

(e) *Rule 4.2 and Interpretations thereunder related to the requirement to furnish Exchange-related order, market and transaction data, as well as financial or regulatory records and information.*

(f) *Rule 11.9(c) related to the requirement to comply with quotation policies.*

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 CSE 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 CSE has prepared summaries, set forth in sections A, B and C below, of the most significant parts of such statements.

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

(1) Purpose

The purpose of the proposed rule change is to enhance the Exchange's Minor Rule Violation Program. Exchange Rule 8.14 provides for an alternative disciplinary regime involving violations of Exchange Rules that the Exchange determines are of a minor nature. The Minor Rule Violation Program provides the Exchange with the ability, but not the obligation, to address minor rule violations by imposing a fine, not to exceed \$2500, on any member that the Exchange determines has violated such rule. Adding a particular rule violation to the Minor Rule Violation Program in no way circumscribes the Exchange's ability to treat violations of those rules through more formal disciplinary measures. The Minor Rule Violation Program simply provides the Exchange with greater flexibility in addressing rule violations appropriately. Section (e) of Rule 8.14 requires the Exchange from time to time to prepare a list of minor rule violations.

As part of its ongoing effort to improve its regulatory program, the Exchange has determined that certain rule violations should be added to the Minor Rule Violation Program. The Minor Rule Violation Program currently includes the requirements of Exchange Rules 4.1 and 4.2, concerning books and records, to submit trade data to the Exchange. The Exchange intends to clarify that a member must also provide financial and regulatory records in

accordance with Rule 4.2 and Interpretation thereunder as well as trade-related information.

Similarly, the proposed rule change will include quotation policies set by the Exchange's Securities and Market Performance Committee and delineated by Regulatory Circular. Exchange Rule 11.9(c) requires Designated Dealers, the Exchange's multiple, competing specialists, to maintain continuous quotations throughout the trading day. Including these quotation requirements in the Minor Rule Violation Program will help the Exchange ensure compliance with its quotation requirements and spread parameters because the Exchange will have adequate regulatory flexibility in dealing with potential violations. This, in turn, will enhance the value of quotations made by the Exchange's multiple, competing specialists.

(2) Basis

The proposed rule change is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) in particular in that it is designed to promote just and equitable principles of trade and 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. Specifically, the proposed rule change will augment the Exchange's ability to police its market and will increase the Exchange's flexibility in responding to minor rule violations. The Exchange will be able to address appropriate minor rule violations promptly and efficiently through the minor rule procedures, without the need to initiate formal disciplinary proceedings.

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

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

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No comments were solicited in connection with 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 reason for so finding or (ii) as to which the Exchange 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. People 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 the filing will also be available for inspection and copying at the CSE's principal offices. All submissions should refer to File No. SR-CSE-97-07 and should be submitted by September 8, 1997.

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. 34-38923; File No. SR-OCC-97-09]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Seeking To Amend the Valuation Rate Applied to Equity Securities and Corporate Debt Deposited as Margin Collateral

August 11, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on May 21, 1997, The Options Clearing Corporation ("OCC") filed with the

⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-OCC-97-09) as described in Items I, II, and III below, which items have been prepared primarily by OCC. 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 purpose of the proposed rule change is to increase from 60 percent to 70 percent the valuation rate OCC applies to equity securities and corporate debt deposited as margin collateral.

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

In its filing with the Commission, OCC 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. OCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.²

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 amend the valuation rate OCC applies to equity securities and corporate debt deposited with OCC as margin collateral. Under the proposed rule change, the rate will be increased from 60 percent to 70 percent.

Background

In 1975, OCC proposed instituting a program to accept deposits of common stock as margin collateral ("valued securities program") under its Rule 604(d) and sought to value these deposits at 70 percent of their current market value.³ According to OCC, the valued securities program would reduce OCC's reliance on letters of credit as a

form of margin collateral and would reduce the amount of money OCC's clearing members paid to banks for letters of credit. Because margin securities are the major source of collateral for letters of credit, the valued securities program would eliminate the need for OCC's clearing members to deposit margin securities at a bank in order to obtain a letter of credit for the benefit of OCC. Instead, clearing members could pledge margin stock directly to OCC as a form of margin collateral. OCC believed that the 70 percent valuation rate would provide a sufficient cushion against exposure to market and liquidity risk in the event OCC would need to liquidate deposited securities in connection with a clearing member's default.

