

for calls of BEO securities in which DTC is notified of the call after the redemption date has passed. Allocation lotteries for other calls of BEO securities, where notice is received on or before the redemption date, will continue to be run using participants' positions as of the DTC call announcement date.

When the call notice is received by DTC after the redemption date, the DTC call announcement date is necessarily after the date as of which the called securities are deemed to have been redeemed by the issuer. Use of the DTC call announcement date in these instances can have an adverse impact on participants and their customers who have acquired a security position during the period between the redemption date and the DTC call announcement date because they have acquired the called security without notice that the security has been redeemed. Therefore, for call notices received after the redemption date, DTC proposes to process its call lottery with reference to participant positions as of the close of business on the day prior to the call publication date. Use of the call publication date to determine lottery allocations is consistent with DTC's procedures for lotteries in certificated issues.

DTC's proposed rule change is designed to mitigate the negative impact of calls of BEO securities which are processed through DTC's lottery process after the redemption date due to late notification from the issuer. The proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder applicable to DTC in that it promotes efficiencies in the prompt and accurate clearance and settlement of securities transactions and, in general, furthers the protection of investors and the public interest.

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

DTC 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, in the public interest, and for the protection of investors.

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

DTC has discussed the proposed rule change with participants and the Corporate Actions Division of the Securities Industry Association. DTC presented the proposed rule change to the Board of Directors of the Corporate

Action Division on March 23, 1999. Further discussions between DTC and the Corporate Actions Division took place on September 15, 1999. No written comments have been solicited or received.

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

Within thirty-five days of the date of publication of this notice in the **Federal Register** or such longer period (i) as the Commission may delegate up to ninety days of such date if it finds such longer period to be appropriate and published its reasons for so finding or (ii) as to which the self-regulatory organization 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 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, 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 in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to file No. SR-STC-99-22 and should be submitted by January 18, 2000.

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

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42242; File No. SR-NASD-99-68]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Head Trader Alert 1999-60 Regarding the Nasdaq Application of the OptiMark System

December 16, 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 November 5, 1999, the National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly-owned subsidiary The Nasdaq Stock Market, Inc. ("Nasdaq") 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 Nasdaq. Nasdaq submitted Amendment No. 1 on November 23, 1999.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

Nasdaq is filing an interpretation of NASD Rule 4991(h) that was issued in Head Trader Alert Number 1999-60. The interpretation affects the Nasdaq Application of the OptiMark System (the "Nasdaq Application"). The text of the proposed rule change is available at the Association 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, 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 IV below. Nasdaq has prepared summaries, set forth in Sections A, B,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, Nasdaq explained the "N" modifier that may be attached to a SelectNet order that is the result of an OptiMark match, and clarified the use of the C999 modifier by market participants outside of the OptiMark system. Letter from Peter R. Geraghty, Assistant General Counsel, Nasdaq, to Richard Strasser, Assistant Director, Division of Market Regulation ("Division"), Commission, dated November 22, 1999.

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 SEC recently approved a proposed rule change filed by the NASD to implement the Nasdaq Application.⁴ The Nasdaq Application permits NASD members and their customers to enter large orders in Nasdaq stocks into an anonymous matching system that has been designed, developed, and patented by OptiMark Technologies, Inc. ("OptiMark Match") and has been integrated into Nasdaq's facilities in Trumbull, Connecticut. The NASD believes that the anonymity offered by this facility limits the market impact of trading in large size and provides NASD members with a new, additional tool to trade Nasdaq securities more effectively.

The Nasdaq Application allows NASD members (and if sponsored by NASD members, customers of such members) to enter trading interests, called profiles, into Nasdaq-operated systems where those profiles are collected and matched periodically by the OptiMark Match. As currently approved, these matches occur no more frequently than every five minutes. In addition to matching profiles entered directly into the system, the Nasdaq Application incorporates bids and offers in the Nasdaq Quote Montage, creates profiles for such quotes, and includes the profiles in the next match. The OptiMark Match then attempts to match contra interests at the best prices and sizes according to the rules of the match process. If the system finds that a Nasdaq Quota Montage profile matched with another profile, the system sends a message to the market participant via the Nasdaq SelectNet system, seeking to trade at the market participant's quoted price or better and at round lot sizes, up to the amount quoted by that market participant.

Nasdaq believes that the rules approved by the SEC in October 1999⁵ clearly implied that Nasdaq subscribers that respond to SelectNet messages sent as a result of OptiMark entered profiles matching with quoted interest displayed in the Nasdaq Quote Montage profiles must respond in round lot sizes only. Specifically, Nasdaq intended that Rule 4991(h) require such a response in that Rule 4991(h) stated that orders in the

Nasdaq Application "shall be in round lots equal to or greater than 1,000 shares, except for * * * Quote Montage Profiles * * * that may be in any round lot size. * * *

Therefore, Nasdaq issued a Head Trader Alert to firms explaining that the rules related to the OptiMark system specifically intended to require that responses to SelectNet messages sent as a result of an OptiMark Match with a Nasdaq Quote Montage profile must be made in round lot sizes, and that the C999 modifier is intended to signal the receiving market participant that it must respond in round lots only. The Head Trader Alert also noted that Rule 3380(b) should not be interpreted as permitting an ECN to reject a SelectNet message from an OptiMark match with the C999 modifier. Nasdaq notes that the requirement that an ECN or other market participant deal only in round lots when responding to a SelectNet message sent as a result of an OptiMark match is implied only by the rules governing the Nasdaq Application of the OptiMark System. Other market participants sending SelectNet messages to ECNs are not permitted to use the C999 modifier in such circumstances.

