

the initial listing distribution criteria from 500,000 warrants publicly held and not less than 800 public warrant holders or 1,000,000 publicly held warrants and not less than 400 public warrant holders to 200,000 warrants publicly held and not less than 100 public warrant holders with a maintenance standard of 50,000 warrants publicly held. The Commission recognizes that the reduction in the initial listing standards is substantial. In reviewing the Amex's proposal the Commission has been particularly concerned about the lowered public holder requirement and the lack of such a public holder requirement for continued listing. While the Commission's determination on this issue was close, we have determined to approve the new standards based, in part, on the unique, completely derivative nature of warrants and the fact that they are exercisable into another security that must remain in "good standing" on its listed market. Accordingly, although the Commission is concerned about maintaining sufficient liquidity in the marketplace for listed warrants, the Commission believes that the revised initial listing criteria together with the added maintenance standard will serve to enable the Exchange to evaluate the propriety of continued exchange trading of warrants.

Finally, the Commission notes that warrants will trade under the Amex's existing regulatory regime for trading securities, and, therefore, the Commission believes that adequate safeguards are in place to ensure the protection of investors in warrants. In addition, the Amex will delist or suspend trading in warrants whenever the underlying equity security is delisted or suspended. Because warrants represent a claim on a company to issue stock, it is reasonable to expect the underlying equity security to meet the maintenance criteria of the exchange on which it is listed. It also would be undesirable to continue trading in listed warrants when the underlying equity security has been suspended or delisted and no longer trades in the secondary market.

The Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Amendment No. 1 raises the initial listing requirements from 100,000 warrants with no public warrant holder requirement, as originally proposed, to 200,000 warrants publicly held by not less than 100 public

warrantholders. The Commission believes that these higher standards are appropriate and serve to protect investors and the public interest. In addition, the Commission notes that no comments were received when the original notice of the proposed rule change was published and that no new regulatory issues are presented in Amendment No. 1.

Accordingly, the Commission believes that good cause exists, consistent with Section 6(b)(5) and 19(b)(2) ¹⁶ of the Act, to approve Amendment No. 1 on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1, including whether the proposed rule change is 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 comments, 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. 522, will be available for inspection and copying in the Commission's Public Reference Room, 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 Amex. All submissions should refer to File No. SR-Amex-97-38 and should be submitted by July 29, 1998.

For the foregoing reasons, the Commission finds that the Amex's amended proposal to revise original listing and maintenance requirements for Section 105 warrants is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-Amex-97-38), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,

Deputy Secretary.

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¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ 17 CFR 200.30-3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40150; File No. SR-CHX-98-16]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by The Chicago Stock Exchange, Incorporated Relating to the Trading of Nasdaq/NM Securities on the CHX

July 1, 1998.

On June 17, 1998, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ the proposed rule change as described in Items I, II, and III 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 and to grant accelerated approval of the proposed rule change.

I. Self-Regulatory Organizations Statement of the Terms of Substance of the Proposed Rule Change

The Exchange hereby requests a six month extension of the pilot program relating to the trading of Nasdaq/NM Securities on the Exchange that is currently due to expire on June 30, 1998. Specifically, the pilot program amended Article XX, Rule 37 and Article XX, Rule 43 of the Exchange's Rules and the Exchange proposes that the amendments remain in effect on a pilot basis through December 31, 1998.

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 statutory 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.

¹ 15 U.S.C. 78s(b)(1).

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

1. Purpose

On May 4, 1987, the Commission approved certain CHX rules and procedures relating to the trading of Nasdaq/NM securities on the Exchange.² Among other things, these rules made the Exchange's BEST Rule guarantee (Article XX, Rule 37(a)) applicable to Nasdaq/NM securities and made Nasdaq/NM securities eligible for the automatic execution feature of the Exchange's Midwest Automated Execution System ("MAX system").³

On January 3, 1997, the Commission approved,⁴ on a one year pilot basis, a program that eliminated the requirement that CHX specialist automatically execute orders in Nasdaq/NM securities when the specialists is not quoting at the national best bid or best offer ("NBBO").⁵ When the Commission approved the program on a pilot basis, it stated that the arrangement in place for Exchange specialists to access OTC market makers was not an ideal linkage between the markets on a permanent basis and that the Exchange should work with Nasdaq to establish a more effective linkage. In addition, the Commission requested that the Exchange submit a report to the Commission describing the Exchange's experience with the pilot program. The Commission stated that the report should include a least six months worth of trading data. Due to programming issues, the pilot program was not implemented until April, 1997.

