Washington, D.C. 25049. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to File No. SR–PCX–98–38 and should be submitted by October 7, 1998.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–24817 Filed 9–15–98; 8:45 am]

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[14] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40412; File No. SR–PCX–98–27]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Pacific Exchange, Inc. Relating to the Automatic Execution of Option Orders

September 8, 1998.

I. Introduction

On June 12, 1998, the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') submitted to the Securities and Exchange Commission (''SEC'' or ''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend PCX Rule 6.87 governing the operations of the Exchange's Automatic Execution System. On July 14, 1998, the PCX filed with the Commission Amendment No. 1 to the proposed rule change.[3] The proposed rule change, as amended, was published for comment in the **Federal Register** on August 3, 1998.[4] The Commission received no comments regarding the proposal. This order approves the proposal as amended.

II. Description of the Proposal

Presently, orders entered via the Exchange's Member Firm Interface (''MFI'') are delivered to one of three destinations: (a) to the Exchange's Automatic Execution System for options trading (''Auto-Ex''), where they are automatically executed at the disseminated bid or offering price; (b) to Auto-Book, which maintains non-marketable limit orders based on limit price and time receipt; or (c) to a Member Firm's default destination, a particular firm booth or remote entry site, if the order fails to meet the eligibility criteria necessary for using either Auto-Ex or Auto-Book or if the Member Firm requests such default for its orders.[5]

The Exchange now proposes to adopt new PCX Rule 6.87(d),[6] which would provide that the Exchange's Options Floor Trading Committee (''OFTC'') may designate electronic orders in an option issue to receive automatic executions at prices reflecting the National Best Bid or Offer (''NBBO'').

The proposal would allow the OFTC to designate, for an option issue, that an order will default for manual representation by a floor broker in the trading crowd if the order would be executed at a price that is more than one trading increment away from the PCX market price[7] The proposal also would permit the OFTC to designate, for an option issue, that if the NBBO is crossed (*e.g.*, 6⅛ bid, 6 asked) or locked (*e.g.*, 6 bid, 6 asked), then customer orders to buy or sell the series would default for manual representation in the trading crowd. Under the proposal, however, the Exchange would maintain the flexibility to require automatic executions on the Exchange when the NBBO is locked or crossed. Such action may be appropriate, for example, when there is a large influx of electronic orders and a fair and orderly market would be better served by a reduction in the number of orders. In such situations, public customers would receive very favorable prices on their orders.

III. Discussion

After careful review, the Commission finds that the proposal rule change is consistent with the requirements of the Act. In particular, the Commission believes the proposal is consistent with Section 3(f) [8] and Section 6(b)(5) [9] of the Act. Section 6(b)(5) requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade and to protect investors and the public interest.

By automating the execution of eligible retail orders for equity options, the proposal should help to ensure that investors receive prompt, automatic execution of Auto-Ex options orders at the best available prices, even if those prices are being quoted in a market other than the Exchange. This proposal should minimize the delay inherent in manually handling orders in this circumstance, and thereby reduce the risk to investors that, as a result of an adverse move in the market while their orders are being manually handled, they may receive an inferior execution or none at all.

Moreover, the proposal is consistent with Section 3(f) of the Act because it should help to promote competition for dually listed options among options exchanges by helping to ensure that investors receive an automatic execution at the NBBO regardless of whether that quote originated on the PCX or on another exchange.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[10] that the proposed rule change (SR–PCX–27), as amended, is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[11]

[FR Doc. 98–24818 Filed 9–15–98; 8:45 am]

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, Exchange, to Ken Rosen, Attorney, Division of Market Regulation, Commission, dated July 13, 1998 (''Amendment No. 1'').

[4] Securities Exchange Act Release No. 40263 (July 24, 1998) 63 FR 41312.

[5] *See* Securities Exchange Act Release No. 27633 (January 18, 1990) 55 FR 2466 (January 24, 1990); Securities Exchange Act Release No. 39970 (May 7, 1998) 63 FR 26662 (May 13, 1998).

[6] PCX Rules 6.87 governs the operation of Auto-Ex. Currently, only non-broker/dealer customer orders for up to ten option contracts (or 20 option contracts, depending on the option issue) are eligible to be executed on Auto-Ex. *See* PCX Rule 6.87. Moreover, Auto-Ex is designed to prevent executions at prices inferior to prices being concurrently disseminated in other marketplaces in multiply-traded issues. When Auto-Ex prevents an automatic execution from occurring because it would trade through a better price on another market, the order will default either to a member firm booth or to a hand-held terminal in the trading crowd (depending on the member firm's instruction). *See* Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, Exchange, to Kenneth Rosen, Attorney, Division, Commission, dated August 27, 1998. Thereafter, the order could be represented manually.

[7] The Commission recently approved a similar proposal by the Chicago Board Options Exchange. *See* Securities Exchange Act Release No. 40096 (June 16, 1998) 63 FR 34209 (June 23, 1998).

[8] In approving this rule, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[9] 15 U.S.C. 78f(b)(5).

[10] 15 U.S.C. 78s(b)(2).

[11] 17 CFR 200.30–3(a)(12).