

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

OCC currently leases ECMI equipment³ to clearing members which is configured so that clearing members may interface with OCC via OCC's Clearing/Management and Control System ("C/MACS").⁴ That equipment currently operates on a desktop platform, and OCC's rules require that the equipment used to enter information to OCC and to receive reports from OCC be located in a clearing member's office. Clearing members have now requested that they be permitted to interface with OCC via laptop computers, and OCC has determined to permit the use of laptop computers outside of a clearing member's office. Because expirations require clearing members' personnel to perform C/MACS entry and approval after normal business hours, the ability to sign on from home and to complete the entry and approval process would produce both cost savings and convenience for clearing members. OCC proposes to lease such equipment to clearing members for a monthly fee of \$250 per laptop and \$50 per month for an optional printer. These proposed fees are based on OCC's costs of obtaining the equipment. Accordingly, OCC would amend its schedule of fees to reflect these monthly fees.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁵ in that it creates the opportunity for more efficient means of communication between OCC and its clearing members, and it allocates reasonable fees in an equitable manner among OCC's clearing members in that the proposed fees reflect OCC's current costs of providing

the ECMI configuration to its clearing members.

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

OCC 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

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

The foregoing rule change has become effective on filing pursuant to Section 19(b)(3)(A)(ii) of the Act⁶ and Rule 19b-4(e)(2)⁷ thereunder in that the proposed rule change establishes or changes a due, fee, or other charge imposed by OCC. At any time within sixty days of the filing of such proposed rule change, the Commission may summarily abrogate such 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, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to File No. SR-OCC-96-10 and

should be submitted by September 26, 1996.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37618; File No. SR-OCC-96-07]

Self-Regulatory Organizations; the Options Clearing Corporation; Notice of Filing and Other Granting Accelerated Approval on a Temporary Basis of a Proposed Rule Change Relating to Revisions to the Standards for Letters of Credit Deposited as Margin

August 29, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 21, 1996, The Options Clearing Corporation ("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 and other to solicit comments on the proposed rule change from interested persons and to grant accelerated approval of the proposed rule change on a temporary basis through June 30, 1997.

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

The proposed rule change extends the Commission's previous temporary approval of the OCC's modifications that relate to OCC's standards for letters of credit deposited with OCC as margin. In general, OCC requires that letters of credit deposited by clearing members as margin with OCC be irrevocable and unless otherwise permitted by OCC expire on a quarterly basis. In addition, OCC may draw upon a letter of credit regardless of whether the clearing member has been suspended or has defaulted on any obligation to OCC if OCC determines that such action is advisable to protect OCC, other clearing members, or the general public.²

¹ 15 U.S.C. 78s(b)(1) (1988).

² For a complete description of these modifications to the standards for letters of credit, refer to Securities Exchange Act Release No. 29641, (August 30, 1991), 56 FR 46027 [File No. SR-OCC-91-13] (order temporarily approving proposed rule change through February 28, 1992).

² The Commission has modified such summaries.

³ ECMI permits clearing members, among other things, to input post-trade transactions via OCC's Clearing Management and Control System, to retrieve clearing reports via OCC's on-line report inquiry service, and to review information memoranda and other notices via OCC's Option News Network service. Securities Exchange Act Release No. 32366 (May 25, 1993), 58 FR 31435 [File No. SR-OCC-93-11] (notice of filing and immediate effectiveness of proposed rule change).

⁴ C/MACS is an on-line, menu-driven system that allows OCC member firms to access or input trade information directly from or to OCC's clearing systems.

⁵ 15 U.S.C. 78q-1 (1988).

⁶ 15 U.S.C. 78s(b)(3)(A)(ii) (1988).

⁷ 17 CFR 240.19.b-4(e)(2) (1995).

II. Self-Regulatory Organization's State of the Purpose, 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

In previous filings OCC has proposed and the Commission has approved on a temporary basis the modification of the rules governing letters of credit deposited with OCC as a form of margin.⁴ Like the previous filings, this filing proposes several modifications to OCC Rule 604, Forms of Margin. First, in order to conform to the Uniform Commercial Code and to avoid any ambiguity as to the latest time for honoring demands upon letters of credit, letters of credit must state expressly that payment must be made prior to the close of business on the third banking day following demand. Second, letters of credit must be irrevocable. Third, letters of credit must expire on a quarterly basis. Fourth, OCC included language in its rules to make explicit its authority to draw upon letters of credit at any time, whether or not the clearing member that deposited the letter of credit has been suspended or is in default, if OCC determines that such draws are advisable to protect

OCC, other clearing members, or the general public.⁵

OCC believes that the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act because the proposed rule change promotes the protection of investors by enhancing OCC's ability to safeguard the securities and funds 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 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

