records rules[21] because the question addresses the reporting of the settlement and not the oral complaint. Moreover, the NASD staff believes that settlements of such amounts may be indicative of potential sales practice abuses (regardless of whether the complaint is made orally or in writing) and is therefore consistent with one of the purposes underlying the Commission's proposed rules, which is to assist regulators in determining whether an associated person has engaged or is continuing to engage in securities violations such as abusive sales practices. In addition, as the SIA acknowledges, firms are unlikely to settle a customer sales practice complaint for $10,000 or more without something in writing. Finally, NASDR staff and representatives of NASAA are prepared to issue interpretive guidance that would provide greater clarity in the area of what constitutes a sales practice violation (as opposed, for example, to a disagreement over an execution that does not involve an alleged rule violation) and to provide guidance to firms on procedures they should follow to support the reporting of these items.

Eight commenters addressed the proposed changes to the Form U–5 questions regarding the expanded reporting of regulatory and criminal actions. Under the revised question, firms would be required to report regulatory and criminal actions that were initiated after a registered person has left the firm, if the firm receives actual notice of such actions. The current question requires the reporting of these matters only while the registered person is employed by the firm. Commenters generally expressed concern about having to continually monitor former employees to meet this reporting requirement. Comments therefore requested that ''actual notice'' of the initiation of a criminal or regulatory event be defined through interpretive guidance before or in conjunction with the question change. Three commenters also requested that the proposed change be limited to criminal or regulatory events that are directly related to the former employee's employment with the member and that actual notice be defined as written notice to a principal responsible for making regulatory filings or other appropriate person in the legal or compliance department. Two commenters stated that reporting under these questions should be time limited, *e.g.*, to two years after termination.

NASDR agrees that the issuance of interpretive guidance is appropriate. NASDR staff has discussed such interpretive guidance with NASAA and has reached an agreement in principle regarding an interpretation. This interpretation will state that firms are not obligated to report events unless they receive actual notice. In this context, actual notice would mean express notice—That is, a communication by the responsible agency/authority regarding the initiation of a criminal or regulatory action directly to a representative of the firm who is aware of the Form U–5 reporting requirement or should be aware of such requirement because such person has official responsibility for receiving such notice. This interpretation would address a majority of commenters' concerns; however, it does not address the time limit on Form U–5 reporting that was suggested by some commenters. Nevertheless, NASDR staff agrees that the establishment of an outside time limit for reporting on Form U–5 should be explored and has begun discussions with NASAA on this issue.

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 is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 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 elating 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–98–96 and should be submitted by May 17, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[22]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99–10807 Filed 4–29–99; 8:45 am]

BILLING CODE 8010–01–M

[21] Securities Exchange Act Release No. 40518 (Oct. 2, 1998), 63 FR 54404 (Oct 9, 1998).

[22] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–41327; File No. SR–PCX–99–07]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Its Competing Specialist Program

April 22, 1999.

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 March 1, 1999, as amended on April 22, 1993,[3] the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is proposing to establish a Competing Specialist Program on the Exchange. The proposal includes specific procedures for Competing Specialists, including procedures for registration, withdrawal and participation in the Competing Specialist Program. Proposed new

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

[2] 17 CFR 240.19b–4.

[3] *See* Letter from Michael Pierson, Director, Regulatory Policy, PCX to Michael Walinskas, Deputy Associate Director, Division of Market Regulation, Commission, dated April 22, 1999 (''Amendment No. 1''). Amendment No. 1 made numerous technical and descriptive changes to the filing.

language is italicized: proposed deletions are in brackets.[4]

* * * * *

¶3999 Priority of Bids and Offers

Rule 5.8(c)*(1).* When a bid or offer is clearly established as the first made at a particular price [regardless of the floor], the maker shall be entitled to priority and shall have precedence on the next sale at that price, up to the number of shares of stock or principal amount of bonds specified in the bid or offer irrespective of the number of shares of stock or principal amount of bonds specified in such bid or offer. *Specialist bids and offers must always yield to agency orders being represented at the same price, unless otherwise provided in Exchange Rules.*

A member having priority on the floor with a bid or offer may not increase the size of his bid or offer if objection is made by another member. By placing his order with the specialist he may maintain his priority, but in an amount no greater than originally bid for or offered by him on the Floor. Orders so placed may be accepted as and retain the status of open orders if so designated at the time of placement but shall not gain priority over orders existing in the *Consolidated Limit Order book* [specialist's book] at the time the member secured the Floor with his original bid or offer.

Priority Among Specialists

Rule 5.8(c)(2) If two or more specialists are quoting at the NBBO and there are no agency orders being represented at the same price, the earliest specialist bid or offer at that price will have time priority and will be eligible for an execution first up to its specified size. When no specialists are quoting at the NBBO, a specialist who is representing an order may execute that order in the same security at the NBBO or better.

Commentary

.01—No change.

.02 The term ''NBBO,'' as used in Rule 5.8(c), refers to the national best bid or offer made by an Intermarket Trading System (ITS) participant.

.03 Temporary Rule Applicable to Securities Traded on a Competing Specialist Basis. The Exchange intends to reprogram its P/COAST system to assure that incoming orders will execute first against any matching agency orders in the book and then against any specialist interest at the NBBO. Until that systems change has been effected, Exchange specialists will be required to manually intervene with orders in their custody to assure that quotes for a contra specalist's proprietary account with time priority at the NBBO will be honored. If a specialist receives an order and is aware that another specialist is disseminating a quote for his own account at the NBBO, the specialist receiving the order must provide the other specialist with an execution, up to the specified size. A specialist whose time priority has been violated may demand an execution, up to the quoted size, but must make that demand within two minutes after the trade-through has occurred. Otherwise, the specialist's right to an execution will be deemed to have been waived.

