

directed (*i.e.*, to a particular market maker) or non-directed orders. Orders will remain anonymous until they are executed. The System will replace the Small Order Execution System ("SOES") and SelectNet (and related NASD rules), while maintaining features of each. Primary market makers will be able to sponsor other firms (*e.g.*, institutions), giving them System access.

As proposed, the System would operate differently depending on whether the Commission approves the NASD's request to permit Market Makers to quote their actual size for all Nasdaq stocks.³ If the Actual Size Rule is not extended to all Nasdaq stocks, the Nasdaq proposes that nonmarket makers will not be permitted to enter orders larger than 1,000 shares for non-directed orders, and that the SOES prohibition on splitting orders and the Five Minute Rule (*i.e.*, any orders sent within a five minute period are considered part of one order) will be retained. Also, if Actual Size is not expanded to cover all Nasdaq stocks, the NASD proposes that non-market makers be prohibited from entering principal orders. Finally, if Actual Size is approved for all Nasdaq stocks, the order splitting and Five Minute Rules will not apply.

Under the proposal, market makers will no longer be "SOESed-Out-of-the-Box" when they allow their quote size to be diminished to zero.⁴ Instead, the NASD proposes that after three (rather than the current five) minutes, a firm that is effectively out of the market (*i.e.*, has not refreshed its quote) will be automatically reestablished at the lowest ranked bid and offer for 1,000 shares.

Given the proposal's complexity and the Commission's desire to give the public sufficient time to consider the proposal, the NASD has consented to extend the comment period to May 8, 1998.⁵

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Exchange 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. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-98-17 and should be submitted by May 8, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-8317 Filed 3-30-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39787; File No. SR-PCX-98-14]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval, of Proposed Rule Change by the Pacific Exchange, Inc. and Amendment No. 1 Thereto, Relating to a Supervisory Specialist Pilot Program

March 24, 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 March 3, 1998, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. On March 12, 1998, the PCX filed an amendment to the proposal.³ The Commission is

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX, to Marc McKayle, Attorney, Division of Market Regulation, Commission (March 12, 1998) ("Amendment No. 1"). In Amendment No. 1 PCX provides a basis for accelerated effectiveness of the proposal pursuant to Section 19(b)(2) of the Act. PCX explains that seats are trading at record prices making it increasingly difficult to operate a specialist post on the equities floor. PCX maintains that accelerated effectiveness of the proposed rule will permit specialist firms greater control over the impact of seat prices, and preserve the quality of the Exchange's markets and services provided to the public and its members.

publishing this notice to solicit comments on the proposed rule change, as amended.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

PCX is proposing to adopt a temporary program, effective ninety days, under which PCX specialist firms may operate two specialist posts based upon one Exchange membership.⁴ The text of the proposed rule change is available at the Office of the Secretary, PCX 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 the places specified in Item III below. The self-regulatory organization 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

In an effort to streamline the way business is conducted on the Exchange's Equities Floors, and to provide Exchange Specialist Firms with greater control over the management and costs of their operations, the Exchange is proposing to adopt the Supervisory Specialist Pilot Program ("Program"). Under the Program, the Exchange's Executive Committee will permit qualified specialist Firms to participate in the Program during a limited, ninety day period. Throughout the course of the Program, the Executive Committee will seek to assure an orderly transition of Specialist Firms into the Program. The Program will apply to trading on the Equities Floors only and will not apply to trading on the Options Floor.

Under the Program, a Specialist Firm may operate two specialist posts based upon one Exchange membership, provided that both posts will be staffed by Specials who have been qualified by the Exchange as Register Specialists

⁴ The Commission notes that the Exchange also has filed a proposed rule change to implement a one year Supervisory Specialist Pilot Program to become effective upon the termination of the instant ninety day program ("Companion Filing"). See SR-PCX-98-13.

³ *Id.*

⁴ See Exchange Act Release No. 39423 (December 10, 1997) 62 FR 66160 (December 17, 1997).

