

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

DTC does not believe that the proposed rule change will have an impact or impose 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 on the proposed rule change were solicited or 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)(iii)⁴ of the Act and pursuant to Rule 19b-4(e)(3)⁵ promulgated thereunder in that the proposed rule change is concerned solely with the administration of DTC. At any time within sixty days of the filing of such 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, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of DTC. All submissions should refer to File No. SR-DTC-96-25 and should be submitted by March 12, 1997.

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

Margaret H. McFarland,
Deputy Secretary.
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[Release No. 34-38267; File No. SR-NYSE-96-33]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the New York Stock Exchange, Inc. Relating to the Execution of Odd-Lot Orders

February 11, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 25, 1996, the New York Stock Exchange, Inc. ("NYSE" 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 proposed rule change consists of an amendment to Exchange Rule 124 with respect to the manner in which odd-lot market orders are priced for execution when quotation information in a stock is not available.

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

Currently, odd-lot market orders are executed in the odd-lot system against the specialist in that stock at a price based on the "best pricing quote." This

is either the NYSE quote or the best quote from another ITS market center. (A buy odd-lot market order is executed at the offer price, and a sell odd-lot market order is executed at the bid price.) However, in situations where the quote for a stock does not qualify as a valid quote, either because it is designated as a non-firm quote, or it fails a system validation check because it exceeds certain parameters, the current procedure prices odd-lot executions using the last sale price in the round lot market.² The Exchange believes, however, that this may not reflect the current market for the stock, since the quote condition (*i.e.* either non-firm or a gapped quote) suggests strongly that the market is likely to move away from that last price. In these situations, the Exchange believes the current procedure may disadvantage customers or the specialist.

The NYSE proposes that, when odd-lot market orders are entered in a situation where a quote is not available, designated non-firm, or where the spread in a quote or the difference between the quote and the last round lot sale exceeds odd-lot system validation guidelines,³ that the next sale or next valid quote on the NYSE be used to price odd-lot market orders, rather than the last sale price. If the next quote is not firm, the next sale would be used to execute quote priced market orders. The Exchange believes this would provide more appropriate pricing of odd-lot orders as it would reflect actual round-lot market prices at the time the odd-lot orders are executed. The Exchange further believes investors and specialists would benefit from this increased pricing accuracy.

2. Statutory Basis

The Exchange believes the proposed rule change is designed to provide more efficient executions of standard off-lot market orders. In addition, the Exchange

² See NYSE Rule 124.60 (detailing the circumstances when the ITS best bid or offer will not be utilized).

³ These uncodified guidelines currently provide for the following valid spread ranges:

Common stock: for prices less than or equal to \$50, the valid spread is 1 point; for prices between \$50 ¹/₆₄ and \$100, the valid spread is 1 ³/₄ points; for prices greater than \$100, the valid spread is 2 ¹/₂ points.

Preferred stock: for prices less than or equal to \$50, the valid spread is 2 points; for prices between 50 ¹/₆₄ and 100, the valid spread is 2 ¹/₄ points; for prices greater than \$100, the valid spread is 2 ¹/₂ points.

Spread between quote and last sale must not exceed: prices less than or equal to \$10, the valid spread is 3/8 point; prices between 10 ¹/₈ and \$25, the valid spread is 1/2 point; prices between 25 ¹/₈ and \$40, the valid spread is 5/8 point; prices greater than \$40, the valid spread is 2 ¹/₂ points.

⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

⁵ 17 CFR 240.19b-4(e)(3).

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

believes implementation of the proposed pricing procedures is consistent with the provisions of Section 6(b) (5) of the Act which, among other things, requires that an exchange have rules that are designed to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.⁴

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.

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

The Exchange has neither solicited nor received written comments.

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

Within 35 days of the 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 so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve the 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W.,

Washington, D.C. 20549. Also, copies of such filing will be available for inspection and copying at the principal office of the NYSE. All submissions should refer to File No. SR-NYSE-96-33 and should be submitted by March 12, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-38273; File No. SR-PSE-96-45]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment Thereto by the Pacific Stock Exchange Incorporated Relating to the Exchange's Lead Market Maker Options Book Pilot Program

February 12, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder² notice is hereby given that on December 10, 1996, the Pacific Stock Exchange Incorporated ("PSE" 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 Exchange filed an amendment to the proposed rule change on February 4, 1997.³ 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 PSE is proposing to modify its Lead Market Maker ("LMM") Book Pilot Program under which PSE LMMs may assume operational responsibility for the options public limit order book ("Book") in certain option issues. The Exchange is proposing to expand the scope of the program to allow for more LMMs to participate, and to allow a

⁵ 17 C.F.R. 200.30-3(a) (12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The PSE filed an amendment ("Amendment No. 1") clarifying the maximum number of Lead Market Makers and options symbols that would participate in the expanded Lead Market Maker Book Pilot Program. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to Janet Russell-Hunter, Special Counsel, Office of Market Supervision, Division of Market Regulation, Commission, dated February 3, 1997.

greater number of option issues to be eligible under the Program.

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

On October 11, 1996, the Commission approved and Exchange proposal to adopt a one-year pilot program under which some LMMs are permitted to manage the Book function in certain designated issues.⁴ Under the pilot, the approved LMMs manage the Book function, take responsibility for trading disputes and errors, set rates for Book execution, and pay the Exchange a fee for systems and services.⁵ The program allows LMMs to have greater control over their operations on the Exchange floor by allowing them, among other things, to set their own rates for execution services provided to customers.

Under the pilot as approved by the Commission, the program is limited to no more than three LMMs and no more than forty option symbols in total,⁶

⁴ See Securities Exchange Act Release No. 37810 (October 11, 1996), 61 FR 54481 ("Pilot Approval Order").

⁵ More specifically, under the rule changes approved by the Commission, LMMs may perform all functions of the Order Book Official ("OBO") in designated issues pursuant to rules 6.51 through 6.59. In that regard, the Exchange will allow the LMM to utilize Exchange personnel to assist the LMM in performing the OBO function, and the Exchange will charge the LMM a reasonable fee for such use of Exchange personnel. If the program is made permanent, LMMs would be responsible for hiring and maintaining their own employees, but the Exchange would provide employees to assist LMMs when necessary due to market conditions. In all cases, however, employees working in the Book operation will be subject to all rules, policies, and procedures established by the Exchange. With regard to their duties as market makers, LMMs would be required to perform all obligations provided in Rules 6.35 through 6.40 and 6.82.

⁶ Each option issue typically has only one symbol associated with it, unless LEAPs are traded on that issue, in which case there usually would be two additional symbols related to the issue, or unless a contract adjustment is necessary due, for example,

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⁴ 15 U.S.C. 78f(b)(5).