

pass-through of the actual cost borne by NSMI.

Regarding the proposed testing fees, these have been calculated to recover NSMI's actual costs in accommodating members' requests for testing of specialized communications interfaces with NSMI's central processing facilities. Typically, such testing occurs when new broker-dealer subscribers are added to an existing computer-to-computer interface ("CTCI") maintained by a service bureau or when a broker-dealer (with its own digital interface) has effected a major change in its internal systems/software applications. The scope, purpose, and longevity of the test are determined by the subscriber. NSMI participates in the testing process by providing a test environment that closely approximates the production environment for the service(s) which the subscriber wishes to test (e.g., the Automated Transaction ("ACT") service). Derivation of the testing fees involved a review of NSMI testing logs for 1993; the computation of direct and indirect costs allocable to tests actually performed; and the breakdown of those costs into hourly rates. In sum, the proposed testing fees would pass-through the actual costs incurred by NSMI in accommodating subscribers' testing needs. No testing fee would be assessed in circumstances where major systems/software change instituted by NSMI have prompted the subscriber's test.

The NASD believes that the proposed rule change is consistent with the requirements of Section 15A(b)(5) of the Act. Section 15A(b)(5) specifies that the rules of a national securities association shall provide for the equitable allocation of reasonable dues, fees, and other charges among members, issuers, and other persons using any facility or system that the Association operates or controls. It should be noted that the proposed NWII fees will be payable exclusively by NASD member firms that receive Level 2 or Level 3 Nasdaq service via the NWII offering. As described earlier, NWII is being implemented in phases with all current NWI subscribers in a defined area being converted to NWII.<sup>3</sup> Thus, beginning January 1, 1995, all NASD members that

<sup>3</sup> NWI and NWII both permit the deliver of either Level 2 or Level 3 Nasdaq service. Subscription to Level 3 is limited to NASD members that meet the financial and operational requirements for market making. Subscription to Level 2 Nasdaq service is open to non-members as well as members because it does not provide the functionality needed to enter quotations as a market maker. Extension of the NWII fees to non-member subscribers will be the subject of a separate Rule 19b-4 filing. Meanwhile, any non-members converted to NWII will continue to pay the prevailing rate for NWI functionality.

are converted to NWII will be liable for the new fees; NWI subscribers will continue to pay the NWI service fees until they are converted.

The NASD believes that the proposed NWII fees are reasonable in that they were calculated to recover the projected costs of operating and maintaining the NWII software, hardware, and the EWN. The development costs associated with NWII have been expensed by NSMI and will not be recovered through the proposed NWII fees. Although higher than the existing fees for NWI, the NWII fees are believed reasonable that subscribers will be provided the increased functionality embedded in the new software package, increased network capacity to accommodate future growth in traffic and business volume, and upgraded hardware capable of more rapid processing of message traffic to and from market participants.

Regarding the proposed testing fees, these have been calculated to recover the actual costs incurred by NSMI to accommodate the testing requirements of CTCI and digital interface subscribers. All entities that would be required to pay these testing fees are either NASD members or service bureaus that incur testing charges will pass them on to their broker-dealer customers. Hence, the affected NASD members will ultimately pay the testing charge incurred by their service bureaus.

Based on the foregoing factors, the NASD submits that both categories of proposed fees are reasonable and designed to achieve an equitable allocation of operating costs among NASD members utilizing the affected NSMI services.

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

The NASD believes that the proposed rule change will not result in 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*

Comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act and subparagraph (e) of Rule 19b-4 thereunder, because the proposal

constitutes a change in a "due, fee or other charge" or specific automated services provided to NASD member firms. At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

**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 NW., Washington, D.C. 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 the file number in the caption above and should be submitted by February 2, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>4</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35193; File No. SR-PSE-94-27]

**Self-Regulatory Organizations; Pacific Stock Exchange Incorporated; Notice of Filing of Proposed Rule Change Relating to Implementation of a Three-Day Settlement Standard**

January 4, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on December 19, 1994, the Pacific Stock Exchange Incorporated ("PSE") filed with the Securities and Exchange

<sup>4</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

Commission ("Commission") a proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by PSE. 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

PSE proposed to modify its rules to implement a three business day settlement standard for securities transactions.