The novelty of the valued securities program resulted in extensive regulatory review by the staffs of the Commission and the Federal Reserve Board. This review led to several changes to the valued securities program, including a change in the valuation rate to be applied to stock deposited as margin collateral. As the program was approved, the rate was set at no more than the maximum loan value specified in Regulation U (*i.e.*, 50 percent of current market value).⁴

OCC began accepting deposits of stock as margin collateral in 1985 and has gained substantial experience in operating the program as initially approved and as later enhanced. Enhancements to the program include: (i) Expanding the types of common stock eligible for deposit;⁵ (ii) permitting the acceptance of deposits of qualified preferred stock, corporate debt, and units of beneficial interests in unit investment trusts;⁶ and (iii) increasing the valuation rate to 60 percent.⁷ However, even with these

enhancements, OCC states that its clearing members continued to request that a valuation rate of 70 percent be applied to securities deposits into the valued securities program.

Seventy Percent Valuation Rate

OCC believes that a 70 percent valuation rate is prudent and will protect OCC in case of a clearing member's default. OCC also asserts that the proposed valuation rate is consistent with the securities haircuts prescribed in the Commission's uniform net capital rule.⁸ Under the net capital rule, haircuts are intended to account for market and liquidity risks associated with securities positions in the event of a broker-dealer liquidation.⁹ For broker-dealers using the risk-based haircut methodology approved in February 1997,¹⁰ the maximum haircut to be taken for equity or equity options positions is 15 percent. For broker-dealers using the alternative method, the maximum haircut for long proprietary securities positions is 15 percent.¹¹ For broker-dealers using the basic method, the maximum haircut applicable to non-convertible debt securities, convertible debt securities, preferred stock, and common stock (all of which are forms of valued securities) is 30 percent.¹²

A 70 percent valuation rate for securities deposited in OCC's valued securities program means that a 30 percent haircut will be applied to those positions. Accordingly, the haircut proposed by OCC is two times the maximum deduction required for proprietary and market-maker trading accounts under the risk-based haircut methodology; two times the maximum deduction required for long proprietary positions under the alternative method; and equal to the maximum deduction required under the basic method. In light of the purposes served by securities haircuts and in comparison to the haircut percentages prescribed in the Commission's uniform net capital rule, OCC believes that a 30 percent haircut will adequately cover any

valuation rate, and accordingly, OCC amended its filing.

⁸ 17 CFR 240.15c3-1.

⁹ Generally, haircuts are percentage deductions broker-dealers apply to their securities positions to determine the value of the securities for net capital purposes.

¹⁰ Securities Exchange Act Release No. 38248 (February 12, 1997), 62 FR 6480 [File No. S7-07-94] (effective September 1, 1997) and Letter from Brandon Becker, Division of Market Regulation, Commission, to Mary L. Bender, First Vice President, Chicago Board Options Exchange, and Timothy Hinkas, Vice President, OCC (March 15, 1994).

¹¹ 17 CFR 240.15c3-1(c)(2)(v)(I).

¹² 17 CFR 240.15c3-1(c)(2)(v)(F), (G), (H), and (J).

² The Commission has modified the text of the summaries prepared by OCC.

³ Securities Exchange Act Release No. 11820 (November 12, 1975), 40 FR 53637 [File No. SR-OCC-75-05] (notice of proposed rule change). The Commission did not approve this proposed rule change. OCC withdrew File No. SR-OCC-75-05 and submitted File No. SR-OCC-82-11 in its place. Securities Exchange Act Release No. 18994 (August 20, 1982), 47 FR 37731 [File No. SR-OCC-82-11] (order approving File No. SR-OCC-82-11 and withdrawing File No. SR-OCC-75-05).

⁴ Securities Exchange Act Release No. 18994 (August 20, 1982), 47 FR 37731 [File No. SR-OCC-82-11] (order approving File No. SR-OCC-82-11 and withdrawing File No. SR-OCC-75-05).

