

announcing such an order to a trading crowd must disclose all legs of the order and must identify the specific markets and prices at which the non-option leg(s) are to be filled. Second, concurrent with the execution of the option leg of any multi-market order, the initiating member and each member that is a counterparty to the trade must take steps immediately to execute the non-option leg(s) in the identified market(s).<sup>7</sup> Because both of these requirements are essential to fair and efficient order execution, proposed new paragraph (c) of Rule 6.48 would provide that any failure to observe either requirement will constitute a violation of CBOE's Rule 4.1, which prohibits conduct inconsistent with just and equitable principles of trade. The Exchange believes that these new provisions will clarify members' expectations about the execution of multi-market orders covered by the proposed rule and will promote prompt execution of each non-option component of such orders.

In addition to establishing requirements incident to execution, the proposed rule change sets forth one exclusive basis on which members may cancel an executed options transaction that is part of a multi-market order. Proposed Rule 6.48(b)(ii) indicates that any member that is a party to an options transaction that is part of a multi-market order may have the options transaction cancelled only in the event that market conditions in any of the identified non-CBOE markets prevent the execution of one or more of the non-option legs of the order. The Exchange believes that cancellation under this exclusive circumstance is fair and appropriate.

The Exchange believes that the proposed rule change 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 prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

<sup>7</sup> The CBOE represents that it expects the order for the non-option leg(s) of the multi-market order will be enacted concurrently with the execution of the option leg of the order. Additionally, the CBOE represents that it will advise members of this expectation in a Regulatory Circular. See Letter from Barbara J. Casey, Vice President, Department of Market Regulation, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated November 7, 1995 ("November 7 Letter").

### III. Commission Finding and Conclusions

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, the requirements of Section 6(b)(5) of the Act.<sup>8</sup> Specifically, the Commission finds that the Exchange's proposal to specify certain duties of CBOE members in effecting an options transaction on the CBOE that is part of a stock-option or stock-option combination order strikes a reasonable balance between the Commission's mandate under Section 6(b)(5) to remove impediments to and perfect the mechanism of a free and open market and a national market system, while protecting investors and the public interest.

The Commission believes that it is appropriate for the Exchange to clarify the conditions and requirements that CBOE members must observe when executing and cancelling multi-market orders. The Commission understands that complex multi-market orders have become more prevalent, and believes that the proposed rule change addresses the special considerations that apply when executing and cancelling such transactions. The Commission believes that it is reasonable to require a member announcing a multi-market order to a trading crowd to disclose all legs of the order and identify the specific markets and prices at which the non-option leg(s) are to be filled.

Moreover, the Commission believes that it is reasonable to require the parties to the transaction to take steps immediately to transmit the non-option leg(s) to the identified markets for execution. The Commission understands that if a party to the transaction does not take steps immediately to execute the non-option leg(s) of a multi-market order, that party is subject to CBOE Rule 4.1, which prohibits conduct inconsistent with just and equitable principles of trade. Accordingly, the Commission believes that by clarifying the duties and obligations regarding the execution of multi-market orders, this proposal will help to ensure that the non-option leg(s) of a multi-market order are sent immediately to the identified markets for execution.<sup>9</sup>

The Commission also believes that members executing multi-market orders should only be allowed to cancel the option leg(s) of the stock-option

transaction under limited circumstances. The Exchange proposes that a trade may be cancelled at the request of any member that is a party to that trade only if market conditions in any non-Exchange market prevent the execution of the non-option leg(s) at the price(s) agreed upon.<sup>10</sup> The types of "market conditions" arising in a non-CBOE market that would be sufficient under proposed Rule 6.48(b)(ii) to justify cancellation of the CBOE leg(s) of a multi-market order, include a sudden change in the price of the underlying securities prior to execution of the stock trade, and a trading halt or systems failure that precludes immediate execution of the stock trade at the agreed upon price.<sup>11</sup>

