

tickets reflecting orders solicited pursuant to this Commentary, must be marked as specified by the Exchange.

.04 *With respect to Commentaries .02 and .03 above, it may be considered conduct inconsistent with just and equitable principles of trade for any member or person associated with a member, who has knowledge of all material terms and conditions of an original order and a solicited order, including a facilitation order, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option of the same class as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (i) all the terms of the order and any changes in the terms and conditions of the order of which that member or associated person has knowledge are disclosed to the trading crowd or (ii) the solicited trade can no longer reasonably be considered imminent in view of the passage of time since the solicitation. For purposes of this paragraph (b), an order to buy or sell a "related instrument," means, in reference to an index option, an order to buy or sell securities comprising ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index.*

(e)-(o) No change.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40337; File No. SR-MSRB-98-9]

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval to Proposed Rule Change Relating to Reports of Sales and Purchases, Pursuant to MSRB Rule G-14

August 19, 1998.

I. Introduction

On June 17, 1998, the Municipal Securities Rulemaking Board ("Board" or "MSRB") filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder² to institute a service ("the Service") to provide daily reports from the Board's

Transaction Reporting Program ("the Program"). The daily reports will summarize information about customer and inter-dealer transactions in municipal securities reported to the Board under MSRB Rule G-14. The Board proposed to establish a fee for an annual subscription to the Service of \$15,000. The proposed rule change was published for comment in the **Federal Register** on July 13 1998.³ No comments were received. This order approves the proposal.

II. Description of the Proposal

Background and Description of the Program

Since 1995, Rule G-14 has required brokers, dealers, and municipal securities dealers ("dealers") to report to the Board their inter-dealer transactions in municipal securities via the automated comparison system for municipal securities operated by National Securities Clearing Corporation ("NSCC"). The Board has used this information to create a database of transaction information that can be used for market surveillance purposes and for inspection and enforcement by agencies and organizations charged with enforcement of Board rules. The Board also uses the reported transaction information to create the Inter-Dealer Daily Report, which is used by market participants to help gauge the value of municipal securities. The Board currently has eight subscribers to the Inter-Dealer Daily Report. Most of these are information vendors that redistribute the information to their own subscribers and/or use the information in various securities valuation products that they market.⁴

In 1996, the Board filed with the Commission an amendment to Rule G-14 to require dealers to report their customer transactions in municipal securities to the Board in certain prescribed formats and a description of the changes to the Program necessary to add customer transaction information.⁵ The Board would use the information to produce a daily public report (the "Combined Daily Report") summarizing prices and volumes of trading in the municipal securities market during the previous day. The Commission approved the amendment and changes, and customer trades have been reported

by dealers to the Board since March 1, 1998.⁶ In March 1998, the Board filed with the Commission its intention to release samples of the Combined Daily Report for public comment and to make the Report available on an operational basis in the third quarter of 1998.⁷

The criteria for including municipal securities information on the proposed Combined Daily Report will be the same as that described in the Board's March 1998 filing to produce sample daily reports. These are essentially the same as the criteria for the current Inter-Dealer Daily Report. If a municipal security (identified by its CUSIP number) is reported, in compliance with Rule G-14, as having been traded four or more times on a given day, then the high, low, and average price and total par value of all the reported trades in that security will be on the Combined Daily Report the next morning. The average price will be calculated as the arithmetic mean of reported transaction prices of those trades between \$100,000 and \$1,000,000 in par value. This reporting band is meant to exclude odd lots and very large trades from the average price. In applying these criteria, inter-dealer and customer transactions will be considered together. This means that any combination of inter-dealer and customer transactions totaling four or more in one CUSIP will trigger the inclusion of price information in the Combined Daily Report.

The Board expects to make the Combined Daily Report Service available during the third quarter of 1998, and has stated that it will file with the Commission, in advance, an exact date for beginning operation. In addition to the Combined Daily Report Service, the Board also will use the data reported by dealers under Rule G-14 to create a surveillance database available to regulatory agencies and organizations responsible for enforcement of Board rules. The surveillance database will not be available to regulators until early 1999.

Description of the Combined Daily Report

Once all transaction information for a business day has been received, the Board's computerized Transaction Processing System ("TRS") generates the Combined Daily Report. As noted, both inter-dealer and customer trades are counted to determine whether an

³ Exchange Act Release No. 40176 (July 7, 1998) 63 FR 37608 (July 13, 1998).

⁴ The current subscribers are Bloomberg Financial Markets, Chapdelaine & Company, Dow Jones Telerate, Interactive Data Corp., J.J. Kenny Co., Inc., Muller Data Corp., Smith Barney, Inc., and TradeHistory, LLC.

⁵ Exchange Act Release No. 37859 (Oct. 23, 1996) 61 FR 56072 (Oct. 30, 1996).

⁶ Exchange Act Release No. 37998 (Nov. 29, 1996) 61 FR 64782 (Dec. 6, 1996) (approval of amendment to rule G-14); Exchange Act Release No. 39495 (Dec. 29, 1997) 63 FR 585 (Jan. 6, 1998) (Delay of effectiveness to March 1, 1998).

