

securities may require negotiation of the transaction price, agreement on the currency of settlement and time to obtain Rule 144A compliance documentation.

The NASD has determined that the time of "execution" with respect to a transaction in a PORTAL security shall be the point when all of the terms of the trade have been agreed to and the parties are ready to send the transaction to clearance and settlement. So long as the terms of the transaction remain outstanding, the transaction would not be deemed to be executed because the parties are not ready to enter "into a purchase, sale or transfer of a PORTAL security." With respect to the transfer of documents demonstrating compliance with Rule 144A or any other applicable exemption, it appears that the transfer of such documentation may occur at some later time although the seller would have previously determined the exemption to be relied on. Thus, the time when documentation supporting reliance on Rule 144A or any other applicable exemption is completed would not affect the time when an "execution" of a transaction in a PORTAL security is deemed to occur.

(b) The NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act in that the establishment of a pilot to develop criteria for designation of securities that should be subject to last sale display and to initiate trade reporting under the pilot will allow the NASD to surveil transactions in restricted securities that are designated in The PORTAL Market and will prevent fraudulent and manipulative acts and practices, will promote just and equitable principles of trade, and will remove impediments to and perfect the mechanism of a free and open market.

**(B) Self-Regulatory Organization's Statement on Burden on Competition**

The NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

**(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others**

Written comments were neither solicited nor 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 NASD consents, the Commission will:

(A) By order approved 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. 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. 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 in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by July 17, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-37341; File No. SR-NSCC-96-10]

**Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change To Permit Establishment of Alternative Settlement Cycles for Mutual Fund Transactions Through the Fund/SERV System**

June 20, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on April 4, 1996, National Securities

Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change and described in Items I, II, and III below, which items have been prepared primarily by NSCC. On May 8, 1996, NSCC filed an amendment to its proposed rule change.<sup>2</sup> 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 proposed rule change will modify NSCC's Rules to enable NSCC members using NSCC's Fund/SERV system to establish settlement cycles for mutual fund transactions other than that which would be automatically assigned by Fund/SERV.

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>3</sup>

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

The purpose of the proposed rule change is to enable NSCC members using NSCC's Fund/SERV system to establish settlement cycles for mutual fund transactions other than that which would be automatically assigned by Fund/SERV. Fund/SERV is an NSCC service that permits NSCC members to process and to settle on an automated basis mutual fund purchase and redemption orders and to transmit registration instructions.

Currently, the Fund/SERV system automatically establishes a settlement cycle and assigns a settlement date to a mutual fund transaction based on the underlying security type. The proposed rule change will permit mutual fund transactions to settle on an expanded or

<sup>2</sup> Letter from Julie Beyers, Associate Counsel, NSCC, to Jerry Carpenter, Assistant Director, Division of Market Regulation, Commission (May 8, 1996).

<sup>3</sup> The Commission has modified parts of these statements.

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

shortened settlement cycle upon agreement of the submitting parties. The date established by the submitting parties for a transaction will be the date used for all trade processing relating to that particular transaction and could be as short as the same day or as long as seven business days.

As a result of the expansion of the types of businesses conducted by broker-dealers, the mutual fund industry has requested that NSCC modify the Fund/SERV system to enable broker-dealers to establish settlement dates with respect to specific transactions. For example, a transaction involving shares of traditional load mutual funds normally settles on a three business day settlement cycle, whereas a transaction for shares of the same fund involving a 401K account<sup>4</sup> normally settles on a next day settlement cycle. The proposed modifications to the Fund/SERV system will allow NSCC members to make an adjustment to the settlement cycle for mutual fund transactions in order to accommodate the need for different settlement cycles.

Under the proposed rules, a member which submits a mutual fund order and desires to establish a settlement cycle other than that established by the Fund/SERV system would include in the order data the date on which the transaction is to settle and a reason code for modifying the settlement cycle. The contraparty would then have the opportunity to accept or to reject the transaction. The transaction also would be rejected by NSCC if the specified settlement cycle is longer than seven business days. Once accepted NSCC will process the mutual fund transaction in accordance with the specified settlement cycle.

The proposed rule change is consistent with the requirements of Section 17A of the Act, and the rules and regulations thereunder because it will facilitate the prompt and accurate clearance and settlement of securities transactions.<sup>5</sup>

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

NSCC does not believe that the proposed rule change will have an impact on or impose a burden on competition.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

NSCC solicited comments from the Investment Company Institute Broker Dealer Advisory Committee on November 10, 1995. NSCC received one letter from Smith Barney<sup>6</sup> requesting certain formatting features. Based on this letter, NSCC has made certain modifications to the Fund/SERV system. NSCC will notify the Commission of any additional written comments received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty-five 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 ninety 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 self-regulatory organization 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. 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. 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 provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of NSCC. All submissions should refer to the file number SR-NSCC-96-10 and should be submitted by July 17, 1996.

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

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-37322; File No. SR-PHLX-96-20]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Contrary Exercise Advices for Expiring Equity Options**

June 18, 1996.

Pursuant to Section 19(b)(1) of the Securities Commission Act of 1934 ("Act"), 15 U.S.C. § 78s(b)(1), notice is hereby given that on May 30, 1996, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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**

Pursuant to Rule 19b-4 of the Act, the PHLX proposes to adopt new Floor Procedure Advice ("Advice") F-26, "Equity Options Contrary Exercise Advices," to add certain provisions of paragraph (b), "Exercise Cut-Off for Expiring Options," of PHLX Rule 1042, "Exercise of Equity Option Contracts," to the PHLX's Floor Procedure Advice Handbook. The PHLX proposes to include Advice F-26 in the Exchange's minor rule violation enforcement and reporting plan ("minor rule plan").<sup>1</sup>

<sup>1</sup> The Exchange's minor rule plan is administered pursuant to PHLX Rule 970, "Floor Procedure Advices: Violations, Penalties, and Procedures," which contains Advices with accompanying fine schedules. Pursuant to paragraph (c)(1) of Rule 19d-1 under the Act, a self-regulatory organization ("SRO") is required to file promptly with the Commission notice of any "final" disciplinary action taken by the SRO. Pursuant to paragraph (c)(2) of Rule 19d-1, any disciplinary action taken by the SRO for violation of an SRO rule that has been designated a minor rule violation pursuant to the plan shall not be considered "final" for purposes of Section 19(d)(1) of the Act if the sanction imposed consists of a fine not exceeding \$2500 and the sanctioned person has not sought an adjudication, including a hearing, or otherwise exhausted his or her administrative remedies. By deeming unadjudicated minor violations as not final, the Commission permits the SRO to report violations on a periodic (quarterly), as opposed to immediate, basis.

<sup>4</sup> A 401K account is a cash or deferred profit sharing plan as described in Section 401(k) of the Internal Revenue Code of 1986, as amended.

<sup>5</sup> 15 U.S.C. § 78q-1 (1988).

<sup>6</sup> Letter from Alan Rubin, Vice President, Smith Barney, to Chris Hayes, NSCC (January 15, 1996).