

The open meeting previously scheduled for Wednesday, October 14, 1998 at 10: a.m. has been rescheduled for Thursday, October 15, 1998, at 10:00 a.m.

At times, changes in Commission priorities require alterations in the scheduling of meeting times. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: The Office of the Secretary, (202) 942-7070.

Dated: October 8, 1998.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40520; File No. SR-CHX-98-22]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to Membership Dues and Fees

October 5, 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 September 29, 1998, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described

in items I, II, and III below, which Items have been prepared by CHX. 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

CHX proposes to amend its membership dues and fees schedule, effective with the September billing statements. The changes are as follows:

Membership Dues and Fees

Additions are in *italics*; deletions [bracketed]

(d) Transaction Fee Schedule

(3) Monthly maximums for fees incurred in (2) above

(i) Maximum monthly transaction fees for orders sent via MAX	\$7,000	
(ii) Maximum monthly transaction fee for firms without a floor broker or market maker presence on the floor	[\$65,000]	<i>\$78,000</i>
(iii) Maximum monthly transaction fee for firms with a floor broker or market maker presence on the floor	[\$45,000]	<i>\$54,000</i>
(iv) Maximum monthly transaction fees shall not exceed the lesser of that specified in (ii) or (iii) above, or [\$.45] \$.40 per 100 average monthly gross round lot shares.		

The above transaction fees shall not apply to transactions in Tape B eligible issues which are executed through MAX.

* * * * *

(u) Floor Broker Credits

Total Monthly fees owed by a floor broker to the Exchange will be reduced (but to no less than zero) by the application of the following Earned Credit.

$\text{Earned Credit} = \text{Average Daily Billable Shares} \times \text{Average Rate per Billable Share} \times \text{Credit Percentage}$.

In calculating the above Earned Credit, the following definitions shall apply:

"Average Daily Billable Shares" means, for a given month, (i) Total Billable Shares in Month divided by (ii) Total Trading Days in Month.

"Total Billable Shares in Month" means, for a given month, the total number of shares executed on the Exchange by the floor broker for which the Exchange received a transaction fee. Any share executed for which the Exchange did not receive a transaction fee shall not be considered a billable share.

"Total Trading Days in Month" means, for a given month, the number of business days that the Exchange was open for business during the month.

Days in which the Exchange closes early, due to a holiday or otherwise, shall nonetheless be considered a day that the Exchange is open for business.

"Average Rate per Billable Share" means, for a given month, (i) the total dollar amount of transaction fees received by the Exchange for trades executed on the Exchange by the floor broker divided by (ii) Total Billable Shares in Month.

"Credit Percentage" means the applicable percentage taken from the following table:

		Average Daily Billable Shares			
		0-49,999 Shares	50,000-99,999 Shares	100,000-499,999 Shares	500,000 Shares or Greater
Average Rate per Billable Share	Less than \$.0040	20%	30%	40%	50%
	\$.0040-\$.0055	30%	45%	60%	75%
	Greater than \$.0055	40%	60%	80%	100%

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

In its filing with the Commission, CHX 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. CHX 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 purpose of the proposed rule change is to amend CHX's membership dues and fees schedule to (i) change the maximum monthly transaction fee caps

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

for both firms with and without a market maker or floor broker presence on the floor and (ii) provide a credit to floor brokers that can be used to reduce the floor broker's monthly Exchange bill.

Maximum Monthly Transaction Fees. One purpose of the proposed rule change is to change the current maximum monthly transaction fee caps. Currently, transaction fees are calculated on a sliding scale depending on the size of the order, with a maximum of \$100 per side. To encourage additional order flow, the current fee schedule provides for maximum monthly caps on transaction fees incurred by members. Currently, these caps include a cap of \$65,000 for firms without a market maker or floor broker presence on the floor and \$45,000 for firms with either a floor broker or market maker presence on the floor.³ Under the current fee schedule, these two caps are subject to adjustment if the transaction fees for a firm's average monthly gross round lot shares exceeds \$.45 per 100. In such a case, the maximum transaction fee is reduced to \$.45 per 100 average monthly gross round lot shares.

