(''NBBO'').[5] It further provides that the OFTC may designate, for an option issue, that if the NBBO is crossed (*e.g.*, 6⅛ bid, 6 asked) or locked (*e.g.*, 6 bid, 6 asked), then customer orders would exit the automatic execution system of the Exchange and default for Floor Broker representation in the trading crowd.[6]

After the Commission approved File No. SR–PCX–98–27, the PCX has become aware that PCX Rule 6.87(d), the rule that the proposal changed, could imply that the OFTC can designate an option issue for Floor Broker representation in crossed and locked markets only if the issue is eligible to receive automatic execution at the NBBO. The Exchange, however, intended to allow the OFTC to designate any issue for Floor Broker representation in crossed and locked markets. Accordingly, the Exchange is now proposing to modify Rule 6.87 to clarify that the OFTC may designate, for any option issue, that if the NBBO is crossed or locked, then customer orders will default for Floor Broker representation in the trading crowd regardless of whether the Exchange's Auto-Ex system is set to execute orders at prices reflecting the NBBO.

The Exchange is planning to implement a systems change to cover the potential for Floor Broker representation of option orders during crossed or locked markets. However, before effecting that change, the Exchange has determined to file this proposal to clarify the Exchange's procedure on the handling of option orders when the NBBO is crossed or locked. Accordingly, upon approval of this proposal, the Exchange will be in a position to effect the appropriate systems changes as quickly as possible.

As with PCX–98–27, the Exchange believes that its proposal, if implemented, will serve to protect public customers from receiving inferior prices on their orders in situations where the NBBO is crossed or locked. For example, if the PCX's market is 5 bid, 5¼ asked, and Exchange B's market is 4 bid, 4¼ asked, the NBBO will be 5 bid, 4¼ asked. If the 5 bid is based on a public customer order for 10 contracts, and that order is automatically executed, the customer would be deprived of an opportunity to cancel the order at 5 and buy 10 contracts at Exchange B at 4¼. This could occur regardless of whether the PCX Auto-Ex is using the NBBO or PCX quotes. Moreover, during the time that the market is crossed, it is not immediately clear whether the crossed markets arise from errors resulting from communication or system problems, keystroke errors, quotation dissemination delays, or are in fact true markets. The default mechanism will give Floor Brokers in the trading crowd an opportunity to ascertain whether the markets are erroneous and to assure that customers receive the best possible price.

While these situations occur very infrequently, the Exchange believes that investors should be protected through the use of human intervention. During these times (if so designated by the OFTC for a particular option issue), public customer orders will be manually represented in the trading crowd by Floor Brokers and handled in a manner that is consistent with the Floor Brokers' best execution obligations.[7]

2. Basis

The proposal is consistent with Section 6(b)(5)[8] of the Act because it is designed to facilitate transactions in securities.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments on the proposed rule change were neither solicited nor received.

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

Within 35 days of the 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 the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, 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, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR–PCX–98–55 and should be submitted by December 30, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[9]

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 98–32666 Filed 12–8–98; 8:45 am]

**BILLING CODE 8010–01–M**

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## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–40728; File No. SR–PHLX–98–37]**

## Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Rule 220 Regarding Stopping Stock

November 30, 1998.

## I. Introduction

On September 28, 1998, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to adopt Rule 220, which concerns stopping stock.

The proposed rule change was published for comment in the **Federal**

[5] *Id.*

[6] *Id.*

[7] *See* PCX Rule 6.46 (''Responsibilities of Floor Brokers'').

[8] 15 U.S.C. 78f(b)(5).

[9] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

**Register** on October 29, 1998.[3] No comments were received on the proposal. This order approves the proposal.

## II. Description of the Proposal

The Phlx proposes to adopt Rule 220 regarding stopping stock.[4] This rule codifies and enhances the procedures for stopping stock on the Exchange floor outlined in Phlx Advice A–2.[5]

Under the proposed rule change, an agreement by a Phlx specialist to ''stop'' securities at a specified price will constitute a guarantee by a member or member organization of the purchase or sale of the securities at the specified price or better.[6] Further, the specialist will be permitted to stop stock upon the unsolicited request of another member when the member is acting on behalf of either a public customer account or an account in which the member or another member has an interest. After granting the stop, the specialist must display the order in his or her quote, including representative size, and reduce the spread by bidding (offering) at a price higher (lower) than the prevailing bid or offer if not executed immediately after being stopped.[7] This procedure applies in other than minimum variation markets, that is, where the spread in the quotation is greater than twice the minimum variation.

