

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with requirements of the Act and in particular with the requirements of 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-97-08) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 97-32827 Filed 12-16-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39419; File No. SR-Phlx 97-56]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Philadelphia Stock Exchange, Inc. Relating to Margin and Net Capital Requirements for Joint Back Office Arrangements

December 10, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 7, 1997, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On November 24, 1997, the Exchange filed with the Commission Amendment No. 1 to the proposed rule change.² 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 seeks to amend Exchange Rules 703 and 722 to establish margin and net capital requirements for

Joint Back Office ("JBO") participants and clearing firms.

The text of the proposed rule change is available at the office of the Secretary, the Exchange, and at the Commission.

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

In its filing with the Commission, the Exchange 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. The Exchange 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

1. Purpose

The Exchange seeks to revise Exchange Rules 703 and 722 to establish margin and net capital requirements for JBO participants and clearing firms. JBO arrangements permit a participating broker-dealer to be deemed self-clearing for margin purposes and entitle the participating broker-dealer to good faith credit.³

In recent amendments to Regulation T,⁴ the Board of Governors of the Federal Reserve System ("FRB") placed its reliance on the authority of self-regulatory organizations ("SROs") to ensure the reasonableness of JBO arrangements.⁵ When the provision permitting JBO arrangements was first adopted, the FRB assumed there would be a reasonable relationship between the good faith credit extended to a JBO participant and its ownership interest in the clearing firm. Consequently, the FRB did not establish any explicit requirement for the amount of ownership each participant should have in the JBO. Because Regulation T does not provide an ownership standards,⁶

however, good faith credit has been extended to "owners" holding merely a nominal interest in a clearing firm.

In conjunction with other SROs and representatives from the securities industry, the Exchange has established standards for JBO participants and clearing firms. These standards will permit the extension of good faith credit to clearing firm "owners" only when the owners maintain meaningful assets on deposit with the JBO clearing firm, and the clearing firm maintains sufficient net capital and risk control procedures to carry such accounts. The Exchange's proposed rule change would establish the following requirements:

Net Capital Requirements. As proposed, Exchange Rule 703 will require each JBO participant⁷ to be a registered broker-dealer subject to the net capital requirements prescribed by Commission Rule 15c3-1 ("Rule 15c3-1").⁸ JBO participants may not claim the net capital exemption available to option market makers under Commission Rule 15c3-1(b)(1).⁹ JBO participants will be required to deposit and maintain minimum account equity of \$1,000,000, and also will be subject to Financial and Operational Combined Uniform Single Report ("FOCUS") filings and certified audits. In addition, each JBO participant must meet and maintain the ownership standards established by the JBO clearing member. To ensure that adequate procedures exist for complying with these requirements, JBO participants will be required to employ or have access to a qualified Series 27 principal.

In addition, the proposed rule change will require a clearing member carrying JBO accounts to notify its Designated Examining Authority in writing of its intention to clear such accounts and will require the clearing member to comply with additional net capital requirements prescribed by the Exchange. Such a clearing member must maintain either: (i) tentative net capital of \$25 million;¹⁰ or (ii) net capital of \$10 million, if the clearing member's primary business is the clearance of option market maker accounts. A clearing member will be deemed to conduct a primary options market maker business if at least 60% of the

servicing broker or dealer owned jointly or individually by other [broker-dealers].¹² 12 CFR 220.11(a)(2).

⁷ The proposed rule change allows member organizations and foreign currency option participant organizations to establish JBO arrangements with JBO clearing members.

⁸ 17 CFR 240.15c3-1.

⁹ 17 CFR 240.15c3-1(b)(1).

¹⁰ The term "tentative net capital" refers to a clearing member's net capital before the application of haircuts and undue concentration deductions.

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Amendment No. 1 modified the proposed rule change to require Joint Back Office clearing members to develop risk analysis standards which are acceptable to the Exchange. See Letter from Michele R. Weisbaum, Vice President and Associate General Counsel, Exchange, to Michael L. Loftus, Attorney, Division of Market Regulation, Commission, dated November 21, 1997.

³ Under the proposed rule change, JBO participants would not be considered self-clearing for any purpose other than the extension of credit under Exchange Rule 722, as revised, or under the comparable rules of another self-regulatory organization.

