

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

MBSCC's rules allow participants to satisfy their margin requirements by depositing approved forms of collateral such as cash, securities,³ 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.⁴

MBSCC believes that the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act,⁵ 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.⁶

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"),¹ and Rule 19b-4 thereunder,² 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.³ The Commission is publishing

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240. 19b-4.

³ 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

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

³ 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).

⁴ 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.

⁵ 15 U.S.C. 78q-1(b)(3)(F).

this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The National Association of Securities Dealers, Inc. ("NASD" or "Association") proposes to amend NASD Rule 1032, "Categories of Representative Registration," to add a new registration category, Equity Trader (Series 55). Below is the text of the proposed rule change. Proposed new language is italicized.

Rule 1032. Categories of Representative Registration

(f) Limited Representative—Equity Trader

(1) Each person associated with a member who is included within the definition of a representative as defined in Rule 1031 must register with the Association as a Limited Representative—Equity Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities, other than any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by or is under common control, with the member.

(2) Before registration as a Limited Representative—Equity Trader as defined in subparagraph (1) hereof may become effective, an applicant must:

(A) be registered pursuant to Rule 1032, either as a General Securities Representative or a Limited Representative—Corporate Securities; and

(B) pass an appropriate Qualification Examination for Limited Representative—Equity Trader. Any person who has filed an application to take this examination by (date thirty (30) days after the effective date of this rule) must pass the examination by (24 months after effective date above). Any person who is eligible for this extended qualification period and who fails this examination during such twenty-four (24) month time period must wait (30 days from the date of failure to take the examination again. Any person who

files an application to take this qualification examination after (date thirty (30) days after the effective date of this rule) must pass this examination before conducting such activities as described in paragraph (f)(1) above. In no event may a person who is eligible for the extended qualification period function as an Equity Trader beyond the 24-month period without having successfully passed the appropriate qualification examination.

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

In its filing with the Commission, NASD Regulation 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. NASD Regulation has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

It is the NASD's responsibility under Section 15A(g)(3) of the Act⁴ to prescribe standards of training, experience and competence for persons associated with NASD members. Pursuant to this statutory obligation, the NASD has developed examinations and administers examination developed by other self-regulatory organizations designed to establish that persons associated with NASD members have attained specified levels of competence and knowledge.

In 1995, the NASD's Market Surveillance staff and the NASD's National Business Conduct Committee ("NBCC") became concerned about the escalating number of rule violations by traders conducting market making and principal trading functions in both the Nasdaq Market and over-the-counter ("OTC") equity trading markets. With the view that better training and qualification of traders was necessary, the NASD's Market Surveillance staff conducted an assessment of how traders are prepared to carry out the role of trading and market making in equity securities by visiting member firms and discussing the issue with several senior managers of the Association and several members of the NASD's Market Surveillance Committee. In particular,

the NASD staff discussed with these parties a qualification examination requirement designated specifically for traders. The parties contacted supported the establishment of a qualification examination for traders.

This proposed rule change will establish a registration category (Series 55) and qualification examination for equity traders. Paragraph (1) of proposed NASD Rule 1032(f) defines the scope of the requirement to include market makers, agency traders and proprietary traders in equity or convertible debt securities. The inclusion of convertible debt securities⁵ reflects that fact that, under certain conditions, convertible debt securities trade similarly to equity security and many of the same regulatory issues and concerns apply to trading in both types of securities.

This paragraph also contains an exemption for traders whose principal activities are executing orders on behalf of an affiliated investment company which is registered with the Commission under the Investment Company Act of 1940. This exemption is intended to reflect the reality that such traders are generally in the same position as buy-side professionals employed within investment companies, who would not be subject to the examination requirement.

Paragraph (2) of proposed NASD Rule 1032(f) establishes that an individual must be registered as either a Series 7 or Series 62 representative in addition to passing the Series 55 Examination before he can be registered in the Series 55 category.⁶ This requirement is consistent with the requirements applicable to other specialized registration categories.

