

The NASD states that it opposes the expansion to 1000 securities. First, the NASD notes that over the counter market makers are not able to trade the most actively traded exchange listed securities and argues that it is still trying to obtain access to trading of non-19c-3 securities through the Intermarket Trading System/Computer Assisted Execution System ("ITS/CAES") linkage.¹³ Second, the NASD raised concerns regarding autoquoting.¹⁴ The NASD argues that the proposal could create significant message traffic in the Nasdaq system, as well as needless and avoidable capacity repercussions for Nasdaq. Moreover, the NASD believes that the proposal is not consistent with the Act because it believes that the expansion would not serve to achieve the goals of unlisted trading privileges since "data gathered by the NASD's Economic Research Department shows that a significant portion of the CHX specialist quotes are not competitive."¹⁵ The NASD asserts that: CHX specialists are almost never at the national best bid/best offer ("NBBO") in the securities in which they make a market; CHX specialists account for a disproportionate number of quote updates; CHX specialists account for an insignificant portion of the volume in the securities in which they make a market; and CHX specialists have a disproportionately higher quote to trade ratio than Nasdaq market makers. For these reasons, the NASD concludes that permitting CHX specialists to trade an additional 500 securities might harm market quality. Finally, the NASD submitted statistical data regarding CHX and NASD volume in OTC/UTP securities, as well as quotation information concerning securities quoted under the Plan, to support its supposition to the proposal.

The CHX submitted a third letter responding to the NASD's comments.¹⁶ In the third letter, the CHX provided statistical information to refute the position of the NASD. Further, the CHX addressed the NASD concerns regarding

ITS/CAES, autoquote, and the goals of unlisted trading privileges. The CHX further noted that the Commission approved the previous expansion from 100 to 500 securities, notwithstanding similar comments from the NASD regarding ITS/CAES at that time. The CHX also challenged the validity of the NASD's capacity concerns resulting from the CHX member's use of autoquote.

The Commission does not find the NASD's arguments determinative and believes that it is appropriate at this time to expand the number of Nasdaq/NM securities that the CHX may trade under the Plan. As noted, the Commission has separately solicited comment on the issue of expanding the ITS/CAES linkage to non-19c-3 securities. Although CHX autoquoting substantially increases capacity burdens of Nasdaq, the Commission does not view these quotes as in themselves negative for the markets. Nor has the Commission received evidence that expanding the number of securities would otherwise have a negative effect on the markets or on the protection of investors. On the contrary, the Commission believes this expansion, from 500 to 1000 Nasdaq/MN securities has the potential to enhance competition and result in better executions for investors. The expansion should enhance the protection of investors and the public interest, further competition, increase the transparency of the markets, and is a prudent approach that will enable the Participants and the Commission to gain useful, instructive experience concerning operation of the Joint OTC/UTP Plan and its competitive effects, pending permanent approval of the Plan. In addition, the Commission notes that it will continue to monitor the CHX's ability to perform its responsibilities under the Joint Plan.

IV. Solicitation of Comment

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 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed amendment that are filed with the Commission, and all written communications relating to the proposed amendment 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 at the Commission's Public Reference Room. All submissions should refer to File No. S7-24-89 and should be submitted by June 11, 1999.

V. Conclusion

The Commission finds that it is consistent with Section 11A of the Act to increase the number of UTP-eligible Nasdaq/NM securities that the CHX may trade from 500 to 1000 securities.¹⁷ In reviewing the proposal described herein, the Commission has considered the public trading activity in Nasdaq/NM securities, the character of the trading, the impact of the increase on the existing markets for the securities and the desirability of removing impediments to, and the progress that has been made towards, development of a national market system.¹⁸ Specifically, the Commission believes that the expansion should increase transparency and serve to provide the Participants with additional information to evaluate the effects of the proposed course of action for the pilot program. This, in turn, should further the objectives of the Act in general, and specifically those set forth in Sections 12(f) and 11A of the Act and in Rule 11Aa3-1 and Rule 11Aa3-2 thereunder.

It is therefore ordered, Pursuant to Sections 12(f) and 11A of the Act and (c)(2) of Rule 11Aa3-2 thereunder, that the CHX's request to expand the number securities eligible for trading pursuant to the Joint Transaction Reporting Plan for Nasdaq/National Market securities traded on an exchange on an unlisted or listed basis is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41391]

Notice of Intention To Cancel Registrations of Certain Transfer Agents

May 12, 1999.

Notice is given that the Securities and Exchange Commission ("Commission")

¹⁷ The Commission has considered the proposal's impact on efficiency, competition and capital formation.

¹⁸ 15 U.S.C. 781(f)(1)(E)(i) and (ii).

¹⁹ 17 CFR 200.30-39a(29).

Patricia L. Levy, Senior Vice President and General Counsel, CHX, to Jonathan G. Katz, Secretary, Commission, dated March 3, 1999 ("CHX Letter No. 3"); and letter from George T. Simon, Foley and Lardner, to Robert Colby, Deputy Director, Division of Market Regulation, Commission, dated April 1, 1999.

¹³ See Securities Exchange Act Release No. 40260 (July 24, 1998), 63 FR 40748 (July 30, 1998) requesting comments on whether to extend the ITS/CAES linkage to non-19c-3 securities.

¹⁴ See Autoquoting is the computerized updating of stock prices. The CHX allows its members to autoquote Plan securities. The NASD generally prohibits this conduct, in part to ensure adequate capacity. See NASD IM-4613.

