

6(a)(ii) above in lieu of utilizing the PCX Application Module.

(iv) Notwithstanding subsection 8(h)(iii) above, during the first 24 calendar months following implementation of the PCX Application, the PCX retains the right to notify the Operating Committee in writing, on or prior to the Restriction Date, that it will undertake, or cause to be undertaken, system adjustments to the operation of the PCX Application in an effort to ensure future compliance with the PCX Application Ceiling. In the event of such notification, the PCX shall have, at a minimum, nine calendar months from the date of such notice (or such longer period as may be approved by all members of the Operating Committee upon showing of reasonable cause), to implement its proposed system adjustments (the "Implementation Period"). During the Implementation Period, the Restrictions shall not apply. During the next 12 calendar months following the end of the Implementation Period, if the Percentage of PCX Application ITS Volume exceeds the PCX Application Ceiling for any Rolling Calendar Quarter, the Restrictions shall apply on the first business day of the second month following the end of such Rolling Calendar Quarter (the "Subsequent Restriction Date"). In that event, the Restrictions will end on the first business day of the third month following the Subsequent Restriction Date.

For example, assume that the Percentage of PCX Application ITS Volume exceeds the PCX Application Ceiling for the Rolling Calendar Quarters ending in January, February and March of Year 1 (which fall within the first 24 calendar months of the operation of the PCX Application). As in the above example, the Restriction Date would be the first business day of May of that year, which is the first business day of the second month following March. The Restrictions would apply as of that date, unless the PCX notified the Operating Committee, on or prior to the first business day in May, that it planned to effect system adjustments in an attempt to ensure future compliance with the PCX Application Ceiling.

Assuming that the PCX provides such notification on the Restriction Date, the Restrictions would not apply during the Implementation Period, which would last for at least nine months from the Restriction Date (that is, assuming the minimum duration, the nine calendar months of May through January of Year 2). Following the end of the Implementation Period, assume that the Percentage of PCX Application ITS Volume exceeded the PCX Application

Ceiling for the next Rolling Calendar (the quarter beginning in February and ending April of Year 2). In that event, the Subsequent Restriction Date would be the first business day of June of Year 2, which is the first business day of the second month following April. The Restrictions would apply beginning on that day and would continue through the end of August of Year 2 (ceasing as of the first business day of September of Year 2, which is the first business day of the third month following June).

(v) Notwithstanding subsections 8(h)(iii) and (iv) above, if for any Rolling Calendar Quarter the Percentage of PCX Application ITS Volume exceeds 30 percent, the Restrictions shall apply as of the first business day of the second month following the end of such rolling Calendar Quarter. In that event, the Restrictions shall apply for three calendar months.

(vi) Each month the PCX shall furnish the Operating Committee with a report showing the number of shares for each of the components of the PCX Application Formula for the previous month, as well as the data necessary to determine if the shares in those calls that produce "trade-through" commitments (as such commitments are described more fully in Section 6(a)(ii)(B) in Scenario 3) originating from the PCX Application Module are or are not included in the "X variable" of the PCX Application Formula. Any one or more Participants may cause a certified public accountant to audit any one or more of such reports. The requesting Participant(s) shall pay for all such audits.

\* \* \* \* \*

Dated: July 15, 1998.

By the Commission.

**Margaret H. McFarland,**

Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40202; File No. SR-CHX-98-15]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to Specialists' Payment of Listing Fees

July 14, 1998.

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>

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

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

notice is hereby given that on June 16, 1998, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") 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 add Article XXX, Rule 20A in order to establish that Specialists, Co-Specialists and Relief Specialists may not pay listing fees for any issuing corporation for which they act in such capacity. The text of the proposed rule change is available at the Office of the Secretary, the CHX, 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 CHX 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 CHX 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 adopt new Rule 20A to Article XXX to establish that Specialists, Co-Specialists and Relief Specialists may not pay listing fees, including initial and maintenance fees, for any issuing corporation for which they act in such capacity.

