

firm or by another correspondent of the member firm. Member firms should instruct their correspondents not to give access to the Exchange's systems to other customers without the prior knowledge and consent of the member firm through whose facilities such access would be provided.

The Exchange has carried out an increasing number of investigations of violative activity involving correspondent use of the Exchange's electronic order-handling systems. In addition, the Exchange has issued disciplinary decisions against member firms due to correspondents' improper use of Exchange electronic order-handling systems. The Exchange believes that the record-keeping suggested by the proposed regulatory circular will serve as an educational tool to help eliminate violations of the rules governing the use of such systems.

2. Statutory Basis

The Exchange represents that proposed rule change is consistent with the objectives of Section 6(b)(5)⁹ in that it will serve to promote just and equitable principles of trade and protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change constitutes a stated policy, practice or interpretation with respect to the meaning, administration, or enforcement of the Exchange's rules and, therefore, has become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹⁰ and subparagraph (e) of Rule 19b-4 thereunder.¹¹

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public

interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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 at the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the Chicago Board Options Exchange. All submissions should refer to File No. SR-CBOE-97-32 and should be submitted by September 24, 1997.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-23341 Filed 9-2-97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38971; File No. SR-DCC-97-04]

Self-Regulatory Organizations; Delta Clearing Corp.; Notice of Filing of a Proposed Rule Change Relating to the Combining of Options and Repo Procedures

August 26, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on March 17, 1997, Delta Clearing Corp. ("Delta") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DCC-97-04) as described in Items I, II, and III below, which items have been prepared primarily by Delta. Delta amended the proposed rule change on May 7, 1997, and May 29, 1997. 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

Delta proposes to combine its procedures ("Options Procedures") for the clearance and settlement of options trades and its procedures ("Repo Procedures") for the clearance and settlement of repurchase and reverse ("repo") agreement transactions into one set of procedures ("Combined Procedures") to be known as the Procedures for the Clearing of Securities and Financial Instrument Transactions.

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

In its filing with the Commission, Delta 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. Delta has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statement.²

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

1. Combined Procedures

The proposed rule change will effect various modifications to Delta's procedures relating to the clearance and settlement of options and repos.

a. *Definitions:* In addition to the defined terms discussed elsewhere in this notice, the Combined Procedures will contain the following defined terms which apply to transactions in both options and repos: closing transaction, contract, delivering participant, holder, long position, opening transaction, positions, purchasing participant, receiving participant, selling participant, settlement date, short position, system, trade date, transactions, underlying collateral, unit of trading, and variable terms.

"Contract" will refer to both option contracts and repo contracts. "Options contracts" will be defined to include puts and calls issued by Delta to a purchasing participant and matching puts and calls purchased by Delta from a writing participant. "Repo contracts" will be defined to include repos and

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ 15 U.S.C. 78s(b)(3)(A)(i).

¹¹ 17 CFR 240.19b-4.

¹² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified the text of the summaries prepared by Delta.

reverse repos entered into by Delta with participants. "Holder" will be defined to include the holder of an option or a repo contract.

The Options Procedures use the term "underlying treasury securities" to refer to the treasury securities underlying an option contract. The Repo Procedures use the term "underlying collateral" to refer to the treasury securities underlying a repo contract. The Combined Procedures will use the term "underlying collateral" for both options and repo transactions. "Unit of trading" will refer to underlying collateral in the principal amount of \$1,000,000 for a single option contract or for a single repo contract.

"System" will be defined in the Combined Procedures as the over-the-counter clearing system to facilitate clearance and settlement by participants of transactions in options on treasury securities and repos in treasury securities. "Transactions" will refer to all transactions settled and cleared through the system, which includes all options transactions and repo transactions cleared through the system. Consistent with this definition, the term "opening transaction" will include opening purchase and writing transactions in options and opening repo and reverse repo transactions, and the term "closing transaction" will include closing purchase and sale transactions in options and closing repo and reverse repo transactions. Similarly, "delivering participant" will include the participant to whom an exercise notice has been assigned on a matching call, the exercising participant on a put, the seller of the repo collateral on the on-date, or the party responsible for returning the repo collateral on the off-date. "Receiving participant" will include the exercising participant on a call, the participant to whom an exercise notice has been assigned on a matching put, the holder of the reverse repo on the on-date, and the holder of the repo on the off-date. "Purchasing participant" will include the purchaser of an option contract or the purchaser of the collateral on the on-date of a repo transaction. "Selling participant" will include the seller of an option contract or the seller of the collateral on the on-date of a repo transaction.