* * * * *

P/COAST

¶ 4153 Pacific Computerized Order Access sysTem

Rule 5.25(a). P/COAST, a securities . . . [No change to remainder of this paragraph]

Member organizations wishing to participate in P/COAST may do so by entering, through direct connections between member firms and the Exchange or through a floor member on the Exchange floor, market and limit orders up to the maximum number of shares in securities traded under P/COAST as shall be fixed by the Exchange from time to time. *The Exchange routes orders to a specialist in one city or the other based on arrangements that the specialists have previously made with firms that send orders to the Exchange. For orders for which neither specialist has made specific arrangements with the firm sending the order, the Exchange will generally assure that the orders are transmitted to the two specialists on an alternating basis (e.g., the first order goes to Specialist A, the next order to Specialist B, the next to Specialist A, etc.) Specialists who accept orders pursuant to these routing procedures are obligated to represent those orders pursuant to Rule 5.29(f).*

* * * * *

Rule 5.25(h). Future Modification of P/COAST. The Exchange intends to reprogram P/COAST to assure that incoming orders will execute first against any matching agency orders with priority and then against any specialist interest with priority. Unfilled portions of such orders will default to the specialist who receives them according to previously-established routing procedures. P/COAST will continue to designate orders for representation by the specialist who has been specified to represent them according to pre-defined routing parameters (such as because the order-sending firm designated the specialist), even if another specialist has priority under Rule 5.8(c). Once P/COAST receives a market or marketable limit order, if another specialist in that security has a bid or offer with priority at the NBBO, the system will ''lock in'' the execution match so that the contra specialist will be guaranteed an execution, unless the receiving specialist executes the order at a price superior to the NBBO. If the receiving specialist moves the order into his or her manual-ex window, then the other specialist in the issue will receive a 30-second ''shadow'' message of the order on their manual-ex windows if they either have a matching limit order or proprietary quote with priority at the NBBO. The contra specialists can interact with the receiving specialist's order by seeking an execution either by sending an electronic order or calling the specialist and vocalizing a bid or offer. For example, assume that there are five PCX specialists (A, B, C, D and E) each bidding $20 for 500 shares for their own accounts. The specialists' quotes have time priority in the following order: A, B, C, D, E. There are no agency orders to buy at 20 on the PCX, and 20 is the national best bid. E's customers sends a market order to the PCX to sell 5,000 shares. The order will be represented by E. The order will be displayed for up to 15 seconds on E's auto-ex window. E may execute the entire order at 20–1/16. However, the system will lock in A's, B's, C's, D's and E's bids, so that if any trades at $20 occur on the PCX, they will be executed in time priority order. If E moves the order into the manual-ex window, then A, B, C and D will receive a 30-second shadow message of the order. Their outstanding bids remain locked in, unless updated so that they no longer match with the original order. However, A, B, C and D can improve the price or size of their proprietary quotes, and these will become locked in, as long as the original order remains in E's manual-ex window. To change the example, if A were bidding $20 for 5,000 shares (with priority, and B, C and D were bidding $19–7/8), E can keep the order by filing it at 20–1/16; otherwise, if the order is filled at $20, A can fill the entire order. If E moves the order into his manual-ex

[4] On August 21, 1998, the Exchange filed an earlier version of this proposal with the Commission. *See* File No. SR–PCX–98–40. Since that time, the Exchange modified the original proposal in several respects and accordingly, the Exchange has determined to withdraw SR–PCX–98–40 and refile it as modified.

window, A will receive a shadow message (but B, C and D will not).

* * * * *

¶ 4271 Suspend Trading

Rule 5.31(b)(1)—No change.

(i)—No change.

(ii) to *all other specialists trading the security* [the specialist on the other Floor] who also shall suspend trading,

(iii)–(iv)—No change.

Rule 5.31(b)(2)—No change.

(i)—No change.

(ii) to *all other specialists trading the security* [the specialist on the other Floor] who also shall suspend trading,

(iii)–(iv)—No change.

Commentary

.01 Competing Specialist in an issue may not suspend trading pursuant to this rule. All suspensions of trading must be coordinated through a regular Specialist

* * * * *

¶ 4319 Procedures for the Competing Specialist Program

Rule 5.35(a) The following are procedures for the Competing Specialist Program.

(1) Only Registered Specialists may act as Competing Specialists. For purposes of this Rule, a ''regular Specialist'' is a Registered Specialist who is not a Competing Specialist.

(2) Applications for Registration as a Competing Specialist must be directed to the Equity Floor Trading Committee (''EFTC'') in writing and must list in order of preference the issue(s) in which the applicant intends to compete. The EFTC will consider the following factors in reviewing an application:

(A) financial capability;

(B) adequacy of staffing on the Floor;

(C) current recent performance evaluations of the applicant;

(D) whether the allocation will result in increased competition in the issue and/or increased order flow to the Exchange; and

(E) objections, if any, of the regular Specialists in the issue as to whether the issue should be traded on a Competing specialist basis.

(3) All applicants must be registered as members with the Exchange and must meet the net capital requirements of SEC Rule 15c3–1 and the capital requirements set forth in Rule 2.2(b) of the Rules of the Exchange, and must conform to all other performance requirements and standards set forth in the Rules of the Exchange. All applicants who control, are controlled by, or are under common control with another person engaged in a securities or related business must have and maintain appropriate information barriers, pursuant to Rule 4.20, as approved by a self-regulatory organization. A Competing Specialist will be subject to all the rules and policies applicable to a regular Specialist, unless otherwise indicated.

(4) All applicant organizations, existing or newly created, must satisfy the Equity Floor Trading Committee that they have sufficient staffing to enable them to fulfill the functions of a specialist in all of the issues in which the applicant will be registered as a Competing Specialist.

(5) Order flow not specifically designated for a Competing Specialist must be routed to a regular Specialist. However, a firm that is affiliated with a Competing Specialist in an issue must designate all PCX order flow to that Competing Specialist in that issue.

