SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38717; File No. SR–CHX–97–12]

Self-Regulatory Organizations; Notice of Filing of and Order Granting Temporary Accelerated Approval to a Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating to Trading Variations

June 5, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on May 29, 1997, the Chicago Stock Exchange, Incorporated (''CHX'' or ''Exchange'') 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. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval on a temporary basis to the proposed rule change.

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

The Exchange proposes to modify Article XX, Rule 22 of the CHX's Rules, relating to trading variations.

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 III 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

Artical XX, Rule 22 of the Exchange's Rules gives the Exchange's Committee on Floor Procedure the authority to fix minimum variations for bids and offers in specific securities or classes of securities. Pursuant to this authority, the Exchange proposes to change its minimum variation 1⁄16 of $1.00 per share for securities traded both on the Exchange and the New York Stock Exchange (''NYSE'') that are selling at or greater than $1.00 and to 1⁄32 of $1.00 per share for such securities that are selling below $1.00.

The Exchange proposes that the proposed rule change become effective at such time as enhancement to the Intermarket Trading System (''ITS'') is made to permit trading in Tape A issues in minimum variations of a sixteenth through ITS.[2] The proposed rule change will only be effective until such time as the Commission approves File No. SR–CHX–97–13, a proposed rule change regarding general changes to the Exchange's Rules on trading variations.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)(5) of the Act[3] 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 believes the proposed rule change will not impose any burden on competition.

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.

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 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, 450 Fifth Street, N.W., Washington, D.C. 20549. Also, copies of such filing will be available for inspection and copying at the principal office of the CHX. All submissions should refer to File No. SR–CHX–97–12 and should be submitted by July 3, 1997.

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

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 and, in particular, with the requirements of Section 6 and Section 11A of the Act.[4]

The Commission believes the proposed rule change will likely enhance the quality of the market for the affected NYSE securities. The NYSE and CHX currently only allow quotes in eighths for NYSE securities whose bid price is above $1.00. Allowing the CHX to quote these securities in increments finer than eighths will facilitate quote competition.[5] This should help to produce more accurate pricing of such securities and can result in tighter quotations.[6] In addition, if the quoted markets are improved by reducing the minimum increment, the change could result in added benefits to the market such as reduced transaction costs.

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.** Currently, bids and offers for NYSE securities selling at or above $1.00 are publicly displayed in eighths. On May 12, 1997, the ITS

[1] 15 U.S.C. 78s(b)(1).

[2] Tape A disseminates last sale information for securities listed on the NYSE, while Tape B disseminates last sale information for securities listed on any other national securities exchange.

[3] 15 U.S.C. 78f(b)(5).

[4] 15 U.S.C. §§ 78f(b) and 78k-1. In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation, consistent with Section 3 of the Act. *Id.* § 78c(f).

[5] The rule change is consistent with the recommendation of the Division of Market Regulation (''Division'') in its Market 2000 Study, in which the Division noted that the 1⁄8 minimum variation can cause artificially wide spreads and hinder quote competition by preventing offers to buy or sell at prices inside the prevailing quote. *See* SEC, Division of Market Regulation, *Market 2000: An Examination of Current Equity Market Developments* 18–19 (Jan. 1994).

[6] A study that analyzed the reduction in the minimum tick size from 1⁄8 to 1⁄16 for securities listed on the American Stock Exchange priced between $1.00 and $5.00 found that, in general, the spreads for those securities decreased significantly while trading activity and market depth were relatively unaffected. *See* Hee-Joon Ahn, Charles Q. Chao, and Hyuk Choe, *Tick Size, Spread, and Volume,* 5 J. Fin. Intermediation 2 (1996).

