

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39230; File No. SR-CHX-97-24]

### Self-Regulatory Organizations; Chicago Stock Exchange; Notice of Filing of Proposed Rule Change Regarding A Ban on the Entry of Certain Stop Orders and Stop Limit Orders

October 10, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 22, 1997, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 add Article IX, Rule 10B (Stop Order Ban Due to Extraordinary Market Volatility). The new rule would prohibit the entry of certain stop orders and stop limit orders if the New York Stock Exchange ("NYSE") implements a stop order ban pursuant to NYSE Rule 80A. The new rule would exempt stop orders and stop limit orders of 2,099 shares or less for the account of an individual investor pursuant to instructions received directly from the individual investor. The text of the proposed rule change is available at the Office of the Secretary, the CHX, 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

Pursuant to its Rule 80A, the NYSE currently prohibits the entry of stop orders and stop limit orders if the price of the primary Standard and Poor's 500 Stock Price Index<sup>3</sup> futures contract traded on the Chicago Mercantile Exchange reaches a value 12 points below the contract's closing value on the previous trading day. Likewise, the Boston Stock Exchange ("BSE") prohibits the entry of stop and stop limit orders on the BSE when the NYSE has a ban in place.<sup>4</sup>

The Exchange has previously adopted circuit breaker rules on a pilot basis<sup>5</sup> which parallel the circuit breaker rules of the NYSE.<sup>6</sup> Such rules are designed to dampen market volatility by providing a "time-out" to permit investors and market professionals to evaluate the state of the market. However, unlike the NYSE, the Exchange has not previously prohibited the entry of stop and stop limit orders during times of market stress.

The Exchange believes that the prohibition of stop orders and stop limit orders, except for individual investor orders of up to 2099 shares, during periods of market stress will facilitate the maintenance of an orderly market and reduce market volatility.

##### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act<sup>7</sup> which requires that the rules of the Exchange 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.

<sup>3</sup> Standard and Poor's 500 Stock Index is a service mark of Standard and Poor's Corporation.

<sup>4</sup> See Ch. II, Sec. 35(b) of the BSE's rules.

<sup>5</sup> See Securities Exchange Act Release Nos. 26218 (October 26, 1988), 53 FR 44137 (November 1, 1988) (order approving File No. SR-MSE-88-9); 27370 (October 23, 1989), 54 FR 43881 (October 27, 1989) (order approving File No. SR-MSE-89-9); 28580 (October 25, 1990), 55 FR 45895 (October 31, 1990) (order approving File No. SR-MSE-90-16); 29868 (October 28, 1991), 56 FR 56535 (November 5, 1991) (order approving File No. SR-MSE-91-14); 33120 (October 29, 1993), 58 FR 59503 (November 9, 1993) (order approving File No. SR-CHS-93-22); 36414 (October 25, 1995), 60 FR 55630 (November 1, 1995) (order approving File No. SR-CHX-95-23); 37459 (July 19, 1996), 61 FR 39172 (July 26, 1996) (order approving File No. SR-CHX-96-20); and 38221 (January 31, 1997), 62 FR 5871 (February 7, 1997) (order approving File No. SR-CHX-96-33).

<sup>6</sup> See CHX Art. IX, Rule 10A.

<sup>7</sup> 15 U.S.C. 78f(b)(5).

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

The Exchange believes that the proposal does 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 written comments on the proposed rule change.

#### 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 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 such proposed rule change, or

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

#### IV. 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, NW., Washington, DC 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, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CHX. All submissions should refer to File Number SR-CHX-97-24 and should be submitted by November 10, 1997.

**Margaret H. McFarland,**  
Deputy Secretary.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.