

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

The purpose of the proposed rule is to extend approval of ISCC's clearing fund formula.⁴ ISCC is obligated to the London Stock Exchange ("LSE") to pay for all securities delivered to ISCC through the ISCC-LSE link. ISCC has no responsibility to complete open pending trades (*i.e.*, once a member fails, ISCC no longer accepts delivery of securities for such member through the link). To adequately cover ISCC's exposure, each member's clearing fund deposit requirement is calculated and collected on a weekly basis. Each member is required to deposit the greater of (a) the largest deposit requirement imposed over the last 365 day period or (b) the deposit that would be required based on the clearing fund calculation using trades due to settle over the next week. Calculations are made each Tuesday, and members are required to deposit additional clearing fund amounts within three days.⁵

ISCC's clearing fund formula is: (Gross Debit Value) x (Market Risk Factor) + (Foreign Exchange Factor).⁶ The Gross Debit Value is a member's largest single daily gross debit value based on debit values for five consecutive business days including the day on which the calculation is performed less 15% of the Institutional Net Settlement ("INS") receive value for that same day.⁷ The Market Risk Factor

is based on the largest calculated percentage change in the Financial Times Index over a six day period over a minimum of 365 days.⁸ The Market Risk Factor will continue to be set at 7%. The Foreign Exchange Factor is based in part on the Estimated Foreign Exchange Volatility, which is an amount that is equal to the largest one day percentage change in the U.S. dollar/British pound foreign exchange rate over a minimum of 365 days.⁹ The Estimated Foreign Exchange Volatility will continue to be set at 4%.¹⁰ The Market Risk Factor and Foreign Exchange Risk Factor for members on surveillance can be increased in the discretion of ISCC by 3%, 5%, and 7% for members on Advisory, Class A, and Class B surveillance, respectively.

The proposed rule change will permit ISCC to safeguard securities and funds in its custody or control and is therefore consistent with Section 17A of the Act¹¹ and the rules and regulations thereunder.

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

ISCC does not believe that the proposed rule change will have an impact on or impose a burden on competition.

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

ISCC will notify the Commission of any written comments received by ISCC.

occur automatically through the LSE. Therefore, ISCC generally is not required to pay the LSE for these securities. The debits arising from these redeliveries may be offset only partially because these securities may be reclaimed (*i.e.*, returned) by the receiver, and in such circumstance, ISCC is liable to the LSE for the full value of the reclamation.

⁸ ISCC bases its clearing fund calculations on the assumption that it will take one day to sell all of a defaulting participant's positions. Under a five day settlement period, this results in a six day exposure for market risk with five days between trade date and settlement date and one day between settlement date and close out of positions. There also is a one day exposure for foreign exchange risk because ISCC converts U.S. dollars to British pounds on the settlement date and converts the proceeds from the sale of the positions to U.S. dollars the following day.

⁹ The Foreign Exchange Factor is the product of the Gross Debit Value and the Estimated Foreign Exchange Volatility less the produce of the Gross Debit Value times the Market Risk Factor times the Estimated Foreign Exchange Volatility.

¹⁰ During the period from 1989 to 1992, the maximum fluctuation in the U.S. dollar-British pound exchange rate was 4.445%. ISCC will continue to review annually the foreign exchange risk factor.

¹¹ 15 U.S.C. § 78q-1 (1988).

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 ISCC 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, 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 will also be available for inspection and copying at the principal office of ISCC. All submissions should refer to the file number (ISCC-96-03) and should be submitted by: July 30, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority,¹²

Jonathan G. Katz,
Secretary.

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⁴ In 1986, ISCC and the London Stock Exchange ("LSE") entered into a linkage agreement which allows ISCC to obtain comparison and settlement services in the United Kingdom from the LSE on behalf of ISCC members. At that time, the LSE settled trades on a fortnightly basis with all trades that occurred during a two week period settling on the same day. On July 18, 1994, the LSE moved to a ten day rolling settlement cycle with trades settling ten days after trade date. On June 26, 1995, the LSE moved to a five day rolling settlement period. In response to the change to a rolling settlement cycle, ISCC adjusted its method of calculating its clearing fund requirements.