The Combined Procedures will use the term "positions" to refer to all options and repo positions of a participant. Consistent with this definition, the term "long position" will include the interest of a participant as the holder of one or more option contracts or reverse repos, and the term "short position" will include the aggregate obligations of a participant as

a writer of one or more option contracts and the interest of the holder of one or more repos.

The Combined Procedures will use the term "trade date" to refer to the date on which an option contract was written, sold, or purchased or the date that a new repo contract was established. The Combined Procedures will use the term "settlement date" to refer to the first business day immediately following the day on which Delta receives matching trade reports with respect to options transactions and the business day upon which two participants agree to transfer underlying collateral versus payment with respect to repo transactions.

With respect to an option contract, "variable terms" will refer to the exercise price, expiration date, premium, and either the maturity date and coupon rate (if the underlying collateral are treasury bonds or notes) or the maturity week (if the underlying collateral are treasury bills). With respect to repo contracts, "variable terms" will refer to the repo rate, net money, rights of substitution, settlement date, maturity date, and coupon rate (if the underlying collateral are treasury notes or bonds).

b. *Exposure Limit and MPSE*: Delta currently sets exposure limits for each participant in the system on an aggregate basis for options and repo transactions that limit the amount of exposure such participant can have to Delta. In addition, the maximum potential system exposure ("MPSE") of the system is measured on an aggregate basis for options and repo transactions. The Combined Procedures will clarify that calculations of exposure limit and MPSE are to be determined on an aggregate system-wide basis by providing for a single uniform definition of these terms and by providing in Section 204 of the Combined Procedures that each participant agrees to conduct all transactions cleared through the system within such participant's exposure limit. In the case of option contracts, a participant may have exposure on its short positions but does not have exposure on its long positions. In the case of repo contracts, a participant may have exposure on both its long positions and its short positions. This distinction will be reflected in the definitions of exposure limit and MPSE.

c. *Participant Default*: The proposal will add to the Combined Procedures the term "participant default" which will mean a payment default, delivery default, premium default, and margin default. The terms "payment default" and "delivery default" will be revised to include a payment or delivery default

with respect to options or repo transactions. The effect of these changes and other conforming changes in the Combined Procedures will be to clarify that a default by a participant with respect to an options or a repo transaction may result in remedies, including suspension and liquidation, which are applicable to all transactions in a participant's account.

Under Delta's current procedures, a default by a participant with respect to an option contract would not constitute a default with respect to the repo contracts to which the participant is a party, and a default by a participant with respect to a repo contract would not constitute a default with respect to the option contracts to which the participant is a party. Under Section 212 of the Combined Procedures, a default by a participant in the performance of any obligations with respect to an option contract or a repo contract will constitute a default by the participant with respect to all transactions of the participant in the system, and Delta will be entitled, in such event, to set off any obligations of Delta in respect of any of the participant's transactions in the system against the participant's obligations to Delta.³

Consistent with the foregoing, Section 307 of the Combined Procedures, which will replace Section 307 of the Options Procedures and Section 2307 of the Repo Procedures, will provide that Delta will have a security interest in all

³ The changes to Section 212 proposed by the Combined Procedures are intended to broaden Delta's right of setoff in the event of a participant default. However, the Combined Procedures are not intended to affect Delta's operational netting.

In general, Delta clears option transactions on a delivery versus payment basis (Sections 2901 (b) and (c)). However, pursuant to Section 2805, to the extent that a participant is both a delivering and receiving participant for option contracts of the same type (i.e., put or call), covering the same issue and unit of trading of Treasury securities and having the same exercise price and settlement date, the settlement (i.e., payment and delivery) obligations of the participant with respect to such option contracts will be netted.

