

education program into two parts: The Regulatory Element, which emphasizes subjects regarding legal and ethical standards, and the Firm Element, which contemplates the timely transmission of product related information to maintain and expand individuals' professional knowledge. Taken together, the Elements form the basis for an educational program that should ensure that registered persons have the training and knowledge necessary to conduct themselves in an appropriate professional manner, over the course of their careers. The Commission also notes that the re-entry provision of the Regulatory Element, which is triggered by disciplinary action, will ensure that those individuals who have not complied with all applicable regulatory requirements, receive further training as a condition to their re-entry into business.

The Commission believes that a continuing education requirement for persons in the securities industry, administered pursuant to industry developed standards, will benefit public investors as a result of the increased knowledge and enhanced understanding of regulatory and ethical standards by industry members. SRO qualification of registered persons of broker-dealers is of critical importance in promoting compliance with the requirements of the federal securities laws. Increasing the sensitivity of registered persons to regulatory and ethical matters also should enhance investor confidence in the securities industry. Moreover, the recent attention that has been devoted to derivatives underscores the need for securities industry personnel to receive thorough training in the products in which they deal.

The SROs have noted that the Regulatory Element of the program initially will be administered only in the NASD's testing centers, stating that this is necessary to allow the NASD to manage the introduction of the program in a reasonable manner. Nevertheless, interest has been expressed in permitting member firms either to administer the Regulatory Element in-house, or to solicit the services of outside vendors. While recognizing the concerns of the Council and the SROs regarding the technological and administrative issues that arise in connection with the in-house administration of the Regulatory Element, the Commission encourages the Council and the SROs to continue to study whether practical and reasonable

alternatives to the NASD's testing centers can be developed.²⁶

The Commission notes with approval that the Firm Element Committee of the Council is developing guidelines for dealers' use in devising and carrying out training programs to meet the requirements of the Firm Element, including providing guidance as to how different firms might approach the requirements (e.g., firms that deal with one product, small firms, and firms with large numbers of very small offices or solo representatives).

These guidelines will offer suggestions intended to help firms devise appropriate and reasonable programs consistent with their own unique characteristics and businesses. The Commission believes that such guidance will particularly benefit smaller firms and should lessen their costs of compliance with the Firm Element. The Commission encourages the SROs, as they gain experience with the continuing education program, to continue such efforts.

VI. Conclusion

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,²⁷ that the proposed rule changes (File Nos. SR-AMEX-94-59, SR-CBOE-94-49, SR-CHX-94-27, SR-MSRB-94-17, SR-NASD-94-72, SR-NYSE-94-43, SR-PSE-94-35, and SR-PHLX-94-52) are approved.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-3569 Filed 2-13-95; 8:45 am]

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[Release No. 34-35344; File No. SR-Amex-95-03]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval to Proposed Rule Change by American Stock Exchange, Inc. Relating to a Pilot Program for Execution of Odd-lot Market Orders

February 8, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on February 2, 1995, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the

²⁶ Specifically, delivery of the Regulatory Element other than through the NASD's testing centers would require that appropriate safeguards be developed to ensure the integrity of the program and the ability to capture the necessary information for feedback.

²⁷ 15 U.S.C. § 78s(b)(2) (1988).

Securities and Exchange Commission ("SEC" or "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 Amex proposes that the Commission extend for twelve months the Exchange's existing pilot program under Rule 205 requiring execution of odd-lot market orders at the prevailing Amex quote with no differential charged.¹ The text of the proposed rule change is available at the Office of the Secretary, Amex, 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

The Commission has approved, on a pilot basis extending to February 8, 1995, amendments to Exchange Rule 205 to require the execution of odd-lot market orders at the prevailing Amex quote with no odd-lot differential.² These procedures initially were approved by the commission on a pilot

¹ The Exchange seeks accelerated approval of the proposed rule change in order to allow the pilot program, which expires on February 8, 1995, to continue without interruption. The Commission notes that, under current Rule 205, no differential may be charged on odd-lot order transactions, except for non-regular way trades. See *infra*, note 5.

² See Securities Exchange Act Release No. 34949 (November 8, 1994), 59 FR 58863 (November 15, 1994) (approving File No. SR-AMEX-94-47).

basis,³ and subsequently were extended ten times.⁴

Under the pilot procedures, odd-lot market orders with no qualifying notations are executed at the Amex quotation at the time the order is represented in the market, either by being received at the trading post or through the Exchange's Post Execution Reporting ("PER") system. Enhancements to the PER system have been implemented to provide for the automatic execution of odd-lot market orders entered through PER. For purposes of the pilot program, odd-lot limit orders that are immediately executable based on the Amex quote at the time the order is received, at the trading post or through PER, are executed in the same manner as odd-lot market orders.

