

Exchange believed that the Company's had fallen below certain of the Exchange's continued listing guidelines. The Company's responded to the letter with two detailed submissions to the Exchange dated May 9, 1996 and May 30, 1996. These submissions addressed the concerns raised by the Exchange in the letter as well as the concern raised at meetings held between officials of the Company and the Exchange on April 16, 1996 and May 14, 1996.

On June 4, 1996, the Company received a letter from the Exchange stating that the Exchange had made a determination to delist the Company's Security.

The Company has informed the Exchange that it is the position of the Company that throughout the process initiated by the Exchange on March 27, 1996, the Company has fully cooperated with the Exchange staff and has provided to the staff extensive submissions which the Company believes make clear that the Company has complied with the Exchange's continued listing guidelines. The Company and the Exchange, however, have been unable to resolve their difference on this issue. The Company has informed the Exchange, therefore, that it is the Company's position that in view of the impasse between the Exchange and the Company, and in view of the large expenditures of money and management time that would be required before a final resolution of the matters at issue could be obtained, it is in the best interests of both the Company and its shareholders that matters be settled by the removal of the Company's Security from listing on the Exchange.

The Company has been informed by the Exchange that it is also the position of the Exchange that it would be in the best interests of the Exchange and the investing public to settle matters with the Company as provided in this application.

Accordingly, the Exchange and the Company have agreed to settle matters between them by the Company making this application to remove its Security from listing on the Exchange. In accordance therewith, the Company and the Exchange have agreed that, coincident with the approval of this application by the Commission, the Exchange will withdraw its letter of June 4, 1996.

For purposes of Section 1011 of the Exchange's Listed Company Guide, the Exchange and the Company have agreed that the Exchange staff and the Company management have not been able to agree concerning the application of certain continued listing guidelines to

the Company, and that it is unlikely that they will be able to reach agreement on this matter.

Any interested person may, on or before July 11, 1996, submit by letter to the Secretary of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, facts bearing upon whether the application has been made in accordance with the rules of the exchanges and what terms, if any, should be imposed by the Commission for the protection of investors. The Commission, based on the information submitted to it, will issue an order granting the application after the date mentioned above, unless the Commission determines to order a hearing on the matter.

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

Jonathan G. Katz,

Secretary.

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[Release No. 34-37316; File No. SR-CBOE-96-10]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to Multiple Representation

June 17, 1996.

I. Introduction

On March 6, 1996, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change to amend CBOE Rule 6.55, "Multiple Orders Prohibited," to provide that, except in accordance with procedures established by the appropriate Floor Procedure Committee, or with such Floor Procedure Committee's permission in individual cases, no market maker shall enter or be present in a trading crowd while a floor broker present in the trading crowd is holding an order on behalf of the market maker's individual account or an order initiated by the market maker for an account in which the market maker has an interest.

Notice of the proposal was published for comment and appeared in the Federal Register on March 28, 1996.¹ No comments were received on the proposed rule change.

¹ See Securities Exchange Act Release No. 36996 (March 20, 1996), 61 FR 13907.

II. Description of the Proposal

Currently, CBOE Rule 6.55 provides that no CBOE member, for any account in which he has an interest or on behalf of a customer, shall maintain with more than one broker orders for the purchase or sale of the same option contract or other security, or the same combination of option contracts or other securities, with the knowledge that such orders are for the account of the same principal. According to the Exchange, the purpose of CBOE Rule 6.55 is to prevent a person from being disproportionately represented in a trading crowd.

In furtherance of this purpose, the Exchange also has had a long-standing policy of prohibiting market makers from entering or being present in a trading crowd while a floor broker present in the trading crowd is holding an order on behalf of the market maker's individual account or an order initiated by the market maker for an account in which the market maker has an interest, except in accordance with procedures established by the appropriate Floor Procedure Committee or with such Floor Procedure Committee's permission in individual cases.² This policy prevents a market maker from avoiding CBOE Rule 6.55 by placing an order with a floor broker for a particular option contract or other security and also representing himself or herself in the trading crowd for such option contract or other security. The purpose of the proposal is to specifically delineate this policy in the Exchange's rules by including it in a new paragraph (b) to CBOE Rule 6.55.

