

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 the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the GSCC. All submissions should refer to File No. SR-GSCC-97-02 and should be submitted by April 30, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38463; File No. SR-NASD-97-14]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc., Relating to the Amendment of its Margin Rules

April 1, 1997.

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 February 26, 1997, NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation. 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

NASD Regulation proposes to amend the margin rules, Rule 2520 of the Conduct Rules, of the National

Association of Securities Dealers, Inc. ("NASD" or "Association"). Specifically, NASD Regulation is proposing to amend Rule 2520 ("old Rule 2520") to: (1) Renumber paragraphs (a) and (b) as Rules 2521 and 2522, respectively; and renumber paragraph (c) as Rule 2520 (referred to herein as "Rule 2520") to facilitate the use and comparison of the Rule in relation to the New York Stock Exchange's ("NYSE") margin rule; (2) conform Rule 2520 to recent amendments to Federal Reserve Board Regulation T; and (3) add margin requirements for various over-the-counter ("OTC") options and interest rate composite securities. The text of the proposed rule change is attached to NASD Regulation's rule filing as Exhibit 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, NASD Regulation 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. NASD Regulation 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

As a result of the Federal Reserve Board of Governor's recent amendments to Regulation T, which governs the extension of credit by broker/dealers, and the NYSE's recent proposed amendments to its margin rule, NYSE Rule 431,³ NASD Regulation is proposing to renumber old Rule 2520 to permit its members and others to more easily use and compare the provisions of the rule to NYSE Rule 431. In addition, NASD Regulation is proposing amendments to Rule 2520, the NASD's margin rule, to conform the NASD's margin requirements to Regulation T and NYSE Rule 431.

Numbering. At one time, former Article III, Section 30 of the NASD Rules of Fair Practice had substantially the same margin requirements as NYSE

Rule 431.⁴ Several years ago Section 30 was amended to adopt the same numbering scheme as NYSE Rule 431 in order to facilitate the use and comparison of the two rules. For example, old Section 30.3(f)(2) relates to margin requirements for puts, calls and other options. The same provisions appear in NYSE Rule 431(f)(2). Thus, any member could find the provisions in both the NASD and NYSE's rules under the same subsection number "(f)(2)." When the NASD Manual was reorganized in 1996, new rule numbering conventions were adopted that resulted in the renumbering of Article III, Section 30 as old Rule 2520. Under the 1996 numbering scheme, old Section 30.3(f)(2), for example, became old Rule 2520(c)(6)(B). As a result of these numbering changes, comparison between old Rule 2520 and NYSE Rule 431 became much more problematic.

NASD Regulation is proposing to renumber old Rule 2520 by: (1) Renumbering paragraphs (a) and (b) as Rules 2521 and 2522, respectively; and (2) renumbering paragraph (c) as Rule 2520. This renumbering will cause most of the paragraphs and subparagraphs of Rule 2520 to have the same numbering as those of NYSE Rule 431, thereby facilitating comparison and use of the two rules. The renumbered Rule 2520 is set forth in Exhibit 2 to the rule filing; however, the former numbering of each subsection is not shown.

Amendments to Conform Rule 2520 to Regulation T. NASD Regulation is proposing two technical changes to Rule 2520 (as renumbered) to correct references to recently-repealed or renumbered provisions of Regulation T:

1. **Definition of OTC margin bond.** Rule 2520 (e)(2)(C), referring to the definition of OTC margin bond as stated in Regulation T, Section 220.2(t),⁵ is proposed to be amended to eliminate the "(t)." Section 220.2 has been amended to eliminate subsection numbering.

2. **Cash equivalent.** Rule 2520(f)(2)(H)(iv), referring to cash equivalents as "those instruments referred to in Section 220.8(a)(3)(ii) of Regulation T," is proposed to be amended to change the reference to Section 220.2 of Regulation T. When Regulation T was amended, Section

⁴ There were a few minor differences in the two Rules related to the fact that the NASD regulates the over-the-counter market and that certain requirements in the respective rules relate only to exchange specialists or dealers.

