

broker in order to send an order to the CHX during the PPS. Because the PPS will be an extension of the Exchange's daily auction market, all the Exchange's rules applicable to floor trading during the Exchange's Primary Trading Session, as modified by proposed Interpretation and Policy .05 of Rule 37, Article XX, will continue to be applicable.⁵ For example, specialists will be required to quote markets and trading will occur based on real-time price and quote changes.

To accomplish the foregoing, the Exchange is amending Article XX, Rule 1 and Article XXI, Rule 1 to make it clear that these rules also apply to the PPS.⁶ The Exchange is also amending Interpretation and Policy .02 of Rule 37, Article XX to make it clear that although GTX orders are executable after the close of the PPS (*i.e.*, in the Exchange's Secondary Trading Session), they are executed based on trading that occurs in a security in a primary market's after-hours closing price trading session, at that closing price, and are not executable based on trading in, or the closing price established in, the PPS.⁷

Finally, the Exchange is also amending Article IX, Rule 10(b) to provide that if trading on the Exchange is halted during the Primary Trading Session pursuant to Article XX, Rule 10A, and such trading halt is still in effect at the close of the Primary Trading Session, the PPS scheduled for that day will be cancelled.⁸

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)(5) of the Act⁹ in that it is designed to promote just and equitable principals of trade, to remove impediments to and to perfect

the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

No written comments were either solicited or 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, DC 20549. 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-CHX-96-13 and should be submitted June 7, 1996.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37205; File No. SR-MBSCC-95-08]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Approving Proposed Rule Change Relating to Eligibility Changes for Settlement Balance Order Settlement

May 13, 1996.

On October 17, 1995, MBS Clearing Corporation ("MBSCC") filed a proposed rule change (File No. SR-MBSCC-95-08) with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act") relating to eligibility changes for Settlement Balance Order ("SBO") settlement.¹ On November 1, 1995, MBSCC filed an amendment to the proposed rule change.² Notice of the proposal was published in the Federal Register on December 13, 1995, to solicit comments from interested persons.³ On January 30, 1996, and April 15, 1996 MBSCC filed additional amendments to the proposed rule change.⁴ No comments were received. As discussed below, this order approves the proposed rule change.

I. Description

The proposed rule change modifies MBSCC's procedures to provide that MBSCC will reject trades destined for SBO settlement between multiple accounts of a participant as well as between a participant's account and an account of a related participant.⁵ As a

⁵ As part of the proposed rule change, the Exchange has moved existing Interpretation and Policies .01-.03 of Rule 37(a), Article XX, currently found at the end of subparagraph (a) of Rule 37, to the end of Rule 37, and renumbered existing Interpretation and Policy .01 of Rule 37 as Interpretation and Policy .04.

⁶ See Amendment No. 1, *supra* note 1.

Article XX of the CHX Rules contains the Exchange's trading rules. Article XX, Rule 1 currently states that the rules contained in Article XX have general applicability to Exchange Contracts made on the Exchange during the Primary Trading Session, and, to the extent determined by the Exchange, to Exchange Contracts not made on the Exchange.

Article XXI, Rule 1 currently requires each Exchange member to promptly advise the Exchange of each of his or her transactions that are executed on the Floor of the Exchange during the Primary Trading Session or through the Portfolio Trading System.

⁷ For a description of operation of the Exchange's Secondary Trading Session, see Securities Exchange Act Release No. 33991 (May 2, 1994), 59 FR 23904 (May 9, 1994) (File No. SR-CHX-93-23).

⁸ See Amendment No. 1, *supra* note 1.

⁹ 15 U.S.C. 78f(b)(5).

¹ 15 U.S.C. 78s(b) (1988).

² Letter from Anthony H. Davidson, Attorney, MBSCC, to Michele Bianco, Division of Market Regulation ("Division"), Commission (November 1, 1995).

³ Securities Exchange Act Release No. 36557 (December 6, 1995), 60 FR 64083.

⁴ Letters from Anthony H. Davidson, Attorney, MBSCC, to Michele Bianco, Division, Commission (January 30, 1996) and to Jerry Carpenter, Associate [sic] Director, Division, Commission (April 12, 1996). The January 30, 1996, amendment adds a definition of related participant to MBSCC's Procedures consistent with language in MBSCC's original filing. The April 15, 1996, amendment provides that a participant requesting a waiver from the eligibility requirements must provide MBSCC with certain assurances. The amendments were technical amendments that did not require republication of notice.

⁵ "Related participant" is any affiliate (as defined in Rule 12b-2 of the Act) or entity that is used or intended to be used in whole or in part to

result of being rejected, such trades must settle on a trade-for-trade basis. A participant may request a waiver of this restriction by providing to MBSCC such assurances as MBSCC may request.⁶ These assurances may include but are not limited to (i) a letter describing the reason for the request and the applicable accounts for which relief is sought and containing a representation that the use of multiple accounts is not for the purpose of influencing MBSCC's clearance and settlement process or (ii) an opinion of counsel relating to the use of multiple accounts that is satisfactory to MBSCC.⁷

II. Discussion

The Commission believes the proposal is consistent with the requirements of Section 17A of the Act.⁸ Specifically, Section 17A(b)(3)(F)⁹ states that the rules of a clearing agency must be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible and to protect investors. Under the SBO processing, MBSCC makes cash adjustments to account for variances in the par amount of securities delivered by participants as permitted by the Public Securities Association guidelines.¹⁰ MBSCC believes that the ability to include trades among related accounts could cause a perception that participants might influence the amount of their cash adjustments through submissions of internal trades. Specifically, MBSCC believes it could be possible for a participant to create and submit to MBSCC for SBO settlement fictitious trades between related accounts that would permit the participant to share in a positive cash balance adjustment. By reducing the possibility that a participant can manipulate SBO settlement in such a manner, the proposed rule change

contravene the purposes of the proposed rule change. Letter from Anthony H. Davidson, Attorney, MBSCC, to Michele Bianco, Division, Commission (November 1, 1995).

