Time Warner; Tyco; Citigroup; Cisco; Applied Materials; Microsoft; General Electric; Broadcom; Nokia; and Siebel Systems.[6]

• The pilot would last for three months.

• For PMMs, the minimum size for quotes would be 100 contracts for customers and 50 contracts for broker-dealers.[7] For Competitive Market Makers (''CMMs''), the size requirements would be half of the PMM requirement: 50 contracts for customers and 25 contracts for broker-dealers. The enhanced broker-dealer size would not apply to executions against other market makers, where the minimum size would continue to be 1 contract.[8]

• These enhanced size requirements would apply only to the options series in the three months closest to expiration. Moreover, the pilot would not apply to ''deep-in-the-money'' options[9] or an option in the last three days of that option's trading. That is, the pilot would not apply for the last three days of trading during an option series' expiration week.

The ISE's intent in establishing the pilot program is to help determine the potential effect that increased minimum size requirements would have on the quality of the ISE's market and on the Exchange's ability to attract order flow. The ISE believes that it is likely that larger size guarantees would help the Exchange attract more order flow. However, the Exchange is concerned that requiring larger size could lead to a degradation of the quality of the Exchange's quotation. The Exchange believes that limiting the pilot to the specified options would tend to limit any adverse effects of the higher minimum size requirement. Specifically, the included options represent 19 of the 22 options with the highest trading volume in the industry, and thus, are the most liquid options. The Exchange chose these pilot stocks in consultation with its PMMs and CMMs.[10]

The Exchange intends to monitor the effects of the pilot closely. Prior to the expiration of the pilot, the Exchange would determine whether to end the pilot or whether to continue an enhanced size requirement in this or some other form. If the Exchange determines to continue an enhanced size requirement, it would file the appropriate rule change with the Commission.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6(b) of the Act[11] in general, and furthers the objectives of Section 6(b)(5) of the Act[12] in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 Exchange does not believe that the proposed rule change, as amended, will impose any burden on competition.

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 with respect to the proposed rule change, as amended.

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 in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the ISE. All submissions should refer to File No. SR–ISE–2001–32 and should be submitted by April 12, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

Margaret H. McFarland,

Deputy Secretary.

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[6] *See* Amendment No. 1, *supra* note 3.

[7] This enhanced quotation size requirement will not affect the PMM's obligation under ISE Rule 803(c)(1) to disseminate a quotation of at least 10 contracts when the quotation consists, in part, of a customer order for less than 10 contracts.

[8] *See* Amendment No. 2, *supra* note 4.

[9] The proposed rule change defines ''deep-in-the-money'' as all options with strike prices that are in the money by four or more pricing intervals in relation to the at-the-money strike price. *See* proposed Supplementary Material .03 to ISE Rule 804.

[10] Telephone conversation between Michael Simon, Senior Vice President and General Counsel, ISE, and Cyndi Nguyen, Attorney, Division, Commission, on March 15, 2002.

[11] 15 U.S.C. 78f(b).

[12] 15 U.S.C. 78f(b)(5).

[13] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–45563; File No. SR–MBSCC–2001–02]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Granting Approval of a Proposed Rule Change Implementing a Real-Time Trade Matching Service

March 14, 2002.

I. Introduction

On September 19, 2001, MBS Clearing Corporation (''MBSCC'') filed with the Securities and Exchange Commission (''Commission'') proposed rule change SR–MBSCC–2001–02 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1]. On September 26, 2001, MBSCC filed an amendment to the proposed rule change. Notice of the proposal was published in the **Federal Register** on January 25, 2002.[2] No comment letters were received. For the reasons discussed below, the Commission is

[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 45299, (January 17, 2002), 67 FR 3762.

granting approval of the proposed rule change.

II. Description

In furtherance of MBSCC's mission to reduce the costs and risks associated with trading in the mortgage-backed securities market, MBSCC has enhanced its services to enable its participants to submit executed trade terms and receive comparison results from MBSCC in a more timely manner. The cornerstone of this objective is the implementation of the Real-Time Trade Matching (''RTTM'') service that will replace MBSCC's current twice-daily match process with respect to trade input information. MBSCC anticipates that the RTTM service will provide more certainty, reduce execution/market risk, and eliminate the redundancy between the verbal checkout process (which is described below) and the current MBSCC matching process.[3]

MBSCC's objective in implementing the RTTM service is to match all trade input in real-time within minutes of trade execution while providing participants with the greatest flexibility and least amount of disruption in the migration towards this goal. MBSCC will retire its batch trade matching process with respect to trade input information upon implementation of the RTTM service. All trade activity for all participants, regardless of the form of trade input, will be matched solely by the RTTM service upon its implementation. Therefore, participants that increase the frequency of submission and reconciliation throughout the business day will be able to realize the benefits of the RTTM service.

MBSCC's Current Matching Process

Currently, MBSCC participants submit details of executed trades daily to MBSCC by means of terminal or batch submissions. While participants may submit trade input to MBSCC during published business hours, MBSCC performs its matching process of participant submitted data twice per day: at 10:30 a.m. (''AM Pass'') and 11:30 p.m. (''PM Pass'').

