

operated to preclude the exercise of currency options on Thursday. OCC clearing members have requested that OCC lift the restriction with respect to currency options since their non-U.S. customers have expressed a desire to submit exercises on Thursday due to time zone differences with the United States. OCC believes that the protections afforded by the Rule 801(c) exercise restriction are no longer necessary for currency options because of the single cycle expiration processing procedures that are in effect and because currency options expire on Friday instead of Saturday.

OCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>5</sup> because it promotes the prompt and accurate clearance and settlement of securities transactions.

*(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**

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 OCC 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 submission should file six copies thereof with the

Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 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 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 filings will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR-OCC-96-08 and should be submitted by October 3, 1996.

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. 34-37645; File No. SR-OCC-96-09]**

**Self-Regulatory Organizations; the Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the Valuation of Government Securities**

September 5, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> notice is hereby given that on July 18, 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. On August 22, 1996, OCC filed an amendment to the proposal.<sup>2</sup> 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 proposed rule change will modify OCC's valuation of government

securities used by clearing members as margin clearing fund deposits.

**II. Self-Regulatory Organization's Statement of the Purpose of, 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.<sup>3</sup>

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

The purpose of this proposed rule change is to modify the valuation methodology on deposits of government securities for margin and clearing fund purposes. The valuation rules for government securities for margin and clearing fund purposes have remained largely unchanged since the mid-1970's when OCC only valued such collateral at the time of deposit. Government securities are currently valued at either: (1) The lesser of par value or 100% of the current market value for maturities less than one year or (2) the lesser of par value or 95% of the current market value for maturities between one and ten years.<sup>4</sup>

The par value limitation was initially included in the valuation methodology because the security could be carried to its maturity, when it would reach par value, without any subsequent valuations after its initial deposit with OCC. The restriction of maturities to less than ten years was initially implemented as a risk control device because it precluded the deposit of longer, more volatile securities which were not subject to revaluation after their initial deposit with OCC.

Since the early 1980's, OCC has revalued government securities on a monthly basis. However, OCC is now prepared to revalue government securities on a daily basis and to

<sup>3</sup> The Commission has modified parts of these statements.

<sup>4</sup> Government securities are currently defined as securities issued or guaranteed by the United States or Canadian government or by any other foreign government acceptable to OCC and that matures within ten years. The term "short-term government securities" means securities maturing within one year. The term "long-term government securities" means all other government securities. The proposed rule change will amend the definition to delete the ten year restriction.

SR-OCC-93-15] (order granting permanent approval on an accelerated basis of a proposed rule change that changed the expiration day for American-style foreign currency options and cross-rate foreign currency options from Saturday to Friday).

<sup>5</sup> 15 U.S.C. 78q-1 (1988).

<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> Letter from Michael G. Vitek, Counsel, OCC, to Jerry W. Carpenter, Assistant Director, Division, Commission (August 19, 1996).

include such valuation in its overall daily assessment of clearing member margin and clearing fund deposits. OCC believes that the par value valuation methodology and the restriction on greater than ten year maturities are overly conservative and are no longer necessary to protect OCC from the risk of collateral value changes. Instead, the proposed rule change will impose new haircut levels on the values of government securities.

Specifically, the rule change proposes that Section 3 of Article VIII of OCC's By-Laws and Rule 604 of OCC's Rules be amended to establish a new schedule of haircuts. Government securities deposited as either clearing fund or margin will be valued at: (1) 99.5% of the current market value for maturities less than one year; (2) 98% of the current market value for maturities between one and five years; (3) 96.5% of the current market value for maturities between five and ten years; and (4) 95% of the current market value for maturities in excess of ten years.

OCC reviewed the haircut policies of other derivative clearing houses and analyzed recent historical volatilities of government securities before assessing the proposed haircut levels. Specifically, OCC collected daily data since 1990 on government securities of various maturities across the yield curve and analyzed this historical volatility in the same manner in which OCC analyzes volatility for the setting of margin intervals within OCC's Theoretical Intermarket Margin System. The proposed haircut levels provided adequate coverage for more than 99% of all days since 1990. In addition, OCC reviewed the extreme volatility in the U.S. government security market that occurred on March 8, 1996, and found that the proposed haircut levels would not have been breached. Finally, OCC compared its proposed haircut levels with those of other derivative clearing organizations and found that the proposed haircut levels are consistent with the haircut policies of those clearing houses and that they provide prudent protection from market volatility.

The proposed rule change is consistent with the purposes and requirements of Section 17A of the Act, as amended.<sup>5</sup> Specifically, OCC believes the proposed rule change promotes the protection of investors by enhancing OCC's ability to safeguard the securities and funds in its possession or subject to its control.

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

OCC does not believe that the proposed rule will have an impact 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*

Comments were not and are not intended to be solicited by OCC with respect to the proposed rule change, and none were received.

#### *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 reason 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 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 provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR-OCC-96-09 and should be submitted by October 3, 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. 34-37648; International Series Release No. 1016; File No. SR-PSE-96-23]

#### **Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change by the Pacific Stock Exchange Incorporated Relating to the Listing and Trading of Equity-Linked Notes**

September 5, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on June 24, 1996, the Pacific Stock Exchange Incorporated ("PSE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization ("SRO"). On July 25, 1996, the Exchange submitted Amendment No. 1 to the Commission.<sup>2</sup> On September 4, 1996, the Exchange submitted Amendment No. 2 to the Commission.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval to the proposed rule change, as amended.

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

The Exchange proposes to amend its listing rules to provide for the listing

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

<sup>2</sup> Amendment No. 1 clarified that the requisite trading volume levels concerning the linked security must occur in the United States. In addition, Amendment No. 1 removed the unnumbered paragraph in proposed PSE Rule 3.1(j)(3)(D)(i) that referenced proposed PSE Rule 3.1(j)(3)(C)(iii)(b)(2) because the language in that paragraph did not take into consideration the provisions contained in proposed PSE Rule 3.1(j)(3)(C)(iii)(b)(3). See letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to Anthony P. Pecora, Attorney, Office of Market Supervision, Division of Market Regulation, SEC, dated July 24, 1996.

<sup>3</sup> Amendment No. 2 conforms the definition of ELNs contained in PSE Rule 3.1(b)(16) with the other rules in this proposal concerning ELNs in that the use of American Depositary Receipts ("ADRs") is limited to sponsored ADRs. See letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to Anthony P. Pecora, Attorney, Office of Market Supervision, Division of Market Regulation, SEC, dated September 3, 1996.

<sup>5</sup> 15 U.S.C. 78q-1 (1988).