

Regulation should consider how insurance company issuers are administering the "reasonableness" requirement. The NASD has determined not to impose sales charge limits in the Investment Company Rule on funds underlying variable annuities. The Variable Contracts Rule will continue to apply exclusively to the activities of members in connection with variable contracts.

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

Within 35 days of the 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 the 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. In addition, the Commission solicits comment on whether the proposed "grandfather provision" relating to the prohibition on loads on reinvested dividends should become effective as of the date this proposed rule change is approved, or, rather, as of the date the proposed rule change was filed with the Commission. 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 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, located at the above address. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-98-14 and should be submitted by September 8, 1998.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-21957 Filed 8-14-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40317; File No. SR-OCC-98-07]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Regarding the Short Option Adjustment as Applied to Non-Equity Options

August 11, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 10, 1998, The Options Clearing Corp. ("OCC") 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 primarily by OCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

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 amend OCC's Rule 602 to modify the "short option adjustment" as it applies to non-equity options in OCC's margin system, the theoretical intermarket margin system ("TIMS" or "NEO TIMS").²

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.³

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

OCC requires its clearing members to adjust their margin deposits with OCC in the morning on every business day based on OCC's overnight calculations. OCC imposes a margin requirement on short positions in each clearing member account and gives margin credit for unsegregated long positions.⁴ Under TIMS, positions in a class group are margined based on premium levels at the close of trading on the preceding day which are then increased or decreased by the additional margin amount for that class group.⁵

TIMS calculates additional margin amounts using options price theory. TIMS first calculates the theoretical liquidating value for the positions in each class group by assuming either an increase or decrease in the market value of the underlying asset in an amount equal to the applicable margin interval. The margin interval is the maximum one price movement that OCC wants to protect against in the price of the underlying asset.⁶ Margin intervals are determined separately for each underlying interest to reflect the volatility in the price of the underlying interest.

TIMS then selects the theoretical liquidating value that represents the greatest decrease (where the actual liquidating value is positive) or increase (where the actual liquidating value is negative) in liquidating value compared with the actual liquidating value based on the premium levels at the close of trading on the preceding day. The difference between that theoretical

³ The Commission has modified the text of the summaries prepared by OCC.

⁴ A long position is unsegregated for OCC's purposes if OCC has a lien on the position (*i.e.*, it has recourse to the value of the position in the event that the clearing member does not perform an obligation to OCC). Long positions in firm accounts and market-maker accounts are unsegregated. Long positions in the clearing member's customers' accounts are unsegregated only if the clearing member submits instructions to that effect in accordance with Rule 611.

⁵ For purposes of NEO TIMS, a class group consists of all put and call options, certain market baskets, and commodity options and futures that are subject to margin at OCC because of a cross-margining program with a commodity clearing organization. A class group may also contain stock loan baskets and stock borrow baskets.

⁶ Some combinations of positions can present a greater net theoretical liquidating value at an intermediate value than at either of the endpoint values. As a result, TIMS also calculates the theoretical liquidating value for the positions in each class group assuming intermediate market values of the underlying asset.

¹ 17 CFR 200.30-3(a)(12).

² 15 U.S.C. 78s(b)(1).

³ "TIMS" refers to OCC's margin system as it applies to stock options and "NEO TIMS" refers to OCC's margin system as it applies to non-equity options.

liquidating value and the actual liquidating value is the additional margin amount for that class group unless the class group is subject to the short option adjustment.

For net short positions⁷ in deep out of the money options, little or no change in value would be predicted given a change in value of the underlying interest equal to the applicable margin interval. As a result, TIMS would calculate additional margin amounts of zero or close to zero for deep out of the money options. However, volatile markets could cause such positions to become near to or in the money and thereby could create increased risk to OCC. OCC protects against this risk with an adjustment to the additional margin calculation known as the short options adjustment.⁸

Originally, the short option adjustment calculated a minimum additional margin amount for all net short positions in an options series for which the ordinary calculation of the additional margin requirement was less than twenty-five percent of the applicable margin interval. The original methodology applied the short option adjustment to all such short option positions and did not attempt to match or pair net short positions with net long positions which would substantially reduce or eliminate the risk of such net short positions.⁹ OCC concluded several years ago that this method required clearing members to deposit margin in excess of the risk presented by certain net short positions in deep out of the money options.

