facilities development. Currently, this category of costs is allocated equally among OPRA's accounting centers. Based on experience to date, OPRA determined that, depending on the nature of the facility in question, this allocation may result in too large a share of development costs being allocated to the relatively small FCO accounting center. OPRA believes that greater flexibility is called for so that the allocation of facilities development costs may bear a closer relationship to the nature and functionality of the particular facility being developed. Accordingly, the amendment provides that facilities development expenses shall be allocated among the accounting centers as OPRA may determine for the particular facility in question, and only if no specific allocation is determined for a particular facility will the allocation be made equally among the accounting centers that are expected to make use of the facility. OPRA will determine the allocation of facilities development costs and expenses prior to the commencement of each facilities development project.[5]

Moreover, OPRA proposes to simplify and make more flexible the provision of the Plan governing the allocation of facilities development costs to an accounting center based on that center's use of a facility that was not contemplated at the time the facility's development costs were first allocated. Therefore, OPRA proposes to eliminate the fixed allocation formula that depends upon whether the use of the facility commences in the first or second year after the facility becomes operational. Instead, OPRA will provide that the allocation of a share of facilities development costs to such an accounting center will be as determined by OPRA where such use commences within 24 months of the time the facility first became operational. Further, OPRA believes that all categories of cost allocations will be specifically provided for and, therefore, proposes to eliminate the ''catch-all'' provision in the Plan.

Finally, OPRA proposes to make several non-substantive amendments. OPRA intends to remove the references to January 1, 1996, as such date no longer has any relevance in the Plan.

[5] At its November 1996 meeting, OPRA determined that the development costs associated with the implementation of the Common Software and Internet Protocol projects, which are the only pending facilities development projects applicable to the FCO accounting center, will be allocated between the basic/index and the FCO accounting centers on the basis of the output line capacity availability to those accounting centers. This results in 6⁄7 of such costs being allocated to the basic/index accounting centers and 1⁄7 to the FCO accounting center. OPRA also determined that the share of these costs allocated to the basic/index accounting centers shall be further allocated (75% to the basic accounting center and 25% to the index accounting center).

II. Solicitation of Comments

Pursuant to Rule 11Aa3–2(c)(3), the amendment is effective upon filing with the Commission. The Commission may summarily abrogate the amendment within 60 days of its filing and require refiling and approval of the amendment by Commission order pursuant to Rule 11Aa3–2(c)(2), if it appears to the Commission that such action is necessary or appropriate in the public interest; for the protection of investors and the maintenance of fair and orderly markets; to remove impediments to, and perfect the mechanisms of, a National Market System; or otherwise in furtherance of the purposes of the Exchange Act.

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, and 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 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 the filing also will be available at the principal offices of OPRA. All submissions should refer to file number SR–OPRA–97–2 and should be submitted by April 30, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[6]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–9174 Filed 4–9–97; 8:45 am]

BILLING CODE 8010–01–M

[6] 17 CFR 200.30–3(a)(29).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 33–7413, File No. S7–15–97]

Securities Uniformity; Annual Conference on Uniformity of Securities Laws

AGENCY: Securities and Exchange Commission.

ACTION: Publication of release announcing issues to be considered at a conference on uniformity of securities laws and requesting written comments.

SUMMARY: In conjunction with a conference to be held on April 28, 1997, the Commission and the North American Securities Administrators Association, Inc. today announced a request for comments on the proposed agenda for the conference. This meeting is intended to carry out the policies and purposes of section 19(c) of the Securities Act of 1933, adopted as part of the Small Business Investment Incentive Act of 1980, to increase uniformity in matters concerning state and federal regulation of securities, to maximize the effectiveness of securities regulation in promoting investor protection, and to reduce burdens on capital formation through increased cooperation between the Commission and the state securities regulatory authorities.

DATES: The conference will be held on April 28, 1997. Written comments must be received on or before April 23, 1997 in order to be considered by the conference participants.

ADDRESSES: Written comments should be submitted in triplicate by April 23, 1997 to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549. Comments also may be submitted electronically at the following E-mail address: rule-comments@sec.gov. Comments should refer to File No. S7–15–97; this file number should be included on the subject line if E-mail is used. Comment letters will be available for public inspection at the Commission's Public Reference Room, 450 5th Street, N.W., Washington, D.C. 20549. Electronically submitted comment letters will be posted on the Commission's internet web site (http://www.sec.gov).

FOR FURTHER INFORMATION CONTACT: John D. Reynolds or Richard K. Wulff, Office of Small Business Review, Division of Corporation Finance, Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, (202) 942–2950.