⁵ See letter from Richard G. Ketchum, President and Chief Operating Officer, Nasdaq, to Katherine A. England, Assistant Director, Division of Market Regulation, SEC, dated March 24, 1998.

under the rules of the Exchange.⁵ The Program will permit one specialist post to be staffed by a Member who is registered as the supervising specialist (the "Supervisory Specialist"), while the other post is staffed by an Associated Person of the Specialist Firm who is otherwise qualified to act as a Registered Specialist (the "Associate Specialist"). Under the Program, the Supervisory Specialist will act as supervising specialist over the Associate Specialist.

Under the Program, both the Supervisory Specialist and the Associate Specialist will be obligated to pay the dues, fees and charges as specified in the Exchange's Schedule of Fees and Charges for Exchange Services.

Specialist Firms may apply to participate in the Program by submitting an application to the Executive Committee. The Executive Committee will take into account certain relevant factors including those specified below. The Executive Committee may, at its discretion, approve a Specialist Firm to participate in the Program based on the following primary factors: the applicant Specialist Firm's current cost of operating its specialist posts, including the rental cost (if any) of each seat; whether the value and revenue stream from existing specialist posts will be retained if the application is approved; and whether the long-term viability of the business and trading volume of a specialist post will be retained if the application is approved. The Executive Committee will also take into account the following secondary factors in reviewing an application: the past experience of individuals who are proposed to serve as Specialists under the Program; recent specialist performance ratings of individuals who are proposed to serve as Specialists under the Program (these ratings should include evaluation scores for the last eight quarters, if they are available);⁶ the disciplinary history of the Specialist Firm and the individuals who are proposed to serve as Specialists under the Program; and other relevant factors that the applicant wishes the Executive Committee to consider.

The Executive Committee will oversee the implementation of the Program and will study the impact of the Program on the quality of markets at specialist posts operating under the Program. Based on

this study, the Executive Committee may adopt more specific standards and procedures for operating the Program. The Executive Committee is not required to approve any number of applicants, and there are no limits on the number of applicants who may be approved under the Program.

Applicants, however, are restricted to Exchange Members with seats on the Equity floor, and no more than two specialist posts may be operated per membership.⁷

Under the Program, a Specialist Firm may operate two trading posts based upon one membership, provided that the following conditions are met:

- a. The two trading posts must be contiguous.
- b. Each post must be operated by a person who meets all of the qualifications of a Registered Specialist. Specifically, each Associate Specialist must achieve a passing grade of at least 80% on a written examination for Registered Specialists prepared by the Exchange. This is the same examination and the same passing score required for all Registered Specialists, as provided in PCX Rule 5.27(c)(ii).

- c. The Associate Specialist must be an "Associated Person" of the Specialist Firm as defined PCX Rule 1.1(d). Associate Specialists may consummate transactions on the Equity Floors of the Exchange, provided that they do so under the supervision of a Supervisory Specialist.

- d. The Supervisory Specialist must be registered with the Exchange as a "Member" as defined in PCX Rule 1.1(i). The Supervisory Specialist will act as supervising specialist over the Associate Specialist. A Supervisory Specialist is a member who has been qualified by the Exchange to act as a specialist and who is responsible for supervising the trading activities of an Associate Specialist.

- e. The performance of the Supervising Specialist and the Associate Specialist will be evaluated individually pursuant to PCX Rule 5.37 ("Evaluation of Specialist Performance").

Under the Program, an Associate Specialist will be deemed to be a Registered Specialist for all purposes under the rules of the Exchange, unless otherwise specified herein.⁸

⁷ Telephone conversation between Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX, and Marc McKayle, Attorney, Division of Market Regulation, Commission (March 23, 1998).

⁸ In addition to the Exchange requirements as discussed above, the Associate Specialist (as well as the Supervisory Specialist) must comply with all applicable federal securities law requirements. See e.g., Exchange Act Section 14 (requiring broker-dealers to register with the Commission).

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b)⁹ of the Act, in general, and Section 6(b)(5),¹⁰ in particular, in that it is designed to facilitate transactions in securities and to promote just and equitable principles of trade.

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 the 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. 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, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendment, 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, N.W., Washington, D.C. 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-98-14 and should be submitted by April 21, 1998.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

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. In particular, the

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

⁵ See e.g., PCX Rule 5.27.

⁶ Supervisory and Associate Specialists will be evaluated pursuant to the criteria set forth in PCX Rule 5.37(a). The five separate measures of performance are (1) Executions, (2) Specialist Evaluation Questionnaire Survey, (3) Book Display Time, (4) Post 1 P.M. Parameters and (5) Quote Performance.