¹⁵ See NASD Letter, *supra* note 12.

¹⁶ See Letter CHX Letter No. 3, *supra* note 12.

intends to issue an order, pursuant to section 17A(c)(4)(B) of the Securities Exchange Act of 1934 (Exchange Act),¹ canceling the registrations of the transfer agents whose names appear in the attached Appendix.

FOR FURTHER INFORMATION CONTACT: Jerry W. Carpenter, Assistant Director, or Gregory J. Dumark, Staff Attorney, at 202/942-4187, Division of Market Regulation, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-1001.

Background

On August 12, 1998, the Commission adopted Rule 17Ad-18 under Sections 17(a) of the Exchange Act, which requires non-bank transfer agents to file Form TA-Y2K with the Commission.² Under Rule 17Ad-18, every transfer agent was required to complete and file by August 31, 1998, Part I of Form TA-Y2K reflecting its Year 2000 compliance effort as of July 15, 1998. Certain larger transfer agents were also required to complete Part II of Form TA-Y2K.

In August 1998, the Commission mailed copies of Form TA-Y2K to all non-bank transfer agents then registered with the Commission.³ In September 1998, the Commission mailed letters to the transfer agents, including the transfer agents listed in the Appendix, that had not filed Form TA-Y2K warning them of the possibility of the institution of an administrative proceeding by the Commission. Subsequently, the Commission made additional efforts to locate and determine the status of transfer agents, including the transfer agents listed in the Appendix, that did not file Form TA-Y2K. In some cases the Commission was unable to locate the transfer agent and in other cases the Commission received notification that the transfer agent was no longer in existence or had ceased doing business.

To date, the 14 registered transfer agents listed in the Appendix have neither filed Form TA-Y2K nor responded to Commission inquiries. Based on the facts it has, the

Commission believes that these transfer agents are no longer in existence or have ceased doing business as a transfer agent. Section 17A(c)(4)(B) of the Exchange Act provides that if the Commission finds that any transfer agent registered with the Commission is no longer in existence or has ceased to do business as a transfer agent, the Commission shall be order cancel that transfer agent's registration. Accordingly, at any time after June 21, 1999, the Commission intends to issue an order cancelling the registrations of any or all of the transfer agents listed in the Appendix.

Any transfer agent listed in the Appendix that believes its name has been included in the Appendix in error must notify the Commission in writing prior to June 21, 1999 objecting to the cancellation of its registration. Written notifications must be mailed to: Gregory J. Dumark, Division of Market Regulation, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-1001, or be sent via facsimile to (202) 942-9695, Attention: Gregory J. Dumark.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,
Deputy Secretary.

Appendix—Registration Number and Name

84-1758, Corporate Strategic Services, Inc.
84-1997, DC Trading & Development Corp.
84-5406, First Federal Savings Bank Byran Texas
84-1945, Hawthorne Shareholder Services, Inc.
84-5553, The Herman Group, Inc.
84-5522, Keller Financial Services, Inc.
84-1766, Kinlaw Energy Partners Corp.
84-5615, NRG Incorporated
84-5560, Partnership Services, Inc.
84-0047, Penn Square Management Corporation
84-5412, Schuster, Jill Lauren
84-998, Silver Crescent, Inc.
84-5614, Wisconsin Real Estate Investment Trust
84-1566, Yreka United, Inc.

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⁴ 17 CFR 200.30-3(a)(22).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41415; International Series Release No. 1197; File No. SR-EMCC-98-10]

Self-Regulatory Organizations; Emerging Markets Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Netting Services

May 17, 1999.

On November 2, 1998, Emerging Markets Clearing Corporation ("EMCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-EMCC-98-10) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on December 28, 1998.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

Currently, EMCC processes its members' transactions on a trade for trade basis. The rule change enables EMCC to offer its members the ability to have their transactions processed on a netted basis through EMCC's netting services.

Under EMCC's netting services, transactions between two netting members that have been reported on EMCC's "accepted trade report," which is made available to members no later than two days prior to settlement date ("SD-2"), will be eligible for settlement netting. The accepted trade report will indicate trades that are to be processed on a netted basis.

Both trade for transactions and netted transactions will be novated and guaranteed at the same time. Receive and deliver obligations for netting trades will be established when the accepted trade report is made available to members. On the scheduled settlement date, these receive and deliver obligations will be extinguished and replaced with new receive obligations or deliver obligations relating to the net position. In order to meet the delivery parameters of the applicable qualified securities depository ("QSD"), EMCC may establish one or more receive and deliver obligations with respect to any one net position.

The value at which receive and deliver obligations will be settled at a

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 40810, International Series Release No. 1174 (December 18, 1998), 63 FR 71532.

¹ 15 U.S.C. 78q-1(c)(4)(B).

² Release No. 34-40163 (July 2, 1998), 63 FR 37688 (July 13, 1998) ("Adopting Release"). See also Release No. 34-39726 (March 5, 1998), 63 FR 12062 (March 12, 1998) ("Proposing Release"). Rule 17Ad-18 specifically applies to non-bank transfer agents. The term "non-bank transfer agent" means a transfer agent whose regulatory agency is the Commission and who also is not a savings association regulated by the Office of Thrift Supervision. 17 C.F.R. § 240.17Ad-18(e).

³ The Commission mailed the Form TA-Y2K to the address provided by each non-bank transfer agent on their Form TA-1. These addresses should be current, as non-bank transfer agents are required to update Form TA-1 promptly for any address changes.