

of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4² thereunder.³ Notice of the proposed rule change, together with the substance of the proposal, was published in the **Federal Register**.⁴ No comment letters were received. This order approves the proposed rule change, as amended.

I. Background

Exchange Rule 8.14 provides the Minor Rule Violation Program ("Program") as an alternative disciplinary regime to violations of Exchange Rules that the Exchange determines are of a minor nature. The Program provides the Exchange with the ability, but not the obligation, to impose a fine, not to exceed \$2500, on any member the Exchange determines has violated a rule subject to the Program. Section (e) of Exchange Rule 8.14 requires the Exchange from time to time to prepare a list of minor rule violations. Adding a particular rule violation to the Program does not limit the Exchange's ability to treat violations of those rules through more formal disciplinary measures. The Program simply provides the Exchange with greater flexibility in addressing rule violations appropriately.

As part of its ongoing effort to improve its regulatory program, the Exchange has determined that certain rule violations should be added to the Program. The Program currently includes the requirements of Exchange Rules 4.1 and 4.2, concerning books and records, to submit trade data to the Exchange. The proposed rule change will clarify that a member also must provide financial and regulatory records in accordance with Rule 4.2 and Interpretations thereunder as well as trade-related information. The proposed rule change also will add Exchange Rule 11.9(c) to the Program. Exchange Rule 11.9(c) requires Designated Dealers, the Exchange's multiple, competing specialists, to maintain continuous quotations throughout the trading day.

II. Discussion

The Commission finds that the proposed rule change is consistent with

Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(7) in particular because it provides a fair procedure for the disciplining of members and persons associated with members in that the proposed rule change will augment the Exchange's ability to police its market and will increase the Exchange's flexibility in responding to minor rule violations.⁵ The Commission believes the proposed rule change will enable the Exchange to address appropriate minor rule violations promptly and efficiently through the minor rule procedures, without the need to initiate formal disciplinary proceedings.

Furthermore, the Commission believes that proposed rule change is consistent with Section 6(b)(5) in that it is designed to promote just and equitable principles of trade and to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest because the proposed rule change will help the Exchange ensure compliance with its quotation requirements and spread parameters, which will enhance the value of quotations made by the Exchange's multiple, competing specialists.

It is Therefore Ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change, SR-CSE-97-07, be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39103; File No. SR-MBSCC-97-5]

Self-Regulatory Organizations; MBS Clearing Corporation; Notice of Filing of a Proposed Rule Change Regarding Participant Liability for Transactions Submitted on Behalf of Nonparticipants

September 22, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ notice is hereby given that on

⁵ The Commission has considered the effect of the proposed rule change on the promotion of efficiency, competition and capital formation. 15 U.S.C. 78(c).

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(i).

August 1, 1997, MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-MBSCC-97-5) as described in Items I, II, and III below, which items have been prepared primarily by MBSCC. 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 clarify that participants will be liable as principal for any contracts or other transactions submitted to MBSCC on behalf of entities that are not participants ("nonparticipants") and that nonparticipants will not be deemed to possess any rights or benefits of participants.

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

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

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

Currently, MBSCC's rules state that participants that process any contracts or other transactions through MBSCC for other participants are liable as principal for such contracts or transactions. However, it has always been MBSCC's intention that participants be principally liable whether they submit a contract or transaction on behalf of other participants or nonparticipants. Thus, the proposed rule change will clarify that participants will be liable as principal for any contracts or other transactions processed, compared, settled, or carried out on behalf of nonparticipants. In addition, the proposed rule change states that such nonparticipants will not be deemed to possess any of the rights or benefits of participants.

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

¹ 15 U.S.C. 78s(b)(1) (1994).

² 17 CFR 240.19b-4 (1997).

³ The proposed rule change was originally submitted on June 24, 1997. The CSE subsequently submitted Amendment No. 1 which altered minor technical language in Item II. Letter from Adam W. Gurwitz, Vice President Legal and Secretary, CSE, to Karl J. Varner, Esq., SEC, dated August 4, 1997. This proposed rule change replaces SR-CSE-97-06, which has been withdrawn. Letter from Adam W. Gurwitz, Vice President Legal and Secretary, CSE, to Katherine England, Assistant Director, SEC, dated June 23, 1997.

