

Section 19(a)¹ of the Securities Exchange Act of 1934 ("Act") for extension of its temporary registration as a clearing agency under Section 17A² of the Act for a period of one year.³ The Commission is publishing this notice of filing of request and order to solicit comments from interested persons and to grant MBS's request for an extension of its temporary registration as a clearing agency through June 30, 1997.

On February 2, 1987, the Commission granted MBS's application for registration as a clearing agency pursuant to Sections 17A(b) and 19(a)(1) of the Act⁴ and Rule 17Ab2-1(c)⁵ thereunder on a temporary basis for a period of eighteen months.⁶ Subsequently, the Commission has issued orders that extended MBS's temporary registration as a clearing agency. The last extension order extended MBS's temporary registration through June 30, 1996.⁷

As discussed in detail in the original order granting MBS's registration, one of the primary reasons for MBS's registration was to enable it to provide for the safe and efficient clearance and settlement of transactions in mortgage-backed securities. Since the original temporary registration order, MBS has implemented several improvements to its operating and financial standards and continues to work towards enhancing the safety and efficiency of its operations. For example, over the past year the Commission granted permanent approval of MBS's Electronic Pool Notification ("EPN") service, an electronic, post-trade communication system for mortgage-backed securities.⁸ In addition, MBS modified its procedures relating to settlement balance order ("SBO") settlement to help prevent participants from influencing the amount of their cash

adjustments through submissions of internal trades.⁹

MBS has functioned effectively as a registered clearing agency for over nine years. Accordingly, in light of MBS's past performance and the need for MBS to provide continuity of service to its participants, the Commission believes that, pursuant to Section 17A(b)(2) of the Act, it is necessary and appropriate in the public interest and for the prompt and accurate clearance and settlement of securities transactions to approve MBS's request to extend its temporary registration through June 30, 1997. During this temporary registration period, the Commission expects MBS to file a request for permanent registration as a clearing agency. Any comments received during MBS's temporary registration will be considered in conjunction with the Commission's consideration of whether to grant MBS permanent registration as a clearing agency under Section 17A(b) of the Act.¹⁰

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 request for extension of temporary registration as a clearing agency that are filed with the Commission, and all written communications relating to the requested extension 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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of MBS. All submissions should refer to File No. 600-22.

Conclusion

On the basis of the foregoing, the Commission finds that MBS's request for extension of temporary registration as a clearing agency is consistent with the Act and in particular with Section 17A of the Act.

It is therefore ordered, that MBS's temporary registration as a clearing agency (File No. 600-22) be, and hereby is, extended through June 30, 1997.

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

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37380; File No. SR-CBOE-96-37]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change, as Amended, by Chicago Board Options Exchange, Incorporated Relating to a Pilot Operation of a System for Monitoring News Announcements Made After the Close of Trading in the Primary Market for the Underlying Stock

June 28, 1996.

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 17, 1996, the Chicago Board Options Exchange, Incorporated ("CBOE" 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 CBOE. The Exchange submitted to the Commission Amendment Nos. 1³ and 2⁴ to the proposed rule change on June 26, 1996. The Commission is publishing this notice, as amended, 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 Exchange proposes to institute a pilot test of a system that, shortly before

¹ 15 U.S.C. 78s(a) (1988).

² 15 U.S.C. 78q-1(a) (1988).

³ Letter from Robert J. Woldow, Secretary and General Counsel, MBS, to Jerry Carpenter, Assistant Director, Division of Market Regulation, Commission (June 6, 1996).

⁴ 15 U.S.C. 78q-1(b) and 78s(a)(1) (1988).

⁵ 17 CFR 240.17Ab2-1(c) (1994).

⁶ Securities Exchange Act Release No. 24046 (February 2, 1987), 52 FR 4218.

⁷ Securities Exchange Act Release Nos. 25957 (August 2, 1988), 53 FR 29537; 27079 (July 31, 1989), 54 FR 32412; 28492 (September 28, 1990), 55 FR 41148; 29571 (September 27, 1991), 56 FR 50602; 31750 (January 21, 1993), 58 FR 6424; 33348 (December 15, 1993), 58 FR 68183; and 35132 (December 21, 1994), 59 FR 67743.

⁸ Securities Exchange Act Release No. 36540 (November 30, 1995) 60 FR 63089 [File No. MBS-95-09] (order granting accelerated approval of proposed rule change).

⁹ Securities Exchange Act Release No. 37205 (May 13, 1996), 989 61 FR 24898 [File No. MBS-95-08] (order approving proposed rule change).

¹⁰ 15 U.S.C. 78q-1(b) (1988).