(6) In a competitive situation, if the Competing Specialist organization that received approval to compete desires to terminate the competition by requesting that it be relieved of the stock that is the subject of the competition, it must so notify the EFTC at least three (3) business days prior to the desired effective date of such withdrawal, except in those situations when such notice is not practicable.

(7) Any Competing Specialist that withdraws its registration in an issue will be barred from applying to compete in that same issue for a period of ninety (90) days following the effective date of withdrawal.

(8) Notwithstanding the existence of Competing Specialist situations, there is only one Exchange market in a security subject to competition. Competitors must cooperate with the regular Specialists regarding openings and reopenings to ensure that they are unitary.

(9) All limit orders not immediately executable that are sent a Competing Specialist must be entered directly into the Consolidated Limit Order Book and be executed according to the Exchange's rules on time priority.

(10) Competing Specialists in an issue may not suspend trading pursuant to Rule 5.31(b)(1). All suspensions of trading made must be coordinated through a regular Specialist.

(11) The registration of any Competing Specialist may be suspended or terminated by the EFTC upon a determination of any substantial or continued failure by such Competing Specialist to engage in dealing in accordance with the Constitution and Rules of the Exchange.

(12) The Exchange will establish an effective date for competition to commence. Since the Exchange cannot know what the impact of competition will be on its marketplace, it will limit competition during the initial phase as follows:

(A) Any Registered Specialist may apply to become a Competing Specialist in a number of issues, not to exceed ten, that has been previously established for the program by the EFTC and the Board of Governors.

(B) The EFTC and the Board of Governors will determine the total number of Competing Specialists permitted on the Exchange.

(C) The Exchange will conduct a quarterly review of each Competing Specialist on the Exchange. In conducting such reviews, the Exchange may consider, among other things, the factors set forth in subsection (2), above.

(13) Once the program has operated for one year, the EFTC will evaluate it and make a recommendation to the Board of Governors as to whether to continue the program or to modify its terms.

Commentary

.01 If a particular Specialist is not specified by the P/COAST order routing parameters for the receipt of an order, the order must be directed to a regular Specialist. However, if a routing firm is affiliated with a Competing Specialist, that firm may not route orders to another specialist, but must route them to that member firms's affiliated specialist, thereby preventing member firms affiliated with a specialist from routing non-profitable orders to another specialist when market conditions are unfavorable.

.02 All limit orders must be represented and executed in accordance with the rules on time priority on the Exchange. Incoming orders are first executed against any contra-side limit orders on the Exchange. All market and marketable limit orders are exposed to the Specialist for possible price improvement before execution. Specialists may execute their designated order flow unless there is contra-side limit order eligible for executive on the Exchange or another Specialist has a bid or offer with time priority at the NBBO.

* * * * *

[¶4319 Securities Traded on a Competing Specialist Basis

RULE 5.35(a). The Board of Governors may from time to time designate securities to be traded on a competing specialist basis. Securities traded on a competing specialist basis will be traded in accordance with the provisions of Rule 5.27 through 5.38.]

[¶4321 Competing Specialist—Definition and Procedure for Appointment

RULE 5.35(b). A competing specialist is a member who is registered with the Exchange for the purpose of making transactions as dealer-specialist on the floor of the Exchange, in securities traded on a competing specialist basis, in accordance with the Rules of the Exchange. Appointment as a competing specialist shall be made by the Floor Trading Committee pursuant to an application which shall include such information as is required by the Floor Trading Committee. In making such appointments the Floor Trading Committee shall satisfy itself as to the applicant's ability to perform the duties of a competing specialist and the applicant's financial resources. The Floor Trading Committee shall not appoint any person as a competing specialist in a security if such person is associated with a member firm with which the book broker in such security is also associated. The registration of any person as a competing specialist may be suspended or terminated by the Floor Trading Committee upon a determination of any substantial or continued failure by such competing specialist to engage in dealings in accordance with the Constitution and Rules of the Exchange.]

[¶4323 Book Broker—Definition and Procedure for Appointment

RULE 5.35(c). A book broker is a member of the Exchange who has been selected by the Floor Trading Committee to operate the book of limit orders and to execute odd lot orders and COMEX routed orders in securities traded on the Exchange on a competing specialist basis. For each security traded on the Exchange on a competing specialist basis, the Floor Trading Committee may appoint one book broker on the Los Angeles floor of the Exchange and one book broker on the San Francisco floor of the Exchange. Application for appointment as a book broker shall be made on such form, and shall include such information, as is prescribed by the Floor Trading Committee. The appointment of any person as book broker may be suspended or terminated by the Floor Trading Committee upon a determination that, in its judgment, the interest of a fair and orderly market are best served by such action.]

[¶4325 Responsibilty of Book Broker

RULE 5.35(d). A book broker shall accept any limited order from members for placement in the book, including limited orders placed by members on a principal basis. All principal orders must be so marked. Public orders in the book (agency orders) shall at all times have priority and precedence over principal orders in the book at the same price of at inferior prices.]

[¶4327 Book Broker Prohibited from Engaging in Principal Transactions

RULE 5.35(e).

(1). A book broker is prohibited from executing transactions for his own account or for the account of his firm. The prohibition of this Rule 5.35(e), however, shall not apply to odd lot transactions effected to fill odd lot orders, or to round lot transactions to decrease a position acquired as a result of the book broker's odd lot transactions or error account transactions.

(2). When a book broker acting as odd lot dealer determines to sell a round lot, he shall give the order a competing specialist or another member not associated with him for execution, if the transaction would establish the price for the execution of odd lot orders the book broker holds and make the book broker a buyer on balance.

