

At times, changes in Commission priorities require alterations in the scheduling of meeting items. 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: June 9, 1997.

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38719; File No. SR-CHX-97-14]

Self-Regulatory Organization's; 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 June 2, 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 in CHX-exclusive issues.

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

Article 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 to 1/16 of \$1.00 per share for securities traded exclusively on the Exchange that are selling at greater than \$1.00, and 1/32 of \$1.00 per share for such securities that are selling at or below \$1.00. The proposed rule change will only be effective until such time as the Commission approves 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 Act² 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, 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, 450 Fifth Street, NW., Washington, DC 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-97-14 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.³

The Commission believes the proposed rule change will likely enhance the quality of the market for the affected CHX securities. The Exchange currently only allows quotes in eighths for CHX securities that are above \$1.00 and sixteenths for CHX securities that are below \$1.00 but above \$0.50. Allowing the CHX to quote these securities in finer increments will facilitate quote competition.⁴ This should help to produce more accurate pricing of such securities and can result in tighter quotations.⁵ 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

³ 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).

⁴ 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).

⁵ 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).

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78f(b)(5).

prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. This will allow the Exchange to quote all the securities listed on the Exchange in finer increments. Requiring the Exchange to wait the full statutory review period for the proposed rule change would unnecessarily complicate the CHX's transition to finer increments and could place the Exchange at a 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-97-13.⁶ This will provide the Commission with a sufficient period to receive and assess comments on SR-CHX-97-14. 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.⁷

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (SR-CHX-97-14) 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.⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38718; File No. SR-CHX-97-13]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Incorporated Amending Rules Regarding 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 June 2, 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, II, and III 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 person.

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

The Exchange proposes to amend Article XX, Rule 22, relating to trading variations, and to amend Article XX, Rule 35 to make technical changes necessitated by the changes to Rule 22.² The text of the proposed rule change is as follows [new text is italicized; deleted text is bracketed]:

ARTICLE XX

Minimum [Fractional Changes] *Variations*!

Rule 22. [Bids or offers in stocks above \$1.00 per share not be made at a less variation than $\frac{1}{8}$ of \$1.00 per share; in stocks below \$1.00 but above 50¢ per share, at a less fraction than $\frac{1}{16}$ of \$1.00 per share; in stocks below 50¢ per share, at a less variation than $\frac{1}{32}$ of \$1.00 per share; provided that the Committee on Floor Procedure may fix variations of less than the above for bids and offers in specific securities or classes of securities.] *Bids and offers in specific securities or classes of securities traded on the Exchange shall not be made in variations*

¹ 15 U.S.C. 78s(b)(1).

² The Commission notes that File Nos. SR-CHX-97-11, SR-CHX-97-12, and SR-CHX-97-14 are related filings whose effectiveness is linked to this file. See Securities Exchange 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); 38717 (June 5, 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 New York Stock Exchange); 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).

less than the minimum variation established for such security or class of security as determined by the Committee on Floor Procedure from time to time.

Interpretations and Policies

- .01 The Committee on Floor Procedure has determined that the minimum variation for securities traded both on the Exchange and the American Stock Exchange, Inc. [that are selling above 25¢] shall be as follows: *for securities that are trading above 25¢, $\frac{1}{16}$ of \$1.00 per share; and for securities that are selling at or below 25¢, $\frac{1}{32}$ of \$1.00 per share.*
- .02 The Committee on Floor Procedure has determined that the minimum variation for securities traded both on the Exchange and the Nasdaq National Market shall be as follows: *for securities that are selling at or greater than \$1.00, $\frac{1}{16}$ of \$1.00 per share; and for securities that are selling below \$1.00, $\frac{1}{32}$ of \$1.00 per share.*
- .03 The Committee on Floor Procedure has determined that the minimum variation for securities traded both on the Exchange and the New York Stock Exchange shall be as follows: *for securities that are selling above \$1.00, $\frac{1}{16}$ of \$1.00 per share; and for securities that are selling below \$1.00, $\frac{1}{32}$ of \$1.00 per share.*
- .04 The Committee on Floor Procedure has determined that the minimum variation for securities traded exclusively on the exchange shall be as follows: *for securities that are selling above \$1.00, $\frac{1}{16}$ of \$1.00 per share; and for securities that are selling below \$1.00, $\frac{1}{32}$ of \$1.00 per share.*

Security Quoted "Ex-dividend," "Ex-distribution," "Ex-rights" or "Ex-interest"

Rule 35. When a security is quoted "ex-dividend," "ex-distribution," "ex-rights" or "ex-interest" the following kinds of orders shall be reduced by the value of the payment or rights, and increased in shares in the case of stock dividends and stock distributions which result in round lots, on the day the security sells. Should the disbursement be in an amount other than the [fraction] *minimum variation* in which bids and offers are made, or a multiple thereof, orders shall be reduced by the next higher [fraction] *minimum variation*.

Interpretations and Policies

.01 Reduction of orders—Proportional procedures.—Open buy orders and open stop orders to sell shall be reduced by the proportional value of a stock distribution on the day a security sells ex-dividend or ex-distribution. The new price of the order is determined by dividing the price of the original order by 100% plus the percentage value of the stock dividend or stock distribution. For example, in a stock dividend of 3%, the price of an order would be divided by 103%.

The chart at the end of .03 below lists, for the more frequent stock distributions, the percentages by which the prices of open buy orders and open stop orders to sell shall be divided to determine the new order prices.

⁶ 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-97-12 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 38717 (June 5, 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 New York Stock Exchange).

⁷ 15 U.S.C. §§ 78f(b)(5) and 78s(b)(2).

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 C.F.R. 200.30-3(a)(12).