Six months of trading data did not become available until November, 1997. As a result, the Exchange requested an additional three month extension to collect the data and prepare the report for the Commission. On December 31, 1997, the Commission extended the

pilot program for an additional three months, until March 31, 1998, to give the Exchange additional time to prepare and submit the report and to give the Commission adequate time to review the report prior to approving the pilot on a permanent basis.⁶ The Exchange submitted the report to the Commission on January 30, 1998.

The Exchange, prior to the pilot expiring, requested another three month extension. On March 31, 1998, the Commission approved the pilot for an additional three month period, until June 30, 1998.⁷ The Exchange now requests another extension of the current pilot program, through December 31, 1998.

Under the pilot program, specialists must continue to accept agency⁸ market orders or marketable limit orders, but only for orders of 100 to 1000 shares in Nasdaq/NM securities rather than the 2099 share limit previously in place.⁹ Specialists, however, must accept all agency limit orders in Nasdaq/NM securities from 100 up to and including 10,000 shares for placement in the limit order book. As described below, however, specialists are required to automatically execute Nasdaq/NM orders only if they are quoting at the NBBO where the order was received.

The pilot program requires the specialist to set the MAX auto-execution threshold at 1000 shares or greater for Nasdaq/NM securities. When a CHX specialist is quoting at the NBBO, orders for a number of shares less than or equal to the auto-execution threshold set by the specialist will be automatically executed (in an amount up to the size of the specialist's quote). Orders in securities quoted with a spread greater than the minimum variation are executed automatically after a fifteen second delay from the time the order is entered into MAX. The size of the specialist's bid or offer is then automatically decremented by the size of the execution. When the specialist's quote is exhausted, the system will

generate an autoquote at an increment away from the NBBO, as determined by the specialist from time to time, for either 100 or 1000 shares, depending on the issue.¹⁰

When the specialist is not quoting a Nasdaq/NM security at the NBBO, it can elect, on an order-by-order basis, to manually execute orders in that security. If the specialist does not elect manual execution, MAX market and marketable limit orders in that security that are of a size equal to or less than the auto-execution threshold will automatically be executed at the NBBO after a twenty second delay.¹¹ If the specialist elects manual execution, the specialist must either manually execute the order at the NBBO or a better price or act as agent for the order in seeking to obtain the best available price for the order on a marketplace other than the Exchange. If the specialist decides to act as agent for the order, the pilot program requires the specialist to use order-routing systems to obtain an execution where appropriate. Market and marketable limit orders that are for a number of shares greater than the auto-execution threshold are not subject to these requirements, and may be canceled within one minute of being entered into MAX or designated as an open order.

2. Statutory Basis

The basis under the Act for the proposed rule change is the requirements under Section 6(b)(5)¹² that an exchange have rules that are designed, in part, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose a burden on competition.

¹⁰ Specifically, the autoquote is currently for one normal unit of trading (usually 100 shares) in issues that became subject to mandatory compliance with SEC Rule 11Ac1-4 on or prior to February 24, 1997, and for 1000 shares in other issues.

¹¹ The twenty second delay is designed, in part, to provide an opportunity for the order to receive price improvement from the specialist's displayed quote.

¹² 15 U.S.C. 78f(b)(5).

² See Securities Exchange Act Release No. 24424 (May 4, 1987), 52 FR 17868 (May 12, 1987) (ordering approving File No. SR-MSE-87-2). See also Securities Exchange Act Release Nos. 28146 (June 26, 1990) (order expanding the number of eligible Nasdaq/NM securities to 100); and 36102 (August 14, 1995) (ordering expanding the number of Nasdaq/NM securities to 500).

³ The MAX system may be used to provide an automated delivery and execution facility for orders that are eligible for execution under the Exchange's BEST Rule and certain other orders. See CHX, Art. XX, Rule 37(b). A MAX order that fits under the BEST parameters is executed pursuant to the BEST Rule via the MAX system. If an order is outside the BEST parameters, the BEST Rule does not apply, but MAX system handling rules do apply.

