

part of the prohibition is intended to reach conduct that goes beyond legitimate bargaining among member firms. This conduct may include, among other things, refusals to trade, improper systems messages, trading in odd lots, and other conduct intended to influence a member to engage in improper market activity or refrain from legitimate market activity. However, as identified in exclusion number 6, this language would not prohibit a member from taking unilateral action in selecting with whom to trade and under what terms, based on legitimate market and commercial criteria (e.g., credit exposure).

In addition, this interpretation does not prohibit a market maker from contracting another market maker in a locked or crossed market situation to attempt to unlock or uncross the market. Moreover, the overall prohibition applies to primary market as well as secondary trading activities.

2. Statutory Basis

The NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act³ in that regulating the conduct of member broker/dealers and persons associated with member broker/dealers by prohibiting anti-competitive conduct is in furtherance of the requirements that the Association's rules to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, and to protect investors and the public interest.

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

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

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

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory

organization consents,⁴ the Commission will:

A. By order approve such proposed rule change, or

B. Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference 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 the file number in the caption above and should be submitted by July 2, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-15170 Filed 6-10-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38720; File No. SR-NASD-97-26]

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

June 5, 1997.

On April 11, 1997, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed change to NASD Rule 4613(a)(1)(C). The proposal would allow market makers to quote their actual size by reducing the minimum quotation size requirement for market makers in certain securities listed on The Nasdaq Stock Market ("Nasdaq") to one normal unit of trading ("Actual Size Rule"). The Actual Size Rule presently applies to a group of fifty Nasdaq securities on a pilot basis.¹ The NASD has proposed to extend this pilot program to December 1997 and to add an additional 100 stocks to the pilot program. The Commission has already received comments from many individual investors and other market participants on the ongoing pilot.

On June 3, 1997, the NASD filed with the Commission a revised report containing its economic analysis of the operation of the Actual Size Rule for the group of 50 stocks in the pilot, as requested by the Commission.² The study examines the effects of the removal of the 1,000-Share Quote Size Rule on market quality.

The NASD's study compares the market quality of pilot stocks with the market quality of peer stocks in the next tranche of stocks that became subject to the Order Handling Rules, but remained subject to the 1,000-Share Quote Size Rule. The study: (1) Summarizes the relevant academic literature; (2) empirically assesses market quality for both groups pre- and post-rule change by examining spread, volatility, depth,

¹ The approval of the pilot program was announced in Securities Exchange Act Release No. 38156 (January 10, 1997), 62 FR 2415 (January 16, 1997). The approval of the extension was announced in Securities Exchange Act Release No. 38156 (April 15, 1997), 62 FR 19373 (April 21, 1997).

² A copy of the executive summary of the report is available at Nasdaq's World Wide Web site at "http://www.nasdaq.com". Members of the public may also download a file containing the entire report at this site.

³ 15 U.S.C. § 78o-3.

⁴ The NASD has requested that the Commission find good cause pursuant to Section 19(b)(2) for approving the proposed rule change prior to the 30th day after its publication in the **Federal Register**. The NASD believes that the conduct described in the proposed rule change is already proscribed by existing NASD Rule 2110.

⁵ 17 CFR 200.30-3(a)(12) (1996).

and liquidity; and (3) examines the use of automatic execution systems for the pilot stocks, Nasdaq's Small Order Execution System ("SOES"), and some private systems to assess whether investors continue to have reasonable access to market maker capital.

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

In order to give the public additional time to comment on this analysis, the comment period for the NASD's current proposal has been extended at the Commission's request to July 3, 1997. A copy of the report is available in the Commission's Public Reference room in File No. SR-NASD-97-26.

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 Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to file number SR-NASD-97-26 and should be submitted by July 3, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-15331 Filed 6-6-97; 4:08 pm]

BILLING CODE 8010-01-U

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38712; File No. SR-PCX-97-19]

June 3, 1997.

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on May 29, 1997, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The PCX is proposing to extend its pilot program regarding the evaluation of its equity specialists until January 1, 1998. In addition, the Exchange is proposing to implement certain changes to the pilot program.

Self-Regulatory Organizations Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

On October 1, 1996, the Commission approved a nine-month pilot program for the evaluation of PCX equity

specialists.¹ The Exchange is now proposing to extend the pilot program for an additional six month period, until January 1, 1998. The reason for the extension is that the Exchange needs more time to evaluate the impact of the SEC's new order handling rules² on the performance criteria. During the extension of the pilot, the Exchange will determine an organization overall passing score and individual passing scores for each criterion used in the pilot program. In addition, the Exchange proposes to implement for use in the evaluation program, beginning with the third quarter review period of 1997 (*i.e.*, July 1, 1997 to September 30, 1997), certain programming changes requested by the Commission in its October 1, 1996 order approving the pilot program. Specifically, the Commission requested that the Exchange reprogram its systems so that the following criteria are calculated using the NBBO instead of the primary market quote: Trading Between the Quote, Book Display Time, and Quote Performance (Equal or Better Quote Performance and Better Quote Performance). The description of these performance criteria will be modified as follows:

a. Trading Between the Quote³

"Trading Between the Quote" currently measures the number of market and marketable limit orders that are executed between the best primary market bid and offer. For this criterion

¹ Prior to the adoption of the pilot program, PCX Rule 5.37(a) provided that the Exchange's Equity Allocation Committee ("EAC") evaluate all registered specialists on a quarterly basis and that each specialist receive an overall evaluation rating based on three criteria of specialist performance: (1) Specialist Evaluation Questionnaire Survey ("Questionnaire"); (2) SCOREX Limit Order Acceptance Performance; and (3) National Market System Quote Performance. The pilot program modifies Rule 5.37(a) by adding three new criteria of performance and eliminating one performance criterion. The new criteria are: (1) Executions (itself consisting of four criteria: (a) Turnaround Time; (b) Holding Orders Without Action; (c) Trading Between the Quote; and (d) Executions in Size Greater Than BBO); (2) Book Display Time; and (3) Post-1 p.m. Parameters. The SCOREX Limit Order Acceptance Performance criterion has been eliminated. The pilot also adds more questions to the Questionnaire and expands the National Market System Quote Performance criterion (renamed Quote Performance under the pilot) to include within it a submeasure for bettering the quote. For a more detailed description of the performance criteria utilized in the PCX's pilot program, see Securities Exchange Act Release No. 37770 (October 1, 1996), 61 FR 52820 (October 8, 1996) (File No. SR-PSE-96-28). See generally PCX Rule 5.37 (description of the standards and procedures applicable to the EAC's evaluation of specialists).

² See Securities Exchange Act Release No. 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996) (File No. S7-30-95).

³ "Trading Between the Quote" is one of the four criteria which together constitute "Executions" criterion. See *supra* note 1.

³ 17 CFR 200.30-3(a)(12) (1989).