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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39259; File No. SR-CHX-22]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating to the Exchange's Automated Execution System

October 20, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on September 12, 1997, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change, as described in Items I and II below, which Items have been prepared by the Exchange. 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 proposed to amend Rule 37(b)(6) of Article XX of the Exchange's Rules, relating to the Exchange's automated execution system, the "MAX System." The modification provides for a fifteen second delay before a MAX execution except where the spread between the ITS Best Bid and ITS Best Offer is equal to the minimum price variation in the relevant issue.

The text of the proposed rule change is available at the Office of the Secretary, 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 Exchange 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 III 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

Article XX, Rule 37(b)(6) currently provides that, when using the Exchange's MAX System in the execution of Dual Trading System issues, there will generally be a fifteen second delay between the time a market order is entered into MAX and the time it is automatically executed. This delay allows opportunity for price improvement. However, Rule 37(b)(6) also currently provides that where the spread between the ITS Best Bid and ITS Best Offer is $\frac{1}{8}$ point, on order will immediately be executed (because of the lack of opportunity for price improvement).

Certain Dual Trading System issues have recently begun trading in minimum variations less than $\frac{1}{8}$ point (e.g., $\frac{1}{16}$ point). In recognition of this change, the proposed rule change provides for a fifteen second delay before a MAX execution except where the spread between the ITS Best Bid and ITS Best Offer is equal to the minimum variation in the relevant issue. The Exchange believes this modification will allow customers the maximum opportunity for price improvement.

2. Statutory Basis

The Exchange represents that the proposed rule change is consistent with Section 6(b)(5)² of the Act 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, and, in general, to protect investors and the public interest.

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

The Exchange did not solicit or receive written comments with respect to the proposed rule change.

III. 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, N.W., Washington, D.C. 20549. Copies of the submissions, all subsequent amendments, all 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 persons, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 522, will be available for inspection and copying at 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 Exchange. All submissions should refer to File No. SR-CHX-97-22 and should be submitted by November 21, 1997.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission has reviewed carefully the Exchange's proposed rule change and believes, for the reasons set forth below, the proposal is consistent with the requirements of Section 6 of the Act³ and the rules and regulations thereunder applicable to a national securities exchange. Specifically, the Commission believes the proposal is consistent with Section 6(b)(5)⁴ of the Act because it will facilitate transactions in securities by providing investors with the opportunity for price improvement, promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of a free and open market.

The proposed rule change modifies the Exchange's rule relating to its MAX System so that automatic execution is delayed to provide the opportunity for price improvement in stocks trading in minimum increments of less than $\frac{1}{8}$. This modification comports with the movement towards smaller trading and quotation increments for equity securities traded on securities exchanges.⁵ Furthermore, it establishes

³ 15 U.S.C. § 78f.

⁴ 15 U.S.C. § 78f(b)(5).

⁵ Securities Exchange Act Release Nos. 38571 (May 5, 1997), 62 FR 25682 (May 9, 1997) (approving an AMEX proposal to reduce the minimum trading variation from $\frac{1}{8}$ to $\frac{1}{16}$); 38744

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¹ 15 U.S.C. § 78s(b)(1).

² 15 U.S.C. § 78f(b)(5).

equal price improvement opportunities for all investors and removes the mechanism that currently deprives those investors who trade securities priced in less than $\frac{1}{8}$ increments from potentially obtaining a better price. In addition, the language of the modification obviates the need for similar technical rule adjustments in the future as the minimum trading and quoting increments are further reduced.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. The Commission notes that the AMEX and NYSE recently reduced the minimum trading and quotation variations for securities traded through their facilities. As a result, equity securities that previously traded in minimum variations of $\frac{1}{8}$ now trade in minimum variations of $\frac{1}{16}$. It is important, therefore, that the Rules of the MAX system be conformed to allow customers the maximum opportunity for price improvement in the MAX System as soon as possible.

It is therefore ordered, pursuant to Section 19(b)(2) ⁶ of the Act, that the proposed rule change, SR-CHX-97-22, is hereby approved on an accelerated basis.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39254; File No. SR-Phlx-97-47]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Proposing to Amend its Foreign Currency Option Trading Hours Respecting Customized Foreign Currency Options

October 17, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ notice is hereby given that on October 7, 1997, the Philadelphia Stock Exchange Inc. filed with the Securities and Exchange

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 Philadelphia Stock Exchange, Inc. ("Phlx" or the "Exchange") pursuant to Rule 19b-4 of the Securities Exchange Act of 1934 ("Act")² proposes to cease trading for expiring customized currency options at 8:10 a.m. eastern time on business days in which the Foreign Currency Floor of the Exchange opens for trading at 8:00 a.m. eastern time. The text of the proposed rule change is available at the Office of the Secretary, the Phlx, and 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 Foreign Currency floor is open from 2:30 a.m. eastern time to 2:30 p.m. eastern time every business day. However, the Exchange may open the foreign currency floor at 8:00 a.m. on some business days, usually on business days following a holiday.³ The Exchange modified the trading hours for all customized options such that an all expiring customized option contract cease trading at 8:00 a.m. and expires at 10:15 a.m. eastern time.⁴ However, this

² 17 CFR 240.19b-4.

³ On the day following an Exchange holiday such as the Friday following Thanksgiving or the day after Christmas day, trading commences at 8:00 a.m. rather than 2:30 a.m.

⁴ See Securities Exchange Act Release No. 37732 (September 26, 1996). The proposed rule change adjusted the trading hours for all customized options such that all customized options would

practice prevents the holder of an expiring customized currency option to offset an expiring position on days in which trading begins at 8:00 a.m. on the Foreign Currency floor. Therefore, the Exchange proposes to cease trading in expiring customized contracts at 8:10 a.m. on business days in which the Exchange opens at 8:00 a.m. and thereby provides a 10 minute window for a participant to offset an expiring option. The Phlx will provide notification of the change in trading hours for these expiring options by means of memoranda to the membership.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act in that it is designed to remove impediments to and perfect the mechanism of a free and open market by providing the participants with the ability to offset their position prior to expiration on those business days in which the Foreign Currency floor opens at 8:00 a.m. eastern time.

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

The Phlx 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 solicited or received at the time of the filing.

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

The Exchange has asserted that the proposed rule change (i) will not significantly affect the protection of investors or the public interest, (ii) will not impose any significant burden on competition, and (iii) will not become operative for 30 days after the date of this filing. For the foregoing reasons and because the Exchange provided at least five business days notice to the Commission of its intent to file this proposed rule change, the rule filing will become operative as a "non-controversial" rule change pursuant to Rule 19b-4(e)(6) under the Act.⁵

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the

cease trading on expiration day at 8:00 a.m. eastern time and would expire at 10:15 a.m. eastern time.

⁵ 17 CFR 240.19b-4(e)(6).

(June 18, 1997), 62 FR 34334 (June 25, 1997) (approving a NYSE proposal to reduce the minimum trading variation from $\frac{1}{8}$ to $\frac{1}{16}$).

⁶ 15 U.S.C. § 78s(b)(2).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).