⁴ Securities Exchange Act Release No. 38922 (August 11, 1997), 62 FR 44024 (August 18, 1997).

MBSCC believes that the proposed rule change will further protect MBSCC in the event a participant fails to discharge its liabilities. In this respect, MBSCC will treat all of a participant's accounts³ and obligations as belonging to such participant regardless of the identity of the original underlying party. In addition, MBSCC believes that the proposed rule change will remove any doubt that a participant's participant fund⁴ deposits will be available for all of the participant's transactions regardless of the source. Furthermore, MBSCC believes that this proposed rule change will foreclose any attempt by a nonparticipant to assert a claim against MBSCC with respect to a trade.

MBSCC believes that the proposed rule change is consistent with Section 17A of the Act and the rules and regulations promulgated thereunder in that it will enhance MBSCC's ability to protect itself and its participants against loss.

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

MBSCC 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

MBSCC has not solicited or received comments relating to the proposed rule change. MBSCC will notify the Commission of any written comments received by MBSCC.

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 findings or (ii) as to which MBSCC 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 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 inspections and copying at the principal office of MBSCC. All submissions should refer to the File No. SR-MBSCC-97-5 and should be submitted by October 17, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39104; File No. SR-OCC-97-01]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Permitting the Use of Certain Fund Shares to Satisfy Margin Requirements and Permitting the Use of Certain Fund Shares and Trust Units as Escrow Deposits

September 22, 1997.

On February 21, 1997, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-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 20, 1997.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

(1) Using Fund Shares as a Form of Margin

The proposal amends subparagraph (4) of OCC Rule 604(d), which sets forth the margin deposit eligibility requirements for debt and equity issues, to permit OCC's clearing members to deposit as a form of margin collateral fund shares issued by open-end management investment companies that hold portfolios or baskets of common stocks ("fund shares").³ The proposal amends the term "stock" defined Rule 604(d)(4) to include fund shares. Fund shares will have to meet the requirements applicable to stocks under Rule 604(d) and be of a class approved by OCC for deposit as margin to be eligible for deposit as margin collateral. Because Rule 604(d)(1) requires that a stock be exchange listed or traded on the NASDAQ National Market System, the "publicly traded" requirement of subparagraph (4) has been deleted. The proposal also amends Section 11 of OCC's Interpretations and Policies to require that OCC's Membership/Margin Committee ("Committee") approve classes of fund shares for deposit as margin. Presently, World Equity Benchmark Shares ("WEBS") listed on the American Stock Exchange are the only class of fund shares the Committee has approved.

(2) Using Fund Shares and Trust Units as Escrow Deposits

The proposal amends OCC Rule 1801(b), which relates to index option escrow deposits, by adding new subparagraph (2) which will define the term "common stocks" to include fund shares and trust units.⁴ By adding this definition, OCC Rule 1801(b) now permits clearing members to use fund shares and trust units as part of an escrow deposit made with respect to index call option contracts carried in a

² Securities Exchange Act Release No. 38625 (May 13, 1997), 62 FR 27638.

³ Similarly, OCC permits its clearing members to use certain publicly traded units of beneficial interest in unit investment trusts ("trust units") as margin deposits under the conditions specified in subparagraph (4) of Rule 604(d). Currently, the only trust units approved for deposit as margin are Standard & Poor's ("S&P") Depository Receipts ("SPDR's") on the S&P 500 Index and S&P 400 Mid-Cap Index.

⁴ The proposed rule change also makes numbering changes to Rule 1801 as a result of the addition of new subparagraph (b)(2).

³ According to MBSCC's rules, the term account generally means any account maintained by MBSCC on behalf of a participant for the comparison, margining, and clearing of trades.

⁴ According to MBSCC's rules, the term "participant fund" means the fund for which provision is made in Article IV to which participants are required to make basic deposits, minimum market margin differential deposits, and market margin differential deposits.

⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).