(3). When a book broker acting as odd lot dealer determines to buy a round lot, he shall give the order to a competing specialist or another member not associated with him for execution, if the transaction would establish the price for the execution of odd lot orders the book broker holds and made the book broker a seller on balance.

(4). If unusual circumstances exist, such as unusual activity in a stock with a corresponding increase in the number of orders being received and a need for effecting an unusual number of off-setting round lot transactions, the off-setting orders may, with the approval of a Floor official, despite the provisions of subparagraphs (2) and (3) above, be handled by the book broker acting as odd lot dealer. A record shall be kept of the circumstances.

(5). The approval of a Floor Official is required for transactions described in paragraphs (2) and (3) when a competing specialist acts as a principal on the opposite side of the transaction and such transaction is at a price more than one-eight point away from the previous sale.

(6). A book broker acting as odd lot dealer may not, without the approval of a Floor Official, effect a transaction or cause a transaction to be effected for the account of the book broker which would effect any odd lot stop order held by such book broker.]

[¶4329 Maintaining Fair, Orderly, and Competitive Market

RULE 5.35(f). At the request of a floor broker who holds an order for purchase or sale of a security trading on a competing specialist basis, or whenever in the book broker's opinion the interests of a fair and orderly and competitive market are best served by such action, a book broker shall call upon those competing specialists appointed to act as such in that security or as many of such competing specialists as deemed necessary by the book broker to make bids and/or offers or to narrow spreads in existing bids and offers or to take other appropriate action, so as to contribute to meeting the standards set forth in Rule 5.35(g). Whenever called upon by a book broker in accordance with Rule 5.35(f), a competing specialist shall take reasonable action under the circumstances to respond to the book broker's call by providing a market or improving upon the market. To the extent practicable, and in a form prescribed by the Exchange, the book broker will shall keep a record of the responses of competing specialists that provide or improve upon a market commensurate with these standards. If satisfactory responses are not forthcoming promptly, the book broker shall make a record of this fact. Copies of all records kept in accordance with this Section shall be forwarded to the Floor Trading Committee and the Division of Member Organizations. In addition, in the interests of maintaining a fair and orderly and competitive market, a request for a quotation may be made at any time of any competing specialist by Exchange personnel for the purposes of dissemination over any quote reporting system.

Commentary

.01 Maximum Spreads.

Without limiting the standards expressed in Rules 5.35(f) and 5.35(g) a competing specialist, in the course of maintaining a fair and orderly market, is expected to conform to the following specific standards relating to maximum spreads in the following securities.

(a) BankAmerica Corporation Common Stock-

Bidding and/or offering so as to create differences of no more than 1/2 of $1; provided that, the book broker with the consent of a Floor Official, or the Exchange, because of unusual market conditions, may determine to increase or decrease the maximum spreads specified above.

The stated maximum spread is not intended as a limit on the book broker's power to call for narrower spreads between bids and offers. Depending upon market conditions, a book broker may well call for bids and/or offers that provide narrower spreads than those stated, and competing specialists may be considered to be in derogation of their responsibilities under Rules 5.35(f) and 5.35(g) if they do not make bids and/or offers that provide narrower spreads.]

[¶ 4331 Responsibility of Competing Specialist

RULE 5.35(g). Transactions of a competing specialist should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no competing specialist should enter into transactions or make bids or offers that are inconsistent with such a course of dealings. With respect to securities in which he is registered as a competing specialist, a competing specialist shall have a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and the demand for a particular security, or a temporary distortion of the price relationships between the Exchange and other markets.]

[¶ 4333 Acting as Competing Specialist and Floor Broker in Same Day

RULE 5.35(h). A competing specialist is prohibited from acting as a floor broker and a competing specialist on the same trading day in any security in which the competing specialist is so registered.]

[¶ 4335 Applicability of Other Exchange Rules

RULE 5.35(i). The following Rules of the Exchange relating to Dealings upon the Exchange shall apply to book brokers: Rule 1.1, Rule 4.2, 4.3, Rule 5.1–5.16, 5.20–5.23, 5.27–5.38 (except 5.30(e), 5.32(a), 5.32(b), 5.33(g), and 5.34(b)) which shall not apply to book brokers, and Rule 4.4–4.13, and Rule 5.18, 5.25. The following Rules of the Exchange relating to Dealings Upon the Exchange shall apply to competing specialists: Rules 1.1; 4.2–4.13; 5.1–5.9; 5.11–5.16; 5.18; 5.20–5.23; 5.25; 5.27; 5.28(b), (c), (d), (f); 5.29(e); 5.30(a), (d); 5.33(a), (d), (e), (f); 5.35(a); 5.36; and 5.37. All other Exchange Rules shall be applicable to transactions on the Exchange in securities traded on a competing specialist basis and to the activities of book brokers and competing specialists unless the context clearly indicates otherwise.]

* * * * *

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 Exchange 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 Exchange 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. Current Practices

The Exchange currently operates two equity trading floors, one in Los Angeles and one in San Francisco. For most of the equity securities traded on the Exchange, there are two Registered Specialists [5] continuously making two-sided markets. An order sent to the Exchange is routed to a specialist in one city or the other based on arrangements that the specialist has previously made. If no specific arrangements have been made, the Exchange will generally assure that orders are transmitted to the two specialists on an alternating bases (*e.g.*, the first order goes to Specialist A, the next order goes to Specialist B, the next to Specialist A, and so on).

The Exchange disseminates a single two-sided quote on the Consolidated Quote System (''CQS'') in each security traded on the PCX, based on the combined best bids and offers from each city. If the Los Angeles specialist is disseminating a bid of $30 for 5,000 shares of XYZ and the San Francisco specialist is disseminating a bid of $30 for 3,000 shares of XYZ, then the Exchange will disseminate a combined bid of $30 for 8,000 shares of XYZ.

