

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, 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 MBSCC. All submissions should refer to the File No. SR-MBSCC-99-07 and should be submitted by October 21, 1999.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁶ that the proposed rule change (file No. SR-MBSCC-99-07) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41907; File No. SR-NASD-99-32]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Firm Quotation Requirements

September 23, 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 17, 1999, the National Association of Securities Dealers, Inc. ("NASD"), through its wholly owned subsidiary, the Nasdaq Stock Market, Inc. ("Nasdaq") 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 Nasdaq. On August 25, 1999, Nasdaq filed Amendment No. 1 to the proposal with

the Commission.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval to the proposed rule change.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Nasdaq is proposing to amend NASD Rule 6750 to provide any Nasdaq officer at the executive vice president level or above with limited discretionary authority to reduce the minimum quotation size for securities quoted at a price exceeding \$200 in the OTC Bulletin Board ("OTCBB"). Below is the text of the proposed rule change. Proposed new language is in *italics*.

* * *

6750. Minimum Quotation Size Requirements For OTC Equity Securities

(a) Every member firm that functions as a market maker in OTC Equity Securities by entering firm quotations into the OTC Bulletin Board Service (OTCBB) (or any other inter-dealer quotation system that permits quotation updates on a real-time basis) must honor those quotations for the minimum size defined in the table below. In this regard, it is the market maker's responsibility to determine the minimum size requirement applicable to its firm bid and/or offer in each of its registered securities (excluding OTC Equity Securities for which the OTCBB will not accept firm quotations). Depending on the price level of the bid or offer, a different minimum size can apply to each side of the market being quoted by the member firm in a given security.

Price (bid or offer)	Minimum quote size
0 to .50*	5,000
.51 to 1.00	2,500
1.01 to 10.00	500
10.01 to 100.00	200
100.01 to 200.00	100
200.01 plus	50

A Nasdaq officer at the Executive Vice President level or above, within its discretion, may modify the minimum quotation size for those securities with a price exceeding \$200.

(b) no change.

³ Letter from Robert E. Aber, Senior Vice President and General Counsel, Nasdaq, to Richard Strasser, Assistant Director, Division of Market Regulation, Commission, dated August 24, 1999 ("Amendment No. 1"). Amendment No. 1 was received by the Commission on August 25, 1999, the substance of which is incorporated into this notice.

*The OTCBB can accept bids/offers expressed in fractions as small as 1/256 or in decimals up to six places. In applying the price test for minimum quotation size, any increment beyond an upper limit in the right hand column will trigger application of the minimum quote size for the next tier. For example, a bid (or offer) of \$.505 must be firm for a size of 2,500 shares.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, Nasdaq 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 III below. Nasdaq 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

Nasdaq is proposing to provide any officer at the executive vice president level or above⁴ with limited discretionary authority to modify the minimum quotation size for securities quoted on the OTCBB that exceed a price of \$200. Nasdaq believes that this authority is necessary to correct a previously unforeseen problem with the schedule contained in NASD Rule 6750, which presently mandates that securities priced over \$200 be traded in units of 50 shares or more. For certain highly priced and/or thinly-traded securities, this rule has had an undesired and detrimental effect on transparency and liquidity.

NASD Rule 6750 was approved by the Commission in 1993⁵ as the NASD and market makers were first beginning to gain significant experience in dealing with the OTCBB. Prior to implementation of the rule, all quotations on the OTCBB were required to be firm for 100 shares. This approach soon proved unworkable for lower priced securities because a quote for 100 shares could represent an insignificant aggregate dollar value commitment to the market.

To remedy this situation, the NASD implemented Rule 6750 which specified minimum quotation sizes for securities priced at \$200 and below on a

⁴ See Amendment No. 1.

⁵ Exchange Act Release No. 32570 (July 1, 1993); 58 FR 36725 (July 8, 1993).

⁶ 15 U.S.C. 78s(b)(2).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

"graduated" or "tiered" basis.⁶ For securities quoted at 50 cents or below, the market maker quoting such security is required to honor that quotation for a minimum of 5,000 shares. This approach was carried through to \$200 with decreasing levels of 2,500, 500, 200, and 100 shares. For all quotations exceeding \$200, the minimum quote size was determined to be 50 shares.

