

losses will include amounts available under limited cross-guarantee agreements. ISCC's proposal also modifies Rule 1 of the ISCC's rules to add definitions of the terms "limited cross-guaranty agreement," "cross-guaranty obligation," and "cross-guaranty party."¹²

MBSCC, GSCC, and ISCC believe the proposed rule changes are consistent with Section 17A of the Act and the rules and regulations thereunder because the proposals should help to safeguard securities and funds in their custody or control or for which they are responsible and should foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.

(B) Self-Regulatory Organizations' Statements on Burden on Competition

MBSCC, GSCC, and ISCC do not believe that the proposed rule changes will impact or impose a burden on competition.

(C) Self-Regulatory Organizations' Statements on Comments on the Proposed Rule Changes Received From Members, Participants, or Others

No written comments relating to the proposed rule changes have been solicited or received. MBSCC, GSCC, and ISCC will notify the Commission of any written comments they receive.

III. Date of Effectiveness of the Proposed Rule Changes 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 MBSCC, GSCC, and ISCC consents, the Commission will:

- (a) By order approve such proposed rule changes or
- (b) Institute proceedings to determine whether the proposed rule changes 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.,

¹²The definitions of the terms described above as well as the specific changes to ISCC's rules and procedures are attached as Exhibit A to ISCC's proposed rule change which is available through ISCC or through the Commission's public reference room.

Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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 the respective filings will also be available for inspection and copying at the respective principal offices of MBSCC, GSCC, and ISCC. All submissions should refer to file number SR-MBSCC-96-02, SR-GSCC-96-03, and SR-ISCC-96-04 and should be submitted by August 5, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37412; File No. SR-NASD-96-26]

Self-Regulatory Organizations; Notice of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to the Obligations of CQS Market Makers To Have Available Quotation Services That Provide Quotation Information for CQS Securities

July 9, 1996.

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 June 21, 1996, the National Association of Securities Dealers, Inc. ("NASD" or "Association") 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 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

The NASD proposes to amend NASD Rule 6630, formerly Section 2 of Part VI of Schedule D to the NASD By-Laws, to

¹³ 17 CFR 200.30-3(a)(12) (1995).

require NASD members registered with The Nasdaq Stock Market, Inc. ("Nasdaq") as Consolidated Quotation Service¹ ("CQS Service" or "CQS") market makers to have available in close proximity to the Nasdaq terminals at which they make markets in CQS securities a quotation service that disseminates the bid prices and offer prices then being furnished by or on behalf of all exchanges and CQS market makers in the CQS issues for which they are registered. (Additions are in italic; deletions are bracketed.)

NASD Rule 6330 Obligations of CQS Market Makers

- (a)-(c). No change.
- (d) *A CQS market maker shall be obligated to have available in close proximity to the Nasdaq terminal at which it makes a market in a CQS security a quotation service that disseminates the bid price and offer price then being furnished by or on behalf of all exchanges and CQS market makers trading and quoting that CQS security.*

* * * * *

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

The NASD is proposing to amend NASD Rule 6330,² the NASD's rule governing CQS market maker obligations, to provide that a CQS market maker must have available, in close proximity to the Nasdaq terminal at which it makes a market in a CQS security, a quotation service that disseminates the bid price and offer

¹ CQS is Nasdaq's service that provide subscribers with quotation, last sale, and volume information for securities listed on the New York and American Stock Exchanges. With respect to quotations, the Service provides a non-dynamically-updated montage of quotations from all exchanges and NASD members registered as CQS market makers in a particular issue.

² NASD Rule 6330 was formerly Section 2 of Part VI of Schedule D to the NASD By-Laws prior to the revision of the NASD Manual.

price then being furnished by or on behalf of all exchanges and CQS market makers trading and quoting that CQS security.³ As discussed in more detail below, this proposed rule change is necessitated by a planned modification to CQS by Nasdaq that will substantially augment Nasdaq's computer processing capacity. Specifically, Nasdaq is planning to modify CQS so that quotation montages for exchange-listed securities will consist only of CQS market makers' quotations.

The planned modification to CQS reflects Nasdaq's strategic decision to enhance its computer processing capacity in an efficient and cost-effective manner by withdrawing from the business of vending quotation information in exchange-listed securities. By eliminating exchange quotations from CQS, Nasdaq will be able to redeploy its computer processing capacity presently devoted to processing these quotations toward meeting the demands associated with processing Nasdaq trading volume greater than one billion shares a day.⁴ Once exchange quotations have been deleted from CQS, CQS will essentially function as a means by which CQS market makers can monitor their current quotations resident in Nasdaq's computers as well as the timeliness with which their quotation updates are being processed and disseminated by Nasdaq. Thus, rather than providing quotation information to a broad spectrum of

market participants, CQS will function primarily as a quotation verification mechanism for CQS market makers.