The Exchange developed its Consolidated Limit Order Book (''CLOB'') in August 1998 for orders that are entered into the Exchange's P/COAST trading system.[6] Incoming orders other than market and marketable limit orders are maintained in the CLOB and are represented by the specialist designated to represent them. Incoming market and marketable limit orders are executed against orders in the CLOB based on price and time priority. Before any orders are executed, P/COAST will display them to the specialist designated to receive the order for up to 15 seconds to provide an opportunity for price improvement.[7] If a specialist manually executes a limit order that does not have priority, P/COAST will generate a message that a priority violation has been committed so that corrective action may be taken. In addition, the Exchange's Surveillance Department will receive a report of the priority violation.

b. Proposed Competing Specialist Program

The purpose of the proposed rule change is to expand the Exchange's two-specialist system for equity securities by establishing a Competing Specialist Program on the Exchange. Under the proposal, Competing Specialists will be permitted to compete with Regular Specialists on the floor of the Exchange. Like Regular Specialists, Competing Specialists in a security will be required to make a two-sided market and will be subject to the rights and responsibilities of Regular Specialist, subject to certain exceptions discussed below.

The Exchange's P/COAST system will electronically route each incoming order for an equity security to a Regular Specialist or a Competing Specialist in that security based on instructions of the firm submitting the order. As specified in the Exchange's proposed amendment to Rule 5.25(a), specialists who accept orders via P/COAST will be obligated to represent those orders pursuant to PCX Rule 5.29(f), which states that a specialist is repsonsible for the execution of all orders it has accepted.

[5] For purposes of this rule filing, a ''Registered Specialist'' is a PCX member who has been appointed and registered pursuant to Rule 5.27 to act as a Specialist on the Exchange. A ''Competing Specialist'' is a Registered Specialist who has been approved by the Equity Floor Trading Committee to trade securities on a Competing Specialist basis pursuant to proposed PCX Rule 5.35. A ''Regular Specialist'' is a Registered Specialist who is not a Competing Specialist.

[6] *See generally* File No. SR–PCX–99–06. The Commission notes that the proposal to implement the CLOB is still pending with the Commission.

P/COAST, the ''Pacific Computerized Order Access SysTem,'' is the Exchange's communication, order routing and execution system for equity securities. *See* PCX Rule 5.25(a)–(f).

[7] When P/COAST displays an order for possible price improvement, the order will appear on the recipient specialist's automatic execution window. If another specialist in the issue is simultaneously representing an order in the CLOB that is priced at the national best bid or offer made by an Intermarket Trading System (''ITS'') participant, or ''NBBO,'' that specialist will see a ''shadow'' record of the order being represented by the other specialist and can interact with that order by calling the other specialist and vocalizing a bid or offer.

Specialists on the Exchange will be required to execute all orders received—whether via the P/COAST system or from a floor broker—in accordance with the Exchange's rules on priority. Accordingly, as discussed below, a specialist cannot execute incoming market and marketable limit orders against its own account until after all limit orders priced at or better than the NBBO have been executed, and all specialist quotes with time priority at the NBBO have been filled.

In a few respects, the Regular Specialists in a security will have rights and obligations not shared by Competing Specialists. Regular Specailists will continue to be responsible for coordinating openings and reopenings to ensure they are unitary. Also, Computing Specialists who wish to use the ITS to send preopening indications of interest to the primary market in a security must send those preopening indications through a Regular Specialist (but during trading hours Competing Specialists will be able to send outbound ITS commitments and execute incoming ITS commitments independently and without the need for a Regular Specialist to clear the activity).

Like Regular Specialists, Competing Specialists will be able to enter two-sided quotes into the P/COAST system. The Exchange will continue to disseminate a single CQS quote.

The Exchange believes that having a Competing Specialist Program will result in greater competition, tighter bid-ask spreads, and greater depth and liquidity on the PCX. As a result, the Exchange expects to improve its competitive posture in the industry and expects that members' customers will send more order flow to the PCX for execution than they currently send.

c. Priority Rule Changes

The Exchange is also proposing to modify its Priority Rule for equity securities, Rule 5.8(c). The existing rule, which will be renumbered as Rule 5.8(c)(1), will be amended to provide that specialist bids or offers must always yield to agency orders being represented at the same price, unless otherwise provided for by rule. The exceptions to this general principle would include odd lot oders, orders that provide for settlement other than in three days (non-regular way) and conditional orders (such as all-or-none orders, stop orders and market-on-close orders).

Proposed Rule 5.8(c)(2) will provide that if two or more specialists are quoting at the NBBO and there are no agency orders being represented at the same price, the earliest bid or offer at that price will have time priority and will be eligible for execution first up to its specified size. It will further provide that when no specialists are quoting at the NBBO, the specialist who is representing an order may execute the order in the same security at the NBBO or better. The Exchange is also proposing to add a new Commentary .02 to the rule, which will provide that the term "NBBO," as used in Rule 5,8(c), will refer to the national best bid or offer made by an ITS participant.

The provisions of Rules 5.8(c)(1) and 5.8(c)(2) will apply to trading in all securities in which there is more than one specialist on the PCX. This incudes all securities in which two Regular Specialists make a market, whether or not one or more Competing Specialist trades the security.[8]

If a particular specialist is not specified within the P/COAST routing parameters for the receipt of an order (such as because the specialist has not made prior arrangements with an order-sending firm), the order will be directed to a Regular Specialist. However, if a routing firm is affiliated with a Competing Specialist, that firm may not route orders to another specialist, but must route them to the member firm's affiliated specialist, thereby preventing member firms affiliated with a specialist from routing non-profitable orders to another specialist when market conditions are unfavorable.[9]

Under the Competing Specialist Program, all limit orders are required to be represented and executed according to the rules on time priority on the Exchange.[10] All market and marketable limit orders will be exposed to the specialist representing the order for possible price improvement before execution. Specialists may execute their designated order flow unless there is a matching limit order with priority being represented on the Exchange or another specialist has a superior quote (with time priority) at the NBBO.

d. Order Handling

(1) Routing Mechanism

The Exchange proposes to add new Rule 5.25(h) to reflect that the Exchange intends to reprogram P/COAST to assure that incoming orders will execute first against any matching agency orders with priority and then against any specialist interest with priority. Unfilled portions of such orders will default to the specialist who receives them according to previously established routing procedures.

