

credit risk staff.⁴ Those participants with a “weak” rating (*i.e.*, deemed to pose a relatively higher degree of risk to DTC) are placed on an internal “watch list” and are monitored more closely. All participants that do not fall into the categories of banks and broker-dealers mentioned above are not currently included in the Matrix process but are monitored by DTC’s credit risk staff using financial criteria deemed relevant by DTC.⁵

Procedures

Credit risk staff approaches its analysis of participants in the following manner. First, the required information of designated broker-dealers and banks are entered into the Matrix, and a rating for each participant is generated. Low-rated participants are placed on the watch list. At this point, credit risk staff may downgrade a particular participant’s rating based on various qualitative factors. For example, one qualitative factor might be that the participant in question received a qualified audit opinion on its annual audit. In order for DTC to protect itself and its participants, it is important that credit risk staff maintain the discretion to downgrade a participant’s Matrix rating and thus subject the participant to closer monitoring. All rated participants, including those on the watch list, are monitored monthly or quarterly, depending upon the participant’s financial filing frequency, against basic minimum financial requirements and other parameters.

All broker-dealer participants included on the watch list are monitored more closely than those not on the watch list. This means that they are monitored for various parameter breaks which may include, but are not limited to, such things as a defined decline in excess net capital over a one month or three month period, a defined period loss, a defined aggregate indebtedness/net capital ratio, a defined net capital/aggregate debit items ratio, or a defined net capital/regulatory net capital ratio. All bank participants included on the watch list are also

monitored more closely for watch list parameter breaks which may include, but are not limited to, such things as a defined quarter loss, a defined decline in equity, a defined tier one leverage ratio, a defined tier one risk-based capital ratio, and a defined total risk-based capital ratio.

Credit risk staff also monitors those participants not included in the Matrix process using similar criteria.⁶ These criteria may include, but are not limited, to such things as failure to meet minimum financial requirements, experiencing a significant decrease in equity, or a significant loss. This class of participants may be placed on the watch list based on credit risk staff’s analysis of this information. DTC continues to reserve the right to place a participant on the watch list for failure to comply with operational standards and requirements.⁷

III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to facilitate the safeguarding of securities and funds which are in its custody or control or for which it is responsible.⁸ The Commission finds that DTC’s proposed rule change is consistent with this requirement because it improves DTC’s member surveillance process which should better enable DTC to safeguard the securities and funds which are in its custody or control or for which it is responsible.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-2006-03) be and hereby is approved.

⁶ Participants that are not included in the Matrix are: the banks discussed in footnote 3, United States (“U.S.”) branches and agencies of non-U.S. banks, non-U.S. central securities depositories, and U.S. government sponsored enterprises.

⁷ Participants are required to meet the standards of financial condition, operational capability, and character set forth in DTC Rule 2 (Participants and Pledgees).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 17 CFR 200.30-3(a)(12).

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53653; File No. SR-NASD-2006-035]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Granting Accelerated Approval of Proposed Rule Change Relating to Proposed Amendments to IM 2110-2 to Codify NASD’s Existing Position that the Manning Rule Applies to All Members, Whether Acting as a Market Maker or Not

April 14, 2006.

On March 6, 2006, the National Association of Securities Dealers, Inc. (“NASD”) filed with the Securities and Exchange Commission (“Commission”), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) ¹ and Rule 19b-4 thereunder,² a proposed rule change relating to proposed amendments to NASD Interpretive Material 2110-2, Trading Ahead of Customer Limit Order (commonly referred to as the Manning Rule) to state that the rule applies to all members, whether acting as a market maker or not. NASD asked the Commission to grant accelerated approval to the proposed rule change. The Commission stated it would consider granting accelerated approval at the close of a 15-day comment period, and published the proposed rule change for notice and comment in the **Federal Register** on March 28, 2006.³ The Commission received no comments on the proposal.

The Commission has reviewed carefully the proposed rule change and 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 association ⁴ and, in particular, the requirements of section

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 53527 (March 21, 2006), 71 FR 15503.

⁴ In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁴ The Matrix is used by DTC and its affiliated clearing agencies, the Fixed Income Clearing Corporation (“FICC”) and the National Securities Clearing Corporation (“NSCC”). In using the Matrix, credit risk staff uses the financial data of each applicable DTC participant and the financial data of each applicable member of FICC and NSCC. In this way, each applicable DTC participant, FICC member, and NSCC member are rated against each other.

⁵ DTC will continually evaluate the matrix methodology and its effectiveness and will make such changes as it deems prudent and practicable within such time frames as it determines to be appropriate. DTC will update the Commission staff periodically on its evaluations of the Matrix.