SUPPLEMENTARY INFORMATION:

I. Discussion

A dual system of federal-state securities regulation has existed since the adoption of the federal regulatory structure in the Securities Act of 1933 (the ''Securities Act'').[1] Issuers attempting to raise capital through

[1] 15 U.S.C. 77a *et seq.*

securities offerings, as well as participants in the secondary trading markets, are responsible for complying with the federal securities laws as well as all applicable state laws and regulations. It has long been recognized that there is a need to increase uniformity between federal and state regulatory systems, and to improve cooperation among those regulatory bodies so that capital formation can be made easier while investor protections are retained.

The importance of facilitating greater uniformity in securities regulation was endorsed by Congress with the enactment of section 19(c) of the Securities Act in the Small Business Investment Incentive Act of 1980.[2] Section 19(c) authorizes the Commission to cooperate with any association of state securities regulators which can assist in carrying out the declared policy and purpose of section 19(c). The policy of that section is that there should be greater federal and state cooperation in securities matters, including: (1) Maximum effectiveness of regulation; (2) maximum uniformity in federal and state standards; (3) minimum interference with the business of capital formation; and (4) a substantial reduction in costs and paperwork to diminish the burdens of raising investment capital, particularly by small business, and a reduction in the costs of the administration of the government programs involved. In order to establish methods to accomplish these goals, the Commission is required to conduct an annual conference. The 1997 meeting will be the fourteenth such conference.

Recently, Congress has examined the system of dual federal and state securities regulation and the effects of such dual regulation on the nation's securities markets. During this process, Congress considered the need for regulatory changes to promote capital formation, eliminate duplicative regulation, decrease the cost of capital and encourage competition, while at the same time promoting investor protection. These efforts resulted in passage of The National Securities Markets Improvement Act of 1996[3] (the ''1996 Act''), which was signed by President Clinton on October 11, 1996. The 1996 Act contains significant provisions that realign the regulatory partnership between federal and state regulators. The legislation reallocates responsibility for regulation of the nation's securities markets between the federal government and the states in order to eliminate duplicative costs and burdens and improve efficiency, while preserving investor protections. The 1996 Act addresses regulation applicable to securities offerings, investment companies and advisers and broker-dealers.

II. 1997 Conference

The Commission and the North American Securities Administrators Association, Inc. (''NASAA'')[4] are planning the 1997 Conference on Federal-State Securities Regulation (the ''Conference'') to be held April 28, 1997 in Washington, D.C. At the Conference, representatives from the Commission and NASAA will form into working groups in the areas of corporation finance, market regulation and oversight, investment management, and enforcement, to discuss methods of enhancing cooperation in securities matters in order to improve the efficiency and effectiveness of federal and state securities regulation. Generally, attendance will be limited to representatives of the Commission and NASAA in an effort to promote frank discussion. However, each working group in its discretion may invite certain self-regulatory organizations to attend and participate in certain sessions.

Representatives of the Commission and NASAA currently are formulating an agenda for the Conference. As part of that process the public, securities associations, self-regulatory organizations, agencies, and private organizations are invited to participate through the submission of written comments on the issues set forth below. In addition, comment is requested on other appropriate subjects sought to be included in the Conference agenda. All comments will be considered by the Conference attendees.

III. Tentative Agenda and Request for Comments

The tentative agenda for the Conference consists of the following topics in the areas of corporation finance, investment management, market regulation and oversight, and enforcement.

(1) Corporation Finance Issues

A. Uniformity of Regulation

The 1996 Act amended Section 18 of the Securities Act[5] to preempt state blue-sky registration of securities offerings of ''covered securities''[6] and prohibit state reviews of offerings of covered securities.[7] The definition of covered securities does not include the following which, therefore, remain subject to state registration requirements:

- Securities quoted on the Nasdaq SmallCap market;
- Securities quoted on the Nasdaq over-the-counter Electronic Bulletin Board;
- Securities quoted on the over-the-counter ''pink sheets;''
- Securities listed on national securities exchanges other than the NYSE or AMEX (unless the Commission determines by rule that the listing standards of such exchanges are substantially similar to the listing standards of the NYSE, AMEX, or Nasdaq/NMS);
- Various investment grade securities, such as asset-backed and mortgage-backed securities, since these securities usually are not listed on a national exchange or Nasdaq/NMS;
- Private placements of securities under Section 4(2) of the Securities Act that do not meet the requirements of Rule 506 of Regulation D;[8] and
- Securities offered in reliance upon Commission rules adopted under Section 3(b) of the Securities Act, e.g., offerings that are exempt from registration with the Commission under Regulation A[9] and Rules 504 and 505 of Regulation D.

In addition, with respect to offerings of covered securities (other than listed securities), the states retain the authority to require specified fee payments and/or notice filings. The states' continuing authority to regulate certain offerings and to require other filings and fees continues the need for uniformity between the federal and state registration systems where consistent with investor protection.

