

amounts out of the affected subaccount into any of the remaining sub-accounts without cost or other disadvantage. Therefore, Applicants submit that the proposed substitution will not result in the type of costly forced redemption which Section 26(b) was designed to prevent.

7. Applicants state that the proposed substitution also is unlike the type of substitution which Section 26(b) was designed to prevent in that by purchasing a Contract, Contract owners select much more than a particular investment company in which to invest their contract or policy values. They also select the specific type of insurance coverage offered by Protective Life or American Foundation under their Contract as well as numerous other rights and privileges set forth in the Contract. Contract owners may also have considered Protective Life's or American Foundation's size, financial condition, type and its reputation for service in selecting their Contract. These factors will not change as a result of the proposed substitution.

8. Applicants request an order of the Commission pursuant to Section 26(b) of the Act approving the proposed substitution by Protective Life and American Foundation.

Conclusion

Applicants submit that, for all the reasons and facts summarized herein, the proposed substitution is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 99-6971 Filed 3-22-99; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41167; File No. SR-CHX-99-01]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to the Establishment of Net Capital Requirements for Specialists

March 12, 1999.

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 February

26, 1999, 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 CHX Rule 3 of Article XI, and add interpretation and policy .01 thereunder, to increase the minimum net capital requirements for CHX. Below is the text of the proposed rule change. Proposed new language is italicized; proposed deletions are in brackets.

* * * * *

Article XI—Financial Responsibility and Reporting Requirements

Rule 3. Net Capital and Aggregate Indebtedness.

(a)(1) *Except as otherwise provided below, [A] a member or member organization shall at all times—*

(i) maintain net capital not less than that prescribed by SEC 15c3-1 (17 CFR 240.15c3-1) and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(2) A member or member organization that is registered as a specialist on the Exchange whose specialist transactions are effected through and carried in a specialist account cleared by another broker or dealer shall at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$100,000, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(3) A member or member organization that is registered as a specialist on the Exchange in less than 200 securities and that clears its own specialist account(s) shall at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$250,000, subject to the phase-in period set forth in Interpretation and Policy, .01, below, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1) and,

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(4) A member or member organization that is registered as a specialist on the Exchange in 200 or more securities and that clears its own specialist account(s) shall at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$350,000, subject to the phase-in period set forth in Interpretation and Policy .01, below, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(5) A member or member organization that clears the specialist accounts of another member or member organization registered as a specialist on the Exchange shall, at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$500,000, subject to the phase-in period set forth in Interpretation and Policy, .01, below, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

[(2)] (6) A member or member organization shall promptly notify the Exchange if it ceases to be in compliance with the requirements of clauses (1), (2), (3), (4) or (5) (which ever is applicable) of this paragraph (a) or if it becomes obligated to file monthly reports under paragraph (b) of this Rule. A member or member organization shall also promptly notify the Exchange of any material unsecured or partly secured loan, drawing in excess of share of profits, or other obligation owed to the member or member organization by (i) any person, including a subordinated lender, having a capital interest in the member or member organization, (ii) any partner, officer, director or employee of the member or member organization, or (iii) any corporation, firm or entity in which any partner, officer, director or employee of the member or member organization holds office or has a material financial interest. Such notification may show such obligations owed to the member or member organization by category

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

without personal identification, except that personal identification shall be made in respect to any person having such obligations equal to five percent or more of the member or member organization's debt equity total.

[(3)](7) The Exchange may at any time or from time to time with respect to a particular member or member organization or all members or member organizations or a new member or member organization prescribe greater net capital or net worth requirements than those prescribed under this Rule including more stringent treatment of items in computing net capital or net worth.

Monthly Financial Statements

(a) No exchange in text.

Responsibility of Computations of Net Capital Requirements

(b) No change in text.

Restrictions on Operations

(c) No change in text.

Interpretations and Policies

.01 Phase-in Periods for Minimum Capital Standards for Self-Clearing Specialists and Firms Clearing Specialist Accounts.

On [insert initial effective date], the Exchange adopted separate minimum net capital standards for self-clearing specialists and firms clearing other specialist accounts, as specified in subsections (a)(3), (a)(4) and (a)(5) above. These minimum capital standards are to be phased in over a 12 month period.

Registered as Specialist in Less Than 200 Securities; \$250,000 Standard.

The amount specified in Rule 3(a)(3)(i)(a) above shall be: \$150,000 effective on [insert initial effective date]; \$200,000 effective on [insert date six months from initial effective date]; and \$250,000 effective on [insert date twelve months from initial effective date].

Registered as Specialist in 200 or More Securities; \$350,000 Standard.

The amount specified in Rule 3(a)(4)(i)(a) above shall be: \$200,000 effective on [insert initial effective date]; \$275,000 effective on [insert date six months from initial effective date]; and \$350,000 effective on [insert date twelve months from initial effective date].

Firms Clearing Other Specialists Accounts; \$500,000 Standard.

The amount specified in Rule 3(a)(5)(i)(a) above shall be: \$350,000 effective on [insert initial effective date]; \$425,000 effective on [insert date six months from initial effective date]; and

\$500,000 effective on [insert date twelve months from initial effective date].

* * * * *

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

Specialists play a very unique role in an auction market. They are responsible to investors, other members, and the Exchange to efficiently and accurately effect transactions in the securities in which they are registered. While specialists often act as agents, they are also required to act as principal at times to ensure that no imbalance between supply and demand in the market occurs. They must also make continuous two-sided quotations in the securities in which they are registered. As such, it is important that specialists are financially stable to fulfill their duties while withstanding regular market fluctuations.

