(''Exchange'' or ''BSE'') 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 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 proposes to waive Specialist Transaction fees for all BSE executed, automated order flow for the month of September, 1998.

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

The purpose of the proposed rule change is to waive Specialist Transaction fees for the month of September 1998 to provide the Exchange's specialist community, which has borne additional costs associated with attracting order flow to the Exchange, with a reduction in transaction fees as a result of the Exchange's increased revenue stream for the fiscal year.

2. Basis

The basis for the proposed rule change is Section 6(b)(5) of the Act,[4] in that the proposed rule change is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

The foregoing rule change establishes or changes a due, fee, or other charges imposed by the Exchange and, therefore, has become effective upon filing pursuant to Section 19(b)(3)(A)(ii) of the Act[5] and Rule 19b–4(e)(2)[6] thereunder. At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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.[7] 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 Exchange. All submissions should refer to File No. SR–BSE–98–8 and should be submitted by November 30, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[8]

Jonathan G. Katz,

Secretary.

[FR Doc. 98–29969 Filed 11–6–98; 8:45 am]

BILLING CODE 8010–01–M

[4] 15 U.S.C. 78f(b)(5).

[5] 15 U.S.C. 78s(b)(3)(A)(ii).

[6] 17 CFR 240.19b–4(e)(2).

[7] In reviewing this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[8] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40627; File No. SR–NASD–97–89, Amendment No. 1]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Bond Mutual Fund Volatility Ratings

November 2, 1998.

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 December 12, 1997, the National Association of Securities Dealers, Inc. (''NASD'' or ''Association'') through its wholly-owned subsidiary, the NASD Regulation, Inc. (''NASD Regulation'' or ''NASDR'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation. On October 5, 1998, NASDR filed Amendment No. 1 which replaces and supersedes the initial proposal.[3] The Commission is publishing this notice to solicit comments on the proposed rule change, as contained in Amendment No. 1, from interested persons.

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

[2] 17 CFR 240.19b–4.

[3] On December 12, 1997, the NASDR submitted its initial proposal which could have limited the effectiveness of the disclosure statement and prevented sales literature from containing relevant explanatory information concerning bond mutual fund volatility ratings. After discussions between NASDR and the Commission, the NASDR filed Amendment No. 1 on October 5, 1998. The revised proposal will: (1) permit ratings to be provided by non-NRSROs; (2) permit funds to provide additional information in the disclosure statement if the information would help investors understand the rating; (3) permit funds to combine information about different ratings when the information is the same for each rating; (4) clarify the prohibition against using ratings that are based on subjective factors; and (5) require the use of the most recently issued rating.

I. Self-Regulatory Organizations Statement of the Terms of Substance of the Proposed Rule Change

NASD Regulation is proposing rules that add a new interpretation to Rule 2210 of the Conduct Rules of the NASD to permit the use by members and associated persons of bond mutual fund volatility ratings in supplemental sales literature on an interim 18 month pilot basis. Proposed new language is in italics.

IM– . Requirements for the Use of Bond Mutual Fund Volatility Ratings

(This rule will expire on [18 months from approval], unless extended or permanently approved by the Association at or before such date)

(a) Definition of Bond Mutual Fund Volatility Ratings

For purposes of this Rule and any interpretation thereof, the term "bond mutual fund volatility rating" is a description issued by an independent third party relating to the sensitivity of the net asset value of a bond mutual fund portfolio to changes in market conditions and the general economy, and is based on an evaluation of objective factors, including the credit quality of the fund's individual portfolio holdings, the market price volatility of the portfolio, the fund's performance, and specific risks, such as interest rate risk, prepayment risk, and currency risk.

(b) Prohibitions on Use

Members and persons associated with a member may use a bond mutual fund volatility rating only in supplemental sales literature and only when the following requirements are satisfied:

(1) The rating does not identify or describe volatility by use of a single symbol, number or letter, and the rating is not described as a "risk" rating.

(2) The supplemental sales literature incorporates the most recently available rating and reflects information that, at a minimum, is current to the most recently completed calendar quarter ended prior to use.

(3) The criteria and methodology used to determine the rating must be based exclusively on objective, quantifiable factors. Any other factors, such as an analysis of investment philosophy or quality of the fund's management, may be considered solely for purposes of determining whether to issue the rating. The rating and the Disclosure Statement that accompanies the rating must be clear, concise, and understandable.

