

the customer sending an order to the Exchange will have done nothing different and would have no different expectations than any other RAES customer whose order was not re-routed from RAES. The factor that determines whether an order gets re-routed, the fact that the prevailing market bid or offer matches the bid or offer on the book, is outside of the customer's control and is not likely to be known by the customer.

The new proposed RAES knockout price guarantee will cover only the "first order" which is kicked out of RAES. The "first order" is defined as the first order re-routed at a particular market.<sup>8</sup> It should be noted that if more than one RAES order is re-routed at approximately the same time and at the same market, the rule change does not guarantee that the second order will be filled at the price that existed at the time of the second order's entry into the RAES system. The price at which the second or any subsequent RAES knockout order would be filled may be better or worse than the price at which the first RAES knockout order for up to ten contracts was filled. Consistent with the terms of Rule 8.51, the trading crowd would be entitled to change the quotes after the first order of up to ten contracts had been traded at that price.

The Exchange believes that it is appropriate to extend the price guarantee for the first RAES knockout order only.<sup>9</sup> The Exchange notes that most RAES knockout situations involve only one order which is kicked out of RAES. Thus, the limit of the guarantee to the first order is not an issue in those situations. Additionally, in situations where there is more than one knockout at a certain price, the market in these options is likely very busy and floor brokers may as a practical matter be incapable of representing these kicked out orders immediately. In proposing to limit the guarantee to the first order, the Exchange weighed the benefits of this guarantee against the potential disruptive effect of numerous orders kicked out of RAES within a second or two of each other. If the guarantee were extended to all orders that are rejected at that price, the market-makers would be forced to fill these customer orders at quotes that might no longer reflect current market situations by the time the floor broker was able to represent the orders. In any event, the orders that do not get filled at the guaranteed RAES knockout price will be entitled to be filled at the disseminated market quotes at the time they are represented in the crowd,

which may be better than the guaranteed RAES knockout price.<sup>10</sup>

## 2. Statutory Basis

By clarifying the terms of one current rule and changing another rule to add further protections to public customer orders, the proposed rule furthers the objectives of Section 6(b)(5) of the Act in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

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

The Exchange states that it believes that the proposed rule change will impose no burden on competition.

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

No written comments were solicited or received with respect to the proposed rule change.

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

Within 35 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 90 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 the self-regulatory organization 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 at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-CBOE-96-68 and should be submitted by May 19, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38536; File No. SR-MBSCC-97-02]

### Self-Regulatory Organizations; MBS Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to the Valuation of Securities Deposited as Collateral in the Participants Fund To Satisfy Daily Margin Requirements

April 22, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> notice is hereby given that on February 12, 1997, MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-MBSCC-97-02) 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 modifies MBSCC's method of determining the value of securities deposited as collateral in the participants fund to satisfy the MBSCC margin requirement.

#### 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

<sup>8</sup> See Amendment 1, p. 1.

<sup>9</sup> See Amendment 1, p. 2.

<sup>10</sup> See Amendment 1, p. 2.

<sup>11</sup> 17 CFR 200.30-3(a)(12).

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

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.<sup>2</sup>

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

MBSCC's rules allow participants to satisfy their margin requirements by depositing approved forms of collateral such as cash, securities,<sup>3</sup> and letters of credit into the participants fund. According to MBSCC, historically, participants preferred using letters of credit as collateral to satisfy their margin requirement. Securities had represented only a small portion of participant fund deposits. However, recently securities have become the dominant form of acceptable collateral used by participants to satisfy their margin requirements. In 1996, securities constituted approximately 73 percent of total deposits to the participants fund. As a result of this increased use of securities, MBSCC reappraised the value attributed to this form of collateral.

Currently, mortgage-backed securities are credited at the lesser of par or current market value, while Treasury securities are valued at current market value. Both types of securities are revalued daily and analyzed for pending maturity.

The proposed rule change will amend MBSCC's valuation of securities by using the security's remaining maturity to determine the value attributable to the security. When a security has a remaining maturity of greater than one year, the proposed rule change requires MBSCC to value mortgage-backed securities at the lesser of par or 95 percent of the current market value and Treasury securities at 95 percent of their current market value. If a security's remaining maturity is less than one year, the proposed rule change requires MBSCC to value mortgage-backed securities at the lesser of par or the current market value and Treasury securities at the current market value. MBSCC will continue to revalue securities daily and analyze them for

pending maturity before the depositing participant is credited.<sup>4</sup>

MBSCC believes that the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act,<sup>5</sup> and the rules and regulations promulgated thereunder because it will assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

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

MBSCC does not believe that the proposed rule change will impact or impose a burden on competition.

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

No written comments relating to the proposed rule change have been solicited or received. MBSCC will notify the Commission of any written comments received the 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 finding or (ii) as to which the self-regulatory organization 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 Section, 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 MBSCC. All submissions should refer to File No. SR-MBSCC-97-02 and should be submitted by May 16, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-38534; File No. SR-NASD-97-21]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Registration Category, Study Outline and Specifications for Series 55 Examinations, Equity Trader**

April 21, 1997.

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 March 26, 1997, the NASD Regulation, Inc. ("NASD Regulation") 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 NASD Regulation. On April 11, 1997, NASD Regulation submitted Amendment No. 1 to the proposed rule change.<sup>3</sup> The Commission is publishing

<sup>6</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See letter from Craig L. Landauer, Associate General Counsel, NASD Regulation to Yvonne Fraticelli, Attorney, Division of Market Regulation ("Division"), SEC, dated April 11, 1997 ("Amendment No. 1"). In Amendment No. 1, NASD Regulation clarified that individuals who have been "grandfathered" from taking either the General Securities Representative Examination (Series 7) or the Limited Representative-Corporate Securities Examination (Series 62) will not be required to take either examination to qualify to take the Series 55

<sup>2</sup> The Commission has modified the text of the summaries submitted by MBSCC.

<sup>3</sup> Securities acceptable as collateral included direct obligations of the United States (Treasury Bills, Treasury Notes, and Treasury Bonds) ("Treasury securities") and mortgage-backed securities (Government National Mortgage Association securities, Federal National Mortgage Association securities, and Federal Home Loan Mortgage Corporation securities).

<sup>4</sup> Because par value for mortgage-backed securities is \$100, the proposed rule change will apply a five percent haircut only to those mortgage-backed securities that have a current market value of \$105 or less. For example, a mortgage-backed security with a current market value exceeding \$105 is and will continue to be revalued to a par value of \$100. However, a mortgage-backed security with a current market value of \$105 will now be revalued to \$99.75 or 95 percent of current market value. Similarly, a mortgage-backed security with a current market value of \$99 will be revalued to \$94.05.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).