

Additional Information or Comments: To request more information or to obtain a copy of the information collection justification, forms, and/or supporting material, please call RRB Clearance Officer at (312) 751-3363. Comments regarding the information collection should be addressed to Ronald J. Hodapp, Railroad Retirement Board, 844 N. Rush Street, Chicago, Illinois 60611-2092. Written comments should be received on or before July 20, 1998.

Chuck Mierzwa,

Clearance Officer.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39992; File No. SR-CBOE-98-13]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Board Options Exchange, Inc. Relating to the Automatic Execution of Small Retail Orders in Equity Options

May 14, 1998

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, notice is hereby given that on April 6, 1998, the Chicago Board Options Exchange, Inc., ("CBOE" 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 CBOE. On May 13, 1998, the CBOE submitted to the Commission Amendment No. 1 to the proposed rule change.² 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 CBOE proposes amend CBOE Rule 6.8 and Interpretation and Policy .02 thereunder to provide added flexibility to the Exchange's Retail

Automatic Execution System ("RAES") where the best bid or offer on the Exchange for a given equity option is inferior to the best bid or offer for the same option in another market where the option is traded.

The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

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 CBOE included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CBOE 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

The purpose of the proposed rule change is to provide for the automatic execution on RAES of eligible retail orders to buy or sell equity options at a price that may be one tick better than the best price currently quoted on the Exchange if the better price is then being quoted in another market where the same options are traded. Under existing CBOE Rule 6.8(a)(ii), the execution price automatically attached to an equity option order executed in RAES is the prevailing market quote on CBOE at the time the order is entered into the system. If at that same time another market is displaying a better quote for the option, under the existing Rules the order is not automatically executed, but instead, pursuant to Interpretation and Policy .02 under CBOE Rule 6.8, is rerouted for non-automated handling. In most cases, especially where the market away from the CBOE is better by only one "tick" (i.e., by one minimum quote interval), the order is usually manually executed on CBOE at the better price.

The proposed rule change will automate the process of filing equity option orders through RAES at any better price being quoted in another market, so long as the price is better by no more than one tick. If the market away from the CBOE purports to be better than the CBOE's quoted market by more than one tick, the existing procedure will continue to apply whereby the order is rerouted out of RAES to the Designated Primary Market

Maker or Order Book Official for non-automated handling.

By automating the execution of eligible retail orders for equity options in the manner described above (referred to as "RAES Auto-Step-Up"), investors will be assured the prompt, automatic execution of these orders at the best available prices, even if those prices are being quoted in a market by more than one tick. This proposal should minimize the delay inherent in manually handling orders in this circumstance, and thereby reduce the risk to investors that, as a result of an adverse move in the market while their orders are being manually handled, they may receive an inferior execution.

The Exchange continues to believe that manual handling is called for where prices apparently quoted in other markets are more than one tick better than the Exchange's best quotes, because the quotes in other markets may be displayed in error or may otherwise not be likely to be available, and because even if Exchange market makers determine to provide an execution at such better prices, this decision should be made on a case-by-case basis by the market makers rather than automatically. In addition, the proposed rule change authorizes the Chairman of the appropriate Floor Procedure Committee or his or her designee to disable RAES Auto-Step-Up for specified classes or series of options or in respect of specified markets when such action is deemed to be warranted by circumstances or conditions applicable to such options or markets. This authority would be expected to be exercised in circumstances such as communication or system problems, fast markets, and similar situations that could make quotes unreliable.

While the Exchange expects that eventually the Floor Procedure Committees will determine to apply the RAES Auto-Step-Up to all or nearly all option classes traded on the floor, the proposed rule change would permit the program to be initiated on a class by class or trading station by station basis.³ To provide for the orderly introduction of this change to the exchange's RAES procedures and to measure its effect before expanding it to equity options floor-wide, the Exchange intends to introduce the change RAES procedure to selected classes of equity options during an initial evaluation period, and then over time to expand the changed procedure to cover a larger number of equity options unless, upon evaluation, such expansion appears not to be warranted. Members will be given

¹ 15 U.S.C. 78s(b)(1).

² In Amendment No. 1, the Exchange clarifies the operation of the proposed rule change. More specifically, the Amendment explains the process of designating options to which the proposed automatic execution feature applies as well as reasons for suspending the new feature. See Letter from Timothy Thompson, Director, Regulatory Affairs, Legal Department, CBOE, to Ken Rosen, Attorney, Division of Market Regulation, Commission, dated May 11, 1998 ("Amendment No. 1").

³ See Amendment No. 1.

advance notice of each class of options to which these revised procedures apply.

By enhancing the ability of eligible retail orders in multiply-traded options to receive best execution, the Exchange believes the proposed rule change will promote just and equitable principles of trade and protect investors and the public interest, in furtherance of the objectives of Section 6(b)(5) of the Act.

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

The CBOE does not believe that the proposed rule change will impose any burden on competition.

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 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 such 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, 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 in the Commissions, Public Reference

Room. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All Submissions should refer to File No. SR-CBOE-98-13 and should be submitted by June 11, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39991; File No. SR-CHX-98-10]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Stock Exchange, Inc., Relating to Membership Dues and Fees

May 13, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 27, 1998, the Chicago Stock Exchange, Inc. ("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 CHX. 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 membership dues and fees schedule.

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 on 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.

⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The purpose of the proposed rule change is twofold. First, the proposed rule change would reduce the total fixed fee paid by specialist from \$345,000 to \$220,000 per month. This reduction reflects a continuing effort by the Exchange to enhance the effectiveness and efficiency of its specialists' operations by reducing costs and thereby encouraging improved competition.

Second, the proposed rule change will expand the type of charges which are eligible to be offset by transaction credits to include the cost of rebills—certain fees and charges that are paid by the Exchange and then "rebilled" to the specialists. The Exchange has concluded that the economic rationale for providing transaction credits as an offset to specialist fees is equally applicable to rebills and to other monthly fees owed by specialists, as both charges represent actual expenses to the specialist. Because there is no relevant distinction between rebills and other monthly fees, the application of transaction credits to both types of fees eliminates an artificial barrier and results in the appropriate recognition of the contribution of the specialists to overall CHX revenue. This proposed rule change is particularly important in light of the fact that numerous CHX specialist units have entirely offset their fixed fees and are again in a position where their future contribution to overall CHX revenue will not be recognized.

The Exchange's Finance Committee has determined that after the proposed changes in fee structure, the Exchange will have ample capital and resources to continue to fulfill its proscribed duties in its capacity as a self-regulatory organization and as a registered national securities exchange.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with section 6(b)(4) of the Act³ in that it provides for the equitable allocation of reasonable dues, fees and other charges among its members.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

³ 15 U.S.C. 78f(b)(40).