Under Section 6(a)(i)(A) of the ITS Plan, however, the NASD has agreed that "for each ITS/CAES security in which an ITS/CAES Market Maker is registered as such with the NASD for the purposes of the Applications [of the ITS Plan], there shall be available at each location on the premises of such ITS/CAES Market Maker at which ITS/CAES stations are located a quotation service that disseminates the bid price and offer price then being furnished by or on behalf of each other Participant." Accordingly, since Nasdaq is planning to eliminate exchange quotations from CQS quotation montages, the NASD is submitting this rule proposal to ensure the NASD's ongoing compliance with Section 6(a)(i)(A) of the ITS Plan. In particular, by mandating that all CQS market makers have available, in close proximity to the Nasdaq terminals at which they make markets in CQS securities, the same exchange quotation information that is scheduled to be deleted from CQS (i.e., exchange quotes in CQS issues), the NASD will be continuing to satisfy its obligation under section 6(a)(i)(A) of the ITS Plan.⁵

The NASD believes the proposed rule change is consistent with Section 15A(b)(6) of the Act. Section 15A(b)(6) requires that the rules of a national securities associated be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

Specifically, because of the increase in Nasdaq's processing capacity that would result from the deletion of exchange quotations from CQS, the NASD and Nasdaq believe the planned modification to CQS is consistent with the protection of investors, the maintenance of fair and orderly markets,

and the preservation of the integrity of the Nasdaq market. At the same time, the NASD and Nasdaq do not believe eliminating exchange quotes from CQS will contribute to unfair competition among ITS Participant Markets or compromise the best executive of customer orders. Because CQS quotations are not updated dynamically, market participants rely on other vendor services for quotation and last-sale information on exchange-listed securities. These other vendor services provide the same information as CQS in a dynamic fashion, often with additional analytical features and the ability to customize the presentation of such information. As a result, CQS is principally only subscribed to by CQS market makers, and even then only to monitor their quotes. Thus, the NASD and Nasdaq do not believe that deleting exchange quotes from CQS will jeopardize the ability of financial intermediaries to obtain best execution for their customers' orders or the ability of customers to monitor the quality of the executions they receive. In addition, because CQS market makers will be required by the instant rule proposal to display in close proximity to their Nasdaq terminals montages of all exchange and CQS market maker quotes in the CQS issues for which they are registered, the NASD and Nasdaq do not believe any ITS Participant Market will be adversely affected by the planned modification to CQS. In addition, the NASD, NASD Regulation, Inc., and Nasdaq do not believe that eliminating exchange quotations from CQS will compromise the NASD's ability to surveil trading in the third market. This is because NASDR's Market Regulation Department already receives market information concerning exchange-listed securities from securities information vendors.

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

Within 35 days of the date of publication of this notice in the Federal

³ An NASD member cannot enter quotes into CQS unless it is registered with Nasdaq as a CQS market maker. CQS market makers are obligated under NASD rules to quote continuous, firm, two-sided markets with a minimum size of 500 shares. The minimum quotation size for an individual CQS Security may be lowered, under unique circumstances, from 500 shares to 200 shares by the NASD. All CQS market makers in Rule 19c-3 securities must also be registered with Nasdaq as ITS/CAES market makers and CAES market makers. ITS/CAES is the Nasdaq's link to the Intermarket Trading System ("ITS") that enables CQS Market Makers in Rule 19c-3 securities to direct agency and principal orders to and receive orders from the floors of participating ITS exchanges. CAES is an automated system operated by Nasdaq that allows NASD members to direct agency and principal orders in exchange-listed securities to CAES for automatic execution against CQS market makers. For non-19c-3 securities, CQS market makers must be registered as CAES market makers.

⁴ In order to provide exchange quotations through CQS, Nasdaq receives and processes a feed of quotation and last sale information from the Securities Information Automation Corporation ("SIAC"). Thus, at present, Nasdaq computers are not only processing all quotation updates in Nasdaq-listed securities, but also all quotation updates in exchange-listed securities. The demands on Nasdaq system capacity to process exchange quotation updates are also exacerbated because of the regional exchanges' use of auto-quoting programs. In fact, at times, the processing of exchange quotations through CQS can consume approximately 40 percent of Nasdaq's computer capacity on a given day.

⁵ Because Nasdaq must adhere to the requirements of the SEC's Vendor Display Rule, Rule 11Ac1-2 under the Act, which requires, among other things, that vendors may not exclude quotation information based on the market center making available such information, Nasdaq also has submitted a request, pursuant to paragraph (g) of the Vendor Display Rule, for an exemption from the Rule to facilitate the planned modification to CQS. See letter from Robert E. Aber, Vice President & General Counsel, Nasdaq, to Howard L. Kramer, Associate Director, Division of Market Regulation, SEC, dated June 21, 1996.

