

any damages resulting from mistakes or omission in LGS.<sup>6</sup>

The LGS menu approach will guide users through a step-by-step process to ascertain the relevant requirements for transferring legal deposits. LGS also will have a "fast forward" navigation option that will allow an experienced user to quickly access the requisite information. Users also will be able to request through LGS that certain transfer documents be sent to their offices by facsimile transmission. In the near future, DTC plans to interface LGS with its Pending Legal Deposit System to track and monitor document expiration. The fee charged to DTC participants and nonparticipants for LGS service will be DTC's standard fee for PTS inquiries.

## II. Discussion

Section 17A(b)(3)(F)<sup>7</sup> of the Act requires that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of transactions. Furthermore, Section 17(a)(1)(C) of the Act<sup>8</sup> sets forth a Congressional finding that new data processing and communications techniques create the opportunity for more efficient, effective, and safe procedures for clearance and settlement. As discussed below, the Commission believes that DTC's proposed rule change is consistent with DTC's obligations under the Act.

Implementation of LGS will assist DTC participants and nonparticipants in the preparation of the documentation necessary to effect a legal deposit of securities at DTC by providing guidance as to state, province, and transfer agent requirements as well as forms of the documents required to effect such transfer. This could help to reduce the number of deposits that cannot be immediately processed through DTC due to improper documentation. Because use of LGS could make the legal deposit eligible for DTC processing in a more timely manner, it in turn could serve to improve the efficiency and effectiveness of clearance and settlement of securities transactions.

<sup>6</sup>Specifically, the disclaimer will state that "DTC does not represent the accuracy, adequacy, or fitness for a particular purpose of the following information, which is provided as is. DTC shall not be liable for: (1) Any loss resulting directly or indirectly from mistakes, omissions, interruptions, delays, errors, or defects arising from or related to this service; and (2) any special, consequential, exemplary, incidental, or punitive damages."

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F) (1988).

<sup>8</sup> 15 U.S.C. 78q-1(a)(1)(C) (1988).

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-95-09) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36421; File No. SR-NYSE-95-35]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the New York Stock Exchange, Inc. Relating to a Pilot Program to Display Price Improvement on the Execution Report Sent to the Entering Firm

October 26, 1995.

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 October 20, 1995, the New York Stock Exchange, Inc. ("NYSE" 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 proposed rule change consists of a pilot program, to be implemented for six months, whereby the Exchange will test and evaluate a means of calculating and displaying, on the execution reports sent to member firms, the dollar amounts realized as savings to their customers as a result of price improvement in the execution of their orders on the Exchange. During the pilot program, the Exchange expects to work with Merrill Lynch, Pierce, Fenner & Smith, Incorporated ("Merrill Lynch") in testing and evaluating the proposed methodology. Assuming the results of

<sup>9</sup> 17 CFR 200.30-3(a)(12) (1994).

the pilot program are successful, the Exchange will make this program available to all its member organizations.

#### 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 purpose of the proposed six month pilot program is to develop, test, and evaluate a methodology and program for calculating and displaying, on an execution report sent to member firms entering orders, the dollar value saved by their customers as a result of price improvement of orders executed on the Exchange. This program does not in any way affect the actual execution of orders. The Exchange is proposing to refer to this calculated dollar savings as the "NYSE PRIME<sup>SM</sup>." For the six months of the pilot, while the program is being tested and evaluated, this feature will be available only for certain orders entered by Merrill Lynch, which is the pilot firm with which the Exchange is working. Should the pilot prove successful, this program will be made available to all other member organizations.

The NYSE PRIME is proposed to be made available for intra-day market orders entered via the Exchange's SuperDOT system that are not tick sensitive and are entered from off the Floor.<sup>1</sup> The NYSE PRIME (amount of price improvement) is calculated in one of two ways: (1) In comparison to the guaranteed (stopped) price for market orders that are stopped; and (2) in comparison to the best bid and offer

<sup>SM</sup>NYSE PRIME is a service mark of the New York Stock Exchange, Inc.

<sup>1</sup> Also excluded from the NYSE PRIME feature are booth entered or booth routed orders, booked orders, combination orders (e.g., switch orders) and orders diverted to sidacar.

displayed on the national market system at the time the order is received.<sup>2</sup>

The following examples illustrate how NYSE PRIME is proposed to work.

Assume the NYSE market quote is 50-50 $\frac{1}{4}$ .