P/COAST will continue to designate orders for representation by the specialist who has been specified to represent them according to pre-defined routing parameters (such as because the order-sending firm designated the specialist), even if another specialist has priority under Rule 5.8(c)(2). Once P/COAST receives a market or marketable limit order, if another specialist in that security has a bid or offer with priority at the NBBO, the system will "lock in" the execution match so that the contra specialist will be guaranteed an execution unless the receiving specialist executes the order at a price superior to the NBBO. If the receiving specialist moves the order into his or her manual-ex window, then the other specialists in the issue will receive a 30-second "shadow" message of the order on their manual-ex windows if they either have a matching limit order or proprietary quote with priority at the NBBO. The contra specialists can interact with the receiving specialist's order by seeking an execution either by sending an electronic order or calling the specialist and vocalizing a bid or offer.

For example, assume that there are five PCX specialists (A, B, C, D and E) each bidding $20 for 500 shares for their own accounts. The specialists' quotes have time priority in the following order: A, B, C, D, E. There are no agency orders to buy at 20 on the PCX, and 20 is the national best bid. E's customer sends a market order to the PCX to sell 5,000 shares. The order will be represented by E. The order will be displayed for up to 15 seconds on E's auto-ex window. E may execute the entire order if E improves the price to 20 1/16. However, the system will lock in A's, B's, C's, D's and E's bids, so that if any trades at $20 occur on the PCX, they will be executed in time priority order.

If E moves the order into the manual-ex window, then A, B, C and D will receive a 30-second shadow message of the order. Their outstanding bids remain locked in, unless updated so that they

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[8] For example, assume that the NBBO is 20 bid to 20 1/8 offered, and Specialist A is bidding 19 3/4, while Specialist B is bidding 19 1/2. A market order to sell may be directed to specialist B for execution, even though Specialist A has a better bid, because neither specialist is bidding at the NBBO. Under the Competing Specialist Program, Specialist B would execute the order at 20 (the national best bid) or better. If Specialist A has been bidding 20 (the national best bid), Specialist A would have had priority to execute the order, even though it was directed to Specialist B.

[9] As noted above, however, Rule 5.8(c)(2) will provide that if another Specialist is quoting at the NBBO and clearly has established priority on the PCX floors, then that Specialist will have priority to fill the order despite the fact that the order was designated for the affiliated Competing Specialist.

[10] Time priority is required to be maintained among all orders received by the PCX.

no longer match with the original order. However, A, B, C and D can improve the price or size of their proprietary quotes, and these improvements in price or size will become locked in, as long as the original order remains in E's manual-ex window.

To change the example, if A were bidding $20 for 5,000 shares (with priority, and B, C and D were bidding $19⅞), E can keep the order by filling it at 20¹⁄₁₆; otherwise, if the order is filled at $20, a can fill the entire order. If E moves the order into his manual-ex window, A will receive a shadow message (but B, C and D will not).

The Exchange believes that this proposed modification to P/COAST will better assure that incoming orders will be executed against PCX bids and offers in priority sequence because specialists bids and offers at the NBBO will be ''locked in'' systemically. The proposal will encourage quote competition among specialists. If specialists are quoting at the NBBO with time priority, they will be eligible to trade with any incoming order, regardless of who is receiving it. The proposal will encourage price improvement because the Competing Specialists will be required to quote a letter prices in order to retain the order flow received by the Exchange.

The Exchange has considered changing P/COAST to route orders to the specialist with priority at the NBBO, but has concluded that splitting orders up into multiple partial orders or routing orders to various specialists other than the receiving specialist would not be in the customers' best interest. The Exchange further believes that implementing such changes would place the Exchange at a competitive disadvantage. The Exchange represents that its customers are placing a higher premium on turnaround time for executions of their orders. With the significant growth of the Exchange's base of on-line customers, the PCX anticipates that speed of execution will continue to be a high priority for PCX customers. The PCX contends that it is imperative that the Exchange devise an order handling method that facilities quick executions, avoids unnecessary errors from occurring, and does not place PCX specialists at a competitive disadvantage to other exchanges and alternative trading systems.

(2) Interim Methodology

The Exchange proposes to add Commentary .03 to Rule 5.8(c), to reflect that until the Exchange has reprogrammed P/COAST to implement order routing for the competing specialist program, as described in proposed Rule 5.25(h), specialists will need to rely on manual procedures to assure that any quotes for a specialist's proprietary account with time priority at the NBBO will be honored. In particular, if a specialist receives an order an is aware that another specialist is disseminating a quote for his own account at the NBBO, the specialist receiving the order will be required to provide the other specialist with an execution, up to the specified size.[11]

The Exchange believes that in some cases, due to system limitations, a specialist will be unable to know, at the time of receipt of an order, whether a contra specialist has time priority at the same price being quoted by the order specialist. As a result, the Exchange is proposing to adopt a new Commentary .03 to Rule 5.8(c), stating that when two specialists are quoting for their own accounts at the NBBO, a specialist whose time priority has been violated may demand an execution, up to the quoted size, but must make that demand within two minutes after thee trade-through has occurred.[12] Otherwise, the specialist's right to an execution will be deemed to have been waived.[13] Having a two-minute window will assure that members will not request relief well after the market has moved and a reasonable time to research a trade has passed. It will also serve to ensure that PCX specialists trading the same issue will keep each other apprised of bids and offers for their own accounts that they intend to invoke when competing for the same order flow.

e. Procedures for Competing Specialist Program

The Exchange is proposing to adopt new Rule 5.35(a) for the Competing Specialist Program.[14] Specifically, proposed Rule 5.35(a)(1) will provide that only Registered Specialists may act as Competing Specialist. This requirements is intended to assure that Competing Specialists meet the same standards as Registered Specialists as required under PCX Rule 5.27. The rule also clarifies that the term ''regular Specialists'' is a Registered Specialist who is not a Competing Specialist.