Similarly, Delta clears repo contracts on a delivery versus payment basis (Section 3103 (b) and (c) with respect to on-date settlement and Section 3604 (b) and (c) with respect to off-date settlement). However, pursuant to Sections 3401 and 3402, if a participant has a repo and reverse repo with the same underlying collateral and the same on-date or off-date, as applicable, the participant's payment and delivery obligations with respect to such agreements will be netted. This means that if a participant is required to deliver \$3 million par amount of a specified security on the off-date of a reverse repo and to receive on that same date \$2 million par amount of the same security on the off-date of a repo, these obligations will be netted and a net delivery of \$1 million par amount (the "net par amount") will be made by the participant. Payment obligations for such transactions will also be netted. The definition of net par amount will be amended to provide greater clarity consistent with the foregoing description.

money and securities of a participant as security for payment of any liability of such participant to Delta arising from participation in the system. For example, Delta will have a security interest in margin deposited for repo transactions which will be security for payment of a liability resulting from a default by a participant on an option or a repo contract.

Upon the occurrence of a participant default, Delta may liquidate a participant's account through a liquidating settlement account established for such participant. The term "liquidating settlement account" will be defined in the Combined Procedures as the account established for the orderly liquidation of a suspended participant's positions. Because "positions" will be defined to include positions in both options and repo contracts, the Combined Procedures will clarify that Delta will effect any liquidation of a participant through one settlement account rather than through separate accounts for liquidation of options and repo positions.

d. *Multiple Brokers*: On June 30, 1997, the Commission approved proposed changes to Delta's Options Procedures to provide for the introduction of multiple brokers to the clearance system for options transactions.⁴ Under the Combined Procedures, the provisions of Article XX of the Options Procedures ("Authorize Brokers") will be incorporated into the Combined Procedures as Article 12 and thus made applicable to both options and repo transactions.⁵ In addition, other changes made by such filing will be incorporated into Article 23 of the Combined Procedures with respect to trade reporting for options transactions, and such changes will be incorporated for trade reporting of repo transactions by comparable amendments to Article 30 of the Combined Procedures. Other changes made by the filing, such as the definitions of "authorized broker" and "authorized broker trade report," will be incorporated in the Combined Procedures and thus will be made applicable to options and repo transactions.

e. *Margin*: The Combined Procedures will combine in Article 22 of the procedures the margin provisions currently set forth in Article VI of the

Options Procedures and Article XXVI of the Repo Procedures. Prior to 8:00 a.m. of each business day, participants receive a "daily margin report" showing the net positive or negative exposure on their aggregate positions as of the end of the prior business day. This net positive or negative exposure takes into account a participant's options positions and term repo positions; margin for a participant's positions in overnight repos is calculated separately.⁶ The amendments are not intended to change existing participant margin requirements. By combining Articles VI and XXVI, the Combined Procedures will clarify that a participant is required to deposit margin based upon its aggregate net exposure on its options positions and its positions in term repos.

"Settlement time" is defined in the Options Procedures as 11:00 a.m. New York time or the earliest time practicable following the opening of the Federal Reserve wire on the settlement day. Section 602 of the Options Procedures requires the deposit of margin other than intraday additional margin at or before the settlement time on each business day. Section 2602.1 of the Repo Procedures provides for the deposit of margin other than supplemental or intraday additional margin at or before 11:00 a.m. The Combined Procedures will conform the Options and Repo Procedures by providing in Section 2204, which is applicable to options and repo positions, that margin deficits shown on the daily margin report must be deposited at or before the later of 11:00 a.m. or the earliest time practicable following the opening of the Federal Reserve System.

Section 2202 of the Combined Procedures (the equivalent to Section 601.1 of the Options Procedures and 2601.1 of the Repo Procedures) will incorporate for options transactions the recently approved rule change⁷ under the Repo Procedures permitting participants to deposit treasury notes and treasury bonds as margin and incorporating the schedule of applicable haircuts found in Rule 15c3-1(c)(2)(vi)(A)(i) under the Act. Consistent with this change, the defined term "cash margin" will be changed to

"margin" in certain sections of the Combined Procedures.