The purpose of the proposed rule change is to establish increased net capital requirements for CHX specialists over and above those currently contained in the SEC's Rule 15c3-1 ("Net Capital Rule")³

Non-Clearing Specialists

Pursuant to the proposed rule change, non-clearing specialists will be required to maintain at a minimum the greater of (i) net capital in the amount of \$100,000, or (ii) the amount prescribed by the Net Capital Rule. Current rules only require specialist adherence to the amount set forth in the Capital Rule which is \$100,000 at this time. Specialists will also have to continue to comply with the Exchange requirement that subordinated cash borrowing and secured demand notes equal or exceed 50% of their total subordinated borrowing (to the extent that the

borrowings are part of their debt equity total).

Specialists will continue to be subject to the provisions of CHX Rule 3 including filing monthly financial statements (in certain circumstances), submitting to regular annual field examinations, and timely and accurately computing their net worth. These provisions must be satisfied using the additional capital requirements imposed herein. For example, CHX Rule 3(b)(1)(i) requires a member organization to file a monthly financial statement for a period of three months if such member organization fails to maintain net capital of at least 120% of the new Exchange minimum requirements.

Self-Clearing Specialists

The proposing rule change will also require members and member organizations registered as specialists that are self-clearing to comply with additional net capital requirements prescribed by the Exchange, depending on whether they are registered as a specialist in less than 200 securities or 200 or more securities. Specifically, such members and member organizations registered as specialists in less than 200 securities will be required to maintain at a minimum the greater of (i) net capital in the amount of \$250,000, or (ii) the amount prescribed by SEC Rule 15c3-1.⁴ Such members and member organizations registered as specialists in 200 or more securities will be required to maintain at a minimum the greater of (i) net capital in the amount of \$350,000, or (ii) the amount prescribed by SEC Rule 15c3-1.⁵

Members That Clear the Accounts of Other CHX Specialists

Finally, the proposed rule change will require members and member organizations that wish to carry the accounts of CHX specialists to comply with additional net capital requirements prescribed by the Exchange. Specifically, such members and member organizations will be required to maintain at a minimum the greater of (i) net capital in the account of \$500,000, or (ii) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1). This requirement also applies to CHX specialists that are "self-clearing" and that also clear the accounts of other CHX specialists.

Phase-in Periods

The increases to the net capital standards set forth above will be phased-in in three stages over a twelve

⁴ 17 CFR 240.15c3-1.

⁵ 17 CFR 240.15c3-1.

³ 17 CFR 240.15c3-1.

month period. The actual phase-in will be set forth in a Notice to Members to be issued within 30 days of the SEC order approving this proposed rule change. The initial phase-in date will be no longer than 60 days from the date of such Notice. The second and third phase-in dates will be six months and twelve months from the initial phase-in date.

The amounts of the phase-in will be as follows:

- For non-clearing specialists, the \$100,000 standard will apply as of the initial phase-in date.
- For self-clearing specialist registered in less than 200 securities, the CHX net capital standard for the initial, second and third phase dates will be \$150,000, \$200,000, and \$250,000 respectively.
- For self-clearing specialists registered in 200 or more securities, the CHX net capital standard for the initial, second and third phase dates will be \$200,000, \$275,000 and \$350,000 respectively.
- For members that clear for other specialists, the CHX net capital standard for the initial, second and third phase dates will be \$350,000, \$425,000, and \$500,000 respectively.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)(5) of the Act⁶ in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons regulating securities transactions, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

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

CHX 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 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, 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 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 No. SR-CHX-99-01 and should be submitted by April 13, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 99-7091 Filed 3-22-99; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41174; File No. SR-NASD-99-13]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the National Association of Securities Dealers, Inc.

March 16, 1999.

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 March 4, 1999, the National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly-owned subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), 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 Nasdaq. Nasdaq has designated this proposal as one establishing or changing a due, fee or other charge imposed by the NASD under Section 19(b)(3)(A)(ii) of the Act,³ which renders the proposal effective upon filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statements of the Terms of Substance of the Proposed Rule Change

Nasdaq is filing a proposed rule change to NASD Rule 7010. Below is the text of the proposed rule change. Proposed new language is italicized; proposed deletions are in brackets.

* * * * *

7010 System Services

(a)-(b) No Change

(c)

(1) Consolidated Quotation Service. Existing Paragraph remains the same.

(2) *Listed Securities Transaction Credit. For a pilot period, qualified NASD members that trade securities listed on the NYSE and Amex in over-the-counter transactions reported by the NASD to the Consolidated Tape Association may receive from the NASD transaction credits based on the number of trades so reported. To qualify for the credit with respect to either Tape A reports or Tape B reports, an NASD member must have accounted for 500 or more average daily Tape or Tape B reports of over-the-counter transactions (but not in combination) as reported to the Consolidated Tape by the NASD over the period of July 1, 1998 to December 31, 1998, and must continue to average either 500 or more daily Tape A or 500 or more daily Tape B reports (but not in combination) of over-the-counter transactions as reported to the Consolidated Tape by the NASD during the term of the pilot. If an NASD member is so qualified to earn credits based either on its Tape A activity, or its Tape B activity, or both, that member may earn credits from one or both (as*

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁶ 15 U.S.C. 78f(b)(5).

⁷ 17 CFR 200.30-3(a)(12).