*Example 1* A market order to sell 1000 shares, entered on the NYSE, is stopped at 50, meaning it is guaranteed to sell at 50 or a better price. The quote is narrowed to 50-50 $\frac{1}{8}$  and the order is subsequently executed at 50 $\frac{1}{8}$ . This is an  $\frac{1}{8}$  point savings over the guaranteed (stopped) price of 50, which translates into \$125 savings over the guaranteed price. Thus, the execution report would display NYSE PRIME \$125.<sup>3</sup>

Assume the national market quote is 50-50 $\frac{1}{4}$ .

*Example 2* A market order to buy 800 shares, entered on the NYSE, is executed at 50 $\frac{1}{8}$ . This is an  $\frac{1}{8}$  point savings over taking the prevailing offer of 50 $\frac{1}{4}$ . The execution report would display NYSE PRIME \$100.

Assume the NYSE market quote is 50-50 $\frac{1}{8}$ -20,000 by 1,000.

*Example 3* A market order to sell 1,000 shares is entered on the NYSE. Because the large imbalance on the bid side suggests a likelihood that the subsequent transaction will be on the offer side, the sell order is stopped at 50, meaning it is guaranteed to sell at 50 or a better price. The offer is increased to 2,000 shares at 50 $\frac{1}{8}$ .

Subsequently, another order comes in to buy 2,000 shares at 50 $\frac{1}{8}$  and the stopped order to sell is executed at 50 $\frac{1}{8}$ . This is an  $\frac{1}{8}$  point savings over the guaranteed (stopped) price of 50, which translates into \$125 savings over the guaranteed price. Thus, the execution report would display NYSE PRIME \$125.

Assume the national market quote is 50-50 $\frac{1}{8}$ -1,000 by 1,000.

*Example 4* A market order to sell 1,000 shares, entered on the NYSE, comes in at the same time as a market order to buy 2,000 shares. Both orders are executed at 50 $\frac{1}{8}$ . This is an  $\frac{1}{8}$  point price improvement for the 1,000 share sell order, which otherwise would have been executed at the bid price of 50. Thus, its execution report would display NYSE PRIME \$125.

If there is no price improvement because either there was no savings over the prevailing quote/guaranteed price or the order was not eligible for the pilot, then no price improvement information would be displayed on the execution report to the entering firm.

The Exchange believes that the NYSE PRIME can be expected to enhance the information made available to investors and improve their understanding of the auction market. The Exchange is proposing to test and evaluate this

<sup>2</sup>For stocks that are not ITS-eligible, the NYSE quote is used.

<sup>3</sup>The algorithm that calculates the savings per share can calculate price improvement for a minimum of  $\frac{1}{32}$  or \$0.03125 per share to a maximum of  $\frac{9}{32}$  or \$3.00 per share. If price improvement exceeds \$3.00 per share, the NYSE PRIME will be preceded by a ">" sign and will equal  $\$3.00 \times$  the number of shares traded.

service by conducting a six-month pilot to ensure that the program is viable and that the data are accurate before making the program available to all member organizations. During this period, the Exchange will make whatever refinements are necessary to the service before making it generally available to member firms.

## 2. Statutory Basis

The basis under the Act for this rule change is the requirement under Section 6(b)(5) that an exchange have rules that are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. This rule change is designed to perfect the mechanism of a free and open market in that it enhances the information provided to investors by displaying to them the dollar value of the price improvement their orders may have received when executed on the NYSE.

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

The Exchange does not believe that the rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. In fact, the Exchange believes that the NYSE PRIME program can reasonably be expected to enhance competition by disclosing to investors the amount of savings they may realize as a result of the price improvement their orders may receive with executed on the NYSE.

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

The Exchange has neither solicited nor received written comments on the rule change.

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

This rule change is filed pursuant to paragraph (A) of Section 19(b)(3) of the Act, and paragraphs (e)(5) (i), (ii), and (iii) of Rule 19b-4 thereunder. The NYSE PRIME program will entail enhancements to the Exchange's CMS (common message switch), SuperDOT and Post Trade systems. This program does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and does not have the effect of limiting access to or availability of any Exchange order enter

or trading system. As such, this rule change may take effect immediately upon filing with the Commission. At any time within 60 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. 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 NYSE. All submissions should refer to File No. SR-NYSE-95-35 and should be submitted by November 22, 1995.

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

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36416; File No. SR-NYSE-95-33]

**Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange, Inc., Relating to Additions to List of Rule Violations and Fines Administered Pursuant to NYSE Rule 476A**

October 25, 1995.

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 October 2, 1995,