Proposed Rule 5.35(a)(2) states that applications for Registration as a Competing Specialist must be directed to the Equity Floor Trading Committee (''EFTC'') in writing and must list in order of preference the issue(s) in which the applicant intends to compete. The EFTC will consider the following factors in reviewing an application: (a) financial capability; (b) adequacy of staffing on the Floor; (c) current and recent performance evaluations of the applicant; (d) whether the allocation will result in increased competition in the issue and/or increased order flow to the Exchange; and (e) objections, if any, of the Regular Specialists in the issue as to whether the issue should be traded on a competing specialist basis.[15]

Proposed Rule 5.35(a)(3) states that all applicants must be registered as members with the Exchange, must meet the net capital requirements of SEC Rule 15c3–1 and the capital requirements of PCX Rule 2.2(b), and must conform to all other performance requirements and standards set forth in the Rules of the Exchange. All applicants who control, are controlled by, or are under common control with another person engaged in a securities or related business will be required to have and maintain appropriate information barriers as approved by a self-regulatory organization. A Competing Specialist will be subject to to all the rules and policies applicable to a Regular Specialist, unless otherwise indicated.

Proposed Rule 5.35(a)(4) states that all applicant organizations, existing or newly created, must satisfy the EFTC that they have sufficient staffing to enable them to fulfill the functions of a specialist in all of its issues in which the applicant will be registered as a Competing Specialist.

Proposed Rule 5.35(a)(5) states that order flow are specially designated for a Competing Specialist must be routed to a Regular Specialist. However, a firm that is affiliated with a Competing Specialist in an issue must designate all PCX order flow to that Competing Specialist in that issue. Commentary .01 to proposed Rule 5.35 explains that this

[11] For example, if Specialist A is bidding $75 (the nations best bid, with price and time priority) for 100 shares for his own account, and Specialist B receives a market order to sell 5,000 shares, Specialist B will be required to execute 100 shares of that order for Specialist A's account by entering Specialist A's post number as the contra side of the trade. Specialist A will then receive a report of the executed trade through P/COAST.

[12] The Exchange intends to codify this provision as a temporary rule that will expire upon the implementation of the P/COAST changes discussed above. The Exchange anticipates that from the time of commencement of programming, these system changes will take approximately one year to implement.

[13] A similar provision exists in the ITS Rules for orders executed out of price priority (but not for orders out of time priority at the same price). *See, e.g.*, PCX Rule 5.21(b).

[14] Most of these procedures are similar to those set forth in the Boston Stock Exchange (''BSE'') Rules, Chapter XV, Section 18, which were approved in Exchange Act Release No. 37045 (March 29, 1996), 61 FR 15318 (April 5, 1996).

[15] PCX Rule 11 provides a right of appeal for members or member organizations aggrieved by a decision of the EFTC regarding the competing specialist program.

is designed to prevent member firms affiliated from a Competing Specialist from routing non-profitable orders to another (unaffiliated) specialist when market conditions are unfavorable.

Proposed Rule 5.35(a)(6) states that if the Competing Specialist organization that received approval to compete desires to terminate the competition by requesting that it be relieved of the stock in which it is competing, it must so notify the EFTC as least three business days prior to the desired effective date of such withdrawal, except when such notice is not practicable.

Proposed Rule 5.35(a)(7) states that any Competing Specialist that withdraws its registration in an issue will be barred from applying to compete in that same issue for a period of 90 days following the effective date of withdrawal.

Proposed Rule 5.35(a)(8) states that Competing Specialists must cooperate with the Regular Specialists regarding openings and reopenings to ensure that they are unitary. In this regard, the procedures note that, notwithstanding the existence of Competing Specialist situations, there is only one Exchange market in a security subject to competition, meaning that the Exchange will disseminate a single quote onto the CQS.

Proposed Rule 5.35(a)(9) states that all limit orders not immediately executable that are sent to a Competing Specialist must be entered directly into the CLOB and be executed according to the Exchange's rules on time priority. Commentary .02 to proposed Rule 5.35 further states that incoming orders are first executed against any matching limit orders on the Exchange, that all market and marketable limit orders are exposed to the specialist for possible price improvement before execution, and that specialists may execute their designated order flow unless there is a matching limit order eligible for execution on the Exchange or another specialist has a bid or offer with time priority at the NBBO.

Proposed Rule 5.35(a)(10) states that all suspensions of trading must be coordinated through a Regular Specialist.[16]

Proposed Rule 5.35(a)(11) states that the registration of any Competing Specialist may be suspended or terminated by the EFTC upon a determination of any substantial or continued failure by that Competing Specialist to engage in dealing in accordance with the Constitution and Rules of the Exchange.

