is critically important to the efficient functioning and regulation of a dispersed dealer market and any significant hindrance to price competition impedes the free and open market prescribed by the Exchange Act.

The Commission believes that the NASD's proposed interpretation expressly reaffirms that anti-competitive and intimidation and harassment of other members is prohibited. The Commission noted in the 21(a) Report, and the NASD's interpretation reiterates, that such conduct is inconsistent with just and equitable principles of trade. The Interpretation clearly delineates the type of behavior that is antithetical to a free and open market while preserving the ability of members to engage in legitimate market activity. Although the behavior prohibited under the interpretation has continually been violative of NASD Rule 2110 and the federal securities laws, the Commission believes that the interpretation will clearly highlight for members that such conduct is a serious violation of NASD Rules.

The Commission believes that the proposed rule change is consistent with the Exchange Act and the rules and regulations thereunder applicable to the NASD, in particular, Sections 15A(b)(6) and 15 A(b)(11).[5] The Commission finds that the proposed interpretation specifically prohibiting anti-competitive conduct of member broker/dealers and persons associated with member broker/dealers is in furtherance of the requirements of Section 15A(b)(6) that the Association's rules be designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, and to protect investors and the public interest. In addition, the Commission funds that the proposed rule change is consistent with Section 15A(b)(11) in that the interpretation is designed to produce fair and informative quotations, to prevent fictitious or misleading quotations, and to promote orderly procedures for collecting, distributing, and publishing quotations.

IV. Conclusion

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with the Exchange Act and the rules and regulations thereunder applicable to the NASD and, in particular, Sections 15A(b)(6) and 15A(b)(11).[6]

[5] 15 U.S.C. 78*o*–3.

[6] In approving this rule proposal, the Commission notes that it has also considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

It Is Therefore Ordered, pursuant to section 19(b)(2) of the Exchange Act,[7] that the proposed rule change (SR–NASD–97–37) be, and hereby is, approved.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–19346 Filed 7–22–97; 8:45 am]

BILLING CODE 8010–01–M

[7] 15 U.S.C. 78s(b)(2).

[8] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38851; File No. SR–NASD–97–49]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Order Granting Accelerated Approval to Proposed Rule Change Relating to an Extension of the NASD's Rule Permitting Market Makers To Display Their Actual Quotation Size

July 18, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on July 11, 1997, 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 and is approving the proposal on an accelerated basis.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The NASD proposes to extend the effectiveness of NASD Rule 4613(a)(1)(C) until December 31, 1997. NASD Rule 4613(a)(1)(C) provides that market makers in the first fifty Nasdaq stocks subject to the Commission's Limit Order Display Rule are allowed to quote their actual quote size (''Actual Size Rule'').[1] The text of the proposed rule change is as follows. (Additions are italicized; deletions are bracketed.)

* * * * *

NASD Rule 4613 Character of Quotations

(a) Two-Sided Quotations.

(1) No change.

(A)–(B) No change.

(C) As part of a pilot program implemented by The Nasdaq Stock Market, during the period January 20, 1997 through at least [July 18] *December 31*, 1997,[2] a registered market maker in a security listed on The Nasdaq Stock Market that became subject to mandatory compliance with SEC Rule 11Ac1–4 on January 20, 1997 must display a quotation size for at least one normal unit of trading (or a larger multiple thereof) when it is not displaying a limit order in compliance with SEC Rule 11Ac1–4, provided, however, that a registered market maker may augment its displayed quotation size to display limit orders priced at the market maker's quotation.

* * * * *

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

In its filing with the Commission, the NASD 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 NASD 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

On August 29, 1996, the Commission promulgated a new rule and adopted amendments to other SEC rules that are designed to enhance the quality of published quotations for securities and promote competition and pricing efficiency in U.S. securities markets (these rules are collectively referred to hereinafter as the ''Order Handling

[1] The NASD has concurrently requested that the pilot for the Actual Size Rule be expanded to apply to 100 additional Nasdaq securities and extended until March 27, 1998. *See* Letter from Robert E. Aber, Vice President and General Counsel, The Nasdaq Stock Market, Inc., to Katherine England, Assistant Director, Office of Market Supervision, Division of Market Regulation, Commission, dated July 10, 1997.

