

Rule 17Ad-7 under the Act requires each registered transfer agent to retain, in an easily accessible place for a period of six months to one year, all the records required to be made and kept current under the Commission's rules regarding registered transfer agents. Rule 17Ad-7 also requires such records to be retained for a total of two to six years or for one year after termination of the transfer agency, depending on the particular record or document.

These record retention requirements ensure that all registered transfer agents are maintaining the records necessary to monitor and keep adequate control over their own performance and to examine registered transfer agents on an historical basis for compliance with applicable rules.

It is estimated that approximately 1,248 registered transfer agent will spend a total of 142,272 hours per year complying with Rule 17Ad-7. Based on average cost per hour of \$50, the total cost of compliance with Rule 17Ad-7 is \$7,113,600.

Written comments are invited on: (a) whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) the accuracy of the agency's estimates of the burden of the proposed collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Michael E. Bartell, Associated Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 5th Street, NW., Washington, D.C. 20549.

Dated: June 2, 1998.

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40066; File No. SR-CHX-97-25]

### Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Chicago Stock Exchange, Incorporated, Amending the Minor Rule Violation Plan

June 4, 1998.

#### I. Introduction

On October 1, 1997, 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"),<sup>1</sup> a proposed rule change amending the Minor Rule Violation Plan. The proposed rule change was published for comment in Securities Exchange Act Release No. 39723 (March 5, 1998), 63 FR 12123 (March 12, 1998). No comments were received on the proposal. For the reasons discussed below, the Commission is approving the proposed rule change.

#### II. Description of the Proposal

On May 30, 1996 the Commission approved a proposed rule change that established a CHX Minor Rule Violation Plan ("Plan").<sup>2</sup> The Exchange is now proposing to add the failure to display a limit order in the quotation<sup>3</sup> to the section of the Plan relating to Floor Decorum and Minor Trading Rule Violations. The Exchange believes that it is appropriate to add the CHX Limit Order Rule to the Plan because violations of the rule are either objective and technical in nature or easily verifiable. Moreover, the Exchange believes that because the CHX Limit Order Rule is built upon a comparable Commission Rule,<sup>4</sup> violations of such rule require sanctions that are more severe than a warning or cautionary letter. Accordingly, the Exchange is proposing the recommended fine for

failure to display a limit order in the quotation (Article XX, Rule 7, interpretation and policy .05) to be \$1,000 for the first violation and all subsequent violations.<sup>5</sup>

#### III. Discussion

The Commission believes that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with Section 6(b)(5) which requires that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.<sup>6</sup>

The Exchange's proposal is also consistent with the requirements in Sections 6(b)(1)<sup>7</sup> and 6(b)(6)<sup>8</sup> that the rules of an exchange enforce compliance and provide appropriate discipline for violations of Commission and Exchange rules. Moreover, because CHX Article XII, Rule 9 provides procedural rights to the person fined and permits a disciplined person to request a full hearing on the matter, the proposal provides a fair procedure for the disciplining of members and persons associated with members, consistent with Sections 6(b)(7)<sup>9</sup> and 6(d)(1)<sup>10</sup> of the Act.

The Exchange's proposal reinforces the obligations of an exchange specialist to immediately display certain customer limit orders in accordance with the Commission's Limit Order Display Rule<sup>11</sup> and the CHX Limit Order Rule.<sup>12</sup> The Commission believes that displaying customer limit orders benefits investors by providing enhanced execution opportunities and improved transparency.<sup>13</sup>

The Commission expects that the Exchange has the appropriate

<sup>5</sup> The Exchange notes that the minor rule plan violation schedule is merely a recommended fine schedule and that fines of more or less than the recommended fines can be imposed (up to a \$2500 maximum) in appropriate circumstances. Moreover, the Exchange may proceed with formal disciplinary action, rather than procedures under the Plan, whenever it finds that a violation of the limit order rule was more than inadvertent.

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> 15 U.S.C. 78f(b)(1).

<sup>8</sup> 15 U.S.C. 78f(b)(6).

<sup>9</sup> 15 U.S.C. 78f(b)(7).

<sup>10</sup> 15 U.S.C. 78f(d)(1).

<sup>11</sup> 17 CFR 250.11Ac1-4.

<sup>12</sup> The Commission believes the increased fine of \$1000 for the first violation is appropriate considering the very serious nature of these violations.

<sup>13</sup> See Securities Exchange Act Release 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996) ("Adopting Release").

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> Rule 19d-1(c)(2) under the Act authorizes national securities exchanges to adopt minor rule violation plans for the summary discipline and abbreviated reporting of minor rule violations by exchange members and member organizations. See Securities Exchange Act Release No. 21013 (June 1, 1984), 49 FR 23828 (approving amendments to paragraph (c)(2) of Rule 19d-1 under the Act). The CHX's Plan was approved by the Commission in 1996. See Securities Exchange Act Release No. 37255 (May 30, 1996), 61 FR 28918 (approving File No. SR-CHX-95-25).