The 1996 Act requires the Commission to conduct a study as to the extent to which uniformity of state regulatory requirements for securities and securities transactions that are not covered securities has been achieved.[10] The Commission is instructed to consult with the states as well as issuers,

[2] Pub. L. 96–477, 94 Stat. 2275 (October 21, 1980).

[3] Pub. L. 104–290, 110 Stat. 3416 (October 11, 1996).

[4] NASAA is an association of securities administrators from each of the 50 states, the District of Columbia, Puerto Rico, Mexico and twelve Canadian Provinces and Territories.

[5] 15 U.S.C. 77r.

[6] 15 U.S.C. 77r(b). ''Covered securities'' are defined in Section 18. The term generally includes New York Stock Exchange, Inc. (''NYSE''), American Stock Exchange, Inc. (''AMEX'') and Nasdaq National Market System (''Nasdaq/NMS'') securities, registered investment company securities and specified exempt securities and offerings.

[7] 15 U.S.C. 77r(a).

[8] 17 CFR 230.501 through 230.508.

[9] 17 CFR 230.251 through 230.263.

[10] Section 102(b) of 1996 Act.

brokers and dealers in conducting this study. The results of the study are to be reported to Congress within a year following the enactment of the 1996 Act. The Commission and NASAA will discuss the nature and extent of uniformity at present and discuss steps to increase uniformity in light of the 1996 Act.

B. Sales to Qualified Purchasers under the 1996 Act

Section 18 of the Securities Act, as amended by the 1996 Act, excludes from state regulation and review securities offerings to purchasers who are defined by Commission rules to be ''qualified purchasers.'' [11] A security sold to a ''qualified purchaser'' is a ''covered security'' subject to the same new regulatory approach as other covered securities as described above. The Commission will be undertaking rulemaking to define ''qualified purchaser'' for this purpose, and will discuss with NASAA the appropriate criteria for this definition.

C. Commission Exemptive Authority

The 1996 Act added new Section 28 to the Securities Act granting the Commission extensive general authority to craft exemptions from the Securities Act to the extent that such exemptions are necessary or appropriate in the public interest and consistent with the protection of investors.[12] This new authority permits the Commission to adopt rules which exempt any person, security or transaction, or any classes thereof, from one or more of the provisions of the Securities Act. The Commission is authorized to adopt conditions for the availability of such exemptions or, if deemed appropriate, adopt unconditional exemptions. The Commission and NASAA will discuss the nature and extent of appropriate exemptions that may be adopted under the Commission's new authority and the appropriate criteria of and conditions to such exemptions. In this regard, the definition of covered securities does not encompass securities issued pursuant to exemptions under new Section 28. Accordingly, securities or transactions determined to be exempt under Commission rules adopted pursuant to new section 28 may be subject to state regulation and review. The conferees will discuss how offerings exempted under new Section 28 may be regulated in a uniform manner under state securities laws to the greatest possible extent, consistent with investor protection.

D. Small Business Initiatives

During 1996 the Commission adopted and revised rules to provide additional assistance to small business. On May 1, 1996, the Commission adopted Rule 1001, a new Securities Act Section 3(b) exemption from the registration requirements of the federal securities laws.[13] Under the exemption, offers and sales of securities, in amounts of up to $5 million, that satisfy the conditions of a 1994 exemption from California state qualification requirements (Section 25102(n) of the California Corporations Code) are exempt from federal registration. Also on May 1, 1996, the Commission adopted amendments to certain rules under the Securities Exchange Act of 1934 [14] (''Exchange Act'') that raised the asset threshold for when a company must become a ''public'' reporting company from $5 million to $10 million.[15]

On February 20, 1997, the Commission adopted amendments to the holding period requirements contained in Rule 144 under the Securities Act.[16] Rule 144 provides a Securities Act registration safe harbor for resales of securities by persons who hold either ''restricted'' securities or securities of a company of which they are affiliates. ''Restricted'' securities generally include securities issued in offerings under certain exemptions from federal registration. The amendments permit the resale of limited amounts of restricted securities after a one-year, rather than the previous two-year, holding period. In addition, the amendments permit unlimited resales of restricted securities by non-affiliates after a holding period of two years, rather than the previous three-year period. The Commission believes that these changes will reduce the cost of private capital formation and especially benefit small businesses, without reducing investor protections. In a companion release, the Commission proposed certain changes to Rule 144 to simplify the rule's operation and solicited comments on additional changes to Rule 144.[17]

Also on February 20, 1997, the Commission proposed amendments to Rule 430A to permit certain smaller or less seasoned reporting companies to price securities on a delayed basis after effectiveness of a registration statement, if they meet specified conditions.[18] The proposals are intended to provide flexibility and efficiency to qualified registrants, enabling them to time their offerings to advantageous market conditions, consistent with investor protection.

