

processing are critical steps in helping reduce risk by ensuring that more transactions are compared earlier in the day and then promptly netted and guaranteed through GSCC so that intraday exposure to counterparties is minimized.

While GSCC has continued to support its existing batch input and output facilities, it plans to discourage the use of and eventually stop supporting these older formats because the move to interactive messaging is so essential.³ As an initial step to encourage members to submit their transaction data closer to the time of trade execution, GSCC is proposing to impose a fee on members that do not submit their trade data within one hour of trade execution. Specifically, effective July 1, 2001, if a member does not submit all of the transactions in its account within one hour of trade execution, at the end of each month GSCC will charge 5 cents per side of a transaction other than a repo transaction or per repo transaction for each transaction in the account. Members can avoid the fee if they submit all of their transactions through their account: (i) Interactively as transactions occur using SWIFT-based messages, (ii) via a terminal within one hour of execution, or (iii) in multiple batch format within one hour of execution. GSCC has reserved the right to waive the charges for a particular month if GSCC determines, in its sole discretion, that a portion of a member's transactions were not submitted within one hour of trade execution because of a nonrecurring operational problem. The proposed fee is designed to encourage members to make the development investment necessary to join the RTTM service. This fee will be reviewed periodically by GSCC and may be increased if it is determined that it does not provide sufficient incentive for members to submit trade data on a timelier basis.

GSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁴ and the rules and regulations thereunder applicable to GSCC because it involves a change to GSCC's fee structure that will encourage members to move to interactive processing and

thereby allow them to achieve important risk management benefits.

(b) Self-Regulatory Organization's Statement on Burden on Competition

GSCC does not believe that the proposed rule change will have any impact or impose any burden on competition.

(c) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments relating to the proposed rule change have not yet been solicited or received. GSCC will notify the Commission of any written comments received by GSCC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii)⁵ of the Act and Rule 19b-4(f)(2)⁶ promulgated thereunder because the proposal establishes or changes a due, fee, or other charge imposed by GSCC. At any time within sixty days of the filing of such 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for

inspection and copying at the principal office of GSCC. All submissions should refer to File No. SR-GSCC-2001-07 and should be submitted by August 27, 2001.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44612; File No. SR-ISE-2001-19]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the International Securities Exchange LLC Relating to Facilitation of Customer Orders

July 27, 2001.

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 May 30, 2001, the International Securities Exchange LLC ("ISE" 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 ISE is proposing to amend its rule regarding the facilitation of customer orders to reduce the order exposure time from 30 to five seconds.

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 ISE 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 Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

³ In addition, other areas of the fixed-income industry are also moving to interactive messaging and RTTM. GSCC is currently in the process of developing RTTM services for mortgage-backed securities jointly with the MBS Clearing Corporation. Further, GSCC has begun working with The Depository Trust & Clearing Corporation to provide interactive messaging and a centralized RTTM service for other fixed-income products, including corporate and municipal bonds.

⁴ 15 U.S.C. 78q-1.

⁵ 15 U.S.C. 78s(b)(3)(A)(ii).

⁶ 17 CFR 240.19b-4(f)(2).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

I. Purpose

ISE rules provide that an Electronic Access Member ("EAM") may not execute its own customer orders as principal unless it either: (1) Enters the customer order into the market and waits at least 30 seconds before entering a counter proprietary order³; or (2) enters the customer order into the Facilitation Mechanism, which gives the trading crowd 30 seconds to respond to the order.⁴ A member can improve the price of an order being displayed in the Facilitation Mechanism only by entering a quote or order in the ISE trading system. Use of the Facilitation Mechanism generally guarantees the entering EAM that it will be able to trade against 40 percent of the order.

The ISE states that despite its rule establishing a Facilitation Mechanism, the Exchange has failed to capture significant facilitation order flow. The ISE further states that its members explain that the rule's 30-second exposure requirement is a primary reason why they do not use this mechanism. In contrast to the Exchange's requirements, a member can facilitate an order by taking it to the floor of another options exchange, "expose" it for an instant by announcing it to the trading crowd on the floor, and then immediately trade against the order.⁵ The ISE believes that for the Exchange to be on parity with the floor-based exchanges, and thus to permit the ISE to be in an equal competitive position to attract facilitation order flow to the Exchange, the ISE proposes to amend its rules to reduce the 30 second exposure time required for the Facilitation Mechanism to five seconds.

The ISE believes that this shortened exposure period would be fully consistent with the electronic nature of its trading system. According to the ISE, the Exchange's members have implemented, or have the ability to implement, systems that monitor the Facilitation Mechanism broadcast messages and can automatically respond based upon pre-set parameters. In this electronic environment, the Exchange

state, it is not necessary to provide an exposure time sufficiently long to permit a person, in all cases, to manually respond to a Facilitation Order broadcast in order to provide the opportunity for crowd interaction. Thus, the Exchange states, an exposure period of five seconds would permit exposure of orders on the ISE in a manner consistent with its electronic market while addressing the Exchange's competitive concerns.⁶

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)⁷ that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for 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 ISE believes that the proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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 ISE 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.

⁶ The filing also would delete as unnecessary the requirement that, to improve the facilitation price, a member must improve its quotation or order at least 10 seconds prior to the expiration of the exposure period.

⁷ 15 U.S.C. 78f(b)(5).

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.

In addition to any other views that interested persons may wish to express, the Commission requests comments specifically on whether electronic programs or systems are available that would enable ISE members to monitor the Facilitation Mechanism broadcast messages and automatically respond based upon pre-set parameters, such that a five-second exposure period would provide adequate time for crowd members to interact with an order before it is executed by the EAM. The Commission also requests comments on whether the manner in which orders are exposed and executed through the ISE Facilitation Mechanism under the proposed rule change would be comparable to the manner in which facilitation orders are exposed and executed on floor based exchanges.

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 the filing will also be available for inspection and copying at the principal offices of the ISE. All submissions should refer to File No. SR-ISE-2001-19 and should be submitted by August 27, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,
Deputy Secretary.

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³ ISE Rule 717(d).

⁴ ISE Rule 716(d).

⁵ The floor-based exchanges also provide the entering broker-dealer a minimum guarantee of 40 percent of the order, but without any minimum exposure time. See Commentary .02 to American Stock Exchange Rule 950(d); Chicago Board Options Exchange Rule 6.74(d); and Pacific Exchange Rule 6.47(b).

⁸ 17 CFR 200.30-3(a)(12).