Proposed Rule 220(b)(2) will prohibit the specialist from trading for his own account with any order he stopped while he is in possession of an order at an equal or better price than the price of the stopped order. The specialist must exercise due diligence to match the stopped order with such other order in his possession in accordance with Exchange Rules 119 and 120.

Proposed Rule 220(c) will provide that the member or member organization which agreed to stop the securities in order to obtain a favorable price will either provide price improvement or guarantee the stop price. If the order is executed at a less favorable price, then the member will be liable for the adjustment of the difference between the two prices.

Under proposed Rule 220(d), stopping orders in minimum variation markets will occur primarily when the bid (offer) is at a price higher (lower) than the primary market for the day. Specifically, the rule will provide that in minimum variation markets, the specialist must change his or her quoted bid (offer) in order to reflect the size of the order being stopped. In cases of minimum variation markets, a stopped order to buy (sell) will be filled: (1) after a transaction takes place on the primary market at the stop price or higher (lower) or (2) when the share volume on the Exchange at the bid (offer) is exhausted. All orders stopped in minimum variation markets shall be executed by the end of the trading day on which the order was stopped at no worse than the stopped price. In granting a stop in a minimum variation market, a specialist should change the quoted bid (offer) size in order to reflect the size of the order being stopped.

## III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with the requirements of Section 6(b).[8] Specifically, the Commission believes the proposal is consistent with the Section 6(b)(5) [9] requirements that the rules of an exchange be 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 and, in general, to protect investors and the public interest.[10]

In approving Phlx Advice A–2, the Commission urged the Phlx to submit a proposed rule which would ensure the proper handling of stopped stock.[11] The Commission suggested that any such rule should include, *inter alia*, the obligations of the member who agrees to grant the stop, a policy for determining the price at which the order should be executed and procedures for minimum variation markets that are consistent with the rules of priority, parity and precedence. The proposed rule change is fully responsive to the Commission's suggestions.

The practice of stopping stock enables exchange specialists to offer primary market price protection, an important price improvement function of specialists, by executing orders at better prices away from the primary market. Further, the practice of stopping stock provides the opportunity for the specialist to improve upon the market and narrow the bid/offer spread. The Commission believes the requirements of Rule 220, in particular, should increase the likelihood that a customer whose order is stopped will receive price improvement. The stop order procedures codified in Rule 220 provide that where ''the spread in the quotation is greater than the minimum variation of trading in the stock, the specialist is required to reduce the spread by bidding (offering) at a price higher (lower) than the prevailing bid or offer. Specifically each order on the book which has been stopped by the Specialist must be displayed, including a representative size, at its price or better if not executed immediately after being stopped.'' [12] Accordingly, the Commission believes that the proposed rule change is consistent with the objectives of Section 6(b)(5) of the Act.

## IV. Conclusion

*It is therefore ordered,* pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule change (SR–PHLX–98–37) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[14]

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 98–32607 Filed 12–8–98; 8:45 am]

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[3] Securities Exchange Act Release No. 40593 (October 22, 1998), 63 FR 58083 (File No. SR–PHLX–98–37).

[4] The proposed stopping stock rule is substantially similar to the stopping stock rules adopted by the Boston Stock Exchange (''BSE'') and the Chicago Stock Exchange (''CHX''). *See* BSE Chapter II, Section 38 and CHX Article XX, Rule 28.

[5] *See* Securities Exchange Act Release No. 34614 (August 30, 1994), 59 FR 46280 (September 7, 1994).

[6] See Proposed Rule 220(a).

[7] See Proposed Rule 220(b)(1).

[8] 15 U.S.C. 78f(b).

[9] 15 U.S.C. 78f(b)(5).

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

[11] *See* Securities Exchange Act Release No. 34614 (August 30, 1994), 59 FR 46280 (September 7, 1994).

[12] *See* Proposed Rule 220(b)(1).

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30–3(a)(12).

# OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

## United States-European Union Transatlantic Economic Partnership

**AGENCY:** Office of the United States Trade Representative.

**ACTION:** Notice and Request for Comments.

**SUMMARY:** Under the Transatlantic Economic Partnership (TEP) initiative, the Governments of the United States and the European Union (EU) have agreed to explore and identify possible sectors in which the potential to extend