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 so finding or (ii) as to which the NASD 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 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 August 5, 1996.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 96-17930 Filed 7-12-96; 8:45 am]
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[Release No. 34-37411; File No. SR-PTC-96-01]

Self-Regulatory Organizations; Participants Trust Company; Order Approving a Proposed Rule Change Eliminating the Deduction of Reserve on Gain in the Calculation of Net Free Equity for Proprietary and Agency Accounts of a Receiving Participant in Certain Transactions

July 8, 1996.

On February 5, 1996, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change

(File No. SR-PTC-96-01) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the Federal Register on May 28, 1996.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The rule change amends Article I, Rule 1 of PTC's rules to eliminate the deduction of reserve on gain ("ROG")³ in the calculation of net free equity ("NFE")⁴ for proprietary and agency accounts of a receiving participant in certain transactions. PTC will retain the deduction of ROG as it applies to the calculation of NFE for proprietary and agency accounts of a delivering participant.

NFE measures the value associated with the account of a participant that is available to support transaction processing to or from the participant's account. Under Article II, Rule 9, Section 2 and Article II, Rule 13, PTC will not process an account transfer of securities if as a result of such transfer the account of the delivering participant or receiving participant will have negative NFE.

In any account transfer versus payment from a proprietary or agency account in which the contract value of the securities exceeds the market value, the deliverer's ROG is the difference in those values. The deliverer's ROG is deducted in calculating the NFE of the account of the delivering participant to prevent the gain on the transaction from increasing the delivering participant's NFE (*i.e.*, the amount available to the participant to support other activity in its account). The deduction of the deliverer's ROG creates an NFE

"reserve" to ensure that if necessary sufficient funds exist in the delivering participant's account to permit the debit of the contract value from the cash balance in the account in the event the transaction is reversed (*i.e.*, "DK'ed") by the receiving participant because of error or other circumstances permitted under the guidelines for good delivery. The ROG deduction also prevents a delivering participant, which inputs the terms of the trade on PTC's system, from abusing the system by creating additional NFE through the delivery versus payment of securities at an artificially inflated value.

The receiver's ROG is the difference in value that results when the market value of securities received into a proprietary or agency account versus payment exceeds the contract value of the securities. (*I.e.*, on the receive-side of a transaction, the amount of the potential NFE gain is the excess of market value of the securities over contract value). The rationale for deducting the receiver's ROG is different from that for deducting the deliverer's ROG. Unlike deliver-side ROG, receive-side ROG is not needed to ensure a receiving participant's ability to reverse a securities transaction because the receiving participant initiates the reversal and controls the availability of NFE in its account.

The deduction of ROG in the NFE calculation for an account of a receiving participant was incorporated into PTC's rules in 1989 pursuant to the order granting PTC's registration as a clearing agency. The rule's purpose was to assure sufficient NFE in an account to enable PTC to reverse securities deliveries to achieve settlement in the event of participant default.⁵ The provisions of PTC's rules providing the ability to reverse transactions has been deleted.⁶ Accordingly, deduction of

¹ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 37227 (May 20, 1996), 61 FR 26552.

³ In connection with any account transfer versus payment, ROG is: (i) with respect to a delivering participant, the amount by which the contract value credited to the cash balance of the account of the delivering participant exceeds the market value of the securities delivered or (ii) with respect to a receiving participant, the amount by which the market value of the securities credited to the transfer account associated with the account of the receiving participant exceeds the contract value of the transaction.

⁴ Article II, Rule 9 of PTC's rules provides that NFE for any agency or proprietary account is the sum of (i) the applicable percentage, as defined in Article I, Rule 1 of PTC's rules, of the market value of securities in the account and the associated transfer account, (ii) the cash balance in the account, and (iii) the participant's supplemental processing collateral, as calculated pursuant to the formula set forth in Article I, Rule 1 of PTC's rules, to the extent not required to collateralize an account transfer in any other account, minus the amount, if any, of ROG with respect to the account.

⁵ In 1988, MBS Clearing Corporation ("MBSCC"), PTC's predecessor, proposed a rule change to its Depository Division rules to include ROG in the NFE calculation of a receiving participant's account. Securities Exchange Act Release No. 26101 (September 22, 1988), 53 FR 37895 [File No. SR-MBS-88-14] (notice of filing of proposed rule change relating to Depository Division rules). Subsequently, the order granting PTC's registration as a clearing agency incorporated the proposed rule change stating that PTC's rules were essentially identical to MBSCC's Depository Division rules including the most recently proposed rule changes. Securities Exchange Act Release No. 26671 (March 31, 1989), 54 FR 13266, [File No. 600-25] (order granting registration as a clearing agency and statement of reasons).

⁶ For a more complete discussion of PTC's reasons for removing the reversal capability, refer to Securities Exchange Act Release No. 34701 (September 22, 1994), 59 FR 49730 [File No. SR-PTC-94-03] (order approving proposed rule change eliminating PTC procedures relating to deliverer's

Continued

⁶ 17 CFR 200.30-3(a)(12) (1989).