The ensuing six years since implementation of this rule have witnessed unanticipated changes to the OTCBB. Among those changes has been the quotation of certain securities for thousands of dollars per share, and, in a few isolated instances, securities quoted in excess of \$100,000. Obviously, the presence of these highly priced securities was not considered when NASD Rule 6750 was originally proposed with the smallest minimum quotation size of 50 shares. This has resulted in a situation in which market makers have been unwilling to enter priced quotations for such highly priced and thinly traded securities for fear of potentially significant liability to their proprietary accounts.

In order to alleviate the potential exposure of quoting 50 shares of these highly priced securities, market makers have ceased entering quotations and instead post only indications of interest for these securities into the OTCBB. While posting an indication of interest is permitted in the OTCBB, the purpose of the OTCBB or any inter-dealer quotation medium is to permit multiple market participants to quickly and efficiently obtain the best bid or offer in a security and execute the transaction without unnecessary delay. Additionally, posting firm quotations on the OTCBB has the effect of increasing competition among market makers and fostering enhanced price discovery, ultimately benefiting the investing public.

Recognizing these goals and the present problems caused by the lack of flexibility within NASD Rule 6750, Nasdaq is proposing to allow any officer at the executive vice president level or above the flexibility to reduce the minimum display size for certain highly priced securities in the top tier (securities quoted in excess of \$200) of the OTCBB schedule. Any modifications would be done within the spirit of NASD Rule 6750 and would be based primarily on the impact that the price of the security has upon liquidity, which would include consideration of the

number of shares publicly available. Such quotation size modifications may change from time to time as conditions warrant. However, any modifications to the minimum quotation size will be clearly displayed on the Nasdaq Workstation II screen for the appropriate security to avoid any confusion among market makers or other market participants.

2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6)⁷ and Section 15A(b)(11)⁸ of the Act. Nasdaq believes that the proposed rule specifically promotes the objectives of Sections 15A(b)(6) and 15A(b)(11), respectively, by facilitating transactions free of impediments to a free and open market while producing fair and informative quotations. The rule will encourage market makers to display firm quotations in OTCBB securities thereby providing increased transparency, competition, and price discovery.

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

Nasdaq does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

Written comments were neither solicited nor received.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and argument concerning the foregoing, including whether the proposal is consistent with the Act. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 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 at the Commission's Public Reference Room. Copies so such filing will also be

available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-99-32 and should be submitted by October 21, 1999.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities association.⁹ Specifically, the Commission believes that the proposal is consistent with Sections 15A(b)(6) and (b)(11) of the Act.¹⁰ Section 15A(b)(6) requires, in part, that the rules of a national securities association be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national system, and, in general, to protect investors and the public interest.¹¹ Section 15A(b)(11) requires, among other things, that the rules of a national securities association include provisions governing the form and content of quotations, and that such rules must be designed to produce fair and informative quotations, to prevent fictitious or misleading quotations, and to promote orderly procedures for collecting, distributing, and publishing quotations.¹²

The proposal provides Nasdaq with the flexibility to reduce the minimum quote size of highly priced and thinly traded OTCBB securities when appropriate. Nasdaq asserts and the Commission agrees that market makers may be reluctant to quote 50 shares of a highly priced and thinly traded security and, as a result, may instead post indications of interest that are not firm. Therefore, the Commission supports granting any Nasdaq officer at the executive vice president level or above limited discretionary authority to reduce the minimum quote size for highly priced and thinly traded OTCBB securities as a means to enhance quote activity. The Commission finds that the increased opportunity for priced quotations in highly priced OTCBB securities that may result from this rule

⁶ This requirement applies only to market makers entering priced quotations. Market makers are permitted to enter unpriced indications of interest into the OTCBB which are not held to the minimum quotation size standard.

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 15 U.S.C. 78o-3(b)(11).

⁹ In approving this proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁰ 15 U.S.C. 78o-3(b)(6) and (b)(11).

¹¹ 15 U.S.C. 78o-3(b)(6).

¹² 15 U.S.C. 78o-3(b)(11).

change will help improve liquidity and transparency for these securities. Moreover, with this rule change, market participants may be able to more quickly ascertain the best bid or offer in highly priced OTCBB securities. The Commission also believes that reducing the minimum quotation size for highly priced and thinly traded securities might attract market makers to such securities, thereby enhancing competition, which should result in more efficient pricing of these securities. As a result, the Commission finds that the proposed rule change is consistent with Section 15A(b)(6) of the Act because it will benefit investors and facilitate transactions in securities.