The Commission also notes that the priority principles regarding stock-option, and stock-option combination orders, apply to transactions covered by this proposed rule change.<sup>12</sup> In light of the priorities afforded to such transactions, the Commission believes that the option leg(s) of a multi-market order should be allowed to be cancelled only under the limited circumstances described above. The Commission believes that the Exchange's proposed rule change appropriately addresses this concern.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>13</sup> that the proposed rule change (File No. SR-CBOE-95-16), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 95-29382 Filed 12-1-95; 8:45 am]

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<sup>10</sup> See CBOE Rule 6.48(b)(ii). See also Amendment No. 1, *supra* note 3.

<sup>11</sup> See June 30 Letter, *supra* note 3.

<sup>12</sup> Under CBOE Rule 6.45, stock-option orders, as defined in CBOE Rule 1.1(ii)(a), may attain priority over the trading crowd (but never over the limit order book) when the option leg trades at a price that is at least equivalent to quotes in the crowd. Additionally, stock-option combinations will take priority over orders in the crowd when all legs of the combination trade at a price that is at least equivalent to quotes in the crowd. Stock-option combinations will also attain priority over the limit order book, when one leg of the transaction trades at a price that is better than the corresponding bid or offer in the book and the remaining legs of the transaction trades at a price that is at least equivalent to the established bids or offers in the crowd or book. See Securities Exchange Act Release No. 34764 (September 30, 1994), 59 FR 51223 (October 7, 1994).

<sup>13</sup> 15 U.S.C. 78s(b)(2).

<sup>14</sup> 17 CFR 200.30-3(a)(12).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> See November 7 Letter, *supra* note 7.

[Release No. 34-36517; File No. SR-NASD-95-51]

**Self-Regulatory Organizations; Notice of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Rearranging of Rules and New Rule Numbering System**

November 27, 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 November 3, 1995 the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NASD. 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 NASD is herewith filing a proposed rule change to its Rules and various interpretations thereto. This and other material now contained in the NASD Manual is proposed to be rearranged, so that the complete contents of the Manual will be replaced. A binder containing the complete text of the revised Rules of the Association as well as a chart converting the old manual into its revised format is available for inspection at the Commission's Public Reference Room. A summary of the order of material filed with the Commission is reprinted below:

\* \* \* \* \*

- Guide to the Manual
- Table of Contents
- Conversion Charts
- Administrative
- History and Organization of the NASD
- Officials
- Telephone Inquiries
- List of Selected Notices to Members
- Publications Order Form
- Clearing Corporation and Depository References
- Members
- Changes to List of Members; Disciplinary Actions
- Corporate Organization
- Certificate of Incorporation
- By-Laws
  - Schedule A Assessments and Fees
  - Schedule B Districts: Number and Territorial Boundaries
- Rules of the Association
- 0100 General Provisions

*Membership and Registration Rules*

- 1000 Membership, Registration and Qualification Requirements
- Conduct Rules*
- 2000 Business Conduct
  - 2100 General Standards
  - 2200 Communications with Customers and the Public
  - 2300 Transactions with Customers
  - 2400 Commissions, Markups and Charges
  - 2500 Special Accounts
  - 2600 Reserved
  - 2700 Securities Distributions
  - 2800 Special Products
  - 2900 Responsibilities to Other Brokers or Dealers

- 3000 Responsibilities Relating to Associated Persons, Employees, and Others' Employees
  - 3100 Books and Records, and Financial Condition
  - 3200 Settlements
  - 3300 Trading

