initial margin deposits) or that restrictions be imposed on the applicant's clearance of option transactions if the Committee has determined that the applicant's financial or operational condition in relation to the business that the applicant has proposed to transact through OCC makes such action necessary or advisable for the protection of OCC, clearing members, or the general public. The Board is required to review independently such a recommendation to determine whether it should be imposed on an applicant. Any requirements or restrictions so imposed would remain in force for the period determined by the Board but will last no longer than the end of the first three calendar months commencing after the applicant's admission to clearing membership. Furthermore, Interpretation .05 states that the imposition of any additional requirements or restrictions so imposed shall not preclude OCC from imposing contemporaneous requirements or restrictions pursuant to other provisions of OCC's by-laws and rules.[7]

B. Article V, Section 3 of the By-Laws

Interpretation .01 has been added to Section 3 of Article V. That interpretation requires an applicant approved for clearing membership subject to the satisfaction of specified conditions to meet those specified conditions within six months from the date on which its application is approved unless the Board prescribes a shorter time period at the time of approval. If an applicant fails to meet the specified conditions within the applicable time period, the approval of the application will be deemed withdrawn, and the application will be deemed to have lapsed unless the period to satisfy those conditions is extended by OCC. Any applicant seeking an extension will be required to make a written request specifying any material changes that have occurred in its ability to transact business with OCC. The Chairman or the President is vested with the authority to approve or disapprove an extension request. No deadline can be extended beyond one year from the date the application originally was approved.

C. Chapter II of the Rules

Rule 201 is amended (i) to delete the requirement that each clearing member maintain an office in the vicinity of the office of OCC and (ii) to require every clearing member to provide OCC with prompt written notice of the relocation of its principal office or the office maintained by the clearing member to comply with the requirements of Rule 201(a) and with respect to a non-U.S. clearing member, prompt notice of a material change in the office arrangements OCC had previously found satisfactory.

Rule 214(a) is amended to require that only associated persons who are full time employees of a clearing member may satisfy the applicable requirements of that rule.[8] Interpretation .02 thereunder is amended (i) to shorten the time period from one year to three months within which a clearing member must replace an associated person through whom a clearing member has been meeting the requirements of the rule and (ii) to require prompt, written notice of any separation between the clearing member and such associated person.

Rule 215 has been added to require each clearing member to provide OCC with prompt, prior, written notice of material changes to its operations including: (i) its involvement in any merger, combination, or consolidation; (ii) the acquisition of another entity; (iii) the sale of a significant portion of its assets; (iv) a change in its form of business organization or the name under which it does business; and (v) a change in the direct or indirect beneficial ownership of 10% or more of the equity of the clearing member. Clearing members will be required to provide OCC with such documents as OCC might require with respect to such events as well as a list of persons or entities that are the beneficial owners directly or indirectly of 10% or more of the equity of the clearing member.

II. Discussion

Section 17A(b)(3)(F)[9] of the Act requires that the rules of a clearing agency be designed to safeguard securities and funds in its custody or control. The proposal should assist OCC in this regard by helping to ensure that only entities that meet certain standards are standards are admitted to OCC membership. For example, seeking the approval of an applicant's DEA prior to admission should help OCC to confirm that the admission is consistent with the applicant's current operations. Furthermore, by allowing the Committee to recommend that additional requirements or restrictions be placed on an applicant, OCC should be better able to monitor such applicant and evaluate the risks such applicant poses to OCC. Similarly, by requiring applicants to meet all conditions of membership within six months of admission, OCC limits the risk that such applicant poses to OCC while permitting an applicant a reasonable amount of time to comply with OCC rules.

Members are now required to provide OCC prompt notice of such events as a change in office or a material change in operations. By providing prompt notice of these changes, the proposal should enable OCC to better monitor the financial and operational status of its members. By admitting applicants subject to certain conditions and by monitoring members' conditions, OCC should be able to further reduce the risk of member default and thereby further reduce the risk that OCC may need to expend funds in satisfaction of a defaulting member's obligations. Thus, the proposal should assist OCC in safeguarding funds and securities.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular 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–OCC–96–11) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[10]

Margaret H. McFarland,

Deputy Secretary.

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[7] *E.g.*, OCC Rule 305.

[8] Rule 214(a) contains provisions similar to Interpretation .03 of Article V, Section 1 of the by-laws, *supra* notes 4 and 5 and accompanying text.

[9] 15 U.S.C. 78q–1(b)(3)(F).

[10] 17 CFR 200.30–3(a)(12).

[Release No. 34–38105; File No. SR–OCC–96–13]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change Relating to Unit Investment Trusts as Margin Collateral

December 31, 1996.

