

transactions are associated with particular deliveries;⁴ and

(4) Controls permitting the retention of failed deliveries for the following settlement day that eliminates participants' need to reinput failed delivery instructions.

Using IMS, a participant can choose to authorize its deliveries either actively or passively. In the active mode, deliveries will not be processed unless an authorization is sent. In the passive mode, deliveries will be immediately authorized upon receipt. Authorizations and exemptions can be on a trade-for-trade basis or a global basis.

To provide flexibility and options, a participant will be able to create authorization profiles for the following asset classes: equity, municipal debt, corporate debt, and money market instruments. Within each asset class, a participant will be able to choose either the active or passive authorization mode as the default for different transaction types.⁵ For example, for the asset class equities, a participant could choose to use active mode authorization for matched institutional deliveries and passive mode authorization for CNS deliveries.

All IMS features will be optional. Participants can continue to process their deliveries as they do today if they so wish. Participants will be able to migrate to any or all of the IMS features that they deem valuable. As a result of IMS, participants will be able to centrally manage their own settlements and achieve higher levels of straight through processing.

IMS will be implemented in two phases. Phase I, which includes (1) the new authorization capabilities that replace ANE, (2) the warehousing facility,⁶ and (3) the reintroduction of dropped deliveries,⁷ is scheduled to

begin in July 2003. Phase II, which includes an optional customized delivery and recycle profile,⁸ is scheduled to be implemented in December 2003.

III. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.⁹ The Commission finds that DTC's proposed rule change is consistent with this requirement because it provides for an automated, centrally managed system whereby DTC's participants will have the ability to better manage and control the order and timing of their deliveries. Consequently, the proposed rule change should help reduce the number of late-in-the-day, manual interventions.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-2002-19) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-48175; File No. SR-PCX-2003-30]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Changes in Marketing Fees

July 14, 2003.

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 June 30, 2003, the Pacific Exchange, Inc. ("PCX"

or "Exchange") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which the PCX has prepared. 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 PCX proposes to expand its marketing fee program to include all options, and also proposes to make other changes to the program as specified below. The text of the proposed rule change is available at the PCX and at the Commission.

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 PCX included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it had received. The text of these statements may be examined at the places specified in Item IV below. The PCX has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of those statements.

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

1. Purpose

In July 2000, the Exchange adopted a payment-for-order-flow program under which it imposes a fee on market maker transactions in designated equity option issues as set forth in a Schedule of Rates.³ Under the program, the PCX collects and segregates the fee proceeds by trading post and makes the funds available to Lead Market Makers ("LMMs") for their use in attracting orders in the options traded at the posts. The LMMs use the funds to make payments to broker-dealers for the orders they direct to the PCX. Currently, the LMMs determine the specific terms governing the orders that qualify for payment and the amounts to be paid. The LMMs make their determinations in whatever manner they believe is most likely to be effective in attracting order flow to the PCX in the options traded at the LMMs' assigned posts. The

⁴ Such a linkage will permit customers to associate securities they expected to receive with specific securities they expected to deliver so that they no longer need to exempt a delivery until the receive providing the securities for it has been processed. Securities Exchange Act Release No. 48007 (June 10, 2003), 68 FR 35744 (order approving DTC Transaction Look-Ahead Process).

⁵ In Phase I, authorization modes can be assigned for the following transaction types: (1) Institutional deliveries from a matching utility; (2) CNS; (3) NDOs; (4) Reintroduced drops; and (5) ACATS auto deliveries.

⁶ The IMS warehouse feature will store delivery instructions on its database and will direct these deliveries into the processing system as NDOs that are due to settle on the appropriate settlement day.

⁷ "Dropped" deliveries are deliveries from the previous day that were not completed. Under this option, "drops" will be retained and reintroduced into the system for processing on the following day. Participants using this service will have the option of having drops automatically resubmitted or of having the system require a reauthorization of dropped delivery instructions before resubmitting.

⁸ DTC will file another proposed rule change for Commission approval before implementing Phase II.

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 43290 (September 13, 2000), 65 FR 57213 (September 21, 2000).