

However, a clearing fund deficiency call does not need to be satisfied before 10:00 a.m. regardless of when the call actually is made.

II. Discussion

Section 17A(b)(3)(F)¹⁹ of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes GSCC's proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) because the proposal, by enhancing and revising GSCC's risk management mechanism, should help ensure that the mechanism accurately reflects GSCC's risk and provides GSCC appropriate risk protection while increasing members' liquidity and minimizing the operational burdens on GSCC netting members.

Specifically, based upon its assessment of historical data, GSCC has found that certain components of its clearing fund formula are overly conservative. Therefore, GSCC is revising the Average POMA calculation of the receive/deliver component, the funds adjustment component, and the repo volatility component of its clearing fund formula to utilize the twenty largest, rather than the ten largest, POMA amounts, funds-only settlement amounts, and repo offset amounts during the most recent seventy-five business days. GSCC also is modifying the funds adjustment component of its clearing fund formula to eliminate the twenty-five percent cushion in the component's calculation. Because GSCC will retain the right to reinstitute at its discretion all or part of the twenty-five percent cushion for a temporary period, GSCC will be able to react quickly to changing market conditions. GSCC also is lowering the liquidation amount of the receive/deliver component of its clearing fund requirement from fifty percent to twenty-five percent of the total gross margin on all long and short positions without offsets. GSCC believes that, based on historical performance, the twenty-five percent floor should provide sufficient protection to GSCC from the risk that its margin offsets will not reflect actual market conditions during a liquidation period while enabling members that engage in activity on a fully hedged basis to receive the benefits afforded by being fully hedged. Because these modifications are based upon GSCC's assessment of historical data, the

changes should ensure appropriate risk protection for GSCC, while providing members with increased liquidity.

GSCC also is revising its rules to permit its Membership and Standards Committee to lower a margin factor subject to a predefined limitation if the Committee determines it appropriate based on its review of historical price volatility and if GSCC's Board of Directors approves such a lower margin factor. The Committee reviews the appropriateness of its margin factors on an ongoing basis. Thus, the proposed rule change should provide GSCC with the flexibility to lower margin factors more readily for the benefit of its members without compromising GSCC's risk protection. The limitation on the Committee's ability to lower margins (95% of all movements during the last quarter or year) should ensure that GSCC will always have a sufficient level of protection. GSCC also is lowering certain margin factors for zeros to reflect more accurately GSCC's needs based upon GSCC's data at the ninety-nine percent level over the past two years. Accordingly, members will not be subject to margin requirements that exceed GSCC's current needs.

In addition, GSCC is introducing a tiered surveillance status mechanism. The new surveillance mechanism should enable GSCC to monitor more effectively the potential risk posed by its members and to react more swiftly to changes in a member's condition. Finally, as a step toward GSCC's goal to develop an automated mechanism by which GSCC will receive clearing fund collateral by the time that the securities Fedwire opens, GSCC is eliminating the noon alternative deadline for satisfaction of a clearing fund deficiency call and to require a member to satisfy a deficiency call within two hours after it is received. By increasing the efficiency of GSCC risk management processes, the tiered surveillance mechanism and the modifications to GSCC's clearing fund deficiency call rules should help GSCC fulfill its obligation to safeguard securities and funds which are in its custody or control or for which it is responsible.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

It is Therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-96-01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.²⁰

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37370; File No. SR-NASD-96-23]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Small Order Execution System Tier Size Classifications

June 26, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on June 17, 1996, the National Association of Securities Dealers, Inc. ("NASD" or "Association") 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 NASD. 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 NASD is submitting this filing to effectuate The Nasdaq Stock Market, Inc.'s ("Nasdaq") periodic reclassification of Nasdaq National Market ("NNM") securities into appropriate tier sizes for purposes of determining the maximum size order for a particular security eligible for execution through Nasdaq's Small Order Execution System ("SOES") and the minimum quote size requirements for Nasdaq market makers in NNM securities. Specifically, under the proposal, 728 NNM securities will be reclassified into a different SOES tier size effective July 1, 1996. Since the NASD's proposal is an interpretation of existing NASD rules, there are no language changes.

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 NASD 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

¹⁹ 15 U.S.C. § 78q-1(b)(3)(F) (1988).