(4) The supplemental sales literature conforms to the disclosure requirements described in paragraph (c).

(5) The entity that issued the rating provides detailed disclosure on its rating methodology to investors through a toll-free telephone number, a web site, or both.

(c) Disclosure Requirements

(1) Supplemental sales literature containing a bond mutual fund volatility rating shall include a Disclosure Statement containing all the information required by this Rule. The Disclosure Statement may also contain any additional information that is relevant to an investor's understanding of the rating.

(2) Supplemental sales literature containing a bond mutual fund volatility rating shall contain all current bond mutual fund volatility ratings that have been issued with respect to the fund. Information concerning multiple ratings may be combined in the Disclosure Statement, provided that the applicability of the information to each rating is clear.

(3) All bond mutual fund volatility ratings shall be contained within the text of the Disclosure Statement. The following disclosures shall be provided with respect to each such rating:

(A) the name of the entity that issued the rating;

(B) the most current rating and date of the current rating, with an explanation of the reason for any change in the current rating from the most recent prior rating;

(C) a description of the rating in narrative form, containing the following disclosures:

(i) a statement that there is no standard method for assigning ratings;

(ii) a description of the criteria and methodologies used to determine the rating;

(iii) a statement that not all bond funds have volatility ratings;

(iv) whether consideration was paid in connection with obtaining the issuance of the rating;

(v) a description of the types of risks the rating measures (e.g., short-term volatility);

(vi) a statement that the portfolio may have changed since the date of the rating; and

(vii) a statement that there is no guarantee that the fund will continue to have the same rating or perform in the future as rated.

* * * * *

2200. Communications With Customers and the Public

2210. Communications With the Public

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(c) Filing Requirements and Review Procedures

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(3) Sales literature concerning bond mutual funds that include or incorporate bond mutual fund volatility ratings, as defined in Rule IM–__, shall be filed with the Department for review at least 10 days prior to use (or such shorter period as the Department may allow in particular circumstances) for approval and, if changed by the Association, shall be withheld from publication or circulation until any changes specified by the Association have been made or, if expressly disapproved, until the sales literature has been refiled for, and has received, Association approval. Members are not required to file advertising and sales literature which have previously been filed and which are used without change. The member must provide with each filing the actual or anticipated date of first use. Any member filing sales literature pursuant to this paragraph shall provide any supplemental information requested by the Department pertaining to the rating that is possessed by the member.[4]

* * * * *

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

In its filing with the Commission, NASDR 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. NASDR has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

Background

Bond mutual fund volatility ratings are descriptions of the sensitivity of bond mutual fund portfolios to changing market conditions. The rating agencies and information vendors that issue such ratings are not NASD member firms, and mutual fund groups that purchase the ratings use them for promotional and

[4] NASDR proposes to add this language to the existing test of Rule 2210(c). The existing sections of this rule will remain unchanged and will be renumbered, beginning with Rule 2210(c)(3)(A). Telephone conversation between Robert J. Smith, Office of General Counsel, NASD Regulation, Inc., and Mignon McLemore, Division of Market Regulation, Commission, on October 30, 1998.

marketing purposes. NASD rules do not apply to the use and dissemination of bond mutual fund volatility ratings by non-members.

Currently, NASD Regulation interprets its rules to prohibit the use by members and associated persons of bond mutual volatility ratings in supplemental sales literature. The prohibition is based on the analysis that judgments of how a bond mutual fund may react to changes in various market conditions may be predictive of fund performance or misleading and, therefore, prohibited for use by members and associated persons in sales literature.[5]

In Notice to Members 96–84 (December 1996) (''NTM 96–84''), NASD Regulation requested comment on the appropriations of its current prohibition. A majority of the commenters supported making the ratings available, and all of the commenters representing investor groups supported the goal of making accurate information regarding risk and volatility characteristics of bond funds available to investors.

On April 30, 1997, the Legal Advisory Board of the NASD (''LAB'') reviewed and discussed bond fund volatility ratings. NASD Regulation staff proposed to the LAB that an alternative to the current prohibition would be permitting the use of bond fund volatility ratings subject to appropriate guidelines. After extended discussion, the LAB favored allowing volatility ratings to be used subject to guidelines containing sufficient prohibitions and disclosure requirements.