Paragraph (2) does not have a "grandfather" provision. The NASD believes that such a provision is not appropriate due to the uneven knowledge of existing rules among traders as well as the large number of rule and structural changes occurring in the equity markets. The proposed rule provides that presently registered traders must pass the qualification examination within two years of the effectiveness of the rule. The two year time period is intended to provide

⁵ Pursuant to a telephone conversation between Craig L. Landauer, Associate General Counsel, NASD Regulation and Yvonne Fraticelli, Attorney, Division, SEC, on April 7, 1997, Commission staff has replaced the word "exclusion" with the word "inclusion."

⁶ Under the proposal, individuals "grandfathered" from taking either the Series 7 or Series 62 examinations will not be required by the proposal to take either examination to qualify to take the proposed Series 55 examination. See Amendment No. 1, *supra* note 3.

traders sufficient time to study and pass the examination. This time period also takes into consideration that some traders with many years of experience in the securities industry may not have been required to take either the Series 7 or Series 62 examinations.

This examination will consist of ninety questions, and candidates will have three hours to complete the examination. The passing score for the examination will be 70%.

The NASD believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6)⁷ and 15A(g)(3)⁸ 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.

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

NASD Regulation does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received.

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 consent, 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, NW., Washington, DC 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. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to File No. SR-NASD-97-21 and should be submitted by May 19, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38537; File No. SR-NASD-97-11]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Amendment No. 1 by National Association of Securities Dealers, Inc., Relating to the Release of Disciplinary Information

April 22, 1997.

I. Introduction

On February 11, 1997, the NASD Regulation, Inc. (NASD Regulation) filed with the Securities and Exchange Commission ("SEC" or "Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act"),¹ a proposed rule change consisting of an Interpretation on the Release of Disciplinary Information in IM-8310-2 of the Rules of the National Association of Securities Dealer's, Inc. ("NASD"). On March 10, 1997, NASD Regulation filed with the Commission Amendment No. 1. The proposed rule change and Amendment No. 1 were published for comment in the **Federal Register**.² One comment

letter was received.³ For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposal

The NASD's Public Disclosure Program ("Program") currently provides through the Central Registration Depository ("CRD") a synopsis of all pending NASD disciplinary information regarding members and associated persons, including information on disciplinary complaints⁴ when they are issued by the Association and disciplinary decisions when they are issued by any Committee or Board of the Association. Recently, the Commission approved an amendment that requires the Association to provide copies of disciplinary complaints and decisions upon request.⁵

The Interpretation on the Release of Disciplinary Information ("Interpretation"), contained in IM-8310-2,⁶ currently permits the Association to issue information regarding certain specified significant disciplinary decisions when they become final.⁷ The specified decisions are limited to those that impose sanctions of a suspension, bar or fine of \$10,000 or more.

The Program has expanded to now provide a synopsis of all pending NASD disciplinary information regarding members and associated persons, including information on the filing of disciplinary complaints. While the information is available through CRD, concerns have been raised because there is a disparity in accessibility of the information. The NASD does not publish, to the membership or the press, the issuance of a significant complaint regarding a member or associated person with whom the individual does

³ See letter from Steven Alan Bennett, Senior Vice President and General Counsel, Bank One Corporation, to Mr. Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated April 7, 1997, supporting the proposed rule change and Amendment No. 1.

⁴ This rule filing relates to "disciplinary complaints," and does not address "customer complaints."

⁵ See, Securities Exchange Act Release No. 37797 (October 9, 1996); 61 FR 53984 (October 16, 1996).

⁶ The Interpretation was previously cited as "Resolution of the Board of Governors—Notice to Membership and Press of Suspensions, Expulsions, Revocations, and Monetary Sanctions and Release of Certain Information Regarding Disciplinary History of Members and Their Associated Persons" and appeared after paragraph 2301 of the NASD Manual, following Article V, Section 1 of the Rules of Fair Practice.

⁷ The publication of information is normally done through a monthly press release containing information about significant disciplinary actions that have become final during the preceding month. In addition, a more detailed press release may be issued on a more expedited basis about a case of particular importance.

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 15 U.S.C. 78o-3(g)(3).

⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1) (1988).

² See Securities Exchange Act Release No. 38380 (March 10, 1997), 62 FR 12866 (March 18, 1997).