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48990; File No. SR–CBOE–2003–25]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Amendment Nos. 1, 2, and 3 by the Chicago Board Options Exchange, Inc. Relating to Bid-Ask Differentials

December 23, 2003.

I. Introduction

On June 20, 2003, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange'') filed with the Securities and Exchange Commission (''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 permit, under certain circumstances, a bid-ask differential of no more than $0.50 for options where the bid price is less than $2. The CBOE filed Amendments Nos. 1, 2, and 3 to the proposal on July 3, 2003,[3] September 10, 2003,[4] and October 29, 2003,[5] respectively.

The proposed rule change and Amendment Nos. 1, 2, and 3 were published for comment in the **Federal Register** on November 19, 2003.[6] The Commission received no comments regarding the proposal, as amended. This order approves the proposed rule change, as amended.

II. Description of the Proposal

Currently, the CBOE's rules establish a bid/ask differential of $0.25 for options where the bid price is less than $2.[7] The CBOE proposes to amend CBOE Rule 8.7, ''Obligations of Market Makers,'' to allow the appropriate Market Performance Committee to establish bid-ask differentials that are no more than $0.50 wide (''double-width'') for options where the bid price is less than $2 when the primary market for the underlying security: (1) Reports a trade outside of its disseminated quote, including any Liquidity Quote;[8] or (2) disseminates an inverted quote (together, the ''Triggering Events'').

The double-width relief must terminate automatically when the Triggering Event ceases. In this regard, the CBOE states that it will program its autoquote systems to widen the quote to double the bid-ask differential automatically upon the occurrence of either of the two Triggering Events.[9] The quotes will remain double-width until the Triggering Event ceases, when the CBOE's systems automatically will return the quote to the normal bid-ask differential. Accordingly, if the primary market's quotes invert and the CBOE quotes double-wide, the CBOE's quotes must return to normal width when the underlying market's quotes no longer are inverted. Similarly, if the primary market prints a trade outside of its disseminated quote, the CBOE may quote double-wide until the print is no longer outside of the disseminated quote (*i.e.*, until the quotes move to encompass the previous print or the next print is inside of the disseminated quote).[10] A market maker will be able to utilize the double-width relief only if the market maker has an automated quotation system that returns the market maker's quotes to normal width upon the termination of the Triggering Event.[11] Double-width relief will not be available to market makers who must rely on manual input to restore quote values to normal width.[12]

III. Discussion

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 and, in particular, with the requirements of section 6(b)(5) of the Act,[13] which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.[14]

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

[2] 17 CFR 240.19b–4.

[3] *See* letter from Steve Youhn, CBOE, to Deborah Flynn, Division of Market Regulation (''Division''), Commission, dated July 2, 2003, and accompanying Form 19b–4 (''Amendment No. 1'').

[4] *See* letter from Steve Youhn, CBOE, to Deborah Flynn, Division, Commission, dated September 9, 2003 (''Amendment No. 2'').

[5] *See* letter from Steve Youhn, CBOE, to Deborah Flynn, Division, Commission, dated October 28, 2003 (''Amendment No. 3'').

[6] *See* Securities Exchange Act Release No. 48771 (November 12, 2003), 68 FR 65330.

[7] *See* CBOE Rule 8.7(b)(iv).

[8] The rules of the NYSE permit the dissemination, in selected securities, of a ''Liquidity Bid'' and a ''Liquidity Offer'' which reflect aggregated NYSE trading interest at a specific price interval below the best bid (in the case of a Liquidity Bid) or at a specific price interval above the best offer (in the case of a Liquidity Offer). See Securities Exchange Act Release No. 47614 (April 2, 2003), 68 FR 17140 (April 8, 2003) (File No. SR–NYSE–2002–55).

[9] *See* Amendment No. 1, *supra* note 3.

[10] *See* Amendment No. 3, *supra* note 5.

[11] *See* Amendment No. 3, *supra* note 5.

[12] *See* Amendment No. 3, *supra* note 5.

[13] 15 U.S.C. 78f(b)(5).

[14] In approving this proposal, the Commission has considered the proposed rule's impact on

Continued

The Commission believes that the proposal to permit CBOE market makers to widen their quotes for options where the bid price is less than $2 under specific and limited circumstances is reasonable because when one of the Triggering Events occurs it may be difficult to accurately price an option based on the security. In addition, the Commission believes that CBOE's proposal to program its systems, or to requires its market makers to program their systems, to automatically widen the quote upon the occurrence of a Triggering Event and to automatically return the quote to its normal bid-ask differential when the Triggering Event ceases should ensure that the double-width relief is only used when permitted under the rule. Accordingly, the Commission believes that the proposal is narrowly tailored to permit quote width relief only in the specific and limited circumstances provided in the proposal.