¹¹ 17 CFR 200.30-3(a)(50)(i) (1994).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange makes several clarifications to the proposed pilot. See Letter from Michael L. Meyer, Attorney, Schiff Hardin & Waite, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulations"), Commission, dated June 26, 1996 ("Amendment No. 1").

⁴ In Amendment No. 2, the Exchange clarifies that it intends to turn on the system each day a few minutes prior to the 3:00 p.m. central time close of trading in the primary market, in order to be certain that the system is operating by the time the primary market closes. Letter from Michael L. Meyer, Attorney, Schiff Hardin & Waite, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated June 26, 1996 ("Amendment No. 2").

the close of trading each day, will monitor news announcements pertaining to underlying securities, and will automatically suspend the Exchange's automatic execution system in respect of options on those securities that are the subject of such announcements. The text of the proposed rule change is available at the Office of the Secretary, CBOE 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, CBOE 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 CBOE 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

The Exchange proposes to establish a limited pilot test of an automated system that would monitor news wires received at the Exchange shortly before the close of trading each day, and would suspend the Exchange's automatic order execution system in a class of equity options whenever there is a news announcement pertaining to the security underlying options of that class. Options on equity securities are currently traded on CBOE until 3:10 p.m. central time on each trading day, which is 10 minutes after the close of trading on the primary market's for underlying securities. The Exchange notes that this additional period of options trading after the underlying market has closed is provided to accommodate orders to buy or sell options at prices that reflect the closing prices of the underlying securities. The Exchange has experienced difficulties when issuers of underlying stocks make significant news announcements after the 3:00 p.m. central time close of trading in the underlying stocks, but before options cease trading at 3:10 p.m. central time. The Exchange believes that because these issuers are often unaware of or indifferent to the fact that options trading on their stocks continues for 10 minutes after the stocks cease to trade, they do not wait until 3:10 p.m. central time to make these announcements. According to the Exchange, it is not uncommon for significant news

announcements to be made between 3:00 p.m. and 3:10 p.m., when options are still traded primary markets. These announcements often require an immediate adjustment to the prices of series of options on the stock in question, to take into account the likely affect of the announcement on the market price of the underlying stock, even though the stock is not then trading in its primary market. The Exchange believes that until such option prices are adjusted, the Exchange's retail automatic execution system ("RAES") may be providing automatic executions of customer orders at prices that do not reflect the current state of the market.

Currently, CBOE addresses this occurrence by positioning two Floor Officials in close communication with newsreaders in the Exchange's Control Room beginning shortly before 3:00 p.m. central time. If a significant news announcement is made, these two Floor Officials may exercise their authority under Exchange Rule 6.6(a) to declare a "fast" market, in the interest of maintaining a fair and orderly market, in the class or classes of options affected by the news announcement, and then to suspend RAES in respect of those classes as authorized under Rule 6.6(b)(v). The Exchange believes that there are at least two difficulties with this approach. First, it depends on the continuous availability of two Floor Officials at a critical time prior to the close of options trading when they might be needed to attend to other matters. Second, even if two Floor Officials are available, it still can take 30 seconds or more after a news announcement is received before the Floor Officials are able to suspend RAES, during which time a considerable number of orders may be automatically executed at inappropriate prices.

In response to these problems, CBOE developed a system that can monitor news wires during the 10 minutes following the close of trading in primary stock markets while options are still traded, and automatically suspend RAES in all series of options on those stocks that are the subject of news announcements. This permits RAES to be turned off at virtually the same time as the news item appears on the wire. According to the Exchange, when RAES is turned off, customer orders that might otherwise have been automatically executed will instead be automatically routed to the Public Automated Routing System ("PAR") workstation⁵ at the

⁵ A PAR workstation is an automated, computer-based workstation that provides users with the ability to execute trades, transmit trade reports, and enter other data and commands at the touch of a

appropriate trading post, where they can be immediately executed at the then current price almost as quickly as if they had received automatic execution in RAES.

The Exchange notes that the automatic news monitor cannot determine the significance of a particular announcement, and will automatically suspend RAES in a class of options whenever there is any news announcement pertaining to its underlying stock. Because significant news announcements, however, tend to be concentrated during the period immediately following the close of trading in primary stock markets, CBOE intends to operate its new system only during the time from just before 3:00 p.m. central time to the close of options trading on CBOE at 3:10 p.m. central time, when it is not expected that there will be very many "false alarm" announcements. Additionally, two Floor Officials will promptly be informed each time RAES is automatically turned off in response to a news announcement, and if enough time remains before the 3:10 p.m. central time close of options trading, the Floor Officials should be able to evaluate the significance of the announcement, and if it is not significant or if there has been time for prices to have been adjusted, to turn on RAES for the remainder of the trading session.⁶

In order to test the effectiveness of this automatic system in actual market conditions, CBOE proposes to implement it in respect of various classes of options during a 30-day pilot period.⁷ The Exchange believes that this will enable it to evaluate how quickly the automatic system if able to respond to news announcements, how many, if any, false alarms are received, how quickly customer orders are able to be rerouted and executed over the PAR system, and whether Floor Officials are able to make an evaluation of the situation and restore the operation of RAES in the limited time available after there has been an automatic suspension of RAES. If after the 30-day pilot period

screen, thereby eliminating the delay inherent in a keyboard-based system.