⁵ The definition of OTC margin bond in Regulation T, Section 220.2 refers to several types of debt securities with specifically defined characteristics, all of which are sold or traded over-the-counter, not on an exchange.

¹ 17 CFR 200.30-3(a)(12).

² 15 U.S.C. 78s(b)(1).

³ 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 38411 (March 17, 1997) 62 FR 14174.

220.8(a)(3)(ii) was amended to eliminate conditions relating to cash equivalents and Section 220.2 was amended by adding a definition of cash equivalents.

Amendments to Conform Rule 2520 to Recent Amendments to NYSE Rule 431. Option Products and Interest Rate Composites. The NYSE recently proposed amending its Rule 431 to establish new margin requirements for various OTC option products and interest rate campsite securities.⁶ Rule 2520, paragraphs (f)(2)(D) and (F), which currently requires customer margin for short OTC stock and index options of 100% of the option premium plus 45% of the current market value of the underlying security, are proposed to be amended by adding specific margin requirements for OTC options equal to a specific percentage of the current value of the underlying component to conform these paragraphs with the corresponding paragraphs of NYSE Rule 431. In addition, a new definition of the term "underlying component" is being added as paragraph 2522(a)(66) to replace more complex references to "underlying security or the product of the current index group value of the underlying index stock group."

The principal amendments to Rule 2520, paragraphs (f)(2)(D) and (F) include new initial and maintenance margin requirements (including provisions for reduced margin requirements under certain circumstances) for:

- OTC options on stock and convertible corporate debt (30%), industry index stock groups (30%) and broad index stock groups (20%).
- OTC options on 30-year U.S. Treasury bonds and non-mortgage backed U.S. Government agency debt securities that qualify for exemption pursuant to SEC Rule 3a12-7 (3%).⁷
- OTC options on all other U.S. Government securities including agency debt (5%),⁸ and marginable corporate debt securities (15%). OTC options on all other securities including CMO's remain subject to the current 45% general OTC option margin requirement.
- Interest rate contracts (10%) to be consistent with other exchanges.⁹

⁶ See *supra* note 3.

⁷ The text of the rule filing indicates that the initial and/or maintenance margin for U.S. Government or U.S. Government Agency debt securities other than those exempted by Rule 3a12-7 under the Act is 5%.

⁸ *Id.*

⁹ There is currently no margin requirement for interest rate contracts in the Rule. The NYSE added

In addition, the proposed amendments recognize certain spread and straddle positions for margin purposes between listed and OTC options when a customer's long and short positions are controlled by the same broker-dealer.

Specialist and Market Maker Options Margin. The amendments to Regulation T that are scheduled to take effect on July 1, 1997, eliminate margin requirements for options transactions for customers and market makers/specialists and shift responsibility for setting such margin requirements to the self-regulatory organizations. The NYSE has proposed adding new provisions establishing such margin requirements to Rule 431,¹⁰ and NASD Regulation is proposing to make substantially identical changes to subparagraph (f)(2)(J) of Rule 2520.

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 15A(b)(6)¹¹ that an association have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to protect and perfect the mechanism of free and open market and a national market system, and in general, to protect investors and the public interest.

NASD Regulation believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act in that conforming the margin rules of the self-regulatory organizations will prevent inconsistent requirements from being imposed upon broker/dealers who are members of more than one self-regulatory organization.

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

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

the requirement to Rule 431 in order to be consistent with other exchanges.

¹⁰ See *supra* note 3.

¹¹ 15 U.S.C. 78o-3.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments were neither solicited nor received.

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 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. Copies of such filing will also be available for inspection and copying at the principal office of the NASD Regulation. All submissions should refer to the file number SR-NASD-97-14 and should be submitted by April 30, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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¹² 17 CFR 200.30-3(a)(12).