⁵ For example, ISCC calculates a member's clearing fund requirement on Tuesday, August 2, based on trades due to settle on Tuesday, August 2, through Monday, August 8 (*i.e.*, trades conducted on Tuesday, July 26, through Monday, August 1). Because an ISCC member has three business days after the calculation to make additional deposits, under the five day rolling settlement cycle, ISCC generally is calculating and collecting clearing fund contributions based on trades which already have settled. Under the prior ten day rolling settlement system, the clearing fund formula was based on the actual largest daily obligation of a member during the relevant time period, and the clearing fund deposit could be calculated and collected prior to the settlement day.

⁶ Members will continue to be required to contribute a minimum of \$50,000 to the clearing fund.

⁷ Under the INS system, redeliveries of securities from ISCC members to institutional participants can

¹² 17 CFR 200.30-3(a)(12) (1995).

[Release No. 34-37387; File No. SR-NASD-96-27]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to an Interim Extension of the OTC Bulletin Board® Service through December 31, 1996

June 28, 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 28, 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 and is simultaneously approving the proposal.

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

On June 1, 1990, the NASD, through a subsidiary corporation, initiated operation of the OTC Bulletin Board Service ("OTCBB Service" or "Service") in accord with the Commission's approval of File No. SR-NASD-88-19, as amended.¹ The OTCBB Service provides a real-time quotation medium that NASD member firms can elect to use to enter, update, and retrieve quotation information (including unpriced indications of interest) for securities traded over-the-counter that are not listed on The Nasdaq Stock MarketSM nor on a registered national securities exchange (collectively referred to as "OTC Equities").² Essentially, the Service supports NASD members' market making in OTC Equities through authorized Nasdaq Workstation® units. Real-time access to quotation information captured in the Service is available to subscribers of Level 2/3 Nasdaq service as well as subscribers of vendor-sponsored services that now carry OTCBB Service data. The Service is currently operating

under an interim approval that expires on June 30, 1996.³

The NASD hereby files this proposed rule change, pursuant to Section 19(b)(1) of the Act and Rule 19b-4 thereunder, to obtain authorization for an interim extension of the Service through December 31, 1996. During this interval, there will be no material change in the OTCBB Service's operational features, absent Commission approval of a corresponding Rule 19b-4 filing.

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 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

1. Purpose

The purpose of this filing is to ensure continuity in the operation of the OTCBB Service while the Commission considers an earlier NASD rule filing (File No. SR-NASD-92-7 that requested permanent approval of the Service.⁴ For the month ending May, 1996, the Service reflected the market positions of 407 NASD member firms displaying quotations/indications of interest in approximately 5,514, OTC Equities.

During the proposed extension, unregistered foreign securities and American Depositary Receipts (collectively, "Foreign Equity Securities") will remain subject to the twice-daily, update limitation that traces back to the Commission's original approval of the OTCBB Service's operation. As a result, all priced bids/offers displayed in the Service for unregistered Foreign Equity Securities will remain indicative.

In conjunction with the launch of the Service in 1990, the NASD implemented a filing requirement (currently under NASD Rule 6740) and review procedures to verify member firms' compliance with Rule 15c2-11 under

the Act. During the proposed extension, this review process will continue to be an important component of the NASD's self-regulatory oversight of broker-dealers' market making in OTC Equities. The NASD also expects to work closely with the Commission staff in developing further enhancements to the Service, including those related to the market structure requirements mandated by the Securities Enforcement Remedies and Penny Stock Reform Act of 1990 ("Reform Act"), particularly Section 17B of the Act.⁵ The NASD notes that implementation of the Reform Act entails Commission rulemaking in several areas, including the development of mechanisms for gathering and disseminating reliable quotation/transaction information for "penny stocks."

2. Statutory Basis

The NASD believes that this proposed rule change is consistent with Sections 11A(a)(1), 15A(b)(6) and (11), and Section 17B of the Act. Section 11A(a)(1) sets forth the Congressional findings and policy goals respecting operational enhancements to the securities markets. Basically, the Congress found that new data processing and communications techniques should be applied to improve the efficiency of market operations, broaden the distribution of market information, and foster competition among market participants. Section 15A(b)(6) requires, among other things, that the NASD's rules promote just and equitable principles of trade, facilitate securities transactions, and protect public investors. Subsection (11) thereunder authorizes the NASD to adopt rules governing the form and content of quotations for securities traded over-the-counter for the purposes of producing fair and informative quotations, preventing misleading quotations, and promoting orderly procedures for collecting and disseminating quotations. Finally, Section 17B contains Congressional findings and directives respecting the collection and distribution of quotation information on low-priced equity