15A(b)(6) of the Act,⁵ which requires, among other things, NASD's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. The Commission believes that the proposed rule change will improve treatment of customer limit orders and clarify the application of the Manning Rule to non-market makers. The Commission believes the anticipated improved treatment of customer limit orders and the clarification of the application of the Manning Rule to non-market makers will benefit investors and the public interest, and therefore, the Commission finds good cause to approve the proposed rule change prior to the 30th day after publication in the **Federal Register**.

It is therefore ordered, pursuant to section 19(b)(2) of the Act⁶, that the proposed rule change (SR-NASD-2006-035) be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Jill M. Peterson,

Assistant Secretary.

[FR Doc. E6-5915 Filed 4-19-06; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53650; File No. SR-Phlx-2006-22]

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change, and Amendments No. 1 and No. 2 Thereto, Increasing Linkage Inbound Principal Order Fees

April 13, 2006.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 31, 2006, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") 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 Phlx. The Phlx has designated this proposal as one establishing or changing a due, fee, or

other charge imposed by a self-regulatory organization pursuant to section 19(b)(3)(A)(ii) of the Act³ and Rule 19b-4(f)(2) thereunder,⁴ which renders the proposal effective upon filing with the Commission. On April 10, 2006, the Exchange filed Amendments No. 1 and No. 2 to the proposed rule change.⁵ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to increase from \$0.15 to \$0.25 per option contract the fee for P Orders⁶ sent to the Exchange via the Intermarket Options Linkage ("Linkage") pursuant to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Plan").⁷ The proposed change to the Exchange's Summary of Equity Options Charges are set forth below, with new text *italicized*, and text to be deleted [bracketed]:

SUMMARY OF EQUITY OPTIONS CHARGES (p. 2/6) OPTION TRANSACTION CHARGE

* * * * *

Linkage "P" [and "P/A"] Orders¹³—
\$.1[1]25 per contract
Linkage "P/A" Orders¹³—\$.15 per contract

¹³ No proposed changes to the rule text.

* * * * *

This proposal is scheduled to become effective for trades settling on or after April 3, 2006 and will remain in effect as part of an existing pilot program, which is scheduled to expire July 31, 2006.

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 Phlx included statements concerning

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ By Amendment No. 1, the Exchange clarified Exhibit 5 by explaining the underlined text would be added and the bracketed text deleted. By Amendment No. 2, the Exchange added new proposed rule text to clarify that, as discussed below, it intends to increase only the Linkage Inbound Principal Order ("P Order") fee, not the Linkage Principal Acting as Agent ("P/A Order") fee.

⁶ A Principal Order is an order for the principal account of an Eligible Market Maker.

⁷ See Securities Exchange Act Release No. 43086 (July 28, 2000), 65 FR 48023 (August 4, 2000) (order approving the Plan), and No. 43573 (November 16, 2000), 65 FR 70851 (November 28, 2000) (order approving Phlx as a participant in the Plan).

the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposal. The text of these statements may be examined at the places specified in Item IV below. The Exchange 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 increasing the charge for P Orders from \$0.15 to \$0.25 is to establish a fee that is competitive with other exchanges that charge similar or even higher fees for P Orders.⁸ Consistent with current practice, the Exchange will charge the clearing member organization of the sender of Inbound Linkage P Orders.

2. Statutory Basis

The Exchange believes that its proposal to amend its schedule of fees is consistent with section 6(b) of the Act⁹ in general, and furthers the objectives of section 6(b)(4) of the Act¹⁰ in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

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

The Exchange believes 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.

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

The Exchange has neither solicited nor received comments on the proposed rule change. The Phlx has not received any unsolicited written comments from members or other interested parties.

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

The foregoing proposed rule change has become effective pursuant to section 19(b)(3)(A)(ii) of the Act,¹¹ and paragraph (f)(2) of Rule 19b-4 thereunder¹² because it establishes or

⁸ See Securities Exchange Act Release No. 52168 (July 29, 2005), 70 FR 45454 (August 5, 2005) (SR-ISE-2005-32), and No. 52073 (July 20, 2005), 70 FR 43474 (July 27, 2005) (SR-CBOE-2005-54).

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4).

¹¹ 15 U.S.C. 78s(b)(3)(A)(ii).

¹² 17 CFR 240.19b-4(f)(2).

⁵ 15 U.S.C. 78o-3(b)(6).

⁶ 15 U.S.C. 78s(b)(2).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.