

meaning, administration, or enforcement of an existing MBSCC rule. 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 including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 MBSCC. All submissions should refer to File No. SR-MBSCC-99-03 and should be submitted by July 30, 1999.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41582; File No. SR-PCX-99-23]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. Relating to the Reorganization of PCX Rule 6.87

June 30, 1999.

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 June 15, 1999, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the PCX. On June 21, 1999, the PCX filed with the Commission Amendment No. 1 to the proposed rule change.³ The Commission is publishing the 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 redesignate the subsections of PCX Rule 6.87 to conform to proposed changes to this rule previously approved by 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 PCX 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 PCX 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 proposes to redesignate and clarify the provisions of PCX Rule 6.87, relating to the Exchange's Automatic Execution System ("Auto-Ex") for options, to reflect changes to the rule recently approved by the Commission.

First, the Exchange proposes to redesignate subsection (d) pertaining to "Suspension of Auto-Ex," approved by the Commission in February, 1998, as subsection (h).⁴ Second, the Exchange

proposes to redesignate subsection (d) pertaining to "Auto-Ex NBBO," approved by the Commission in September, 1998 and amended in a filing approved in January, 1999, as subsection (i).⁵ Third, the Exchange proposes to redesignate subsection (e) pertaining to "Crossed or Locked Markets," approved by the Commission in January, 1999, as subsection (j).⁶ Fourth, the Exchange proposes to redesignate subsections (d) pertaining to "Market Maker Requirements and Eligibility," (e), and (f) pertaining to "Price Adjustments," approved by the Commission in October, 1998, as subsections (e), (f) and (g).⁷ In addition, the Exchange proposes to redesignate Commentary .01 of the rule as subsection (c) and to change the reference to "this commentary" in proposed subsection (c) to "this subsection." The Exchange also proposes to redesignate current subsection (c) as subsection (d). The Exchange proposes these changes to recognize recent revisions to PCX Rule 6.87.

2. Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)⁸ of the Act, in general, and furthers the objectives of Section 6(b)(5)⁹ in particular, because it is designed to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments and perfect the mechanisms of a free and open market and a national market system and to protect investors and the public interest.

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

The PCX does not believe that the proposed rule change will impose any 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.

⁵ See Securities Exchange Act Release No. 40980 (January 26, 1999), 64 FR 5335 (February 3, 1999) (SR-PCX-98-55) and Securities Exchange Act Release No. 40412 (September 8, 1998), 63 FR 49626 (September 16, 1998) (SR-PCX-98-27).

⁶ See Securities Exchange Act Release No. 40980 (January 26, 1999), 64 FR 5335 (February 3, 1999) (SR-PCX-98-55).

⁷ See Securities Exchange Act Release No. 40598 (October 23, 1998), 63 FR 58439 (October 30, 1998) (SR-PCX-97-48).

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange made technical modifications to its filing and further clarified the proposal. See letter to Michael A. Walinkas, Associate Director, Division of Market Regulation, Commission, from Robert P. Pacileo, Staff Attorney, PCX, dated June 18, 1999.

⁴ See Securities Exchange Act Release No. 39635 (February 10, 1998), 63 FR 8246 (February 18, 1998) (SR-PCX-97-21).

⁶ 17 CFR 200.30-3(a)(12).

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

The foregoing rule change has become effective immediately pursuant to Section 19(b)(3)(a)(iii)¹⁰ of the Act and subparagraph (f) of Rule 19b-4 thereunder¹¹ because it is concerned solely with the administration of the Exchange.

At any time within 60 days of the filing of the proposed 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.¹²

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 PCX. All submissions should refer to File No. SR-PCX-99-23 and should be submitted by July 30, 1999.

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

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41588; File No. SR-Phlx-98-56]

Self-Regulatory Organizations; Philadelphia Stock Exchange Inc.; Order Approving Proposed Rule Change Relating to the Enhanced Parity Split Pilot Program for Equity and Index Option Specialists, and the Adoption of an Enhanced Parity Split for Specialists That Develop and Trade New Products

July 1, 1999.