⁴ See Securities Exchange Act Release No. 38119.

⁵ The NBBO is the best bid or offer disseminated pursuant to SEC Rule 11Ac1-1.

⁶ See Securities Exchange Act Release No. 39512 (December 31, 1997), 62 FR 1517 (January 9, 1998).

⁷ See Securities Exchange Act Release No. 39823 (March 31, 1998).

⁸ The term "agency order" means an order for the account of a customer, but shall not include professional orders as defined in CHX, Article XXX, Rule 2, interpretation and policy .04. The Rule defines a "professional order" as any order for the account of a broker-dealer, the account of an associated person of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest.

⁹ The 100 to 2099 share auto-acceptance threshold previously in place continues to apply to Dually Listed securities (those issues that are traded on the CHX and are listed on either the New York Stock Exchange or American Stock Exchange).

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

No comments were solicited or received.

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submission 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 in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the Exchange. All submissions should refer to file number SR-CHX-98-16 and should be submitted by July 29, 1998.

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

The Commission finds that the Exchange's proposal 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 proposed rule change is consistent with Section 6(b)(5) of the Act,¹³ which requires that an exchange have rules designed to prevent fraudulent and manipulative acts and practices, 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 Commission also believes that the proposal is consistent with Section 11A(a)(1)(C) and 11A(a)(1)(D) of the Act because the Exchange's proposal conforms CHX specialist obligations to those applicable to OTC market makers in Nasdaq/NM securities, while CHX provides a

separate, competitive market for Nasdaq/NM securities.

The Commission notes however that, while the Exchange has been working towards establishing a linkage, specialists and OTC market makers do not yet have an effective method of routing orders to each other. The Commission expects the Exchange to continue to work towards establishing a linkage with the Nasdaq systems as requested in the January 3, 1997 order.¹⁴ The Commission is approving the extension of the pilot so that the rules of the exchange will operate without interruption.

The Commission therefore finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**.

It is Therefore Ordered, pursuant to Section 19(b)(2),¹⁵ that the proposed rule change (SR-CHX-98-16) be, and hereby is, approved through December 31, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40146; File No. SR-NYSE-98-10]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the New York Stock Exchange, Inc., and Amendment No. 1 Thereto, To Amend Exchange Rule 115 Regarding Disclosure of Specialists' Orders

June 30, 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 March 17, 1998, the New York Stock Exchange, Inc. (the "NYSE" 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 Exchange. On June 23, 1998, the NYSE filed an amendment to the proposal.³ The

¹⁴ See Securities Exchange Act Release No. 38119 (January 3, 1997), 62 FR 1788 (January 13, 1997).

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from Agnes M. Gautier, Vice President, Market Surveillance, NYSE, to Richard

Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The proposed rule change consists of amendments to Exchange Rule 115, Disclosure of Specialists' Orders Prohibited. The text of the proposed rule change is available at the Office of the Secretary, the NYSE, 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 NYSE 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 NYSE 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

Exchange Rule 115 prohibits disclosure of information in regard to orders on a specialist's book except in certain limited circumstances. This policy was first adopted as a rule in February 1934. Limited exceptions were adopted for disclosure when demonstrating methods of trading to visitors in 1938 and to implement the Intermarket Trading System in 1978. A third exception, approved in 1991, allows a specialist to provide

Strasser, Assistant Director, Division of Market Regulation, Commission, dated June 17, 1998 ("Amendment No. 1"). In Amendment No. 1, the NYSE clarifies that percentage orders, under the proposed rule change, will be treated the same as other orders other than stop orders. The NYSE also notes that the proposed amendment to NYSE Rule 115, permitting a specialist to respond to an issuer's inquiry regarding buying and selling interest in its stock, is consistent with NYSE Rule 106, recent changes to the Exchange's Allocation Policy, and the duties of a specialist in that the proposal should promote a positive professional relationship between the specialist and the exchange-listed company. Furthermore, the Exchange notes it believes that non-member, non-issuer market participants are not disadvantaged by communications between the issuer and the specialist because the same information is available through a member's market probe of the specialist. The Exchange represents that under the proposed rule change issuers will not have direct access to the floor of the Exchange.

¹³ 15 U.S.C. 78f(b)(5).