additional order flow to the exchange.[8] As an incentive to its specialists, the CSE has chosen to distribute a portion of operating revenue which is solely attributable to specialist trade activity (*e.g.*, transaction fees, book fees, and market data fees).[9] The Commission believes that the CSE's revenue sharing program should allow the Exchange to remain competitive with other markets which have implemented similar programs, which, in turn, should enhance the National Market System.

The Commission further finds that the parameters of the Exchange's revenue sharing program are consistent with the requirements of Section 6(b)(1).[10] The Commission believes it is appropriate for the CSE to distribute operating revenue generated by specialists only after the Exchange accumulates sufficient revenue to offset its actual expenses and working capital needs. In accordance with this principle, the Commission also finds that it is reasonable for the CSE's Board of Trustees to adjust the percentage of SOR to be distributed to reflect the changing financial needs of the Exchange over time. As a national securities exchange, it is the obligation of CSE to have the necessary resources to adequately conduct surveillance, examination and other regulatory responsibilities. While the Commission understands CSE's need to remain competitive with other securities markets, the Commission expects CSE to not compromise its regulatory responsibilities by sharing revenue that would more appropriately be used to fund regulatory responsibilities. More specifically, CSE, when determining its ''working capital needs,'' should be mindful of its regulatory responsibilities.

The Commission believes it is appropriate for the Exchange to exclude all regulatory monies, such as fines paid by specialists, from the definition of SOR. The deterrent and punished effect of a fine would be compromised if the Exchange essentially credited the fine amount back to the member. The Commission also finds that it is reasonable to exclude investment income from the definition of SOR, as that income is not generated by specialist activity.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[11] that the proposed rule change (SR–CSE–99–02) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[12]

Jonathan G. Katz,

Secretary.

[FR Doc. 99–10020 Filed 4–21–99; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–41296; File Nos. SR–NASD–99–11 and SR–NASD–98–17]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. To Modify Its Small Order Execution System and SelectNet Service; Reopening of Comment Period on Nasdaq's Limit Order Book Proposal (SR–NASD–98–17)

April 15, 1999.

On February 5, 1999, the National Association of Securities Dealers, Inc. (''NASD''), through its wholly-owned subsidiary, The Nasdaq Stock Market, Inc. (''Nasdaq''), filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') proposed rule changes to modify its Small Order Execution System and SelectNet Service.[1] The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons.

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

NASD, through Nasdaq, is proposing rule changes that: (1) Re-establish SelectNet as an order delivery and negotiation system for Nasdaq National Market (''NNM'') securities; and (2) make numerous changes to the current rules relating to the trading of NNM securities, including: (a) Establishing a larger maximum automatic execution order entry size of 9,900 shares for NNM securities; (b) allowing market makers to use Nasdaq's proposed automatic execution system on a proprietary basis for transactions involving NNM securities; (c) reducing time delays between system executions against the same market maker from 17 to 5 seconds; and (d) enabling system interaction with a market maker's reserve size in NNM securities. The resulting new system will be referred to as the Nasdaq National Market Execution System (''NNMS''). In addition, as discussed below, Nasdaq is proposing to eliminate the NO Decrementation (''NO DEC'') and preferencing functions for NNM quotes and orders. The current voluntary automatic execution system for Nasdaq SmallCap issues will continue to operate as it does today. Nasdaq views NNMS as an interim approach to improving the Nasdaq market pending final approval by the Commission of Nasdaq's previously proposed Integrated Order Delivery and Execution System (SR–NASD–98–17).[2]

The NASD also proposes to modify several rules found in the NASD Rule Series 4600 and throughout the NASD Manual. In particular, Rule 4613 (Character of Quotations) will be amended to eliminate the references to Small Order Execution System (''SOES'') ''Tier Sizes for the NNM'' of market makers. Other rules referencing SOES will be rescinded or conformed accordingly, including Rule 4611(f) (Registration as a Nasdaq Market Maker), Rule 4619 (Withdrawal of Quotations and Passive Market Making), Rule 4620 (Voluntary Termination of Registration), Rule 4632 (Trade Reporting), Rule 4618(c) (Clearance and Settlement), and Rule 4700 Series (SOES).

