

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 CBOE. All submissions should refer to File No. SR-CBOE-96-28 and should be submitted by July 18, 1996.

It is therefore ordered pursuant to Section 19(b)(2) of the Act, that the proposed rule change is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 96-16369 Filed 6-26-96; 8:45 am]

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[Release No. 34-37343; File No. SR-GSCC-96-02]

**Self-Regulatory Organizations;
Government Securities Clearing
Corporation; Order Approving
Proposed Rule Change Modifying the
Minimum Financial Criteria for
Category One Interdealer Broker
Netting Membership**

June 20, 1996.

On February 13, 1996, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-96-02) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the Federal Register on March 14, 1996.² GSCC amended the filing on May 16, 1996.³ No comment letters were received regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

GSCC is modifying its rules to reflect a new minimum financial criteria for category one interdealer broker ("IDB") membership in GSCC's netting system. Such financial criteria will be based on levels of (1) excess net capital if the member is a broker-dealer registered with the Commission pursuant to Section 15 of the Act⁴ or (2) excess liquid capital if the member is a government securities broker registered pursuant to Section 15C of the Act.⁵ Excess net capital is defined in GSCC's rules as the difference between the net capital of a broker or dealer and the minimum net capital such broker or dealer must have to comply with the requirements of Rule 15c3-1(a) under the Act.⁶ Excess liquid capital is defined in GSCC's rules as the difference between the liquid capital of a government securities broker or dealer and the minimum liquid capital that such broker or dealer must have to comply with the requirements of 17 CFR 402.2 (a), (b), and (c).

Currently, GSCC has two categories of netting system membership for IDBs. Category one IDBs act exclusively as brokers and trade only with netting members and with certain "grandfathered" nonmember firms.⁷ Currently, the minimum financial requirement for category one IDBs is \$4.2 million in excess net or liquid capital, as applicable. Category two IDBs have a minimum financial requirement of \$25 million in net worth and \$10 million in excess net or liquid capital, as applicable.⁸

GSCC's proposed rule change will modify the minimum financial requirement for category one IDBs to require \$10 million in excess net or liquid capital, as applicable. Category one IDBs will continue not to have a minimum net worth requirement.

III. Discussion

The Commission finds that the proposed rule change is consistent with

⁴ 15 U.S.C. § 78o (1988).

⁵ 15 U.S.C. § 78o-5 (1988).

⁶ 17 CFR 15c3-1(a) (1975).

⁷ GSCC maintains a list of grandfathered entities which are non-netting system members that historically have done business with GSCC's interdealer broker netting members. Business done by the interdealer broker netting members with grandfathered entities is treated by GSCC as business done with an actual netting member.

⁸ Unlike a category one IDB, a category two IDB is permitted to have up to ten percent of its business with non-netting members other than grandfathered, nonmember firms. This determination is based on the category two IDB's dollar volume of next-day and forward settling activity in eligible securities over the prior twenty business days.

the Act, and specifically with Sections 17A(b)(4)(B)⁹ and 17A(b)(3)(F).¹⁰ Section 17A(b)(4)(B) provides that a registered clearing agency may deny participation to or condition the participation of any person if such person does not meet such standards of financial responsibility as are prescribed by the rules of the clearing agency. Section 17A(b)(3)(F) requires 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. GSCC believes that given the large dollar volume of activity that the IDBs have submitted and continue to submit to GSCC for netting and settlement and their principal nature vis-a-vis GSCC, it is appropriate to require as a condition to participation that all IDBs have and maintain a minimum level of excess net or liquid capital of at least \$10 million. The Commission believes that modifying the minimum financial criteria for category one IDBs should strengthen GSCC's overall risk management process and enhance its membership standards. The Commission believes that the increased capital requirement for category one IDBs should provide for greater financial responsibility, operational capacity, experience, and competence. The Commission also believes that by enhancing its risk management process the increase will facilitate GSCC in fulfilling its statutory obligations under Section 17A of the Act with respect to the safekeeping of securities or funds in its custody or control or for which it is responsible.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with Section 17A of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-96-02) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,
Deputy Secretary.

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⁹ 15 U.S.C. 78q-1(b)(4)(B) (1988).

¹⁰ 15 U.S.C. § 78q-1(b)(3)(F) (1988).

¹¹ 17 CFR 200.30-3(a)(12) (1995).

² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. § 78s(b)(1) (1988).

² Securities Exchange Act Release No. 36945 (March 7, 1996), 61 FR 10614.

³ GSCC amended the filing to request that the proposed rule change become effective upon approval by the Commission and not with the implementation of the second stage of netting services for repurchase and reverse repurchase transactions involving government securities as the underlying instrument ("repos") as originally requested. Letter from Jeffrey F. Ingber, General Counsel and Secretary, GSCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Commission (May 16, 1996).