### II. Self-Regulatory Organization's Statement Regarding the Proposed Rule Change

In its filing with the Commission, PSE 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 IV below. The PSE 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

On October 6, 1993, the Commission adopted Rule 15c6-1 under the Act which establishes three business days after the trade date ("T+3") instead of five business days ("T+5") as the standard settlement cycle for most securities transactions.<sup>2</sup> The rule will become effective June 7, 1995.<sup>3</sup> In the release adopting Rule 15c6-1, the Commission concluded that a T+3 settlement cycle, as compared to the current T+5 settlement cycle, will reduce credit and liquidity risks and will increase efficiency in broker-dealer and clearing agency operations. Accordingly, in order to accommodate the implementation of the new settlement standard established by the Commission's Rule 15c6-1, PSE will amend the following rules.

Rule 5.7 currently provides that transactions in stocks traded "regular" shall be "ex-dividend" or "ex-rights" as the case may be, on the fourth business day preceding the record date fixed by the company or the date of the closing of transfer books, except when the Board rules otherwise. PSE is proposing to replace the term "fourth" in this

provision with the term "second." Rule 5.7 also currently provides that should such record date or such closing of transfer books occur upon a day other than a business day this rule shall apply for the fifth preceding business day. The PSE is proposing to replace the term "fifth" in this provision with the term "third."

Rule 5.9(a)(2) currently provides that for transactions settling on a "regular way" basis, bids and offers in securities admitted to dealings on an "issued" basis shall be made for delivery on the fifth business day following the day of the contract. The PSE proposes to replace the term "fifth" with the term "third."

Rule 5.9(a)(3) currently provides that for transactions settling on a "seller's option" basis, bids and offers in securities admitted to dealings on an "issued" basis shall be made for delivery at the option of the seller within the time specified in the option, which time shall be not less than six business days nor more than sixty days following the date of the contract, except that the PSE may provide otherwise in specific issues of securities. The PSE proposes to replace the term "sixth" in this rule with the term "fourth."

Rule 5.9(a)(4) currently provides that for transactions settling on a "next day" basis, bids and offers in securities admitted to dealings on an "issued" basis shall be made for delivery on the next full business day following the day of the contract. For rights and warrants this rule generally is applicable only during the five business days preceding the final day for trading therein. The PSE proposes to replace the term "fifth" in this rule with the term "third."

Rule 9.12(a)(4) currently provides that no member organization shall grant delivery versus payment ("DVP") or receipt versus payment ("RVP") privileges to a customer without obtaining an agreement from the customer to provide instructions to its agent no later than the fourth day after the trade date for RVP trades or no later than the third business day after trade date for DVP trades. The PSE proposes to shorten these time frames to the second day after trade date for RVP trades and the first day after trade date for DVP trades.

Finally, the PSE has agreed to an implementation plan proposed by the National Securities Clearing Corporation ("NSCC") for transition to a T+3 settlement cycle.<sup>4</sup> The schedule is as follows.

Trade date	Settlement cycle	Settlement date
June 2 Friday	5 day	June 9 Fri.
June 5 Monday	4 day	June 9 Fri.
June 6 Tuesday	4 day	June 12 Mon.
June 7 Wednesday	3 day	June 12 Mon.

If the Commission determines to alter the exemptions currently provided in Rule 15c6-1, the PSE may be required to file additional rule amendments.

The PSE believes that the proposal is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities.

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

PSE 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

No written comments were either solicited or received.

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

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety 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 PSE consents, the Commission will:

(A) by order approve such 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

scheduled for Friday, June 9, will incorporate trades from Friday, June 2 (the last T+5 settlement day) and from Monday, June 5 (a T+4 settlement day). The second double-day settlement, scheduled for Monday, June 12, will include trades from Tuesday, June 6 (a T+4 settlement day) and from Wednesday, June 7 (the first T+3 settlement day).

<sup>2</sup> Securities Exchange Act Release No. 33023 (October 6, 1993), 58 FR 52891.

<sup>3</sup> Securities Exchange Act Release No. 34952 (November 9, 1994), 59 FR 59137.