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

In its filing with the Commission, Nasdaq included statements concerning the purpose of and basis for the proposed rule change and discussed any

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[8] *See* Securities Exchange Act Release Nos. 38237 (February 4, 1997) 62 FR 6592 (February 12, 1997) (notice of filing and immediate effectiveness of amendments to the Chicago Stock Exchange's pricing schedule relating to specialist fees); 40591 (October 22, 1998) 63 FR 58078 (October 29, 1998) (notice of filing and immediate effectiveness of the Boston Stock Exchange's revenue sharing program for member firms); and 41174 (March 16, 1999) 64 FR 14034 (March 23, 1999) (notice of filing and immediate effectiveness of the NASD's pilot program to provide transaction credits to NASD members who exceed certain levels of trading activity).

[9] The Commission has recently undertaken a review of market data fees, including the current structure of such fees and the role such fees serve in the operation of the markets. Exchange programs that rebate or share revenue generated from market data fees to market participants, including the present proposal, are relevant to that study. Accordingly, it is likely that the Commission will examine the use of market data rebate programs in the context of the study.

[10] 15 U.S.C. 78f(b)(1).

[11] 15 U.S.C. 78s(b)(2).

[12] 17 CFR 200.30–3(a)(12).

[1] The notice was filed pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), and Rule 19b–4 thereunder, 17 CFR 250.19b–4. Items I, II, and III were prepared by Nasdaq.

[2] Because this filing is related to File No. SR–NASD–98–17 regarding the NASD's proposal to establish a central limit order book, the Commission also is seeking comment on that proposal at this time. NASD 98–17 was published in the **Federal Register** on March 12, 1998. *See* Securities Exchange Release No. 39718 (March 4, 1998), 63 FR 12124 (March 12, 1998). The comment period was subsequently extended to May 8, 1998. *See* Securities Exchange Act Release No. 39794 (March 25, 1998), 63 FR 15471 (March 31, 1998).

comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Nasdaq 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

The central purpose of these rule changes is to encourage and assist market professionals to provide liquidity by increasing their ability to manage the receipt and execution of the dramatically increased volume of orders prevalent in today's Nasdaq market. In their simplest form, the proposed rules provide for the automatic execution of all orders in NNM securities of 9,900 shares or less against a newly expanded universe of available trading interest to consist of all market makers' displayed quotes and reserve sizes. the rules will also allow Nasdaq to continue to provide, through SelectNet, a negotiation facility that maintains all of the benefits of modern communications technology and automated market services. Finally, the proposed system can be created and made functional quickly and with a minimum of reprogramming, factors that are particularly important given the upcoming Year 2000 moratorium.[3]

Background

Nasdaq's SOES was developed in 1984 to provide a simple and efficient means to execute small agency orders at the inside quote, report trades for public dissemination, and send trades to clearing for comparison and settlement.[4] Trading is done automatically and is negotiation free. In response to the October 1987 market break, SOES was enhanced in several respects to provide individual investors with guaranteed liquidity and assured access to market makers in times of market disruption. In particular, SOES participation was made mandatory for all market makers in NNM securities.

In January 1988, the Commission approved the NASD's Order Confirmation Transaction (''OCT'') Service (later renamed SelectNet). The Service was intended to provide an alternative to telephone contact among trading desks for negotiating trades.[5] The Service also was developed to provide additional communication options and electronic access to Nasdaq's trade reporting, order comparison and settlement facilities.[6]

SelectNet is an electronic, screen-based order routing system that allows market makers and order entry firms (collectively referred to as ''participants'') to negotiate securities transactions in Nasdaq securities through computer communications rather than relying on the telephone. Unlike SOES, SelectNet offers the opportunity to negotiate for a larger size or a price superior to the current inside. In addition, participants may provide that an order or counter-offer will be in effect for anywhere from 3 to 99 minutes, specify a day order, or indicate whether price or size are negotiable or whether a specific minimum quantity is acceptable. Participants may accept, price improve, counter, or decline a SelectNet order. Once agreement is reached, the execution is ''locked in'' and reported to the tape for public dissemination and sent to clearing for comparison and settlement.

SelectNet currently allows subscribers to direct, or ''preference'' orders to specified market makers or to broadcast orders to all market participants. Although SelectNet is an order delivery service, rather than an order execution service, Nasdaq believes that preferenced SelectNet order presented to a market maker at its displayed quote generally gives rise to liability under Exchange Act Rule 11Ac1–1 (''Firm Quote Rule'') for the market maker to execute the transaction at that price.[7] Under the rules proposed today, preferencing in SelectNet would still be allowed subject to the oversized order entry requirement discussed later in this filing.

