

seeking registration will be required to fill out an electronic Form U-4, which will be available on NASDR's website, and submit it electronically. Further, when an associated person ends his association with a broker-dealer, the broker-dealer will be required to fill out an electronic Form U-5, which will also be available on the NASDR's website, and submit it electronically.

Further, the Commission believes that Web CRD will expedite the registration and termination process for individuals and firms. Under the proposal, firms and individuals will no longer rely on the mail system to transmit the forms to NASDR. Now, individuals and firms will electronically submit Forms U-4 and U-5 through the World Wide Web, which means NASDR should receive the forms more quickly. The Commission also believes that investors will benefit from the expedited registration and termination process because the faster NASDR receives the forms, the faster information on the forms can be disclosed to investors through the NASD's Public Disclosure Program ("PDP").

In addition, based on demonstrations of Web CRD, the Commission believes that the CRD system will be easier for regulators and SROs to use. For example, Form U-4 disclosure information will be in a format that is easier to understand than what is currently displayed in CRD. With Web CRD, regulators and SROs will be able to quickly access relevant information in an easy-to-read format.

Additionally, the Commission believes that the amended disclosure questions, coupled with the NASD's PDP, will provide the public with more information about an associated person's disciplinary history. The Commission believes that this information will help investors determine whether to conduct or continue to conduct business with particular associated persons. The Commission notes that disclosure of this additional information may serve as a deterrent to fraudulent activity as well.

Lastly, the Commission notes that the pick lists, even with the "Other" choice, will standardize individuals' and firms' responses to DRP questions. Previously, when an individual or firm responded to DRP questions on the Interim Forms U-4 and U-5, the individual or firm had the ability to write whatever he thought was appropriate. Now, when responding to a DRP question, an individual or firm is limited to the choices provided in the pick lists. Because future changes to the lists might affect individuals and firms' ability to respond to DRP questions, the

Commission expects NASDR to file substantive changes to the pick lists.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>23</sup> that the proposed rule change (SR-NASD-98-96), as amended, is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>24</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41561; File No. SR-OCC-99-02]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Relating to the Use of Non-Equity Securities Options for Determining Margin and Clearing Fund Requirements

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on March 2, 1999, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which items have been prepared primarily by OCC. The Commission is publishing this notice and order to solicit comments on the proposed rule change from interested persons and to grant accelerated approval of the proposal.

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

The purpose of the proposed rule change is to provide OCC with the flexibility to designate certain classes of stock fund options as non-equity securities options for purposes of determining margin and clearing fund requirements.<sup>2</sup>

#### 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 proposed rule change will permit OCC to designate certain options on stock funds as non-equity options for purposes of margin and clearing fund calculations.<sup>4</sup> The American Stock Exchange lists and trades stock fund options on certain Standard & Poor's Depository Receipts ("SPDRs") and plans to trade options on World Equity Benchmark Shares ("WEBs") in the near future. OCC proposes to continue to treat stock fund options like stock options for the clearance and settlement purposes because stock fund options are settled through delivery of the underlying fund shares.

However, OCC believes that for margin and clearing fund purposes it would be more logical to treat some stock fund options like non-equity options because the value of the fund shares more closely correlates to the value of an underlying index. The proposed rule change will allow OCC to add such stock fund options to the permissible instruments used to offset index related positions. OCC believes that such flexibility will potentially allow OCC to prudently reduce the amount of margin and clearing fund collateral required to be deposited by clearing members.

Under the proposed rule change, OCC will have the discretion to designate classes of stock fund options as non-equity options for margin purposes in order to efficiently process these securities while effectively managing their risk. When classes of stock fund options are designated as non-equity securities options contracts, they will be subject to the margin requirements of

<sup>3</sup> The Commission has modified the text of the summaries prepared by OCC.

<sup>4</sup> OCC previously amended its rules to accommodate options on instruments such as SPDRs and WEBs and to process, settle and margin them like options on equity securities. Securities Exchange Act Release No. 40132 (June 25, 1998), 63 FR 36467 [File No. SR-OCC-97-02]. In another filing, OCC introduced the term "stock fund shares" and replaced the term "common stocks" with the phrase "equity securities." Securities Exchange Act Release No. 40595 (October 23, 1998), 63 FR 58438 [File No. SR-OCC-98-08].

<sup>23</sup> 15 U.S.C. 78s(b)(2).

<sup>24</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> The complete text of the proposed rule change is included in OCC's filing, which is available for inspection and copying at the Commission's public reference room and through OCC.

rule 602 and will be included in the non-equity securities clearing fund.

When no such designation is made, they will be subject to the margin requirements of Rule 601. Stock fund options that do not correlate closely with any index will continue to be treated like stock options for margin purposes and will not be used to offset short positions relating to a particular index. However, under Rule 601(c) and Interpretation .02 to Rule 601, 30% of their value can be used to reduce a clearing member's equity margin requirement. Such stock fund options will be included in the stock clearing fund because they fall within the definition of "stock option contract" in Article 1 of OCC's By-Laws, which would be controlling in the absence of a designation. OCC intends to provide members its designation of the stock fund options for margin and clearing fund purposes in information memoranda made available to all clearing members.

Under the proposed rule change, OCC will amend the definition of "stock option contract" within the definition of "option contract" in Article 1 of the By-Laws to include stock fund shares. In addition, a provision will be added to the definition stating that for purposes of Article VIII of the By-Laws and Chapters VI and X of the Rules, OCC may designate certain stock fund options as non-equity securities option contracts. OCC is also adding introductions to Article VIII of the By-Laws and Chapters VI and X of the Rules which state that OCC may designate certain stock fund options as non-equity securities options contracts for purposes of those provisions. Finally, because fund shares are priced like stocks, new subsection (b)(6)(1) will be added to Rule 602 to define "marking price" for an index share to be its last reported sale price on its primary market.

OCC believes that the proposed rule changes are consistent with the requirements of the Section 17A of the Act<sup>5</sup> and the rules and regulations thereunder because it promotes the prompt and accurate clearance and settlement of transactions in stock fund options by allowing OCC to treat such options like stock options for settlement purposes but like non-equity options for margin and clearing fund purposes, as appropriate.

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

OCC does not believe that the proposed rule change would impose any material impact 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**

Section 17A(b)(3)(F) of the Act<sup>6</sup> requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission finds that the proposed rule change is consistent with this obligation because it should allow OCC to more accurately calculate the margin and clearing fund collateral required to be deposited by clearing members.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the publication of notice of the filing. Approving prior to the thirtieth day after publication of notice will allow OCC to immediately increase the accuracy of margin and clearing fund calculations for these hybrid exchange-traded fund share options.

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. 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 Section, 450 Fifth Street, NW,

Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of OCC. All submissions should refer to File No. SR-OCC-99-02 and should be submitted by July 23, 1999.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>7</sup> that the proposed rule change (File No. SR-OCC-99-02) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-41555; File No. SR-PCX-99-16]

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to the Requirement for Off-Floor Traders for Which the Exchange Is the Designated Examining Authority To Successfully Complete the General Securities Representative Examination Series 7**

June 24, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 1, 1999, the Pacific Exchange, Inc. ("PCX" or "Exchange") 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 the Exchange. 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 Exchange proposes to require that qualified off-floor traders for which the PCX is the designated examining authority ("DEA") successfully complete the General Securities Representative Examination Series 7 ("Series 7 Exam"). The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and at the Commission.

<sup>7</sup> 15 U.S.C. 78s(b)(2).

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 204.19b-4.

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

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).