

redemption agents under which DTC will destroy BEO certificates in lieu of shipping the certificates to the redemption agent.⁶ Redemption agents that wish to use this new service will deliver to DTC an executed "matured BEO certificate destruction request."⁷ DTC will continue to present the DTC "letter of transmittal" and the DTC "redemption payment summary form" but not the BEO certificate(s) to the redemption agent in advance of the issue's maturity. In addition, DTC will present to the redemption agent a "notice of destruction"⁸ stating that DTC intends to destroy the BEO certificate(s) in accordance with the procedures set forth in this rule filing as they may be amended from time to time. If the redemption agent requests in writing in a timely manner that DTC not destroy the certificates, DTC will honor the redemption agent's request.

The matured BEO security certificates will be physically destroyed on DTC's premises only after: (i) DTC has received the redemption proceeds in full and (ii) an additional thirty days have passed after DTC receives such proceeds. Authorized DTC personnel will oversee and witness the destruction of the cancelled certificates. DTC will maintain detailed ledger control over the BEO certificates through the point of destruction. An accurate record of all canceled certificates will be maintained and will be searchable by date of cancellation. Prior to destruction, the maturing BEO security certificates will be microfilmed or imaged by DTC. DTC will retain the microfilm or computer images of these BEO certificates for ten years following destruction of the certificates, and for the first six months, DTC will maintain the microfilm or computer images in a place that is easily accessible by authorized DTC personnel.⁹ Copies of the microfilm (at

no fee) or eventually images (at a fee) will be available to the redemption agent during the ten years following destruction. DTC will be liable for gross negligence and willful misconduct.

As a result of this new service, such BEO security certificates, once deposited in DTC, will never have to be physically removed from DTC's vault. They will be maintained in a secure location that does not allow access to the public or unauthorized personnel. Additionally, by centralizing the destruction of matured BEO debt security certificates, DTC will provide uniform and consistent controls and procedures (as well as physical safeguards) for all such certificates in the U.S. capital market.

II. Discussion

Section 17A(b)(3)(F)¹⁰ of the Act requires the rules of a clearing agency be designed to assure the safeguarding of securities which are in the clearing agency's custody or control or for which it is responsible. The Commission believes that DTC's rule change is consistent with DTC's obligation under the Act because the new procedures will help to reduce the risks currently associated with the processing of matured BEO certificates by eliminating much of the physical handling currently involved in processing BEO certificates. In addition, the Commission believes that DTC's BEO certificate destruction policy contains sufficient safeguards concerning the selection of BEO certificates that will be destroyed, the oversight of the destruction, and the recordkeeping of destroyed BEO certificates.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of 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-99-6) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 01-9339 Filed 4-13-01; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44138; File No. SR-PCX-01-15]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. to Trade Standardized Equity Options on Trust Issued Receipts

March 30, 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 March 15, 2001, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II 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 and to approve the proposed rule change on an accelerated basis.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to adopt new listing and maintenance standards to allow for trading of standardized equity options on trust issued receipts. The text of the proposed rule change follows. Proposed new language is in *italics*; proposed deletions are in brackets.

* * * * *

Options

Rule 3.6(a)-(b)—No Change.

* * * * *

Commentary

.01-.06—No change.

.07 *Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:*

(a)(i) *the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Rule 3.6(a); or*

(ii) *the Trust Issued Receipts must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and*

(b) *not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is*

⁶ At this time, DTC will offer this service only for non-engraved BEO certificates.

⁷ A copy of the "matured BEO certificate destruction request" is set forth as Exhibit B of DTC's proposed rule change, which is available through the Commission's Public Reference Branch or through DTC.

⁸ A copy of the "notice of destruction" is set forth in Exhibit C of DTC's proposed rule change, which is available through the Commission's Public Reference Room or through DTC.