IV. Conclusion

It is therefore ordered, pursuant to section 19(b)(2) of the Act,[15] that the proposed rule change (SR–CBOE–2003–25), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[16]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03–32176 Filed 12–30–03; 8:45 am]

BILLING CODE 8010–01–P

efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[15] 15 U.S.C. 78s(b)(2).

[16] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48982; File No. SR–CHX–2003–17]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Stock Exchange, Incorporated Relating to Automatic Quotations

December 23, 2003.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on June 16, 2003, the Chicago Stock Exchange, Incorporated (''CHX'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. On November 26, 2003, the Exchange filed Amendment No. 1 to the proposal.[3] 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 Exchange proposes to delete an interpretation of CHX Article XX, Rule 7, which governs recognized quotations. The text of the proposed rule change is available at the Commission and at the CHX.

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 CHX included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received regarding the proposal. The text of these statements may be examined at the places specified in Item IV below. The 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 delete an interpretation of CHX Article XX, Rule 7, which governs recognized quotations, because the Exchange believes that the provision is now obsolete. Specifically, the CHX seeks to delete an interpretation that prohibits specialists from disseminating automatically-generated quotations that are more than $.10 away from the Intermarket Trading System (''ITS'') best bid or offer. This prohibition extends to all Dual Trading System (*i.e.*, listed) issues.[4]

Like many exchanges, the CHX has a functionality, commonly referred to as the ''auto-quote'' functionality, which its specialists may use to generate quotations automatically, based on the best bid or offer disseminated by another market. The auto-quote functionality typically is used by a CHX specialist to generate a quotation when there is no interest in the specialist's book that would be the basis for a quotation by the specialist.[5] When the CHX specialist is in auto-quote mode, CHX Article XX, Rule 7, Interpretation and Policy .02 prohibits the specialist from disseminating automatically-generated quotations that are more than $.10 away from ITS best bid or offer.[6]

Following the securities industry's transition to decimal pricing, the consolidated quotations in the national securities market ''flicker'' significantly throughout each trading day. Because the auto-quote functionality is based on a flickering quotation, quotations generated by the CHX auto-quote functionality correspondingly flicker, potentially resulting in confusion for order-sending firms (and even the specialist himself). Accordingly, the CHX believes that it is appropriate to remove the interpretation that mandates an auto-quote spread of $.10 or less, so that the CHX specialist may utilize the auto-quote functionality (when necessary) to generate a wider or different quotation that will not be subject to incessant flickering.[7]

Significantly, the CHX believes that this change is not only appropriate, but is mandated given recent changes in the way that systems capacity is allocated and paid for in the listed markets. Today, under an amendment to the Consolidated Quotation Association (''CQA'') plan, each listed exchange is required to estimate the systems capacity needs associated with such exchange's anticipated quotation traffic for a given time period. SIAC, as the securities information processor (''SIP'') for the listed markets, then bills each exchange for the systems capacity used by such exchange in disseminating its quotations. To the extent that an exchange exceeds its capacity estimates, the CQA plan provides for potentially significant financial penalties. Excessive quotation traffic is thus not only

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

[2] 17 CFR 240.19b–4.

[3] *See* letter from Kathleen M. Boege, Associate General Counsel, CHX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation, Commission, dated November 25, 2003 (''Amendment No. 1''). In Amendment No. 1, the Exchange expanded its discussion regarding the consequences of the proposed rule change, and also clarified that the proposed rule change was filed pursuant to section 19(b)(2) of the Act. 15 U.S.C. 78s(b)(2).

[4] There is no corresponding provision in the CHX rules relating to auto-quoting in Nasdaq/NM securities.

[5] The specialist is required to disseminate a continuous two-sided market in all listed issues pursuant to the terms of the ITS plan. Auto-quoting is a tool that enables a CHX specialist to satisfy this requirement, even when there is no interest in the specialist's book upon which the specialist could base a quotation.

[6] Prior to the securities industry transition to decimal pricing, the interpretation prohibited quotations of more than 1/8 of a point away from the ITS best bid or offer.

[7] For example, the specialist might want to set his or her auto-quote functionality based on the quote in a particular market (such as the market with the tightest spreads).