

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>32</sup>

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Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42985; File No. SR-CHX-00-19]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating to Execution of Odd-Lot Limit Orders for Nasdaq/NM Securities

June 27, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice hereby is given that on June 9, 2000, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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 Exchange proposes to amend Article XXXI, Rule 9 of the Exchange's rules relating to execution of odd-lot limit orders for Nasdaq/NM Securities. The text of the proposed rule change is as follows. New text is *italicized*.

#### Article XXXI

\* \* \* \* \*

#### Rule 9. Execution of Odd-Lot Orders

(a)-(b) No change in text.  
(c)(i-iii) No change in text.  
(c)(iv) Buy Limit Orders. Buy limit orders in *Dual Trading System* issues shall be executed at the limit price only after there has been a full lot transaction in the primary market at a price at or below the limit price. *A buy limit order in Nasdaq/NM Securities shall be executed at the limit price, on a share-for-share basis, based on the first to occur of (A) a reported full round lot transaction in any marketplace at a price at or below the limit price, or (B) odd lot transactions on the Exchange at a price at or below the limit price, provided however, that (1) if an odd lot or round lot transaction on*

*the Exchange would cause an execution of a portion of the next odd-lot limit order in the specialist's limit order book, the entire next odd-lot limit order shall be executed; (2) an incoming round lot limit order will only cause execution of a "resting" round lot order (i.e., a round lot order in the specialist's limit order book) if the size of the incoming limit order is greater than or equal to the size of the resting round lot order plus the aggregate size of any odd lot orders that were executed at the limit price; and (3) if the auto-execution threshold is set at 0, odd lot orders shall continue to execute automatically in accordance with the foregoing but round lot orders shall be treated manually in accordance with Article XX, Rule 43(d).*

(c)(v) Sell Limit Orders, Marked "Long." Sell limit orders in *Dual Trading System* issues marked "long" shall be executed at the limit price, only after there has been a full lot transaction in the primary market at a price at or above the limit price. *A sell limit order in Nasdaq/NM Securities marked "long" shall be executed at the limit price, on a share-for-share basis, based on the first to occur of (A) a reported full round lot transaction in any marketplace at a price at or above the limit price, or (B) odd lot transactions on the Exchange at a price at or above the limit price, provided, however, that (1) if an odd lot or round lot transaction on the Exchange would cause an execution of a portion of the next odd-lot limit order in the specialist's book, the entire next odd-lot limit order shall be executed; (2) an incoming round lot limit order will only cause execution of a "resting" round lot order (i.e., a round lot order in the specialist's limit order book) if the size of the incoming limit order is greater than or equal to the size of the resting round lot order plus the aggregate size of any odd lot orders that were executed at the limit price; and (3) if the auto-execution threshold is set at 0, odd lot orders shall continue to execute automatically in accordance with the foregoing but round lot orders shall be treated manually in accordance with Article XX, Rule 43(d),*

#### 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 Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received regarding the proposed rule change. The text of these statements may be examined at the places specified in Item IV 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

The Exchange proposes to amend Article XXXI, Rule 9 of the Exchange's rules relating to execution of odd-lot limit orders for Nasdaq/NM Securities. The proposed rule change is intended to place the Exchange's rules in line with existing market pattern and practice relating to the trading of Nasdaq/NM Securities, by reflecting certain distinctions between transactions in Nasdaq/NM Securities and transactions in Dual Trading system securities, *i.e.*, listed issues.

Under the Exchange's current version of Article XXXI, Rule 9, which governs execution of odd-lot limit orders, execution of an odd-lot limit order is conditioned on a full round-lot execution in the primary market. Because a primary market trigger is only available in the case of Dual Trading System securities (for which the New York Stock Exchange generally serves as the primary market), the Exchange proposes a rule change providing that in the case of Nasdaq/NM Securities, automatic execution of odd-lot limit orders would be triggered by the first to occur of a reported full round-lot transaction in any marketplace or an odd-lot transaction on the Exchange. The proposed rule change also contemplates that a round-lot limit order in a specialist's book would only be triggered if an incoming order is of sufficient size to "take out" the entire resting round lot.