⁹ DTC has informed the Commission's staff that for the time period that such microfilm or imaged records must be maintained, whether by DTC or by a third party on behalf of DTC, such records will: (i) Be available at all times for examination by the Commission and the appropriate regulatory agency for immediate, easily readable projection/enlargement; (ii) be arranged and indexed in a manner that permits immediate location of any particular record; (iii) be immediately provided upon request by the Commission or appropriate regulatory agency; and (iv) be copied and stored separately from the original records.

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

not subject to a comprehensive surveillance agreement.

* * * * *

Withdrawal of Approval of Underlying Securities

Rule 3.7(a)–(b)—No change.

* * * * *

Commentary

.01–.10—No change.

.11 *Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .07 to PCX Rule 3.6 (such securities are defined and referred to in that Commentary as “Trust Issued Receipts”) shall not³ be deemed to meet the Exchange’s requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through⁴ the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:*

(1) *In accordance with the terms of Commentary .01 of this Rule in the case of options covering Trust Issued Receipts when such options were approved pursuant to paragraph (a)(i) of Commentary .07 under Rule 3.6;*

(2) *The Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;*

(3) *The Trust has fewer than 50,000 receipts issued and outstanding;*

(4) *The market value of all receipts issued and outstanding is less than \$1,000,000; or*

(5) *Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.*

.12 *For Holding Company Depositary Receipts (HOLDRs), the Exchange will not open additional series of options overlying HOLDRs (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or (2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.*

* * * * *

³ PCX corrected a typographical error that appeared in the proposed rule language. Telephone conversation between Hassan A. Abedi, Attorney, PCX and Susie Cho, Attorney, Division of Market Regulation (“Division”), Commission, March 30, 2001.

⁴ PCX corrected a typographical error that appeared in the proposed rule language. Telephone conversation between Hassan A. Abedi, Attorney, PCX and Susie Cho, Attorney, Division, Commission, March 26, 2001.

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 Exchange 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.

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

1. Purpose

The purpose of the proposed rule change is to provide for the trading of options, including FLEX equity options,⁵ on trust issued receipts. The Exchange believes that the listing and maintenance criteria proposed in its new rule are consistent with the options listing and maintenance criteria for trust issued receipts currently used by the American Stock Exchange LLC (“Amex”) and the Chicago Board Options Exchange, Inc. (“CBOE”).⁶ Trust issued receipts are exchange-listed securities representing beneficial ownership of the specific deposited securities represented by the receipts. They are negotiable receipts issued by a trust representing securities of issuers that have been deposited and are held on behalf of the holders of the trust issued receipts. Trust issued receipts, which trade in round-lots of 100, and multiples thereof, may be issued after their initial offering through a deposit with the trustee of the required number of shares of common stock of the underlying issuers. This characteristic of trust issued receipts is similar to that of exchange-traded fund shares, which also may be created on any business day upon deposit of the requisite securities comprising a creation unit.⁷ The trust

⁵ FLEX equity options provide investors with the ability to customize basic option features including size, expiration date, exercise style and certain exercise prices.

⁶ The Commission approved the Amex provisions on June 15, 2000. See Securities Exchange Act Release No. 42947 (June 15, 2000), 65 FR 39211 (June 23, 2000) (SR-Amex-99-37). The Commission approved the CBOE provisions on July 17, 2000. See Securities Exchange Act Release No. 43043 (July 17, 2000), 65 FR 46520 (July 28, 2000) (SR-CBOE-00-25).

⁷ The Exchange received approval to trade options on exchange-traded fund shares on February 28, 2001. See Securities Exchange Act

will only issue receipts upon the deposit of the shares of underlying securities that are represented by a round-lot of 100 receipts. Likewise, the trust will cancel, and an investor may obtain, hold, trade or surrender trust issued receipts in a round-lot and round-lot multiples of 100 receipts.

