judge's initial decision. For further information, contact John Zecca at (202) 942–0950.

The subject matter of the closed meeting scheduled for Monday, December 7, 1998, following the 10:00 a.m. open meeting, will be:

Post argument discussion.

The subject matter of the closed meeting scheduled for Tuesday, December 8, 1998, at 10:00 a.m., will be:

Institution and settlement of injunctive action.

Institution and settlement of administrative proceedings of an enforcement nature.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact:

The Office of the Secretary at (202) 942–7070.

Dated: December 1, 1998.

Jonathan G. Katz,

Secretary.

[FR Doc. 98–32363 Filed 12–1–98; 4:29 pm]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40708; File No. SR–CBOE–97–58]

Self-Regulatory Organizations; Notice of Filing of Amendment No. 1 to Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Capital and Margin Requirements for Joint Back Office Arrangements

November 25, 1998.

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 July 27, 1998, the Chicago Board Options Exchange, Incorporated (''Exchange'' or ''CBOE'') filed with the Securities and Exchange Commission (''Commission'') Amendment No. 1 to the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on Amendment No. 1 to the proposed rule change from interested persons.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

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

The Exchange seeks to establish margin and net capital requirements for Joint Back Office (''JBO'') participants and clearing firms. Under the provisions of Regulation T promulgated by the Board of Governors of the Federal Reserve System (''Federal Reserve Board''),[3] a clearing broker may extend good faith financing to an owner of the clearing broker who is either a broker-dealer or an exchange member. These financing relationships are referred to as ''JBO arrangements.''

The text of the proposed rule change, as amended, is available at the Office of the Secretary, the Exchange, 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 Exchange 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 Exchange 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

a. *Background.* The Exchange filed its JBO proposal with the Commission on October 23, 1997, shortly after the New York Stock Exchange (''NYSE'') submitted its own JBO filing.[4] Notice of the Exchange's proposal was issued on December 10, 1997.[5] Among other matters, the Exchange's JBO filing proposes minimum financial standards for JBO participants and for the firms which clear JBO accounts.

[3] *See* 12 CFR 220. Regulation T is entitled ''Credit by Brokers and Dealers'' and was issued by the Federal Reserve Board pursuant to the Act.

[4] The NYSE's JBO filing, SR–NYSE–97–28, was filed with the Commission on October 2, 1997, and notice of its filing was issued on December 29, 1997. *See* Securities Exchange Act Release No. 39497 (Dec. 29, 1997), 63 FR 899 (Jan. 7, 1998). The NYSE filed Amendment No. 1 to its JBO filing on May 21, 1998, and Amendment No. 2 on September 28, 1998. Notice of Amendment Nos. 1 and 2 was issued on November 25, 1998. *See* Securities Exchange Act Release No. 40709 (Nov. 25, 1998).

[5] *See* Securities Exchange Act Release No. 39418 (Dec. 10, 1997), 62 FR 66154 (Dec. 17, 1997).

In its 1996 amendments to Regulation T, the Federal Reserve Board directed the securities self-regulatory organizations (''SROs'') to develop appropriate standards for JBO participants and their clearing firms.[6] The Exchange anticipates that all SROs will implement uniform standards for JBO arrangements. The NYSE formed a member firm subcommittee to develop appropriate standards for JBO participants and their clearing firms. The NYSE member firm subcommittee proposed that clearing firms maintain a minimum of $25 million in tentative net capital. The Exchange urged that an alternative standard be provided for options market-maker clearing firms to accommodate the JBO activities of the clearing firms' options market-maker clients. The compromise standard of $10 million net capital was agreed upon and incorporated into the JBO filings submitted by the Exchange and the NYSE.