⁶ MBSCC has received two requests for a waiver. Letter from John J. Rioux, Vice President and Assistant General Counsel, J.P. Morgan & Co. Incorporated, to George Parasole, Director of Member Services, MBSCC (February 1, 1996) and letter from Edward K. McCarthy, General Counsel, Liberty Brokerage Inc., to George Parasole, Director of Member Services, MBSCC (February 7, 1996).

⁷ Letter from Anthony H. Davidson, Attorney, MBSCC, to Jerry Carpenter, Assistant Director, Division, Commission (April 15, 1996).

⁸ 15 U.S.C. 78q-1 (1988).

⁹ 15 U.S.C. 78q-1(b)(3)(F) (1988).

¹⁰ Such guidelines permit the over delivery or under delivery of two percent of the par amount of securities to be delivered. MBSCC's cash adjustment procedures pro rate the resulting positive or negative balances to the MBSCC participants with netted out positions.

should further MBSCC's ability to safeguard the funds in its custody or control and to protect investors.

III. Conclusion

For the reasons stated above, the Commission finds that MBSCC's proposal is consistent with Section 17A of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (File No. SR-MBSCC-95-08) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37197; File No. SR-MSRB-95-13]

Self-Regulatory Organizations; Order Approving Proposed Rule Changes by the Municipal Securities Rulemaking Board Relating to Fee Assessments and Reporting of Sales or Purchases Pursuant to Rules A-13, A-14, and G-14

May 10, 1996.

I. Introduction

On August 11, 1995 the Municipal Securities Rulemaking Board ("Board" or "MSRB") submitted to 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 change the fees assessed under Rules A-13 and A-14, as well as to change the reporting requirements under Rule G-14. The proposed rule change was published for comment in the Federal Register ("Original Proposal").³ In November 1995, the MSRB submitted Amendment No. 1 to the proposed rule change which was also published for comment ("Amended Proposal").⁴ The Commission received twenty-three comment letters in all. For the reasons discussed below, the Commission is approving the proposal.

¹ 15 U.S.C. 78s(b)(2) (1988).

² 17 CFR 200.30(a)(12) (1995).

³ 15 U.S.C. 78s(b)(1).

⁴ 17 CFR 240.19b-4.

⁵ Securities Exchange Act Release No. 36150 (August 23, 1995), 60 FR 45197 (August 30, 1995).

⁶ Securities Exchange Act Release No. 36492 (November 20, 1995), 60 FR 58422 (November 27, 1995).

II. Description and Scope of the Proposed Rule Change

The proposal changes the MSRB's existing fee structure to impose, effective March 1, 1996, transaction-based fees on inter-dealer transactions. The proposal establishes a transaction fee of \$.005 per \$1,000 par value of bonds on all inter-dealer sales transactions, and effective October 1, 1995, increases the annual fee, applicable to each broker, dealer, and municipal securities dealer who conducts municipal securities business, from \$100 to \$200. Effective March 1, 1996, the proposal permits the MSRB to use reported transaction information for the purpose of assessing transaction fees.

Rule G-14 requires each inter-dealer transaction that is eligible for automated comparison to be reported to the MSRB through National Securities Clearing Corporation, the central facility provider for the automated comparison process. The corollary change to Rule G-14 under the proposal authorizes the MSRB to use the reported transaction information to assess inter-dealer transaction fees. The MSRB will send monthly invoices to dealers that report inter-dealer sales transactions on their own behalf, and/or on behalf of another dealer.⁵ The dealer will be responsible for the timely payment of the entire fee amount to the MSRB, but the MSRB expects that clearing dealers will pass through the fees to executing dealers based upon their transaction volume. To assist the clearing dealer, the invoice will separate out the fees due on the transactions submitted by the clearing dealer on behalf of identified executing dealers.⁶ As improvements are made in the timely and accurate reporting of transactions under Rule G-14, including the correct identification of executing brokers, the MSRB will consider revisions in the billing procedure to accommodate direct billing of executing brokers.

As explained in its filing, the proposal is intended to increase revenue to the MSRB to cover budgetary expenditures. The MSRB anticipates its technology expenditures to rise over the next few years as it implements transparency

⁵ Under the proposal, the MSRB will bill only for those trades for which the buy and sell sides ultimately have agreed on trade details such as price, transaction amount, and value.

⁶ Rule G-14 requires that in each inter-dealer transaction the clearing dealer identify the executing dealer on whose half the transaction is reported. Nevertheless, trades are reported lacking the executing broker's identifier. The fees due on those trades will appear on the clearing dealer's invoice assigned to "blank".