In addition, the CBOE proposes to add Interpretation and Policy .01 to CBOE Rule 6.55 to specify three alternative procedures that govern how a market maker may permissibly enter a trading crowd in which a floor broker is present who holds an order on behalf of the market maker's individual account or an order initiated by the market maker for an account in which the market maker has an interest.

Under the first alternative, the market maker must make the floor broker aware of the market maker's intention to enter the trading crowd and the floor broker

² Exceptions to this policy which have been approved by a Floor Procedure Committee are contained in Exchange Regulatory Circular RG95-64, which concerns the trading activities of joint account participants in the Standard & Poor's ("S&P") 100 ("OEX") and S&P 500 ("SPX") index option classes. See also Securities Exchange Act Release No. 36977 (March 15, 1996) (order approving File No. SR-CBOE-95-65) (approving regulatory circular which provides that a joint account trading in equity options may be represented simultaneously in a trading crowd by participants trading in person) ("Joint Account Circular").

must time-stamp the order ticket for the market maker order and write the notation "Cancel" or "CXL" next to the time stamp. If the market maker wishes to re-enter the order via the floor broker upon the market maker's exit from the trading crowd, the floor broker must at that time again time stamp the order ticket and write the notation "Reentry" or "RNTRY" next to such subsequent time stamp.

Under the second alternative, the market maker must cancel the market maker order by giving the floor broker a written cancellation of the order which is time-stamped by the market maker immediately prior to its transmission to the floor broker. If the market maker wishes to re-enter the order upon his exit from the trading crowd, a new order ticket must be used by the representing floor broker.

Under the third alternative, the market maker must cancel the market maker order by taking the order ticket for the order back from the floor broker, provided that the market maker allows the floor broker to retain a copy of the order ticket (which the floor broker must time-stamp at the time of cancellation and retain for the floor broker's records). If the market maker wishes to re-enter the order upon his exit from the trading crowd, a new order ticket must be used.

The CBOE states that the proposed amendment to CBOE Rule 6.55 also codifies past practice by providing that the appropriate Floor Procedure Committee may adopt other procedures which, if followed, would permit a market maker to be exempt from the requirements of paragraph (b) of CBOE Rule 6.55, or may grant permission for a market maker to enter a trading crowd in a particular instance notwithstanding the requirements of that paragraph.³ Proposed Interpretation and Policy .02 advises members to consult CBOE regulatory circulars concerning joint accounts in connection with procedures governing the simultaneous presence in a trading crowd of participants in and orders for the same joint account.

Finally, the proposal changes the title of CBOE Rule 6.55 from "Multiple Orders Prohibited" to "Multiple Representation Prohibited" in order to

more accurately reflect the scope of the amended rule.

III. Discussion

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, the requirements of Section 6(b)(5)⁴ in that it is designed to remove impediments to and perfect the mechanism of a free and open securities market and to facilitate transactions in securities, while protecting investors and the public interest.

Currently, CBOE Rule 6.55 prohibits members from placing identical orders for the account of the same principal with several floor brokers. According to the Exchange, CBOE Rule 6.55 is designed to prevent a person from being represented disproportionately in a trading crowd. An account using multiple orders would be represented disproportionately because, when an execution is divided among competing brokers, an account using multiple orders would receive a larger share of the execution than an account using a single order.⁵

The proposal, which codifies an existing CBOE policy, is designed to prevent a market maker from avoiding CBOE Rule 6.55 by placing an order with a floor broker for a particular option contract or other security and also representing himself or herself in the trading crowd for that option contract or security. By prohibiting a market maker from entering or being present in a trading crowd while a floor broker in the trading crowd holds an order on behalf of the market maker's individual account or an order initiated by the market maker for an account in which the market maker has an interest, the proposal furthers the objectives of CBOE Rule 6.55 and prevents a person from being represented disproportionately in a trading crowd.⁶

The Commission believes that it is appropriate for the CBOE to adopt Interpretation and Policy .01, which includes procedures that will allow a market maker to cancel his order with a floor broker and enter a trading crowd in which a floor broker is present who

was holding an order on behalf of the market maker's individual account or an order initiated by the market maker for an account in which the market maker has an interest.⁷ The Commission believes that the procedures proposed in Interpretation and Policy .01 are consistent with the purpose of CBOE Rule 6.55 in that they allow a market maker to enter the trading crowd after cancelling his order with the floor broker, thereby ensuring that the market maker is not represented disproportionately in the trading crowd. In addition, Interpretation and Policy .01 should help the CBOE to maintain a fair and orderly market by clearly specifying procedures that will allow market maker to enter a trading crowd in which a floor broker holds an order on behalf of the market maker, and providing procedures that will allow the market maker to re-enter the order with the floor broker upon the market maker's exit from the trading crowd.

