

In addition, the Commission has approved a CBOE proposal to increase to 100 the firm quote contract size minimum applicable to Designated Primary Market Makers in classes of interest rate options for which Public Automated Routing System ("PAR") workstations are available.¹¹ The Commission believes that the CBOE's current proposal is consistent with the Exchange's earlier proposal to increase the firm quote contract size for classes of interest rate options for which PAR workstations are available.

Finally, based on representations from the CBOE, the Commission believes that increasing the size of the interest rate option orders eligible for execution through RAES will not expose the CBOE's options markets to risk of failure or operational breakdown. In particular, the CBOE represents that the proposal will not impose significant burdens on the operation and capacity of RAES, nor will it have a negative impact on the security or integrity of RAES.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-CBOE-96-72) is approved.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-38175; File No. SR-NASD-96-55]

**Self-Regulatory Organizations;
National Association of Securities
Dealers, Inc.; Order Granting
Accelerated Approval and Notice of
Filing and Order Granting Accelerated
Approval of Amendment No. 1 of
Proposed Rule Change Relating to
Primary Market Maker Standards**

January 15, 1997.

I. Introduction

On December 23, 1996, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange

(providing for automatic execution of public customer orders of up to 100 MidCap 400 Index option contracts); 25950 (July 28, 1988), 53 FR 29293 (August 3, 1988) (order approving File No. SR-Amex-87-20) (increasing the number of Institutional Index options eligible for automatic execution to 100 contracts).

¹¹ See Securities Exchange Act Release No. 34876 (October 21, 1994), 59 FR 54226 (October 28, 1994) (order approving File No. SR-CBOE-94-17).

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).

Commission ("Commission" or "SEC") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder² a proposed rule change to waive the Nasdaq Primary Market Maker standards for the remainder of the current pilot period of the Nasdaq Short Sale Rule.³ The proposed rule change was published for comment in Securities Exchange Act Release No. 38091 (December 27, 1996), 62 FR 778 (January 6, 1997) ("Notice of Proposed Rule Change").⁴ On January 10, 1997, the NASD submitted Amendment No. 1 to waive the Nasdaq Primary Market Maker standards on a phase-in schedule.⁵ This order approves the proposed rule change, including Amendment No. 1, on an accelerated basis.

II. Description of the Proposal

The NASD has proposed to suspend the use of the Primary Nasdaq Market Maker ("PMM") qualification criteria found in Rule 4612 (a) and (b) of the Nasdaq market maker Requirements of the NASD Rules. Under existing Rule 4612, a registered Nasdaq market maker may be deemed to be a PMM in a National Market Security if the market maker meets two of three criteria: (1) The market maker maintains the best bid or best offer as shown on Nasdaq no less than 35% of the time; (2) a market maker maintains a spread no greater than 102% of the average dealer spread; and (3) no more than 50% of a market maker's quotation changes occur without a trade execution. In addition, if a registered market maker meets only one of the above criteria, it may nevertheless qualify as a PMM if the market maker accounts for volume at least 1½ times its proportionate share of overall volume in the stock. The review period for meeting any of these criteria is one calendar month. The PMM qualification criteria is reviewed by Nasdaq to determine which Nasdaq market makers will receive the PMM

¹ 15 U.S.C. 78s (b)(1).

² 17 CFR 240.19b-4.

³ On November 1, 1996, the Commission extended the pilot period of the NASD Short Sale Rule, Rule 3350, through October 1, 1997. Securities Exchange Act Release No. 37917 (November 1, 1996) 61 FR 57934 (November 8, 1996).

⁴ The Nasdaq Board has unanimously approved the filing of the proposed rule change regarding the suspension of Primary Market Maker standards. See Letter to Holly Smith, Associate Director, Division of Market Regulation, SEC, from Eugene A. Lopez, the Nasdaq Stock Market, Inc., dated January 9, 1997.

⁵ See Letter to Holly Smith, Associate Director, Division of Market Regulation, SEC, from Robert E. Aber, The Nasdaq Stock Market, Inc., dated January 14, 1997.

designation. The PMM designation allows a Nasdaq market maker to avail itself of the short sale exemption under NASD Rule 3350(c)(1). The NASD has proposed, on a phase-in basis, to suspend the PMM qualification criteria for Nasdaq National Market ("NNM") securities and, accordingly, deem all registered market makers in such securities a PMM.

III. Discussion

In August 1996, the Commission adopted a new rule and amendments to an existing rule that are scheduled to go into effect on January 20, 1997.⁶ Upon commencement of the Order Execution Rules, over-the-counter ("OTC") market makers will be representing certain customer limit orders in their quotations and frequently executing customer limit orders in a manner very different from today. Moreover, under an amendment to the Quote Rule, electronic communications networks ("ECNs") will be entering quotations and executions in the Nasdaq Stock Market in a manner which heretofore was reserved for registered market makers.⁷ The Commission has acknowledged that the Order Execution Rules represent a major change in the way OTC market makers display and execute orders in the Nasdaq Stock Market.

While the Order Execution Rules are anticipated to contribute to more vigorous quotation competition, the additional quotations will alter the data used in determining the PMM designation. A quote reflecting a customer limit order will be indistinguishable from a proprietary quote of a market maker. Inclusion of customer limit orders in a market maker's quote can narrow the market maker's spread, as well as the number of quotation changes the market maker effects. The display of ECN prices into the Nasdaq montage, which also will

⁶ See Securities Exchange Act Release No. 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996) adopting Rule 11Ac1-4 ("Limit Order Display Rule") and amendments to Rule 11Ac1-1 ("Quote Rule") (collectively the "Order Execution Rules"). See also Securities Exchange Act Release Nos. 38110 (January 2, 1997), 62 FR 1279 (January 9, 1997) (revising the effective date of the Order Execution Rules to January 13, 1997); and 38139 (January 8, 1997) (revising the effective date of the Order Execution Rules until January 20, 1997).