At its September 1997 Board meeting, NASD Regulation considered issues regarding bond mutual fund volatility ratings and adopted resolutions: (i) Affirming that investors can benefit from the availability of such information, (ii) directing the staff to draft bond fund volatility rating regulatory proposals to best serve the public interest and address the differences among interested parties, for presentation at the November Board meeting, and (iii) appointing Directors Theodore A. Levine and A.A. Sommer, Jr. (''Subcommittee'') to assist the staff in this effort. After the September Board meeting, NASD Regulation staff and the Subcommittee met and worked to reach a solution that was sensitive to and reflective of the concerns and differences of all interested parties.

At its November 1997 Board meeting, NASD Regulation approved: (i) A modification to NASD Regulation's current prohibition on the use of bond mutual fund volatility ratings in supplemental sales literature to permit such use by members and associated persons according to proposed rules designed to prevent such ratings from being misleading, predictive, or otherwise inappropriate, and (ii) the submission of the proposed rules to the SEC for approval.

At its December 1997 Board meeting, the NASD ratified the NASD Regulation Board's approval of the proposed rules, without change, and their submission to the SEC for approval.

At its August 1998 Board Meeting, NASD Regulation approved amendments to the proposed rule change as originally filed with the SEC, and the submission of the amendments to the SEC for approval. The amendments, incorporated in this submission: (i) Delete the requirement that ratings be issued exclusively by nationally recognized statistical rating organizations; (ii) add the requirement that the rating and the Disclosure Statement be clear, concise, and understandable; (iii) permit the Disclosure Statement to contain any additional information that is relevant to an investor's understanding of the rating; (iv) permit repetitive information in multiple ratings for the same fund to be combined in the Disclosure Statement, provided the applicability of the information to each rating is clear; and (v) delete the requirement to use a ''Required Disclosure Statement.''

Description

Trial Period. The proposed rule change would permit, on an 18-month pilot basis, the use of the ratings in conformance to rules that prohibit the use of ratings unless certain requirements and disclosures are met. After the 18-month trial term, the rules would be evaluated to determine their efficacy in ensuring that comprehensible and useful information is provided to investors, and in preventing the dissemination of inappropriate or misleading information by members and associated persons. After the evaluation, the staff will consider all options, including prohibiting the use of ratings, permitting their use or permitting their use with modifications to the rule.

Definition of Bond Mutual Fund Volatility Rating. Paragraph (a) of the proposed rule change defines the term ''bond mutual fund volatility rating'' to mean, in part, a description issued by an independent third party relating to the sensitivity of a bond mutual fund's net asset value to changes in market conditions and the general economy, based on an evaluation of objective factors regarding the fund's current characteristics and its past performance. The definition recognizes that the rating is an opinion of a fund's potential share price movement in response to various economic conditions or market situations, and not a prediction of the actual movement of a fund's share price. The definition applies only to bond mutual fund volatility ratings provided by an independent third party. However, NASD Regulation understands that many mutual fund complexes currently provide various descriptions of risk and volatility for their own funds. These descriptions may involve some of the same processes and considerations that are used by independent rating agencies. NASD Regulation specifically solicits comment on whether such descriptions are similar in derivation and purpose to ratings that are issued by independent agencies, and whether their use in supplemental sales literature by members and their associated persons should also be subject to the provisions of the proposed rule change.

Prohibitions. Subparagraph (b) of the proposed rule change permits members and associated persons to use a bond mutual fund volatility rating only in supplemental sale literature and only when certain requirements are satisfied.

Subparagraph (b)(1) of the proposed rule change prohibits the use of a bond mutual fund volatility rating that identifies or describes volatility by use of a single symbol, number or letter. At the same time, the proposed rules refrain from imposing a specific standard on descriptions or calculations in recognition of the fact that there is no specified or uniform range of information used by all rating entities, and that rating entities should be free to develop completing methods and models of assessing volatility. Subparagraph (b)(1) also prohibits the use of a bond mutual fund volatility rating that uses the word ''risk'' to describe the rating. Because the word ''risk'' is capable of multiple meanings and interpretations, NASD Regulation believes that it is more accurate to refer to such ratings as ''volatility'' rather than ''risk'' ratings.