<sup>3</sup> CHX Article XX, Rule 7 ("CHX Limit Order Rule").

<sup>4</sup> See 17 CFR 200.11Ac1-4 ("Limit Order Display Rule").

surveillance procedures to easily identify a specialist who fails to display a customer limit order immediately or is relying on an automated system that does not display limit orders immediately.<sup>14</sup> The Commission, therefore, believes that because certain violations of the Limit Order Rule are amenable to efficient and equitable enforcement they are appropriate for inclusion in CHX's Minor Rule Plan. The Commission expects, however, because a violation of the Limit Order Rule amounts to a violation of a federal securities law, that the Exchange will err on the side of caution in disposing of such violations under the Plan.<sup>15</sup> The Commission expects the Exchange to continue to resolve more serious violations of rules through the use of formal disciplinary procedures, as in the case of an egregious violation or habitual offender.

#### IV. Conclusion

For the foregoing reasons, the Commission believes that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with Sections 6(b)(1), 6(b)(5), 6(b)(6), 6(b)(7), 6(d)(1) and 19(d) of the Act.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act<sup>16</sup> and Rule 19d-1(c)(2) thereunder,<sup>17</sup> that the proposed rule change (SR-CHX-97-25) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>18</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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<sup>14</sup> A specialist is not displaying customer limit orders *immediately* if the specialist regularly executes customer limit orders at, for example, the 27th second after receipt. As stated in the Adopting Release, the requirement that a limit order be displayed "immediately" means that the limit order must be displayed as soon as practicable, but *no later* than 30 seconds after receipt under normal market conditions. This 30 seconds is an outer limit under normal market conditions and is not to be interpreted as a 30-second safe harbor.

<sup>15</sup> For example, the Commission expects that the Exchange would not issue several cautionary letters before instituting the fines under the Plan or aggregate multiple violations of the rules before instituting abbreviated disciplinary procedures under the Plan or, if necessary, full disciplinary procedures.

<sup>16</sup> 15 U.S.C. 78s(b)(2).

<sup>17</sup> 17 CFR 250.19d-1(c)(2).

<sup>18</sup> 17 CFR 200.30-3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40064; International Release No. 1138; File No. SR-DTC-98-11]

### Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order Granting Accelerated Temporary Approval of a Proposed Rule Change Relating to the Admission of Non-U.S. Entities as Direct Depository Participants

June 3, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on May 29, 1998, The Depository Trust Company ("DTC") 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 primarily by DTC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated temporary approval of the proposed rule change through May 31, 1999.

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

The purpose of the proposed rule change is to extend the Commission's temporary approval of DTC's criteria for entities that are organized in a country other than the United States ("non-U.S. entity") to become direct DTC participants.

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

In its filing with the Commission, DTC 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. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>2</sup>

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

The purpose of the proposed rule change is to extend the Commission's temporary approval of DTC's admission criteria for non-U.S. entities as direct

DTC participants. The Commission originally granted temporary approval on May 9, 1997.<sup>3</sup> The admission criteria would permit well-qualified, non-U.S. entities to obtain direct access to DTC's services without requiring the non-U.S. entities to obtain financial guarantees.

According to DTC, as of May 8, 1998, it has not admitted any non-U.S. entities under the non-U.S. entities participation standards. DTC is currently reviewing an application from one non-U.S. entity, has sent an application to another non-U.S. entity, and has received numerous inquiries from other non-U.S. entities. DTC expects to admit in 1998 several non-U.S. entities under these standards.

DTC is seeking an extension of the temporary approval so it can admit these non-U.S. entities and can gain experience with the new admission standards and with the unique risks posed by the activities of non-U.S. entities as direct DTC participants.

DTC believes that the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act and the rules and regulations promulgated because the admissions criteria takes into account the unique risks to DTC raised by the admission of non-U.S. entities while not unfairly discriminating against foreign entities seeking admission as participants.

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

DTC acknowledges that the additional admissions criteria applicable to non-U.S. entities may impose some additional burden. DTC believes that any such burden is necessary and 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 were not and are not intended to be solicited with respect to the proposed rule change, and none were received.

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

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of

<sup>3</sup> For a complete discussion of the admission criteria, refer to Securities Exchange Act Release No. 38600, International Release No. 1078 (May 9, 1997), 62 FR 27086-01 [File No. SR-DTC-96-13] (order temporarily approving a proposed rule change relating to the admission of non-U.S. entities as direct depository participants).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> The Commission has modified the text of the summaries prepared by DTC.