Nasdaq also designated SelectNet as the link to Electronic Communications Networks (''ECNs'') in conjunction with the Act's Order Handling Rules.[8] Specifically, an amendment to SEC Rule 11Ac1–1 now requires an OTC market maker to make publicly available any superior prices that the market maker privately quotes through an ENC. A market maker may comply with this requirement by either changing its quote to reflect the superior price or delivering better priced orders to an ECN, provided that the ECN disseminates these priced orders to the public quotation system and provides broker-dealers equivalent access to these orders. The SelectNet linkage was implemented to facilitate these dissemination and access requirements.[9] SelectNet will continue to perform this function in the new trading environment proposed in this filing.

While SOES and SelectNet provide valuable services to market participants for the ultimate benefit of investors, there is a long-standing problem of potential ''dual laibility'' for a market maker's displayed quote which is directly attributable to the maintenance of two separate execution systems operating independently and simultaneously. Multiple access points to a market maker's quote, thorugh a combination of SOES and SelectNet as well as through a firm's internal order receipt/execution and telephone access facilities, can routinely subject market makers to unintended double liability for orders that reach their quote at or near the same time through disparate, asynchronous systems. In turn, the potential for unexpected and increased order liability reduces market maker incentives to commit capital and display larger quote sizes, which could deprive the Nasdaq market of valuable liquidity. Nasdaq's new automated execution environment is designed to remedy these problems.

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[3] Beginning June 30, 1999, NASD will implement a self-imposed Year 2000 moratorium on itself preventing any system changes to SOES and SelectNet Service. Per telephone conversation between Thomas P. Moran and John F. Malitzis, Office of General Counsel, Nasdaq, and Heather Traeger, Division of Market Regulation, SEC, on April 14, 1999.

[4] *See* Securities Exchange Act Release No. 21743 (February 12, 1985), 50 FR 7432 (February 22, 1985) (order approving rule change describing SOES).

[5] *See* Securities Exchange Act Release No. 25263 (January 11, 1988), 53 FR 1430 (January 19, 1988) (order approving OCT Service, on a temporary, accelerated basis). *See also*, Securities Exchange Act Release No. 25523 (March 28, 1988), 53 FR 10965 (April 4, 1988) (order extending temporary approval of SelectNet) and Securities Exchange Act Release No. 25690 (May 11, 1988), 53 FR 17523 (May 17, 1988) (order permanently approving OCT).

[6] The Service was enhanced and renamed SelectNet in 1990. *See* Securities Exchange Act Release No. 28636 (November 21, 1990), 55 FR 49732 (November 30, 1990). In 1992, the service was expanded to add pre-opening and after-hours sessions, so that today, SelectNet is available for members to negotiate and execute orders from 9:00 a.m. until 5:15 p.m. (ET). *See* Securities Exchange Act Release No. 30581 (April 14, 1992), 57 FR 14596 (April 21, 1992).

[7] There are two exceptions to the Firm Quote Rule: (1) prior to the receipt of the order, the market maker has communicated to its exchange or association a revised quotation size or revised bid or offer or (2) prior to the receipt of the order, the market maker is in the process of effecting a transaction in a security when an order in the same security is presented, and immediately after the completion of such transaction, the market maker communicates to its exchange or association a revised quotation size or revised bid or offer.

[8] SelectNet is also used by UTP Exchanges (as defined below) to access Nasdaq market makers. *See* Securities Exchange Act Release No. 38191 (January 22, 1997), 62 FR 4562 (January 30, 1997).

[9] *See* Securities Exchange Act Release No. 38156 (January 10 ,1997), 62 FR 2415 (January 16, 1997) (order approving changes related to implementation of the SEC Order Handling Rules).

