

expiration, then the prior day's last sale price will be used in the calculation.⁶

Exchange rules applicable to Stock Index options. AMEX Rules 900C through 980C will apply to the trading of option contracts based on the Index. These rules cover issues such as surveillance, exercise prices, and position limits. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the Index. The Index is deemed to be a Stock Index Option under Rule 901C(a) and a Stock Index Industry Group under Rule 900C(b)(1). With respect to Rule 903C(b), the Exchange proposes to list near-the-money (*i.e.*, within ten points above or below the current index value) option series on the Index at 2½ point strike (exercise) price intervals when the value of the Index is below 200 points. In addition, the Exchange expects that the review required by Rule 904C(c) will result in a position limit of 15,000 contracts with respect to options on this Index.

2. Basis

The proposed rule change is consistent with Section 6(b) of the Exchange Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and 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 any burden on competition.

⁶ The Commission notes that pursuant to Article XVII, Section 4 of the Options Clearing Corporation's ("OCC") by-laws, OCC is empowered to fix an exercise settlement amount in the event it determines a current index value is unreported or otherwise unavailable. Further, OCC has the authority to fix an exercise settlement amount whenever the primary market for the securities representing a substantial part of the value of an underlying index is not open for trading at the time when the current index value (*i.e.*, the value used for exercise settlement purposes) ordinarily would be determined. See Securities Exchange Act Release No. 37315 (June 17, 1996), 61 FR 42671 (order approving SR-OCC-95-19).

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 with respect to the proposed rule change.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Exchange Act. Pursuant to the Generic Index Approval Order,⁷ the AMEX may not list options for trading on the Index prior to 30 days after August 19, 1997.⁸ 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 Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in the furtherance of the purposes of the Exchange Act.⁹

IV. 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, 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

⁷ See Securities Exchange Act Release No., 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) (SR-AMEX-92-35).

⁸ The AMEX represented to the Commission that it has the necessary systems capacity to support the new series of options to be generated by the Index. The AMEX also stated that it requested a written representation from the Options Price Reporting Authority ("OPRA") confirming the adequacy of its systems capacity. The AMEX will not permit trading of options on the index until it confirms with the Commission that OPRA has given the AMEX a written representation that it has the necessary systems capacity. See Letter from Claire P. McGrath, Vice President & Special Counsel, Derivative Securities, the AMEX, to Ivette Lopez, Assistant Director, Office of Market Supervision, Division of Market Regulation, Commission, dated August 18, 1997.

⁹ In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

Section, 450 Fifth Street, N.W., Washington, DC 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 number SR-AMEX-97-31 and should be submitted by September 23, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38965; File No. SR-CHX-97-13]

Self-Regulatory Organizations Chicago Stock Exchange, Incorporated; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 1 to Proposed Rule Change Relating to Trading Variations

August 22, 1997.

I. Introduction

On June 2, 1997, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to decrease the minimum variation for certain securities from an eighth to a sixteenth of a dollar and to make conforming changes to its rule regarding when a security is quoted "ex-dividend," "ex-distribution," "ex-rights," or "ex-interest."

The proposed rule change was published for comment in the **Federal Register** on June 12, 1997.³ No comments were received concerning the proposal. On July 1, 1997, the Exchange submitted Amendment No. 1 to the proposed rule change.⁴ This order approves the proposal, including

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. § 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 38718 (June 5, 1997), 62 FR 32132 (June 12, 1997).

⁴ Letter from David T. Rusoff, Esq., Foley & Lardner, to Ivette Lopez, Division of Market Regulation, SEC, dated June 20, 1997 ("Amendment No. 1"). Amendment No. 1 conformed the CHX's proposal to similar rules of the New York Stock Exchange and the American Stock Exchange by slightly modifying the level at which trading securities in increments of 1/32 of a dollar may occur.

Amendment No. 1 on an accelerated basis.