⁵ Securities Exchange Act Release No. 20558 (January 13, 1984), 49 FR 2183 [File No. SR-OCC-83-17] (order granting accelerated approval of proposed rule change).

⁶ Securities Exchange Act Release Nos. 29576 (August 16, 1991), 56 FR 41873 [File No. SR-OCC-88-03] (order approving proposed rule change involving the value securities program); 38105 (December 31, 1996), 62 FR 1014 [File No. SR-OCC-96-13] (order approving proposed rule change relating to unit investment trusts as margin).

⁷ Securities Exchange Act Release No. 33893 (April 14, 1994), 59 FR 18427 [File No. SR-OCC-92-13] (notice of amendment to filing and order granting accelerated approval to proposed rule change). As originally filed, SR-OCC-92-13 proposed a 70% valuation rate. OCC submitted this proposed rule change upon receipt of advice from the staff of the Federal Reserve Board that it would not object to a 70% valuation rate. OCC and the Commission's staff later concurred on 60% as the

market or liquidity risk that it could encounter in liquidating a clearing member's valued securities deposits.

Moreover, in addition to the valuation rate applied to deposits of valued securities, OCC Rule 604(d)(1) specifies other criteria governing OCC's acceptance of deposits. According to OCC, these criteria have been designed to ensure: (i) That a ready and liquid public market exists for deposited securities; (ii) that a diversified portfolio of securities is deposited with respect to each account carried by a clearing member at OCC; (iii) that OCC can prescribe a lower valuation for individual issues; and (iv) that deposits are marked-to-the-market on each business day. Furthermore, as market conditions or other circumstances warrant, OCC has the authority to issue intraday margin calls.¹³ Accordingly, OCC believes that it can prudently apply a 70 percent valuation rate to deposits of valued securities. OCC also believes that a 70 percent valuation rate will result in a further diversification of the overall portfolio of margin collateral deposited with OCC and, as such, will lessen the risk of overexposure to any one form of margin collateral.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act¹⁴ and the rules and regulations thereunder because it reduces costs to persons facilitating transactions by and acting on behalf of public investors without adversely affecting OCC's ability to safeguard funds and securities in its custody or control or for which it is responsible.

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

OCC does not believe that the proposed rule change would impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been received.

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

Within thirty-five 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 ninety 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 OCC 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. 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, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR-OCC-97-09 and should be submitted by September 8, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38920; File No. SR-PCX-97-22]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc., Relating FLEX Index Options and LEAPS on the Dow Jones & Co. Taiwan Index

August 11, 1997.

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 June 9,

1997, the Pacific Exchange, Inc. ("PCX" 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 self-regulatory organization. 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 PCX, pursuant to Rule 19b-4 of the Act, proposes to amend its rules to allow the trading of FLEX Index options and LEAPS on the Dow Jones & Co. Taiwan Index.

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 self-regulatory organization 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 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

On December 23, 1996, the Commission approved an Exchange proposal to list and trade cash-settled, European-style stock index options on the Dow Jones & Co. Taiwan Index ("Index").³ The Index is comprised of 113 representative stocks traded on the Taiwan Stock Exchange. The Index is deemed to be a broad-based index.

The Exchange is now proposing to amend its rules on Flexible Exchange options ("FLEX Options")⁴ to provide that FLEX Options on the Dow Jones & Co. Taiwan Index are approved for trading on the Exchange. In this regard the Exchange is proposing to amend PCX Rules 8.100(a)(1) and 8.102(e)(1).⁵

³ See Securities Exchange Act Release No. 38081 (December 23, 1996), 62 FR 138 (January 2, 1997) (order approving File No. SR-PSE-96-40).

⁴ See Securities Exchange Act Release No. 36841 (February 14, 1996), 61 FR 6666 (February 21, 1996) (order approving File No. SR-PSE-95-24).

⁵ These rules currently allow the Exchange to trade FLEX Index options on the Wilshire Small

¹³ OCC Rule 609.

¹⁴ 15 U.S.C. 78q-1.

¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. § 78s(b)(1) (1988).

² 17 CFR 240.19b-4.