Proposed Rule 5.35(a)(12) states that the Exchange will establish an effective date for competition to commence, but since the Exchange cannot know what the impact of competition will be on its marketplace, it will limit competition during the initial phase as follows: (a) any Registered Specialist may apply to become a Competing Specialist in a number of issues, not to exceed ten, that has been previously established for the program by the EFTC and the Board of Governors: (b) the EFTC and the Board of Governors will determine the total number of Competing Specialists permitted on the Exchange; and (c) the Exchange will conduct a quarterly review of each Competing Specialist on the Exchange, and in conducting such reviews, the Exchange may consider, among other things, the five factors the EFTC considers when reviewing an application for registration under the Competing Specialist Program.[17]

Proposed Rule 5.35(a)(13) states that once the program has operated for one year, the EFTC will evaluate it and made a recommendation to the Board of Governors as to whether to continue the program or to modify its terms.

f. Trading Halts and Circuit Breakers

PCX Rule 5.31(b)(1) currently provides, in part, that when the flow of orders in a security traded on both Floors does not allow either specialist to maintain an orderly market in such security, either specialist may suspend trading, and the specialist who suspends trading must notify the specialist on the other Floor who shall also suspend trading. Rule 5.31(b)(2) contains similar provisions for securities traded only on one Floor. The Exchange is proposing to amend both rules to require notification of all specialists trading the security. The Exchange also is proposing to add a Commentary to this Rule stating that Competing Specialists in an issue may not suspend trading pursuant to this Rule, and further that all suspensions of trading must be coordinated through a Regular Specialist. The Exchange further proposes to add a similar provision to the Procedures for the Competing Specialist Program, as new Rule 5.35(a)(11). Finally, the Exchange is also proposing to extend its rules on circuit breakers, previously approved by the Commission,[18] to Competing Specialists.

g. Elimination of Current Rules on Competing Specialists

In 1976, the Exchange adopted its existing rules on Competing Specialists (PCX Rules 5.35(a)—(i)). The Exchange is proposing to eliminate those rules and replace them with provisions set forth in this proposal, which the Exchange believes to be consistent, in general, with the rules of the BSE on Competing Specialists.[19] The Exchange has not applied its existing rules on Competing Specialists since approximately 1977.

(2) Basis

The proposed rule change is consistent with Section 6(b) of the Act,[20] in general, and furthers the objectives of Section 6(b)(5),[21] in particular, in that it is designed to promote just and equitable principles of trade, to reflect the mechanism of a free and open market and a national market system, and to protect investors and the public interest. Specifically, the Exchange believes that the proposal, when implemented, will result in greater competition, tighter bid-ask spreads, and greater depth and liquidity on the PCX, and thereby, will promote those three objectives. The Exchange further believes that the proposed rule change and will serve to permit the Exchange to compete more effectively for order flow, and thereby will serve to promote greater industry-wide competition, and help to perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose 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 on the proposed rule change were neither solicited nor received.

[16] Trading halts are discussed in more detail *infra*.

[17] The purpose of these reviews is to assure that the new program will be operating appropriately, particularly in its early phase, so that any problems can be identified and corrected. The Exchange anticipates that its staff will provide the EFTC with objective data for the EFTC's review and that floor members and others will have an opportunity to raise their concerns, if any, in the context of these reviews.

[18] *See* PCX Rule 4.22; Securities Exchange Act Release No. 40418 (September 9, 1998), 63 FR 49624 (September 16, 1998).

[19] *See* Chapter XV, Section 18, of the BSE Rules; Securities Exchange Act Release No. 37045, note 14, *supra*.

[20] 15 U.S.C. 78f(b)

[21] 15 U.S.C. 78f(b)(5)

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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549–0609. 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, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR–PCX–99–07 and should be submitted by June 25, 1999.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGED COMMISSION

[Release No. 34–41323; File No. SR–PHLX–99–13]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to an Extension of a Pilot Program for a System Enhancement to the X.Station Electronic Book on the Options Floor

April 22, 1999.

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 April 22, 1999,[3] the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule changed from interested persons.

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

Phlx proposes to extend its pilot program for a system enhancement to the X.Station electronic book on the options floor for an additional six months, until October 23, 1999.

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

In its filing with the Commission, Phlx 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. Phlx 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

On May 7, 1998, the Commission approved, on a pilot basis, the implementation of the X.Station enhancement to the electronic book on the options floor of the Phlx.[4] The pilot was extended for an additional six months, until April 23, 1999.[5] As described in Rule 1080, Commentary .02, the electronic order book is automated mechanism for specialists to hold and display orders based on price/priority time. The X.Station [6] provides certain improvements such as expedited non-AUTO–X order execution and expedited cancel replacement processing.

AUTO-X is the automatic execution feature of the Automated Options Market (''AUTOM'') System, the electronic order delivery and routing system for options orders. Previously, AUTO–X orders were executed against a ''shadow account'' for which the specialist was ultimately responsible. The execution was immediately reported back to the sending firm, and then, specialist manually input the contra-side interest representing the booked order that became due as a result of the AUTO–X trade.

At this time, the Exchange proposes to extend the X.Station pilot for an additional six months, until October 23, 1999. The pilot program is a system enhancement to the X.Station electronic book that match incoming AUTO–X orders with booked orders. The enhancement allows the specialist to match two participants directly, without the specialist participating in the trade, by dropping the order to manual status. The match is not automatic, as the specialist must ensure that crowd participation under current parity/priority rules in not due before executing the trade; thus, the specialist must ''select'' the orders to execute the trade. Because the AUTO–X order has dropped to manual, the sending firm will not receive and execution report until the specialist selects and executes the trade.

The enhancement affords specialists relief from the manual burden of inserting trade participant and clearing information by writing an order ticket for the booked order. An extension of the proposed enhancement should continue to reduce the amount of paper processed on the options floor; this in turn, should continue to reduce handling and processing time, including the likelihood of errors, thereby facilitating more prompt and accurate trade reporting.

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

[2] 17 CFR 240.19b–4.

[3] The filing was submitted April 14, 1999, however it was not accurate. Therefore, the Phlx consented to changes to the filing to make it accurate on April 22, 1999.

[4] Securities Exchange Act Release No. 39972 (May 7, 1998), 63 FR 26666 (May 13, 1998).

[5] Securities Exchange Act Release No. 40625 (November 2, 1998), 63 FR 60435 (November 9, 1998).

[6] The X.Station has been deployed floor wide.