The participants will discuss the impact of the recent Commission rule changes and the need for any additional exemptive relief in the small business area. Conferees will consider the recent proposals and discuss the effects of such proposals, if adopted, on small business and public investors.

During the fall of 1996, the Commission began meeting with small businesses in town hall meetings conducted throughout the United States. These town hall meetings are intended to provide basic information to small businesses about fundamental requirements that must be addressed when they wish to raise capital through the public sale of securities. In addition, the Commission has learned and will continue to learn more about the concerns and problems facing small businesses in raising capital so that initiatives and programs can be designed to meet their needs, consistent with the protection of investors. To date, the Commission has held six town hall meetings attended by more than 1,000 small business persons. The Commission representatives will share information and ideas obtained from these meetings with conference participants.

E. Securities Act Concept Release

The Commission issued a concept release during 1996 to solicit comment on the best means of improving the regulation of the capital formation process while maintaining or enhancing investor protection.[19] The Commission has been engaged in a broad reexamination of the regulatory framework for the offer and sale of securities under the Securities Act.

The concept release solicited comment on different approaches, such as: the recommendation of the Advisory Committee on the Capital Formation and Regulatory Processes that a ''company registration'' approach be adopted; modifications to the existing shelf registration system (many of which were recommended by the Commission's Task Force on Disclosure

[11] 15 U.S.C. 77r(b)(3).

[12] 15 U.S.C. 77z–3.

[13] Securities Act Release No. 7285 (May 1, 1996) [61 FR 21356].

[14] 15 U.S.C. 78a et seq.

[15] Securities Exchange Act Release No. 37157 (May 1, 1996) [61 FR 21354].

[16] Securities Act Release No. 7390 (February 20, 1997) [62 FR 9242].

[17] Securities Act Release No. 7391 (February 20, 1997) [62 FR 9246].

[18] Securities Act Release No. 7393 (February 20, 1997) [62 FR 9276].

[19] Securities Act Release No. 7314 (July 25, 1996) [61 FR 40044].

Simplification); reforms that would liberalize the treatment of unregistered securities; and an approach that would involve deregulation of offers. Comment also was requested with regard to any other approaches that should be considered. The comment period ended October 31, 1996. The participants will discuss the conceptual issues raised by the release and the comments received in response to such release and consider the changes that should be made in the regulation of securities offerings.

F. Report of the Advisory Committee on the Capital Formation and Regulatory Processes

On July 24, 1996, the Advisory Committee on the Capital Formation and Regulatory Processes (the ''Advisory Committee'') presented its report to the Commission recommending the adoption of a company registration system. The Advisory Committee recommended a fundamental conceptual change in the scheme of regulation governing offerings by public companies. The Advisory Committee advised the Commission to shift the focus of the regulatory process for public offerings of securities by these companies from a transactional registration system to a company registration system, beginning with a pilot program. As a part of this new approach, the Advisory Committee recommended enhancements to the Exchange Act periodic reporting requirements. The participants will consider the recommendations proposed by the Advisory Committee, including the impact of such conceptual changes on the coordination of federal and state securities regulation.

G. Disclosure Simplification

On March 5, 1996, the Commission published the Report of the Task Force on Disclosure Simplification (the ''Task Force Report''). The Task Force Report includes several recommendations intended to reduce the costs of raising capital by both smaller and seasoned companies. In addition, the Task Force Report includes a discussion on the ongoing debate regarding the need to adapt existing Securities Act requirements and related concepts to current market conditions. Since publication of the Task Force Report, the Commission initiated implementation of certain of the recommendations by eliminating 45 rules and four forms that were viewed as redundant or otherwise no longer necessary [20] and published proposals to implement additional recommendations to eliminate unnecessary requirements and streamline the disclosure process.[21]

The conference participants will discuss the findings and recommendations of the Task Force Report and consider the Commission's proposals that would implement certain recommendations. Conferees will consider how the Commission's proposals, if adopted, would impact the system of dual federal and state regulation.

H. Plain English

One of major concerns of the Task Force on Disclosure Simplification was the lack of readability of prospectuses and other disclosure documents. The Task Force Report criticized prospectuses for their dense writing, legal boilerplate and repetitive disclosures and recommended using plain English disclosure to improve the readability of prospectuses. The Commission on January 14, 1997 proposed several rule amendments that would be a first step in implementing the Task Force's recommendation.[22] The proposals require the use of plain English writing principles when drafting the front part of prospectuses—the cover page, summary and risk factors sections of these documents. Concurrently with the issuance of the plain English proposal, the Commission's Office of Investor Education and Assistance issued a draft copy of a handbook to help issuers write plain English documents.

