

(or such other number of basic points as MBSCC from time to time may determine) of net position and 25 basic points (or such other number of basic points as MBSCC from time to time may determine) of the largest outstanding net-out position minus excess profits from forward transactions.

The proposed rule change establishes a baseline margin requirement for net position and net-out position risk as illustrated by the following two examples. The first circumstance arises where a participant is not subject to a margin call on a particular day because it does not have adjusted net losses. The 130% multiplier, which is designed to address market volatility, is not effective if the participant does not have adjusted net losses. The net position component, therefore, should address the circumstance where a participant does not have adjusted net losses but has a large net position and there is market volatility between margin calls.

The second circumstance relates to the fact that losses of non-original contra-sides in excess of an insolvent participant's participant fund are prorated to and assessments are made against the insolvent participant's original contra-sides. MBSCC's netting system pairs-off and nets-out buy and sell trades with original and non-original contra-sides. Netting substantially reduces the number of trades requiring clearance. Although netting eliminates the need to clear net-out trades, it does not eliminate the potential liability for pro-rata assessments against original contra-sides. The participants fund, however, currently does not include a margin component for potential pro-rata assessments against original contra-sides. The net-out component, therefore, should address the circumstance where an original contra-side nets-out of transactions and otherwise does not have sufficient deposits to the participants fund to satisfy potential pro-rata assessments.

The new requirement is initially set at 25 basis points of net position and 25 basis points of largest outstanding net-out position. MBSCC has determined that 25 basis points and crediting excess profits from forward transactions is currently appropriate based on an assessment of participants' participants fund deposits.

The proposed rule change also modifies Article I, Rule 1 of MBSCC's rules to add definitions of the terms "Excess Profits from Forward Transactions" and "Net Position."

MBSCC believes that the proposed rule change is consistent with the requirements of the Section 17A(b)(3)(F)

of the Act and the rules and regulations thereunder because the proposal should help MBSCC assure the safeguarding of securities and funds which are in the custody or control of MBSCC or for which it is responsible.

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

MBSCC 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*

No written comments relating to the proposed rule change have been solicited or received. MBSCC will notify the Commission of any written comments received by MBSCC.

**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 MBSCC 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 20549-0609. 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 MBSCC. All submissions should refer to File No. SR-MBSCC-99-06 and should be submitted by November 12, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>4</sup>

**Jonathan G. Katz,**

*Secretary.*

[FR Doc. 99-27602 Filed 10-21-99; 8:45 am]

BILLING CODE 8010-01-M

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-42014; File No. SR-NSCC-99-07]

**Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to Liability With Respect to Affiliated Entities**

October 15, 1999.

On May 13, 1999, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-NSCC-99-07) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published in the **Federal Register** on August 3, 1999.<sup>2</sup> On August 10, 1999, NSCC amended the proposed rule change.<sup>3</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

**I. Description**

The Boards of Directors of NSCC and The Depository Trust Company ("DTC") have initiated a plan to integrate NSCC and DTC. As a step in the integration plan, a holding company has been established which will own NSCC and DTC as operating subsidiaries.<sup>4</sup> NSCC has informed the Commission that a consideration in the NSCC/DTC integration plan is to insulate NSCC and DTC from the risks and obligations of the other.

The rule change adopts NSCC Rule 58, which provides that

<sup>1</sup> 17 CFR 200.30-3(a)(12).

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> Securities Exchange Act Release No. 41662 (July 27, 1999), 64 FR 42160.

<sup>4</sup> The amendment represented technical amendments to the proposed rule change and as such did not require republication of notice.

<sup>5</sup> For a description of the holding company structure, refer to Securities Exchange Act Release No. 41800 (August 27, 1999), 64 FR 48694 [File No. SR-NSCC-99-10].

notwithstanding any affiliation between NSCC and any other entity, including any clearing agency, except as otherwise expressly provided by written agreement: (1) NSCC shall not be liable for any obligations of such other entity; (2) the participants fund or other assets of NSCC shall not be available to such other entity; (3) such other entity shall not be liable for any obligations of NSCC; and (4) any assets of such other entity shall not be available to NSCC. The Commission has approved similar revisions to DTC's rules.<sup>5</sup>

## II. Discussion

Section 17A(b)(3)(F) of the Act<sup>6</sup> requires that the rules of a clearing agency 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 that the proposed rule change is consistent with NSCC's obligations under Section 17A(b)(3)(F) because it should ensure that NSCC's assets, including its clearing fund, are not diminished as a result of its affiliation with DTC.

## III. Conclusion

On the basis of the foregoing, the Commission finds that NSCC's proposal is consistent with the requirements of the Act and in particular with the requirements of 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-NSCC-99-07) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Jonathan G. Katz,**  
Secretary.

[FR Doc. 99-27599 Filed 10-21-99; 8:45 am]

BILLING CODE 8010-01-M

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42011; File No. SR-NYSE-99-03]

### Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1 and 2 by the New York Stock Exchange, Inc. Relating to NYSE Rule 431

October 14, 1999.

#### 1. Introduction

On January 27, 1999, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend NYSE rule 431, "Margin Requirements," to revise the margin requirements for stock options and stock index options. The proposed rule change was published for comment in the **Federal Register** on March 19, 1999.<sup>3</sup> The Commission received 16 comment letters regarding the proposal.<sup>4</sup>

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 41168 (March 12, 1999), 64 FR 13620.

