

trading hours to permit the execution of aggregate-price orders for Exchange-listed securities which are part of a basket trade being done in large part on the New York Stock Exchange's ("NYSE") Crossing Session II is consistent with the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁷ that the proposed rule change (File No. SR-Amex-96-43) is approved, contingent upon the Commission's granting of the necessary Rule 11Aa3-1(b)(2)(iv) exemptive relief, on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-38080; File No. SR-CBOE-96-78]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Circuit Breaker Halts

December 23, 1996.

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 December 18, 1996, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change relating to certain market-wide circuit breaker provisions as described in Items I, II, and III below, which Items have been prepared by the CBOE. 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 CBOE proposes to amend CBOE Rule 6.3B (Trading Halts Due to Extraordinary Market Volatility—"circuit breakers") to increase the levels of decline in the Dow Jones Industrial Average ("DJIA")³ that would trigger a

trading halt on the Exchange pursuant to that Rule.

The text of the proposed rule change is available at the Office of the Secretary, CBOE 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 CBOE 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 CBOE has prepared summaries, set for in sections (A), (B), and (C) below, of the most significant parts 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 conform the circuit breaker trading halt procedures of the CBOE to the circuit breaker trading halt procedures of the New York Stock Exchange, Inc. ("NYSE"), as such procedures are currently proposed to be amended by the NYSE. CBOE Rule 6.3B, which sets forth the CBOE's circuit breaker trading halt procedures, currently contains substantially the same provisions as are contained in NYSE Rule 80B, which sets forth the NYSE's circuit breaker trading halt procedures. On December 11, 1996, the NYSE submitted a rule filing to the Commission designated as File No. SR-NYSE-96-38, which proposed to modify the NYSE's circuit breaker trading halt procedures by proposing to amend NYSE Rule 80B. The CBOE's proposed amendments to Rule 6.3B are intended to maintain the conformity between the circuit breaker trading halt procedures of the CBOE and the NYSE by proposing to amend Rule 6.3B in the same manner that the NYSE is proposing to amend NYSE Rule 80B in File No. SR-NYSE-96-38.

CBOE Rule 6.3B currently provides, in part, that if the DJIA falls 250 or more points below its previous trading day's closing value, trading in all securities on the Exchange will halt for thirty minutes. It further provides that, if on the same day the DJIA drops 400 or more points from its previous trading day's close, trading on the Exchange will halt for one hour. In conformity with the NYSE, the Exchange is now proposing to amend CBOE Rule 6.3B to

increase the foregoing circuit breaker levels from 250 points to 350 points and from 400 points to 550 points.

In conformity with the NYSE, the adoption of amendments to CBOE Rule 6.3B would be contingent upon the adoption of amended rules or procedures substantively identical to CBOE Rule 6.3B by (i) all United States stock exchanges and the National Association of Securities Dealers with respect to the trading of stocks, stock options, and stock index options; and (ii) all United States futures exchanges with respect to the trading of stock index futures and options on such futures.

The CBOE's proposed amendments to Rule 6.3B will serve to maintain the coordinated approach of the NYSE, the CBOE, and other markets to trading halt procedures that are applicable during large, rapid market declines. Various studies of the October, 1987 market break noted that the stock, options, and futures markets are interrelated. And, in addition, the Exchange recognizes the Commission's desire to have coordinated mechanisms across these markets to deal with potential strains that may develop during periods of extreme downward volatility.⁴ Such a coordinated approach is also in accordance with the recommendations contained in the Report of the Presidential Task Force on Market Mechanisms, which recommended, among other things, that circuit breaker mechanisms, in order to be effective, need to be coordinated across stock, stock index futures, and options markets in order to prevent intermarket problems of the kind experienced in October, 1987.⁵

2. Statutory Basis

The basis under the Act for this 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 a national market system and, in general, to protect investors and the public interest. The Exchange believes that amending Rule 6.3B is consistent with these objectives, in that an all-market circuit breaker trading halt requirement at appropriate levels can be

⁴ See Securities Exchange Act Release No. 26198 (October 18, 1988), 53 FR 41637 (October 24, 1988) (Commission order approving proposed rule changes of the CBOE, the National Association of Securities Dealers, Inc., the NYSE, and the American Stock Exchange, Inc. relating to market circuit breakers).

⁵ See *Id.* (citing Report of the Presidential Task Force on Market Mechanisms).

¹⁷ 15 U.S.C. 78s(b)(2).