Output reports/files detailing the results of the matching process are available to participants at 11:30 a.m. (for the AM Pass) and 4:00 a.m. (for the PM Pass). The primary outputs are the ''Purchase and Sale Report'' listing submitted trades that successfully compared and the ''Transaction Summary Report'' listing, among other things, submitted trades that did not compare. The Purchase and Sale Report serves as the sole and binding confirmation of trades and provides data for Rule 10b–10 compliance purposes as well.

Given that the majority of trades are submitted after the AM Pass, the timing limitations of a twice daily matching/reporting process mean that participants generally are notified that a trade has achieved ''binding confirmation'' status at the earliest during the morning following submission to MBSCC. To overcome this time delay, participants engage in a process known as ''verbal checkout.'' Shortly after execution, participants contact each other and verbally confirm executed trade details. The verbal checkout process is important to participants because it allows them to ascertain with some degree of certainty their intraday trading positions. While generally effective, the verbal checkout process is cumbersome, error-prone, and lacks the ''binding'' status afforded by the two-sided matching and confirmation through MBSCC.

The RTTM Service and the Requisite Rules Changes

In order to provide more certainty, reduce execution/market risk, and eliminate the redundancy between the verbal checkout process and MBSCC's trade input matching process, MBSCC will offer the RTTM service. As stated above, MBSCC currently processes transaction information in two batch processing passes. One segment of that processing, the matching of trade input information, will be processed by the RTTM service. The other segments of the daily processing, including the matching of clearance information, will continue to be done in either one or both of the two existing batch processing passes.

The RTTM service will provide trade input matching for dealer-to-dealer trades and for inter-dealer broker trades. The RTTM service will support all of the trade types currently supported by MBSCC (settlement balance order destined, trade-for-trade, comparison only, and option) as well as the various trade functions such as the ''Don't Know'' or ''DK'' function used by participants.

Participants will be able to submit transaction information for processing through the RTTM service using the batch file submission method that is used today, which is called ''File Transmission Service.'' In addition, participants will also be able to use a batch file transmission method that employs SWIFT formats, the RTTM terminal service, and interactive messaging. Regardless of the input method, MBSCC will make available to participants real-time updates on all transactions entered into the system.

The following rule changes are necessary to accommodate the introduction of the RTTM service:

i. *General provisions on the RTTM service:* MBSCC is adding two provisions to its rules to provide generally for the RTTM service. One of these provisions (new Section 1 of Rule 3 of Article II) will provide that MBSCC's comparison of trade input will occur in real time, and the other (new Section 1 of Rule 4 of Article II) will distinguish the RTTM processing from the current processing passes.

ii. *New reports provided by the RTTM service:* MBSCC's RTTM processing will produce output via the RTTM terminal service as well as via interactive messages. MBSCC is adding to its definitions the term ''Report'' to encompass any type of output in any form that is provided by MBSCC to its participants. As a result specifically of RTTM processing, there will be two new ''Reports.'' The ''RTTM Compare Report''[4] will indicate the transactions whose trade input has compared, and the ''RTTM Uncompare Report'' will indicate the transactions whose trade input has not compared.

iii. *Changes to existing reports:* MBSCC will continue to provide the reports that are created as a result of its current two processing passes, with some modifications in one case. The Purchase and Sale Report details the results of the current batch trade processing, which includes the matching of trade input submissions and the matching of clearance information. No changes are proposed to the information provided by the Purchase and Sale Report. Like the Purchase and Sale Report, the Transaction Summary Report is also provided as a result of the current twice daily processing passes. Upon implementation of RTTM processing, the Transaction Summary Report will no longer provide details of unmatched trade terms. Unmatched trade terms will be available to participants via the RTTM Uncompare Reports (which as stated above will be in the form of

[3] One of the main objectives of the RTTM service is to significantly reduce the risks associated with a prolonged period of time between trade execution and achievement of legal and binding confirmation. The elapsed time between trade execution and verbal checkout, followed by a legal and binding confirmation, is a known and serious risk to the ultimate settlement of the trade for all trading organizations. Reducing the elapsed time between trade execution and achievement of a legal and binding confirmation increases certainty and reduces risk.