Section 602 of the Options Procedures currently provides that deposits of additional margin in respect of margin deficits shown on the daily margin report are not required if the amount to be deposited by the participant is \$5,000 or less. The Repo Procedures in Section 2602.1 currently provide that deposits are not required if such amount is \$50,000 or less. Consistent with the current Repo Procedures, section 2204 of the Combined Procedures will provide that deposits are not required if the margin deficit shown on the daily margin report is \$50,000 or less. However, as discussed above, the daily margin report will aggregate options positions and positions in term repo agreements.

f. *Business Day*: The Combined Procedures will conform the definition of business day for options and repo transactions. As currently written, the Repo Procedures define business day to exclude "a Saturday, Sunday, or a day on which banking institutions in the City of New York are authorized by law to close," while the Options Procedures also exclude "any day on which government securities dealers in the City of New York are not open for business." The Combined Procedures will conform the definition of this term in the Repo Procedures to the definition in the Options Procedures.

g. *Sanctions for Late Trade Reports*: Section 3301 of the Repo Procedures provides that the sanction for filing a late trade report in an amount not to exceed \$500. In contrast, the Options Procedures in Section 1301 provide for sanctions of \$100 for the first violation, \$200 for any second violation occurring within three months of the first violation, and \$300 for any subsequent violation occurring within three months of a prior violation. The Combined Procedures will retain the graduated fee schedule of Section 1301 and will apply that schedule to late trade reports involving repos.

h. *Central Bank Wire System; Federal Reserve System*: The Repo Procedures in various places use the terms "central bank funds" and "central bank wire system" in place of the terms "Federal Reserve System" and "Fed Funds" which are used in the Options Procedures. The use of these terms was intended to cover the situation where Delta had received authorization to clear trades to be effected by participants through central banks other than the Federal Reserve. Because Delta has not yet applied for nor received any such authorization, Delta proposes in the Combined Procedures to replace the

⁴ Securities Exchange Act Release No. 38796 (June 30, 1997), 62 FR 37326 [File No. SR-DCC-97-02] (order approving proposed rule change).

⁵ Such provisions establish qualification requirements for brokers, including compliance with Rule 17a-23 under the Act, maintenance of books and records, and necessary operational capacity.

⁶ Securities Exchange Act Release No. 38471 (April 2, 1997), 62 FR 17257 [File No. SR-DCC-96-12] (order approving proposed rule change).

⁷ Securities Exchange Act Release No. 37639 (September 4, 1996), 61 FR 48186 [File No. SR-DCC-96-09] (order granting approval of proposed rule change relating to acceptable forms of collateral).

terms "central bank funds" and "central bank wire system" with the terms "Fed Funds" and "Federal Reserve System." For purposes of consistency, the Combined Procedures will amend Delta's existing procedures by using the term "Federal Reserve System" in various sections in place of the term "Federal Wire System" and the term "Fed Funds" in various sections in place of the term "Federal Reserve Funds."

i. *Suspension or Termination of Operations:* The Repo Procedures provide that the suspension or termination of the operation of the system will not affect the terms of any existing repo agreement. The Options Procedures provide that the suspension or termination of the system will not affect the terms of any existing option contract absent the consent of the participant which is party to such contract. The Combined Procedures will adopt the language set forth in the Options Procedures which will be made applicable to option and repo contracts. Delta does not believe that this constitutes a material change because the parties could agree to modify a contract under either provision.

2. Timing of Margin Collection and Monetization of Net Positive Exposure

The Options Procedures currently provide that a participant may borrow from Delta on an overnight basis up to 35% of the participant's net positive exposure on its options positions, adjusted for "performance margin."⁸ Under the Combined Procedures, a participant will be able to borrow from Delta on an overnight basis up to 35% of the participant's net positive exposure on its options positions and positions in term repos.