[2] The NASD filed an amendment (''Amendment No. 1'') to extend the pilot to December 31, 1997, rather than September 26, 1997. *See* Letter from Robert E. Aber, Vice President and General Counsel, The Nasdaq Stock Market, Inc., to Katherine England, Assistant Director, Office of Market Supervision, Division of Market Regulation, Commission, dated July 17, 1997.

Rules'').[3] With respect to securities listed on Nasdaq, the Order Handling Rules are being implemented according to a phased-in implementation schedule. In particular, fifty Nasdaq securities became subject to the rules on January 20, 1997 (''first fifty)[4] and an additional 650 Nasdaq securities have been phased in under the Order Handling Rules since that time.[5] The remaining Nasdaq securities will become subject to the rules according to time tables established by the Commission.[6]

In particular, the SEC adopted Rule 11Ac1–4, the ''Display Rule,'' which requires the display of customer limit orders: (1) That are priced better than a market maker's quote;[7] or (2) that add to the size associated with a market maker's quote when the market maker is at the best price in the market.[8] By virtue of the Display Rule, investors will now have the ability to directly advertise their trading interest to the marketplace, thereby allowing them to compete with market maker quotations and affect the size of bid-ask spreads.[9] The other rule changes adopted by the SEC involve amendments to the SEC's Firm Quote Rule, Rule 11Ac1–1. The most significant of these amendments requires market makers to display in their quote any better priced orders that the market maker places into an electronic communications network (''ECN'') such as SelectNet or Instinet (''ECN Rule''). Alternatively, instead of updating its quote to reflect better priced orders entered into an ECN, a market maker may comply with the display requirements of the ECN Rule through the ECN itself, provided the ECN: (1) Ensures that the best priced orders entered by market makers into the ECN are communicated to Nasdaq for public dissemination; and (2) provides brokers and dealers access to orders entered by market makers into the ECN, so that brokers and dealers who do not subscribe to the ECN can trade with those orders.

In order to facilitate implementation of the SEC's Order Handling Rules and reflect the order-driven nature of the Nasdaq market that will be brought about by implementation of these rules, on January 10, 1997, the Commission approved a variety of amendments to NASD rules and Nasdaq's Small Order Execution System (''SOES'') and SelectNet Service.[10] In particular, one of the NASD Rule changes approved by the Commission as a temporary pilot provides that Nasdaq market makers in the ''first fifty'' stocks subject to the Commission's Limit Order Display Rule are required to display a minimum quotation size of one normal unit of trading when quoting solely for their own proprietary account.[11] For Nasdaq stocks outside of the ''first fifty,'' the minimum quotation size requirements remain the same.[12]

The NASD submitted the proposal for the Actual Size Rule because it believed, and continues to believe, that the new order-driven nature of Nasdaq brought about by the Display Rule obviates the regulatory justification for minimum quote size requirements because investors will have the capability to display their own orders on Nasdaq. The NASD believed it was appropriate to impose the Mandatory Quote Size Requirements to ensure an acceptable level of market liquidity when Nasdaq market makers were the only market participants who could quote. Now that the Display Rule permits investors to set the quote, the NASD believes it is appropriate to treat Nasdaq market makers in a manner equivalent to exchange specialists and not subject them to minimum quote size requirements when they are not representing customer orders. In sum, with the successful implementation of the SEC's Order Handling Rules, the NASD believes that mandatory quote size requirements impose unnecessary regulatory burdens on market makers which are not consistent with the Act.

At the same time, the NASD does not believe that implementation of the Actual Size Rule in an environment where limit orders are displayed has or will compromise the quality of the Nasdaq market. First, the display of customer limit orders enhances the depth, liquidity, and stability of the market and contributes to narrower quoted spreads, thereby mitigating the effects of the loss of displayed trading interest, if any, by market makers. Second, removing artificial quote size requirements may lead to narrower market maker spreads, thereby reducing investors' transaction costs. Third, permitting market makers to quote in size commensurate with their own freely-determined trading interest will enhance the pricing efficiency of the Nasdaq market and the independence and competitiveness of dealer quotations. Fourth, removing quotation size requirements will facilitate greater quote size changes, thereby increasing the information content of market maker quotes by facilitating different quote sizes from dealers who have a substantial interest in the stock at a particular time and those who do not.

