

*(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

The purpose of the proposed rule change is to extend the Commission's temporary approval of DTC's admission criteria for non-U.S. entities as direct DTC participants. On May 9, 1997, the Commission originally granted temporary approval through May 31, 1998.<sup>3</sup> The admission criteria are designed to permit well-qualified, non-U.S. entities to obtain direct access to DTC's services without requiring the non-U.S. entities to obtain financial guarantees from another DTC participant. According to DTC, DTC established the program for admission of non-U.S. entities in response to requests it received from certain participants. These participants requested that DTC consider changes in its admissions policy that would allow non-U.S. affiliates of U.S. participants to become direct participants without having to obtain financial guarantees from their U.S. affiliates that are DTC participants. The Commission has subsequently extended its original temporary approval through May 31, 2000.<sup>4</sup>

In November 1999, DTC admitted one non-U.S. entity as a direct participant under the standards for admission of non-U.S. entities. DTC has received several inquiries from other non-U.S. entities and expects to admit several non-U.S. entities under its standards for the admission of non-U.S. entities. DTC is seeking an extension of the temporary approval so it can complete the admission of these non-U.S. entities and gain further experience with the admission standards for non-U.S. entities and with the unique risks posed by the activities of non-U.S. entities as direct DTC participants.

DTC believes that the proposed rule change is consistent with the requirements of section 17A(b)(3)(F) of the Act and the rules and regulations promulgated because the admission criteria takes into account the unique risks to DTC raised by the admission of non-U.S. entities while not unfairly discriminating against non-U.S. entities seeking admission as participants.

<sup>3</sup> For a complete discussion of the admission criteria, refer to Securities Exchange Act Release No. 38600 (May 9, 1997), 62 FR 27086 [File No. SR-DTC-96-13].

<sup>4</sup> See Securities Exchange Act Release Nos. 40064 (June 3, 1998), 63 FR 31818 [File No. SR-DTC-98-11] and 41466 (May 28, 1999), 64 FR 30077 [File No. SR-DTC-99-12].

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

While DTC acknowledges that the proposed additional admissions criteria applicable to non-U.S. entities may impose some additional burden, for the reasons stated above, DTC believes that any such burden necessary and appropriate in furtherance of the purposes of the Act.

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

DTC has not sought or received comments on the proposed rule change.

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

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>5</sup> The Commission finds that the rule change is consistent with this obligation because DTC's admission criteria for non-U.S. entities has been designed in a manner that takes into account jurisdiction differences in regulatory structure and in business operations of non-U.S. entities with respect to DTC's risk control and management. Furthermore, DTC admission criteria should bind non-U.S. entities to DTC's rules and procedures in a manner similar to domestic participants and should lessen or eliminate the negative effects that jurisdictional issues could have on DTC's exercise of its rights against non-U.S. entities. Therefore, the Commission finds that the admissions criteria will assist DTC in assuring the safeguarding of securities and funds which are in its custody, control, or for which it is responsible.

DTC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after publication of the notice of the filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after publication of the notice of the filing because accelerated approval will permit DTC to continue to use and study the effectiveness of its admission criteria for non-U.S. entities without interruption when the current temporary approval of these criteria expires on May 31, 2000.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

**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, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the DTC. All submissions should refer to file number SR-DTC-00-07 and should be submitted by June 28, 2000.

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-00-07) be, and hereby is, temporarily approved on an accelerated basis through May 31, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-42830; File No. SR-MSRB-00-7]

**Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Municipal Securities Rulemaking Board Consisting of Technical Amendments to Rules A-3, G-15, G-17, and G-18**

May 25, 2000.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup>

<sup>6</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

notice is hereby given that on May 2, 2000, the Municipal Securities Rulemaking Board ("Board" or "MSRB") 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 MSRB. The Board has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission.<sup>4</sup> 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 Board has filed with the Commission a proposed rule change consisting of technical amendments to Rule A-3, on Board membership; Rule G-15, on confirmation, clearance and settlement of customer transactions with customers; rule G-17, on conduct of municipal securities business; and Rule G-18, on execution of transactions. The proposed rule change would become operative on June 1, 2000.

### **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 MSRB 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 Board 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 Board proposes to adopt technical amendments to Rules A-3, G-15, G-17, and G-18 for the purpose of making certain non-substantive changes. The proposed amendments to subsections (a)(i), (c)(ii) and (c)(iv) of Rule A-3 correct an unintended omission from the technical amendments (the "1999 Technical Amendments"),<sup>5</sup> filed with and approved by the Commission last year, with respect to the definition of public representatives on the Board and its Nominating Committee. The proposed rule change is intended to make the rule language consistent with Section 15B(b)(1) of the Act.<sup>6</sup>

The proposed changes to Rule G-15(d)(ii) make subsection and paragraph references consistent with the Board's general usage of such references throughout the rules.

