

benefit to investors and to the industry of having registered persons regularly trained in regulatory and ethical standards.

One commenter questioned whether the new CE training for Principals would be appropriate for a registered Principal that had no supervisory duties.¹⁶ The SROs have indicated that the new CE training for Principals is not being designed to address only personnel issues or office supervision. The training will also cover such topics as communications with the public and client accounts.

IV. Discussion

The Commission believes that the SRO's proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to national securities exchanges, national securities associations, and the MSRB, and, in particular, the respective requirements of Section 6(b)(5), 15A(b)(6), and 15B(b)(2)(C) of the Act.¹⁷ Sections 6(b)(5), 15A(b)(6), and 15B(b)(2)(C) require, among other things, that the rules of an exchange, association, or the MSRB, respectively, be designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market, and, in general, protect investors and the public interest. The Commission further believes that the proposed rule changes also are consistent with the respective provisions of Sections 6(c)(3)(B), 15A(g)(3)(A), and 15B(b)(2)(A) of the Act,¹⁸ each of which makes it the responsibility of an exchange, association, or the MSRB to prescribe standards of training, experience, and competence for persons associated with SRO members.

The Commission also believes that the proposed rule change is consistent with the purposes underlying Section 15(b)(7) of the Act, which generally prohibits a registered person from effecting any transaction in, or inducing the purchase or sale of, any security unless such registered person meets the standards of training, competence and other qualifications as the Commission finds necessary or appropriate in the public interest or for the protection of investors.

The Commission believes that the SRO's proposed rule changes are an appropriate means of maintaining and

reinforcing the initial qualification standards required of a registered person and will significantly enhance the continuing education program by requiring all registered persons to participate in the Regulatory Element throughout their securities industry careers.

IV. Effective Date

The SRO's proposed rule changes (File Nos. SR-CBOE-97-68; SR-MSRB-98-02; SR-NASD-98-03; and SR-NYSE-97-33) will become effective July 1, 1998.

V. Conclusion

For the foregoing reasons, the Commission finds that the proposed rule changes are consistent with the Act and the rules and regulations thereunder applicable to national securities exchanges, national securities associations, and the MSRB.¹⁹

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²⁰ that the proposed rule changes (File Nos. SR-CBOE-97-68; SR-MSRB-98-02; SR-NASD-98-03; and SR-NYSE-97-33) be, and hereby are, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²¹

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39721; File No. SR-CHX-98-04]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to Examination Requirements for Securities Traders

March 4, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on February 18, 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.² The

¹⁹ In addition, in approving these rule proposals, the Commission notes that it has considered the proposed rules' impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

²⁰ 15 U.S.C. 78s(b)(2).

²¹ 17 CFR 200.3-30(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² On March 3, 1998, the CHX amended its proposal to correct a legal reference in the CHX's

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 CHX proposes to amend Rule 3, "Training and Examination of Registrants," or Article VI, "Restrictions and Requirements," of the CHX's rules by adopting Interpretation and Policy .02, "Persons off the floor," which will establish examination requirements for certain associated persons of CHX members for which the CHX is the Designated Examining Authority ("DEA").³ Specifically, proposed Interpretation and Policy .02 will require associated persons at applicable firms who execute, make trading decisions with respect to, or otherwise engage in proprietary or agency trading of equities, preferred securities, or convertible debt securities to successfully complete the Uniform Registered Representative Exam, Series 7. Proposed Interpretation and Policy .02 will not apply to any associated person who is subject to the examination requirements of Interpretation and Policy .01, "Floor Member Organizations," of CHX Article VI, Rule 3.⁴ To accommodate the proposed change, the CHX also will revise the text of CHX Article VI, Rule 3, to provide that the CHX may require that associated persons of members must successfully complete a training course or examination, or both, in connection with registration.

Copies of the proposed rule change are available at the CHX and at the Commission.

discussion of the statutory basis for the proposed rule change. See Letter from Joseph M. Klauke, Foley & Lardner, to Yvonne Fraticelli, Division of Market Regulation, Commission, dated March 3, 1998 ("Amendment No. 1"). Specifically, Amendment No. 1 replaces a reference to Section 6(c)(3)(8) under the Act with a reference to Section 6(c)(3)(B) under the Act.

