

stopped orders. The BSE's program, as currently proposed, would be substantially similar to the program already in place in the Chicago Stock Exchange, Incorporated ("CHX").⁸

For the above reasons, the Commission believes that the BSE proposal is consistent with Section 6(b)(5) of the Act. Moreover, the Commission also believes that the proposal is consistent with the Rule 11b-1(a)(2)(ii) of the Act.⁹ Rule 11b-1(a)(2)(ii) requires that a specialist engage in a course of dealings for his own account that assist in the maintenance, so far as practicable, of a fair and orderly market. The Commission believes that the proposal is consistent with the objectives of this Rule because the implementation of the proposal should help the specialist to provide an opportunity for price improvement to the customer whose stop order is granted, without placing a burden on specialists by requiring that specialists execute other pre-existing bids or offers when such executions would not be otherwise required under Exchange rules.

The Commission also believes that the proposal is consistent with the prohibition in Section 11(b) against providing discretion to a specialist in the handling of an order.¹⁰ Section 11(b) was designed, in part, to address potential conflicts of interest that may arise as a result of the specialist's dual role as agent and principal in executing stock transactions. In particular, Congress intended to prevent specialists from unduly influencing market trends through their knowledge of market interest from the specialist's book and their handling of discretionary agency orders.¹¹ The Commission has stated that, pursuant to Section 11(b), all orders other than market or limit orders are discretionary and therefore cannot be accepted by specialists.¹²

The Commission believes that it is appropriate to treat stopped orders as

equivalent to limit orders. A limit order is an order to buy or sell a stated amount of security at a specified price, or better if obtainable. The Commission believes that stopped orders are equivalent to limit orders, in this instance, because the orders would be automatically elected after a transaction takes place on the primary market at the stopped price. The Commission, therefore, believes that the requirements imposed on the specialist for granting stops in minimum variation markets provide sufficiently stringent guidelines to ensure that the specialist will implement the proposed rule change in a manner consistent with his market making duties and Section 11(b).¹³

In permanently approving the Exchange's proposal, the Commission expects the Exchange to continue monitoring the practice of stopping stock in minimum variation markets and to take appropriate action in the event BSE identifies any instances of specialist non-compliance with the program's procedures.

Finally, the Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof. Accelerating the approval of the proposal would allow the BSE specialists to continue stopping stock in minimum variation markets although they will no longer be able to execute stopped stock ahead of prior-entered same priced limit orders. Moreover, the BSE's program, as currently proposed, is substantially similar to the CHX's procedures, which were published in the Federal Register for the full comment period and were approved by the Commission on October 20, 1995.¹⁴

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁵ that the proposed rule change (SR-BSE-96-03) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Jonathan G. Katz,

Secretary.

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⁸ In permanently approving the CHX's pilot program for stopping stock in minimum variation markets, the Commission noted that unintended consequences may arise from the interplay between a regional exchange's price protection rules and its procedures for stopping stock. In this regard, the Commission believed that the benefits of stopping stock in minimum variation markets sufficiently offset the possible harm to the limit orders on the book. For similar reasons, the Commission is approving the BSE program, as proposed to be amended, on a permanent basis. See Securities Exchange Act Release No. 36401 (Oct. 20, 1995), 60 FR 54893 (Oct. 26, 1995).

⁹ 17 CFR 240.11b-1(a)(2)(ii).

¹⁰ Section 11(b) permits a specialist to accept only market or limit orders.

¹¹ See H. Rep. No. 1383, 73d Cong. 2d Sess. 22, S. Rep. 792, 73d Cong. 2d Sess. 18 (1934).

¹² See Special Study, *supra* note 4.

¹³ Moreover, stopped orders as "limit orders" would not bypass pre-existing limit orders on the same side of the market. Under the BSE's new procedures being approved herein, specialists may not execute a stopped order before the limit order interest on the Exchange (at the same price as the stopped order) is exhausted.

¹⁴ See *supra* note 7.

¹⁵ 15 U.S.C. § 78s(b)(2).

¹⁶ 17 CFR 200.30-3(a)(12).

[Release No. 34-37133; File No. SR-PSE-96-11]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Stock Exchange Incorporated, Relating to the FLEX Equity Options

April 19, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 5, 1996, the ("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 Exchange. 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 proposes to reduce from five to three the minimum number of market makers who must be qualified to trade flexible exchange options ("FLEX Options") on an underlying equity security ("FLEX Equity Option") before such options may be traded on that security. The text of the proposed rule change is available at the Office of the Secretary, the Exchange, 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 Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (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 February 14, 1996, the Commission approved an Exchange proposal to list and trade FLEX Equity Options.³ Pursuant to that rule change, if the Exchange trades FLEX Equity

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 36841 (February 14, 1996), 61 FR 6666 (February 21, 1996).