I. Introduction

On December 28, 1998, the Philadelphia Stock Exchange, Inc. ("Exchange" or "Phlx") submitted to the Securities and Exchange Commission ("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 seeking to extend and receive permanent approval of the Exchange's enhanced parity split pilot program for Exchange specialists in equity and index options ("Pilot Program").³ In addition, the Exchange proposed to amend Exchange Rule 1014(g), "Equity Option and Index Option Priority and Parity," and its corollary Option Floor Procedure Advice B-6 to provide an enhanced parity split for Exchange specialists that develop and trade new products.

In the release published for comment in the **Federal Register** on January 12, 1999, the Commission gave accelerated approval to the Exchange's request that the Pilot Program be extended for a six-month period ending June 30, 1999, or until the Commission approves the Exchange's request for permanent approval of the Pilot Program, whichever occurred first.⁴ The Commission did not receive any comment letters with respect to the proposal. This order permanently approves the Pilot Program and the Exchange's proposal to establish an enhanced parity split for Exchange specialists that develop and trade new products.

II. Description of the Proposal

A. Permanent Approval of the Pilot Program

The Exchange seeks permanent approval of the Pilot Program for Exchange specialists in equity and index options. The Commission first approved the Pilot Program on August 26, 1994,⁵ to provide Exchange specialists in equity options with an enhanced participation in "parity trades," or trades where orders compete at the same price.⁶ While a parity trade is generally divided evenly among the crowd participants on parity, the enhanced participation gives the specialist a greater share of the trade than he would normally receive.

On November 30, 1994, the Commission approved the Exchange's proposal to expand the Pilot Program to include index option specialists.⁷ The Pilot Program was later revised on March 1, 1995, with respect to situations where less than three controlled accounts are on parity with the specialist.⁸ The Pilot Program was subsequently renewed without change on three occasions⁹ and later was extended and expanded so that the enhanced parity split applies to: (i) All index options; (ii) all new option classes allocated to a specialist during the year; and (iii) 50% of a specialist's equity option issues, which issues are designed by the specialist and approved by the Exchange's Allocation, Evaluation, and Securities Committee.¹⁰ In addition, the Pilot Program was revised to permit specialists to revise the list of eligible

⁵ See Securities Exchange Act Release No. 34606 (Aug. 26, 1994), 59 FR 45741 (Sep. 2, 1994). The Pilot Program was initially approved for a one year period ending August 26, 1995.

⁶ According to Exchange Rules 119 and 120, when bids and offers are made simultaneously, or when it is impossible to determine clearly the order of time in which they were made, all such bids and offers shall be on parity. For example, suppose that a floor broker holding a sell order for 10 Jan XYZ call options announces his order to the crowd. In response, three crowd participants might simultaneously bid to buy the 10 Jan XYZ call options at the same price. Because these three simultaneous bids are competing at the same price, the bids are on parity.

⁷ Securities Exchange Act Release No. 35028 (Nov. 30, 1994), 59 FR 63151 (Dec. 7, 1994).

⁸ Securities Exchange Act Release No. 35429 (Mar. 1, 1995), 60 FR 12802 (Mar. 8, 1995).

⁹ Securities Exchange Act Release Nos. 36122 (Aug. 18, 1995), 60 FR 44530 (Aug. 28, 1995); 37524 (Aug. 5, 1996), 61 FR 42080 (Aug. 13, 1996); and 38924 (Aug. 11, 1997), 62 FR 44160 (Aug. 19, 1997).

¹⁰ Securities Exchange Act Release No. 39401 (Dec. 4, 1997), 62 FR 65300 (Dec. 11, 1997). The Exchange maintains a separate, permanent enhanced parity split program for new specialist units that trade newly listed options. See Exchange Rule 1014(g)(iii), "New Unit/New Option Enhanced Specialist Participation," and Securities Exchange Act Release No. 34109 (May 25, 1994), 59 FR 28570 (June 2, 1994).

¹⁰ 15 U.S.C. 78s(b)(3)(A)(iii).

¹¹ 17 CFR 240.19b-4(f).

¹² In reviewing this proposal, the Commission has considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Exchange Rule 1014(g)(ii), "Two for-one Enhanced Specialist Participation."

⁴ Securities Exchange Act Release No. 40876 (Dec. 31, 1998), 64 FR 1849 (Jan. 12, 1999).