The proposed amendments to Rule G-17 change certain terminology used in the rule from "municipal securities business" to "municipal securities activities" to avoid any ambiguity with the term "municipal securities business" as used in Rules G-37 and G-38. The Board represents that the term "municipal securities business" as used in Rules G-37 and G-38 has a specific limited definition, whereas Rule G-17 uses that term in a manner intended to include all of the municipal securities activities of the dealer or its associated persons.<sup>7</sup>

The proposed amendment to Rule G-18 would delete a definition of "broker's broker" that pre-dated the Commission's definition of that term under Rule 15c3-1(a)(8)(ii) of the Act.<sup>8</sup> Because the language used to define brokers' broker differs in the two definitions, the Board believes that it is possible that some ambiguity may exist as to whether the term is intended to cover the same universe of dealers under the general federal securities laws and Board rules. The Board represents that the deletion of this definition from Rule G-18 would eliminate this potential ambiguity.<sup>9</sup>

<sup>5</sup> See Securities Exchange Act Release No. 41528 (June 15, 1999), 64 FR 33334 (June 22, 1999).

<sup>6</sup> 15 U.S.C. 78o-4(b)(1).

<sup>7</sup> The proposed changes to Rule G-17 are consistent with similar amendments made to Rules A-14, A-15, G-3 and G-27 in the 1999 Technical Amendments.

<sup>8</sup> 17 CFR 240.15c3-1(a)(8)(ii).

<sup>9</sup> Rule D-1 provides that, unless the context otherwise specifically requires, the terms used in Board rules shall have the respective meanings set

##### **2. Statutory Basis**

The Board believes that the proposed rule is consistent with Section 15B(b)(2)(C) of the Act.<sup>10</sup> The Board further believes that the proposed rule change will ensure that existing rule provisions are accurate and understandable.

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

The Board represents that the proposed rule change will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it would apply equally to all brokers, dealers and municipal securities dealers.

#### **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.

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

Because the foregoing proposed rule change: (i) Does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; (iii) was provided to the Commission for its review at least five business days prior to the filing date; and (iv) does not become operative for 30 days after the date of its filing, the Board has submitted this proposed rule change, pursuant to Section 19(b)(3)(A) <sup>11</sup> of the Act and Rule 19b-4(f)(6) <sup>12</sup> thereunder, to become operative on June 1, 2000. At any time within sixty 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

forth in the Act and the rules and regulations of the Commission thereunder. Thus, the deletion of the definition of brokers' broker from Rule G-18 would automatically result in this term having the same meaning as set forth under Rule 15c3-1(a)(8)(ii) of the Act.

<sup>10</sup> Section 15B(b)(2)(C) of the Act states in pertinent part that the rules of the Board "shall be designed to prevent fraudulent and manipulative acts and practices, 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 municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest." 15 U.S.C. 78o-4(b)(2)(C).

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

<sup>3</sup> 17 CFT 240.19b-4(f)(6).

<sup>4</sup> Pursuant to Rule 19b-4(f)(6), the Board provided the required five-day advance notice to the Commission of its intent to file the proposed rule change. In the notice, the Board represented that the proposed rule change: (1) Will not significantly affect the protection of investors; (2) will not impose any significant burden on competition; and (3) will not become operative for thirty days after the date of this filing. See letter from Ernesto A. Lanza, Associate General Counsel, MSRB, to Katherine A. England, Assistant Director, Division of Market Regulation, Commission, dated April 25, 2000.

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 at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the MSRB. All submissions should refer to File No. SR-MSRB-00-7 and should be submitted by June 28, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42852; File No. SR-NASD-00-17]

#### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Minimum Quotation Sizes in the OTC Bulletin Board

May 30, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 10, 2000, 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, II, and III below, which Items have been prepared by Nasdaq. 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

Nasdaq proposes an amendment to NASD Rule 6750 that would modify the minimum quotation sizes 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 *italic*; proposed deletions are in brackets.

#### 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 size of the market being quoted by the member firm in a given security.

Price (bid or offer)	Minimum quote size
0-.50 *	5,000
.51-1.00 .....	2,500
1.01-10.00 .....	500
10.01-100.00 .....	200
100.01-200.00 .....	100
[200.01+ .....	50]
200.01-500 .....	25
500.01-1000 .....	10
1000.01-2500 .....	5
2500.01+ .....	1

\* 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.

[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.

#### 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, 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 modify the minimum quotation size for securities quoted on the OTCBB that exceed a price of \$200 per share. Nasdaq believes that this modification is necessary to correct a previously unforeseen problem with the schedule contained in Rule 6750, which presently mandates that securities priced over \$200 per share be traded in blocks of 50 shares or more.<sup>3</sup> For certain highly priced and/or thinly traded securities, this rule has had an undesired and detrimental effect on transparency and liquidity.

Rule 6750 was originally approved by the Commission in 1993<sup>4</sup> during the early stages of the OTCBB service. Prior to implementation of the rule, all priced quotations on the OTCBB were required to be firm for blocks of 100 shares or more. This approach soon proved unworkable for lower priced securities for which a quote of 100 shares could represent an insignificant aggregate dollar value commitment to the market.

To remedy this situation, the NASD implemented this minimum quotation size rule for securities priced at \$200 per share and below on a "graduated" or "tired" basis.<sup>5</sup> For securities quoted

<sup>3</sup> The Commission notes that, in SR-NASD-99-32, the NASD added a provision to Rule 6750 allowing some Nasdaq officers to modify the minimum quotation size for securities with a price greater than \$200 per share. See Exchange Act Release No. 41907 (Sept. 23, 1999), 64 FR 52817 (Sept. 30, 1999).

<sup>4</sup> See Exchange Act Release No. 32570 (July 1, 1993), 58 FR 36725 (July 8, 1993).

<sup>5</sup> This requirement applies only to market makers entering priced quotations. Market makers are

Continued

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.