

recalculated using the security information for the replacement collateral.

5. Substitution of Maturing Collateral

Finally, GSCC is making eligible for its netting system repos with underlying collateral that matures on or prior to the scheduled close date by eliminating from the list of requirements for netting-eligibility the requirement that the maturity date of the underlying securities be on or later than the scheduled settlement date of the close leg. The proposal will add Section 6 to Rule 18 to require that if a repo participant has transferred securities as underlying collateral that mature prior to the settlement date of the close leg, that participant must substitute equivalent securities with a later maturity date prior to the business day before the maturity date.

The proposed rule change is consistent with the requirements of Section 17A of the Act⁹ and the rules and regulations thereunder because it will authorize GSCC to make forward-starting repos eligible for netting in a prudent fashion once they are compared by GSCC. This will allow members to enjoy the benefit of guaranteed settlement of their forward-starting repos as soon as possible.

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

GSCC does not believe that the proposed rule change would impose a burden on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. Members will be notified of the rule change filing and comments will be solicited by an important notice. GSCC will notify the Commission of any written comments received by GSCC.

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 GSCC 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 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 GSCC. All submissions should refer to the file number SR-GSCC-97-03 and should be submitted by August 20, 1997.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 97-20052 Filed 7-29-97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38872; File No. SR-NASD-97-26]

Self-Regulatory Organizations; Notice of Amendment to Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to an Expansion of the Pilot for the NASD's Rule Permitting Market Makers to Display Their Actual Quotation Size

July 24, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on July 17, 1997, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission

("Commission" or "SEC") an amendment¹ to the proposed rule change described below. The proposal would allow market makers to quote their actual size by reducing the minimum quotation size requirement for market makers in certain securities listed on The Nasdaq Stock Market ("Nasdaq") to one normal unit of trading ("Actual Size Rule"). The Actual Size Rule presently applies to a group of 50 Nasdaq securities on a pilot basis.² The NASD has proposed to extend this pilot program to March 27, 1998, and to add an additional 100 stocks to the pilot program. The Commission has already received comments from many individual investors and other market participants on the ongoing pilot. The Commission is publishing this notice to solicit comments on the amended 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 amend NASD Rule (a)(1)(C) to allow market makers to quote their actual size by reducing the minimum quotation size requirement for market makers in certain securities listed on Nasdaq to one normal unit of trading. 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.

¹ 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. The amendment would extend the 50 stock pilot from December 31, 1997, to March 27, 1998, and expand it to 150 stocks. This amendment corrects a technical deficiency in an earlier amendment to expand and extend the 50 stock pilot in a similar fashion that was not published for notice and comment. 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 initial approval of the 50 stock pilot program was announced in Securities Exchange Act Release No. 38156 (January 10, 1997), 62 FR 2415 (January 16, 1997). The approval of the extension was announced in Securities Exchange Act Release No. 38152 (April 15, 1997), 62 FR 19373 (April 21, 1997). On July 18, 1997, the Commission approved a proposed rule change that extended—but did not expand—the 50 stock pilot from July 18, 1997, to December 31, 1997. Securities Exchange Act Release No. 38851 (July 18, 1997), 62 FR 39565 (July 23, 1997) (File No. SR-NASD-97-49).

⁹ 15 U.S.C. 78q-1.

¹⁰ 17 CFR 200.30-3(a) (12).

(C) As part of a pilot program implemented by The Nasdaq Stock Market, during the period January 20, 1997 through at least [December 31, 1997] *March 27, 1998*, 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] or prior to *February 24, 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 initial filing with the Commission,³ 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.

On June 3, 1997, the NASD filed with the Commission a report containing its economic analysis of the operation of the Actual Size Rule for the group of 50 stocks in the pilot, as requested by the Commission.⁴ The study examines the effects of the removal of the 1,000-Share Quote Size Rule on market quality. Several commenters have provided their own economic analysis in rebuttal.

The NASD's study compares the market quality of pilot stocks with the market quality of peer stocks in the next tranche of stocks that became subject to the Order Handling Rules, but remained subject to the 1,000-Share Quote Size Rule. The study: (1) Summarizes the relevant academic literature; (2) empirically assesses market quality for both groups pre- and post-rule change by examining spread, volatility, depth, and liquidity; and (3) examines the use of automatic execution systems for the pilot stocks, Nasdaq's Small Order Execution System ("SOES"), and some private systems to assess whether investors continue to have reasonable access to market maker capital. Copies of the report, economic studies, and

comment letters are available in the Commission's Public Reference room in File No. SR-NASD-97-26.