The Exchange believes that the net effect of this rule change will be to dramatically increase the number of odd-lot limit orders for Nasdaq/NM securities that are executed on the Exchange. The Exchange contends that this enhancement will be to the benefit of the Exchange's order-sending firms and their investors.

##### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)<sup>3</sup> of the Act in general and furthers the objectives of Section 6(b)(5) of the Act in particular,<sup>4</sup> in that it is 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

<sup>32</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.

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

<sup>4</sup> 15 U.S.C. 78f(b)(5).

general, to protect investors and the public interest.

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

The Exchange believes that the proposed rule change will impose no burden on competition that is not necessary or 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.*

The Exchange has neither solicited nor received written comments with respect to the proposed rule change.

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549-0609. 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. Copies of the filing will also be available for inspection and copying at the principal office of the CHX. All submissions should refer to file No. SR-CHX-00-19 and should be submitted by July 28, 2000.

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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## **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-42986; File No. SR-CHX-00-16]**

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 by the Chicago Stock Exchange, Inc. Relating to the Listing and Trading of Trust Issued Receipts**

June 28, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 5, 2000, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. On June 7, 2000, the Exchange filed Amendment No. 1 to the proposal.<sup>3</sup> 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 Exchange proposes to amend its listing standards for Trust Issued Receipts (CHX Article XXVIII, Rule 27) to provide standards that permit listing and trading, or trading pursuant to unlisted trading privileges, of Holding company Depositary Receipts ("HOLDRs")<sup>4</sup> pursuant to Rule 19b-4(e) under the Act.<sup>5</sup> The text of the proposed

<sup>5</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> In Amendment No. 1, which has been incorporated into the proposed rule change, the Exchange replaced a reference to "trust issued receipts" with a reference to "a series of HOLDRs" in the text of proposed Interpretation and Policy .01 to CHX Rule 27. See Letter from Ellen J. Neely, Vice President and General Counsel, CHX, to Andrew Shipe, Attorney, Division of Market Regulation, SEC, dated June 6, 2000.

<sup>4</sup> "HOLDRs" and "HOLDing Company Depositary Receipts" are service marks of Merrill Lynch & Co.

<sup>5</sup> Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization ("SRO") shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to Section 19(b) of the Act,

rule change follows. *Italics* indicate text to be added.

### **Article XXVIII**

Listed Securities

\* \* \* \* \*

Trust Issued Receipts

Rule 27. No change to Text

\* \* \* *Interpretations and Policies*

*.01 The Exchange may approve a series of HOLDRs for trading, whether by listing or pursuant to unlisted trading privileges, pursuant to Rule 19b-4(e) under the Securities Exchange Act of 1934, provided that the following criteria are satisfied:*

*(a) Each security underlying the HOLDR must be registered under Section 12 of the Exchange Act;*

*(b) Each company whose securities are underlying securities for the HOLDR must have a minimum public float of at least \$150 million;*

*(c) Each security underlying the HOLDR must be listed on a national securities exchange or traded through the facilities of Nasdaq as a reported national market system security;*

*(d) Each company whose securities are underlying securities for the HOLDR must have an average daily trading volume of at least 100,000 shares during the preceding sixty-day trading period;*

*(e) Each company whose securities are underlying securities for the HOLDR must have an average daily dollar value of shares traded during the preceding sixty-day trading period of at least \$1 million; and*

*(f) The most heavily weighted security in the HOLDR cannot initially represent more than 20% of the overall value of the HOLDR.*

#### **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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received regarding the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange 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**

The Exchange proposes to amend CHX Article XXVIII, Rule 27 (Trust Issued Receipts) to provide standards

the SRO's trading rules, procedures and listing standards for the product class that include the new derivative securities product and the self-regulatory organization has a surveillance program for the product class. 17 CFR 240.19b-4(e).