⁷ Rule 11Ac1-1(c)(5) requires a market maker to display in its quote any better priced order the market maker places into an electronic communications network ("ECN Amendment"). Alternatively, the ECN Amendment provides an exception to the market maker's display obligation that depends upon the ECN itself displaying its best-priced orders, entered therein by a market maker or specialist, and allowing brokers and dealers to access such orders ("ECN Display Amendment").

include customer limit orders, will further influence the data that Nasdaq calculates in determining a market maker's status as a PMM.

As a result, the quote conditions on which the PMM standards are based will change significantly and will no longer reliably reflect the quality of the market provided by the market maker, making the current PMM standards unpredictable for market makers. Without such PMM designation, a Nasdaq market maker is not permitted to effect a short sale in a NNM Security at or below the current best bid when the current best bid displayed by Nasdaq is below the preceding best bid in the security.⁸

The inability of a market maker to predict and obtain the PMM designation, and therefore sell short as part of its bona fide market making activity, may cause the withdrawal of some market makers thereby reducing liquidity and continuity in the market. Moreover, the Commission believes that a market maker could be deterred from accepting customer limit orders by the risk of losing its PMM designation, which consequently could impede the effectiveness of the Limit Order Display Rule. The Commission further believes that the continued use of the PMM qualification criteria, when the data used is not an accurate assessment of the market maker's own independent quotation, would be inequitable and cause an unintended burden on competition. The Commission concludes that the suspension of the current NASD PMM qualification criteria on a temporary basis is consistent with the Act, and for the smooth implementation of the Order Execution Rules.

The Order Execution Rules contain phase-in periods to ensure an orderly transition and to permit market participants an opportunity to obtain experience over a manageable set of securities.⁹ Consequently, the suspension of PMM qualification criteria will also operate on a phase-in schedule that parallels the phase-in period of the ECN Amendment. On the first business day of the month following each phase-in period of the ECN amendment, the PMM qualification criteria will be suspended and all registered Nasdaq market makers in such securities will be designated a PMM. For example, on February 3, 1997

all Nasdaq registered market makers in the first fifty securities being phased-in under the ECN Amendment, effective January 20, 1997, will be a designated PMM.¹⁰ The Commission expects the NASD to develop new standards as soon as practicable after the Order Execution Rules become effective. As a result, the Commission is approving the rule change on a pilot basis through July 1, 1997.

IV. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1 to the proposed rule change. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submissions, all subsequent amendments, all written statements with respect to Amendment No. 1 that are filed with the Commission, and all written communications relating to Amendment No. 1 between the Commission and any persons, other than those that may be withheld from the public in accordance with 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-96-55 and should be submitted [insert date 21 days from date of publication].

V. Conclusion

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the NASD, and in particular Sections 15A(b)(6), 15A(b)(9), and 15A(b)(11). In addition, the Commission finds that the rule change is consistent with the Congressional objectives for the equity markets, set out in Section 11A, of achieving more efficient and effective market operations, fair competition among brokers and dealers, and the economically efficient execution of investor orders in the best market. The Commission further believes that maintaining the existing PMM qualification criteria beyond January 20, 1997 will likely frustrate the operation of the Order Execution Rules. Accordingly, the Commission finds

good cause for approving the proposed rule change and Amendment No. 1 to suspend the PMM qualification criteria prior to the thirtieth day after date of publication of notice of filing thereof in the Federal Register.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (NASD-96-55) be and hereby is approved, with the first phase-in effective February 1, 1997, until July 1, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

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TENNESSEE VALLEY AUTHORITY

Paperwork Reduction Act of 1996, as Amended by Public Law 104-13; Proposed Collection; Comment Request

AGENCY: Tennessee Valley Authority.
ACTION: Proposed collection; comment request.

SUMMARY: The proposed information collection described below will be submitted to the Office of Management and Budget (OMB) for review, as required by the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35, as amended). The Tennessee Valley Authority is soliciting public comments on this proposed collection as provided by 5 CFR 1320.8(d)(1). Requests for information, including copies of the information collection proposed and supporting documentation, should be directed to the Acting Agency Clearance Officer: Wilma H. McCauley, Tennessee Valley Authority, 1101 Market Street (WR 4Q), Chattanooga, Tennessee 37402-2801; (423) 751-2523.

Comments should be sent to the Acting Agency Clearance Officer no later than March 24, 1997.

SUPPLEMENTARY INFORMATION:

Type of Request: Regular submission, proposal to extend a currently approved collection of information (OMB control number 3316-0100).

Title of Information Collection: Comparison of Factors Influencing Minority and Non-minority Representation in State and Federal Natural Resource Professions.

Frequency of Use: On occasion.

Type of Affected Public: Individuals or households, state or local

⁸ See NASD Rule 3350.

⁹ See Securities Exchange Act Release Nos. 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996), 38110 (January 2, 1997); 62 FR 1279 (January 9, 1997); and 38139 (January 8, 1997) (outlining the phase-in dates for the Limit Order Display Rule and the ECN Amendment).

¹⁰ See Letter from S. William Broka, Senior Vice President, Trading & Market Service, The Nasdaq Stock Market, Inc., dated December 23, 1996.

¹¹ 15 U.S.C. 78s(b)(2) (1988).

¹² 17 CFR 300.30-3(a)(12) (1996).