Although at that time not all Exchange options market-maker clearing firms needed to maintain the $10 million level of capital to cover the haircut and financing needs of their market-maker and JBO clients, it was believed their actual capital needs would grow to exceed the $10 million standard by the time the Commission approved the Exchange's JBO proposal. While the capital needs of options market-marker clearing firms have in fact grown, they do not in all instances consistently satisfy the $10 million level.[7] As a result, the Commission received a number of comment letters from Exchange member firms that expressed concern over the $10 million standard.

b. *Amendment No. 1.* In response to the concerns of its members, the Exchange seeks to amend its JBO filing

[6] *See* Board of Governors of the Federal Reserve System Docket No. R–0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

[7] The Exchange has represented that all Exchange options market-maker clearing firms currently maintain net capital sufficient to meet the proposed $7 million net capital standard. However, fluctuations in a clearing firm's net capital may occur due to changes in daily net deductions for the options market-maker and JBO participant accounts carried. Many clearing firms maintain revolving subordinated loan arrangements in order to cover such potential capital swings. According to the Exchange, there is a one time charge to establish such a facility of approximately $10,000 per $1 million (1%). The cost to maintain such a facility, undrawn, approximates $10,000 per year per $1 million (1%), or $28 per day. The cost to draw down such a facility approximates $95,000 per year per $1 million of drawn funds (at 1% over an 8½% prime), or $264 per day. Drawn down revolving subordinated debt may be repaid beginning the following day, with the term of the loan not to exceed 1 year. The Exchange believes these costs do not appear to be excessively burdensome to clearing firms that carry the accounts of JBO participants.

to reduce from $10 million to $7 million, the proposed net capital requirement for JBO clearing firms. The Exchange also proposes to allow options market-maker clearing firms, that elect to operate under this alternative standard, to be permitted to maintain net capital of less than $7 million for a period not to exceed three consecutive business days. Immediate notice to the Exchange would be required when a JBO clearing firm's net capital drops below the $7 million requirement, or its tentative net capital drops below the $25 million requirement. In addition, such a clearing firm would be subject to prohibitions against the withdrawal of equity capital and prohibitions against reduction, prepayment, and repayment of subordination agreements as specified in the commission's net capital rule.[8]

The Exchange believes the proposed ''three business day'' provision is consistent with other provisions of the Commission's net capital rule.[9] The provision would make allowances for fluctuations in net capital resulting from daily changes in market-maker and JBO participant related clearing firm capital charges. The Exchange believes this provision will permit clearing firms to avoid unnecessary and inadvertent violations of the margin requirement at certain times such as options expiration week when capital needs are more volatile.

If approved, the proposal would provide JBO participants and clearing firms already conducting JBO business at the time of the Commission's approval six months to implement such changes. The proposed rule change would be applied within thirty calendar days of the Commission's approval for all other Exchange members seeking to engage in such JBO businesses.

In addition, the Exchange seeks to amend its JBO proposal to specify that, should the equity in a JBO participant's account fall below $1 million and the deficiency is not eliminated within five business days, the account shall lose its JBO status. Thereupon, the clearing member carrying the account would be required to apply the standard Regulation T and Exchange Rule 12.3 *customer* margin requirements. This provision mirrors the JBO proposal presented by the NYSE.

As currently amended, both the Exchange's and the NYSe's JBO filings contain provisions which, for the purpose of net capital computation, require the member organization carrying the account of a JBO participant to deduct from net worth any amount by which the equity in a JBO participant's account is below the haircuts required by the Commission's net capital rule. However, the NYSE's requirements for JBO arrangements, which are proposed to be set forth within its margin rule (NYSE Rule 431), would permit, for certain specified securities, a lesser amount to be deduced in lieu of the Exchange Act Rule 15c3–1 haircut on such securities.[10] The proposed alternative deduction is the NYSE's maintenance margin requirement for the specified securities when held in ''exempt accounts.'' [11] The Exchange's JBO filing does not incorporate an alternative deduction because, unlike the NYSE, the Exchange has not promulgated special maintenance margin requirements for exempt accounts, and for particular securities held in those accounts. However, Exchange member organizations that also are members of the NYSE can elect to be bound by the margin rules of the NYSE as permitted under Exchange Rule 12.11.[12] By electing to be bound by NYSE margin rules, organizations that are members of both the Exchange and the NYSE may avoid a violation of the Exchange's rules if they wish to utilize the alternative deduction proposed by the NYSE. At this time, the Exchange is not proposing rules to implement specialized maintenance requirements as an alternative to the haircut deduction for the organizations that are members of the Exchange only. The Exchange believes that special, lower maintenance margin requirements would not be critical to most of its member firms because the JBO accounts they carry do not have a concentration in the specified securities.

