

comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

#### I. Description of the Proposal

The rule change establishes Rule 2, Section 6, of DTC's rules to govern the release of certain participant information which DTC obtained during its ordinary course of business. The new rule authorizes DTC to release information relating to a participant's participants fund deposit, collateral, net credit balance, and net debit balance (referred to herein as "clearing information") to authorized parties. Such authorized parties include other clearing agencies registered with the Commission at which the participant is a member; any clearing organization that is affiliated with or has been designated by a futures contract market under the oversight of the Commodities Futures Trading Commission of which the participant is a member; and upon the request of the participant, to such other entities as the participant may designate.

The rule change will permit DTC to release clearing information to the National Securities Clearing Corporation ("NSCC") for use in its Collateral Management Service ("CMS").<sup>3</sup> CMS provides collateral information regarding a participant to the participant and to other clearing agencies at which the participant is a member.

#### II. Discussion

Section 17A(b)(3)(F) of the Act requires that 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.<sup>4</sup> The Commission believes the proposed rule change is consistent with DTC's obligation under Section 17A(b)(3)(F) because the proposal sets forth DTC's responsibilities and obligations with regard to releasing participants' clearing data and facilitates DTC's participation in NSCC's CMS by enabling DTC to provide participant information to NSCC for use in its CMS. DTC's and its participants' participation in NSCC's CMS should help DTC and other clearing agencies to better monitor their members' clearing fund, margin, and other similar by required deposits that protect the clearing agencies against loss should a member default on its obligations. Furthermore, NSCC's CMS

will be especially beneficial to those participating clearing entities that have executed cross-guaranty agreements or other similar cross-guarantee arrangements.<sup>5</sup>

#### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of 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-DTC-96-11) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

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[Release No. 34-37602; File No. SR-OCC-95-17]

#### **Self-Regulatory Organizations; the Options Clearing Corporation; Order Approving a Proposed Rule Change Modifying the Escrow Deposit Program**

August 26, 1996.

On November 2, 1995, the Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-95-17) 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 June 7, 1996.<sup>2</sup> OCC amended the proposed rule change on March 22, 1996, and on July 22, 1996.<sup>3</sup> No

<sup>5</sup> Currently, DTC and NSCC operate pursuant to a netting and limited cross-guaranty agreement. The agreement provides that in the event of a default of a common member, any resources remaining after the failed common member's obligations to the guaranteeing clearing agency have been satisfied will be made available to the other clearing agency. The guaranty is not absolute but rather is limited to the extent of the resources relative to the failed member remaining at the guaranteeing clearing agency. The principal resources will be the failed member's settlement net credit balances and deposits to the clearing agencies' clearing funds. For a complete description of DTC's and NSCC's agreement, refer to Securities Exchange Act Release No. 33548 (January 31, 1994), 59 FR 5638 [File Nos. SR-DTC-93-08 and SR-NSCC-93-07].

<sup>6</sup> 17 CFR 200.30-3(a)(12) (1996).

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> Securities Exchange Act Release No. 37258 (May 30, 1996), 61 FR 29160.

<sup>3</sup> Letters from Jean M. Cawley, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation ("Division"), Commission (March 20, 1996, and July 22, 1996). Because the amendments are technical rather than substantive in nature, the

comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

#### I. Description of the Proposal

OCC is modifying its escrow deposit program to (i) permit escrow deposits for stock put options and stock index put options; (ii) delete provisions regarding OCC's batch system for processing escrow receipts; (iii) change provisions regarding the timing of the release of escrow deposits; and (iv) delete provisions for bulk deposits for call options and deposits of Treasury bills for put options. In addition, OCC is modifying other OCC rules and the On-line Escrow Deposit Agreement to conform to this rule change.

Pursuant to OCC rules, clearing members may deposit, which deposit may be in the form of an escrow deposit, with an OCC approved custodian shares of stock underlying certain options in lieu of margin. Escrow deposits are specific deposits of assets held by OCC at an approved custodian for the account of a specific customer.

Presently, OCC's rules restrict escrow deposits to short positions in stock call option contracts and stock index call option contracts. For stock call options, the underlying security may be deposited in escrow, and for stock index call options, any combination of cash, short-term government securities, or marginable equity securities may be deposited in escrow.

Permitting escrow deposits with respect to short positions in stock put option contracts and short positions in stock index put option contracts had been deferred until sufficient interest existed and an acceptable system was developed to process escrow deposits for put options. After receiving requests to expand its escrow program to include such deposits for stock and stock index puts, OCC determined to make several enhancements and modifications to its escrow program.

First, OCC is expanding its escrow program to permit escrow deposits for short positions in stock put option contracts and in stock index put option contracts and to process those deposits through its on-line Escrow Receipt Depository ("ERD") system.<sup>4</sup> To accomplish the proposed expansion of

Commission believes it is not necessary to re-notice the proposed rule change.

<sup>4</sup> For a complete description of the batch ERD system and the transition to the on-line ERD system, refer to Securities Exchange Act Release No. 31595 (December 11, 1992), 57 FR 61139 [SR-OCC-92-30] (order approving on an accelerated basis a proposed rule change relating to the conversion of OCC's current batch ERD system to an on-line system).