⁷ Exchange Act Release No. 39835 (Apr. 7, 1998), 63 FR 18242 (Apr. 14, 1998).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

issue (CUSIP number) was traded four or more times. Based upon transaction data reported to the Board in March, April and May 1998, it appears that approximately one thousand issues will be traded four or more times on a typical day.

The Combined Daily Report includes summary information describing the day's market in municipal securities. The summary covers all municipal securities trades, regardless of frequency of trading. The following data elements for each issue would be published in the Combined Daily Report: (1) The CUSIP number that identifies the issue; (2) A short description of the issue that was traded; (3) The total number of trades in the issue (both inter-dealer and customer) that were reported to the MSRB; (4) The total dollar value of all trades in the issue on the trade date; (5) The highest price of all trades in the issue; (6) The lowest price of all trades in the issue; (7) The arithmetic mean of all trades whose par values were between \$100,000 and \$1,000,000; (8) The number of trades whose par values were between \$100,000 and \$1,000,000; (9) Whether the issue was traded while in "when," "as," and "if issued" status; and (10) Assumed settlement date.⁸

Review Process for Customer Transaction Data Used in Combined Daily Report

Customer transaction records submitted by dealers are reviewed automatically as part of data processing within the TRS. Trade records are excluded from eligibility for the Combined Daily Report if: (i) the trade date reported in the record is for a day other than the day being reported in the Combined Daily Report; (ii) the trade record or the file containing the trade record is not in the required format or otherwise violates stated system input requirements;⁹ (iii) the submitter of the file has not filed with the Board the required information to identify itself; (iv) the trade record contains a dealer identifier that is unknown to the

Board;¹⁰ (v) the information contained in the trade record is so substantially outside expected parameters that an input error is suspected; (vi) the CUSIP number submitted is not known to be a valid CUSIP number for a municipal securities issues;¹¹ or (vii) the trade record contains no dollar price and a dollar price cannot be calculated from the reported yield on the transaction using the Board's available data about the security and standard yield-to-price calculation techniques for securities with periodic interest payments and with more than six months to redemption, contained in Board rule G-33(b)(i)(B)(2).¹²

III. Discussion

The Commission finds that the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act,¹³ which requires, in pertinent part, that the Board's rules "be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating * * * transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest."¹⁴

The Commission believes that the Service will increase transparency in the municipal securities market by adding information about transactions between dealers and customers to the information currently disseminated by the Program. This should promote investor confidence in the market and its pricing mechanism.

The Combined Report's format will be the same as that of the Inter-Dealer Report, which should simplify use of the new report. The Board represents that if experience with the Combined Daily Report indicates revisions are

needed, it will revise the format to ensure that the Program will continue to provide market transparency to market participants. The Commission notes that the Board does not expect or intend to make a profit from the Service.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁵ that the proposed rule change (SR-MSRB-98-9) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40349; File No. SR-MSRB-98-11]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Reports of Sales and Purchases, Pursuant to Rule G-14

August 20, 1998.

On August 20, 1998, the Municipal Securities Rulemaking Board ("the Board" or "MSRB") filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed rule change (File No. SR-MSRB-98-11) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The proposed rule change is described in Items I, II and III below, which Items have been prepared by the Board. 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 Board is filing herewith a proposed rule change to set the effective date to begin operation of a service ("the Service") to provide daily reports from the Board's Transaction Reporting Program ("the Program") that will summarize information about customer and interdealer transactions in municipal securities reported to the Board under Rule G-14.

⁸In some cases, it is necessary to assume a settlement date to calculate price from yield for inclusion of the price in the Combined Daily Report. The assumed settlement date for both inter-dealer and customer trades will be 15 business days after the trade date (T+15). When it has been necessary to assume a settlement date, this date will be shown on the Combined Daily Report.

⁹Format requirements and input procedures are described in "Board to Proceed with Customer Transaction Reporting Program: Rule G-14" (MSRB Reports, Vol. 16, No. 3 (September 1996) at 3-16). This document, along with explanatory questions and answers and the latest information on the Program, can be found on the Board's World Wide Web site (www.msrb.org).

¹⁰To identify dealers, the Board uses symbols assigned to dealers by the NASD. Dealers are required to obtain a valid symbol under Rule G-14(b)(iii). The transaction reporting procedures contained within Rule G-14 also require that each dealer effecting customer transactions provide the Board with certain contact information and testing-related information.

¹¹The Board currently receives updated information on municipal securities CUSIP numbers each day from the CUSIP Service Bureau and J.J. Kenny Co., Inc.

¹²The current software used for calculation is provided by TIPs, Inc. The securities information used to calculate price from yield currently is provided by J.J. Kenny Co., Inc.

¹³15 U.S.C. 78o-4(b)(2)(C).

¹⁴In approving this rule change, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹⁵15 U.S.C. 78s(b)(2).

¹⁶17 CFR 200.30-3(a)(12).

¹15 U.S.C. 78s(b)(1).

²17 CFR 240.19b-4.