

traded pursuant to UTP. Moreover, CBs based on FY/S&P Indices not described herein, would require consultation with the Commission as to whether a filing pursuant to Section 19(b) of the Act is required prior to being listed on the Exchange, or traded pursuant to UTP.

The Commission finds good cause for approving Amendment No. 2 prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Amendment No. 2 amends Interpretation and Policy .01 of Article XXVIII, Rule 23 to require that the Japan Series have a minimum of 500,000 CBs outstanding prior to the commencement of trading on the Exchange. As discussed above, CHX must have listing standards comparable to those of the primary exchange on which the security is traded. The Commission notes that this Amendment brings CHX's listing standards into conformity with those of the NYSE. Accordingly, the Commission does not believe Amendment No. 2 raises any new or unique regulatory issues. Therefore, the Commission believes it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 2 to the proposal on an accelerated basis.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 2. 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. Copies of such filing will also be available for inspection and copying at the principal office of the CHX. All submissions should refer to the file number in the caption above and should be submitted by September 18, 1996.

#### V. Conclusion

For the reasons discussed above, the Commission finds that the proposal, as amended, is consistent with the Act, and, in particular, Section 6 of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>39</sup> that the proposed rule change (File No. SR-CHX-96-12), as amended is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>40</sup>

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96-21890 Filed 8-27-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-37590; File No. SR-PSE-96-28]

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Stock Exchange Incorporated Relating to Its Rule on the Evaluation of Its Equity Specialists**

August 21, 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 August 18, 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 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 is proposing to adopt a pilot program amending its rule on the evaluation of its equity specialists.

#### *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*

The Exchange is proposing to adopt a pilot program amending its rule relating to specialists evaluations for a nine month period from October 1, 1996 to June 30, 1997. Currently, PSE Rule 5.37(a) provides that the Equity Allocation Committee ("EAC") shall evaluate all registered specialists on a quarterly basis and that each registered specialist shall receive an overall evaluation rating based on the following three measures of performance: (1) Specialist Evaluation Questionnaire Survey ("Questionnaire"); (2) SCOREX Limit Order Acceptance Performance; and (3) National Market System Quote Performance.

The Exchange is proposed to modify PSE Rule 5.37(a) by adding three new measures of performance and eliminating one measure of performance. The new measures are: (1) Executions; (2) Book Display Time; and (3) Post 1-P.M. Parameters. The Exchange is also proposing to: add more questions to the Questionnaire and to expand the National Market System Quote Performance measure (for the nine month pilot, this criterion will be referred to as "Quote Performance")<sup>1</sup> to include a performance measure for bettering the quote. In addition, the Exchange is proposing to eliminate SCOREX Limit Order Acceptance Performance as a measure of specialist performance. The Exchange's new rule for the evaluation of specialists will therefore consist of five separate measures of performance, as specified below:

a. Executions. This category, on which 50% of each specialist evaluation is based, consists of four subcategories: (a) Turnaround Time; (b) Holding Orders Without Action; (c) Trading Between the Quote; and (d) Executions in Size Greater Than BBO.

"Turnaround Time" calculates the average number of seconds for all eligible orders up to 1,099 shares based upon the number of seconds between the receipt of a market or marketable limit order in P/COAST and the execution, partial execution, stopping, or cancellation of the order. An order that is moved from the auto-ex screen to the manual screen will accumulate time until it is executed, partially executed, stopped, or canceled. This measurement begins after the stock opens for the day on the primary market. Only those orders received by P/COAST after the

<sup>39</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>40</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> See *infra* text accompanying note 4.

stock opens will be counted. If there is a trading halt or period when the P/COAST system is experiencing problems, Turnaround Time will not be included for those blocks of time. A specialist will be awarded points based on the average number of seconds between the receipt of eligible market or marketable limit orders and any of the actions specified above being taken upon such orders. This category will count for 15% of the overall score. The parameter ranges and corresponding points for Turnaround Time are listed below:

Number of seconds parameter range	Points
1-8 .....	10
9-10 .....	9
11-12 .....	8
13-14 .....	7
15-16 .....	6
17-18 .....	5
19-20 .....	4
21-22 .....	3
23-24 .....	2
25-26 .....	1
27+ .....	0