Nasdaq's New Trading Environment

To deal with the significant and ongoing problem of dual liability, Nasdaq is proposing modifications to its negotiation and automatic execution systems. Under the proposal, SelectNet, through rule and system changes, would be re-established as a non-liability, order delivery and negotiation system for NNM securities. Moreover, SOES, the current automatic execution system for small orders from public customers, will be recast for the trading of NNM securities through the following changes: (1) increasing for NNM securities the maximum order size to 9,900 shares; (2) allowing market makers to enter proprietary orders into the new system and to obtain automatic execution for their proprietary and agency orders in NNM securities; (3) reducing the current 17-second delay between executions against the same market maker to 5 seconds; and (4) enabling NNM orders to interact automatically with market makers' displayed size and reserve size, including a market maker's Agency Quotes.[10] Nasdaq believes that this combination of rule changes will expeditiously reduce ''double hit'' liability in the most active Nasdaq securities while dramatically increasing the speed of executions and enhancing access to the full depth of a security's trading interest by all market participants.

Changes to SelectNet

Specifically, SelectNet's transformation to an order delivery and negotiation system will be accomplished through rule changes prohibiting the use of SelectNet for the entry of any preferenced orders directed to market makers in NNM securities unless such orders are at least one normal unit of trading (*i.e.*, 100 shares) in excess of the displayed amount of the NNMS market makers's quote to which they are directed (''over-sized order requirement''). In addition, such orders must also be designated as wither: (1) ''All-or-None'' (''AON'') of a size that is at least 100 shares greater than the displayed amount of the NNMS market maker's quote to which the order is directed; or (2) a ''Minimum Acceptable Quantity'' order (''MAQ'') with an MAQ value of at least 100 shares greater than the displayed amount of the NNMS market maker's quote to which the order is directed. SelectNet itself will be programmed to reject preferenced messages violating this mandate.[11] In Nasdaq's view, these changes will ensure that market makers are not subject to potential dual liability arising under the Firm Quote Rule as the result of the duplicative receipt of liability orders through asynchronous systems. Recipients of oversized NNM SelectNet orders would still have the option to execute or initiate electronic negotiation in response to the message.[12]

As described below, national securities exchanges trading under grants of unlisted trading privilege (''UTP Exchanges'') will continue to use SelectNet as their primary linkage with Nasdaq. ECNs will have the ability to be accessed through the SelectNet linkage, or fully participate in the NNMS and be subject to automatic execution, through NNMS, against their quote. Taken together, these changes will ensure for NNM securities that SelectNet regains its place as the order delivery and negotiation system that it was originally intended to be.

Order Entry Parameters

For NNM securities, the system proposed today becomes the Nasdaq market's primary trading and execution medium. The proposed NNMS system transforms the currently operating execution system for small orders from public customers into a more efficient, automated facility for the handling of all NNM orders of 9,900 shares or less entered for execution against an expanded trading interest accessible through both displayed and reserve size quotes. The proposed system will execute automatically against market makers' proprietary and agency quotes as more fully described below.

First, the maximum order size for NNM securities entered into NNMS will be increased to 9,900 shares from current order size maximums (*e.g.*, 1000, 500 or 200 shares). Second, market makers will be allowed to use NNMS on a proprietary basis, including being able to obtain automatic execution for orders sent to other NNMS participants, when trading NNM securities. Third, the current 17-second interval delay between automatic executions against the same market maker will be reduced to 5 seconds in NNMS. Fourth, Nasdaq will design NNMS to permit interaction of orders against a market maker's ''reserve size'' (including a market maker's posted agency quote) after yielding priority to displayed quotes at the same price. Additionally, market makers will be given the option of having their quote automatically refreshed from that reserve to a size level of their choosing. If no particular size is designated by the market maker, the quote will be automatically refreshed by NNMS at a 1000 share displayed size level.[13]

Reserve Size

The proposed reserve size functionality in the NNMS will yield priority to all other displayed quotes at the same price level, so that the system will execute against displayed size in time priority and then against the reserve size in time priority. To encourage the display of appropriate order size, NNMS will require a market maker using NNMS's reserve-size functionality to display a minimum of 100 shares in its Proprietary Quote. Moreover, displayed Proprietary Quotes at the inside of the market that are to be refreshed at the same price level must be refreshed at 1000 or more shares for a market maker to be permitted to continue using reserve size. Market makers wishing to refresh and display at the same inside price at a size less than 1000 shares will be able to do so but will not be permitted to use NNMS's reserve size feature.[14]

For example, in a situation where there are three market makers, ranked in time priority A, B, C, each at the best bid and each displaying 1,000 shares and all with 5,000 shares in reserve, the system will handle the order as follows: if a 9,000 share market order is entered, the proposed system would automatically first take out the displayed 3,000 shares. It then would take out the entire 5,000 share reserve size of market maker A (''MMA'') and 1,000 shares of market maker B's (''MMB'') 5,000 share reserve size in