The Exchange believes the revised capital requirements for JBO clearing firms and the delayed date of effectiveness for existing JBO businesses, as proposed by Amendment No.1, are responsive to the concerns raised by its members.

2. Statutory Basis

The Exchange believes the proposed rule change, as amended, is consistent with and furthers the objectives of Section 6(b)(5) of the Act,[13] in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest. The Exchange further believes its proposal is designed to ensure the reasonableness of JBO arrangements as directed by the Federal Reserve Board in its recent amendments to Regulation T.[14]

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

The Exchange believes the proposed rule change will not 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

The Exchange did not solicit or receive written comments with respect to 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 reasons for so finding, or (ii) as to which the Exchange 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.

[8] The commission's net capital rule, ''Net Capital Requirements for Brokers or Dealers,'' is designated as Rule 15c3–1. *See* 17 CFR 240.15c3–1(e) and 17 CFR 240.15c3–1d(b).

[9] The Commission's net capital rule requires that the ratio of options market-maker gross deductions to adjusted net capital not exceed 10:1 for a period of more than three consecutive business days. *See* 17 CFR 240.15c3–1.

[10] Under the NYSE's JBO proposal, the alternative deduction would apply to transactions in securities covered by paragraphs (e)(2)(F) and (e)(2)(G) of NYSE Rule 431. The Commission notes that the NYSE has submitted a separate rule filing, SR–NYSE–98–14 (''Related Filing''), that would revise the types of securities included in paragraphs (e)(2)(F) and (e)(2)(G) of NYSE Rule 431 to include: exempted securities, mortgage related securities, major foreign sovereign debt securities, highly rated foreign sovereign debt securities, and investment grade debt securities. The Commission has published notice of the NYSE's Related Filing but has not taken any dispositive action on the proposal. *See* Securities Exchange Act Release No. 40278 (July 29, 1998), 63 FR 41882 (Aug. 5, 1998).

[11] The Related Filing proposes to adopt a new paragraph (a)(13) to NYSE Rule 431 that would define an ''exempt account'' as: a member organization; non-member broker-dealer; ''designated account;'' or any person having a net worth of at least $40 million. The Related Filing also proposes to revise existing paragraph (a)(3) of NYSE Rule 431 to define a ''designated account'' as the account of: (i) a bank; (ii) a savings association; (iii) an insurance company; (iv) an investment company; (v) a state or political subdivision thereof; or (vi) a pension or profit sharing plan.

[12] Exchange Rule 12.11 specifies that in lieu of meeting the Exchange's margin requirements, a member firm may elect to be bound by the initial and maintenance margin requirements of the NYSE. If such an election is made, the member firm is bound to comply with the NYSE's margin rules as though they were part of the Exchange's rules.

[13] 15 U.S.C. 78f(b)(5).

[14] *See* note 6 *supra.*

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1, including whether the proposed rule change, as modified by Amendment No. 1, is consistent with the Act. 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 submissions, 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 persons, 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 inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR–CBOE–97–58 and should be submitted by December 28, 1998.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–32329 Filed 12–3–98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40717; File No. SR–MSRB–97–15]

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval of Proposed Rule Change and Amendment No. 1 Relating to Rules G–11, on Sales of New Issue Municipal Securities During the Underwriting Period, G–12, on Uniform Practice, and G–8, on Books and Records

November 27, 1998.

I. Introduction

On December 23, 1997, the Municipal Securities Rulemaking Board (''Board'' or ''MSRB'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend Rules G–11, on sales of new issue municipal securities during the underwriting period, G–12, on uniform practice, and G–8, on books and records. Notice of the proposed rule change appeared in the **Federal Register** on April 21, 1998.[3] The Commission received two comment letters concerning the proposed rule change.[4]

The MSRB received one comment letter concerning the proposed rule change.[5] On August 18, 1998, the Board submitted Amendment No. 1 to Rule G–11(g)(i) of the proposed rule change on sales of new issue municipal securities during the underwriting period. Notice of Amendment No. 1 appeared in the **Federal Register** on September 29, 1998.[6] The Commission received one comment letter concerning Amendment No. 1.[7] This order approves the proposed rule change and Amendment No. 1.