⁴ 12 CFR 220 *et seq.* Regulation T is entitled "Credit by Brokers, and Dealers." The Board of Governors of the Federal Reserve System issued Regulation T pursuant to the Act.

⁵ See Board of Governors of the Federal Reserve System Docket No. R-0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

⁶ Section 220.11(a)(2) of Regulation T only requires that a JBO clearing firm be "a clearing and

gross haircuts calculated for all options market maker and JBO participant accounts, in aggregate, is attributable to options market maker transactions. A JBO clearing firm conducting a primary options market maker business must include the gross deductions calculated for all JBO participant accounts in its ration of gross options market maker deductions to adjusted net capital.

Further, each JBO clearing member shall adjust its net worth daily by deducting any deficiency between a JBO participant's account equity and the proprietary haircut calculated pursuant to Rule 15c3-1 for the positions maintained in the JBO account. As previously referenced, each clearing member which maintains JBO accounts must require and maintain equity of \$1,000,000 for each JBO participant, over all related funds. The clearing member is required to issue a margin call if the JBO participant's account equity falls below the \$1,000,000 threshold. Finally, each JBO clearing member will be required to establish and maintain written ownership standards for JBO accounts.¹¹ The clearing member also must develop risk analysis standards which are acceptable to the Exchange.

Margin Requirements. The Exchange proposes to revise Exchange Rule 722, Margin Accounts, to permit a member organization to carry the accounts of JBO participants on a good faith margin basis. The JBO accounts must comply with the requirements established in Regulation T, Section 220.11,¹² and Exchange Rule 703, as modified above. JBO participants must maintain equity of at least \$1,000,000 in their accounts. If the equity falls below \$1,000,000, the JBO clearing firm must issue a margin call for additional funds or securities which must be satisfied within 5 business days.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act,¹³ in general, and

with Section 6(b)(5),¹⁴ in particular, in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities; 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. The Exchange further believes that the proposed rule change is designed to ensure the reasonableness of JBO arrangements in accordance with the FRB's directive in its recent amendments to Regulation T.

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

The Exchange does not believe the proposed rule change will impose any inappropriate burden on competition.

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

The Exchange did not solicit or receive written comments 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 Exchange consents, the Commission will:

(A) by order approved 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 submissions, 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 persons, 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 the Exchange. All submissions should refer to File No. SR-Phlx-97-56 and should be submitted by January 7, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 97-32824 Filed 12-16-97; 8:45 am]

BILLING CODE 8010-01-M

SMALL BUSINESS ADMINISTRATION

Greater Washington Investments, Inc.; Notice of Surrender of License

Notice is hereby given that Unco Ventures, Ltd. (Unco), 520 Post Oak Blvd., Suite 130, Houston, TX 77027-9405, has surrendered its license to operate as a small business investment company under the Small Business Investment Act of 1958, as amended (the Act). Unco was licensed by the Small Business Administration on September 30, 1988.

Under the authority vested by the Act and pursuant to the Regulations promulgated thereunder, the surrender was acted on this date, and accordingly, all rights, privileges and franchises derived therefrom have been terminated

(Catalog of Federal Domestic Assistance Program No. 59.11, Small Business Investment Companies)

Dated: December 8, 1997.

Don A. Christensen,

Associate Administrator for Investment.

[FR Doc. 97-32816 Filed 12-16-97; 8:45 am]

BILLING CODE 8025-01-M

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Modification of the Tariff-Rate Import Quota for Certain Cheeses From Hungary

AGENCY: Office of the United States Trade Representative.

ACTION: Modification of the Harmonized Tariff Schedule of the United States.

SUMMARY: This document modifies Additional U.S. Notes 21 and 25 to

¹¹ The Exchange will not require JBO clearing members to establish ownership standards that meet any minimum guidelines in addition to the rules of the Exchange. As a result, clearing members will possess the discretion to develop the ownership criteria governing their JBO accounts. However, should the Exchange learn of any inappropriate ownership standards through its audit and surveillance activities, the Exchange will move to correct the impropriety. Telephone conversation between Michele R. Weisbaum, Vice President and Associate General Counsel, Exchange, and Michael L. Loftus, Attorney, Division of Market Regulation, Commission (November 26, 1997).

¹² 12 CFR 220.11.

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ 17 CFR 200.30-3(a)(12).