³ The proposal is limited to associated persons of members for which CHX is the DEA because associated persons of members with a DEA other than the CHX already are subject to the examination requirements of the self-regulatory organization which is the DEA for the member firm. According to the CHX, the proposal is designed to close a loophole in examination requirements that exists currently for off-floor associated persons of CHX members for which the CHX is the DEA. Telephone conversation between Patricia Levy, General Counsel, CHX, and Yvonne Fraticelli, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, on February 25, 1998.

⁴ Interpretation and Policy .01 establishes examination requirements for persons on the CHX floor, including floor brokers, market makers, and co-specialists.

¹⁶ See Summit Letter.

¹⁷ 15 U.S.C. §§ 78f(b)(5), 78o-3(b)(6), and 78o-4(b)(2)(C).

¹⁸ 15 U.S.C. §§ 78f(c)(3)(B), 78o-3(g)(3)(A), and 78o-4(b)(2)(A).

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 CHX proposes to add interpretation .02 to Article VI, Rule 3 of the CHX's rules to establish examination requirements for securities traders not located on the floor of the Exchange.

Article VI, Rule 3 of the Exchange's rules permits the CHX to adopt appropriate examination requirements. Pursuant to this rule, the CHX has adopted examination requirements for various persons on the CHX floor, such as floor brokers, market makers, and co-specialists. These examination requirements are specified in interpretation .01 to CHX Article VI, Rule 3. No similar examination requirement currently exists for persons that conduct trading activities off the floor. The purpose of the proposed rule change is to add examination requirements for off-floor securities traders and certain other associated persons of members who are not covered by the current requirements.

Specifically, the CHX seeks to require associated persons of members for which the Exchange is the DEA that engage in proprietary or agency trading of equities, preferred securities or convertible debt securities, including, but not limited to, persons who execute such trades or make trading decisions with respect to such trades, and who are not subject to the currently existing examination requirements ("Securities Traders"), to successfully complete the Series 7 examination.

According to the CHX, the proposal, which is not based on the specific rule filing of any other exchange, will bring the CHX's examination requirements in line with those of the major securities exchanges and enhance the consistency of exam requirements across the exchanges.

The new exam requirement for Securities Traders will be phased in over a six-month period. Associated persons who currently fit the definition of Securities Traders will have to register to take the Series 7 exam within 30 days of the Exchange's publication of the order approving the effectiveness of this requirement in a Notice to Members and must promptly notify the Exchange that they have so registered. Securities Traders will have six months from the date of such Notice to Members in which to pass the Series 7 exam. Securities Traders who become associated with members after notice of this requirement is published by the CHX in a Notice to Members must successfully complete the Series 7 exam before conducting securities trading activities for which an exam is required under the new interpretation.

2. Statutory Basis

The CHX believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(c)(3)(A) and Section 6(c)(3)(B),⁵ in particular, in that it is designed to prescribe appropriate standards of training, experience, and competence for brokers and dealers in order to protect investors and the public. The CHX believes that the proposed rule change also is consistent with Section 6(b)(5) of the Act, in general, in that it is designed to perfect the mechanism 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 CHX believes that no burden will be placed on competition as a result of the proposed rule change.

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.

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 by order approve such proposed rule change, or 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. 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 Commission's Public Reference Room. 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 number SR-CHX-98-04 and should be submitted by April 1, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Jonathan G. Katz,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39720; File No. SR-CSE-97-13]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 by The Cincinnati Stock Exchange, Inc. Relating to Market Order Exposure Requirements

March 4, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ notice is hereby given that on November 13, 1997, The Cincinnati Stock Exchange, Inc. ("CSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change relating to market order exposure requirements. On February 25, 1998, the CSE filed

⁶ 17 CFR 200.30-3(a)(12)

¹ 15 U.S.C. § 78s(b)(1).

⁵ See Amendment No. 1, *supra* note 2.