Options on a security, then market participants would be able to designate certain contract terms for options of such securities, including: exercise price; exercise style (i.e., American, European or capped); expiration date; and option type (i.e., put, call or spread).

PSE Rule 8.109(a) currently provides for the selection of "FLEX Qualified Market Makers," i.e., market makers whom the Exchange deems to be qualified to trade Exchange Equity Options based on the following factors: (1) The preference of the registrants; (2) the maintenance and enhancement of competition among market makers; and (3) the assurance that the market maker will have adequate financial resources.⁴ In addition, pursuant to Rule 8.115(a), FLEX Qualified Market Makers may not effect any transactions in FLEX Equity Options unless one of more letter(s) of guarantee has been issued by a clearing member and filed with the Exchange pursuant to Rule 6.36(a). In connection with these letters of guarantee, a clearing member must accept financial responsibility for all FLEX transactions made by such market makers.

PSE Rule 8.109(a) currently provides that the Exchange shall appoint five or more FLEX Qualified Market Makers to each FLEX Equity Option prior to its listing.⁵ The Exchange proposes to reduce the minimum number of FLEX Qualified Market Makers required under Rule 8.109(a) from five to three. The Exchange is proposing this change in order to enhance its ability to trade FLEX Equity Options on the Exchange. The Exchange believes that no undue financial risk to the Exchange would result from this change because each transaction of FLEX Qualified Market Makers will be backed by a clearing member, which will accept financial responsibility for all FLEX transactions made by such market makers pursuant to a letter of guarantee.⁶ The Exchange also believes that three FLEX Qualified

Market Makers will be a sufficient number of traders to provide quotations in response to requests for quotes because the Exchange expects that FLEX Equity Options will be traded in the same trading crowd as Non-FLEX Options on the same underlying securities. In this regard, the Exchange notes that under the current rules, two FLEX Appointed Market Makers may be designated in lieu of five FLEX Qualified Market Makers to trade FLEX Equity Options.⁷

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 trade, and is not designed to permit unfair discrimination among customers, issuers, brokers or dealers.

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

The Exchange believes that the proposed rule change will impose no 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 were solicited or received with respect to the proposed rule change.

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 so finding or (ii) as to which the Exchange 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 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 Exchange. All submissions should refer to File No. SR-PSE-96-11 in the caption above and should be submitted by May 17, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Jonathan G. Katz,
Secretary.

[FR Doc. 96-10315 Filed 4-25-96; 8:45 am]

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SMALL BUSINESS ADMINISTRATION

Minneapolis Advisory Council Meeting

The U.S. Small Business Administration, Minneapolis, St. Paul District Advisory Council will hold a public meeting on Friday, May 24, 1996 at 11:30 am at the Decathlon Club, 1700 East 79th Street, Bloomington, Minnesota, to discuss matters as may be presented by members, staff of the U.S. Small Business Administration, or others present.

For further information, write or call Mr. Edward A. Daum, District Director, U.S. Small Business Administration, 610-C Butler Square, 100 North Sixth Street, Minneapolis, Minnesota 55403, (612) 370-2306.

Dated: April 22, 1996.

Bill Combs,

Associate Administrator for Office of Communication and Public Liaison.

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SOCIAL SECURITY ADMINISTRATION

Agency Information Collection Activities: Submission for OMB Review; Comment Request

Normally on Fridays, the Social Security Administration publishes a list of information collection packages that

⁴ By contrast, under Rules 8.100 *et seq.*, "FLEX Appointed Market Makers" are those individuals who have been designated by the Exchange to trade FLEX options on a specific underlying index ("FLEX Index Option") that has been approved by the Commission for FLEX Options trading. See PSE Rules 8.100(a)(1) and 8.109(a).

⁵ With respect to FLEX Index Options, two FLEX Appointed Market Makers must be approved to trade FLEX Options on a given index before the Exchange may list FLEX Options on that index. FLEX Appointed Market Makers must also meet the capital requirements of Rule 8.114 (i.e., they must maintain \$1 million net liquidating equity and/or \$1 million net capital (as defined by SEC Rule 15c3-1 under the Act)), and they must also meet the account equity requirements of Rule 8.113(a) (i.e., the net liquidating equity maintained in their individual or joint accounts must be least \$100,000).

⁶ See PSE Rule 8.115(a).

⁷ See PSE Rule 8.109(a).

⁸ 17 CFR 200.30-3(a0912).