Each morning at approximately 8:00 a.m. of each business day, Delta sends to each participant a daily margin report which includes a statement of the participant's net positive or negative exposure as of the close of the prior business day.⁹ Delta requires that any participant with a negative exposure deposit with Delta any required margin by 11:00 a.m. of the morning on which the report is sent. Under proposed Section 2212, if the daily margin report shows that the participant has a net positive exposure after adjustment for performance margin, the participant may request on or before 11:00 a.m. of the morning on which the report is sent

that Delta lend to it on an overnight basis cash or treasury securities to the extent available to Delta with a value of not more than 35% of the participant's net positive exposure after adjustment for performance margin. In order to make such overnight loans, Delta will generally transmit securities by 3:00 p.m. that day or will transmit funds by 5:00 p.m. that day.

Participants may wish to borrow against their net positive exposure in order to reduce their exposure to Delta, to obtain working capital, or for other purposes. Delta does not believe that permitting such borrowing exposes the clearing system to any material additional risk because participants borrowing against their net positive exposure remain over-collateralized with Delta to the extent of 65% of their net positive exposure with Delta after adjusting for performance margin.

3. Waiver of Suspension

Delta proposes that the waiver of suspension provisions of Section 401 be revised to provide that suspension may be deferred not more than two hours in the event of a margin, premium, or payment default and for such period as Delta determines appropriate in the event of a delivery default if Delta determines that the participant required to make delivery has been unable to obtain the security required to be delivered after good faith effort and that such failure to delivery is not the result of a change in the participant's financial condition. The proposed change will not allow deferral of suspension beyond the two hour period in the case of a margin, premium, or payment default, which all involve the failure to make payment. In the case of a delivery default, however, Delta believes that there may be situations where the failure to deliver is unrelated to the participant's financial condition but instead results from the scarcity of the security required to be delivered.

4. Annual List of Participants

Section 213 of the Combined Procedures will provide that Delta will on an annual basis send a list of current participants in the system to all participants. Section 213 will make this requirement, currently applicable for repo participants, applicable for both options and repo participants. This is in addition to the existing requirement that participants be notified upon the admission or withdrawal of a participant.

5. Audited Report of Internal Accounting Controls

Delta's existing procedures provide that each participant is required to deliver to Delta within forty-five days after the end of its fiscal year an audited report of its financial condition and its internal accounting controls prepared in accordance with generally accepted accounting principles. Certain participants have indicated that an audited report of "internal accounting controls" is not a standard requirement. Delta proposes in Section 206 of the Combined Procedures to eliminate the requirement that participants deliver audited reports of their internal accounting controls. Participants will continue to be obligated to deliver to Delta annual audited financial statements.

6. Allocation of Duties Between Delta and the Clearing Bank

Delta has determined to undertake various duties related to operation of the clearing system instead of delegating those duties to the clearing bank. The Combined Procedures will identify where the change in responsibilities affects participants. Under the proposed procedures, Delta, rather than the clearing bank, will assume the authority and obligation to receive, compare, and transmit trade reports and other reports (Articles 23 and 30); to accept trades for clearance (Sections 2303 and 3003); to provide system software (Section 303); to calculate and maintain margin (Article 22); to transmit, receive, and assign exercise notices and to accept exercise notices for clearance (Article 28); and to reconcile differences with participants (Sections 2303 and 3003).

7. Miscellaneous Changes

Section 2403 of the current Repo Procedures provides that Delta will accept a transaction only if it is designated as delivery versus payment. The Combined Procedures will clarify in Section 3003 that delivery versus payment is not required in the event that positions in repo contracts are netted pursuant to Section 3401 or 3402 of the Combined Procedures (currently Sections 2901 and 2902 of the Repo Procedures).

Section 304 of the Combined Procedures will provide that inspection by Delta of participants' records will be at such time as may be reasonably requested by Delta and that the scope of such inspections will be limited to matters related to the procedures, the participant's transactions in the system, and other matters related to Delta's business. Sections 209(b) and 2209(b) of

⁸ Performance margin represents an estimate of the net shortfall from the liquidation of a participant's positions at the close of the next business day.