Generally, options (including FLEX equity options) on trust issued receipts are proposed to be traded on the Exchange pursuant to the same rules and procedures that apply to trading in options on equity securities or indexes of equity securities. The Exchange will list option contracts covering 100 trust issued receipts, the minimum required round-lot trading size for the underlying receipts. Strike prices for the non-FLEX contracts will be set to bracket the trust issued receipts at the same intervals that apply to other equity options under PCX Rule 6.4. The proposed position and exercise limits for non-FLEX options on trust issued receipts would be the same as those established for other non-FLEX equity options, as set forth in PCX Rule 6.8 and PCX Rule 6.9 respectively. The Exchange anticipates that most options on trust issued receipts will initially qualify for the lowest position limit. However, as with other equity options, applicable position limits will be increased for options if the volume of trading in the trust issued receipts increases to the extent needed to permit a higher limit. As is the case of all FLEX equity options, no position and exercise limits will be applicable to FLEX equity options overlying trust issued receipts.

The listing and maintenance standards proposed for options on trust issued receipts are set forth respectively in proposed Commentary .07 to PCX Rule 3.6, and in proposed Commentary .11 to PCX Rule 3.7. Pursuant to the proposed initial listing standards, the Exchange will list only trust issued receipts that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as national market securities. In addition, the initial listing standards require that either: (i) the trust issued receipts meet the uniform options listing standards in PCX Rule 3.6(a), which include criteria covering the minimum public float, trading volume, and share price of the underlying security in order to list the option;⁸ or (ii) the trust issued receipts

Release No. 44025 (February 28, 2001), 66 FR 13986 (March 8, 2001).

⁸ Specifically, PCX Rule 3.6(a) requires the underlying security to have a public float of 7,000,000 shares, 2,000 holders, trading volume of 2,400,000 shares in the preceding 12 months, a share price of \$7.50 for the majority of the business days during the three calendar months preceding

must be available for issuance or cancellation each business day from the trust in exchange for the underlying deposited securities.

In addition, listing standards for options on trust issued receipts will require that any American Depositary Receipts (ADRs) in the portfolio on which the Trust is based for which the securities underlying the ADRs' primary markets are in countries that are not subject to comprehensive surveillance agreements will not in the aggregate represent more than 20 percent of the weight of the portfolio.

The Exchange's proposed maintenance standards provide that if a particular series of trust issued receipts should cease to trade on an exchange or as national market securities in the over-the-counter market, there will be no opening transactions in the options on the trust issued receipts, and all such options will trade on a liquidation-only basis (*i.e.*, only closing transactions to permit the closing of outstanding open options positions will be permitted). In addition, the Exchange will consider the suspension of opening transactions in any series of options of the class covering trust issued receipts if: (i) For options on trust issued receipts that were listed pursuant to the equity option listing standards in PCX Rule 3.6(a), the options fail to meet the option maintenance standards in Commentary .01 to PCX Rule 3.7;⁹ (ii) the trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of trust issued receipts for 30 or more consecutive trading days; (iii) the trust has fewer than 50,000 receipts issued and outstanding; (iv) the market value of all receipts issued and outstanding is less than \$1,000,000; or (v) such other event shall occur or condition exists that, in the opinion of the Exchange, makes further dealing in such options on the Exchange inadvisable. Furthermore, the Exchange will not open additional series of options on any Holding Company Depositary Receipts ("HOLDERS"), a type of trust issued receipt, without prior Commission approval, if: (i) The proportion of securities underlying standardized

equity options to all securities held in a HOLDERS trust is less than 80 percent (as measured by the relative weightings in the HOLDERS trust);¹⁰ or (ii) less than 80 percent of the number of securities held by a HOLDERS trust underlie standardized options.