The Commission notes that CBOE Rule 6.55(b) allows the appropriate Floor Procedure Committee to create exceptions to CBOE Rule 6.55(b) by establishing procedures or granting permission to a market maker in individual cases. The Commission believes that this provision is appropriate and consistent with the Act because it will add flexibility to CBOE Rule 6.55(b) by allowing the CBOE to create an exception to the rule under extraordinary circumstances⁸ or to develop special trading procedures, such as those established in RG95-64.⁹

Finally, the Commission believes that it is reasonable for the CBOE to amend the title of CBOE Rule 6.55 to clarify the scope of the rule, and to adopt Interpretation and Policy .02, which

⁷ The procedures provided in Interpretation and Policy .01 for cancelling an order are as follows: (1) The market maker makes the floor broker aware of the market maker's intention to enter the trading crowd and the floor broker time stamps the order ticket for the order and writes the notation "Cancel" or "CXL" next to the time stamp; (2) the market maker cancels his order by giving the floor broker a written cancellation of the order which is time-stamped by the market maker immediately prior to its transmission to the floor broker; or (3) the market maker cancels his order by taking the order ticket for the order back from the floor broker, provided that the market maker allows the floor broker to retain a copy of the order ticket (which the floor broker must time-stamp at the time of cancellation and retain for the floor broker's records). Interpretation and Policy .01 also provides procedures that allow the market maker to re-enter the order with the floor broker upon the market maker's exit from the trading crowd.

⁸ The Commission expects that the CBOE will grant such exceptions only in limited and truly extraordinary circumstances. See note 3, *supra*.

⁹ See note 2, *supra*. The Commission notes that the establishment of such procedures would require a rule filing with the Commission pursuant to Section 19(b)(2) under the Act.

³ The CBOE has represented that this provision is intended to provide the Exchange with the flexibility to address special situations that may arise infrequently. One such situation would exist where there is exceptionally high activity in a small trading crowd. In this case, the CBOE may grant permission to market makers to enter the trading crowd for a limited time. Telephone conversation between Mike Meyer, Schiff Hardin & Waite, and Yvonne Fraticelli, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, on May 13, 1996.

⁴ 15 U.S.C. 78f(b)(5) (1988 & Supp. V 1993).

⁵ See File No. SR-CBOE-80-11 (proposal to adopt CBOE Rule 6.55).

⁶ In addition, the proposal is consistent with the provisions of the Joint Account Circular, which was approved recently by the Commission. See note 2, *supra*. Specifically, the Joint Account Circular notes, among other things, that members may not enter orders in a particular crowd with floor brokers for their individual or joint account whenever they are trading in person in that crowd.

advises members to consult Exchange regulatory circulars for procedures governing the simultaneous presence in a trading crowd of participants in and orders for the same joint account.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-CBOE-96-10) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37327; File No. SR-CHX-96-15]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating To Assignment and Reassignment of NASDAQ/NMS Issues

June 19, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on May 16, 1996, the Chicago Stock Exchange, Inc. ("CHX" 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 self-regulatory organization. The Commission is 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 Exchange proposes to amend interpretation and policy .01 of Rule 1 of Article XXX relating to assignments and reassignments of Nasdaq National Market ("NM") securities. Below is the text of the proposed rule change. Proposed new language is italicized:

CHICAGO STOCK EXCHANGE RULES

ARTICLE XXX

Specialists

Registration and Appointment

Rule 1.

* * * Interpretations and Policies

.01 Committee on Specialist Assignment & Evaluation.

Assignment Function

I. Events Leading to Assignment Proceedings

Pursuant to Article XXX, Rules 1 and 8, the Committee may, when circumstances require, assign or reassign a security. Seven circumstances may lead to the need for assignment or reassignment of a security. They are:

1. New listing or obtaining unlisted trading privilege;
2. Specialist request;
3. Corporation request;
4. Split-up and/or merger of specialist units;
5. Fundamental change of specialist unit;
6. Unsatisfactory performance action; or
7. Disciplinary action.