[Release No. 34-37347; File No. SR-NSCC-96-08]

**Self-Regulatory Organizations:
National Securities Clearing
Corporation; Notice of Filing of
Proposed Rule Change Modifying
Rules and Procedures Relating to the
New York Window System**

June 21, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on April 3, 1996, the National Securities Clearing Corporation ("NSCC") 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 NSCC. 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 purpose of the proposed rule change is to modify NSCC's rules regarding the New York Window ("NYW") service to (i) allow members to use the NYW through their individual systems, (ii) modify the terms and conditions which NYW services are provided with respect to the use of the NYW through NSCC's proprietary system, and (ii) clarify that members may elect to use all or some of the services offered under the NYW service.²

**II. Self-Regulatory Organization's
Statement of the Purpose of, and
Statutory Basis for, the Proposed Rule
Change**

In its filing with the Commission, NSCC 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. NSCC 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**

NSCC's NYW service provides for the processing of receives and deliveries of physical securities and for related services. The NYW service also provides custodial services and custodial related services. When NSCC sought permanent approval of the NYW service, it anticipated that members accessing the NYW through their own systems eventually would migrate to using NSCC's proprietary system. However, because of the number of industry initiatives currently underway and the resulting demand on members' technological resources, a number of participants continue to access the NYW through their own systems. This proposed rule change seeks to clarify NSCC's NYW rules to explicitly allow members to take advantage of the NYW through the use of their individual systems.

Presently, reimbursement for losses related to the use of the NYW service is within the sole discretion of NSCC. In order to encourage members to use NSCC's proprietary system for the NYW service, NSCC will accept responsibility for certain categories of losses where members use NSCC's proprietary system. Under the proposed rule change, NSCC will be responsible for: (1) the replacement cost of certificates lost while in the care, custody, or control of NSCC employees or agents, (2) with respect to a lost security, the cost to carry the lost security from the date of the scheduled delivery or the redemption date until the date when replacement securities are delivered or presented,⁴ and (3) the cost to carry for the number of days the NSCC is unable to complete a delivery-verse-payment instruction if such failure is due to circumstances other than those set forth in clause (1) above. However, with respect to the NSCC's obligations under clauses (2) and (3) above, NSCC will have no obligations unless (a) instructions regarding delivery and the subject securities are delivered to NSCC within time parameters established by NSCC from time to time, (b) the final delivery destination is within the New York City downtown financial district, and (c) other operational criteria, as established by NSCC from time to time, are met. Notwithstanding clauses (1), (2), and (3) above, NSCC will not be liable for (a) special, incidental, or consequential damages or any direct or

indirect damages other than the cost to carry or (b) the cost to carry resulting from any failure or delay arising out of conditions beyond its reasonable control including, but not limited to, work stoppages, fire, civil disobedience, riots, rebellions, storms, electrical failures, acts of God, and similar occurrences. These revised terms will be offered to current users of NSCC's NYW services as well as prospective NYW service users that access the NYW service through NSCC's proprietary system. NSCC is adding a section to Addendum K, Interpretation of the Board of Directors, Application of Clearing Fund to Excess Losses and Losses Outside of a System, which will provide that if NSCC were to have an unsatisfied loss due to a member's use of the NYW service, the loss may be satisfied from the entire clearing fund.

The proposed rule change also clarifies that members may choose to use only some of the NYW services (e.g., custodial and custodial related services). Members may enter into agreement(s) limiting their access to specified NYW services which they desire to access.

NSCC believes that the proposed rule changes will provide greater access to the services provided by NYW. NSCC also believes that the proposed rule change relates to its capacity to safeguard securities and funds in its custody or control and to protect the public interest and is therefore consistent with the requirements of Section 17A⁵ of the Act and the rules and regulations thereunder applicable to NSCC.

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

NSCC does not believe 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. NSCC will notify the Commission of any written comments received by NSCC.

**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

¹ 15 U.S.C. § 78s(b)(1) (1988).

² For a complete description of NYW services, refer to Securities Exchange Act Release No. 34629 (September 1, 1994), 59 FR 46680 [File No. SR-NSCC-94-12] (order granting permanent approval of the NYW service).

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

⁴ The cost to carry a security represents the interest costs associated with a participant's failure to receive timely payment.

⁵ 15 U.S.C. § 78q-1 (1988).

longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization 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 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, 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 NSCC. All submissions should refer to File No. SR-NSCC-96-08 and should be submitted by July 18, 1996.

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. 34-37339; File No. SR-PSE-96-11]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, and 3 to the Proposed Rule Change by the Pacific Stock Exchange, Incorporated, Relating to FLEX Equity Options

June 19, 1996.