The Exchange proposes to increase the current \$65,000 cap to \$78,000 and the current \$45,000 cap to \$54,000, while reducing the level at which the adjustment occurs from the current \$.45 per 100 average monthly gross round lot shares to \$.40 per 100 average monthly gross round lot shares. This change accommodates the increase in aggregate total volume of trades executed on the Exchange (with higher resulting aggregate transaction fees) while ensuring that transaction fees, on a per share basis, remain competitive.

Floor Broker Credit. Another purpose of the proposed rule change is to amend the CHX fee schedule to provide a credit to floor brokers, calculated on a sliding scale according to the formula described below, that acknowledges the floor broker's role in obtaining revenue for the Exchange. This credit, to be called an Earned Credit, can be used to reduce the floor broker's monthly Exchange bill (but will never result in a bill that is less than zero). A floor broker's Exchange bill currently includes dues and other fees assessed by the Exchange as well as rebills and SEC fees. Most of these dues and fees are fixed, regardless of the amount of revenue that the floor broker generates for the Exchange. A floor broker generates revenue for the Exchange by bringing business to the

Exchange that results in CHX transaction fees.

The Earned Credit both recognizes the existence of externally generated revenue as an offset to Exchange fixed expenses and the role of the floor broker in obtaining this revenue. The Earned Credit is calculated by using a formula that takes into account (i) the daily average number of shares (not trades) executed, during a given month, on the Exchange by a floor broker for which the Exchange received a transaction fee (the "Average Daily Billable Shares"), (ii) the daily average amount (calculated on a per share basis) of such transaction fee (the "Average Rate per Billable Share"), and (iii) a sliding percentage amount calculated from a matrix that uses (i) and (ii) above (the "Credit Percentage"). The precise definitions for these terms, and the matrix used for the Credit Percentage, is in the text of the proposed rule change set forth above. Under the proposal, the maximum Earned Credit in a given month would be, in essence, equal to 100% of the transaction fee revenue generated by orders executed by the floor broker for one average day in the month.

The application of the Earned Credit can be demonstrated by the following example. Suppose a floor broker executed 10 trades of 2500 shares each and one trade of 30,000 shares for August 1998. The Exchange would first determine the number of billable shares per trade, i.e., the number of shares in each trade for which the Exchange received a transaction fee. Assuming the member paying the transaction fee in each case has not hit its monthly cap, for each of the 2500 share trades, the Exchange receives transaction fees from 2000 out of the 2500 shares. (Under the current transaction fee schedule, the first 500 shares are free). In addition, for the 30,000 share trade, the Exchange receives transaction fees from 21,375 shares. (Under the current fee schedule, the first 500 shares are free. The Exchange then receives a transaction fee (of varying amounts) for the next 21,375 shares and no transaction fee for any additional shares (because of the cap of \$100 per side).)

The exchange would then add all of the billable shares per trade together for a given month to determine the Total Billable Shares per Month (as defined in the fee schedule). This would be 20,000 shares (2000 shares times 10 trades) plus 21,375 shares, for a total of 41,375 shares.

The Exchange would then take (i) the Total Billable Shares per Month and divide that by (ii) the Total Trading Days in Month, to determine the Average Daily Billable Shares. This

equals 1970, which represents 41,375 (total number of billable shares) divided by 21 (the number of trading days in August 1998).

Once the Exchange determined the Average Daily Billable Shares, the Exchange would then calculate the Average Rate per Billable share. The Exchange would first calculate the total dollar amount of transaction fees received by the Exchange for trades executed on the Exchange by the floor broker during a month using the Exchange's transaction fee schedule. In the above example, this would be \$15 per trade for each of the 2500 share trades (\$.0 multiplied by the first 500 shares and \$.0075 multiplied by next 2000 shares) and \$100 for the 30,000 share trade (\$.0 multiplied by the first 500 shares, \$.0075 multiplied by the next 2000 shares, \$.005 multiplied by the next 7500 shares and \$.004 multiplied by the next 11,875 shares and \$.0 for the remaining 8125 shares (because of the \$100. cap per side)). Thus, the total dollar amount of transaction fees received by the Exchange for trades executed by the floor broker during the month of August 1998 would equal \$250 (\$15 multiplied by ten trades, plus \$100). The Average Rate per Billable Share would be \$250 divided by 41,375 (the total billable shares), for an average of \$.006.