The following guidelines have been adopted by the Committee for its use in the assignment or reassignment of stocks among specialists and co-specialists. These guidelines set forth the general policy of the Committee concerning the posting and allocation of stocks. They are not, however, rigid rules to be strictly followed regardless of unique circumstances. These guidelines form only the starting point of the Committee's deliberations; they will be applied in light of the facts in each individual case.

1. New Listing—Unlisted Trading Privilege.

(a) Initial listing of a security or obtaining unlisted trading privileges from the S.E.C. for a security will lead automatically to an assignment proceeding.

(b) Nasdaq/NM Securities—Subsequent Exchange Listing.

(i) *Initial 100 stocks in Nasdaq/NM Pilot.* In the event that one of the initial 100 Nasdaq/NM Securities currently assigned to a specialist unit under the Exchange's Nasdaq/NM Pilot Program becomes a Dual Trading System issue, the Committee will utilize the following guidelines in determining whether the security should be posted and re-assignment proceedings should be initiated or whether the specialist unit should be allowed to continue as the specialist unit for the security.

(A) *If the specialist unit has designated the security as a security that the specialist unit desires to continue to trade as a Dual Trading System Issue ("Non-Reassignment Issue"), the Committee, under normal circumstances, will not post the security or initiate re-assignment proceedings. Each specialist unit may designate five (5) issues as Non-Reassignment Issues under this paragraph (A), which designation may be changed no more than once a year. In the event that a Non-Reassignment Issue becomes a Dual Trading System issue, the total number of stocks that the specialist unit can designate as a Non-Reassignment Issue will be decremented. For example, if 2 Non-Reassignment Issues become Dual Trading System Issues, the specialist will only be able to designate a total of three (3) issues as Non-Reassignment Issues going forward.*

(B) *If the specialist unit has not designated the issues as a Non-Reassignment Issue, the specialist unit can nonetheless designate its interest to continue to trade the issue as a Dual Trading System Issue. Such designation can only be made for one out of every three*

Nasdaq/NM issues that the specialist unit trades that becomes a Dual Trading System Issue. If such designation is made by the specialist, the Committee, under normal circumstances, will not post the issue or initiate re-assignment proceedings. If no such designation is made by the specialist, the Committee will post the issue and initiate re-assignment proceedings. In such event, the specialist unit trading the issue will not be eligible to apply for the security in such proceedings. The specialist unit cannot accumulate the number of stocks for designation. If the specialist unit does not make such designation for any of three consecutive issues that become Dual Trading System issues, he or she cannot carry forward the unused designation.

(ii) *All other Nasdaq/NM Stocks.* In the event that a Nasdaq/NM Security (other than a security described in (i) above) currently assigned to a specialist unit becomes a Dual Trading System issue within one year of the date that the specialist unit began trading the security, the security will be posted and the Committee will initiate a re-assignment proceeding for such security. In the event that such security becomes a Dual Trading System issue more than one year after the date the specialist unit began trading the security, the Committee will utilize the following guidelines in determining whether the security should be posted and re-assignment proceedings commenced or whether the specialist unit should be allowed to continue as the specialist without posting the security:

(A) *If the specialist unit has designated the security as a Non-Reassignment Issue, the Committee, under normal circumstances, will not post the security or initiate re-assignment proceedings. Each specialist unit may designate 20% of the Nasdaq/NM securities (not including the securities described in (i) above) assigned to such specialist unit as Non-Reassignment Issues under this paragraph (A), which designations may be changed no more than once a year.*

(B) *If the specialist has not designated the issue as a Non-Reassignment Issue, the specialist may nonetheless designate its interest to continue to trade the issue as a Dual Trading System issue, and the procedures set forth in (i)(B) above shall apply to such issue.*

(iii) *Nothing contained in this paragraph 1(b) shall be construed to limit or modify the authority of the Committee pursuant to the other provisions of this Rule.*

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

¹⁰ 15 U.S.C. 78s(b)(2) (1988).

¹¹ 17 CFR 200.30-3(a)(12) (1995).

¹ 15 U.S.C. 78s(b)(1).