

index, which will limit components to a maximum of 8.5% of the Composite Index weight, will contribute to the maintenance of fair and orderly markets consistent with investor protection by ensuring that no one stock or group of stocks dominate the Composite Index.

The Exchange states that approving the proposed change will allow the continued listing and trading of options on the Composite Index without interruption. As noted above, the change will alter the weighting methodology for the Composite Index from a capitalization-weighted index to a modified capitalization-weighted index, limiting components to a maximum weight of 8.5% of the Composite Index.⁹ Currently, two components each comprise more than 8.5% of the Composite Index.¹⁰ The revision to a modified capitalization-weighted index will reduce the impact that those two components have on the index, thereby reducing the opportunity for the Composite Index to be dominated by a few component stocks.

The Commission believes that the proposed weighting method does not present any new or novel regulatory issues as the Exchange's proposal adopts a weighting method which was previously approved by the Commission for sub-indices to the Composite Index.¹¹ The Composite Index will be calculated through a modified capitalization-weighted method, which is a hybrid between equal weighting (which may impose liquidity concerns for smaller-cap stocks) and capitalization weighting (which may result in two or three stocks dominating an index's performance). Under the method, the maximum weight for each component in the Composite Index will be capped at 8.5%, as of the semiannual rebalancing date. The weight of each component below 8.5% will be market capitalization weighted, and therefore will not be capped. At the time of semi-annual rebalancing, component stocks with weights in excess of their capped weight in the Composite Index will be

restored to the appropriate capped weight. In approving this change, the Commission believes that the new methodology should be beneficial by preventing one or a few stocks from dominating the index and having an undue effect on the index value.

The Exchange proposes to implement the change in calculating the Composite Index after the July expiration, at the close on July 18, 1997. This coincides with the semi-annual rebalancing of the Composite Index. The Commission notes that as of July 14, there were only seven contracts of open interest which expired after the July expiration. While the change to a modified capitalization-weighted index will be applied to these open contracts, the Commission believes that the potential impact on those seven contracts is de minimis and that, in any case, any impact will be outweighed by the anticipated benefits from the alteration of the weighting mechanism.

The Exchange has notified market participants of its proposal to alter the weighting methodology through a notice to members and member firms.¹² The Exchange has also stated it will inform its members and member firms upon approval of the proposal by the Commission.¹³ The Commission believes that this will ensure investors have been adequately notified about the impending change prior to its implementation, and should provide them with sufficient time to make any desired adjustments to their positions.

The Commission finds good cause to approve the proposal prior to the thirtieth day after the date of publication of notice of filing in the **Federal Register**. By accelerating the effectiveness of the Exchange's rule proposal, the Commission will enable the new weighting methodology to become effective concurrent with the effective date for the semi-annual rebalancing, subsequent to the July expiration. In addition, the Commission believes that the proposed weighting method does not present any new or novel regulatory issues as the Exchange's proposal adopts a weighting method which will assist in ensuring that one or a few components will not dominate the Composite Index. Further, as noted above, the modified-capitalization weighted method being adopted for the Composite Index is the same method approved by the Commission for the sub-indices to the

Composite Index.¹⁴ Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve the proposed rule change on an accelerated basis.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-CBOE-97-30), as amended, is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 38847; File No. SR-GSCC-97-01]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Regarding Off-The-Market Transactions

July 17, 1997.

On March 11, 1997, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-97-01) 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 May 16, 1997.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The modifications to GSCC's rules revise the loss allocation provisions and margining process relating to the netting and guaranteed settlement of transactions that have a price that differs significantly from the prevailing market price for the underlying security ("off-the-market transactions"). More specifically, GSCC is defining an off-the-market transaction as any of the following: (1) An options exercise; (2) a single transaction that is (i) greater than \$1 million in par value and (ii) either one percentage point higher than the

⁹ Under a modified capitalization-weighted index, the number of index shares of a component stock which is not capped will equal the company's outstanding common shares. The number of index shares for a stock which is capped will equal its maximum weight, multiplied by the adjusted total market capitalization of the Composite Index, and divided by the component stock's closing price on the rebalancing date. The Composite Index's adjusted total market capitalization is the total outstanding market capitalization, adjusted to reflect the number of capped stocks.

¹⁰ As of July 2, 1997, Intel comprised 10.06% of the Composite Index, and Microsoft comprised 13.05% of the Composite Index. Phone conversation between Eileen Smith, Exchange and Janice Mitnick, Commission, on July 11, 1997.

¹¹ See *supra* n. 7.

¹² See Amendment No. 1. *supra* n.3.

¹³ Phone conversation between Eileen Smith, Exchange and Janice Mitnick, Commission, on July 16, 1997.

¹⁴ See *supra* n.7.

¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 38601 (May 9, 1997), 62 FR 27089.

highest price or one percentage point lower than the lowest price for the underlying security on the day of the submission of data on the transaction to GSCC (with such prices being obtained by GSCC from a third-party source selected by GSCC for such purpose); or (3) a pattern of transactions submitted by two members that if looked at as a single transaction would constitute an off-the-market transaction.

If a member submits data on a trade day before settlement, GSCC will not be able to collect margin before it has guaranteed the trade. Thus, if one side defaults, GSCC could be exposed to a significant loss if the transaction has a price significantly different from the market price. Pursuant to this rule change, GSCC will continue to allow off-the-market transactions to the insolvent's counterparty.

This rule change also amends GSCC's rules on payments of credits resulting from an increase in the value of a member's positions. Every day, GSCC collects from its members any debit and pays to its members any credit from the difference between the contract price of such member's positions at GSCC and GSCC's system price (*i.e.*, a mark-to-market payment). If the failed member's counterparty also defaults on its settlement obligations to GSCC after that member has received the benefit of the mark-to-market relating to an off-the-market transaction, GSCC is exposed to significant loss. Pursuant to the rule change, if the debit side has not paid the mark-to-market amount associated with an off-the-market transaction to GSCC on the morning of the business day following the submission of the trade (*i.e.*, the debit side fails before it has satisfied its funds settlement obligation), GSCC will not pay the credit to the other side.

II. Discussion

Section 17A(b)(3)(F)³ of the Act 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. GSCC's risk management system is designed to margin and to allocate loss for transactions based on the current market price. GSCC's margining system through the mark-to-market process reprices transactions every day to the current market price and thus assures that GSCC's loss is limited to a one day price movement. GSCC maintains a clearing fund designed to cover the remaining loss. Because off-the-market transactions have a price significantly different from

the current market price, GSCC's margining system is not designed to cover losses resulting from these trades.

The proposal adopts loss allocation and margin rules that take into account off-the-market transactions. Such rules should limit the loss that GSCC could incur upon a member default. Without the proposal, GSCC could be exposed to a loss that could effect its ability to meet its settlement obligations to its participants. By limiting GSCC's exposure to these trades, the proposal is consistent with GSCC's obligation to safeguard securities and funds.

III. 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 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-GSCC-97-01) be and hereby is approved.

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

Jonathan G. Katz,
Secretary.

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SMALL BUSINESS ADMINISTRATION

[Declaration of Economic Injury Disaster #9533]

Commonwealth of Pennsylvania

Allegheny County and the contiguous Counties of Armstrong, Beaver, Butler, Washington, and Westmoreland in the Commonwealth of Pennsylvania constitute an economic injury disaster loan area as a result of flash flooding that occurred on July 1, 1997. Eligible small businesses and small agricultural cooperatives without credit available elsewhere may file applications for economic injury assistance for this disaster until the close of business on April 16, 1998 at the address listed below or other locally announced locations:

U.S. Small Business Administration,
Disaster Area 1 Office, 360 Rainbow Blvd. South, 3rd Fl., Niagara Falls, NY 14303

The interest rate for eligible small businesses and small agricultural cooperatives is 4 percent.

(Catalog of Federal Domestic Assistance Program No. 59002)

DateD: July 16, 1997.

Aida Alvarez,
Administrator.

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SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #2962]

State of Texas

As a result of the President's major disaster declaration on July 7, 1997, and an amendment thereto on July 14, I find that Bandera, Bexar, Burnet, Guadalupe, Kendall, Kerr, Llano, Mason, Medina, Real, Travis, and Uvalde Counties in the State of Texas constitute a disaster area due to damages caused by severe thunderstorms and flooding beginning on June 21, 1997 and continuing. Applications for loans for physical damages may be filed until the close of business on September 5, 1997, and for loans for economic injury until the close of business on April 7, 1998 at the address listed below or other locally announced locations: U.S. Small Business Administration, Disaster Area 3 Office, 4400 Amon Carter Blvd., Suite 102, Fort Worth, Texas 76155.

In addition, applications for economic injury loans from small businesses located in the following contiguous counties in the State of Texas may be filed until the specified date at the above location: Atascosa, Bastrop, Bell, Blanco, Caldwell, Comal, Edwards, Frio, Gillespie, Gonzales, Hays, Kimble, Kinney, Lampasas, Maverick, McCulloch, Menard, San Saba, Williamson, Wilson, and Zavala.

	Percent
For Physical Damage:	
Homeowners with credit available elsewhere	8.000
Homeowners without credit available elsewhere	4.000
Businesses with credit available elsewhere	8.000
Businesses and non-profit organizations without credit available elsewhere	4.000
Others (including non-profit organizations) with credit available elsewhere	7.250
For Economic Injury:	
Businesses and small agricultural cooperatives without credit available elsewhere	4.000

The number assigned to this disaster for physical damage is 296211 and for economic injury the number is 952700.

³ 15 U.S.C. 78q-1(b)(3)(F).

⁴ 17 CFR 200.30-3(a)(12).