*Marketplace Rules*

- 4000 The Nasdaq Stock Market
  - 4100 General
  - 4200 Definitions
  - 4300 Qualification Requirements for Nasdaq Stock Market Securities
  - 4400 Nasdaq National Market—Issuer Designation Requirements
  - 4500 Issuer Listing Fees
  - 4600 Nasdaq Market Maker Requirements
  - 4700 Small Order Execution System (SOES)
- 5000 Other Nasdaq and NASD Markets
  - 5100 Nasdaq International Service Rules
  - 5200 Intermarket Trading System/Computer Assisted Execution System (ITS/CAES)
  - 5300 The PORTAL<sup>SM</sup> Market
- 6000 NASD Systems and Programs
  - 6100 Automated Confirmation Transaction Service (ACT)
  - 6200 Fixed Income Pricing System (FIPS)
  - 6300 Consolidated Quotations Service (CQS)
  - 6400 Reporting Transactions in Listed Securities
  - 6500 OTC Bulletin Board (OTCBB)
  - 6600 Reporting Transactions in Over-The-Counter Equity Securities
  - 6700 Reporting Transactions in Certain Non-Nasdaq Securities
  - 6800 Mutual Fund Quotation Program
- 7000 Charges for Services and Equipment

*Procedural Rules*

- 8000 Complaints, Investigations and Sanctions
  - 8100 Complaints
  - 8200 Investigations
  - 8300 Sanctions
- 9000 Code of Procedure
  - 9100 Administrative Provisions
  - 9200 Disciplinary Actions by District Business Conduct Committees, the Market Surveillance Committee and Others
  - 9300 Review of Disciplinary Actions by the National Business Conduct Committee and the Board
  - 9400 Imposition of Sanctions and Costs
  - 9500 Limitation and Approval Procedures under Rules 3130 and 3140

- 9600 Summary Suspension, Revocation, Expedited Remedial and Eligibility Procedures
- 9700 Procedures on Grievances Concerning the Automated Systems
- 9800 Corporate Financing and Direct Participation Program Matters
- 10000 Code of Arbitration Procedure
  - 10100 Administrative Provisions
  - 10200 Industry and Clearing Controversies
  - 10300 Uniform Code of Arbitration
  - 10400 Mediation Rules
- 11000 Uniform Practice Code

**SEC Rules and Regulation T**

\* \* \* \* \*

**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 NASD 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 NASD 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*

(a) The proposed rule change is part of a multi-phase program in which the NASD is reorganizing the NASD Manual to make it more usable by members and other users of the Manual. The present rule change is a non-substantive reordering of the existing Rules, interpretations, and other provisions of the Manual to establish a more logical progression of Rules within the Manual. All Rules in the NASD Manual, including not only the current Rules of Fair Practice but also such specialized Rules as the PORTAL Rules, Nasdaq Rules, Code of Arbitration Procedure, and so forth, have been numbered consecutively throughout the Manual and considered together as "Rules." In addition, a common numbering and naming scheme for subdivisions within a Rule has been used. Discussion of specific changes is set forth below.

(1) *Rules Terminology.* The change in terminology from "Rules of Fair Practice" to "Rules" has been made in all Rules in which such terminology appears. As described above, the Rules now include not only the former Rules of Fair Practice, but also all other Rules and Codes of the NASD, by whatever name they have been known. Rules and

other material that did not previously have titles have been given descriptive titles as part of the revision.

(2) *Categories.* The Rules are no longer divided into Articles, but are numbered from beginning to end. Major categories, numbered in the thousands, include Membership and Registration Rules, Conduct Rules, Marketplace Rules, and Procedural Rules. Subcategories of Rules are numbered in the hundreds or tens, as appropriate, with individual Rules at the tens or unit level. Where individual Rules that would normally be numbered at the tens level exceed the numbers available, they have been numbered at the unit level instead, to allow adequate numbers for each Rule.

(3) *Paragraph Numbering.* A uniform method of numbering the various paragraph levels within Rules have been used throughout. Thus, subdivisions within a Rule have been renumbered as follows:

- (a)
- (1)
- (A)
- (i)
- a.
- 1.
- A.
- i.

Where there were unnumbered subparagraphs within a Rule, they have generally been given numbers to facilitate reference to them.