The Exchange proposes that the pilot program applicable to odd-lot execution procedures be extended for twelve months. The exchange notes that, in approving previous extensions to the Rule 205 pilot procedures, the Commission has expressed interest in the feasibility of the Exchange utilizing the Intermarket Trading System ("ITS") best bid or offer, rather than the Amex bid or offer, for purposes of the Exchange's odd-lot pricing system. The Exchange has determined to proceed with system modifications, anticipated to be completed within a twelve month period, to provide for execution of odd-lot market orders at the ITS best bid or offer. The Exchange will file appropriate amendments to Rule 205, prior to expiration of the extended pilot program, to accommodate the revised odd-lot pricing procedures.

2. Basis

The proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of

³ See Securities Exchange Act Release No. 26445 (January 10, 1989), 54 FR 2248 (January 19, 1989) (approving File No. SR-Amex-88-23).

⁴ See Securities Exchange Act Release Nos. 34949 (November 8, 1994), 59 FR 58863 (November 15, 1994) (approving File No. SR-Amex-94-47); 34496 (August 8, 1994), 59 FR 41807 (August 15, 1994) (approving File No. SR-Amex-94-28); 33584 (February 7, 1994), 59 FR 6983 (February 14, 1994) (approving File No. SR-Amex-93-45); 32726 (August 9, 1993), 58 FR 43394 (August 16, 1993) (approving File No. SR-Amex-93-24); 31828 (February 5, 1993), 58 FR 8434 (February 12, 1993) (approving File No. SR-Amex-93-06); 30305 (January 30, 1992), 57 FR 4653 (February 6, 1992) (approving File No. SR-Amex-92-04); 29922 (November 8, 1991), 56 FR 58409 (November 19, 1991) (approving File No. SR-Amex-91-30); 29186 (May 19, 1991), 56 FR 22488 (May 15, 1991) (approving File No. SR-Amex-91-09); 28758 (January 10, 1991), 56 FR 1656 (January 16, 1991) (approving File No. SR-Amex-90-39); and 27590 (January 5, 1990), 55 FR 1123 (January 11, 1990) (approving File No. SR-Amex-89-31).

Section 6(b)(5) and 11A(a)(1) in particular in that it facilitates the economically efficient execution of odd-lot transactions, and is intended to result in improved execution of customer orders.

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

The proposed rule change will impose no burden on competition.

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

No written comments were solicited or received with respect to the proposed rule change.

III. 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, 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 at the Commission's Public Reference Section, 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 Amex. All submissions should refer to File No. SR-Amex-95-03 and should be submitted by March 7, 1995.

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

For the same rational discussed in its previous orders regarding the Amex's odd-lot execution pilot program,⁵ the Commission finds that the proposed

⁵ See e.g., Securities Exchange Act Release No. 26445, *supra* note 3, for a description of the Commission's rationale for approving the Amex's odd-lot procedures on a pilot basis. The discussion in the aforementioned order is incorporated by reference into this order. Since initial approval of the pilot program, however, the Exchange has amended Rule 205 to provide that no differential may be charged on odd-lot order transactions, except for non-regular way trades. See Securities Exchange Act Release No. 34591 (August 24, 1994), 59 FR 44783 (August 30, 1994) (approving File No. SR-Amex-94-15).

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)⁶ and 11A(a)(1)⁷ of the Act and the rules and regulations thereunder. The Commission believes that the revised procedures, under which odd-lot market orders are executed at the prevailing Amex quote rather than at the price of a subsequent round-lot transaction, should provide investors with more timely execution of their orders. The Exchange has implemented enhancements to its PER system to provide for the automatic execution of odd-lot market orders. Based on the data in the Amex's monitoring reports, the Rule 205 amendments have resulted in a superior execution for a significant percentage of such orders.

The Commission, however, is not satisfied that all customers received the best execution, in terms of time and price, under the pilot procedures. Specifically, the Commission remains concerned that some odd-lot orders may not receive the best available price, because the Exchange's pricing formula does not include quotations from other markets.⁸ In its previous orders,⁹ the Commission has requested that the Exchange analyze the difference in odd-lot executions between using the Intermarket Trading System ("ITS") consolidated best bid or offer and using the Amex quote. The Commission also has encouraged the Amex to evaluate the feasibility of implementing an odd-lot pricing system based on the ITS best bid or offer.¹⁰

At this time, the Amex has determined to proceed with the necessary system modifications to provide for the execution of odd-lot orders at the ITS best bid or offer. The Exchange anticipates that the system modifications will be completed within a twelve month period. As noted above, the Commission has encouraged the Amex to implement a pricing formula that includes quotations from other markets and believes that such action would substantially alleviate the Commission's best execution concerns. In the interim, due to the relatively low

⁶ 15 U.S.C. 78f (1988).

⁷ 15 U.S.C. 78k-1(a)(1) (1988).

⁸ The Commission has approved amendments to the New York Stock Exchange's ("NYSE") rules which incorporate the ITS quotation into the NYSE odd-lot pricing procedures through the use of the Best Pricing Quote ("BPQ"). See Securities Exchange Act Release No. 27981 (May 2, 1990), 55 FR 19409 (May 9, 1990) (File No. SR-SYSE-90-06).