The Commission also finds that the proposal is consistent with Section 15A(b)(11) because it is intended to result in additional priced quotations for highly priced OTCBB securities. This should help produce fair and informative quotations for these highly priced OTCBB securities.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Accelerated approval will permit Nasdaq to quickly redress an unforeseen consequence of NASD 6750, as originally adopted, which made quoting certain OTCBB securities prohibitive. Accordingly, the Commission believes that good cause exists, consistent with Section 15A(b)(6) and Section 19(b)(2) of the Act, to grant accelerated approval to the proposed rule change.¹³

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁴ that the proposed rule change (SR-NASD-99-32) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland,

Deputy Secretary.

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DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

Proposed Advisory Circular 25-XX, Transport Airplane Propulsion Engine and Auxiliary Power Unit Installation Certification Handbook—The Propulsion Mega AC

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Notice of availability of proposed Advisory Circular (AC) 25-XX and request for comments.

SUMMARY: This document announces the availability of and requests comment on a proposed advisory circular (AC) that provides guidance on methods acceptable to the Administrator for showing compliance with the type certification requirements for propulsion engine and auxiliary power unit (APU) installations as they apply to transport category airplanes. This notice is necessary to give all interested persons an opportunity to present their views on the proposed AC.

DATE: Comments must be received on or before December 29, 1999.

ADDRESS: Send all comments on the proposed AC to: Federal Aviation Administration (FAA), *Attention:* Steve Happenny, Propulsion/Mechanical Systems Branch, ANM-112, Transport Airplane Directorate, Aircraft Certification Service, 1601 Lind Avenue SW., Renton, Washington 98055-4056. Comments may be inspected at the above address between 7:30 a.m. and 4:00 p.m. weekdays, except Federal holidays.

FOR FURTHER INFORMATION CONTACT: Jill DeMarco, Program Management Branch, ANM-114, FAA, Transport Airplane Directorate, 1601 Lind Avenue SW., Renton, Washington 98055-4056; telephone (425) 227-1313; fax (425) 227-1320.

SUPPLEMENTARY INFORMATION:

Comments Invited

Interested persons are invited to comment on the proposed AC by submitting such written data, views, or arguments as they may desire. Commenters must identify the AC by title and submit comments in duplicate to the address specified above. The Transport Airplane Directorate of the Federal Aviation Administration (FAA) will consider all communications received on or before the closing date for comments before issuing the final AC.

Availability of Proposed AC

The proposed AC can be found and downloaded from the Internet at <http://www.faa.gov/avr/air/airhome.htm>, at the link titled "Draft Advisory Circulars."

Requests for copies should be directed to the person named above under the caption **FOR FURTHER INFORMATION CONTACT**. Please specify whether a paper copy or a CD-ROM (Microsoft Word Version 6.0/Windows 95 format) copy is needed. Because of the large size of this proposed AC (approximately 1,200 pages) and the time necessary for copying the document, expect extra time for fulfilling requests for paper copies.

Discussion

The proposed advisory circular (AC) provides one comprehensive source of FAA policy and guidance on various methods acceptable to the Administrator for showing compliance with the type certification requirements for propulsion engine and auxiliary power unit (APU) installations on transport category airplanes.

The proposed AC contains information and material concerning all facets of propulsion system certification that have been derived from various sources, such as:

- Title 14, Code of Federal Regulations (commonly referred to as the Federal Aviation Regulations),
- AC's,
- FAA Issue Papers,
- Special Conditions,
- Technical Standard Orders (TSO),
- FAA internal policy memos,
- FAA technical reports,
- documents issued by the Society of Automotive Engineers (SAE), and
- General Aviation Manufacturers Association (GAMA) specifications.

The material contained in the proposed AC is intended for use during propulsion certification activities by airplane manufacturers, modifiers, foreign regulatory authorities, and Federal Aviation Administration (FAA) airplane type certification engineers. The policy and guidance provided in the document has been applied previously and found to be acceptable to the FAA for demonstrating compliance with the certification regulations pertaining to propulsion (engine and APU) installations on transport category airplanes. The methods and procedures described have evolved through many years and represent current certification practice.

The FAA's objective in issuing this AC is to formalize existing policy and guidance so that the public and FAA

¹³ 15 U.S.C. 78o-3(b)(6) and 78s(b)(2).

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ 17 CFR 200.30-3(a)(12).