Options on trust issued receipts will be physically settled and will have the American-style exercise feature used on all non-FLEX equity options, and not the European-style feature. The Exchange, however, also proposes to trade FLEX equity options which will be available with both the American-style and European-style exercise feature, as well as other FLEX equity features.¹¹

The proposed margin requirements for options on trust issued receipts are at the same levels that apply to options generally under PCX Rule 2.16, except, with respect to trust issued receipts based on a broad-based portfolio, minimum margin must be deposited and maintained equal to 100 percent of the current market value of the option plus 15 percent of the market value of equivalent units of the underlying security value. Trust issued receipts that hold securities based upon a narrow-based portfolio must have options margin that equals at least 100 percent of the current market value of the contract plus 20 percent of the market value of equivalent units of the underlying security value. In this respect, the margin requirements proposed for options on trust issued receipts are comparable to margin requirements that currently apply to broad-based and narrow-based index options. Also, holders of options on trust issued receipts that exercise and receive the underlying trust issued receipts must receive a product description or prospectus, as appropriate.

Lastly, the Exchange believes it has the necessary systems capacity to support the additional series of options that would result from the trading of options on HOLDERS.

2. Statutory Basis

The PCX believes that, by providing investors with a better means to hedge their positions in the underlying trust issued receipts, as well as an alternative

market center in which to trade these products, thereby increasing competition, the proposed rule change is consistent with section 6(b)(5) of the Act.¹² Section 6(b)(5) requires that exchange rules 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, in general, to protect investors and the public interest.

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

The PCX does not believe that the proposed rule change will 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 did not solicit or receive comments on the proposed rule change.

III. 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, N.W., Washington, D.C. 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 the File No. SR-PCX-01-15 and should be submitted by May 7, 2001.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder

the date of the selection, and that the issuer of the underlying security is in compliance with the Act.

⁹ Specifically, Commentary .01 to Rule 3.7 provides that an underlying security will not meet the Exchange's requirements for continued listing when, among other things: (i) there are fewer than 6,300,000 publicly-held shares; (ii) there are fewer than 1,600 holders; (iii) trading volume was less than 1,800,000 shares in the preceding twelve months; or (iv) the share price of the underlying security closed below \$5 on a majority of the business days during the preceding 6 months.

¹⁰ The Exchange represents that the weight of each security in a HOLDERS trust will be determined by calculating the sum of the number of shares of each security (represented in a single HOLDERS) and underlying options multiplied by its respective share price divided by the sum of the number of shares of all securities (represented in a single HOLDERS) multiplied by their respective share prices.

¹¹ An American-style option may be exercised at any time prior to its expiration, while a European-style option may be exercised only at its expiration date.

¹² 15 U.S.C. 78f(b)(5).

applicable to a national securities exchange, and in particular, with the requirements of section 6(b)(5).¹³ The Commission notes that it has previously approved similar listing standards proposed by the Amex and the CBOE for options on trust issued receipts, and it believes that the PCX's proposal contains adequate safeguards, matching those previously approved.¹⁴ As the Commission found in its previous approvals of the listing standards proposed by the Amex and the CBOE, the listing and trading of options, including FLEX equity options on exchange-traded trust issued receipts, should give investors a better means to hedge their positions in the underlying trust issued receipts. The Commission also believes that pricing of the underlying trust issued receipts may become more efficient, and market makers in these shares, by virtue of enhanced hedging opportunities, may be able to provide deeper and more liquid markets. In sum, the Commission believes that options on trust issued receipts likely will engender the same benefits to investors and the marketplace that exist with respect to options on common stock, thereby serving to promote the public interest, to remove impediments to a free and open securities market, and to promote efficiency, competition, and capital formation.¹⁵

The Commission finds that the Exchange's listing and delisting criteria for options on trust issued receipts are adequate. The proposed listing and maintenance requirements should ensure that there exist adequate supplies of the underlying trust issued receipts in case of the exercise of an option, and a minimum level of liquidity to control against manipulation and to allow for the maintenance of fair and orderly markets. The PCX's additional requirements for opening additional series or options on HOLDERS will also ensure that the underlying securities are options eligible, and for the most part will satisfy minimum thresholds previously approved by the Commission.