⁹ See *supra*, note 4.

¹⁰ See *supra*, note 8.

number of odd-lot market orders on the Amex¹¹ and the benefits to customers under the pilot procedures as compared to the former pricing procedures, which priced odd-lot orders based on subsequent round-lot transactions and which raised concerns regarding timeliness of execution, the Commission finds that it is appropriate to extend the pilot program for an additional twelve months. This will enable the pilot program to continue without interruption during the system modifications.

The Commission finds good cause for granting approval of the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof. This will permit the pilot program to continue on an uninterrupted basis. In addition, the procedures the Exchange proposes to continue using are substantially identical to the procedures that were published in the **Federal Register** for the full comment period and were approved by the Commission.¹²

It is therefore ordered, pursuant to Section 19(b)(2)¹³ of the Act, that the proposed rule change (SR-Amex-95-03) is approved for a twelve month period ending on February 8, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-35338; File No. SR-Amex-95-02]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by American Stock Exchange, Inc. Relating to Minimum Fractional Changes

February 7, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on January 31, 1994, the American Stock Exchange, Inc. ("Amex" 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 Amex proposes to amend Amex Rule 127 to increase from \$5 to \$10 the price level below which equity securities are traded in sixteenths.

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 IV 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 August 1992, the Commission approved amendments to Amex Rule 127 to provide that securities selling under \$5 and above \$.25 may be traded in fractions of $\frac{1}{16}$ of \$1.00 per share.¹ Prior to the amendment, Rule 127 provided for trading in sixteenths for securities selling under \$1 and above \$.25, whereas trading in securities selling above \$1 were subject to a minimum trading fraction of one-eighth of \$1. In expanding the number of securities eligible for trading in sixteenths, the Exchange intended to promote greater liquidity in lower priced stocks by allowing quotations between the then-current one-eighth minimum trading fraction, thereby providing possible improved pricing of orders to the benefit of both public customers and market professionals.

The Exchange proposes to increase significantly the number of Amex-listed securities traded in sixteenths by amending Rule 127 to provide for sixteenths trading in securities selling under \$10.² The Exchange believes that

trading in sixteenths will improve the market for securities trading under \$10 by promoting greater liquidity and providing for superior executions of retail and professional orders. In addition, the proposal is responsive to the recommendations of the Division of Market Regulation, in its Market 2000 Study,³ that the exchanges and Nasdaq convert to a minimum variation of one-sixteenth as soon as possible.

The proposed amendments to Rule 127 do not pertain to bond issues, which will continue to be dealt in at one-eighth of \$1. In addition, the Exchange will retain its authority to fix different minimum fractional changes where appropriate.

Prior to implementing expanded sixteenths trading in 1992, the Amex discussed the need for systems enhancements to the Intermarket Trading System ("ITS")⁴ with all ITS participants⁵ in order to permit the transmittal of commitments to trade Amex securities priced under \$5 via ITS in fractions of one-sixteenth, which enhancements were implemented by the Securities Industry Automation Corporation ("SIAC").⁶ Prior to the proposed expansion of trading in sixteenths, the Amex will consult with all ITS participants to permit them to make any required modifications to their individual systems to accommodate trading through ITS in Amex securities priced under \$10.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b) in particular in that it is intended to promote just and equitable principles of trade, to facilitate

of Amex-listed securities) to 589 securities (approximately 60% of Amex-listed securities). These estimates were made by the Exchange as of February 3, 1995.

³ Division of Market Regulation, SEC, Market 2000: An Examination of Current Equity Market Developments (January 1994), at 18 ("Market 2000 Study").

⁴ ITS is a subsystem of the National Market System approved by the Commission pursuant to Section 11A of the Act, 15 U.S.C. 78k-1 (1988). ITS facilitates intermarket trading in exchange-listed equity securities based on the current quotation information emanating from the linked markets. For a discussion of ITS, see Market 2000 Study, *supra* note 3, at Appendix II.

⁵ Participants to the ITS Plan include the Amex, the Boston Stock Exchange, the Chicago Board Options Exchange, the Chicago Stock Exchange, the Cincinnati Stock Exchange, the New York Stock Exchange, the Pacific Stock Exchange, the Philadelphia Stock Exchange, and the National Association of Securities Dealers.

⁶ SIAC is a jointly owned subsidiary of the New York Stock Exchange and the Amex, which does, among other things, the automated processing for ITS.

¹¹ See footnote 9 of Securities Exchange Act Release No. 29922 (November 8, 1991), 56 FR 58409.

¹² No comments were received in connection with the proposed rule changes that implemented these procedures. See *supra*, notes 3-4.

¹³ 15 U.S.C. 78s(b)(2) (1988).

¹⁴ 17 CFR 200.30-3(a)(12) (1991).

¹ See Securities Exchange Act Release No. 31118 (August 28, 1992), 57 FR 40484 (September 3, 1992).

² The Amex estimates that the rule change will increase the number of securities traded in sixteenths from 362 securities (approximately 37%