Indeed, in its order approving the Actual Size Rule, the Commission noted that it ''preliminarily believes that the proposal will not adversely affect market quality and liquidity''[13] and that it ''believes there are substantial reasons * * * to expect that reducing market makers' proprietary quotation size requirements in light of the shift to a more order-driven market would be beneficial to investors.''[14] In addition, the Commission stated that, ''based on its experience with the markets and discussions with market participants, [it] believes that decreasing the required quote size will not result in a reduction in liquidity that will hurt investors.''[15]

Nevertheless, in light of concerns raised by commenters opposed to the Actual Size Rule regarding the potential adverse impacts of the Rule on market liquidity and volatility, the Commission determined to approve the Rule on a

[3] See Securities Exchange Act Release 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996) (''Order Handling Rules Adopting Release'').

[4] See Securities Exchange Act Release No. 38139 (January 8, 1997), 62 FR 1385 (January 10, 1997).

[5] See Securities Exchange Act Release No. 38490 (April 9, 1997), 62 FR 18514 (April 16, 1997); Securities Exchange Act Release No. 38246 (February 5, 1997), 62 FR 6468, (February 12, 1997).

[6] See Securities Exchange Act Release No. 38490 (April 9, 1997), 62 FR 18514 (April 16, 1997).

[7] For example, if a market maker's quote in stock ABCD is 10–10¼ (1000 x 1000) and the market maker receives a customer limit order to buy 200 shares at 10⅛, the market maker must update its quote to 10⅛–10¼ (200 x 1000).

[8] For example, if a market maker receives a limit order to buy 200 shares of ABCD at 10 when its quote in ABCD is 10–10¼ (1000 x 1000) and the NBBO for ABCD is 10–10⅛, the market maker must update its quote to 10–10¼ (1200 x 1000).

[9] There are eight exceptions to the immediate display requirement of the Limit Order Display Rule: (1) Customer limit orders executed upon receipt; (2) limit orders placed by customers who request that they not be displayed; (3) limit orders for odd-lots; (4) limit orders of block size (10,000 shares or $200,000); (5) limit orders routed to a Nasdaq or exchange system for display; (6) limit orders routed to a qualified electronic communications network for display; (7) limit orders routed to another member for display; and (8) limit orders that are all-or-none orders. See Rule 11Ac1–4(c).

[10] See Securities Exchange Act Release No. 38156 (January 16, 1997), 62 FR 2415 (order partially approving SR–NASD–96–43) (''Actual Size Quote Rule Approval Order'').

[11] Thus, the Actual Size Rule does not affect a market maker's obligation to display the full size of a customer limit order. If a market maker is required to display a customer limit order for 200 shares or more, it must display a quote size of at least 200 shares absent an exemption from the Display Rule.

[12] In particular, NASD Rule 4613(a)(2) requires each market maker in a Nasdaq issue other than those in the ''first fifty'' to enter and maintain two-sided quotations with a minimum size equal to or greater than the applicable SOES tier size for the security (e.g., 1,000, 500, or 200 shares for Nasdaq National Market issues and 500 or 100 shares for Nasdaq SmallCap Market issues) (''Mandatory Quote Size Requirements'').

[13] See Actual Size Rule Approval Order, *supra* note 5 at 2425.

[14] *Id.* at 2423.

[15] *Id.* at 2424.

three-month pilot basis to afford the Commission, the NASD and Nasdaq an opportunity to gain practical experience with the rule and evaluate the effects of the Rule. The factors identified by the Commission to be considered in this evaluation include, among others, the impact of reduced quotation sizes on liquidity, volatility and quotation spreads.[16]

On April 11, 1997, the Commission approved an NASD rule filing that extended the duration of the pilot program until July 18, 1997.[17] In this filing, the NASD and Nasdaq provided statistical information prepared by the NASD's Economic Research Department concludes that: (1) The SEC's Order Handling Rules have dramatically improved the quality of the Nasdaq market, particularly with respect to the size of quoted spreads; (2) among those securities subject to the SEC's Order Handling Rules, there is no appreciable difference in market quality between those stocks subject to the Actual Size Rule and those stocks subject to Mandatory Quote Size Requirements; and (3) implementation of the Actual Size Rule has not resulted in any significant diminution of the ability of investors to receive automated executions through SOES, SelectNet, or proprietary systems operated by broker-dealers.[18] Subsequently, on June 3, 1997, the NASD submitted a formal study to the Commission on the Actual Size Rule that, among other things, reiterated these findings and provided more detailed information on the NASD's analysis of the Rule.[19]