⁵ On November 24, 1992, the NASD filed an application with the Commission for interim designation of the Service as an automated quotation system for penny stocks, pursuant to Section 17B(b) of the Act. On December 30, 1992, the Commission granted Qualifying Electronic Quotation System ("QEQS") status for the Service for purposes of certain penny stock rules that become effective on January 1, 1993. On August 26, 1993, the Commission granted the NASD's request for an extension of QEQS status until such time as the OTCBB meets the statutory requirements of Section 17B(b)(2).

¹ Securities Exchange Act Release No. 27975 (May 1, 1990), 55 FR 19124.

² With the Commission's approval of File No. SR-NASD-93-24, the universe of securities eligible for quotation in the OTCBB now includes certain equities listed on regional stock exchanges that do not qualify of dissemination of transaction reports via the facilities of the Consolidated Tape Association.

³ Securities Exchange Act Release No. 36292 (September 28, 1995), 60 FR 52241.

⁴ Securities Exchange Act Release No. 30766 (June 1, 1992), 57 FR 24281.

securities that are neither Nasdaq nor exchange-listed.

The NASD believes the extension of the Service through December 31, 1996 is fully consistent with the foregoing provisions of the Act.

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

The NASD believes that the 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.

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

The NASD requests that the Commission find good cause, pursuant to Section 19(b)(2) of the Act, for approving the proposed rule change prior to the 30th day after its publication in the Federal Register to avoid any interruption of the Service. The current authorization for the Service extends through June 30, 1996. Hence, it is imperative that the Commission approve the instant filing on or before that date. Otherwise, the NASD will be required to suspend operation of the Service pending Commission action on the proposed extension.

The NASD believes that accelerated approval is appropriate to ensure continuity in the Service's operation pending a determination on permanent status for the Service, as requested in File No. SR-NASD-92-7. Continued operation of the Service will ensure the availability of an electronic quotation medium to support member firms' market making in approximately 5,514 OTC Equities and the widespread dissemination of quotation information on these securities. The Service's operation also expedites price discovery and facilitates the execution of customer orders at the best available price. From a regulatory standpoint, the NASD's capture of quotation data from participating market makers supplements the transactional data now reported by member firms pursuant to NASD Rule 6600.

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. 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 30, 1996.

V. Commission's Findings and Order Granting Accelerated Approval

The Commission finds that approval of the proposed rule change is consistent with the Act and the rules and regulations thereunder, and in particular with the requirements of Section 15A(b)(11) of the Act, which provides that the rules of the NASD relating to quotations must be designed to produce fair and informative quotations, prevent fictitious or misleading quotations and promote orderly procedures for collecting, distributing, and publishing quotations.

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publishing notice of the filing thereof. The Commission finds that approval of this proposed rule change to continue operation of the pilot program is customers' orders at the best available price. Additionally, continued operation of the Service will materially assist the NASD's surveillance of trading in OTC Equities that are quoted in the Service, including certain non-Tape B securities that are listed on regional exchanges and quoted in the Service.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change be, and hereby is, approved for an interim period through December 31, 1996.

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

Jonathan G. Katz,

Secretary.

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⁶ 17 CFR 200.30-3(a)(12).

[Release No. 34-37385; File No. SR-PSE-96-16]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Stock Exchange, Inc. Relating to Listing and Trading Guidelines for Municipal Bonds

June 28, 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 5, 1996, the Pacific Stock Exchange, Inc. ("PSE" 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 PSE proposes to adopt on a permanent basis rules for the listing and trading of municipal bonds.

The text of the proposed rule change is available at the Office of the Secretary, PSE and at the Commission.

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 PSE 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 PSE 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 March 7, 1994, the Commission approved an Exchange pilot program providing for the listing and trading of "municipal securities," as defined in Section 3(a)(29) of the Act ("pilot program")¹ The Exchange now

¹ See Securities Exchange Act Release No. 33721 (March 7, 1994), 59 FR 11636 (March 11, 1994). On July 5, 1994, the Commission approved a 120-day extension to the Exchange's Municipal Bond Trading Pilot Program. See Securities Exchange Act Release No. 34317 (July 5, 1994), 59 FR 35546 (July