<sup>4</sup> NSCC will use two double-settlement days for the conversion. The first double-day settlement,

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 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 Section, 450 Fifth Street, N.W., Washington, DC. 20549. Copies of such filing also will be available for inspection and copying at the principal office of the PSE. All submissions should refer to File No. SR-PSE-94-27 and should be submitted by February 21, 1995.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35191; File No. SR-PHLX-94-70]

**Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Proposing To Extend its OTC/UTP Pilot Program**

January 3, 1995.

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> notice is hereby given that on December 27, 1994, 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 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, pursuant to Rule 19b-4 of the Act, proposes to extend the

effectiveness of the pilot program and its accompanying rules regarding the trading of Nasdaq/National Market ("Nasdaq/NMS") securities on the Exchange pursuant to unlisted trading privileges ("Phlx OTC/UTP Pilot Program") for a six-month period ending June 30, 1995.

The Exchange requests the Commission to find good cause, pursuant to Section 19(b)(2) of the Act, for approving the proposed rule change prior to the thirtieth day after publication in the **Federal Register**. Due to the non-controversial nature of the Phlx OTC/UTP Pilot Program, coupled with its previously scheduled expiration date of December 31, 1994, the Phlx respectfully requests accelerated approval of this filing.

**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 1985, the Commission published its policy to allow the extension of unlisted trading privileges ("UTP") by national securities exchanges in certain over-the-counter ("OTC") securities, provided that certain terms and conditions are satisfied. On June 26, 1990, the Commission approved a joint transaction reporting plan ("Joint OTC/UTP Plan" or "Plan") submitted by the National Association of Securities Dealers, Inc. ("NASD"), the American Stock Exchange, the Boston Stock Exchange, the Midwest Stock Exchange ("MSE," currently operating as the Chicago Stock Exchange, or "Chx"), and the Phlx.<sup>3</sup> The Joint OTC/UTP Plan

<sup>3</sup> See Securities Exchange Act Release No. 28146 (June 26, 1990), 55 FR 27917 ("Joint OTC/UTP Plan Order"). The Commission has approved an extension of the effectiveness of the Joint OTC/UTP Plan through January 12, 1995. See Securities Exchange Act Release No. 34371 (July 13, 1994), 59 FR 37103 (order approving Amendment No. 1 to File No. S7-24-89) ("Joint OTC/UTP Plan Extension Order").

governs the collection, consolidation, and dissemination of quotation and transaction information for Nasdaq/NMS securities traded on exchanges and by NASD market makers.

The current proposed rule change will continue the Phlx OTC/UTP Pilot Program that provides for trading of Nasdaq/NMS securities on the Exchange pursuant to UTP. Although the Chx has been trading Nasdaq/NMS securities since 1987, the Phlx obtained temporary approval of its rules to facilitate trading Nasdaq/NMS securities in late 1992,<sup>4</sup> and began trading the securities in February 1993. Since that time, the Phlx has been operating the program without any adverse consequences or developments which negatively effect the program. Therefore, the Exchange seeks an extension of the Phlx OTC/UTP Pilot Program to further develop the overall OTC/UTP program.

Since April 1994, the Phlx has temporarily suspended making markets in OTC/UTP securities. However, the Phlx desires to keep the program in place for future use once certain elements of the Joint OTC/UTP Plan are worked out between the NASD and the other participants in the Plan.

2. Statutory Basis

This proposal is consistent with the Section 6(b)(5) of the Act and the rules and regulations promulgated thereunder. Specifically, the proposal is calculated to promote just and equitable principles of trade and to protect investors and the public interest. Due to the non-controversial nature of the Phlx OTC/UTP Pilot Program, coupled with the previously scheduled expiration of the Phlx's OTC/UTP privileges, the Phlx requests accelerated approval of this filing.

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

The Phlx does not believe that the proposed rule change will be a 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. Solicitation of Comments**

Interested persons are invited to submit written data, views and

<sup>4</sup> See Securities Exchange Act Release No. 31672 (December 30, 1992), 58 FR 3054 (order approving File No. SR-PHLX-92-04) ("1992 Phlx Pilot Order"). See also Securities Exchange Act Release No. 33408 (December 30, 1994), 59 FR 1045 ("1993 Phlx Pilot Extension Order").

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1991).