On September 6, 1996, The Options Clearing Corporation (''OCC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change (File No. SR–OCC–96–13) 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

[1] 15 U.S.C. 78s(b)(1).

on October 11, 1996.[2] No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description

The proposed rule change adds subparagraph (4) to Rule 604(d) to permit clearing members to deposit as margin with OCC publicly traded units of beneficial interest (''trust units'') in unit investment trusts that hold portfolios or baskets of common stocks. These classes of trust units are traded and cleared like shares of common stock and are typically held in book entry form at a securities depository. The trust units must met the requirements applicable to stocks under Rule 604(d). Rule 604(d) requires that to be eligible as margin deposits, stock must have a market value greater than $10 per share and must either (a) be traded on a national securities exchange and have last sale reports collected and disseminated pursuant to a consolidated transaction reporting plan or (b) be traded in the over-the-counter market and designated as a national market system security pursuant to the Commission's Rule 11Aa2–1.[3] Pursuant to Rule 604(d)(1), trust units will be valued on a daily basis at 60% of currently market value.

In order to be eligible for deposit, the trust units must be of a class approved by OCC's Membership/Margin Committee (''Committee'') for deposit as margin. At the present time, the Committee has approved Standard & Poor's (''S&P'') depository receipts on the S&P 500 Index and S&P MidCap 400 Index as being classes approved for deposit as margin.

In addition, the proposed rule change replaces the term ''stocks'' with the term ''securities'' in subparagraphs (2) and (3) to Rule 604(d). Subparagraphs (2) and (3) of Rule 604(d) limit the use of customer securities as margin and prescribe the method of depositing margin securities. The amendment clarifies that such sections apply not only to stocks but also corporate bonds eligible as margin deposits under rule 604(d)(1).

II. Discussion

Section 17A(b)(3)(F)[4] of the Act requires that the rules of a clearing agency be designed to safeguard securities and funds in its custody or control. Because the trust units must be either traded on a national securities exchange or designated as a national market system security to be eligible as collateral, the proposal ensures that only very liquid securities will be accepted. Furthermore, by initially limiting eligibility to S&P depository receipts on the S&P 500 Index and the S&P MidCap 400 Index, OCC will be able to gain experience in accepting trust units before expanding the types of trust units it will accept. Therefore, the Commission believes that OCC's acceptance of these classes of trusts units is consistent with OCC's obligation to safeguard securities and funds.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular 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–OCC–96–13) be and hereby is approved.

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

Margaret H. McFarland,

Deputy Secretary.

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[2] Securities Exchange Act release No. 37793 (October 7, 1996), 61 FR 53477.

[3] 17 CFR 240.11Aa2–1.

[4] 15 U.S.C. 78q–1(b)(3)(F).

[5] 17 CFR 200.30–3(a)(12).

[Release No. 34–38099; File Nos. SR-Philadep–96–20 and SR–SCCP–96–09]

Self-Regulatory Organizations; Philadelphia Depository Trust Company and Stock Clearing Corporation of Philadelphia; Notice of Filing and Order Granting Permanent Approval on an Accelerated Basis of Proposed Rule Changes Concerning the Adoption of Article 8 of the New York Uniform Commercial Code to Govern Certain Transactions

December 30, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on November 15, 1996, the Philadelphia Depository Trust Company (''Philadep'') and the Stock Clearing Corporation of Philadelphia (''SCCP'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule changes (File Nos. SR-Philadep–96–20 and SR–SCCP–96–09) as described in Items I and II below, which Items have been prepared primarily by Philadep and SCCP. The Commission is publishing this notice and order to solicit comments from interested persons and to grant permanent approval of the proposed rule changes on an accelerated basis.

I. Self-Regulatory Organizations' Statement of the Terms of Substance of the Proposed Rule Changes

Philadep and SCCP request permanent approval for their respective adoption of Article 8 of the State of New York's Uniform Commercial Code (''UCC'') to govern certain transactions involving Philadep, SCCP, their participants, and pledgees. On June 28, 1996, the Commission temporarily approved through December 31, 1996, Philadep's and SCCP's adoption of New York's U.C.C. Article 8.[2]

II. Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In their filings with the Commission, Philadep and SCCP included statements concerning the purpose of and the basis for the proposed rule changes and discussed any comments received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. Philadep and SCCP have prepared summaries, as set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Self-Regulatory Organizations' Statements of the Purpose of, and the Statutory Basis for, the Proposed Rule Changes

Philadep and SCCP propose to permanently adopt Rule 32 and Rule 41, respectively, and to permanently amend Rule 1 of their rules. The proposed rule change codifies Philadep's and SCCP's decision to elect Article 8 of the New York UCC to govern certain transactions for the purpose of providing a uniform, consistent, and predictable body of law. Specifically, Rule 32 and Rule 41 will assure that the rights and obligations of Philadep and SCCP, their participants, and their pledgees with respect to transfers and pledges of securities, to the extent Article 8 of the UCC applies thereto, will be governed by and construed in accordance with Article 8 of the UCC of New York in effect from

[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release Nos. 36781 (January 26, 1996), 61 FR 3958 [Files Nos. SR–SCCP–96–01 and SR–Philadep–96–01] and 37382 (June 28, 1996), 61 FR 35291 [File Nos. SR–Philadep–96–08 and SR–SCCP–96–04] (orders granting accelerated approval on a temporary basis of proposed rule changes to provide for the application of Article 8 of the New York UCC).