

Amendment Nos. 1 and 2 to the proposal on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning 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, 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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the PSE. All submissions should refer to File No. SR-PSE-96-03 and should be submitted by October 31, 1996.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁵³ that the proposed rule change (SR-PSE-96-03), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority:⁵⁴

Jonathan G. Katz,
Secretary.

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[Release No. 34-37781; File No. SR-PSE-96-16]

Self-Regulatory Organizations; Pacific Exchange, Inc.; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 Thereto Relating to Listing and Trading Guidelines for Municipal Bonds

October 3, 1996.

On June 5, 1996, the Pacific Stock Exchange, Inc. ("PSE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to

adopt on a permanent basis rules for the listing and trading of municipal bonds.

Notice of the proposed rule change was published for comment and appeared in the Federal Register on July 9, 1996.³ No comments were received on the proposal. On October 1, 1996, PSE submitted Amendment No. 1 ("Amendment No. 1") to the proposal to adopt additional maintenance criteria.⁴ This order approves the proposal, as amended.

I. Description of the Proposal

On March 7, 1994, the Commission approved an Exchange pilot program providing for the listing and trading of "municipal securities," as defined in Section 3(a)(29) of the Act ("pilot program").⁵ The Exchange now proposes to adopt this municipal securities pilot program on a permanent basis.

Under the pilot program, and municipal security may be eligible for Exchange listing provided it is rated as investment grade by at least one nationally recognized rating service, and satisfies the Exchange's distribution criteria for bonds of issuers whose corporate securities are not listed on the Exchange, *i.e.*, the size of issue must be at least \$20 million principal amount/aggregate market value, with at least 100 holders. In addition, the Exchange may consider such other information as it deems necessary to evaluate the appropriateness of the issue for exchange trading, including the financing structure and/or arrangement of the issuer.

Any municipal securities listed by the Exchange must be assigned to a specialist and traded in accordance with all PSE regulations otherwise applicable to the trading of securities listed on the Exchange. As with corporate bonds, trade reports and quotation information for municipal securities will be disseminated over Network B. However, to ensure uniformity of practice within the securities industry, proposed Rule 5.13(i) provides that all aspects of the trade reconciliation process, including comparison, settlement and clearing will be governed by the applicable requirements of the Municipal

Securities Rulemaking Board ("MSRB").⁶

Under the pilot program, any purchase or sale of a municipal security shall be exempt from the provisions of the Exchange's off-board trading rules.⁷ In addition, the pilot program is not intended to otherwise alter the existing regulatory framework and oversight applicable to municipal securities trading.⁸ Finally, a municipal security would be subject to delisting in the event it were no longer rated as investment grade by a nationally recognized rating service.

To accommodate the listing of municipal securities, the PSE proposes to apply the same rules and conditions of the pilot program, as noted above, on a permanent basis. In addition, the Exchange proposes to adopt the following rules on a permanent basis: Rule 3.2(e)(3) (basic listing requirements); Rule 3.5(d)(5) (maintenance requirements);⁹ Rule 5.13(i) (comparance, settlement, and clearance); and Rule 5.46(xv) (exemption to off-board trading requirements).

The Exchange proposes that any municipal security that it lists be assigned to a specialist and traded in accordance with all PSE regulations otherwise applicable to the trading of securities on the Equity Floors of the Exchange.¹⁰ Finally, the Exchange represents that it will require that its members who trade municipal bonds listed on the Exchange will have an adequate understanding of the tax

⁶ MSRB Rule G-3 provides specific qualification requirements for municipal securities principals and representatives. In light of the PSE's qualification requirements for specialists, the Exchange believes it is appropriate for the PSE to rely on these requirements for its specialists in lieu of the Rule G-3 standards. It is important, however, that any specialist selected by the PSE for a listed municipal security be familiar with the characteristics of municipal securities.

⁷ See Rule 5.46.

⁸ The National Association of Securities Dealers ("NASD") has the authority to enforce the MSRB rules. The Exchange notes that it will also be responsible for enforcing MSRB rules for the listed municipal securities. The PSE's enforcement in this regard will not preempt or limit in any manner the NASD's authority to act in this area.

⁹ In addition to requiring a particular issue to be rated as investment grade by at least one nationally recognized rating service, PSE will require the issue to have a market value or principal amount outstanding of at least \$400,000. See Amendment No. 1. The Commission also notes that PSE Rule 3.5(s), which sets forth reasons for suspending or delisting a security, will also apply to municipal securities.

¹⁰ To date, the Exchange has not listed or traded any municipal securities under the pilot program.

³ See Securities Exchange Act Release No. 37385 (June 28, 1996), 61 FR 36099.

⁴ Letter from Michael Pierson, PSE, to Stephen M. Youhn, SEC, dated September 30, 1996.

