stopped buy orders) or offer (for stopped sell orders) with time priority were executed by the close. The Commission recognizes the unintended consequences that can arise from the interplay between a regional exchange's price protection rules and its procedures for stopping stock. 18 In the Commission's opinion, the CHX data suggests that stopped stock generally has been executed in accordance with traditional auction market principles.

Finally, the CHX has responded to the Commission's questions about compliance with the pilot program procedures; at this time, the Exchange staff is not aware of any market surveillance investigations or customer complaints relating to the practice of stopping stock in minimum variation markets. <sup>19</sup> In the event, however, that the CHX identifies any instances of specialist noncompliance with the pilot procedures, the Commission would expect the Exchange to take appropriate action in response.

During the pilot extension, the Commission requests that the Exchange continue to monitor the effects of stopping stock in a minimum variation market and to provide additional information where appropriate. In addition, if the Exchange determines to request permanent approval of the pilot program or an extension thereof beyond July 21, 1995, the CHX should submit to the Commission a proposed rule change by April 15, 1995.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of the notice of filing thereof. This will permit the pilot program to continue on an uninterrupted basis. In addition, the procedures the Exchange proposes to continue using are the identical procedures that were published in the **Federal Register** for the full comment period and were approved by the Commission.<sup>20</sup>

It is therefore ordered, pursuant to Section 19(b)(2) <sup>21</sup> that the proposed rule change (SR-CHX-95-04) is hereby approved on a pilot basis until July 21, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>22</sup>

## Margaret H. McFarland,

Deputy Secretary.
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[Release No. 34–35427; File No. SR–MSRB–94–10]

Self-Regulatory Organization; The Municipal Securities Rulemaking Board; Order Approving Proposed Rule Change Establishing Three Business Day Settlement Time Frame

February 28, 1995.

On August 9, 1994, the Municipal Securities Rulemaking Board ("MSRB") submitted a proposed rule change to the Securities and Exchange Commission ("Commission") pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal appeared in the **Federal Register** on August 24, 1994.² The Commission received four comment letters.³ This order approves the proposal.

## I. Description of the Proposal

The purpose of the proposed rule change is to establish three business days after execution of a trade ("T+3") as the standard settlement time frame for transactions in municipal securities. The proposal conforms the standard settlement time frame for municipal transactions to that for most other equity and debt securities transactions.<sup>4</sup> Currently, regular-way settlement is defined as five business days ("T+5") in

MSRB rules G-12 ("Uniform Practice") and G-15 ("Confirmation, Clearance and Settlement Transactions with Customers"). The proposed rule change will be effective on June 7, 1995, the same day as the Commission's Rule 15c6-1.5

The proposed rule change allows alternate settlement time frames for municipal securities transactions in the secondary market by agreement of the parties at the time of each individual transaction. Thus, broker-dealers may not use standing instructions or master agreements to retain T+5 settlement as

a standard practice.

The proposed rule change does not alter the current practice with respect to "when, as and if issued" transactions.6 Currently, "when, as and if issued" transactions are not settled in five business days due to the various actions necessary to accomplish settlement with the issuer of municipal securities. Therefore, rule G-12(b) will continue to provide that "when, as and if issued" transactions will settle on a date agreed to by both parties but not earlier than the fifth day following the date the confirmation indicating the final settlement date is sent or the sixth day following the date the confirmation indicating the final settlement date is sent for transactions between a manager and a syndicate member.

The proposed rule change also will amend rule G-15(d)(i) relating to institutional customer delivery instructions on delivery versus payment or receipt versus payment ("DVP/RVP") settlements to reflect a T+3 rather than T+5 settlement cycle. Pursuant to the amendment, a broker-dealer must obtain a representation from a customer with DVP/RVP privilege that the customer will deliver instructions to its agent with respect to the receipt or delivery of the securities involved in the transaction promptly and "in a manner to assure that settlement will occur on settlement date." The MSRB has deleted references to specific agent instruction time frames.

## **II. Written Comments**

In addition to the six comment letters the MSRB received prior to the filing of its proposal,<sup>7</sup> the Commission received

<sup>&</sup>lt;sup>18</sup> See supra, note 8 and accompanying text.
<sup>19</sup> Telephone conversation between David T.
Rusoff, Foley & Lardner, and Beth A. Stekler,
Attorney, Division of Market Regulation, SEC, on
February 28, 1995.

<sup>&</sup>lt;sup>20</sup> No comments were received in connection with the proposed rule change which implemented these procedures. See 1992 Approval Order, supra, note 4.

<sup>21 15</sup> U.S.C. 78s(b)(2) (1988).

<sup>22 17</sup> CFR 200.30-3(a)(12) (1991).

<sup>1 15</sup> U.S.C. 78s(b) (1988).

<sup>&</sup>lt;sup>2</sup> Securities Exchange Act Release No. 34541 (August 17, 1994), 59 FR 43603.

<sup>&</sup>lt;sup>3</sup> Letters from R.N. Dillingham to Commissioners, Commission (September 12, 1994); Sarah A. Miller, Senior Government Relations Counsel, Trust and Securities, American Bankers Association, to Jonathan G. Katz, Secretary, Commission (September 14, 1994); P. Howard Edelstein, President, Electronic Settlement Group, Thomson Trading Services, Inc. (A Thomson Financial Services Company), to Jonathan G. Katz, Secretary, Commission (September 16, 1994); and Diane M Butler, Director—Operations & Fund Custody, Investment Company Institute, to Jonathan G. Katz, Secretary, Commission (September 22, 1994). In addition, the MSRB received six comment letters prior to filing the proposed rule change with the Commission. See infra note 7.

<sup>&</sup>lt;sup>4</sup> On October 6, 1993, the Commission adopted Rule 15c6–1 under the Act which establishes T+3 as the standard settlement cycle for most broker-dealer transactions. Rule 15c6–1 does not apply to transactions in municipal securities. While municipal securities were specifically exempt from the scope of the rule, the Commission stated its expectation that the MSRB would take the lead in moving municipal securities to a T+3 settlement time frame. Securities Exchange Act Release No. 33023 (October 6, 1993), 58 FR 52891.

<sup>&</sup>lt;sup>5</sup>Rule 15c6–1, as adopted, was to become effective June 1, 1995. In order to provide for an orderly and efficient transition from T+5 settlement to T+3 settlement, the Commission has changed the effective date of Rule 15c6–1 to June 7, 1995. Securities Exchange Act Release No. 34952 (November 9, 1994), 59 FR 59137.

<sup>&</sup>lt;sup>6</sup> "When, as and if issued" transactions are transactions in municipal securities which have not yet been issued.

<sup>&</sup>lt;sup>7</sup>Letters from W. Pat Conners, Conners & Co., Inc., to Judy Somerville, MSRB (March 25, 1994);