

Exchange believes that trading in sixteenths will enhance competition and, thus, increase the potential for an investor's order to receive price improvement.<sup>7</sup>

At the March 1997 meeting of the Intermarket Trading System ("ITS") Operating Committee, the ITS participants approved enhancements to ITS to permit trading in sixteenths for all Tape B securities.<sup>8</sup> The Amex has represented that these system modifications have been made and the system now is able to accommodate trading all Amex equity securities in sixteenths.<sup>9</sup>

The Commission finds that the proposed rule change to permit all Amex equity securities selling at or above \$0.25 to trade in increments as small as one sixteenth of a dollar is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) and Section 11A.<sup>10</sup>

The Commission believes the quality of the market for Amex-listed securities will likely be enhanced by allowing a minimum fractional change of  $\frac{1}{16}$ , rather than  $\frac{1}{8}$ , for all Amex equity securities selling at or above \$0.25.<sup>11</sup> Decreasing such trading variations should help to produce more accurate pricing of such securities and can result in tighter quotations. In addition, if the quoted markets are improved by the reduced minimum tick fluctuations, the change could result in added benefits to

the market such as reduced transaction costs.<sup>12</sup>

Furthermore, this change in the minimum increment will complement the Commission's Order Execution Rules.<sup>13</sup> The rule change allows a more complete display of the buying and selling interest in Amex-listed securities. For example, the enhanced transparency will allow customer limit orders in smaller increments to be displaced, thus giving these limit orders greater visibility and allowing enhanced quote competition. The enhanced transparency will improve access to the best available prices and provide an opportunity for executions at prices that were not previously available.

Finally, the Commission believes the proposal allows increased competition among the different markets pursuant to Section 11A of the Act.<sup>14</sup> As noted above, ITS participants will have the capability to trade all Tape B securities in sixteenths. By ensuring that all ITS participants can quote in sixteenths, regional exchanges, over-the-counter market makers trading in Amex-listed securities, and Amex specialists will be able to compete with each other by quoting in finer increments.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>15</sup> that the proposed rule change (SR-Amex-97-14) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>16</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38566; File No. SR-NASD-97-23]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Registration Category, Study Outline and Specification for Series 72 Examination, Government Securities Representative.

May 1, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> notice is hereby given that on April 11, 1997, the NASD Regulation, Inc. ("NASD Regulation") filed with the Securities Exchange Commission ("SEC" or "Commission") the proposed rule change as described in items I, II, and III below, which Items have been prepared by NASD Regulation. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organizations Statement of the Terms of Substance of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Act, NASD Regulation is herewith filing a proposed rule change to create a new category of representative registration, the Government Securities Representative (Series 72), and to conform the registration requirements of the existing Registered Options Representative (Series 42) category to take into consideration this new category. Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

#### Rule 1032. Categories of Representative Registration

[(d) Registered Options Representative]

[Each person associated with a member whose activities in the investment banking or securities business include the solicitation and/or sale of option contracts shall be required to be certified as a Registered Options Representative and to pass an appropriate certification examination for such or an equivalent examination acceptable to the Association. Registered Options Representatives qualified in either put or call options shall not engage in both put and call option transactions until such time as they are qualified in both such options. Members shall be required to report to

in Amex-listed equity securities priced below \$0.25 will continue to be in  $\frac{1}{32}$ s (\$0.03125).

<sup>7</sup> The proposed rule change should affect a significant number of orders because, according to the Exchange, approximately 50% of all equity securities presently traded on the Amex sell for over \$10 per share.

<sup>8</sup> The Consolidated Tape, operated by the Consolidated Tape Association ("CTA"), compiles last sale reports in certain listed securities from all exchange and market makers trading such securities and disseminates these reports to vendors on a consolidated basis. Amex-listed stocks and qualifying regional-listed stocks are reported on CTA Tape B.

<sup>9</sup> Letter from Arne G. Michaelson, Senior Vice President, Amex, to Howard L. Kramer, Senior Associate Director, SEC, dated April 25, 1997.

<sup>10</sup> 15 U.S.C. §§ 78f(b) and 78k-1. In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation, consistent with Section 3 of the act. *Id.* § 78c(f).

<sup>11</sup> A study that analyzed the 1992 reduction in the minimum tick size for Amex-listed securities priced between \$1.00 and \$5.00 found that, in general, the spreads for those securities decreased significantly while trading activity and market depth was relatively unaffected. See Hee-Joon Ahn, Charles Q. Chao, and Hyuk Choe, *Tick Size, Spread, and Volume*, 5 J. Fin. Intermediation 2 (1996).