The Division of Corporation Finance is operating a pilot program for companies that want to draft their documents in plain English. The Division's staff works with volunteers on the techniques for designing and writing plain English documents filed under either the Securities Act or the Exchange Act. The company participants can draft plain English documents and submit them to the staff for suggestions and comments in a nonpublic forum.

Conferees will discuss the Plain English initiative, including federal and state coordination needed to facilitate implementation of the initiative.

I. Electronic Delivery of Disclosure Documents

The Commission has issued interpretive releases and rules addressing the use of electronic media to deliver or transmit information under the federal securities laws.[23] These initiatives reflect the Commission's continuing recognition of the benefits that electronic technology provides to the financial markets. These releases are premised on the belief that the use of electronic media should be at least an equal alternative to the use of paper delivery.

The participants will discuss the impact of electronic technology on the capital formation process and consider the nature and extent of regulatory changes to accommodate the use of such technology in securities offerings. In particular, conferees will consider the various approaches that have been taken by states and the Commission relative to securities offerings on the Internet.

J. Internationalization of the Securities Markets

1. *Foreign Issuers in the U.S. Market.* Foreign companies raising funds from the public or having their securities traded on a national exchange or the Nasdaq Stock Market are generally subject to the registration requirements of the Securities Act and the registration and reporting requirements of the Exchange Act. The Commission has provided a separate integrated disclosure system for foreign private issuers that provides a number of accommodations to foreign practices and policies. Foreign companies conducting securities offerings in the U.S. continue to be subject to state regulation and review unless the securities being offered are ''covered securities'' within the meaning of the 1996 Act. The participants will discuss steps to increase coordination of federal and state treatment of multinational offerings.

2. *Regulation S.* In 1990, the Commission adopted Regulation S [24] to clarify the extraterritorial application of the registration requirements of the Securities Act. The Commission intended for Regulation S to make clear that registration of an offering of securities under the Securities Act would not be required where the offering takes place outside the United States and the securities offered come to rest offshore. Following the adoption of Regulation S, the Commission became aware of certain abusive practices under the regulation. The Commission issued a release on February 20, 1997 proposing revisions to Regulation S to

[20] Securities Act Release No. 7300 (May 31, 1996) [61 FR 30397].

[21] Securities Act Release No. 7301 (May 31, 1996) [61 FR 30405].

[22] Securities Act Release No. 7380 (January 14, 1997) [62 FR 3152].

[23] Securities Act Release No. 7233 (October 6, 1995) [60 FR 53458], Securities Act Release No. 7289 (May 9, 1996) [61 FR 24652].

[24] 17 CFR 230.901 through 230.904 and Preliminary Notes.

prevent those abusive practices.[25] The proposals include lengthening the restricted period during which persons relying on the Regulation S safe harbor may not sell equity securities into the United States from 40 days to two years (absent registration or a valid exemption) and classifying equity securities placed offshore pursuant to Regulation S as ''restricted securities'' under Rule 144. The proposals would apply to offshore sales of equity securities of domestic issuers and of foreign issuers where the principal market for those securities is the United States.

Conferees will discuss the proposed changes to Regulation S, share their experiences with Regulation S offerings and discuss steps to increase coordination of federal and state regulation of such offerings.

(2) Market Regulation Issues

A. National Securities Markets Improvement Act of 1996

1. *State Licensing Requirements.* The 1996 Act directed the Commission to conduct a study of the impact of disparate state licensing requirements on associated persons of registered broker-dealers and the methods for states to attain uniform licensing requirements for such persons. The Commission is required to consult with the self-regulatory organizations (''SROs'') and the states, and to prepare and submit a report to Congress by October 11, 1997. To this end, Commission staff have been consulting with the SROs, NASAA, and members of the securities industry. The initial goal is to determine the extent to which state licensing requirements differ and the effect of different state requirements and procedures upon associated persons and broker-dealers. The next phase of the study will be to analyze the need for and feasibility of requiring uniform state requirements (through legislation or other means). The participants will discuss the status of the study at the conference.

2. *State Requirements for Exchange-Listed Securities.* As noted above, the 1996 Act amended Section 18 of the Securities Act to provide an exemption from state blue sky laws and regulations for securities that are listed on the NYSE, the AMEX, and the Nasdaq/NMS. The amendments to Section 18 also allow the Commission by rule to designate securities listed on other national securities exchanges as exempt from state blue sky laws and regulations if the applicable listing standards are substantially similar to those of the NYSE, AMEX, or Nasdaq/NMS. Section 18 allows the Commission to adopt such a rule on its own initiative or in response to a rulemaking petition. The Commission has received rulemaking petitions from the Pacific Stock Exchange, Inc., the Chicago Board Options Exchange, Inc., and the Chicago Stock Exchange, Inc. The participants will discuss these proposals and their potential impact on NASAA members.

