

available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-96-28 and should be submitted by September 3, 1996.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>29</sup> that the proposed rule change (File No. SR-Amex-96-28), as amended, is approved, on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority:<sup>30</sup>

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 96-20574 Filed 8-12-96; 8:45 am]

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[Release No. 34-37532; File No. SR-CHX-96-15]

**Self-Regulatory Organizations; the Chicago Stock Exchange, Inc.; Order Approving Proposed Rule Change Relating to Assignment and Reassignment of Nasdaq National Market Issues**

August 6, 1996.

**I. Introduction**

On May 16, 1996, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Interpretation and Policy .01 of Rule 1 of Article XXX relating to assignments and reassignments of Nasdaq Market ("NM") securities.

The proposed rule change was published for comment in the Federal Register on June 25, 1996.<sup>3</sup> No comments were received on the proposal.

**II. Background**

In 1987, the Commission approved the trading of Nasdaq/NM Securities (previously known as NASDAQ/NMS Securities) on the Exchange on a pilot basis.<sup>4</sup> When these stocks were initially

allocated, the Exchange's Committee on Specialist Assignment and Evaluation ("CSAE") established certain guidelines for assignment of Nasdaq/NM stocks. These guidelines required a firm that desired to trade these stocks to assign a separate co-specialist that only trades Nasdaq/NM stocks. As a result, only a small number of firms could receive allocations of Nasdaq/NM stocks. In part because of this limitation, the CSAE also determined to re-post any Nasdaq/NM stocks when they list on an exchange.

Because of the recent expansion of the number (from 100 to 500) of Nasdaq/NM securities that are eligible for trading on the CHX,<sup>5</sup> the Exchange believes that a more equitable balance is needed between the ability of the current specialist firm in the Nasdaq stock to continue to trade the stock after it lists on an exchange and other specialists that desire to trade the stock. Thus, the purpose of the proposed rule change is to amend the Exchange's allocation policy in order to achieve this equitable balance.

**III. Description of Proposal**

As discussed in the Notice, the proposal would amend Interpretation and Policy .01 of Rule 1 of Article XXX to provide new guidelines for the

Market System Securities traded on an exchange); 24406 (April 29, 1987), 52 FR 17495 (May 8, 1987) (order granting Unlisted Trading Privileges ("UTP") in 25 issues).

Prior to the enactment of the UTP Act of 1994 ("UTP Act"), Section 12(f) of the Act required exchanges to apply to the Commission, and receive Commission approval of the exchange's application, before extending UTP to a particular security. When an exchange "extends UTP" to a security, the exchange allows its members to trade the security as if it were listed on the exchange. The Commission was required to provide interested parties with at least ten days notice of the application and the Commission had to determine whether the extension of UTP to each security named met certain criteria. If so, the Commission published an approval order in the Federal Register. Accordingly, Exchange Interpretation and Policy .01 of Rule 1 of Article XXX reflects this statutory scheme in that it references "obtaining" UTP from the Commission. The UTP Act, however, removed the application, notice, and Commission approval process from Section 12(f) of the Act. For this reason, as requested in the Notice, the Commission again requests that the Exchange submit a rule proposal that appropriately amends Exchange Interpretation and Policy .01 of Rule 1 to reflect the current statutory scheme.

In addition, the Commission noted in the Notice that NASDAQ/NMS Securities are now known as Nasdaq/NM Securities. In response, the Exchange submitted a rule proposal that amends all appropriate Exchange Rules and Interpretations to reflect this new terminology. See File No. SR-CHX-96-22 (received by the Commission on July 29, 1996).

<sup>5</sup> See Securities Exchange Act Release Nos. 28146 (Jun. 26, 1990), 55 FR 27917 (July 6, 1990) (order expanding the number of eligible securities to 100); 36102 (August 14, 1995), 60 FR 43626 (August 22, 1995) (order expanding the number of eligible securities to 500).

reassignment of Nasdaq/NM securities currently assigned to a CHX specialist when they become a Dual Trading System Issue. Under the proposed policy, the 500 Nasdaq/NM stocks that are eligible for trading on the CHX would be divided into two groups: the 100 original issues and the 400 recently added issues.

**1. 100 Original Issues**

Under the proposal, a specialist unit that trades one or more of the original 100 Nasdaq/NM issues would be permitted to designate up to five of these issues as "Non-Reassignment Issues." In the event that a Non-Reassignment Issue became listed, *i.e.*, a Dual Trading System Issue,<sup>6</sup> CSAE under normal circumstances would not post the issue for reassignment. Instead, the existing Nasdaq/NM specialist unit would be permitted to continue to trade the issue assuming the proposed co-specialist for the issue is qualified. A specialist unit could change the issues it designates as Non-Reassignment Issues no more than once a year. Every time a Non-Reassignment Issue becomes a Dual Trading System Issue, however, the total number of stocks that the specialist unit can designate as a Non-Reassignment Issue is decremented. For example, if two Non-Reassignment Issues become Dual Trading Issues, the specialist will only be able to designate a total of three issues as Non-Reassignment Issues going forward.