Subparagraph (b)(2) of the proposed rule change prohibits the use of a bond mutual fund volatility rating that does not incorporate the most recently available rating and is not current to the most recent calendar quarter ended prior to use. This prohibition is intended to ensure that stale or dated

[5] NASD Conduct Rule 2210 prohibits the use by members and associated persons of information that is misleading, that contains exaggerated, unwarranted or misleading statements or claims, or that predicts or projects investment results.

ratings are not provided to investors and reflects a common denominator time frame that can be used by rating entities currently to update their ratings.

Subparagraph (b)(3) of the proposed rule change prohibits the use of a bond mutual fund volatility rating that is not based exclusively on objective, quantifiable factors. Non-quantifiable, subjective factors, such as an analysis of investment philosophy and quality of the fund's management [6] could be considered solely for purposes of determining whether to issue the rating. Eliminating subjectivity from the volatility calculation reduces the potential variability of ratings, and thus helps eliminate the ability of funds to ''shop around'' for the most favorable rating.

Subparagraph (b)(3) of the proposed rule change also requires that the rating and the Disclosure Statement that accompanies it be clear, concise, and understandable. This addresses the need to deliver the rating information in a way that is accessible and informative.

Subparagraph (b)(4) of the proposed rule change prohibits the use of bond mutual fund volatility rating unless the supplemental sales literature containing the rating conforms to the disclosure requirements.

Subparagraph (b)(5) of the proposed rule change prohibits the use of a bond mutual fund volatility rating unless the entity that issued the ratings provides detailed disclosure on its rating methodology to investors through a toll-free telephone number, a web site, or both. NASD Regulation believes that access to such supplemental information will enable investors to obtain answers to question regarding the meaning of the rating or how it is calculated or derived.

Disclosure Requirements. Paragraph (c) of the proposed rule change requires that certain disclosures accompany any bond mutual fund volatility rating used in supplemental sales literature by members or associated persons of members.

Subparagraph (c)(1) requires that supplemental sales literature containing a bond mutual fund volatility rating include a Disclosure Statement containing all the information required by the rule, but also permits the Disclosure Statement to contain any additional information that is relevant to an investor's understanding of the rating. Permitting the Disclosure Statement to contain additional relevant information could help explain the meaning of the rating. In particular, supplemental sales literature that contains multiple ratings could benefit from additional information that could distinguish and clarify different methodologies and measurements of volatility.

Subparagraph (c)(2) requires that supplemental sales literature containing a bond fund volatility rating contain all other current volatility ratings that have been issued with respect to the same fund. Subparagraph (c)(2), however, permits information concerning multiple ratings to be combined in the Disclosure Statement, provided that the applicability of the information to each rating is clear. This serves the purpose of avoiding redundant and potentially confusing information, and reduces the possibility that the rating could be buried or hidden in excess information.

Subparagraph (c)(3) requires that all bond mutual fund volatility ratings be contained within the text of the Disclosure Statement. NASD Regulation believes it is important that the rating not be located separately from the Disclosure Statement to avoid the danger that either could be read separately, or not at all, which would increase the possibility that the rating would not be understood in the context of the required disclosures.

Subparagraphs (c)(3)(A)–(B) of the proposed rule change require that supplemental sales literature containing a bond mutual fund volatility rating disclose the name of the rating entity, the most current rating accompanied by the date of the rating and, if there is any change in the current rating from the most recent prior rating, an explanation of the change. NASD Regulation believes it is important for investors to see how a fund's rating may have changed and understand the reasons for the change.

Subparagraph (c)(3)(C) of the proposed rule change requires that supplemental sales literature containing a bond mutual fund volatility rating describe the rating in narrative form. Under subparagraphs (c)(3)(C)(i)–(vii), the narrative description must also include: (i) a statement that there is no standard method for assigning ratings; (ii) a description of the criteria and methodologies used to determine the rating; (iii) a statement that not all bond funds have volatility ratings; (iv) whether consideration was paid in connection with obtaining the issuance of the rating; (v) a description of the types of risks the rating measures, such as short-term volatility, for example; (vi) a statement that there is no guarantee that the fund will continue to have the same rating or perform in the future as rated.

The disclosures required by subparagraphs (c)(3)(C)(i)–(vii) help inform investors of certain potential limitations of a rating (*i.e.*, that a rating may have been paid for, may measure only a certain type of risk or volatility, may not reflect a comparison with all funds of a given class or peer group, and may not be current).