The purpose of the proposed rule change is to avoid situations in which either an actual or apparent conflict of interest may arise. A Specialist has an obligation to maintain a free and open market in an issue. In order to maintain the integrity of the market, Specialists must remain independent of issuers. The Exchange has already established rules that seek to ensure that independence. For example, Article XXX, Rule 23 prohibits Specialists from engaging in any business transactions with the issuer of exclusive issues. Also, Interpretation .01 to Article XXXVIII,

Rule 23 contains a section on the relationship between company officials and Specialists designed to ensure that the relationship is appropriate. Consistent with that goal, the Exchange seeks to impose a broad restriction that Specialists cannot pay listing fees for any issuer, whether the issue is exclusive or not. The Exchange believes that the proposed rule change will help ensure that there are no incentives on the part of issuers of Specialists that may jeopardize or call into question the independence of the market.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act,<sup>3</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>4</sup> in particular, in that it is designed to perfect the mechanisms of a free and open market and a national market system, and to protect investors and the public interest.

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

The Exchange 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*

The Exchange has neither solicited nor received written comments on 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 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 submissions, 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. Copies of such 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-98-15 and should be submitted by August 12, 1998.

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. 34-40207; File No. SR-GSCC-98-01]

### Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to Funds-Only Settlement Payment Procedures

July 15, 1998.

On February 17, 1998, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-98-01) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of proposal was published in the **Federal Register** on April 21, 1998.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

<sup>1</sup> 17 CFR 200.30-3(a)(12).

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> Securities Exchange Act Release No. 39860 (April 14, 1998), 63 FR 19774.

## I. Description

Two important elements of GSCC's risk management process are the daily calculation and collection of clearing fund deposit deficiency amounts and of mark to the market margin. At times, GSCC is obligated to pay a member a FOS amount on a day on which that member also has a clearing fund deficiency call. Pursuant to its current rules, GSCC is required to make the FOS payment to such a member prior to the time the member must make its clearing fund deficiency payment to GSCC.<sup>3</sup> The proposed rule change permits GSCC to retain FOS payments it owes to a member and to apply such amounts to any clearing fund deposit obligation the member owes to GSCC.<sup>4</sup>

Under the proposed rule change, GSCC is entitled to retain the lesser of the FOS amount or the amount of the clearing fund call (or the entire FOS amount if the difference between the amounts is zero) and apply it to the member's clearing fund deposit requirement. If a member pays all or a portion of its clearing fund deficiency in any type of eligible collateral by a preestablished time before GSCC's deadline to make its own FOS payments to members,<sup>5</sup> GSCC is only entitled to retain the portion of its FOS obligation to the member in an amount equal to the member's remaining clearing fund deficiency.<sup>6</sup>

## II. Discussion

Section 17A(b)(3)(F) of the Act<sup>7</sup> requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds in its custody or control or for which it is responsible. The Commission believes that the proposed rule change is consistent with this obligation because it will allow GSCC to increase its control over FOS payments it owes to members that have a significant clearing fund deposit obligation. This should

<sup>3</sup> GSCC is required to pay FOS obligations to members by 10:00 a.m. eastern time ("ET"). Members must satisfy clearing fund deficiencies by the later of two hours after the receipt of GSCC's call or 10:00 a.m. ET. However, if the notification is not made earlier than two hours before the close of the cash FedWire, members may satisfy the calls on the next business day.

<sup>4</sup> GSCC does not plan to exercise the offset right unless it has a significant FOS obligation to a member (i.e., \$5 million or more), and the member has a significant clearing fund deficiency (i.e., \$5 million or more).

<sup>5</sup> GSCC plans to set the preestablished time at fifteen minutes before GSCC's deadline to make its own FOS payments to members.

<sup>6</sup> Pursuant to GSCC's existing rules, a member has the right to substitute eligible collateral for any cash that GSCC applies to its clearing fund deposit as a result of an offset.

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

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