(4) *Names of Rule Subdivisions.* The terms used to refer to parts of Rules have been made uniform as follows:

- Rule 1001
- paragraph (a)
- subparagraph (1)
- subparagraph (A)
- subparagraph (i)
- etc.

In referring to a provision that has multiple levels, the name of the largest level has been used wherever possible, such as Rule 1000(a)(1), or paragraph (a)(1)(A). In this method, the term "subparagraph" is normally used only when referring to lower levels within the same Rule, as in "subparagraph (i) of this Rule," or to multiple subparagraphs, as in "subparagraphs (2)(A) and (B) of paragraph (a)."

(5) *Interpretive Material.* Some Interpretations have been converted to Rule form as part of this rule change. Interpretative material that has not been converted to Rule form, including Interpretations, Resolutions, Explanations, Policies, and Guidelines, has been given the designation "IM," for "Interpretive Material." This was done to provide uniformity to the various designations in the current Manual. All Interpretive Material in the Rules of the

Association is numbered with "IM-" followed by the number(s) of the Rule or Rules it interprets. Interpretive Material in the By-Laws and Schedules A and B has been left as it is currently, since those sections are not part of the Rules numbering scheme.

(6) *Terms and Abbreviations.* The terms "Association," "Corporation" and "NASD" are presently used alternately in some of the Association's existing Rules when referring to the NASD. To establish uniformity, the term "Association" has been used throughout the Rules when referring to the NASD. The By-laws will continue to use the term "Corporation." When reference is made in the Rules or Interpretive Material to the "Securities and Exchange Commission," it has been shortened to "SEC" or "Commission." In the same way, other terms that are adequately defined in the By-Laws or the definitional portion of the Rules (Rule 0120) have not been redefined in individual Rules. Therefore, such terms as "the Act" have been used without further description unless such usage would be confusing in the particular context. References to SEC Rules are preceded by the designation "SEC," such as in "SEC Rule 11Aa3-2," in order to avoid confusion with the Rules of the Association. Code of Federal Regulations (CFR) citations to well-known SEC rules have been deleted. They were infrequently used in the Manual and are not thought to be helpful for most users of the Manual; therefore, only the SEC Rule number has been used in most instances.

(7) *Indentation.* A common system of indentation and paragraph structure has been used within the Rules, whereby each succeeding subdivision level is indented about five spaces further than the next higher level. This system, together with the new paragraph numbering system, should make it easier for Manual users to determine which provisions are subsidiary to others.

(8) *Technical Corrections.* In several instances, a careful review of the Rules for this rule change revealed typographical, grammatical, or cross-referencing errors, which were corrected when it was obvious to NASD staff that an error had occurred. Many such corrections have been footnoted in the rule change. Minor changes to punctuation and capitalization have also been made for consistency.

The NASD plans to train key staff members in the above style and numbering conventions, so that future rule changes will conform to the new style and keep the Manual clear and consistent.

(b) The NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>1</sup> in that the proposed rule change does not alter the substance of the NASD's By-Laws or Rules; rather, the proposed rule change simplifies the layout of the NASD Manual and makes it easier to use. Making the NASD Manual easier to use enhances the protection of investors and the public interest.

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

The Association does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

No comments were solicited or received by the NASD.

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

Within 35 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 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for finding or (ii) as to which the self-regulatory organization 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 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

<sup>1</sup> 15 U.S.C. 78o-3.

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 December 26, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Margaret H. McFarland,  
*Deputy Secretary.*

[FR Doc. 95-29430 Filed 12-1-95; 8:45 am]

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[Release No. 34-36514; International Series Release No. 890; File No. SR-NYSE-95-36]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the New York Stock Exchange, Inc. Relating to the Specifications and Content Outline for the Japan Module of the General Securities Registered Representative Examination (Series 47)**

November 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on October 25, 1995, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 Exchange has filed with the Commission specifications and a content outline for the Japan module (Series 47) of the General Securities Registered Representative Examination (Series 7).