II. Description of the Proposal and Amendment No. 1

The proposed rule change requires the managing underwriter of a syndicate to maintain a record of all issuer syndicate requirements; requires the managing underwriter to complete the allocation of securities within 24 hours of the sending of the commitment wire; requires the managing underwriter to disclose to syndicate members all available designation information; requires the managing underwriter to disclose to members of the syndicate, in writing, the amount of any portion of the take-down that is directed to each member of the syndicate by the issuer; and shortens the deadline for payment of designations to 30 calendar days after the issuer delivers the securities to the syndicate.

Amendment No. 1 retains the requirement of the proposed change to Rule G–11(g)(i) to complete the allocation of securities within 24 hours of the sending of the commitment wire. It further provides that, if the bond purchase agreement (''BPA'') is not yet signed or if the award has not been made at the time allocations are made, the allocations are subject to the signing of the BPA or the award of bonds. The purchaser must be informed of this fact.

Issuer syndicate requirements

Issuer requirements involving syndicate formation, order review, designation policies and bond allocations have become much more prevalent in the municipal securities market. Such requirements are significant because they help to determine which dealers, and ultimately which investors, obtain the bonds. As issuer syndicate requirements can affect the functioning of the syndicate, and at times the final costs to the issuer of the new issue, the records of such requirements should be maintained so that any problems or concerns regarding the functioning of the syndicate arising from these requirements can be identified and addressed and the information must be provided to syndicate members and others, upon request.

The proposed rule change amends Rules G–8(a)(viii) and G–11(f) to require the managing underwriter to maintain a record of all issuer syndicate requirements. If the requirements are in a published guideline, the guideline should be maintained by the dealer and supplemented by a statement of any additional requirements that arise prior to settlement. If the requirements are not in published form, the managing underwriter must create a written detailed statement of the requirements and maintain the statement in its records. The managing underwriter must provide a copy of the published guideline or underwriter prepared statement of issuer syndicate requirements to syndicate members prior to the first offer of any securities by the syndicate. Syndicate members must furnish this summary promptly to others, upon request. In addition, the managing underwriter must provide the

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[15] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Rel. No. 39873 (April 14, 1998), 63 FR 19775.

[4] Letters from George Brakatselos, Vice President, The Bond Market Association, to Secretary, Securities and Exchange Commission, dated May 12, 1998 (''TBMA Letter No. 1'') and David B. Levy, Director & Associate General Counsel, Capital Markets Division, SalomonSmithBarnery, to Secretary, Securities and Exchange Commission, dated May 13, 1998 (''Salomon Letter'').

[5] Letter from Mark Page, Deputy Director and General Counsel, Office of Management and Budget and John White, Deputy Comptroller for Public Finance, New York City Comptroller's Office, City of New York, to Terry L. Atkinson, Chairman, MSRB, dated June 5, 1998 (''HYC Letter''). The Board concurred with the NYC Letter that Rule G–11(g)(1) should not be interpreted to required that a bond purchase agreement (''BPA'') be signed within 24 hours of the sending of the commitment wire. As the Board would not meet again before August 1998, it consented to an extension for Commission action until August 31, 1998. Letter from Ronald W. Smith, Senior Legal Associate, MSRB, to Mignon McLemore Esq., Division of Market Regulation, SEC, dated June 26, 1998.

[6] Securities Exchange Act Rel. No. 40456 (September 22, 1998), 63 FR 51976 (''Amendment No. 1'').

[7] Letter from Sarah M. Starkweather, Vice President and Associate General Counsel, The Bond Market Association, to Jonathan G. Katz, Secretary, SEC, dated October 19, 1998 (''TBMA Letter No. 2'').