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 Phlx, pursuant to Rule 19b–4 of the Act, proposes to amend Rule 229, Philadelphia Stock Exchange **Automated Communication and** Execution System ("PACE"), to permit non-agency orders under certain circumstances. Specifically, Supplementary Material .02 is proposed to be amended to permit non-agency orders in situations where a Specialist Agreement is in effect. The Specialist Agreement is an Exchange form signed by a Phlx equity specialist who has agreed to accept non-agency orders through PACE. The Agreement shall identify the member firms responsible for the orders and shall set forth the execution parameters applicable to the orders. The text of the proposed rule change is available at the Exchange and at 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 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 rule change is to amend Rule 229 to permit non-agency orders on the PACE System. PACE is the Exchange's system for the automatic delivery and execution of orders on the Phlx equity floor. Currently, Supplementary Material .02 to Rule 229 states that only agency orders are eligible under PACE. Further, agency orders are defined as orders entered on behalf of public customers, which are not for the account of a broker-dealer or any account in which a broker-dealer or an associate person of

a broker-dealer has any direct or indirect interest.

At this time, it is proposed that under certain circumstances non-agency orders be permitted over PACE. Phlx specialists may file a Specialist Agreement with the Exchange to allow the receipt and execution of such orders.2 A Specialist Agreement is an Exchange form signed by a Phlx equity specialist who has agreed to accept nonagency orders through PACE. The Agreement shall identify the member firms responsible for the orders and shall set forth the execution parameters applicable to the orders (i.e., order size guarantees).3 The execution parameters need not include volume guarantees in excess of firm quote obligations to buy on the displayed bid or sell on the displayed offer for the displayed size in accordance with existing rules for orders not currently on PACE.

Moreover, the Exchange would require that any specialist who has entered into a Specialist Agreement to facilitate broker-dealer orders on PACE, pursuant to the proposed provision, must also provide the same execution parameters to any other member broker-dealer that desires the same parameters (*i.e.*, same order size guarantees) with that specialist.⁴ This requirement is to

ensure that all broker-dealers are afforded the opportunity to receive the same treatment by a specialist which that specialist has bestowed on any other individual broker-dealer. Lastly, the Exchange notes that the order designator "P" will be utilized by the PACE system to indicate when an order is for the account of a broker-dealer.

The purpose of permitting non-agency orders onto PACE is to extend the benefits of PACE to Phlx member firms for their proprietary as well as customer orders. The Exchange believes that allowing such orders onto PACE should serve the important function of adding liquidity and trading opportunities to the Phlx marketplace. In addition, the Exchange believes that PACE provides efficiencies to the Exchange's marketplace, which reduces costs incurred through the handling of orders on a more manual basis. This proposal contemplates that such savings can now be realized for proprietary as well as customer orders.

2. Statutory Basis

The proposed rule change is consistent with Section 6 of the Act in general, and in particular, with Section 6(b)(5), in that it is 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, as well as to protect investors and the public interest, by reducing the costs and increasing the efficiencies of handling proprietary orders.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate 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 either solicited or received.

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

Within 35 days of the publication of this notice in the Federal Register or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes

² According to the Exchange, Phlx equity specialists who agree to accept non-agency orders through PACE would have the option of agreeing to execute non-agency orders on either a manual or automatic basis. Specifically, specialists who agree to accept such orders for manual execution would be using the PACE system as an order routing system and would be required to execute such orders manually in accordance with existing Phlx rules. Where the specialist agrees to provide for the automatic execution of non-agency orders, such orders would be executed automatically pursuant to the PACE execution parameters for public customer orders under Phlx Rule 229. Telephone conversation between Jerry O'Connell, Phlx, and Glen Barrentine and Jennifer Choi, SEC, on September 12, 1995.

³ According to the Exchange, specialists who agree to accept non-agency orders through PACE would have the option of setting different size guarantees for agency and non-agency orders. For example, a specialist could agree to provide automatic execution of all agency orders up to 2,000 shares while limiting the size guarantee for nonagency orders to 1,000 shares. Conversely, a specialist could agree to provide a larger size guarantee to non-agency orders than to agency orders. Telephone conversation between Jerry O'Connell, Phlx, and Glen Barrentine and Jennifer Choi, SEC, on September 12, 1995. Except for such different size guarantees, a specialist who agrees to provide for the automatic execution of non-agency orders through PACE would not be allowed to vary any other PACE execution parameters. Accordingly, such specialist would be required to execute such orders through PACE in all other respects in the same manner as public agency orders are currently executed through PACE. Telephone conversation between Jerry O'Connell and Edith Hallahan, Phlx, and Glen Barrentine and Jennifer Choi, SEC, on September 20, 1995.

⁴ As a result, a specialist who agrees to provide automatic execution for one member's non-agency

orders, must be willing to provide automatic execution for such orders of any other member who requests it. Telephone conversation between Jerry O'Connell, Phlx, and Glen Barrentine and Jennifer Choi, SEC, on September 12, 1995.