<sup>12</sup> The rule change is consistent with the recommendation of the Division of Market Regulation ("Division") in its Market 2000 Study, in which the Division noted that the  $\frac{1}{8}$  minimum variation can cause artificially wide spreads and hinder quote competition by preventing offers to buy or sell at prices inside the prevailing quote. See SEC, Division of Market Regulation, *Market 2000: An Examination of Current Equity Market Developments* 18-19 (Jan. 1994).

<sup>13</sup> See Securities Exchange Act Release No. 37619A (Sept. 6, 1996), 61 FR 48290 (Sept. 12, 1996).

<sup>14</sup> 15 U.S.C. § 78k-1(a)(1)(C)(ii).

<sup>15</sup> *Id.* § 78s(b)(2).

<sup>16</sup> 17 CFR 200.30-3(a)(12).

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

the Association the names of any associated persons certified as Registered Options Representatives pursuant to an examination approved by the Association. Registered Options Representatives must also be qualified with the Association as either General Securities Representatives or as Limited Representatives—Corporate Securities; provided, however, Registered Options Representatives of members that are members of a national securities exchange which has standards of approval acceptable to the Association may be deemed to be approved by and certified with the Association, so long as such representatives are approved by an registered with such exchange.]

*(d) Limited Representative—Options*

*(1) Each person associated with a member who is included within the definition of a representative as defined in Rule 1031 may register with the Association as a Limited Representative—Options if:*

*(A) such person's activities in the investment banking or securities business of the member involve the solicitation or sale or option contracts, including option contracts on government securities as that term is defined in Section 3(a)(42)(D) of the Act, for the account of a broker, dealer or public customer; and*

*(B) such person passes an appropriate qualification examination for Limited Representative—Options.*

*(2) Each person seeking to register and qualify as a Limited Representative—Options must, concurrent with or before such registration may become effective, become registered pursuant to the Rule 1032 Series, either as a Limited Representative—Corporate Securities or Limited Representative—Government Securities.*

*(3) A person registered as a Limited Representative—Options shall not be qualified to function in any area not prescribed by subparagraph (1)(A) hereof.*

\* \* \* \* \*

*(g) Limited Representative—Government Securities*

*(1) Each person associated with a member who is included within the definition of a representative as defined in Rule 1031 may register with the Association as a Limited Representative—Government Securities if:*

*(A) such person's activities in the investment banking or securities business involve the solicitation, purchase or sale of "government securities," as that term is defined in*

*Section 3(a)(42) (A) through (C) of the Act, for the account of a broker, dealer or public customer, and*

*(B) such person passes an appropriate qualification examination for Limited Representative—Government Securities.*

*(2) A person registered solely as a Limited Representative—Government Securities shall not be qualified to function in any area not prescribed by subparagraph (1)(A) hereof.*

*(3) A person who has been performing the functions of a Limited Representative—Government Securities on or before [insert date two years before effective date of this rule change] may register as such without first meeting the requirement of subparagraph (1)(B) above unless (A) such person is currently subject to a statutory disqualified as defined in Section 3(a)(39) of the Act or (B) during the past ten years before the effective date of that requirement was the subject of a suspension or fine of \$5,000 or more by the Association, the Securities and Exchange Commission, the Commodity Futures Trading Commission, state securities commission, foreign financial regulatory authority, or any other regulatory organization responsible for the investment banking or securities business.*

**[1112. Registration of Representatives]**

[All persons associated with a member who are to function as government securities representatives who have not previously been registered shall be registered as such with the Association.

*(a) Definition of Representative*

Persons associated with a member, including assistant officers other than principals, who are engaged in the government securities business for the member including:

(1) underwriting, trading or sales of government securities;

(2) financial advisory or consultant services for issuers in connection with the issuance of government securities;

(3) research or investment advice, other than general economic information or advice, with respect to government securities in connection with the activities described in subparagraphs (1) and (2) above;

(4) activities other than those specifically mentioned that involve communication, directly or indirectly, with public investors in government securities in connection with the activities described in subparagraphs (1) and (2) above; are designated as representatives.

*(b) Notification of Representative Status*

A member shall promptly notify the Association of the assumption by an individual not previously registered with the member of representative status on the form designated by the Board of Governors accompanied by the applicable fees.

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

In its filing with the Commission, NASD Regulation 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. NASD Regulation 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 National Association of Securities Dealers, Inc. ("NASD") is responsible under Section 15A(g)(3) of the Act to prescribe standards of training, experience and competence for persons associated with NASD members. Pursuant to this statutory obligation, NASD Regulation administers examinations developed by NASD Regulation and other self-regulatory organizations to establish that persons associated with NASD members have attained specified levels of competence and knowledge.