As a result, OCC modified the short option adjustment so that it applied only to unpaired net short positions in deep out of the money options.¹⁰ Currently, the term unpaired is defined to mean that a net short position is not offset by a net long position on the same underlying interest. By excluding paired net short positions from the short option adjustment, OCC no longer needs to collect margin calculated pursuant to the short option adjustment for many short option positions which in fact pose little or no risk to OCC under

OCC's ordinary additional margin methodology.¹¹

Excluding paired net short positions from the short option adjustment reduced the overcollateralization caused by the short option adjustment. However, OCC believes that the short option adjustment still requires members to deposit margin in excess of the risk created by certain net short positions. This remaining overcollateralization occurs because Interpretation .06 to OCC Rule 602 currently provides that a net short position is unpaired unless the position is offset by a net long position in the same class group (*i.e.*, the net short and long positions have the same underlying interest). Therefore, Interpretation .06 treats a net short position as unpaired even if the net short position is offset by a net long position in a highly correlated class group. In other words, Interpretation .06 treats a net short position on an index options that is offset by a net long position on a highly correlated index option as unpaired for purposes of the short option adjustment.

To reduce this remaining overcollateralization, OCC will refine the short option adjustment logic of NEO TIMS so that it recognizes spreads between net long and short positions on underlying interests that exhibit price correlation of seventy percent or greater in addition to spreads between net long and short positions on the same underlying interests.¹² Under the proposed rule change, OCC will modify Rule 602 to provide that NEO TIMS (1) will continue to pair all net short contracts on a particular underlying interest against all net long contracts on the same underlying interest and (2) will then pair any remaining net short positions against any net long positions that remain in other class groups that

exhibit seventy percent or greater price correlation.¹³ Any short contracts remaining unpaired after this pairing process will be subject to the short option adjustment.¹⁴

Interpretation .06 currently states that those short contracts having the lowest premium margin values will be deemed to be unpaired. Premium margin value is an important criterion used by OCC to identify the excess short contracts that OCC will deem unpaired, but is not the only criterion.¹⁵

Under the proposed rule change, Interpretation .06 will be modified to provide that OCC will identify which of the excess short contracts will be deemed unpaired and therefore be subject to margin requirements using the short option adjustment.

OCC believes that pairing net short positions with net long positions that do not exhibit one hundred percent price correlation will create some incremental risk to OCC. However, OCC believes that this incremental risk is relatively small and that OCC's ordinary additional margin calculations should generate margin requirements sufficient to protect OCC.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act¹⁶ and the rules and regulations thereunder because it should further the public interest by eliminating overcollateralization of certain short positions in deep out of the money options where the risk of such positions is offset by long positions on a highly correlated underlying interest. OCC believes further that the proposed rule change will remove an impediment to market liquidity without reducing OCC's protection with respect to truly uncovered short positions in deep out of the money options.

¹¹ A pair consisting of a net short position and a net long position on the same underlying interest (*i.e.*, in the same class group) will pose no risk to OCC if the exercise price of the short position is higher (in the case of calls) or lower (in the case of puts) than the exercise price of the long position. A pair consisting of a net short position and a net long position will pose a risk to OCC consisting of the difference between the exercise prices of the short position and long position if the exercise price of the short position is lower (in the case of calls) or higher (in the case of puts) than the exercise price of the long position. However, this risk is relatively small and is not open-ended (*i.e.*, the risk cannot be greater than the difference between the two exercise prices times the applicable unit of trading or index multiplier and the number of contracts).

¹² OCC is not proposing to refine the short option adjustment in TIMS for equity options. OCC attributes a thirty percent price correlation to the class groups in the equity option product group, and the modified short option adjustment would therefore have no effect on equity options even if Interpretation .04 to Rule 601 were revised.

¹³ The class groups in OCC's stock index and currency option product groups satisfy the requirement for seventy percent or greater price correlation.

¹⁴ Commodity options and futures held in cross-margin accounts, market baskets, and stock loan and borrow baskets also will be included in the pairing process. Long calls, futures, commodity calls, market baskets, and stock loan baskets will be netted against short calls and commodity calls. Long puts, commodity puts, short futures, market baskets, and stock borrow baskets will be netted against short puts and commodity puts.

¹⁵ Other criteria may include identifying contracts that are furthest from expiration, those that have the highest exercise price (in the case of calls) or the lowest exercise price (in the case of puts), or those that have been assigned the largest margin interval.

¹⁶ 15 U.S.C. 78q-1(b)(3)(A).