[4] The RTTM Compare Report will also indicate cancellataions of previously compared trades.

output provided by MBSCC via the RTTM terminal service as well as via interactive messages). MBSCC is proposing to modify its rules to delete references to the Transaction Summary Report as notification of unmatched trades and to provide for this notification to occur by means of the RTTM Uncompare Reports.

iv. *Sole and binding confirmation of trades:* MBSCC's Rules currently provide that the Purchase and Sale Report is the sole and binding confirmation of the trade. In addition, the Purchase and Sale Report currently fulfills Rule 10b-10 requirements for generation of trade confirms. As stated above, upon implementation of RTTM, the Purchase and Sale Report will continue to be produced twice daily listing matched trades. Participants will, however, have received notice of trade input matching prior to the production of the Purchase and Sale report by means of the RTTM Compare Reports. To enable participants to rely upon the results of the RTTM processing, MBSCC is amending its rules so that the RTTM Compare Reports constitute sole and binding trade confirmation of trade input. Since the Purchase and Sale Report covers the matching of clearing information (which is not covered by the RTTM processing and thus would not be reported in the RTTM Compare Reports), it will remain the sole and binding confirmation with respect to that information. The Purchase and Sale Report will remain the Rule 10b-10 compliant confirmation.

v. *Trade input submission by inter-dealer brokers (''IDBs''):* Certain RTTM trade input formats require that an IDB submit two separate transactions linked together by a common reference number per trade. Under the current trade submission format, IDBs submit two transactions on give-up trades: one identifying the buying dealer and one identifying the selling dealer. The rule on IDB trade input (currently Section 1 of Rule 3 of Article II) speaks generally in terms of trade input and does not specify the number of submissions required. MBSCC is modifying this rule to add a reference to MBSCC's Procedures, which will describe in detail the trade input submission requirements.

vi. *Retirement of maximum match mode:* MBSCC's Rules provide that each dealer must select a match mode to govern the comparison of that dealer's MBSCC-eligible transactions involving an IDB. The rules currently provide for three match modes: the ''exact match mode,'' the ''net position match mode,'' and the ''maximum match mode.'' [5] Upon implementation of the RTTM service, only the exact and net position match modes will be available. MBSCC is retiring the maximum match mode due to lack of participant demand for this option. The proposed rule change deletes all references to the maximum match mode.

vii. *Review of reports by participants:* MBSCC's Rules currently contain a provision that requires participants and limited purpose participants to review the reports that they receive from MBSCC. MBSCC is expanding the provision to cover any type of communication provided to participants by MBSCC and to require participants to inform MBSCC promptly, and in no event later than ten calendar days after receipt of the communication, if there is any error, omission, or other problem with respect to the communication. MBSCC believes that the ten-day timeframe will provide participants with a sufficient amount of time within which to detect problems in a communication from MBSCC.

viii. *New definitions:* MBSCC is adding to its definitions the following new terms: ''Real Time,'' ''RTTM Processing,'' ''RTTM Compare Report,'' ''RTTM Uncompare Report,'' and ''Report.'' Various amendments are made to existing definitions that are incidental to the changes described above.

ix. *Amendment to MBSCC's Schedule of Charges for IDBs:* MBSCC is proposing to amend its Schedule of Charges to give IDBs a service-fee based incentive to move to interactive messaging. MBSCC believes that it is important to offer the incentive to its IDB participants because their early participation is critical to a successful implementation of the RTTM service. From a dealer perspective, lack of participation by one or more of the IDBs severely dilutes the benefits dealers will gain from RTTM usage because a large percentage of the dealers' matching activity is against IDBs. The perception of reduced benefits could lead to delays in dealer participation and a protracted rollout process. Therefore, MBSCC is proposing to waive for a period of one year commencing with putting the RTTM service into production the $.25/side ''Give-Up Trade Create'' trade recording fee for IDBs that participate in MBSCC's ''beta'' (testing) phase of the RTTM service and that subsequently move to production.[6]

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 and to assure the safeguarding of securities and funds which are in the custody or control of MBSCC.[7] The rule change, which allows MBSCC to implement real-time trade matching, should help MBSCC to reduce risk and provide more certainty by enabling firms to know earlier of any trades which do not compare and to have more time to resolve the problems. As a result, the proposed rule change should facilitate the prompt and accurate clearance and settlement of securities at MBSCC and should help MBSCC to protect the securities and funds in its possession or control or for which it is responsible. Therefore, the Commission finds that the rule change is consistent with Section 17A and the rules and regulations thereunder.

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 with the requirements of section 17A of the Act and the rules and regulations thereunder applicable.

It is therefore ordered, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR–MBSCC–2001–02) be and hereby is approved.

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

Margaret H. McFarland,

Deputy Secretary.

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[5] The ''exact match mode'' means that trade input that matches in all other respects will be compared only if the par amount of the eligible securities reported to have been sold or purchased by the dealer for a particular transaction is identical to the par amount of a particular transaction reported by the broker. The ''net position match mode'' means that trade input that matches in all other respects will be compared only if the aggregate par amount of one or more transactions in eligible securities reported to have been sold or purchased by the dealer equals the aggregate par amount for one or more transactions reported by the broker. The ''maximum match mode'' means that trade input that matches in all other respects will be compared to the extent that the par amount of eligible securities reported to have been sold or purchased by the dealer does not exceed the aggregate par amount for one or more transactions reported by the broker with transactions reported by the broker in any excess par amount remaining uncompared.

[6] IDBs must be interactive in order to participate in the testing phase, which is scheduled to take place during the first quarter of 2002.

[7] 15 U.S.C. 78q–1(b)(3)(F).

[8] 17 CFR 200.30–3(a)(12).