"Holding Orders Without Action" measures the number of market and marketable limit orders up to 10,099 shares that are held without action for greater than 25 seconds. As in the Turnaround Time calculation, a cancellation, a stop, an execution, or partial execution stops the clock. This measurement begins after the stock opens for the day on the primary market. Only those orders received by P/COAST after the stock opens will be counted. If there is a trading halt or period when the P/COAST system is experiencing problems, those blocks of time will be excluded from the Holding Orders Without Action calculation. The specialist will be awarded points based on the percentage of orders that are held under the established time period.<sup>2</sup> This category will count for 15% of the overall score. The parameter ranges and corresponding points for Holding Orders Without Action are listed below:

Percent of orders parameter range	Points
1-3 .....	10
4-6 .....	9
7-9 .....	8
10-12 .....	7
13-15 .....	6
16-18 .....	5
19-21 .....	4
22-24 .....	3
25-27 .....	2
28-30 .....	1
31+ .....	0

"Trading Between the Quote" measures the number of market and marketable limit orders that are executed between the best primary market bid and offer. For this criterion to count toward the overall evaluation score, ten orders or more must have been executed during the quarter the specialist is being evaluated. If less than ten orders are executed, this criterion will not be counted and the rest of the evaluation criteria will be given more weight.

When a market or marketable limit order is executed, the execution price is compared to the primary bid and offer. The specialist will be awarded points based on the percentage of orders the specialist receives that are executed between the primary bid and offer. If the execution price falls between the primary bid and the primary offer, the trade is counted as one that traded between the quote at the time of execution. Each time a trade is executed, the primary market quote will be noted. If the spread of that quote is two or more trading fractions apart, that trade will count as one eligible for the comparison of the execution price to the quote. If there is a trading halt or period when the P/COAST system is experiencing problems, those blocks of time will not be included in the Trading Between the Quote calculation.

This category will count for 10% of the overall score. The parameter ranges and corresponding points for Trading Between the Quote are listed below:

Percent of orders parameter range	Points
51+ .....	10
46-50 .....	9
41-45 .....	8
36-40 .....	7
31-35 .....	6
26-30 .....	5
21-25 .....	4
16-20 .....	3
11-15 .....	2
5-10 .....	1
0-4 .....	0

"Executions in Size Greater Than BBO" measures the number of market and marketable limit orders which exceed the best bid and offer ("BBO") size. When a market or marketable limit order is executed, the order must meet two tests to be counted: first, the original order size must be greater than the BBO size; and second, the execution size must be greater than the BBO size. If the execution size is greater than the bid size (for a sell order) or offer size (for a buy order), the trade is counted as one that was executed in size greater than the BBO. If there is a trading halt or period when the P/COAST system is experiencing problems, those blocks of

time will not be included in the Executions in Size Greater Than BBO calculation. For this criterion to count toward the overall evaluation score, ten orders or more must have been executed during the quarter the specialist is being evaluated. If less than ten orders are executed, this criterion will not be counted and the rest of the evaluation criteria will be given more weight.

The specialist will be awarded points based on the percentage of orders that are executed that exceed the BBO size. This category will count for 10% of the overall score. The parameter ranges and corresponding points for Executions In Size Greater than BBO are listed below:

Percent of orders parameter range	Points
98-100 .....	10
95-97.999 .....	9
92-94.999 .....	8
89-91.999 .....	7
86-88.999 .....	6
83-85.999 .....	5
80-82.999 .....	4
77-79.999 .....	3
74-76.999 .....	2
71-73.999 .....	1
0-70.999 .....	0

b. *Specialist Evaluation Questionnaire Survey.* The Questionnaire is filled out by equity floor brokers on a quarterly basis. The Questionnaire responses will count for 15% of the overall score. Each question in the Questionnaire has a possible rating of 1 to 10. Each question will be weighted equally and will count for 1.875% of the overall evaluation score.

The Questionnaire currently solicits from floor brokers ratings in the following categories: the quality of markets maintained by the specialist; the specialist's effectiveness in his (her) handling of orders; communication; and the specialist's handling of clerical and administrative matters. The Questionnaire will be expanded to solicit from floor brokers ratings on the specialist's: handling of manual orders for a size greater than that provided for in the BBO; failure trade on displayed quotes; representation of the broker's orders in his (her) quotes; and facilitation of crosses.