⁹ This discussion excludes overnight repos which are not included within proposed Section 2212.

Delta's existing Options and Repo Procedures provide that as a condition to participating in the system, a participant must agree to permit inspection of its books and records. The Combined Procedures will provide that a participant agrees to permit inspection subject to Section 304. This means that a participant only will be required to permit inspections which relate to the Combined Procedures, the participant's transactions in the system, and other matters related to Delta's business.

The Repo Procedures currently use the terms "repo" and "repurchase agreement" interchangeably. The Combined Procedures will provide for more uniform use of these terms. The term "repurchase agreement" will be used in the following defined terms: repurchase agreement, reverse repurchase agreement, matching repurchase agreement, matching reverse repurchase agreement, term repurchase and reverse repurchase agreements, and overnight repurchase and reverse repurchase agreements. The term "repo" will be used in the following defined terms: repo transaction, opening repo transaction, closing repo transaction, repo contract, repo position, repo interest, and repo rate.

In the definition of "closing price," the reference to the New York Fed publishing quotations will be revised to include any other similar reputable pricing source. This is in anticipation of Delta's understanding that the New York Fed will cease publishing such quotations. Delta intends to use a pricing source such as Muller Data, Telerate, Reuters, or Bloomberg which is widely known and accepted by brokers and dealers in treasury securities. Delta will notify the Division of Market Regulation prior to designating a new pricing source.

The definitions of "letter of credit" and "surety bond" will be revised to conform to one another. Redundant language in Section 2303 of the existing Repo Procedures (Section 303 of the Combined Procedures) will be deleted. The definitions of "daily margin report" and "daily position activity report" will be amended to more accurately reflect the titles and contents of such reports.

Delta's current Options and Repo Procedures contain various references to custodian bank and margin accounts for investment companies, but the use of such terms is not consistent. However, at present, there are no registered investment companies which have applied to become participants in the clearing system. Delta is not seeking authority currently to admit registered investment companies as participants in the system. The Combined Procedures

will revise the existing Options and Repo Procedures by deleting all references to registered investment company, margin account, and custodian bank.

The Combined Procedures will add a definition of "correspondent bank" which is a term used but not defined by the Options and Repo Procedures. "Correspondent bank" will refer to a bank designated by a participant pursuant to Section 302 of the Combined Procedures for receipt and delivery of money and securities. The Combined Procedures will make other definitional, conforming, cross-referencing, spelling, and grammatical changes which do not constitute material amendments to Delta's procedures, including changing article headings from roman numerals to arabic numbers.

8. Benefit to Participants

The Combined Procedures will benefit participants because a participant's exposure for option and term repo transactions and the margin required to be deposited and maintained by the participant will be based upon a single calculation.¹⁰ For example, if a participant has a negative exposure of \$3 million as a result of option transactions entered into by the participant in the clearing system and a positive exposure of \$1 million as a result of term repo transactions entered into by the participant in the clearing system, the participant's margin requirements will be determined based upon a net short position of \$2 million rather than \$3 million.

Delta believes the proposed rule changes are consistent with the requirements of Act and the rules and regulations thereunder applicable to Delta and in particular with Section 17A(b)(3)(F) of the Act which requires that a clearing agency be organized and its rules be designed to promote the prompt and accurate clearance and settlement of securities transactions, to safeguard funds and securities in Delta's possession and control, and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. Delta believes that the combining of the Options and Repo Procedures will permit wider utilization of the clearing system by participants.

¹⁰ The discussion in this paragraph relates to option and term repo transactions. Exposures with respect to overnight repos are subject to a separate margin requirement.

(B) Self-Regulatory Organization's Statement on Burden on Competition

Delta does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

Comments were neither solicited nor 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 Delta 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 Delta. All submissions should refer to the file number SR-DCC-97-04 and should be submitted by September 24, 1997.

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

¹¹ 17 CFR 200.30-3(a)(12).

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-23261 Filed 9-2-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38969; File No. SR-NASD-97-23]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Registration Category, Study Outline and Specification for Series 72 Examination, Government Securities Representative

August 25, 1997.