**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**

Presently, registered representatives in Japan who wish to sell securities in the United States must qualify as registered representatives in the U.S. by successfully completing the Series 7. In Japan, U.S. and other foreign securities professionals may qualify as securities sales representatives by passing a qualification exam<sup>2</sup> or by meeting experiential requirements. In order to reduce duplication of qualification requirements, the Exchange has developed the Series 47 as a subset of the Series 7 to test the Japanese registered representatives' knowledge of U.S. securities laws, markets, investment products, and sales practices. Qualified Japanese securities professionals can satisfy the Exchange's examination requirements by obtaining a passing score on the Series 47 module.

Since 1991, the Exchange has provided a similar, 90-question qualification vehicle for United Kingdom approved registered representatives wishing to sell securities in the U.S., the Limited Registered Representative Examination (Series 17).<sup>3</sup> The Exchange also has filed for Commission approval examination specifications and a content outline for a Canadian module of the General Securities Registered Representatives Examination (Series 37 & Series 38).<sup>4</sup> The Series 47 module has been developed following procedures like those used for the Series 17 and 37 modules.

To determine the applicable Series 7 content areas not covered in the qualification examinations for Japanese registered representatives, the Exchange's staff conducted a thorough

review of the content covered by the Securities Sales Representative Qualification Examination and supporting materials, including translations of Japan's securities laws and regulations. In addition, the Exchange's staff exchanged detailed correspondence and had discussions with the staff of the Japan Securities Dealers Association.<sup>5</sup> Through this review, the Exchange's staff identified for inclusion in the Series 47 those topics that are included in the Series 7 but are not covered, or covered in sufficient detail, in the Japanese qualification materials. As a result, the Series 47 consists of 160 questions covering subject matter that is unique to the U.S. The topics are weighted in the module to correspond to the relative emphasis given these topics in the Series 7.

The Exchange understands that the National Association of Securities Dealers, Inc. ("NASD") will submit a proposal to the Commission that would amend the NASD's rules such that the Series 47 would satisfy the NASD's qualification requirements. The Series 47, however, will not qualify Japanese securities professionals to transact business in municipal securities. Any individuals wishing to do so will be required to pass the Series 52 (Municipal Securities Representative Examination).

**2. Statutory Basis**

The statutory basis for the Series 47 is in Section 6(c)(3)(B)<sup>6</sup> of the Act. Under this section, it is the Exchange's responsibility to prescribe standards of training, experience, and competence for persons associated with Exchange members and member organizations. Pursuant to this statutory obligation, the Exchange has developed examinations that are administered to establish that persons associated with Exchange members and member organizations have attained specified levels of competence and knowledge.

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

The Exchange believes the proposed rule change will impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

<sup>5</sup> The Japan Securities Dealers Association is the regulatory authority responsible for developing course materials, test materials, and qualification examinations for people wishing to become a registered representative in Japan. Telephone conversation between Mary Anne Furlong, Director, Rule & Interpretive Standards, NYSE, and Anthony Pecora, Attorney, SEC (Nov. 6, 1995).

<sup>2</sup> All of the applicants, both foreign and domestic, who do not meet the experiential requirements must pass the Securities Sales Representative Qualification Examination. This test is composed of the Class 1 examination, the Class 2 examination, and the Investment, Trust, and Bond examination. An applicant's experience and area of interest determines which parts of the examination are applicable. Telephone conversation between Mary Anne Furlong, Director, Rule & Interpretive Standards, NYSE, and Anthony Pecora, Attorney, SEC (Nov. 6, 1995).

<sup>3</sup> Securities Exchange Act Release No. 27967 (May 1, 1990), 55 FR 19131 (approving File No. SR-NYSE-89-22).

<sup>4</sup> Securities Exchange Act Release No. 36378 (Oct. 16, 1995), 60 FR 54401 (noticing File No. SR-NYSE-95-29).

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

<sup>6</sup> 14 U.S.C. 78f(c)(3)(B).