Commission believes the proposal is consistent with the Exchange Act Section 6(b)(5)¹¹ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public. The proposal is designed to reduce the cost of operations for PCX Specialist firms, while ensuring that the Specialist firms maintain managerial control over the posts they supervise. The Program could enhance liquidity in equity securities traded on the Exchange and reduce costs to Exchange members by giving Specialist firms the opportunity to become specialists in more stocks without incurring additional membership costs.

In addition, the Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. The PCX has represented that seat prices on the Exchange are trading at record prices, thus making it increasingly difficult for equity specialists to operate at a profit.¹² Accordingly, the Commission believes it is appropriate for the PCX to implement the Supervisory Specialist Pilot Program without delay. Moreover, the Commission notes that the Program is effective only for ninety days, and that the companion filing will be published for the full twenty-one day comment period.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change (SR-PCX-98-14) is hereby approved on an accelerated basis through June 22, 1998. For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-8360 Filed 3-30-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39802; File No. SR-PHLX 98-13]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Continuing Education Requirements of Registered Persons

March 25, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on March 11, 1998, 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 and II 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 and to grant accelerated approval of the proposed rule change.²

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Phlx, in support of the recommendations of The Securities Industry/Regulatory Council on Continuing Education, proposes to amend both the regulatory and firm element requirements of Rule 640.

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 statutory basis for, the proposed rule change. The text of these statements may be examined at the places specified in Item III below. The Exchange has prepared summaries, set forth in Sections A, B, and C below of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² The Commission has already published for comment rule proposals by four other self-regulatory organizations which are virtually identical to this Phlx filing. See Securities Exchange Act Release Nos. 39574 (January 23, 1998), 63 FR 4510 (January 29, 1998) (SR-NASD-98-03); 39575 (January 23, 1998), 63 FR 4507 (January 29, 1998) (SR-CBOE-97-68); 39576 (January 23, 1998), 63 FR 4509 (January 29, 1998) (SR-MSRB-98-02); and 39577 (January 23, 1998), 63 FR 4513 (January 29, 1998) (SR-NYSE-97-33). The Commission received 5 comment letters, which were discussed in the order approving the other proposals. See Securities Exchange Act Release No. 39712 (March 3, 1998).

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 revise Rule 640 to strengthen the Continuing Education Requirements for registered persons and implement a new program specifically designed for managers and supervisors. Exchange Rule 640 provides for a continuing education program for registered persons of Exchange members and member organizations. The program, which is uniform within the industry, consists of two parts—a Regulatory Element and a Firm Element. The Regulatory Element requires registered persons to participate in interactive computer-based training at specified intervals and encompasses regulatory and compliance issues, sale practice concerns and business ethics.

The Regulatory Element program applies generally to all registered persons and currently does not discern between registration types or categories. The existing program contains content common to registered representatives, supervisory persons as well as other registration categories. The Securities Industry/Regulatory Council on Continuing Education (a council of broker-dealer and Self-Regulatory Organization ("SRO")³ representatives that oversees and provides ongoing development and operation of the program) has recommended development of a new program component specifically for supervisors. In addition, it is contemplated that in the future, specific programs may be implemented for other registration categories. The proposed amendments to Rule 640 will allow for the Exchange to require specific new programs as appropriate with customized training for various registration categories, with the supervisor's program, being the first such initiative. For purposes of Exchange rules, the following registration categories shall be deemed to be included in the supervisory category: Series 4 (Registered Options Principal Examination); Series 8 (General Securities Sales Supervisor Examination); Series 27 (Financial and Operations Principal Examination); Series 28 (Introducing Broker-Dealer Financial and Operational Principal Examination); the Series 53 (Municipal

³ SROs represented on the Council include the American Stock Exchange, Chicago Board Options Exchange, Municipal Securities Rulemaking Board, National Association of Securities Dealers, New York Stock Exchange, and the Phlx.

¹¹ *Id.*

¹² See Amendment No. 1, *supra*, note 3.

¹³ 15 U.S.C. 78s(b)(2).

¹⁴ 17 CFR 200.30-3 (a)(12).