

additional strike prices and months, the existing \$1 series will eventually expire. When the near-term month is the only series available for trading, the Exchange may submit a cessation notice to OCC. Upon submission of the notice, the underlying stock will no longer count towards the five stocks that CBOE may select for its Pilot Program. Once the Exchange submits the cessation notice, it will not list any additional month for trading with strikes below \$20 unless the underlying again closes below \$20, and then, only if the CBOE has not already selected a replacement stock.

According to CBOE, the Options Price Reporting Authority ("OPRA") has the capacity to accommodate the increase in the number of series that would be added pursuant to the Pilot Program. In addition, CBOE notes that it listed approximately 109,000 series in December 2000 and approximately 100,000 series in September 2001. The CBOE believes that the increase in the number of series resulting from the Pilot Program will be substantially lower than the 9,000 series decrease the CBOE experienced.

### III. Summary of Comments

The Commission received one comment letter on the proposed rule change, which supports the proposal.<sup>13</sup> Specifically, the commenter believes that the CBOE's proposal would provide equity investors with the flexibility necessary to hedge their risk as efficiently as possible.

### IV. Discussion

After careful review, 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>14</sup> In particular, the Commission believes that the proposed rule change is consistent with section 6(b)(5) of the Act,<sup>15</sup> which requires, among other things, that the rules of a national securities exchange be designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Specifically, the Commission believes that the proposed listing of one point strike price intervals in selected equity options on a pilot basis should provide investors with more flexibility in the

trading of equity options overlying stocks trading at less than \$20, thereby furthering the public interest by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Commission also believes that the Exchange's limited Pilot Program strikes a reasonable balance between the Exchange's desire to accommodate market participants by offering a wide array of investment opportunities and the need to avoid unnecessary proliferation of options series. The Commission expects the Exchange to monitor the applicable equity options activity closely to detect any proliferation of illiquid options series resulting from the narrower strike price intervals and to act promptly to remedy this situation should it occur. In addition, the Commission requests that CBOE monitor the trading volume associated with the additional options series listed as a result of the Pilot Program and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

As noted above, the Commission is approving the CBOE's proposal on a one-year pilot basis. In the event that CBOE proposes to extend the Pilot Program beyond June 5, 2004, expand the number of options eligible for inclusion in the Pilot Program, or seek permanent approval of the Pilot Program, it should submit a Pilot Program report to the Commission along with the filing of such proposal.<sup>16</sup> The report must cover the entire time the Pilot Program was in effect, and must include: (1) Data and written analysis on the open interest and trading volume for options (at all strike price intervals) selected for the Pilot Program; (2) delisted options series (for all strike price intervals) for all options selected for the Pilot Program; (3) an assessment of the appropriateness of \$1 strike price intervals for the options the CBOE selected for the Pilot Program; (4) an assessment of the impact of the Pilot Program on the capacity of the CBOE's, OPRA's, and vendors' automated systems; (5) any capacity problems or other problems that arose during the operation of the Pilot Program and how the CBOE addressed them; (6) any complaints that the CBOE received during the operation of the Pilot Program and how the CBOE addressed

them; and (7) any additional information that would help to assess the operation of the Pilot Program.

### V. Conclusion

For the foregoing reasons, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and rules and regulations thereunder.

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act,<sup>17</sup> that the proposed rule change (SR-CBOE-2001-60) is approved, on a pilot basis, through June 5, 2004.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>18</sup>

**J. Lynn Taylor,**

*Assistant Secretary.*

[FR Doc. 03-14829 Filed 6-11-03; 8:45 am]

BILLING CODE 8010-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47998; File No. SR-GSCC-00-12]

### Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Insolvency and Clearing Fund Requirements

June 6, 2003.

#### I. Introduction

On October 5, 2000, Government Securities Clearing Corporation ("GSCC")<sup>1</sup> filed with the Securities and Exchange Commission ("Commission") proposed rule change File No. SR-GSCC-00-12 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>2</sup> and on December 14, 2000, amended the proposed rule change. Notice of the proposal was published in the **Federal Register** on June 17, 2002.<sup>3</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

#### II. Description

On January 30, 1996, the Commission issued an order approving GSCC's

<sup>17</sup> 15 U.S.C. 78s(b)(2).

<sup>18</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> On January 1, 2003, MBS Clearing Corporation was merged into GSCC under New York law and GSCC was renamed the Fixed Income Clearing Corporation. Securities Exchange Act Release No. 47015 (December 17, 2002), 67 FR 78531 (December 24, 2002) (File Nos. SR-GSCC-2002-10 and MBSCC-2002-01).

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> Securities Exchange Act Release No. 46053 (June 10, 2002), 67 FR 41285.

<sup>13</sup> See Cornerstone Letter, *supra* note 12.

<sup>14</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

<sup>16</sup> The Commission expects the CBOE to submit a proposed rule change at least 60 days before the expiration of the Pilot Program in the event the CBOE wishes to extend, expand, or seek permanent approval of the Pilot Program.