⁷ A net position in an option series in an account is the position resulting from offsetting the gross unsegregated long position in that series against the gross short position in that series. After netting, an account will reflect a net short position or a net long position for each series of options held in the account.

⁸ The short option adjustment for non-equity options is described in OCC Rule 602(c)(1)(ii)(C)(1).

⁹ The term unpaired is defined in Interpretation .04 to Rule 601 for equity options and Interpretation .06 to Rule 602 for non-equity options.

¹⁰ Securities Exchange Act Release No. 31682 (December 31, 1992), 58 FR 3318 [File No. SR-OCC-91-12].

(B) Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change will have any material impact 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 by OCC 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 no 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, 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 Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549.

Copies of such filing also will be available for inspection and copying at the principal office of OCC. All submissions should refer to File No. SR-OCC-98-07 and should be submitted by September 8, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-21958 Filed 8-14-98; 8:45 am]

BILLING CODE 8010-01-M

DEPARTMENT OF STATE**[Public Notice 2865]****Determination on U.S. Bilateral Assistance To the Republika Srpska**

Pursuant to the authority vested in me by section 573(e) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998 (Public Law 105-118) ("FOAA"), I hereby waive the application of section 573(a) of the FOAA in order to provide up to \$7 million of U.S. bilateral assistance to reduce official debt owed to the United States of America by the government of Bosnia and Herzegovina.

I hereby determine that this assistance directly supports the implementation of the Dayton Agreement and its Annexes.

This determination shall be published in the **Federal Register**.

Dated: July 27, 1998.

Strobe Talbott,

Acting Secretary of State.

[FR Doc. 98-21768 Filed 8-14-98; 8:45 am]

BILLING CODE 4710-23-M

TENNESSEE VALLEY AUTHORITY**Sunshine Act Meeting**

AGENCY HOLDING THE MEETING: Tennessee Valley Authority (Meeting No. 1507).

TIME AND DATE: 9 a.m. (CDT), August 19, 1998.

PLACE: West Tennessee Center for Agriculture Research, Extension and Public Service Assembly Room B, 605 Airways Boulevard, Jackson, Tennessee.

STATUS: Open.

Agenda

Approval of minutes of meeting held on July 15, 1998.

New Business**B—Purchase Award**

B1. Increase and extension of Blanket Purchase Order No. 98P8D-220675 with Alcan Cable for aluminum conductor steel reinforced for Transmission Power Supply.

¹⁷ 17 CFR 200.30-3(a)(12).

E—Real Property Transactions

E1. Grant of a 20-year public recreational easement to the Athens, Tennessee, Board of Education affecting approximately 11.73 acres of land on Watts Bar Lake in Meigs County, Tennessee (Tract No. XTWBR-138RE).

E2. Grant of permanent easement to the Meigs County Highway Department for a road affecting approximately 15.15 acres of land on Watts Bar Lake, Meigs County, Tennessee (Tract No. XTWBR-137H).

E3. Nineteen-year commercial recreation lease to John Cooper and Greg Yarbrough affecting 10.78 acres of land on Guntersville Lake, Jackson County, Alabama (Tract No. XGR-748L), for development of Wood Yard Marina and amendment of the Guntersville Reservoir Land Management Plan (Tract No. XGR-105PT) to change the allocated use from barge terminal to commercial recreation.

E4. Nineteen-year commercial recreation lease of the May Springs Recreation Area to Claudia Ann Holbrook, d/b/a Greenlee Campground, R.V. & Marine, affecting approximately 104 acres of land on Cherokee Lake in Grainger County, Tennessee (Tract No. XCK-580L).

E5. Sale of a permanent easement to D.L. Hutson for a road, affecting approximately 0.5 acre of land on Norris Lake in Campbell County, Tennessee (Tract No. XNR-904H).

Information Items

1. Approval to file condemnation cases for transmission line easements and rights-of-way for the Oneida-McCreary line in Scott County, Tennessee, and the Freeport-Miller line in DeSoto County, Mississippi.

2. Approval of Fiscal Year 1998 Performance Incentive Goals and Amendment of the Performance Incentive Plan.

3. Approval of new Labor Relations agreements between TVA and the Office and Professional Employees' International Union.

For more information: Please call TVA Public Relations at (423) 632-6000, Knoxville, Tennessee. Information is also available at TVA's Washington Office (202) 898-2999. Dated: August 12, 1998.

Edward S. Christenbury,

General Counsel and Secretary.

[FR Doc. 98-22126 Filed 8-13-98; 10:39 am]

BILLING CODE 8120-08-M