<sup>3</sup> For a complete description of the CMS, refer to Securities Exchange Act Release No. 36091 (August 5, 1995), 60 FR 30912 [File No. SR-NSCC-95-06] (order approving the CMS).

<sup>4</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).

its escrow program, certain changes to OCC Rules 610 and 1801 are necessary. In general, the changes will accommodate the deposit of any combination of cash and short-term government securities<sup>5</sup> for short positions in put contracts, will provide for the valuation and substitution of deposited assets, and in the event of the value of the property declines below a specified amount, will permit OCC to disregard the escrow deposit and require the clearing member to deposit margin upon notice.

Second, OCC is eliminating its batch ERD system for processing escrow receipts. OCC contemplated the eventual replacement of the batch ERD system with its on-line ERD system. OCC believes that all its clearing members and custodian banks now have completed their transition to the on-line system because the batch ERD system is no longer used. Therefore OCC is eliminating references to escrow receipts in Rule 610 and 1801 and to the batch processing system described in Rule 613(a).

Third, OCC is amending Rule 613 to modify the time at which it releases escrow deposits. OCC currently releases an escrow deposit on the second business day following the expiration of the short position covered by the deposit, and thereafter if assigned, collects margin for the position formerly covered by the deposit until the next business day after the exercise settlement date. With this proposed rule change OCC will hold an escrow deposit covering a short position to which an exercise has been allocated until the business day after the exercise settlement date and will no longer collect margin.

Fourth, OCC is amending Rule 610 to eliminate bulk deposits of underlying securities for call options and the deposit of Treasury bills for put options because these capabilities have been rarely, if ever, used by clearing members. Furthermore, the provisions for depositing Treasury bills for put options is being superseded by the new provisions for providing escrow deposits for put option contracts.

Finally, OCC is modifying rules that relate to the suspension and liquidation of a clearing member to conform to OCC's escrow deposit program described above. Specifically, OCC is amending Rule 1106(b)(2) to make explicit that OCC would make timely settlement on an exercise assigned to a

covered short position of a suspended clearing member even if the depository had not turned over the deposited property to OCC at the time of settlement. OCC would be entitled to reimburse itself for the cost of effecting such settlement from the deposited property when such property is remitted to OCC. Similarly, Rule 1107(b)(2) is being amended to reflect the same principles to assignments pending at the time of a clearing member's suspension. Also, OCC amended its Restated On-Line Escrow Deposit Agreement which is to be executed between OCC and each approved escrow deposit bank. The amended agreement parallels the principal purposes of the filing, which are to provide for the expansion of the program to include escrow deposits for short positions in stock and stock index put options, the elimination of hard copy receipts, and the modification of the time at which escrow deposits are released.

## II. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder and particularly with the requirements of Section 17A(b)(3)(F).<sup>6</sup> Section 17A(b)(3)(F) requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible. The Commission believes that OCC's proposed rule change meets these requirements by establishing a framework in which existing OCC systems, rules, and procedures are extended to allow escrow deposits for short positions in stock put option contracts and stock index put option contracts. The elimination of the batch ERD system and the designation of the on-line ERD system as the means of processing escrow deposits should make processing such deposits more efficient and should promote the safeguarding of the deposits in the possession of OCC or for which it is responsible. By expanding the escrow receipt framework to include short positions in stock put and stock index put option contracts and by eliminating unnecessary steps in the escrow receipt process (e.g., release of deposits followed by margin collection and bulk deposits for put options), OCC is creating more efficient procedures in order to streamline the processing of escrow receipts. As a result, the prompt

and accurate clearance and settlement of securities transactions should be promoted.

## III. Conclusion

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-95-17) be, and hereby is, approved.

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

Margaret H. McFarland,  
*Deputy Secretary.*

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[Release No. 34-37603; File No. SR-OCC-95-20]

## Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Relating to the Issuance, Clearance, and Settlement of Buy-Write Options Unitary Derivatives

August 26, 1996.

On December 27, 1995, the Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-95-20) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> On February 5, 1996, OCC filed Amendment No. 1 to the proposed rule change.<sup>2</sup> Notice of the proposed rule change, as amended, was published in the Federal Register on March 20, 1996.<sup>3</sup> No comment letters were received. On March 20, 1996, OCC filed Amendment No. 2.<sup>4</sup> Notice of the amendment was published in the Federal Register on May 15, 1996.<sup>5</sup> No comment letters were received. For the reasons discussed below, the

<sup>7</sup> 17 CFR 200.30-3(a)(12) (1995).

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> Letter from James C. Yong, First Vice President and General Counsel, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation ("Division"), Commission (February 5, 1996).

<sup>3</sup> Securities Exchange Act Release No. 36960 (March 13, 1996), 61 FR 11458.

<sup>4</sup> Letter from James C. Yong, First Vice President and General Counsel, OCC, to Jerry W. Carpenter, Esq., Assistant Director, Division, Commission (March 19, 1996).

<sup>5</sup> Securities Exchange Act Release No. 37203 (May 10, 1996), 61 FR 24955.

<sup>5</sup> As defined in Rule 610, proposed Interpretation .02, short-term government securities is defined as securities with a fixed principal amount issued or guaranteed by the United States and having one year or less to maturity.

<sup>6</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).