On April 11, 1997, the NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ to create a new category of representative registration, the Government Securities Representative (Series 72), and to conform the registration requirements of the existing Registered Options Representative (Series 42) category to take into consideration this new category.² Notice of the proposed rule change, together with the substance of the proposal, was published in the **Federal Register**.³ No comment letters were received. This order approves the proposed rule change.

I. Background

The Government Securities Act of 1986 ("1986 Act"), an amendment to the Act, required sole government securities broker-dealers to register with the SEC for the first time. The 1986 Act also granted the NASD authority to require associated persons of such firms to register with the NASD. However, the 1986 Act did not allow the NASD to apply its qualification examination standards to associated persons of government securities broker-dealers. Since January 1989, such associated persons have been required to register as Government Securities Representatives or Government Securities Principals, but have not been required to pass a

qualification examination. Under a 1993 amendment to the Act, the NASD was given authority to apply its qualification standards to Government Securities Representatives and Government Securities Principals.

The proposed rule change will establish an examination qualification requirement for government securities representatives. A person may qualify to sell government securities by passing the existing Series 7 examination or the new Series 72 examination. The proposed rule change replaces current Rule 1112, which was adopted in 1989.

NASD Regulation has determined to permit persons who have been registered with the NASD as a government securities representative for two years prior to the effective date of the rule will not have to take the examination unless they are subject to a statutory disqualification as defined in Section 3(a)(39) of the Act or in the last years have been subject to a suspension or fine of \$5,000 or more imposed by a securities or commodities regulator.

Currently, individuals who sell OTC options on government securities are not required to pass a qualification examination. The proposed rule change also will amend Rule 1032(d) for Registered Options Representatives to establish registration and qualification requirements for such individuals, and to add the Series 72 Examination to the list of the those examinations which prequalify an individual to take the Limited Representative—Options (Series 42) Examination. A person selling OTC options on government securities would be required to pass the new Series 72 examination and the existing Series 42 examination.

The Series 72 examination will consist of one hundred (100) questions. Candidates will have three hours to complete the examination. The passing score for the examination will be 70%. The NASD will not begin using the examination until September of 1997.

II. Discussion

The Commission believes that the proposed rule change is consistent with the provisions of Sections 15A(b)(6) and 15A(g)(3) of the Act in that the NASD is required to prescribe standards of training, experience and competence for persons associated with NASD members. Pursuant to this statutory obligation, the NASD develops and administers examinations to establish that persons associated with NASD members have attained specified levels of competence and knowledge.

Pursuant to this statutory obligation, NASD Regulation administers examinations developed by NASD

Regulation and other self-regulatory organizations Section 15A(g)(3) of the Act to prescribe standards of training, experience and competence for persons associated with NASD members.

The proposed rule change is consistent with the format of the other NASD limited registration categories. This proposed rule change will change the language of Rule 1032(d) Registered Option Representative so that it is similar to the language used in the other registration categories in Rule 1032.

This provision is consistent with previous practice in permitting persons who have achieved a certain level of experience in a segment of the securities industry to be "grandfathered" if a new qualification examination is adopted for that particular industry segment.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change, SR-NASD-97-23, be, and hereby is, approved.

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. 34-38975; File No. SR-NASD-97-59]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Short Sale Rule

August 26, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4² thereunder, notice is hereby given that on August 14, 1997, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NASD. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

⁴ 17 CFR 200.30-3(a)(12)(1997).

¹ 15 U.S.C. § 78s(b)(1)(1994).

² 17 CFR 240.19b-4(1997).

¹ 15 U.S.C. § 78s(b)(1) (1994).

² On July 1, the NASD submitted a technical amendment. Technical amendments do not need to be published in the Federal Register. Letter from Craig L. Landauer, Associate General Counsel, NASD, to Karl J. Varner, Esq., SEC, dated July 1, 1997.

³ Securities Exchange Act Release No. 38566 (May 1, 1997), 62 FR 25683 (May 9, 1997).