²⁰ 17 CFR 200.30-3(a)(12)(1995).

may be examined at the places specified in Item IV below. The NASD 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

The purpose of the rule change is to effectuate Nasdaq's periodic reclassification of NNM securities into appropriate tier sizes for purposes of determining the maximum size order for a particular security eligible for execution through SOES and the minimum quote size requirements for Nasdaq market makers in NNM securities. Nasdaq periodically reviews the SOES tier size applicable to each NNM security to determine if the trading characteristics of the issue have changed so as to warrant a tier size adjustment. Such a review was conducted using data as of March 31, 1996, pursuant to the following established criteria:¹

NNM securities with an average daily non-block volume of 3,000 shares or more a day, a bid price less than or equal to \$100, and three or more market makers are subject to a minimum quotation size requirement of 1,000 shares and a maximum SOES order size of 1,000 shares;

NNM securities with an average daily non-block volume of 1,000 shares or more a day, a bid price less than or equal to \$150, and two or more market makers are subject to a minimum quotation size requirement of 500 shares and a maximum SOES order size of 500 shares; and

NNM securities with an average daily non-block volume of less than 1,000 shares a day, a bid price less than or equal to \$250, and less than two market makers are subject to a minimum quotation size requirement of 200 shares and a maximum SOES order size of 200 shares.

Pursuant to the application of this classification criteria, 728 NNM securities will be reclassified effective July 1, 1996. These 728 NNM securities are set out in the NASD's *Notice To Members 96-40* (June 1996).²

¹ The classification criteria is set forth in NASD Rule 4613(a)(2) and the footnote to NASD Rule 4710(g).

² Notwithstanding the NASD's announcement in *NTM 96-40* that Microsoft and U.S. Robotics are scheduled to be moved to the 500-share SOES tier size level, the NASD has determined that The Nasdaq Stock Market will keep these stocks in the 1,000-share tier level. Even though these stocks fall within the 500-share tier level, pursuant to the criteria for determining tier levels, the NASD has determined to keep these stocks at the 1,000-share level because of their large market capitalization and high trading volume. See, letter to Howard L. Kramer, Associate Director, Office of Market Supervision, Division of Market Regulation, SEC,

In ranking NNM securities pursuant to the established classification criteria, Nasdaq followed the changes dictated by the criteria with two exceptions. First, an issue was not moved more than one tier size level. For example, if an issue was previously categorized in the 1,000-share tier size, it would not be permitted to move to the 200-share tier even if the reclassification criteria showed that such a move was warranted.

In adopting this policy, Nasdaq was attempting to maintain adequate public investor access to the market for issues in which the tier size level decreased and to help ensure the ongoing participation of market makers in SOES for issues in which the tier size level increased. Second, for securities priced below \$1 where the reranking called for a reduction in tier size, the tier size was not reduced.

The NASD believes that the proposed rule change is consistent with Section 15A(b)(6) of the Act. Section 15A(b)(6) requires, among other things, that the rules of the NASD governing the operation of The Nasdaq Stock Market be designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information with respect to facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market. The NASD believes that the reclassification of NNM securities within SOES tier size levels and minimum quotation size levels will further these objectives by providing an efficient mechanism for small, retail investors to execute their orders on Nasdaq and by providing investors with the assurance that they can effect trades up to a certain size at the best prices quoted on Nasdaq.

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

The NASD believes that the proposed rule change will not result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments were neither solicited nor received.

from Thomas R. Gira, Associate General Counsel, The Nasdaq Stock Market, Inc., dated June 25, 1996.

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

The proposed rule change has become effective immediately pursuant to Section 19(b)(3)(A)(i) of the Act and subparagraph (e) of Rule 19b-4 thereunder in that the reranking of NNM securities into appropriate SOES tier sizes was done pursuant to the NASD's stated policy and practice with respect to the administration and enforcement of two existing NASD rules. Further, in the SOES Tier Size Order, the Commission requested that the NASD provide this information as an interpretation of an existing NASD rule under Section 19(b)(3)(A) of the Act.

At any time within sixty (60) days of the filing of a proposed rule change pursuant to Section 19(b)(3)(A) of the Act, the Commission may summarily abrogate the rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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, 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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by July 24, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³

Margaret H. McFarland,

Deputy Secretary.

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³ 17 CFR 200.30-3(a)(12) (1989).