[10] Nasdaq recently filed a proposal with the Commission that would permit the separate display of customer orders by market makers in Nasdaq through a market maker agency identification symbol (''Agency Quote''). *See* Securities Exchange Act Release No. 41128 (March 2, 1999), 64 FR 12198 (March 11, 1999). (''SR–NASD–99–09.'') The Commission subsequently extended the comment period for that proposal until June 1, 1999. Securities Exchange Act Release No. 41243 (April 1, 1999), 64 FR 17428 (April 9, 1999).

[11] SelectNet will continue to accept orders of any size (subject to the current 999,999 shares system limit) for Nasdaq SmallCap securities.

[12] This is not to be understood to prohibit liability for each of potentially two quotes displayed by market makers under the Agency Quote proposal contained in SR–NASD–99–09.

[13] *See* NASD Rule 4710(g) and proposed rules 4701(g) and 4710(d)(3).

[14] This restriction will not apply for interim executions against a market maker's unupdated quote. For example, should a market maker displaying an initial quotation of 1000 shares with 5000 shares in reserve be automatically accessed by NNMS for 300 shares in displayed size, that market maker will still be allowed to continue to display its remaining 700 shares and keep 5000 available in reserve size. Should the market maker subsequently update either its displayed or reserve sizes, or its quoted price, the market maker will be obligated to increase its displayed size to 1000 shares to continue to use NNMS's reserve size feature.

time priority, filling the order and leaving MMB with 4,000 shares in reserve size and market maker C (''MMC'') with 5,000 shares in reserve size.[15] MMA's quote would be completely decremented and drop from the inside market. Since MMB's total displayed and reserve quote would not be completely decremented (4,000 reserve share size remaining) it would retain its time priority and, assuming it remains the best bid, remain at the top of the quote montage and have its displayed size refreshed from its remaining reserve size. For MMB to continue quoting shares in reserve size, MMB would have to have selected a 1,000 share or greater refresh size. MMC, based on its 5,000 share reserve size remainder, would retain the number two slot in the montage and would have the option of having its displayed quote automatically refreshed from reserve to a size level of its choosing. MMC would be subject to a 1,000 share or greater display refresh minimum to be allowed to continue to quote reserve size. MMA's fully exhausted quote will have the option of being automatically refreshed away from the inside market using Nasdaq's automatic quote update function. If a specific, predetermined automatic quote refresh amount is not selected, the NNMS system will refresh a market maker's displayed quote from reserve size to a 1,000 share display level.

As always, failure to update a fully exhausted quote will result in the system placing the market maker's quote in a ''closed'' state that, if not updated within 5 minutes, will be cause for suspension of the market maker's quote for 20 business days.[16]

No Decrementation

In addition, Nasdaq is also proposing to eliminate the NO DEC feature for NNM securities, which currently allows continuous executions against a market maker's quote at the same price without decrementing the quoted size. Nasdaq believes that the NO DEC feature is increasingly less important now that market makers can manage their quote by displaying their actual size, and will become even less important in a market where market makers are given the ability to refresh their quote at a size they determine. Nasdaq also believes that NO DEC inhibits quote competition among market participants and discourages the full display of trading interest. Moreover, given the larger order sizes and faster executions that can be expected from the new trading system, Nasdaq submits that a continuation of NO DEC in NNMS could inadvertently expose market participants to inappropriate levels of order liability. Finally, NO DEC provides no benefits in conjunction with Nasdaq's proposed Agency Quote concept in that such agency quotes will represent the full and complete trading interest of the customer and are inconsistent with the unlimited and constant exposure to orders indicated by the use of NO DEC.

SOES Preferencing

Similarly, Nasdaq is also proposing to eliminate the existing SOES preferencing feature for NNM securities as being inconsistent with the processing of orders in time priority as contemplated in the proposed new trading environment. Preferencing in an automatic execution system also reduces market maker incentives to aggressively compete for orders by showing the full size and true price of their trading interest. Moreover, a continuation of preferencing may place Agency Quotes of public customers at a disadvantage. Nasdaq believes that these factors, especially when combined with the proposed elimination of potential dual liability though SelectNet and the current ability of market makers to display their actual size, clearly militate in favor of discontinuing preferencing in NNMS.

