

proposed rule change is available at the Office of the Secretary, NYSE, and the Commission.

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 III 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 rule change is to extend the effectiveness of amendments to Exchange Rule 116.30 that permit a specialist to grant a stop in a minimum variation market. The practice of "stopping" stock by specialists on the Exchange refers to a guarantee by the specialist that an order the specialist receives will be executed at no worse a price than the contra-side price in the market when the specialist receives the order, with the understanding that the order may in fact receive a better price.

Formerly, Exchange Rule 116.30 permitted a specialist to stop stock only when the quotation spread was at least twice the minimum variation (*i.e.*, for most stocks $\frac{1}{4}$ point), with the specialist then being required to narrow the quotation spread by making a bid or offer, as appropriate, on behalf of the order that is being stopped.

For three years, on March 21, 1991, March 16, 1992, and March 22, 1993, the Commission approved, on a one-year pilot basis each time, amendments to the rule that permit a specialist to stop stock in a minimum variation market (generally referred to as an $\frac{1}{8}$ -point market).² The Exchange sought these amendments on the grounds that many orders would receive an improved price if stopping stock in $\frac{1}{8}$ point

markets were permitted. The amendments to Rule 116.30 permit a specialist, upon request, to stop individual orders of 2,000 shares or less, up to an aggregate of 5,000 shares of multiple orders, in an $\frac{1}{8}$ point market.³ A specialist may stop an order of a specified larger order size threshold, or a larger aggregate number of shares, after obtaining Floor Official approval.

In the Commission's 1994 Approval Order, which extended the pilot until March 21, 1995, the Commission asked the Exchange to submit a fourth monitoring report on the stopping stock pilot.⁴ Subsequently, the Commission approved an extension of the pilot until July 21, 1995, so that the Commission would have additional time to evaluate the new information provided in the fourth monitoring report and to ensure that Rule 116.30, as amended, does not harm public customers with limit orders on the specialist's book.⁵

In connection with the proposed rule change, the Exchange has submitted four monitoring reports to the Commission, which review the operation of the pilot. The Exchange believes that the results obtained by its monitoring effort during the pilot period show that the amendments to Rule 116.30 enable specialists to better serve investors through the ability to offer price improvement to stopped orders, while having relatively little adverse impact on other orders on the book.

2. Statutory Basis

The basis under the Act for the proposed 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, in general, to protect investors and the public interest. The amendments to Rule 116.30 are consistent with these objectives in that they permit the Exchange to better serve its customers by enabling specialists to execute customer orders at improved prices.

³ The NYSE has stated, both to the Commission and to its members that specialists should only stop stock in a minimum variation market when an imbalance exists on the opposite side of the market and such imbalance is of sufficient size to suggest the likelihood of price improvement. *See, e.g.*, letter from James E. Buck, Senior Vice President and Secretary, NYSE, to Mary N. Revell, Branch Chief, Division of Market Regulation, SEC, dated December 27, 1990; NYSE information memo #1809, dated September 12, 1991.

⁴ See 1994 Approval Order, *supra*, note 1.

⁵ See January 1995 Approval Order, *supra*, note 1.

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

The proposed rule change will impose no burden on competition.

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.⁶

III. 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 Exchange. All submissions should refer to File No. SR-NYSE-95-26 and should be submitted by August 18, 1995.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular with Section

⁶ The Commission has received a comment letter regarding permanent approval of the NYSE's procedures for stopping stock in minimum variation markets. *See* letter from Junius W. Peake, Monfort Professor of Finance, University of Northern Colorado, to Secretary, SEC, dated March 1, 1995. The Commission believes that it would be more appropriate to address the issues raised by the comment letter in the context of the Exchange's proposal requesting permanent approval of its stopping stock pilot program. *See* Securities Exchange Act Release No. 35908 (June 28, 1995), 60 FR 34564 (July 3, 1995) (notice of filing of proposed rule change relating to permanent approval of NYSE's pilot program for stopping stock in a minimum variation market).

1993), 58 FR 16563 (Mar. 29, 1993) (File No. SR-NYSE-93-18) ("1993 Approval Order"); 33792 (Mar. 21, 1994), 59 FR 14437 (Mar. 28, 1994) (File No. SR-NYSE-94-06) ("1994 Approval Order"); and 35309 (Jan. 31, 1995) 60 FR 7247 (Feb. 7, 1995) (File No. SR-NYSE-95-02) ("January 1995 Approval Order").

² See 1991, 1992, and 1993 Approval Orders, *supra*, note 1.