

\$21.12–\$21.22, which might drive the options quote to \$1.25–\$1.35. If the offer is correct, the quote for the underlying stock might be \$20.92–\$21.02, which might drive the options quote to \$1.05–\$1.15. If both the bid and the offer for the underlying stock are incorrect, it is difficult to know what the price of the underlying stock might be. Assuming that either the bid or the offer is correct, but not both, the stock price probably ranges somewhere between \$20.92–\$21.22, which is three times wider than the original non-inverted quote.

If a CBOE market maker believes that the bid for the underlying stock is correct and has a quote size of 25-up at \$1.25–\$1.35, assume he executes an incoming market order to sell at \$1.25. Now assume that the price of the underlying stock corrects to \$20.92–\$21.02, sending the market maker's quote to \$1.05–\$1.15, and that the market maker receives an incoming market order to buy, which he executes at \$1.15. Under these circumstances, the market maker has purchased the options (*i.e.*, the market maker was on the contra side of the first market order to sell) at \$1.25 and sold the options (*i.e.*, the market maker was on the contra side of the second market order to buy) at \$1.15, locking in a loss of \$0.10, 25 times.

b. Underlying Market Reports a Trade Outside of the Disseminated Quote

According to the CBOE, it is not uncommon for the primary market for an underlying security, in its haste to report trades to the tape, to report trades before changing the disseminated quote, resulting in a transaction that falls outside of the disseminated quote. For example, assume that the disseminated quote for a stock is \$22.10–\$22.25 and that the last sale was \$22.15. Without a change in the quote the next sale is reported at \$22. In this instance, the market for the underlying security could come out in any direction, *i.e.*, it could be \$21.75–\$22, it could be unchanged, or it could be \$22.00–\$22.25. As in the previous example, the CBOE market maker must attempt to guess where the market for the underlying security will come out. If the market maker guesses incorrectly, he has exposure. Allowing the market maker to widen his quote allows him a measure of protection until the market for the underlying security again reports trades within the disseminated quote.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to a national securities

exchange and, in particular, the requirements of section 6(b) of the Act.¹⁶ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest.

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

The CBOE does not believe that the proposed rule change will impose any burden on competition 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

No written comments were 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 Exchange 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 at 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. SR–CBOE–2003–25 and should be submitted by December 10, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 03–28850 Filed 11–18–03; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48774; File No. SR–CSE–2003–12]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by The Cincinnati Stock Exchange, Inc. and Amendment No. 1 To Change Its Name to National Stock Exchange

November 12, 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 November 5, 2003, The Cincinnati Stock Exchange, Inc. ("CSE" 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 CSE. On November 12, 2003, the Exchange filed an amendment to the proposed rule change.³ The Exchange filed the proposal pursuant to Section 19(b)(3)(A)(iii) of the Act⁴ and has designated the proposed rule change as one being concerned solely with the administration of the Exchange under Rule 19b–4(f)(3) of the Act,⁵ which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comment on the proposed rule

¹⁸ 17 CFR 200.30–3(a)(12).

¹ 15 U.S.C. 781(b)(1).

² 17 CFR 240.19b–4.

³ See November 12, 2003 letter from Jennifer M. Lamie, Assistant General Counsel and Secretary, CSE, to Katherine A. England, Assistant Director, Division of Market Regulation, Commission ("Amendment No. 1"). In Amendment No. 1, the CSE replaces "involves a member due, fee or other charge" with "is concerned solely with the administration of the Exchange" in Item III below, to bring it into conformity with Rule 19b–4(f)(3) under the Act. 17 CFR 240.19b–4(f)(3).

⁴ 15 U.S.C. 781(b)(3)(A)(iii).

⁵ 17 CFR 240.19b–4(f)(3).

¹⁶ 15 U.S.C. 78(f).

¹⁷ 15 U.S.C. 78(f)(b)(5).