For all other Nasdaq/NM issues that are part of the initial 100 issues, a specialist unit can nonetheless designate its interest to continue trading the issue as a Dual Trading System Issue. This designation can only be made at the time that an issue becomes a Dual Trading System Issue and can only be made for one out of every three issues that the specialist unit trades that becomes a Dual Trading System Issue. If this designation is made, the CSAE, under normal circumstances, will not post the issue or initiate reassignment proceedings. If a designation is not made, the CSAE will post the issue and initiate reassignment proceedings. The specialist unit that traded the issue will not be eligible to apply for the security in these proceedings. Finally, if the specialist unit does not make this designation for any of three consecutive issues that become Dual Trading System

<sup>6</sup> According to the Exchange, Dual Trading System Issues are issues that are traded on the CHX and listed on either the New York Stock Exchange or American Stock Exchange. Telephone conversation on June 5, 1996 between David T. Rusoff, Attorney, Foley & Lardner, and George A. Villasana, Attorney, Division of Market Regulation, SEC.

<sup>29</sup> 15 U.S.C. 78s(b)(2).

<sup>30</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 37327 (June 19, 1996), 61 FR 32870 (June 25, 1996) (notice of File No. SR-CHX-96-15) ("Notice").

<sup>4</sup> See Securities Exchange Act Release Nos. 24407 (April 29, 1987), 52 FR 17349 (May 7, 1987) (order approving proposed Reporting Plan for National

Issues, he or she cannot carry forward the unused designation.

## 2. Other Nasdaq/NM Securities

Under the proposal, if a Nasdaq/NM security that is not part of the original 100 issues becomes a Dual Trading System Issue within one year of the date that the specialist began trading the security, the security will be posted and the CSAE will initiate a reassignment proceeding for the security. If a Nasdaq/NM security that is not part of the original 100 issues becomes a Dual Trading System Issue more than one year after the date that the specialist began trading the security, a specialist unit that trades that security would be permitted to designate 20% of the Nasdaq/NM securities assigned to that specialist unit (excluding the original 100 Nasdaq/NM securities) as Non-Reassignment Issues every year. A specialist unit could change the issues it designates as Non-Reassignment Issues no more than once a year.

For all other Nasdaq/NM securities, the specialist can designate its interest to continue trading the issue as a Dual Trading System issue. As is the case for the 100 original issues, this designation can also only be made at the time an issue becomes a Dual Trading System Issue and can also only be made for one out of every three issues that the specialist unit trades that becomes a Dual Trading System Issue. This designation will operate in the same manner as the similar designation described above for the original 100 issues.

Finally, this proposed rule change does not limit or modify the authority of the CSAE granted to the CSAE under any other provision of Rule 1 of Article XXX.

## IV. Discussion

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).<sup>7</sup> In particular, the Commission believes the proposal is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments 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 for the reasons set forth below.

In 1987, when the Commission approved on a pilot basis the trading of Nasdaq/NM securities on the CHX, the CSAE established guidelines for the assignment of Nasdaq/NM stocks. These guidelines required a firm interested in trading these stocks to assign a separate co-specialist that only trades Nasdaq/NM stocks. As a result, only a limited number of firms received allocations of Nasdaq/NM stocks. To achieve a more equitable allocation of these securities, the CSAE determined that once a Nasdaq/NM issue became listed on an exchange, the CSAE would post the issue for reassignment. As a result, specialist units that were originally allocated Nasdaq/NM securities may not be allocated that security despite their investment of capital, time, and effort to make a market in the security.

The Commission notes that specialists play a crucial role in providing stability, liquidity and continuity to the trading of securities. Among the obligations imposed upon specialists by the Act and the rules thereunder, is the maintenance of fair and orderly markets in their designated securities. To ensure that specialists fulfill these obligations, it is important that securities be allocated in an equitable and fair manner and that all specialists have a fair opportunity for allocations based on established criteria and procedures. The Commission believes that the proposed rule is consistent with the specialists' obligations and provides for the allocation of securities in an equitable and fair manner.

Specifically, the Commission agrees with the CHX that it is important to balance the interests of competition for the allocation of Nasdaq/NM issues that become listed, with providing incentives to specialists to continue to expend capital, time, and effort to make a market in that Nasdaq/NM security before it becomes listed. The Commission believes, therefore, that it is not unreasonable for a specialist who has been allocated a security for more than one year to be able to designate it as a Non-Reassignment Issue subject to certain limitations. Moreover, it is not unreasonable for a specialist who has been allocated a security for more than one year also to designate its interest to continue trading issues as a Dual Trading System Issue subject to certain conditions.

## V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the

proposed rule change (SR-CHX-96-15) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,

*Deputy Secretary.*

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[Release No. 34-37254; File No. SR-PHLX-96-29]

## Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Extending the Pilot Program for Equity and Index Option Specialist Enhanced Parity Split Participants

August 5, 1996.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on July 22, 1996, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange") 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 self-regulatory organization. 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 PHLX proposes to extend until August 26, 1997, the Exchange's enhanced parity participation ("Enhanced Parity Split") pilot program for equity and index option specialists ("Pilot Program"). Revisions to Exchange Rule 1014(g)(ii) and its corollary Option Floor Procedure Advice B-6 ("Advice B-6") are proposed only to change the expiration date of the Pilot Program. The text of the proposed rule change is available at the Office of the Secretary, the PHLX, and at the Commission.

### 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 self-regulatory organization 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

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).