

Interpretation and Policy .02, who must promptly notify the Exchange that they have registered to take the Series 7 examination, will have six months from the date of the CHX's Notice to Members to pass the Series 7 examination. Persons covered by Interpretation and Policy .02 who become associated with members after the CHX publishes notice of the examination requirement in a Notice to Members must successfully complete the Series 7 examination before conducting securities trading activities for which an examination is required under the Interpretation and Policy .02.

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. Specifically, the Commission finds that the proposal is consistent with the requirements of Sections 15(b)(7), 6(b)(5), and 6(c)(3)(B) of the Act.⁹ Section 15(b)(7) states that a registered broker or dealer may not effect any transaction in, or induce the purchase or sale of, any security unless the broker or dealer meets certain standards of operational capability and all those associated with the broker or dealer meet certain standards of training, experience, competence, and such other qualifications as the Commission finds necessary or appropriate in the public interest or for the protection of investors. Section 6(b)(5) requires, among other things, that the rules of an exchange be 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.¹⁰ Section 6(c)(3)(B) provides that a national securities exchange may examine and verify the qualifications of an applicant to become a person associated with a member in accordance with procedures established by the rules of the exchange, and require any person associated with a member, or any class of such persons, to be registered with the exchange in accordance with procedures so established.

Interpretation and Policy .02 will require off-floor associated persons of members for which the CHX is the DEA who execute, make trading decisions with respect to, or otherwise engage in

proprietary or agency trading of equities, preferred securities, or convertible debt securities to successfully complete the Series 7 examination. The CHX's rules currently contain no examination requirement for persons covered by Interpretation and Policy .02. Interpretation and Policy .02 is designed to eliminate this gap in examination requirements and to make the CHX's examination requirements more consistent with the examination requirements of the other SROs.

The Commission believes that it is appropriate for the CHX to establish an examination requirement for associated persons covered by Interpretation and Policy .02. Specifically, the Commission believes that the CHX's proposal will help to ensure that only those associated persons covered by Interpretation and Policy .02 who have an understanding of the Act, will be able to solicit, purchase or sell securities for the accounts of customers. The Commission recognizes the importance to investors of efforts by the SROs to ensure that associated persons have appropriate levels of knowledge and expertise regarding applicable laws and regulations. By helping to establish this level of knowledge, the Commission believes that the CHX's proposal will help associated persons covered by Interpretation and Policy .02 carry out their responsibilities under the federal securities laws.

In addition, the Commission believes that it is reasonable and consistent with Section 6(c)(3)(B) of the Act for the CHX to amend CHX Article VI, Rule 3 to state that the CHX may establish examination requirements for members and associated persons.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (File No. SR-CHX-98-04), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39872; File Nos. SR-MCC-98-01 and SR-MSTC-98-01]

Self-Regulatory Organizations; the Midwest Clearing Corporation; the Midwest Securities Trust Company; Notice of Filing of Proposed Rule Changes Relating to the Structure and Composition of the Board of Directors

April 14, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on February 9, 1998, the Midwest Clearing Corporation ("MCC") and the Midwest Securities Trust Company (MSTC) filed with the Securities and Exchange Commission ("Commission") and on February 25, 1998, amended the proposed rule changes, as described in Items I, II, and III below, which items have been prepared primarily by MCC and MSTC. The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons.

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

The proposed rule changes will amend MCC's and MSTC's by-laws relating to the structure and composition of their board of directors.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In their filing with the Commission, MCC and MSTC included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. MCC and MSTC have prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.²

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

The proposed rule changes will amend MCC's and MSTC's by-laws in order to reflect the cessation of their securities clearing and depository

⁹ 15 U.S.C. 78o(b)(7), 78f(b)(5), and 78f(c)(3)(B) (1988).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified parts of these statements.

services³ and to streamline the structure and composition of their board of directors in order to remain consistent with the changes recently made by the Chicago Stock Exchange, Incorporated ("CHX").⁴

The proposed rule changes will reduce the number of directors from 27 to 24 and will realign the classes for both MCC and MSTC. The directors will still be divided into three classes, but the size and composition will be adjusted as follows. At the 1998 annual election, class I will be reduced by two directors. At the 1999 annual election, class II will be reduced by four directors. At the 2000 annual election, class III will be reduced by one director and class II will be increased by one director. The board of directors will also be increased by three additional nonindustry⁵ directors by the 1999 annual election to serve for staggered terms so as to balance the classes as determined by the nominating committee.⁶ The result of the reduction of board members and the realignment of the classes will be fifty percent representation of nonindustry directors on MCC's and MSTC's board of directors.

MCC and MSTC believe that the proposed rule changes are consistent with Section 17A of the Act because the changes to the structure and composition of their board of directors should promote an enhanced governance structure and thereby will help protect investors and the public interest.⁷

(B) Self-Regulatory Organization's Statement on Burden on Competition

MCC and MSTC do not believe that the proposed rule changes will have an impact on or impose a burden on competition.

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

No written comments relating to the proposed rule changes have been solicited or received.

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

Within thirty-five 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 ninety 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 MCC and MSTC consent, the Commission will:

(A) By order approve such proposed rule changes or

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

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule changes are consistent with the Act. 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 rule changes that are filed with the Commission, and all written communications relating to the rule changes 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 Room in Washington, D.C. Copies of such filings will also be available for inspection and copying at the principal office of MCC and MSTC. All submissions should refer to the File Nos. SR-MCC-98-01 and SR-MSTC-98-01 and should be submitted by May 13, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39865; File No. SR-NASD-98-02]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to an Extension of the Option Position Limit Hedge Exemption Pilot Program

April 14, 1998.

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 January 21, 1998, NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. NASD Regulation filed an amendment to the proposed rule change on March 23, 1998.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change, as amended.

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

NASD Regulation is proposing to amend Rule 2860(b)(3)(A)(vii)(c) of the National Association of Securities Dealers, Inc. ("NASD" or "Association"), to extend, until December 31, 1998, the Association's pilot program for exemptions from equity option position limits for certain hedged positions ("hedge exemption pilot program"). Below is the text of the proposed rule change. Proposed new language is in *italics*; proposed deletions are in *brackets*.

Rule 2860. Options

* * * * *

(b)(3)(A)(vii) Equity Option Hedge Exemption

a. The following positions, where each option contract is "hedged" by 100

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 200.19b-4.

³ See Letter from Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, to Katherine A. England, Assistant Director, Commission, dated March 17, 1998 ("Amendment No. 1"). Amendment No. 1 shortens the requested extension by providing for an extension of the pilot until December 31, 1998, instead of December 31, 1999.

³ Securities Exchange Act Release No. 36684 (January 5, 1995), 61 FR 1195 [File Nos. SR-MCC-95-04, SR-MSTC-95-10] (order approving proposed rule changes relating to the withdrawal of the Chicago Stock Exchange, Incorporated ["CHX"] from the clearance and settlement and securities depository businesses, conducted principally through its subsidiaries, MCC and MSTC).

⁴ Securities Exchange Act Release No. 39603 (January 30, 1998), 63 FR 5982 (order approving a proposed rule change relating to the structure and composition of CHX's board of governors). Historically, the MCC's and MSTC's board of directors have been the same as the CHX's board of governors.

⁵ In an amendment to the proposed rule changes, MCC and MSTC reference the definition of nonindustry as defined by the CHX's constitution. *Id.*

⁶ Class I will consist of seven directors, class II will consist of seven directors, and class III will consist of eight directors.

⁷ 15 U.S.C. 78q-1.

⁸ 17 CFR 200.30-3(a)(12).