<sup>4</sup> See letter from William J. Brodsky, Chairman and Chief Executive Officer, CBOE, to Jonathan G. Katz, Secretary, Commission, dated April 1, 1999 ("CBOE Letter"); letter from Jack L. Hansen, Senior Portfolio Manager and Principal, The Clifton Group, to Jonathan Katz, Secretary, Commission, dated March 29, 1999 ("Clifton Letter"); letter from Ronald M. Egalka, President and CEO, Rampart Investment Management, to Jonathan G. Katz, Secretary, Commission, dated March 31, 1999 ("Rampart Letter"); letter from Robert C. Sheehan, President, Robert C. Sheehan and Associates, to Jonathan Katz, Secretary, SEC, dated March 26, 1999 ("Sheehan Letter"); letter from Alvin Wilkinson to Jonathan G. Katz, Secretary, Commission, dated March 25, 1999 ("Wilkinson Letter"); letter from Stewart E. Winner, First Vice President, Director, Retail Options, Prudential Securities Inc., to Jonathan Katz, Secretary, SEC, dated March 30, 1999 ("Prudential Letter") letter from Jeffrey T. Kaufmann, Lakeshore Securities L.P., to Jonathan Katz, Secretary, SEC, dated March 26, 1999 ("Lakeshore Letter"); letter from Gary Alan DeWaal, Executive Vice President and General Counsel, FIMAT USA, to Jonathan Katz, Secretary, SEC, dated April 8, 1999 ("FIMAT Letter"); letter from Leslie C. Quick, III, President, U.S. Clearing Corp., to Jonathan G. Katz, Secretary, SEC dated April 7, 1999 ("U.S. Clearing Letter"); letter from William C. Floersch, President and CEO, O'Connor & Company, to Jonathan G. Katz, Secretary, SEC, dated April 5, 1999 ("O'Connor Letter"); letter from Jeffrey S. Alexander, Vice President and Senior Counsel, Office of the General Counsel, Merrill Lynch, to Jonathan Katz, Secretary, SEC, dated April 8, 1999 ("Merrill Lynch Letter"); letter from Lon Gorman, Executive Vice President, Charles Schwab, to Jonathan G. Katz, Secretary, SEC, dated April 13, 1999 ("Schwab Letter"); letter from Robin

The NYSE filed Amendment No. 1 to the proposal on August 11, 1999,<sup>5</sup> and Amendment No. 2 to the proposal on September 3, 1999.<sup>6</sup> This order approves the proposed rule change and grants accelerated approval to Amendment Nos. 1 and 2.

## II. Description of the Proposal

### A. Background

Until several years ago, the margin requirements governing listed options<sup>7</sup> were set forth in Regulation T, "Credit by Brokers and Dealers."<sup>8</sup> However, Federal Reserve Board amendments to Regulation T that became effective on June 1, 1997, modified or deleted certain margin requirements regarding options transactions in favor of rules to be adopted by the options exchanges, subject to approval by the Commission.<sup>9</sup> In April 1996, the Exchange established NYSE Rule 431 Committee

Roger, Principal and Counsel, Morgan Stanley Dean Witter, to Jonathan G. Katz, Secretary SEC, dated April 16, 1999 ("Morgan Stanley Letter"); letter from R. Allan Martin, Empire Programs, Inc., to Jonathan Katz, Secretary, SEC, dated May 12, 1999 ("Empire Letter"); letter from Kevin Wiseman, Chairman of the Rules and Regulations Committee, Credit Division, Securities Industry Association ("SIA"), to Margaret H. McFarland, Deputy Secretary, SEC, dated June 15, 1999 ("SIA Letter"); and letter from George Brunelle to Jonathan Katz, Secretary, SEC, dated July 1, 1999 ("Brunelle Letter").

<sup>5</sup> See letter from James E. Buck, Senior Vice President and Secretary, NYSE, to Richard C. Strasser, Assistant Director, Division of Market Regulation ("Division"), Commission, dated August 10, 1999 ("Amendment No. 1"). Amendment No. 1 revises the proposal to: (1) Provide that the minimum margin requirement for a short put on a listed option will be the current value of the put plus a specified percentage of the put option's exercise price; (2) provide that the minimum margin requirement for a short put on an over-the-counter ("OTC") option will be a specified percentage of the put's exercise price; (3) clarify that the proposal does not provide loan value for long-term foreign currency options ("FCOs"); (4) provide examples demonstrating the operation of the proposed rule in connection with various options strategies, including long box spreads, hedged puts and calls, conversions, reverse conversions, and collars; and (5) makes a technical correction to the text of the proposed rule.

<sup>6</sup> See letter from James E. Buck, Senior Vice President and Secretary, NYSE, to Richard C. Strasser, Assistant Director, Division, Commission, dated September 3, 1999 ("Amendment No. 2"). Amendment No. 2 responds to the Brunelle Letter and revises the proposal to provide that butterfly and box spreads carried in the cash account must be comprised of listed options or must be guaranteed by the carrying broker-dealer.

<sup>7</sup> The Options Clearing Corporation ("OCC") issues listed options.

<sup>8</sup> 12 CFR 220 *et seq.* The Board of Governors of the Federal Reserve System ("Federal Reserve Board") issued Regulation T pursuant to the Act.

<sup>9</sup> See Board of Governors of the Federal Reserve System Docket No. R-0772 (April 24, 1996), 61 FR 20386 (May 6, 1996) (permitting the adoption of margin requirements "deemed appropriate by the exchange that trades the option, subject to the approval of the Securities and Exchange Commission").

<sup>5</sup> Securities Exchange Act Release No. 42013 (October 15, 1999) [File No. SR-DTC-99-11].

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> 17 CFR 200.30-3(a)(12).