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

Section 17A(b)(3)(F)⁶ of the Act requires the rules of a clearing agency be designed to assure the safeguarding of securities and funds in its custody or control or for which it is responsible. The Commission believes the proposed rule change is consistent with OCC's obligations under Section 17A(b)(3)(F) because the modified standards for letters of credit will enable OCC to draw upon a letter of credit at any time that OCC determines that such a draw is advisable to protect OCC, the clearing members, or the general public. This ability increases the liquidity of its margin deposits by enabling OCC to substitute cash collateral for a clearing member's letter of credit and consequently will permit OCC to rely more safely upon such letters of credit. In addition, by eliminating the issuer's right to revoke the letter of credit, an issuer will no longer be able to revoke a letter of credit at a time when the clearing member is experiencing financial difficulty and most needs credit facilities. Finally, requiring that the letters of credit expire quarterly rather than annually will result in the issuers conducting more frequent credit reviews of the clearing members for whom the letters of credit are issued. More frequently credit reviews will facilitate the discovery of any adverse developments in a more timely manner.

Although OCC has asked for permanent approval of the proposed rule change, the Commission believes that by approving the proposed rule change on a temporary basis through June 30, 1997, OCC, the Commission and other interested parties will be able to assess further, prior to permanent Commission approval, any effects the revised standards have on letter of credit issuance and on margin deposited at OCC.⁵

OCC has requested that the Commission find good cause for approving the proposed rule change on an accelerated basis prior to the thirtieth day after the date of publication of notice of the filing. The Commission finds good cause for so approving the proposed rule change because accelerated approval will allow the changes that have been implemented pursuant to the previous temporary approval order to remain in place during the further assessment of any effects the revised standards have on the issuance of letters of credit and on margin deposited at OCC pending permanent approval.

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 Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for

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

⁴ Securities Exchange Act Release Nos. 29641 (August 30, 1991), 56 FR 46027 [File No. SR-OCC-91-13] (order temporarily approving proposed rule change through February 28, 1992); 30424 (February 28, 1992), 57 FR 8160 [File No. SR-OCC-92-06] (order temporarily approving proposed rule change through May 31, 1992); 30763 (June 1, 1992), 57 FR 242884 [File No. SR-OCC-92-11] (order temporarily approving proposed rule change through August 31, 1992); 31126 (September 1, 1992), 57 FR 40925 [File No. SR-OCC-92-19] (order temporarily approving proposed rule change through December 31, 1992); 31614 (December 17, 1992), 57 FR 61142 [File No. SR-OCC-92-37] (order temporarily approving proposed rule change through June 30, 1993); 32532 (June 28, 1993) [File No. SR-OCC-93-14] (order temporarily approving proposed rule change through June 30, 1994), 34206 (June 13, 1994) [File No. SR-OCC-94-06] (order temporarily approving proposed rule change through June 30, 1995); and 36138 (August 23, 1995), 60 FR 44926 [File No. SR-OCC-95-9] (order temporarily approving proposed rule change through June 28, 1996).

⁵ *Supra* note 2.

⁶ 15 U.S.C. 78q-1(b)(3)(F) (1988).

⁵ The Commission and OCC continue to discuss concentration limits on letters of credit deposited as margin. The Commission believes that clearing agencies that accept letters of credit as margin deposits or clearing fund contributions should limit their exposure by imposing concentration limits on the use of letters of credit. Generally, clearing agencies impose limitations on the percentage of an individual member's required deposit or contribution that may be satisfied with letters of credit, limitations on the percentage of the total required deposits or contributions that may be satisfied with letters of credit by any one issuer, or some combination of both. OCC has no concentration limits on the use of letters of credit issued by U.S. institutions.

inspection and copying at the principal office of OCC. All submissions should refer to the File No. SR-OCC-96-07 and should be submitted by September 26, 1996.

V. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, particularly with Section 17A(b)(3)(F) 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-OCC-96-07) be, and hereby is, approved on a temporary basis through June 30, 1997.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37604; File No. SR-PSE-96-24]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Stock Exchange Incorporated Relating to the Closing Time for Trading of Equity Options and Index Options

August 26, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 11, 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 Pacific Stock Exchange Incorporated ("PSE" or "Exchange") is proposing to amend its rules to change its closing time for options trading from 1:10 p.m. Pacific Time² to 1:05 p.m. for equity options, and from 1:15 p.m. to 1:10 p.m. for index options. The Exchange is also proposing to change

certain related rules on closing rotations and the submission of exercise notices for index options. 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 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