The new questions proposed to be added to the Questionnaire are the following: Does the specialist handle manual orders from floor brokers for greater than the BBO size? Does the specialist fail to trade on his (her) displayed quotes?; Does the specialist adequately represent brokers' orders in the quotes?; and Does the specialist allow for each facilitation of crosses?

c. *Book Display Time.* This criterion calculates the percentage of the book shares at the best price in the book that

<sup>2</sup> I.e., a specialist will receive fewer points the larger the percentage of orders that he (she) holds for greater than 25 seconds.

are displayed in the specialist's quote, by symbol, and the duration of time that each percentage is in effect. This criterion rates the P/COAST book displayed 100% of the time. The sizes of all open buy limit orders at the best price for the symbol in the specialist's book will be totaled and compared to the bid size quote. The sizes of all open sell limit orders at the best price for the symbol in the book will be totaled and compared to the offer size quote. This will be done for each symbol traded by the specialist, and only for those orders priced within the primary quote. Limit orders in the book which are priced beyond the primary quote will not be included; they will not be executed until they reach the price in the primary quote, so the specialist should not be required to cover them in his (her) quote sizes.

The specialist will be awarded points on the basis of the percentage of the book that the specialist displays. This category will count for 15% of the overall score. The parameter ranges and corresponding points for Book Display Time are listed below:

Percent of book parameter range	Points
80+ .....	10
75-79 .....	9
70-74 .....	8
65-69 .....	7
60-64 .....	6
55-59 .....	5
50-54 .....	4
45-49 .....	3
40-44 .....	2
35-39 .....	1
0-34 .....	0

d. *Post-1 P.M. Parameters.* This criterion measures the specialist's quote performance in the post-1 p.m. (Pacific Time) auction market ("Extended Trading Session").<sup>3</sup> The Post-1 P.M. Parameters criterion has the following features:

1. Specialists' activity is recorded in post-1 p.m. files, where there is one record for each quote and trade per post and symbol as they occur during the extended trading session.

2. Specialists are not subject to the post-1 p.m. quote-spread parameters until after 1:10 p.m. This allows the specialists time to do any primary market runoff business that is necessary.

3. The specialist's quote prices in effect ten minutes past the beginning of the Extended Trading Session must be within the defined number of trading fractions of the primary closing quote.

A. If the primary exchange is the NYSE, and the primary bid price at

closing on that day for the stock is under \$1.00, the trading fraction is  $\frac{1}{16}$ ; if the price is at or over \$1.00, it is  $\frac{1}{8}$ .

B. If the primary exchange is the Amex, and the primary bid price at closing on that day for the stock is under \$10.00, the trading fraction is  $\frac{1}{16}$ ; if the price is at or over \$10.00, it is  $\frac{1}{8}$ .

4. The specialist's quote sizes in effect ten minutes past the beginning of the Extended Trading Session must be 500 shares or more if the primary bid price is less than \$50.00, or 200 shares if the primary bid price is \$50.00 or more.

5. The specialist's quote-spread parameters must apply to a minimum of 25% of the stocks traded at the post to receive full credit on the evaluation (i.e., 10 points).

6. If the specialist executes any trades after ten minutes of the Extended Trading Session and they are priced within the allowable trading fraction of the primary closing quote price, the quantity of the trade is deducted from the required quote size.

7. If the specialist changes his (her) quote at any time on the same day for that symbol while the required quote size is not zero, his (her) quote price must be within the allowable trading fraction from the primary closing bid price and his (her) quote size must be at least the remaining quote size required (as adjusted for trades, as explained in item 6). If either the price or size on either side of the quote for that symbol does not comply, the symbol is not counted as adhering to the parameters for that day.

8. If, at the end of the Extended Trading Session, the required quote size is still not zero (after adjusted for trades) for bid and/or ask, but the specialist has complied with the quote price and size guidelines on both bid and ask, the symbol is counted as one that adhered to the parameters.

This category will count for 10% of the overall score. The parameter ranges and corresponding points for Post-1 P.M. Parameters are listed below:

Percent of book parameter range	Points
25+ .....	10
22-24.999 .....	9
19-21.999 .....	8
16-18.999 .....	7
13-15.999 .....	6
10-12.999 .....	5
7-9.999 .....	4
4-6.999 .....	3
0-3.999 .....	0

e. *Quote Performance.* This category, on which 10% of each specialist evaluation is based, consists of two subcategories: (a) Equal or Better Quote Performance; and (b) Better Quote Performance.

"Equal or Better Quote Performance" calculates for each issue traded, the percentage of time in which a specialist's bid or offer is equal to or better than the primary market quote with a 500-share market size or the primary market size, whichever is less, with a 200-share minimum. This category will count for 5% of the overall score. The parameter ranges and corresponding points for Equal or Better Quote Performance are listed below:

Percent of time parameter range	Points
40+ .....	10
36-39 .....	9
32-35 .....	8
28-31 .....	7
24-27 .....	6
20-23 .....	5
16-19 .....	4
12-15 .....	3
8-11 .....	2
4-7 .....	1
0-3 .....	0

"Better Quote Performance" calculates for each issue traded, the percentage of time in which a specialist's bid or offer, is better than the primary quote with a 500-share market size or the primary market size, whichever is less, with a 200-share minimum. This category will count for 5% of the overall score. The parameter ranges and corresponding points for Better Quote Performance are listed below:

Percent of time parameter range	Points
4+ .....	10
3-3.999 .....	9
2-2.999 .....	8
1-1.999 .....	7
0-0.999 .....	0

The Exchange notes that the pilot program only modifies the performance criteria of PSE Rule 5.37(a).