¹⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ "Dow Jones Industrial Average" is a service mark of Dow Jones & Company, Inc.

expected to promote stability and investor confidence during a period of significant stress by providing market participants with a reasonable opportunity to become aware of and respond to significant price movements, thereby facilitating, in an orderly manner, the maintenance of an equilibrium between buying and selling interest.

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

The CBOE does not believe that the proposed rule change will impose any 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.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer 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 its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interest 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 in 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 CBOE. All submissions should refer to File No. SR-CBOE-96-78 and should be submitted by January 21, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-38082; File No. SR-CHX-96-27]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating to Permanent Approval of Its Pilot Program for Automatic Execution of Limit Orders

December 24, 1996.

I. Introduction

On October 15, 1996, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "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 seeking permanent approval of its system enhancement relating to the automatic execution of non-marketable limit orders.

Notice of the proposed rule change, together with the substance of the proposal, was provided by issuance of a release,³ and by publication in the Federal Register.⁴ No comments were received. This order approves the proposed rule change.

II. Description of the Proposal

The rule change approved today provides permanent approval of the Exchange's system enhancement relating to the automatic execution of non-marketable limit orders. On July 12, 1995, the Commission approved this system enhancement on a pilot basis, with an expiration date of July 31, 1996.⁵ The pilot program was extended in a subsequent Commission approval order and is currently scheduled to

expire on December 31, 1996.⁶ In the Pilot Approval Order, as amended by the Pilot Extension Order, the Commission requested that the CHX provide a report to the Commission, by August 31, 1996, describing its experience with the pilot program. This report has been submitted to the Commission.

The proposed system enhancement ("Auto-Ex") is a feature of the Exchange's automated execution system ("MAX") that CHX specialists may voluntarily choose to activate to execute automatically non-marketable limit orders⁷ on the specialist's book. Auto-Ex operates by comparing the size of the CHX-entered limit order against the amount of stock ahead of that order in the primary market when the issue is trading in the primary market at the limit price. The Auto-Ex System begins comparing CHX-entered limit orders when the order's limit price equals the bid (for a limit order to buy) or offer (for a limit order to sell) quoted in the primary market.⁸ Thereafter, the Auto-Ex system keeps track of all prints in the primary market and automatically executes the limit order once the required size prints in the primary market.⁹ As additional limit orders at the same price are received by the specialist, comparisons are made and entered based upon the shares ahead of those limit orders at the time of receipt, including shares ahead on the CHX. The Auto-Ex feature does not permit a limit order to be filled out of sequence.

The Auto-Ex feature executes limit orders in accordance with existing CHX

⁶ See Securities Exchange Act Release No. 37442 (July 16, 1996), 61 FR 38491 (July 24, 1996) (File No. SR-CHX-96-18) ("Pilot Extension Order").

⁷ A limit order is an order to buy or sell a stated amount of a security at a specified price or at a better price. A limit order is called "marketable" when the prevailing best offer (bid) is equal to or less (greater) than the limit buy (sell) order price.

⁸ For example, if the primary market quotation is 1/4 bid, 1/2 offered, 4,000 shares bid and 4,000 shares offered, and a CHX specialist receives a limit order to buy 2,000 shares for 1/8, that limit order will not be compared against the amount of stock ahead of the order in the primary market until such time as the 1/4 bid is exhausted and the 1/8 bid becomes the best bid. At that time, the size which is disseminated with the 1/8 bid is the size against which the limit order is compared for Auto-Ex purposes.

⁹ For example, assume a CHX specialist receives an agency limit order to buy 2,000 shares of ABC at 1/2. The primary market quotation is 1/2 bid, 3/4 offered, 5,000 shares bid and CHX order. The Auto-Ex will automatically execute the entire CHX limit 5,000 shares offered, meaning there are 5,000 shares ahead of the order after 7,000 shares print at 1/2 or better in the primary market. However, when more than 5,000 but less than 7,000 shares print at 1/2 in the primary market, the order will be flagged with a flashing prompt to alert the specialist that the order may be due at least a partial fill. See CHX Article XX, Rule 37(a) governing primary market protection of certain limit orders.

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 37946, November 13, 1996.

⁴ See 61 FR 59263, November 21, 1996.

⁵ See Securities Exchange Act Release No. 35962 (July 12, 1995), 60 FR 37115 (July 19, 1995) (File No. SR-CHX-95-11) ("Pilot Approval Order").