3. *Broker-Dealer Books and Records.* Section 103 of the 1996 Act prohibits any state from imposing broker-dealer books and records requirements that are different from or in addition to the Commission's requirements. In addition, the same section directs the Commission to consult periodically with state securities authorities concerning the adequacy of the Commission's requirements. The Commission's current proposal to amend Rules 17a–3 and 17a–4[26] originated in discussions between NASAA representatives and the Commission about the adequacy of the existing broker-dealer books and records requirements.[27] The proposed amendments clarify, modify, and expand the Commission's record-keeping requirements with respect to purchase and sale documents, customer records, associated person records, customer complaints, and certain other matters. In addition, the proposed amendments specify certain types of books and records that broker-dealers must make available in their local offices. In consideration of the substantial number of organizations that have expressed interest in commenting on the proposed amendments, the Commission extended the comment period until March 31, 1997. The participants at the Conference will discuss the proposed amendments and the comments received.

B. Central Registration Depository (''CRD'') Redesign

The CRD system is a computer system operated by the National Association of Securities Dealers, Inc. (''NASD'') that is used by the Commission, the states and the SROs primarily as a means to facilitate registration of broker-dealers and their associated persons. The NASD is in the process of implementing a comprehensive plan to redesign the CRD and to expand its use by federal and state securities regulators as a tool for broker-dealer regulation. As a result of the NASD's efforts, the redesigned CRD system ultimately is expected to provide the Commission, SROs, and state securities regulators with: (i) Streamlined capture and display of data; (ii) better access to registration and disciplinary information through the use of standardized and specialized computer searches; and (iii) electronic filing of uniform registration and licensing forms, including Forms U–4, U–5, BD and BDW.

The NASD has been testing the pilot version of the redesigned CRD since mid-1996, and this version is now in use on a trial basis at approximately 800 broker-dealers nationwide. Among other things, the participants will discuss the status of the CRD implementation process, and issues relating to the conversion of existing registration information to the redesigned CRD and electronic filing of uniform forms.

C. Broker-Dealer Examinations

In December 1995, regulators responsible for examining broker-dealers (NASAA on behalf of state regulators, the AMEX, the CBOE, the NYSE, the NASD and the Commission) signed a Memorandum of Understanding (''MOU'') in which they committed to undertake their regulatory responsibilities in the most efficient and effective manner possible by sharing information, coordinating examinations and identifying regulatory priorities. As part of the MOU, NASAA, the SROs and the Commission agreed to meet yearly for a national planning summit and each state securities regulator, NASD district office and Commission regional office agreed to meet at least annually for a regional planning summit, to discuss examination schedules and priorities, review broker-dealers' examination histories, and discuss other areas of related interest, with the goal of encouraging information-sharing to avoid unnecessary duplication of examinations. Common regulatory findings and the status of this coordination and of the implementation of the MOU will be discussed.

In March 1996, the Commission, NASAA, the NASD and the NYSE released a report on the findings of a joint regulatory effort—''The Joint Regulatory Sales Practice Sweep: A Review of the Sales Practice Activities of Selected Registered Representatives and the Hiring, Retention, and Supervisory Practices of the Brokerage Firms Employing Them.'' The objectives of this joint initiative were to identify possible problem registered representatives, to review their sales practices, and to assess whether adequate hiring, retention, and supervisory mechanisms were in place.

[25] Securities Act Release No. 7392 (February 20, 1997) [62 FR 9258].

[26] 17 CFR 240.17a–3 and 17a–4.

[27] Securities Exchange Act Release No. 37850 (October 22, 1996) [61 FR 55593].

The findings of the report suggested generally that, while many firms maintain satisfactory supervisory mechanisms, firms can and should improve and strengthen their hiring, retention, and supervisory practices. Consequently, the report contained specific recommendations aimed at improving brokerage firms' hiring, retention, and supervisory practices. The attendees will discuss implementation of the recommendations.

D. Arbitration

The NASD and other members of the Securities Industry Conference on Arbitration have been developing new approaches to important issues affecting the administration of securities arbitration over the past year. Much of their work was prompted by the 1996 report of the NASD's Arbitration Policy Task Force. The participants will discuss the status of some of the important developments in their area. For example, proposed changes related to the variations in administering claims of different dollar amounts, the administration of older claims, and punitive damages are likely to be discussed.

E. Internet Fraud/Electronic Delivery

A leadership area of mutual interest to both the Commission staff and NASAA is the impact of developments in technology. This year there were ongoing discussions concerning a variety of new issues. Areas of concern include: industry retention of electronic records and communications; computer security; unregistered brokerage, investment advisory and other regulated financial business conducted through the internet; foreign exchange and foreign financial sector access to the U.S. through electronic media; and industry and investor education about the use of electronic media for the securities business. In 1996, the Division issued no-action or information letters with respect to certain financial business activities on the Internet, including issuer-based bulletin board services,[28] non-profit matching services,[29] and activities of on-line service providers (America Online, Compuserve, and Microsoft).[30] The Commission staff and NASAA also have ongoing consultations on state securities law issues.