⁶ The Commission expects that if there is enough time before the close of options trading, and the news is not significant or if there has been time for prices to have been adjusted, the Floor Officials will resume RAES operations for the subject options class.

⁷ The Exchange will issue a circular to its membership outlining the terms of the pilot and the classes that will be included in it. Telephone conversation between Michael L. Meyer, Schiff Hardin & Waite, and Sharon Lawson and John Ayanian, OMS, Market Regulation, Commission, on June 25, 1996.

CBOE desires to implement the automatic system on a permanent basis for all classes of equity options, CBOE will make a subsequent filing to this effect under Section 19(b)(2) of the Act.

CBOE believes that the implementation of a pilot test of a system that, if successful, would permit the continued availability of CBOE's automatic execution system for public customer orders during the period when options are traded after the close of trading in the primary markets for underlying stocks and would assure that these orders are executed at fair prices in the event of significant news announcements, is in the interest of promoting just and equitable principles of trade and protecting investors and the public interest, and thus is consistent with the objectives of Section 6(b)(5) of the Act.

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

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

C. Self-Regulatory Organization's Statement 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.

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

The Exchange has requested that the proposed rule change be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act. The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular the requirements of Section 6(b)(5) thereunder.

The Commission believes that the Exchange's proposal provides a reasonable method of testing a system to address pending news announcements after the close of trading in the primary market for the underlying securities.⁸ The Commission notes that the test will be limited to news announcements after the close of trading in the primary market for the underlying stock, while continuing to (1) ensure prompt execution of customer orders in the particular class subject to a news announcement by rerouting such orders to a PAR workstation and (2) make RAES executions available in classes of

options not subject to news announcements during the time when options continue to be traded after the close of trading in the primary market for underlying stocks.

As noted, the CBOE intends to evaluate the pilot in several respects to determine if it wants to implement the system on a permanent basis.⁹ The CBOE will provide the Commission with the analysis of the pilot.

The Commission finds good cause for approving this proposed rule change, as amended, on an accelerated basis prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. Specifically, the Commission believes that accelerated approval of the proposal, as amended, is appropriate because it is to be implemented for a limited 30-day period which will provide CBOE with the time to test the effectiveness of the system.

Accordingly, the Commission believes that it is consistent with Section 6(b)(5) of the Act to approve the proposed rule change, as amended, on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing and Amendment Nos. 1 and 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, DC 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 Section, 450 Fifth Street, N.W., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to File No. SR-CBOE-96-37 and should be submitted by July 26, 1996.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-

CBOE-96-37), as amended, is hereby approved for a 30-day pilot period, on an accelerated basis.

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

Jonathan G. Katz,

Secretary.

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[Release No. 34-37377; File No. SR-NASD-96-22]

Self-Regulatory Organizations; Notice of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to an Extension of the SOES Minimum Exposure Limit Rule and the SOES Automated Quotation Update Feature Until January 31, 1997

June 27, 1996.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 10, 1996, the National Association of Securities Dealers, Inc. ("NASD" or "Association") 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 NASD. 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 NASD proposes to extend, until January 31, 1997, the effectiveness of certain rules governing the operation of the Nasdaq Stock Market, Inc.'s ("Nasdaq") Small Order Execution System ("SOES"). Specifically, these SOES rules, which were previously approved by the Commission on a pilot basis on December 23, 1993² and recently extended through July 31, 1996,³ provide for: (1) a reduction in the minimum exposure limit for unpreferred SOES orders from five times the maximum order size to two times the maximum order size, and for the elimination of exposure limits for preference orders ("SOES Minimum Exposure Limit Rule"); and (2)

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² See Securities Exchange Act Release No. 33377 (December 23, 1993), 58 FR 69419 (December 30, 1993) ("Interim SOES Rules Approval Order").

³ See Securities Exchange Act Release No. 36795 (January 31, 1996), 61 FR 4504 (February 6, 1996) ("Interim SOES Rules Extension Order").

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

⁹ The pilot expires at 3:10 p.m. central time on July 26, 1996. Any request for an extension of the pilot period or request for permanent approval of the system would have to be submitted to the Commission pursuant to Section 19(b)(2) of the Act.