UTP Exchange Participation

UTP Exchanges will continue to have access to the full range of SelectNet's capabilities as their primary linkage with Nasdaq. UTP exchanges will continue to receive, and be obligated to execute, preferenced SelectNet liability orders. Additionally, UTP Exchanges will retain their ability to send SelectNet preferenced liability orders to market makers. While Nasdaq notes that a market maker may still have dual liability in situations where a market maker is accessed by a UTP Exchange via SelectNet and simultaneously by an NNMS market maker of order entry firm via the NNMS system, Nasdaq believes that such dual liability is manageable in the current trading environment. Nasdaq will continue to monitor this issue and will propose amendments to the NNMS system and the UTP Plan if significant problems arise.

ECN Participation

ECNs will have two options for participation in the NNCS System, and the manner in which they choose to participate shall be governed by an addendum to the Nasdaq Workstation II Subscriber Agreement of ECNs.[17]

First, an ECN would be allowed to participate in Nasdaq in substantially the same manner as they do today (''Order Entry ECN''). That is, market participants would continue to be able to access ECNs via the SelectNet linkage and would continue to be able to send preferenced SelectNet messages of any size (up to 999,999 shares) and with any conditions to such ECNs (*i.e.*, the oversized order requirement for a preferenced SelectNet order would not apply to ECNs under this first option). ECNs that choose to have the capability to ''reach out'' and access other market maker quotes (including Agency quotes) could do so by requesting order-entry capability in the NNMS system. The ECN also could send preferenced SelectNet orders to NNMS market makers subject to the oversized order restrictions described in this filing.[18]

Second, an ECN could choose to participate fully in the NNMS system (''Full-Participant ECN''). Under this option, the ECN would agree to provide automatic execution for orders received from other NNMS participants through the NNMS system by the ECN. As with the first option, Full-Participant ECNs could use the NNMS system to obtain automatic execution of orders they send to NNMS market makers or other Full-Participant ECNs.

Given time and technology constraints affecting some ECNs, Nasdaq feels that on an interim basis ECNs should have options as to the manner in which to participate in Nasdaq's new system. Thus, Nasdaq is not proposing at this time to mandate that all ECNs register as Full-Participant ECNs, but will reconsider this issue in the future.

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[15] Like Nasdaq's other automatic execution systems, NNMS will impose a $0.50 per side fee for each execution. To reduce user costs and facilitate the use of NNMS's reserve size functionality, a simultaneous and instantaneous execution against an NNMS participant's displayed and reserve size will be treated for billing purposes as a single execution.

[16] Market makers will still have the ability, through Nasdaq's automatic quote update facility, to pre-select a tick value and have Nasdaq refresh their proprietary quote away from the inside market. This capability would not apply to a market maker's Agency Quote because that quotation represents agency interest and will not be required to be two-sided. If a market maker's quote is refreshed to a different price or size level, another order will not be delivered to that market maker for 5 seconds after that quote is refreshed at the new price or size level.

[17] The manner in which ECNs currently participate in the Nasdaq market place is governed, in part, by the Nasdaq Workstation agreement as amended for ECNs, which all ECNs must sign. *See* Rule 4623(b)(3). Under the proposed rules for the NNMS system, this practice would not change.

[18] This would allow ECNs to access market makers through two systems, but would limit dual liability that market makers currently face because they will only be receiving orders requiring them to execute from NNMS.

Nasdaq SmallCap

For Nasdaq SmallCap securities, the trading rules for automatic execution will remain the same as they are today. Thus, participation in the automatic execution system for SmallCap will continue to be voluntary, and be available only for the small orders of public customers. Maximum order size limits will remain in effect as well as the prohibition against splitting larger orders to avoid those limits. Restrictions on access by market professionals will likewise be maintained.[19] After Nasdaq has had experience with the NNMS system, it will consider whether the functionality of the system should be made available for SmallCap trading.