On May 9, 1996, the Commission published an interpretive release expressing its views on the electronic delivery of documents that broker-dealers, transfer agents, and investment advisers are required to send to their customers.[31] The conference participants will discuss these and other matters concerning the Internet and the use of electronic media.[32]

F. Regulation M

On December 18, 1996, the Commission approved Regulation M, representing the most sweeping changes in the way the Commission seeks to prevent the manipulation of securities offerings since the Commission adopted Rules 10b–6, 10b–7, and 10b–8 (also known as the ''trading practices rules'') over 40 years ago.[33] Regulation M, which became effective March 4, 1997, differs from the former trading practices rules by focusing the restrictions on securities that are more susceptible to manipulation; using better measures for manipulative potential; recognizing the global nature of securities markets; assimilating the changes in market transparency and surveillance; and codifying a variety of earlier actions by the Commission to adapt the former rules to current market conditions. Regulation M addresses the concern that persons with a stake in a securities offering, such as issuers, selling securityholders and underwriters, might artificially influence the market price of the security in distribution, thereby boosting its offering price. The regulation seeks to prevent this result by restricting the activities of these persons. In particular, Regulation M requires offering participants to cease their market activities, such as proprietary trading, during a restricted period that begins one or five business days prior to the offering's pricing and ends when the offering is over. A notable change from the trading practices rules, and one which reflects the more focused approach of Regulation M, is that underwriters of an actively-traded security of a larger issuer would not be subject to these restrictions. Participants will discuss issues raised by the new regulation.

G. Order Execution Rules

In August of 1996, the Commission adopted Rule 11Ac1–4[34] (''Limit Order Display Rule'') and amendments to Rule 11Ac1–1[35] (''Quote Rule'') (collectively ''Order Execution Rules'').[36] The Limit Order Display Rule requires, under certain circumstances, the public display of customer limit orders priced better than an exchange specialist's or market maker's quote. The Limit Order Display Rule also requires that specialists and market makers add limit orders priced at their quote to the size associated with their quote when the quote represents the best market-wide price. The rule establishes standard display requirements for limit orders in all markets. The Quote Rule was amended to require specialists and market makers to reflect in their quote any better priced order that they enter into an electronic communication network, or in the alternative, the electronic communication network may route the best specialists' or market makers' orders entered therein into the public quotation stream. In addition, the Quote Rule was amended to require that substantial market makers for any security listed on an exchange publish their quotations for such security. The Order Execution Rules enhance the quality of public quotations for equity securities and improve investor access to the best prices available. The new rules also present investors with improved execution opportunities and improved access to best prices when they buy and sell securities. The participants will discuss the new rules and their implementation.

H. Bank Securities Activities

Last year, the NASD submitted a rule proposal to the Commission that would govern the conduct of member broker-dealers operating on the premises of financial institutions. The NASD has since substantially revised its rule proposal to address a number of issues raised by the commenters, and expects to submit a revised rule proposal to the Commission shortly. The participants will discuss the proposed rule revisions, as well as other developments in this area, including a proposal by the federal banking regulators to require bank employees that sell securities directly to take certain qualification examinations currently required of broker-dealer employees.

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[28] *Spring Street Brewing Co.* (April 17, 1996); *Real Goods Trading Corp.* (June 24, 1996); *PerfectData Corp.* (August 5, 1996); and *Flamemaster Corp.* (November 6, 1996).

[29] *Angel Capital Electronic Network* (October 25, 1996).

[30] *Charles Schwab & Co., Inc.* (November 27, 1996).

[31] Securities Exchange Act Release No. 37182 (May 9, 1996) [61 FR 24644].

[32] See related discussion under Corporation Finance Issues, *supra* page 13.

[33] Securities Exchange Act Release No. 38067 (December 20, 1996) [62 FR 520].

[34] 17 CFR 240.11Ac1–4.

[35] 17 CFR 240.11Ac1–1.

[36] Securities Exchange Act Release No. 37619A (September 6, 1996) [61 FR 48290].

(3) Investment Management Issues

Title III of the 1996 Act (the ''Investment Advisers Supervision Coordination Act'' (''Coordination Act'')) made several amendments to the Investment Advisers Act of 1940, [37] the most significant of which reallocates federal and state responsibilities over investment advisers. Under the new scheme larger advisers will principally be regulated by the Commission, while smaller advisers the businesses of which tend to be more local will be primarily regulated by the states.