PSE Rule 4.2, Commentary .01 currently provides that the Board of Governors has resolved that transactions may be effected on the Options Floor of the Exchange until 1:10 p.m. for equity options³ and until 1:15 p.m. for index options⁴ each business day at which time no further transactions may be made. The Exchange is proposing to change the 1:10 p.m. closing time for equity options to 1:05 p.m., and to

³ The extension of the trading hours for equity options by ten minutes until 4:10 p.m. Eastern Standard Time ("E.S.T.") by the American Stock Exchange ("Amex"), the Chicago Board Options Exchange, Incorporated ("CBOE"), the Midwest Stock Exchange, Incorporated ("MSE") (now known as the Chicago Stock Exchange, Inc. ("CHX")), Pacific Stock Exchange Incorporated ("PSE"), and the Philadelphia Stock Exchange, Inc. ("PHLX") (collectively referred to as the "options exchanges") was initially approved by the Commission on a trial basis for a four month period beginning in Oct. 23, 1978 and extending through Feb. 28, 1979. Securities Exchange Release No. 15241 (Oct. 18, 1978), 43 FR 49867 (Oct. 25, 1978) (order approving File Nos. SR-Amex-78-22, SR-CBOE-78-30, SR-MSE-78-26, SR-PSE-78-17, and SR-PHLX-78-18). The Commission approved the continued use by the options exchanges of the existing 4:10 p.m. (E.S.T.) closing time for standardized equity options trading through Apr. 28, 1979. Securities Exchange Act Release No. 15593 (Feb. 28, 1979), 44 FR 12525 (Mar. 7, 1979) (order approving File Nos. SR-Amex-79-3, SR-CBOE-79-1, SR-MSE-79-7, SR-PSE-79-1, and SR-PHLX-79-1). The Commission has since then approved on a permanent basis the closing of equity options trading on the options exchanges at 4:10 p.m. (E.S.T.). Securities Exchange Act Release No. 15765 (Apr. 27, 1979), 44 FR 26819 (May 7, 1979) (order approving File Nos. SR-Amex-79-6, SR-CBOE-79-4, SR-MSE-79-11, SRPSE-79-3, and SR-PHLX-79-4).

⁴ Securities Exchange Act Release No. 23795 (Nov. 12, 1986), 51 FR 41884 (Nov. 19, 1986).

change the 1:15 p.m. closing time for index options⁵ to 1:10 p.m.

The Exchange is proposing this modification so that the closing time for options trading will be closer to the closing time in the securities underlying those options.⁶ The extended trading session for options initially was intended to ensure that options traders would be able to respond to the tape "runoff" in the equity markets (i.e., prints of stock trades that occurred just before the closing bell, but that were not reported over the tape until several minutes after the close of trading.⁷ If such a trade resulted in a closing price that was materially different from the price at which the stock had been trading previously, the extended trading session allowed options traders the opportunity to bring their options quotes into line with the closing price in the underlying security.⁸ However, because of improvements to the processing of transactions at the equity markets, there is no longer any significant tape runoff.⁹

With regard to closing rotations,¹⁰ PSE Rule 6.64, Commentary .01(b) currently provides that transactions may be effected in a class of options after 1:10 p.m. if they occur during a trading rotation. It states that such a trading rotation may be employed in connection with the opening or reopening of trading in the underlying security after 12:30 p.m. or due to the declaration of a "fast market" pursuant to Options Floor Procedure Advice G-9. It further provides that the decision to employ a trading rotation after 12:30 p.m. shall be publicly announced on the trading floor prior to the commencement of such rotation, and that no more than one trading rotation may be commenced after 1:10 p.m. Further, it states that if a trading rotation is in progress and Floor Officials determine that a final trading rotation is needed to assure a fair and orderly close, the rotation in progress shall be halted and a final rotation begun as promptly as possible after 1:10 p.m. Finally, it states that any

⁵ The PSE currently trades options on two separate broad-based indexes, the PSE High Technology Index and the Wilshire Small Cap Index. See Securities Exchange Release Nos. 20423 (Nov. 29, 1996), 48 FR 54557 (Dec. 5, 1983) (order approving File No. SR-PSE-83-10) and 31043 (Aug. 14, 1992), 57 FR 38078 (Aug. 21, 1992) (order approving File No. SR-PSE-92-12).

⁶ Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to George A. Villana, Attorney, SEC dated August 20, 1996.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ A closing rotation is a trading procedure used to determine appropriate closing prices or quotes for each series of options on an underlying stock.

⁶ 17 CFR 200.30-3(a)(12) (1996).

¹ 15 U.S.C. § 78s(b)(1).

² All times referred to in this filing are Pacific Time unless otherwise indicated.