Other, Technical Modifications

Finally, several rules found in NASD Rule Series 4600 and throughout the NASD Manual will be modified in technical, non-substantive ways. In particular, Rule 4613 (Character of Quotations), will be amended to eliminate the references to SOES Tier Sizes for the NNM quotations of market makers. Other rules referencing SOES will be rescinded or conformed accordingly, including Rule 4611(f) (Registration as a Nasdaq Market Maker), Rule 4619 (Withdrawal of Quotations and Passive Market Making), Rule 4620 (Voluntary Termination of Registration), Rule 4632 (Trade Reporting), Rule 4618(c) (Clearance and Settlement) and the Rule 4700 Series (SOES).

Nasdaq submits that the above proposals can obtain many of the market benefits of a full integration of Nasdaq systems in a timely and efficient manner, while still maintaining SelectNet as a negotiation system and as the approved link between Nasdaq, ECNs and UTP exchanges. Most importantly, Nasdaq's proposals leverage its existing technology platform to significantly reduce the negative market impacts resulting from multiple executions from non-integrated systems as quickly as possible, with a minimum of burdensome reprogramming for all market participants during the crucial period of time leading up to the approaching year 2000 moratorium. The proposals also provide order entry firms and their public customers increased benefits from enhanced access through larger NNM order entry size parameters, quicker executions, and the ability to interact with the non-displayed reserve size of NNM market makers resulting in improved overall market efficiency.

2. Statutory Basis

Nasdaq believes that the proposed rule change are consistent with Section 15A(b)(6) of the Act[20] in that the proposed rule changes are 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 the 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.

Nasdaq believes that the proposal also is consistent with Section 11A(a)(1)(C),[21] in which Congress found that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure: (1) economically efficient execution of securities transactions; (2) fair competition among brokers and dealers; (3) the availability to brokers, dealers and investors of information with respect to quotations and transactions in securities; (4) the practicability of brokers executing investors' orders in the best market; and (5) an opportunity for investors' orders to be executed without the participation of a dealer. Specifically, Nasdaq believes that this proposal, combined with Nasdaq's Agency Quote, which is also pending with the Commission, will provide a mechanism for the more efficient display and automatic execution of customer limit orders. Thus, the Nasdaq believes the proposed rule change is consistent with Section 11A and the SEC's Order Handling Rules,[22] and in particular the Display Rule.[23]

(B) Self-Regulatory Organization's Statement on Burden on Competition

Nasdaq 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.

(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 self-regulatory organization 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, including whether the proposed rule change is consistent with the Act. As discussed, Nasdaq has proposed modifications to SOES and Select Net as interim measures pending Commission action on its Integrated Order Delivery and Execution System, commonly known as its limit order book proposal (SR–NASD 98–17). Nasdaq has also proposed its agency quote display structure (SR–NASD 99–09) as an interim measure pending its limit order book proposal. Both the SOES/SelectNet modifications and the agency quote display could significantly modify the existing Nasdaq market in ways that some may consider less desirable than the results of the proposed limit order book. Because these proposals are largely alternatives to each other, market participants should have the chance to formally comment on the limit order book proposal in light of the SOES/SelectNet and agency quote proposals. Therefore , the Commission is formally reopening the comment period on the limit order filing, and requesting additional comments on this proposal.

In response to prior comments on the impact of the limit order book filing, Nasdaq has discussed operating the limit order book on a pilot basis. A pilot would provide experience with the book and allow Nasdaq and the Commission to better gauge the impact of the book on the Nasdaq market. The Commission specifically requests comment on whether the proposal should be

[19] *See* NASD *Notice to Members 88–61.* Nasdaq notes that is recently filed, in response to concerns raised by SEC staff, a rule proposal to eliminate the ''five-minute presumption'' outlined in *Notice to Members 88–61. See* Securities Exchange Act Release No. 41015 (February 4, 1999), 64 FR 6415 (February 9, 1999).

[20] 15 U.S.C. 78o–3(b)(6).

[21] 15 U.S.C. 78k–l(a)(1)(C).

[22] *See* Securities Exchange Act Release No. 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996) (adopting release of Order Handling Rules).

[23] 17 CFR 240.11Ac1–4.

approved on a pilot basis. If so, how should a pilot be structured? To gain a realistic assessment of the book, should the pilot include a limited number of securities across a range of the NNM market, or should it include securities representing a substantial portion of the trading market. For example, should the pilot include 250 securities, of which 20 were from the Nasdaq top 100 securities, and the rest were chosen from different quintiles of NNM securities? Or should the pilot comprise 1000 securities including the Nasdaq top 100 securities and the remainder chosen from quintiles of NNM securities? Or would a different pilot be more appropriate? In addition, how long should a pilot last? Would six months, or one year, provide sufficient information to evaluate a pilot? Would a pilot of this length and breadth potentially harm the Nasdaq market on a lasting basis?