Operating Committee agreed to modify ITS to permit Tape A securities to be quoted and traded in sixteenths. Shortly thereafter, several market centers publicly announced that they will allow the affected NYSE securities to be quoted in sixteenths as soon as modifications to ITS are implemented.[7] The proposed rule change will enable the CHX to continue to competitively quote such securities. Requiring the Exchange to wait the full statutory review period for the proposed rule change could place the CHX at a significant competitive disadvantage vis-a-vis other markets. At the same time, the proposal is effective only until the Commission acts on File No. SR–CHX–97–13.[8] This will provide the Commission with a sufficient period to receive and assess comments on SR–CHX–97–12. Therefore, the Commission believes it is consistent with Section 6(b)(5) and Section 19(b)(2) of the Act to grant accelerated approval on a temporary basis to the proposed rule change.[9]

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[10] that the proposed rule change (SR–CHX–97–12) is hereby approved on an accelerated basis until the Commission acts on File No. SR–CHX–97–13.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[11]

Margaret H. McFarland,

Deputy Secretary.

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[7] ITS estimates that the implementation date for this change is late June.

[8] File No. SR–CHX–97–13 is a companion filing that requests permanent approval of the procedures described herein. Securities Exchange Act Release No. 38718 (June 5, 1997). File Nos. SR–CHX–97–11 and SR–CHX–97–14 are related filings whose effectiveness is linked to SR–CHX–97–13. *See* Securities Exchange Act Release Nos. 38704 (May 30, 1997) (approving File No. SR–CHX–97–11 on a temporary basis; reducing the trading increment from eighths to sixteenths for securities that are traded on the Exchange and on Nasdaq) and 38719 (June 5, 1997) (approving File No. SR–CHX–97–14 on a temporary basis; a similar reduction in the trading increment for securities that are traded only on the Exchange).

[9] 15 U.S.C. §§ 78f(b)(5) and 78s(b)(2).

[10] 15U.S.C. 78s(b)(2).

[11] 17 C.F.R. 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38176; File No. SR–NYSE–97–14]

Self-Regulatory Organizations; New York Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change Relating to Amendments to the Shareholder Approval Policy

June 5, 1997.

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 May 16, 1997, the New York Stock Exchange, Inc. (''NYSE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NYSE. 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 NYSE is proposing to modify its shareholder approval policy (''Policy''), contained in Paragraphs 312.03 through 312.05 of the Exchange's Listed Company Manual (''Manual''). The Exchange believes the proposal will provide greater flexibility for listed companies to sell stock at a price at least as great as the higher of book and market value to substantial security holders, or in non-public sales, while preserving the significant shareholder rights afforded under the Policy.[3]

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.

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1994).

[3] The complete text of the proposed rule change is attached as Exhibit A to File No. SR–NYSE–97–14, and is available for review at the principal office of the NYSE and in the Public Reference Room of the Commission.

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

(a) Purpose

Currently, the Exchange's shareholder approval policy requires a listed company to obtain shareholder approval in four situations:

- Related-Party Transactions: when selling more than one percent of the company's stock, for either cash or other assets, to a ''related party,'' defined to mean officers, directors and holders of five percent or more of the company's common stock (or stock with five percent or more of the company's voting power);
- Private Sales: when selling 20 percent or more of the company's stock, other than in a public offering for cash;
- Stock Option Plans: when adopting stock option plans that are not ''broadly-based''; or
- Change of Control: with respect to any issuance of stock that results in the change of control of the company.

The purpose of the rule change is to modify the first two of these requirements to provide listed companies with flexibility in their financing plans, while still substantially preserving the significant shareholder rights afforded under the Policy. In addition, the rule change restructures the wording of the Policy in order to simplify the language.

Related-party transactions. Issuers sometimes seek cash financing from one or more of their ''substantial'' security holders (which the Exchange defines as a person holding either five percent of the company's stock or five percent of the company's voting power). The Exchange now requires shareholder approval if a sale to a substantial security holder results in a one percent dilution.

The Exchange proposes that cash sales of stock to a substantial security holder be exempt from the Policy if the issuance is limited to five percent of the issuer's stock. The Exchange believes that cash sales do not give rise to the same valuation concerns as do sales of stock for non-cash assets. The exemption would apply only if the sale is at a price at least as high as each of the book and market value of the stock. The Exchange would continue to require shareholder approval for the following issuances that result in a dilution of more than one percent of the issuer's stock: sales of stock to any related party (including substantial security holders) for assets other than cash; and cash sales to officers and directors. The Exchange believes the proposed exemption from the policy would provide issuers with more