Consequently, during the pilot the EAC will evaluate the performance of specialists in accordance with the standards and procedures found in PSE Rule 5.37. During the nine month pilot, the Exchange will re-program its computer program so that the following three criteria are based upon the national best bid and offer instead of the primary market bid and offer: Trading Between the Quote, Book Display Time, and Quote Performance.<sup>4</sup> Also, during the pilot, the Exchange will establish an overall passing score for the performance evaluation as well as individual passing scores for each criterion. The exchange will file a proposed rule change with the Commission pursuant to Rule 19b-4 of

<sup>3</sup> The PSE's Extended Trading Session is an auction market trading session that runs from 1:00-1:50 p.m. (Pacific Time).

<sup>4</sup> See *supra* note 1.

the Act that will include these changes by May 1, 1997.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b)(5) of the Act<sup>5</sup> in that it is designed to prevent fraudulent and manipulative acts and practices and to perfect the mechanism of a free and open market.

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

The Exchange does not believe that the proposed rule change will impose 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*

Written comments on the proposed rule change were neither solicited nor received.

## 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. 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-96-28 and should be submitted by September 18, 1996.

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

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96-21891 Filed 8-27-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-37593; File No. SR-Phlx-96-32]

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Index Option Exercise Advices**

Pursuant to Section 19(b)(1) of the Securities and Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 29, 1996, the Philadelphia Stock Exchange, Inc. ("Phlx" 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 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 Phlx, pursuant to Rule 19b-4 of the Act, proposes to amend Exchange Rule 1042A, Exercise of Option Contracts, and Floor Procedure Advice ("Advice") G-1, retitled Index Option Exercise Advice Forms, to provide that the deadline for submitting a memorandum to exercise and an exercise advice form will be "no later than 4:30 p.m. or fifteen minutes after the close of trading, if trading hours are modified or extended beyond 4:15 p.m." Currently, the deadline for such submissions is "no later than 4:30 p.m." In addition, the Phlx proposes to codify that anyone intending to exercise index options must complete a memorandum to exercise and/or an exercise advice form in compliance with the exercise cut-off time and must exercise that amount of option contracts indicated on such forms.

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4.

#### **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**

Exchange Rule 1042A and Advice G-1 govern the exercise of index options.<sup>3</sup> Specifically, Exchange Rule 1042A(a)(i) requires that a memorandum to exercise any American-style index option contract must be received or prepared by the Phlx member organization no later than 4:30 p.m. on the day of exercise. In addition, Exchange Rule 1042A(a)(ii) requires the submission of an exercise advice form to the Exchange no later than 4:30 p.m. when exercising American-style index option contracts.<sup>4</sup>

In this regard, the Exchange has attempted to create a level playing field among option investors by maintaining a cut-off time to ensure that all exercise decisions occur promptly after the close of trading. Consequently, to prevent fraud and unfairness, a long option holder is prohibited from exercising index options on non-expiration days

<sup>3</sup> The Exchange notes that with respect to index option contracts, clearing members are also required to follow the procedures of the Options Clearing Corporation ("OCC") for tendering exercise notices. Exercise notices are the exercise instructions required by OCC and are distinct from exercise advices which are required by Exchange rules.

<sup>4</sup> The Phlx notes that Exchange Rule 1042A previously allowed the submission of a memorandum to exercise and an exercise advice form until five minutes after the close of trading. See Securities Exchange Act Release No. 32991 (September 30, 1993), 58 FR 52337 (October 7, 1993) (File No. SR-Phlx-92-31). Specifically, the exercise cut-off time for narrow-based index options was 4:15 p.m. or five minutes after the close of trading, and for broad-based index options it was 4:20 pm or five minutes after the close of trading. When the exercise cut-off time was changed to 4:30 p.m., however, the language "or five minutes after the close of trading" was deleted. See Securities and Exchange Act Release No. 37077 (April 5, 1996), 61 FR 16156 (April 11, 1996) (File No. Phlx-95-86). As such, the Phlx's current proposal resurrects this concept.

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