⁵ See Securities Exchange Act Release No. 33721 (March 7, 1994), 59 FR 11636 (March 11, 1994). On July 5, 1994, the Commission approved a 120-day extension to the Exchange's Municipal Bond Trading Pilot Program. See Securities Exchange Act Release No. 34317 (July 5, 1994), 59 FR 35546 (July 12, 1994). The pilot program expired in November 1994.

¹ 15 U.S.C. 78s(b)(1) (1988 & Supp. V 1993).

² 17 CFR 240.19b-4 (1994).

implication of the trading of such bonds.

II. Discussion

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).¹¹ In particular, the Commission believes the proposal is consistent with the Section 6(b)(5) requirement that the rules of exchange be designated to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling and processing information with respect to, and facilitating transactions in, securities, and, in general, to protect investors and the public interest.

Only municipal bond issuers that qualify under PSE's proposed non-listed corporate issuer distribution criteria will be considered for listing on the Exchange. These criteria, along with any other information relevant to determine whether the issue is appropriate for exchange trading, should ensure that only municipal bond issues that can support a liquid trading market will be listed on the Exchange. Moreover, the regulatory scheme in place for municipal securities now would continue to apply to PSE-listed municipal securities, with the additional coverage of PSE-listed municipal securities, with the additional coverage of the PSE surveillance program to the trading of the listed municipal securities. Finally, PSE-listed municipal securities will be traded like other PSE-listed bonds and will be subject to applicable MSRB Rules. For these reasons, the Commission believes the PSE proposal is consistent with the requirements of Section 6(b) of the Act.

The Commission finds good cause to approve Amendment No. 1 to the filing prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. The Amendment requires that outstanding municipal issues maintain a market value or principal amount of at least \$400,000. The Commission believes that this standard, when considered with the existing requirement that an issue be rated as investment grade by at least one nationally recognized rating service, will ensure that only those issues which are sufficiently liquid for exchange trading will continue to trade on the PSE. In addition, the Commission notes

that the Amendment adopts criteria which makes the PSE's maintenance criteria substantially similar to standards which exist at the American and Philadelphia Stock Exchanges. Accordingly, consistent with Section 6(b)(5) of the Act, the Commission believes that good cause exists to approve Amendment No. 1 to the filing on an accelerated basis.

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1. 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the PSE. All submissions should refer to File No. SR-PSE-96-16 and should be submitted by October 31, 1996.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-PSE-96-16) is approved, as amended.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37782; File No. SR-Phlx-96-36]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Index Value Calculations by the Index Calculation Engine ("ICE") System

October 3, 1996

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act"),¹ notice is hereby given that on August 5, 1996, the Philadelphia Stock Exchange, Inc. ("Phlx" 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 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

The Phlx, pursuant to Rule 19b-4 of the Act, proposes to utilize the Exchange's own internal system's calculation of index values as: (1) A "back-up" to the values currently calculated by an outside securities information vendor, as well as (2) the official index value for Phlx index options.² Currently, the Exchange utilizes a securities information vendor to calculate the index value for all of its listed index options. Thus, this vendor is the "reporting authority" pursuant to Rule 1000A(b)(9), meaning the institution or reporting service designated by the Exchange as the official source for calculating and determining the current value or the closing index value of the index.

Recently, the Exchange implemented its own index value calculation system, known as the Index Calculation Engine ("ICE"). ICE is a system administered by Regulatory Services, which currently serves as a back-up to the official reporting authority by separately calculating index values. Specifically,

¹ 15 U.S.C. 78s(b)(1).

² The Commission notes that the Phlx seeks to utilize the ICE system value as the official index value in three instances. First, the ICE system value would act as the official index value in the event the reporting authority designated by the Phlx is experiencing difficulties in disseminating an accurate value (e.g., computer failure). Under these circumstances, the ICE system value would be used as the official index value only for the time period that is necessary for the designated agent to correct its problem. This would allow trading to continue in the affected security without interruption.

Second, if the Phlx believes that the problem is chronic, the Exchange may want to designate a different reporting authority or become the reporting authority itself. Therefore, the Phlx seeks the authority to continue to disseminate the ICE system index value during the time it takes the Exchange to make this decision. As soon as this decision is made, however, the Phlx would submit a rule filing pursuant to Section 19 of the Act to switch the reporting authority.

Finally, due to economic and efficiency considerations, the Phlx may want to act as the reporting authority for certain Phlx index options on a permanent basis. Telephone call between Edith Hallahan, Special Counsel, Regulatory Services, Phlx, and Anthony P. Pecora, Attorney, Division of Market Regulation, SEC (Sept. 3, 1996).

¹¹ 15 U.S.C. 78f(b)(5) (1982).

¹² 15 U.S.C. § 78s(b)(2) (1988).

¹³ 17 CFR 200.30-3(a)(12) (1994).