Persons making written submissions on either filing should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549–0609. 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. SR–NASD–99–11 (including those comments specifically addressing File No. SR–NASD–98–17) and should be submitted by June 1, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[24]

Jonathan G. Katz,

Secretary.

[FR Doc. 99–10019 Filed 4–21–99; 8:45 am]

BILLING CODE 8010–01–M

SOCIAL SECURITY ADMINISTRATION

Statement of Organization, Functions and Delegations of Authority

This statement amends part S of the Statement of the Organization, Functions and Delegations of Authority which covers the Social Security Administration (SSA). Chapter S7 covers the Office of the Deputy Commissioner, Human Resources. Notice is given that Subchapter S7B, the Office of Personnel, is being amended to reflect the realignment of center functions and the retitling of the Center for Personnel Operations and the Center for Personnel Policy and Program Development. The changes are as follows:

Section S7B.10 *The Office of Personnel*—(Organization)

Retitle:

F. The Center for Personnel Operations (S7BK) to: ''The Center for Classification and Organization Management (S7BK).''

G. The Center for Personnel Policy and Program Development (S7BE) to: ''The Center for Personnel Policy and Staffing (S7BE).''

Section S7B.20 *The Office of Personnel*—(Functions)

Retitle:

F. The Center for Personnel Operations (S7BK) to: ''The Center for Classification and Organization Management (S7BK).''

Delete:

1., 7., 8. and 9. in their entirety.

Remember remaining functions 1 through 5.

Retitle:

G. The Center for Personnel Policy and Program Development (S7BE) to ''The Center for Personnel Policy and Staffing (S7BE).''

Amend to read as follows:

2. Directs the development and operation of SSA performance and employee awards programs. Develops and implements SSA employee incentive and honor awards programs and administers the performance management systems.

Add:

3. Develops and implements policies and regulations pertaining to SSA recruitment and placement. Initiates and processes personnel actions for SSA Headquarters employees; participates with office managers and staffs in assessing placement actions; and directs the administration of all Merit Promotion Plans applicable within Baltimore/Washington/Falls Church Headquarters components. Processes necessary administrative actions required for new employees entering on duty.

4. Implements policies, regulations and programs pertaining to special recruitment and staffing activities for SSA headquarters and field organizations. Develops and implements student employment programs.

5. Directs the development and administration of SSA services concerning employee benefit programs which include the Civil Service Retirement System, the Federal Employees Retirement System, the Thrift Savings Plan and the Federal Employees Group Life Insurance Program. Serves as the focal point for unemployment compensation activities.

6. Provides for the establishment and maintenance of the Official Personnel Folders for SSA headquarters employees.

H. The Center for Employee Services (S7BG).

Delete:

3. In its entirety.

Add:

3. Directs the administration of the Federal Employees Health Benefits Program for SSA employees.

6. Directs the development and operation of the SSA employee suggestion program.

Dated: April 9, 1999.

Paul D. Barnes,

Deputy Commissioner for Human Resources.

[FR Doc 99–10105 Filed 4–21–99; 8:45 am]

BILLING CODE 4190–29–M

DEPARTMENT OF TRANSPORTATION

Coast Guard

[CGD08–99–015]

Houston/Galveston Navigation Safety Advisory Committee Meeting

AGENCY: Coast Guard, DOT.

ACTION: Notice of meetings.

SUMMARY: The Houston/Galveston Navigation Safety Advisory Committee (HOGANSAC) and its two Subcommittees (Waterways and Navigation) will meet to discuss waterway improvements, aids to navigation, current meters, and various other navigation safety matters affecting the Houston/Galveston area. All meetings will be open to the public.

DATES: The meeting of HOGANSAC will be held on Thursday, May 27, 1999 from 9 a.m. to approximately 1 p.m. The meeting of the Navigation Subcommittee will be held on Thursday, May 13, 1999 at 9 a.m. and immediately following, the Waterways Subcommittee will meet. The meetings may adjourn early if all business is finished. Members of the public may present written or oral statements at the meetings.

[24] 17 CFR 200.30–3(a)(12).