The NASD is proposing a further extension of the 50 stock pilot for the Actual Size Rule until December 31, 1997. The NASD and Nasdaq believe that experience with the Actual Size Rule has clearly demonstrated that the Rule has not harmed investors or the quality of the Nasdaq market and, thus, that the Rule should be permanently approved and expanded to all Nasdaq securities. Nevertheless, the NASD and Nasdaq believe it is prudent, in response to suggestions made by Commission staff, to extend the 50 stock pilot program for the Rule until December 31, 1997. Specifically, with the additional experience with the Actual Size Rule that extension of the pilot period will provide, the NASD and Nasdaq believe the Commission's analysis of the NASD's proposal for expansion of the Rule will be more comprehensive.

For the reasons noted above, the NASD believes the proposed rule change is consistent with Sections 11A(a)(1)(C), 15A(b)(6), 15A(b)(9), and 15A(b)(11) of the Act. Section 11A(a)(1)(C) provides that it is in the public interest to, among other things, assure the economically efficient execution of securities transactions and the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Section 15A(b)(6) requires that the rules of a national securities association be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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. Section 15A(b)(9) requires that rules of an Association not impose any burden on competition not necessary or appropriate to furtherance of the purposes of the Act. Section 15A(b)(11) requires the NASD to, among other things, formulate rules designed to produce fair and informative quotations.

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

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

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

Comments were neither solicited nor received.

III. 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 number SR–NASD–97–49 and should be submitted by August 13, 1997.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds that the NASD's proposal is consistent with the Act and the rules and regulations thereunder applicable to a national securities association and has determined to approve the extension of the pilot through at least December 31, 1997.[20] The Commission approved the Actual Size Rule on a pilot basis so that the effects of the rule could be assessed. When approving the Actual Size Rule on a pilot basis, the Commission stated that it believed that a reduction in the quotation size requirement could reduce the risks that market makers must take, produce accurate and informative quotations, and encourage market makers to maintain competitive prices even in the changing market conditions resulting from the Order Execution Rules. The NASD has produced an extensive economic analysis of the pilot, and several commentators have provided their own economic analysis in rebuttal. An extension of the pilot

[16] The Commission stated that ''the NASD study should include an analysis of: (1) The number of market makers in each of the 50 securities, and any change in the number over time; (2) the average aggregate dealer and inside spread by stock over time; (3) the average spread for each market maker by stock; (4) the average depth by market maker (including limit orders), and any change in the depth over time; (5) the fraction of volume executed by a market maker who is at the inside quote by stock; and (6) a measure of volume required to move the price of each security one increment (to determine the overall liquidity and volatility in the market for each stock). The Commission expects that these factors should be contrasted over the time period immediately preceding the pilot and after the beginning of the pilot.'' *Id.* at 2425. In addition, the Commission stated that the NASD should conduct a similar study to compare the ''first fifty'' stocks (to which the Rule applied) with the ''second fifty'' stocks (stocks subject to the SEC's Order Handling Rules but not the Actual Size Rule). *Id.*

[17] See Securities Exchange Act Release No. 38512 (April 15, 1997), 62 FR 19373 (April 21, 1997).

[18] See *id.* at 19375–77.

[19] See Securities Exchange Act Release No. 38720 (June 5, 1997), 62 FR 31856 (June 11, 1997). A copy of the executive summary of this report is available at Nasdaq's World Wide Web site at ''http://www.nasdaq.com''. Members of the public may also download a file containing the entire report at this site.