The Government Securities Act of 1986 ("1986 Act"), an amendment to the Act, required sole government securities broker-dealers to register with the SEC for the first time. The 1986 Act also granted the NASD authority to require associated persons of such firms to register with the NASD. However, the 1986 Act did not allow the NASD to apply its qualification examination standards to associated persons of government securities broker-dealers. Since January 1989, such associated persons have been required to register as Government Securities Representatives or Government Securities Principals, but have not been required to pass a qualification examination. Under a 1993 amendment to the Act, the NASD was given authority to apply its qualification standards to Government Securities Representatives and Government Securities Principals.

The proposed rule change will establish an examination qualification

requirement for government securities representatives. A person may qualify to sell government securities by passing the existing Series 7 examination or the new Series 72 examination. The proposed rule change replaces current Rule 1112, which was adopted in 1989. The proposed rule change is consistent with the format of the other NASD limited registration categories.

NASD Regulation has determined to adopt a "grandfather" provision for this examination requirement. Persons who have been registered with the NASD as a government securities representative for two years prior to the effective date of the rule will not have to take the examination unless they are subject to a statutory disqualification as defined in Section 3(a)(39) of the Act or in the last ten years have been subject to a suspension or fine of \$5,000 or more imposed by a securities or commodities regulator. This provision is consistent with previous practice in permitting persons who have achieved a certain level of experience in a segment of the securities industry to be "grandfathered" if a new qualification examination is adopted for that particular industry segment.

Currently, individuals who sell OTC options on government securities are not required to pass a qualification examination. The proposed rule change also will amend Rule 1032(d) for Registered Options Representatives to establish registration and qualification requirements for such individuals, and to add the Series 72 Examination to the list of those examinations which prequalify an individual to take the Limited Representative—Options (Series 42) Examination. A person selling OTC options on government securities would be required to pass the new Series 72 examination and the existing Series 42 examination. This proposed rule change will change the language of Rule 1032(d) Registered Option Representative so that it is similar to the language used in the other registration categories in Rule 1032.

The Series 72 examination will consist of one hundred (100) questions. Candidates will have three hours to complete the examination. The passing score for the examination will be 70%.

The NASD believes that the proposed rule change is consistent with the provisions of Sections 15A(b)(6) and 15A(g)(3) of the Act in that the NASD is required to prescribe standards of training, experience and competence for persons associated with NASD members. Pursuant to this statutory obligation, the NASD develops and administers examinations to establish that persons associated with NASD

members have attained specified levels of competence and knowledge.

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

NASD Regulation 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 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 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 NASD. All submissions should refer to File No. NASD-97-23 and should be submitted by May 30, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>2</sup>

<sup>2</sup> 17 CFR 200.30-3(a)(12).

**Margaret H. McFarland,**

*Deputy Secretary.*

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## **SOCIAL SECURITY ADMINISTRATION**

### **Agency Information Collection Activities; Submissions for OMB Review**

This notice lists information collection packages that have been sent to the Office of Management and Budget (OMB) for clearance, in compliance with PL. 104-13 effective October 1, 1995, The Paperwork Reduction Act of 1995.

1. You Can Make Your Payments by Credit Cards—0960-0462. The information on Forms SSA-4588 & SSA-4589 will be used to update the individual's social security record to reflect that a payment has been made on their overpayment and to effectuate payment through the appropriate credit card company. The respondents are individuals who make payments by credit cards.

*Number of Respondents:* 12,000.

*Frequency of Response:* 1.

*Average Burden Per Response:* 5 minutes.

*Estimated Annual Burden:* 1,000 hours.

2. Third Party Liability Information Statement—0960-0323. Form SSA-8019 is used by the Social Security Administration to gather information or to make changes in existing information about third party insurance (other than Medicare or Medicaid), which could be responsible for payment for a beneficiary's medical care. The respondents are applicants and beneficiaries of social security benefits.

*Number of Respondents:* 65,400.

*Frequency of Response:* 1.

*Average Burden Per Response:* 5 minutes.

*Estimated Annual Burden:* 5,450 hours.

3. Representative Payee Report—0960-0068. Sections 205(j) and 1631(a)(2) of the Social Security Act provide for the payment of supplemental security income and social security benefits to a relative, another person or an organization when the best interests of the beneficiary will be served. Form SSA-6230 (20 CFR 404.2065) is sent to parents, stepparents and grandparents with custody of minor children receiving social security benefits. Form SSA-623 (20 CFR 404.2065 and 416.665) is sent to all other payees with or without custody of the beneficiary. Both forms are used to