I. Introduction

On April 5, 1996, the Pacific Stock Exchange Incorporated ("PSE" or "Exchange") filed a proposed rule change with the Securities and

Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² to make certain revisions to Exchange rules relating to FLEX Equity Options.

Notice of the proposal was published for comment and appeared in the Federal Register on April 26, 1996.³ The Exchange filed Amendment Nos. 1,⁴ 2,⁵ and 3⁶ to the proposal on April 27, 1996, May 20, 1996, and May 28, 1996, respectively. No comment letters were received on the proposed rule change. This order approves the Exchange's proposal, as amended.

II. Description of the Proposal

On February 14, 1996, the Commission approved an Exchange proposal to list and trade FLEX Equity Options.⁷ FLEX Equity Options permit market participants to designate certain contract terms for options of such securities, including: exercise price; exercise style (i.e., American, European or capped); expiration date; and option type (i.e., put, call or spread).

PSE Rule 8.109(a) currently provides for the selection of "FLEX Qualified Market Makers," i.e., market makers whom the Exchange deems to be qualified to trade FLEX Equity Options based on the following factors: (1) the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 37133 (April 19, 1996), 61 FR 18636.

⁴ In Amendment No. 1, the Exchange proposes to: (1) permit FLEX Equity Options trading on any options-eligible security, regardless of whether Non-FLEX Equity Options overlie that security and trade on the Exchange; and (2) provide for a guaranteed minimum right of participation of at least 25% of the trade for Submitting Members indicating an intent to cross and responding to the Request for Quotes with a price better than the BBO. See Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated April 26, 1996 ("Amendment No. 1").

⁵ In Amendment No. 2, the Exchange makes several non-substantive corrections to PSE Rule 8.103(e)(3), as described more fully herein. See Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated May 17, 1996 ("Amendment No. 2").

⁶ In Amendment No. 3, the Exchange proposes to amend PSE Rule 8.101(a) to allow FLEX transactions during normal Exchange options trading hours on any business day; provided however, that the Board of Governors, in its discretion at any time, may determine to narrow or otherwise restrict the time set for FLEX options trading. See Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated May 23, 1996 ("Amendment No. 3").

⁷ See Securities Exchange Act Release No. 36841 (February 14, 1996), 61 FR 6666 (February 21, 1996).

preference of the registrants; (2) the maintenance and enhancement of competition among market makers; and (3) the assurance that the market maker will have adequate financial resources.⁸ In addition, pursuant to Rule 8.115(a), FLEX Qualified Market Makers may not effect any transactions in FLEX Equity Options unless one or more letter(s) of guarantee has been issued by a clearing member and filed with the Exchange pursuant to Rule 6.36(a). In connection with these letters of guarantee, a clearing member must accept financial responsibility for all FLEX transactions made by such market makers.

PSE Rule 8.109(a) currently provides that the Exchange shall appoint five or more FLEX Qualified Market Makers to each FLEX Equity Option prior to its listing.⁹ The Exchange proposes to reduce the minimum number of FLEX Qualified Market Makers required under Rule 8.109(a) from five to three. The Exchange is proposing this change in order to enhance its ability to trade FLEX Equity Options on the Exchange. The Exchange believes that no undue financial risk to the Exchange would result from this change because each transaction of FLEX Qualified Market Makers will be backed by a clearing member, which will accept financial responsibility for all FLEX transactions made by such market makers pursuant to a letter of guarantee.¹⁰ The Exchange also believes that three FLEX Qualified Market Makers will be a sufficient number of traders to provide quotations in response to requests for quotes because the Exchange expects the FLEX Equity Options will be traded in the same trading crowd as Non-FLEX Options on the same underlying securities. In this regard, the Exchange notes that under the current rules, two FLEX Appointed Market Makers may be designated in lieu of five FLEX Qualified Market Makers to trade FLEX Equity Options.¹¹

⁸ By contrast, under Rules 8.100 *et seq.*, "FLEX Appointed Market Makers" are those individuals who have been designated by the Exchange to trade FLEX options on a specific underlying index ("FLEX Index Option") that has been approved by the Commission for FLEX Options trading. See PSE Rules 8.100(a)(1) and 8.109(a).

⁹ With respect to FLEX Index Options, two FLEX Appointed Market Makers must be approved to trade FLEX Options on a given index before the Exchange may list FLEX Options on that index. FLEX Appointed Market Makers must also meet the capital requirements of Rule 8.114 (i.e., they must maintain \$1 million net liquidating equity and/or \$1 million net capital (as defined by SEC Rule 15c3-1 under the Act)), and they must also meet the account equity requirements of Rule 8.113(a) (i.e., the net liquidating equity maintained in their individual or joint accounts must be at least \$100,000).

¹⁰ See PSE Rule 8.115(a).

¹¹ See PSE Rule 8.109(a).

⁶ 17 CFR 200.30-3(a)(12) (1995).