[20] In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

will provide the Commission with an additional period of time to evaluate the economic studies and review the comments on the NASD's study. In addition, the Commission believes that the proposed rule change will benefit the markets by providing more experience with the rule before a decision is made regarding permanent approval. The Commission will consider the NASD's further proposals regarding the Actual Size Rule in the coming months, as well as the future of the 50 stock pilot itself. Accordingly, the Commission believes that the pilot is consistent with Sections 15A(b)(6) and 15A(b)(9) of the Act and should be extended beyond the July 18, 1997, expiration date. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register** in order to continue the pilot on an uninterrupted basis while it evaluates the NASD's proposal for expansion of the pilot.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–NASD–97–49) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[21]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–19445 Filed 7–22–97; 8:45 am]

BILLING CODE 8010–01–U

SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #2965]

State of Michigan

As a result of the President's major disaster declaration on July 11, 1997, I find that Macomb, Oakland, and Wayne Counties in the State of Michigan constitute a disaster area due to damages caused by severe storms, tornadoes, and flooding which occurred on July 2, 1997. Applications for loans for physical damages may be filed until the close of business on September 9, 1997, and for loans for economic injury until the close of business on April 13, 1998 at the address listed below or other locally announced locations:

U.S. Small Business Administration, Disaster Area 2 Office, One Baltimore Place, Suite 300, Atlanta, GA 30308.

In addition, applications for economic injury loans from small businesses located in the contiguous Counties of Genesee, Lapeer, Livingston, Monroe, St. Clair, and Washtenaw in the State of Michigan may be filed until the specified date at the above location.

	Percent
Physical Damage:	
Homeowners with credit available elsewhere	8.000
Homeowners without credit available elsewhere	4.000
Businesses with credit available elsewhere	8.000
Businesses and non-profit organizations without credit available elsewhere	4.000
Others (including non-profit organizations) with credit available elsewhere	7.250
For Economic Injury:	
Businesses and small agricultural cooperatives without credit available elsewhere	4.000

The numbers assigned to this disaster are 296506 for physical damage and 953000 for economic injury.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: July 15, 1997.

Bernard Kulik,

Associate Administrator for Disaster Assistance.

[FR Doc. 97–19319 Filed 7–22–97; 8:45 am]

BILLING CODE 8025–01–M

SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #2963]

State of Mississippi; (And a Contiguous Parish in Louisiana)

Marion County and the contiguous Counties of Jefferson Davis, Lamar, Lawrence, Pearl River, and Walthall in the State of Mississippi, and Washington Parish in the State of Louisiana constitute a disaster area as a result of damages caused by severe storms and flooding which occurred June 18 through June 20, 1997. Applications for loans for physical damages may be filed until the close of business on September 11, 1997 and for economic injury until the close of business on April 13, 1998 at the address listed below or other locally announced locations:

U.S. Small Business Administration, Disaster Area 2 Office, One Baltimore Place, Suite 300, Atlanta, GA 30308.

The interest rates are:

	Percent
For Physical Damage:	
Homeowners with credit available elsewhere	8.000
Homeowners without credit available elsewhere	4.000
Businesses with credit available elsewhere	8.000
Businesses and non-profit organizations without credit available elsewhere	4.000
Others (including non-profit organizations) with credit available elsewhere	7.250
For Economic Injury:	
Businesses and small agricultural cooperatives without credit available elsewhere	4.000

The numbers assigned to this disaster for physical damage are 296306 for Mississippi and 296406 for Louisiana. For economic injury the numbers are 952800 for Mississippi and 952900 for Louisiana.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008.)

Dated: July 11, 1997.

Aida Alvarez,

Administrator.

[FR Doc. 97–19321 Filed 7–22–97; 8:45 am]

BILLING CODE 8025–01–M

SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #2966]

State of Ohio; (And Contiguous Counties in Kentucky)

Clermont County and the contiguous Counties of Brown, Clinton, Hamilton, and Warren in Ohio, and Bracken, Campbell, and Pendleton Counties in Kentucky constitute a disaster area as a result of damages caused by severe storms and tornadoes which occurred on July 2, 1997. Applications for loans for physical damages may be filed until the close of business on September 15, 1997 and for economic injury until the close of business on April 16, 1998 at the address listed below or other locally announced locations:

U.S. Small Business Administration, Disaster Area 2 Office, One Baltimore Place, Suite 300, Atlanta, GA 30308

The interest rates are:

	Percent
For Physical Damage:	
Homeowners with credit available elsewhere	8.000
Homeowners without credit available elsewhere	4.000
Businesses with credit available elsewhere	8.000
Businesses and non-profit organizations without credit available elsewhere	4.000
Others (including non-profit organizations) with credit available elsewhere	7.250

[21] 17 CFR 200.30–3(a)(12).