Using the \$.006 (average rate per billable share) and the 1970 (average daily billable shares), the applicable Credit Percentage (as defined in the fee schedule) for the floor broker would be 40% which is taken from the Credit Percentage matrix.

Finally, the Exchange would determine the Earned Credit by multiplying \$.006 by 1970 by 40%, which would give the floor broker an Earned Credit of \$4.73 which can be used by the floor broker to reduce his monthly Exchange bill.

The Exchange's Finance Committee has determined that after the proposed changes in the fee structure, the Exchange will have ample capital and resources to continue to fulfill its prescribed duties in its capacity as a self-regulatory organization and as a registered national securities exchange.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)(4) ⁴ of the Act because it provides for the equitable allocation of reasonable dues, fees and other charges among its members.

⁴ 15 U.S.C. 78f(b)(4).

³ The fee schedule also includes a cap of \$7,000 for orders sent through MAX. This fee cap is not being changed in this filing.

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

The Exchange does not believe that the proposed rule change will 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

Written comments on the proposed rule change were neither solicited nor received.

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

The foregoing rule change establishes or changes a due, fee, or other charge imposed by the Exchange and, therefore, has become effective pursuant to Section 19(b)(3)(A)(ii)⁵ and subparagraph (e)(2) of Rule 19b-4 thereunder.⁶ At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.⁷

IV. 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 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 Room. Copies of such filing also will be available for inspection and copying at the principal office of CHX. All submissions should refer to File No.

SR-CHX-98-22 and should be submitted by November 4, 1998.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-27414 Filed 10-13-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40528; International Series Release No. 1161; File No. SR-NASD-98-72]

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 Nasdaq International Service Pilot Program

October 7, 1998.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on October 6, 1998, the National Association of Securities Dealers, Inc. ("NASD" or "Association") 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 Nasdaq Stock Market, Inc. ("Nasdaq"). 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.

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

The NASD proposes to extend for one year: (1) the pilot term of the Nasdaq International Service ("Service"); and (2) the effectiveness of certain rules ("International Rules") that are unique to the Service. This proposed rule change does not entail any modification of the International Rules. The present authorization for the Service and the International Rules expires on October 9, 1998. With this proposed rule change, the pilot period for the Service and the International Rules would be extended until October 9, 1999.

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 NASD 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 NASD 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

I. Purpose

The NASD proposes to extend for an additional year, until October 9, 1999, the pilot operation of the Service and the effectiveness of the International Rules governing broker-dealers' access to and use of the Service. The existing pilot operation of the Service and the International Rules was originally authorized by the Commission in October 1991² and the Service was launched on January 20, 1992. The pilot has since been extended³ and is currently set to expire on October 9, 1998.⁴

The Service supports an early trading session running from 3:30 a.m. to 9:00 a.m. Eastern Time on each U.S. business day ("European Session") that overlaps the business hours of the London financial markets. Participation in the Service is voluntary and is open to any authorized NASD member firm or its approved broker-dealer affiliate in the U.K. A member participates as a Service market maker either by staffing its trading facilities in the U.S. or the facilities of its approved affiliate during the European Session. The Service also has a variable opening feature that permits Service market makers to elect to participate starting from 3:30 a.m., 5:30 a.m. or 7:30 a.m. Eastern Time. The election is required to be made on a security-by-security basis at the time a

² Securities Exchange Act Release No. 29812 (October 11, 1991), 56 FR 50282 (October 17, 1991) (File No. SR-NASD-90-33).

³ Securities Exchange Act Release No. 33037 (October 8, 1993), 58 FR 53752 (October 18, 1993) (approval of File No. SR-NASD-93-50 extending the pilot for two years through October 11, 1995). Securities Exchange Act Release No. 36359 (October 11, 1995), 60 FR 53820 (October 17, 1995) (approval of File No. SR-NASD-95-45 extending the pilot for two years through October 11, 1997).

⁴ Securities Exchange Act Release No. 39216 (October 7, 1997), 62 FR 53673 (October 15, 1997) (approval of File No. SR-NASD-97-72 extending the pilot for 1 year through October 9, 1998).

⁵ 15 U.S.C. 78s(b)(3)(A)(ii).

⁶ 17 CFR 240.19b-4(e)(2).

⁷ In reviewing this proposal, the Commission has considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).