III. Description of the Proposal

Recently, there has been a movement within the industry to reduce the minimum trading and quotation increments imposed by the various self-regulatory organizations ("SROs"). For example, the New York Stock Exchange ("NYSE"), The Nasdaq Stock Market ("Nasdaq"), and the American Stock Exchange ("Amex") have recently reduced their minimum increments.⁵ In addition, several third market makers have begun quoting securities in increments smaller than the primary markets. The CHX responded by submitting rule filings that matched the primary markets' changes.⁶ In order to permit a quick response to rapidly changing market conditions, however, some of those proposals were granted only temporary accelerated approval.⁷ The current proposal. The current proposal seeks permanent approval of those rule changes.⁸

III. Commission's Findings

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. In particular, the Commission believes the proposal comports with the requirements of Section 6 and Section 11A of the Act.⁹

⁵ Securities Exchange Act Release Nos. 38571 (May 5, 1997), 62 FR 25682 (May 9, 1997) (approving File No. SR-Amex-97-14); 38678 (May 27, 1997), 62 FR 30363 (June 6, 1997) (approving File No. SR-NASD-97-27); 38897 (Aug. 1, 1997), 62 FR 42847 (Aug. 8, 1997) (approving SR-NYSE-97-21).

⁶ Securities Exchange Act Release Nos. 38590 (May 9, 1997), 62 FR 26832 (May 15, 1997) (approving File No. SR-CHX-97-08; reducing the trading increment from eighths to sixteenths for securities that are traded on the Exchange and on the Amex); 38704 (May 30, 1997), 62 FR 31467 (June 9, 1997) (approving File No. SR-CHX-97-11 on a temporary basis; a similar reduction in the trading increment for securities that are traded on the Exchange and on Nasdaq); 38717 (June 5, 1997), 62 FR 32134 (June 12, 1997) (approving File No. SR-CHX-97-12 on a temporary basis; a similar reduction in the trading increment for securities that are traded on the CHX and on the NYSE); 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).

⁷ See File Nos. SR-CHX-97-11, SR-CHX-97-12, and SR-CHX-97-14.

⁸ The proposal also makes conforming changes to CHX Rule 35; the Exchange's rule regarding when a security is quoted "ex-dividend," "ex-distribution," "ex-rights," or "ex-interest."

⁹ 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(f) of the Act. *Id.* § 78c(f).

The proposed rule change will likely enhance the quality of the market for the affected securities. Allowing the CHX to permanently quote and trade equity securities in finer increments will facilitate quote competition.¹⁰ This should help produce more accurate pricing of such securities and can result in tighter quotations.¹¹ 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 proposed rule change also will allow the CHX the flexibility it needs to address the recent transition to smaller increments and to remain competitive with competing market centers. Nevertheless, the Commission notes that any further change in the minimum increment constitutes (1) a change in a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the CHX, or (2) a change in an existing order-entry or trading system of the CHX, or (3) both. Therefore, the Exchange is obligated to file such proposed changes with the Commission.¹²

The Commission finds good cause for approving Amendment No. 1 prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. This amendment does not raise any new, significant regulatory concerns. It simply conforms the CHX's proposal to similar rules of the NYSE and the Amex by slightly modifying the level at which trading securities in increments of $\frac{1}{32}$ of a dollar may occur. Therefore, the Commission believes that granting accelerated approval to Amendment No. 1 is appropriate and consistent with Section 19(b)(2) of the Act.¹³

¹⁰ 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 $\frac{1}{8}$ 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).

¹¹ A study that analyzed the reduction in the minimum tick size from $\frac{1}{8}$ to $\frac{1}{16}$ for securities listed on the Amex 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).

¹² These changes, however, may become effective upon filing if they meet certain statutory requirements. See 15 U.S.C. § 78s(b)(3)(A)(i) and 17 CFR 240.19b-4(e).

¹³ 15 U.S.C. § 78s(b)(2).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 1. 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. Copies of such filing also will be available for inspection and copying at the principal office of the CHX. All submissions should refer to File No. SR-CHX-97-13 and should be submitted by September 23, 1997.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁴ that the proposed rule change (SR-CHX-97-13) is approved, including Amendment No. 1 on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland,

Deputy Secretary.

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DEPARTMENT OF STATE

[Public Notice No. 2598]

Ad Hoc on the 1998 International Telecommunication Union Policy Forum; International Telecommunications Advisory Committee (ITAC) Meeting Notice

The Department of State announces the establishment, under its International Telecommunications Advisory Committee (ITAC), of an Ad Hoc Group to prepare for the Second World Telecommunication Policy Forum (WTPF). The first three meetings will be held at the Department of State, 2201 "C" Street, N.W., Washington, D.C., as follows:

¹⁴ 15 U.S.C. § 78s(b)(2).

¹⁵ 17 CFR 200.30-3(a)(12).