In addition, the Head Trader Alert explained another modifier that is attached to SelectNet orders sent as a result of OptiMark matches. This modifier is the letter "N" which is intended to convey to the recipient of the order that the order is non-negotiable. However the Not Negotiable modifier "N" on a SelectNet order following the price allows the recipient of the order to price improve the order and execute it at a price better than that found in the price field. The "N" modifier does not allow the recipient to enter a counter offer at an inferior price against the order. For example, a firm receiving an order to sell at 10 with the Not Negotiable indicator may not send a counter offer on the order at 9⁷/₈, but they may price improve the order at 10¹/₁₆.

2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with Section 15A⁶ of the Act in general and furthers the objectives of Section 15A(b)(6)⁷ in particular because it is designed to promote just and equitable principles of trade, to facilitate transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market

system, and to protect investors and the public interest.⁸

Nasdaq believes that the proposed rule change is consistent with provisions of Section 11A⁹ of the Act in general and furthers the objectives of Section 11A(a)(1)(C)¹⁰ in particular because it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure economically efficient execution of securities transactions, fair competition among brokers and dealers, availability to brokers, dealers and investors of information with respect to quotations and transactions in securities, and practicability of brokers executing investors' orders in the best market.

Nasdaq believes that the proposal is consistent with Section 15A(b)(6)¹¹ and Section 11A(a)(1)(C)¹² of the Act because it will inform firms about two modifiers that may be attached to SelectNet messages sent as a result of an OptiMark match related to round lot only messages and price improvement, and will clarify a firm's obligations in responding to SelectNet orders generated by an OptiMark match.

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

Nasdaq has neither solicited nor received written comments on the proposed rule change.

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

The foregoing rule change constitutes a stated policy, practice or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Exchange and therefore, has become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹³ and subparagraph (f)(1) of Rule 19b-4 thereunder.¹⁴

At any time within 60 days of the filing of the proposed rule change, the

⁸ In reviewing this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78k-1.

¹⁰ 15 U.S.C. 78k-1(a)(1)(C).

¹¹ 15 U.S.C. 78o-3(b)(6).

¹² 15 U.S.C. 78k-1(a)(1)(C).

¹³ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁴ 17 CFR 240.19b-4(f)(1).

⁴ Securities Exchange Act Release No. 41967 (September 30, 1999), 64 FR 54704 (October 7, 1999).

⁵ *Id.*

⁶ 15 U.S.C. 78o-3.

⁷ 15 U.S.C. 78o-3(b)(c).

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, 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 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 NASD. All submissions should refer to SR-NASD-99-68 and should be submitted by January 18, 2000.

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

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42249; File No. SR-NASD-99-53]

Self-Regulatory Organizations; Notice of Extension of the Comment Period for the Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to the Establishment of the Nasdaq Order Display Facility and Modifications of the Nasdaq Trading Platform

December 17, 1999.

On October 1, 1999, the National Association of Securities Dealers, Inc. ("NASD" or "Association") through its wholly owned subsidiary the Nasdaq Stock Market, Inc. ("Nasdaq") filed with the Securities and Exchange

Commission ("Commission") a proposal relating to the establishment of the Nasdaq Order Display Facility and modifications of the Nasdaq Trading Platform. Notice of the proposed rule change was published for comment on December 6, 1999.¹

To give the public additional time to comment on the proposal, the Commission is extending the comment period to January 11, 2000. A copy of the proposed rule change is available in the Commission's Public Reference Room in File No. SR-NASD-99-53.

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Securities Exchange Act of 1934. Persons making written submissions should file six copies thereof with Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., 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 NASD. All submissions should refer to File No. SR-NASD-99-53 and should be submitted by January 11, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42248; File No. SR-PCX-99-46]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. Relating to the Specialist Evaluation Pilot Program

December 17, 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 November 2, 1999, the Pacific Exchange, Inc. ("PCX" 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. On December 6, 1999, the Exchange submitted Amendment No. 1 to the proposed rule change.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 proposal, as amended.

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

The Exchange seeks permanent approval of its Specialist Evaluation Pilot Program.

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 III below. The PCX has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from Robert Pacileo, Staff Attorney, PCX, to Richard Strasser, Assistant Director, Division of Market Regulation, Commission, dated December 6, 1999 ("Amendment No. 1"). In Amendment No. 1, the Exchange requested permanent approval of the specialist evaluation pilot program on an accelerated basis.

¹ Securities Exchange Act Release No. 42116 (November 22, 1999), 64 FR 68125.

² 17 CFR 200.30-3(a)(12).