

**Israel Growth Fund, Inc. [File No. 811-7906]**

*Summary:* Applicant seeks an order declaring that it has ceased to be an investment company. Applicant made liquidating distributions to its security holders on July 31, 1995, and December 29, 1995, totaling \$551,801. Applicant has paid \$40,231 in expenses related to the liquidation and has retained \$1,067 for the purpose of paying its remaining debts, which include legal and accounting expenses incurred in connection with its liquidation.

*Filing Dates:* The application was filed on September 3, 1996, and amendments to the application were filed on April 8, 1997, and December 9, 1997.

*Applicant's Address:* 95 Revere Drive, Northbrook, Illinois 60062.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

**Margaret H. McFarland,**

*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-39498; File No. SR-CHX-97-21]

**Self-Regulatory Organizations; Order Approving Proposed Rule Change by the Chicago Stock Exchange, Incorporated, Regarding Suitability of Customer Recommendations**

December 29, 1997.

On September 18, 1997, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> a proposed rule change regarding the suitability of customer recommendations. The proposed rule change was published for comment in the **Federal Register**.<sup>2</sup> The Commission received no comment letters on the proposed rule change, and for the reasons discussed below, is approving the proposal.

**I. Description of Proposal**

The Exchange proposes to add Article VIII, Rule 25 to the Exchange's Rules. The Exchange currently does not have rule that expressly addresses suitability, churning and related matters for

Exchange members. While the Exchange believes that such conduct may currently fall within existing Exchange rules, such as the Exchange's rule relating to "just and equitable" activity, the Exchange believes that it is desirable at this time to specifically address this type of conduct. As a result, the purpose of the proposed rule change is to add Rule 25 to Article VIII of the Exchange's rules, requiring that, in recommending to a customer the purchase, sale or exchange of any security, a member must have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

Specifically, prior to the execution of a transaction recommended to a customer, other than transactions with customers where investments are limited to money market mutual funds, a member would be required to make reasonable efforts to obtain information concerning the customer's financial status, the customer's tax status, the customer's investment objectives, and such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer.

The rule change would contain a non-exclusive list of practices that the Exchange deems to violate a member's duty to recommend to a customer only securities suitable for that customer. These would be: (1) Recommending speculative low-priced securities to customers without knowledge of or an attempt to obtain information concerning the customer's other securities holdings, their financial situation and other necessary data; (2) excessive activity in a customer's account, often referred to a "churning" or "overtrading"; (3) trading in mutual fund shares, particularly on a short-term basis; (4) fraudulent activity (including establishing fictitious accounts in order to execute transactions which otherwise would be prohibited, executing transactions in discretionary accounts in excess of or without actual authority from customers, causing the execution of transactions which are unauthorized by customers or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon, and unauthorized use or borrowing of customers' funds and securities); and (5) recommending the purchase of securities or the continuing purchase of securities in amounts that are inconsistent with the reasonable expectation that the

customer has the financial ability to meet such a commitment.

In addition, with regard to derivative financial products, the rule change would require that members make every effort to familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such products and to make every effort to make customers aware of the pertinent information regarding new financial products.

**II. Discussion**

The Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act and the rules and regulations thereunder applicable to a national securities exchange, and specifically, with the requirements of Section 6(b).<sup>3</sup> In particular, the Commission believes that the proposal is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and in general to protect investors and the public interest.

The Commission believes that the Exchange's proposal to add Article VIII, Rule 25 to the Exchange's Rules benefits investors by requiring exchange members, in recommending to a customer the purchase, sale or exchange of any security, to have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs. The Commission also believes that including a non-exclusive list of practice that the Exchange deems violates a member's duty of suitability with the rule is a beneficial guide for investors. Additionally, the proposal will benefit exchange members by providing them a rule specifically addressing suitability, churning and related conduct.

**III. Conclusion**

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>4</sup> that the proposed rule change (SR-97-21) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78s(b)(12).

<sup>5</sup> 17 CFR 300.30(a)(12).

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

<sup>2</sup> Securities Exchange Act Release No. 3907 (November 6, 1997), 62 FR 61157 (November 21, 1997).