The NASD asserts that the evidence analyzed in the study reveals that the pilot stocks and non-pilot stocks have experienced virtually the same improvements in market quality since implementation of the SEC's Order Handling Rules. Specifically, the NASD says that if found no statistically significant basis to conclude that the market quality of the pilot stocks has been affected as a result of removal of the 1,000-Share Quote Size Rule. In addition, the NASD found that investors in the pilot stocks continue to have substantial and reasonable access to market maker capital through both SOES and market makers' proprietary automatic execution systems.

The Commission approved the Actual Size Rule on a pilot basis so that the effects of the rule could be assessed. When doing so, 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.

At the Commission's request, an extension until March 27, 1998, has been made to provide the Commission with additional time to evaluate the economic studies and review the comments on the NASD's study.

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 Exchange 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 in furtherance of the purposes of the Exchange Act. Section 15A(b)(11) requires the NASD to, among other things, formulate rules designed to produce fair and informative quotations.

A. 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 Exchange Act.

B. 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. 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 Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., 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 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-97-26 and should be submitted by August 20, 1997.

³ See Securities Exchange Act Release No. 38513 (April 15, 1997), 62 FR 19369 (April 21, 1997).

⁴ A copy of the executive summary of the 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.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 97-20047 Filed 7-29-97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38865; File No. SR-NYSE-97-19]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the New York Stock Exchange, Inc., Relating to the Pilot for Entry of Limit-at-the-Close Orders

July 23, 1997.

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 16, 1997, the New York Stock Exchange, Inc. ("NYSE" 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 and to grant accelerated approval to the proposed rule change.

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

The proposed rule change would extend for one year a pilot to permit limit-at-the-close ("LOC") orders to be entered in any stock at any time during the trading day up to 3:40 p.m. on expiration days, and 3:50 p.m. on non-expiration days. The current pilot is scheduled to expire July 31, 1997.

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 self-regulatory organization 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 III below. The self-regulatory organization 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

1. Purpose

A LOC order is one that is entered for execution at the closing price, provided that the closing price is at or within the limit specified. Originally, LOC orders could be entered only to offset published imbalances of market-on-close ("MOC") orders.³ LOC orders had to be entered by 3:55 p.m. on both expiration and non-expiration days, and could not be cancelled, except for legitimate errors.⁴

The Exchange recently implemented an amended policy regarding LOC orders to permit their entry at any time during the trading day up to 3:40 p.m. on expiration days,⁵ and 3:50 p.m. on non-expiration days.⁶ Thereafter, as with MOC orders, LOC orders could not be cancelled (except for legitimate errors), and could be entered only to offset published imbalances. These new procedures are part of the current pilot for LOC orders which expires at the end of July 1997.⁷

The Exchange is proposing to extend the LOC pilot for an additional year, until July 31, 1998, in order to study the effects of the new order entry procedures. The Exchange will make a recommendation at that time as to continuation of the pilot or a request for permanent status of LOC orders.

2. Statutory Basis

The basis under the Act for the proposed rule change is the requirement under Section 6(b)(5)⁸ that an Exchange have rules that are designed to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and

the public interest. The proposed rule change perfects the mechanism of a free and open market by providing investors with the ability to use LOC orders as a vehicle for managing risk at the close.

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

The Exchange represents that the proposed rule change will impose no burden on competition.

C. Self-Regulatory Organization's Statement on Comments 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. 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 at the Commission's Public Reference Room. Copies of such filing will be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-NYSE-97-19 and should be submitted by August 20, 1997.

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

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 6⁹ and the rules and regulations thereunder. Specifically, the Commission finds that the proposed rule change is consistent with the Section 6(b)(5)¹⁰ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to remove

³ A MOC order is a market order to be executed in its entirety at the closing price on the Exchange. See NYSE Rule 13. The NYSE pilot program for entry of MOC orders was permanently approved in 1996. See Securities Exchange Act Release No. 37894 (Oct. 30, 1996), 61 FR 56987 (Nov. 5, 1996).

⁴ See Securities Exchange Act Release No. 33706 (Mar. 3, 1994), 59 FR 11093 (Mar. 9, 1994) (order approving the original LOC pilot program).

⁵ The term "expiration days" refers to both (1) the trading day, usually the third Friday of the month, when some stock index options, stock index futures and options on stock index futures expire or settle concurrently ("Expiration Fridays") and (2) the trading day on which end of calendar quarter index options expire ("QIX Expiration Days").

⁶ See Securities Exchange Act Release No. 37969 (Nov. 20, 1996), 61 FR 60735 (Nov. 29, 1996).

⁷ See Securities Exchange Act Release No. 37507 (July 31, 1996), 61 FR 40871 (Aug. 6, 1996).

⁸ 15 U.S.C. 78f(b)(5).

⁹ 15 U.S.C. 78f.

¹⁰ 15 U.S.C. 78f(b)(5).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.