Upon the effective date of the Coordination Act, an investment adviser that is regulated or required to be regulated as an investment adviser in a state in which it maintains its principal office and place of business is prohibited from registering with the Commission unless the adviser (i) has assets under management of not less than $25 million (or such higher amount as the Commission may, by rule, deem appropriate), or (ii) is an adviser to an investment company registered under the Investment Company Act of 1940. [38] The Commission is authorized to deny registration to any applicant that does not meet the criteria for Commission registration and is directed to cancel the registration of any adviser that no longer meets the criteria for registration.

The Coordination Act preempts state investment adviser statutes as they apply to investment advisers registered with the Commission. The Coordination Act preserves, however, the ability of state regulators to: (i) Investigate and bring enforcement actions against Commission-registered advisers with respect to fraud and deceit, (ii) require Commission-registered advisers to file notice documents with the state, and (iii) require Commission-registered advisers to pay state registration and other fees. State law is also preempted as to certain ''supervised persons'' of Commission-registered advisers, except that a state retains the authority to register an investment adviser representative that has a place of business in the state.

On December 20, 1996 the Commission proposed rules designed to implement the provisions of the Coordination Act.[39] The proposed rules: (i) Address the procedures by which advisers not eligible to register will identify themselves to the Commission and withdraw from registration, (ii) exempt certain advisers that do not meet the criteria from Commission registration from the new prohibition, and (iii) define certain terms used in the statute. The comment period on the proposed rules closed on February 10, 1997.

The conferees will discuss the Commission's rules as they affect the allocation of regulatory responsibilities between the states and the Commission. In addition, the conferees will discuss mutual concerns regarding the implementation of the Coordination Act, including the transition to the new regulatory scheme, the sharing of information regarding the status of registrants, and arrangements for the provision of technical assistance by the Commission including training, conducting joint exams and sharing of information with respect to investment advisers. In addition, state and federal regulators will discuss the coordination of regulatory, examination and enforcement activities subsequent to the effective date of the Coordination Act. The conferees will also discuss progress with regards to the development of a one-stop electronic filing system for investment advisers, and the development of a system for investors to obtain information regarding the disciplinary history of investment advisers.

(4) Enforcement Issues

In addition to the above-stated topics, the state and federal regulators will discuss various enforcement-related issues which are of mutual interest.

(5) Investor Education

The Commission is pursuing a number of programs for investors on how to invest wisely and to protect themselves from fraud and abuse. The states and NASAA have a longstanding commitment to investor education and the Commission is intent on coordinating and complementing those efforts to the greatest extent possible. The participants at the conference will discuss investor education and potential joint projects in some of the working group sessions.

(6) General

There are a number of matters which are applicable to all, or a number, of the areas noted above. These include EDGAR, the Commission's electronic disclosure system, rulemaking procedures, training and education of staff examiners and analysts and sharing of information.

The Commission and NASAA request specific public comments and recommendations on the above-mentioned topics. Commenters should focus on the agenda but may also discuss or comment on other proposals which would enhance uniformity in the existing scheme of state and federal regulation, while helping to maintain high standards of investor protection.

Dated: April 4, 1997.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–9204 Filed 4–9–97; 8:45 am]

BILLING CODE 8010–01–M

[37] 15 U.S.C. 80b–1 et seq.

[38] 15 U.S.C. 80a–1 et seq.

[39] Investment Advisers Act Release No. 1601 (December 20, 1996) [61 FR 68480].

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38479; File No. SR–Phlx–97–12]

Self-Regulatory Organizations; Order Granting Accelerated Approval of Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 Thereto by the Philadelphia Stock Exchange, Inc. Relating to the Maintenance Criteria for the Phlx Phone Index

April 3, 1997.

On March 5, 1997, the Philadelphia Stock Exchange Inc. (''Phlx'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend the maintenance standards applicable to the Phlx Phone Index (''Index'') to allow the number of stocks in the Index to decline to six without having to delist the Index. Notice of the proposed rule change appeared in the **Federal Register** on March 19, 1997.[3] No comments were received on the proposal. On April 2, 1997, the Phlx filed Amendment No. 1 to the proposal to address issues related to Index concentration and to request accelerated approval of its proposal.[4] This order approves the proposal, as amended, on an accelerated basis.

I. Description of the Proposal

On July 11, 1994, the Commission approved a proposal by the Phlx to list and trade options on the Index.[5] The Index is a capitalization-weighted index composed of eight widely held U.S.

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

[2] 17 CFR 240.19b–4.

[3] Securities Exchange Act Release No. 38383 (March 11, 1997); 62 FR 13203.

[4] Letter from Nandita Yagnik, Attorney, New Product Development, Phlx to Marianne H. Khawly, Staff Attorney, Division of Market Regulation (''Division''), Commission, dated April 2, 1997.

[5] Securities Exchange Act Release No. 34345 (July 11, 1994), 59 FR 36245 (approval for index options on the Phone Index).