The Commission also believes that the surveillance standards developed by the PCX for options on trust issued receipts are adequate to address the concerns associated with the listing and trading of such securities. The PCX's proposal to limit the weight of the portfolio that may be composed of ADRs

whose primary markets are in countries that are not subject to comprehensive surveillance agreements is similar to that previously approved by the Commission.¹⁶ As to domestically traded trust issued receipts themselves and the domestic stocks in the underlying portfolio, the Intermarket Surveillance Group ("ISG") Agreement will be applicable to the trading of options on trust issued receipts.¹⁷

Finally, the Commission believes that the PCX's proposed margin requirements are appropriate. The Commission notes that they are comparable to margin requirements that currently apply to broad-based and narrow-based index options, and to those previously approved for use at the Amex.¹⁸

The Commission finds good cause for approving the proposed rule change (SR-PCX-01-15) prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register** under section 19(b)(2) of the Act.¹⁹ As noted above, the trading requirement for options on trust issued receipts at the PCX will be substantially similar to those at the Amex and the CBOE, which the Commission has approved.²⁰ The Commission does not believe that the proposed rule change raises novel regulatory issues that were not already addressed and should benefit holders of trust issued receipts by permitting them to use options to manage the risks of their positions in the receipts. Accordingly, the Commission finds that there is good cause, consistent with section 6(b)(5) of the Act,²¹ to approve the proposal on an accelerated basis.

V. Conclusion

It Is Therefore Ordered, pursuant to section 19(b)(2) of the Act,²² that the proposed rule change (SR-PCX-01-15) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²³

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 01-9340 Filed 4-13-01; 8:45 am]

BILLING CODE 8010-01-M

¹⁶ See *supra* note 6.

¹⁷ ISG was formed on July 14, 1983, to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets.

¹⁸ See *supra* note 6.

¹⁹ 15 U.S.C. 78s(b)(2).

²⁰ See *supra* note 6.

²¹ 15 U.S.C. 78f(b)(5).

²² 15 U.S.C. 78s(b)(2).

²³ 17 CFR 200.30-3(a)(12).

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Notice of Meeting of the Industry Sector Advisory Committee on Services (ISAC-13)

AGENCY: Office of the United States Trade Representative.

ACTION: Notice of meeting.

SUMMARY: The Industry Sector Advisory Committee on Services (ISAC-13) will hold a meeting on April 24, 2001, from 9 a.m. to 12 noon. The meeting will be opened to the public from 9 a.m. to 9:45 a.m. and closed to the public from 9:45 a.m. to 12 noon.

DATES: The meeting is scheduled for April 24, 2001, unless otherwise notified.

ADDRESSES: The meeting will be held at the Department of Commerce, Conference Room B-841A located at 14th Street between Pennsylvania and Constitution Avenues, NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Karen Holderman (202) 482-0345 Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230 (principal contact), or myself on (202) 395-6120.

SUPPLEMENTARY INFORMATION: During the opened portion of the meeting the following topics will be covered:

- Results of March 2001 Stocktaking Exercise.
- Council for Trade Services Agenda Until WTO Ministerial in November, 2001 Negotiations.

Christina Sevilla,

Acting Assistant United States Trade Representative for Intergovernmental Affairs and Public Liaison.

[FR Doc. 01-9262 Filed 4-13-01; 8:45 am]

BILLING CODE 3190-01-M

DEPARTMENT OF TRANSPORTATION

Coast Guard

[USCG-2001-9380]

Towing Safety Advisory Committee

AGENCY: Coast Guard, DOT.

ACTION: Notice of public meeting.

SUMMARY: The Towing Safety Advisory Committee (TSAC) will meet to consider draft comments from the Fire Suppression and Voyage Planning Working Group. The comments, when approved by the Committee, will be forwarded to the docket for the Coast Guard's rulemaking on Fire Suppression and Voyage Planning for Towing

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ See *supra* note 6.

¹⁵ In approving this rule, the Commission notes that it has also considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).