

clearance, and settlement of transactions with customers. These amendments established three business days as the standard settlement time frame for regular-way transactions in municipal securities.<sup>5</sup> The MSRB reviewed its rules to determine whether or not additional rule changes were necessary to facilitate the movement to T+3 settlement and determined that additional amendments to rule G-15 are necessary to facilitate T+3 settlement for municipal securities transactions.

Currently, rule G-15(d) states that a dealer shall give to send to a DVP/RVP customer a confirmation with respect to an execution of an order no later than the close of business on the next business day after execution ("T+1").<sup>6</sup> The rule does not specify the timing for the submission of transaction data to an automated confirmation/acknowledgement system although it did require that nearly all municipal securities transactions with institutional customers be processed in such a system.<sup>7</sup> As amended, rule G-15(d) now will require dealers to give or send the confirmation and to submit transaction data on an automated confirmation/acknowledgement system on the trade date rather than on T+1.<sup>8</sup>

## II. Discussion

Section 15B(b)(2)(C) of the Act provides that the MSRB has the

authority to adopt rules to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities.<sup>9</sup> The Commission believes the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act because the proposal will foster cooperation and coordination with persons engaged in the clearance and settlement of municipal securities by providing a standard, specific time (i.e., on the date of execution) for broker/dealers extending DVP/RVP privileges to institutional customers to submit transaction information to an automated confirmation/acknowledgement system of a registered clearing agency and to give or send confirmation to those customers. The Commission believes the proposal also fosters cooperation and coordination with persons engaged in the processing of information with respect to municipal securities transactions because the success of the proposed Phase II of the MSRB's Transaction Reporting Program will depend on timely and accurate submission of institutional customer transaction data on trade date to the automated confirmation/acknowledgement system.<sup>10</sup>

Furthermore, in a T+3 settlement environment the proposal should help to ensure more timely confirmation and acknowledgement of DVP/RVP customer transactions. With a T+3 settlement cycle, less time will exist for the communications between dealers and institutional customers necessary to clear and settle transactions. Accordingly, by requiring the transaction data to be submitted to an automated confirmation/acknowledgement system on trade date, the likelihood that trades between municipal dealers and institutional customers will fail to settlement on T+3 is greatly reduced.

The Commission has requested and the MSRB has agreed to monitor the abilities of municipal securities broker-dealers to meet the new deadline set forth in amended Rule G-15(d) and to report the results of its findings to the Commission six months from the date of implementation of the rule change.<sup>11</sup>

## III. Conclusion

The Commission finds that the MSRB's proposal is consistent with the requirements of the Act and particularly with Section 15B(b)(2)(C).

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-MSRB-95-03) be, and hereby is approved and will become effective thirty days from the date of approval by the Commission.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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### Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc., Relating to an Interim Extension of the OTC Bulletin Board® Service Through September 28, 1995

June 29, 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 June 28, 1995, the National Association of Securities Dealers, Inc. ("NASD") 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 NASD. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and is simultaneously approving the proposal.

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

On June 1, 1990, the NASD, through a subsidiary corporation, initiated operation of the OTC Bulletin Board Service ("OTCBB Service" or "Service") in accord with the Commission's approval of File No. SR-NASD-88-19, as amended.<sup>1</sup> The OTCBB Service provides a real-time quotation medium that NASD member firms can elect to use to enter, update, and retrieve quotation information (including unpriced indications of interest) for

<sup>5</sup> Securities Exchange Act Release No. 35427 (February 28, 1995), 60 FR 12798 [File No. SR-MSRB-94-10].

<sup>6</sup> The terms "DVP/RVP customer" and "institutional customer" both refer to customers whose transactions with dealers are settled on a delivery versus payment or receipt versus payment basis.

<sup>7</sup> The automated clearance and settlement process includes several steps. Initially, dealers submit transaction information to an automated confirmation/acknowledgement system followed by the institutional customer receiving notification requesting acknowledgement of the transaction through the automated system. Once the institutional customer acknowledges the transaction, the transaction is then ready for automated settlement to occur at the depository on settlement date.

<sup>8</sup> Rule G-15(a) states that a confirmation containing certain information must be given or sent to each customer. Some dealers use an automated confirmation/acknowledgement system as the exclusive mechanism for confirmation transactions to DVP/RVP customers (i.e., no paper confirmation is sent). The MSRB has stated that use of an automated confirmation/acknowledgement system to deliver a confirmation meeting the information requirements of rule G-15(a) is permissible as long as all information required by rule G-15(a) is included on the electronic confirmation generated by that system. The MSRB, however, has not specified that an automated confirmation/acknowledgement system is the exclusive mechanism for sending confirmation information required by rule G-15(a) to DVP/RVP customers. Some dealers continue to use both the automated confirmation/acknowledgement system and also send paper confirmations.

<sup>9</sup> 15 U.S.C. 78o-3(b)(2)(C) (1988).

<sup>10</sup> For a complete description of Phase II of the MSRB's Transaction Reporting Program, refer to "Transaction Reporting Program for Municipal Securities: Phase II," *MSRB Reports*, Vol. 15, No. 1 (April 1995).

<sup>11</sup> Conversation between Judith A. Somerville, Uniform Practice Specialist, MSRB, and Peggy Robb Blake, Attorney, Division of Market Regulation, Commission (June 29, 1995).

<sup>12</sup> 17 CFR 200.300-3(a)(12) (1994).

<sup>1</sup> Securities Exchange Act Release No. 27975 (May 1, 1990), 55 FR 19124 (May 8, 1990).