NASDR intends to include in the NTM that will accompany publication of the final rule the following Disclosure Statement as a sample to assist members in drafting Disclosure Statements that comply with the requirements of the rule:

The volatility rating for this fund issued by [XYZ rating entity] (''XYZ'') is [insert narrative rating]. The rating seeks to measure [description of what risks the rating measures, *e.g.*, ''how the value of the fund's current portfolio might respond to changing market conditions'']. XYZ arrived at his rating in the following way: [insert description of methodology]. There is no standard method for determining volatility ratings. The rating is current as of [date]. The fund's portfolio may have changed since this date and there is no guarantee that the fund will continue to have the same rating or perform in the future as rated. Not all bond mutual funds have volatility ratings and those that do may have paid for them. The fund [paid for][did not pay for] the volatility rating issued by XYZ. The fact that a fund has a rating is not an indication that it is more or less risky or volatile than a fund that does not. If you would like more specific information on the rating or the methodology used to determine the rating, call XYZ at 1–800–000–000 or visit XYZ's web site address at www.[address].

Filing Requirement. The proposed rule change amends NASD Rule 2210 regarding communications with the public by adding new subparagraph (c)(3) to require sales literature containing bond mutual fund volatility ratings to be filed with the Advertising Regulation Department for review and approval at least 10 days prior to use. Members would not be required to file advertising and sales literature which had previously been filed and approved, and used without change. Members filing sales literature containing bond mutual fund sales literature also must provide any supplemental information requested by the Department pertaining to the rating that is possessed by the member.

NASD Regulation believes that the proposed rule change is consistent with

[6] Volatility or risk rating analysis has been described as being comprised of three elements: (i) an analysis of the effective duration of the fund's current portfolio—*i.e.*, the sensitivity of the current portfolio to interest rate changes, (ii) a comparison of the historical risk profile of the bond fund with the risk of its current portfolio, and (iii) an assessment of the fund manager's policies and management style, including whether management has established policies and systems that comport with stated objectives for the fund, including levels of risk.

the provisions of Section 15A(b)(6) [7] of the Act, which require that the Association adopt and amend its rules to promote just and equitable principles of trade, and generally provide for the protection of investors and the public interest. The proposed rule change, by imposing certain prohibitions, disclosure and filing requirements, is designed to permit members and associated persons of a member to disseminate bond mutual fund volatility ratings in supplemental sales literature according to standards designed to prevent such ratings from being misleading, predictive, or otherwise inappropriate.

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

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

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

Written comments were neither solicited nor received. However, NTM 96–84 requested comment on the appropriateness of the NASDR's current prohibition on the use by members and persons associated with a member of bond mutual fund volatility ratings in supplemental sales literature. A copy of NTM 96–84 and a summary of the comments received in response to NTM 96–84 are available for inspection and copying in the Commission's Public Reference Room.

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 proposal 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, 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 November 30, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[8]

Jonathan G. Katz,

Secretary.

[FR Doc. 98–29970 Filed 11–6–98; 8:45 am]

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[7] 15 U.S.C. 78*o*–3(b)(6).

[8] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40625; File No. SR–PHLX–98–41]

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

November 2, 1998.

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 October 6, 1998, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') 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

On a pilot basis, the Phlx previously implemented an enhancement to its X-Station electronic book. The Exchange seeks to extend that pilot through April 23, 1999.[3] Under the pilot, a system enhancement was made to the X-Station electronic book on the options floor, which matches incoming orders eligible for the Automatic Execution System (''AUTO–X'') feature of the Phlx Automated Options Market (''AUTOM'') system with orders residing on the specialist's book.

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, 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 April 24, 1998, the Exchange filed with the Commission a proposed rule change to implement, on a pilot basis, an enhancement to the X-Station electronic book on the Exchange's options floor, which became effective immediately upon filing.[4] As described in Phlx Rule 1080, Commentary .02, the electronic order book is an automated mechanism for specialists to hold and display orders based on price/time priority. The Exchange is currently preparing floor-wide deployment of the new X-Station electronic book on the options floor. The new X-Station provides certain improvements such as expedited non-AUTO–X order execution, as well as expedited cancel replacement processing.

AUTO–X is the automatic execution feature of the AUTOM System, the electronic order delivery and routing system for options orders. Previously,

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

[2] 17 CFR 240.19b–4.

[3] Letter from Richard S. Rudolph, Legal Counsel, Phlx, to Anitra T. Cassas, Attorney, Division of Market Regulation, Commission, dated October 21, 1998.

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