

representative-corporate securities, and must pass the Series 55 examination.⁶ The proposed rule contains an exemption for representatives whose principal trading activities involve executing orders on behalf of an affiliated investment company which is registered with the Commission under the Investment Company Act of 1940. The Association believes the exemption is appropriate because such traders generally are in the same position as buy-side professionals employed by investment companies, who would not be subject to the examination requirement.

The proposal provides that presently registered representatives who file an application to take the Series 55 within 30 days of the effective date of the rule must pass the Series 55 examination within two years of the effective date of the rule. A currently registered representative who fails to file an application to take the Series 55 within 30 days of the effective date of the rule must pass the Series 55 examination before conducting the activities described in NASD Rule 1032(f)(1). The Association believes that the two-year time period will provide representatives with sufficient time to study and to pass the Series 55 examination. The Series 55 examination will consist of 90 questions, and candidates will have three hours to complete the examination. The passing score for the examination will be 70%.

III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities association.⁷ Specifically, the Commission believes the proposal is consistent with the requirements of Sections 15(b)(7),⁸ 15A(b)(6),⁹ and 15A(g)(3),¹⁰ of the Act. Section 15(b)(7)¹¹ states that a registered broker or dealer may not effect any transaction, or induce the purchase or sale of, any security unless such broker or dealer meets such standards of operational capability and all those associated with such broker or dealer meet certain

standards of training, experience, competence, and such other qualifications as the Commission finds appropriate in the public interest or for the protection of investors. Section 15A(b)(6)¹² requires, in relevant part, that the rules of a registered national securities association be designed to prevent fraudulent and manipulative acts as practices, to promote just and equitable principles of trade, and to protect investors and the public interests. Section 15A(g)(3)¹³ provide that a registered national securities association may deny membership to, or condition the membership of, a registered broker or dealer if such broker or dealer does not meet the requisite standards of knowledge and competence.

The Commission believes that the Series 55 examination will help to ensure that registered representatives required to take the examination have adequate knowledge of current NASD rules and of the Act. The Commission recognizes the importance to investors of the NASD's efforts to ensure that registered persons have an appropriate level of knowledge and expertise regarding applicable laws and regulations. By helping to establish this level of knowledge, the Commission believes that the Series 55 examination will help registered representatives carry out their responsibilities under the federal securities laws.

The Commission believes that the proposed examination focuses on relevant subject matter in view of changes in applicable laws, rules, regulations and industry practices. The Commission further believes that the topics covered by the Series 55 examination are appropriate and include a reasonably broad range of subject matter. Finally, the Commission believes that the two-year time period provided for currently registered representatives to pass the examination is reasonable and should provide currently registered representatives with sufficient time to prepare for the examination.¹⁴

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁵ that the proposed rule change (SR-NASD-97-

21), including Amendment No. 1, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 98-539 Filed 1-8-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39503; File No. SR-OCC-97-19]

Self-Regulatory Organizations; the Options Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Relating to the Establishment of a Service Providing Theoretical Profit and Loss Values for Use in Calculating Net Capital Requirements for Listed Options and Related Positions and Relating to Fees and Charges Associated With the New Service

December 31, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 29, 1997, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-OCC-97-19) as described in Items I and II below, which items have been primarily prepared by OCC. The commission is publishing this notice and order to solicit comments from interested parties 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 proposed rule change will allow OCC to provide to its clearing members and to broker-dealers that are not OCC clearing members a new service which will provide theoretical profit and loss values for broker-dealers' use in calculating their net capital requirements under the Commission's uniform net capital rule² for listed options and related positions. OCC also is proposing to amend its schedule of fees to include fees for the new service.³

⁶ Representatives who have been "grandfathered" from taking the Series 7 or the Series 62 will not be required to take either examination in order to take the Series 55. See Amendment No. 1, *supra* note 3.

⁷ In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78o(b)(7).

⁹ 15 U.S.C. 78o-3(b)(6).

¹⁰ 15 U.S.C. 78o-3(g)(3).

¹¹ 15 U.S.C. 78o(b)(7).

¹² 15 U.S.C. 78o-3(b)(6).

¹³ 15 U.S.C. 78o-3(g)(3).

¹⁴ As noted above, registered persons who file an application to take the Series 55 examination within thirty days after the effective date of the rule must pass the Series 55 within two years of the effective date of the rule.

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s (b)(1).

² Rule 15c3-1, 17 CFR 240.15c3-1.

³ OCC's proposed schedule of fees for the new service is attached to this release as Exhibit 1.

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 the basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements have been examined at the places specified in Item IV below. OCC has prepared summaries, as set forth in sections A, B, and C below, of the most significant aspects of these statements.⁴

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

On February 6, 1997, the Commission adopted amendments to its uniform net capital rule.⁵ The amendments allow broker-dealers to use theoretical options pricing models to determine net capital requirements for listed options and related positions.

In the release adopting the amendments ("Adopting Release"),⁶ the Commission discusses a pilot program that it had sponsored to evaluate a risk-based haircut system. OCC and the Chicago Board Options Exchange, Incorporated ("CBOE") had been invited by the Commission's Division of Market Regulation ("Division") to participate in the pilot program. In connection with the pilot program and with the concurrence of the Division, OCC developed the software and carried out the operations to calculate risk-based haircuts. Under the Commission's release proposing the amendments⁷ and under the Division's no-action letter⁸ regarding risk-based haircuts, broker-dealers in the pilot were required to use OCC's theoretical intermarket margining system to determine theoretical option prices.

OCC believes that the pilot program confirmed the theory that a risk-based haircut system reflects the risk inherent in options positions more accurately than systems used previously and that it significantly reduces haircuts for accounts having primarily hedged

positions. In the Adopting Release, the Commission recognizes the pilot program's findings and allows all broker-dealers to employ theoretical option pricing models in determining net capital requirements for listed options and related positions. In addition, the Adopting Release states that OCC's theoretical options pricing methodology is deemed to be an approved model for calculating haircuts under the net capital rule for a period of two years from the effective date of the amendments to the net capital rule adopted in the Release.⁹

During both the pilot program and the period after effectiveness of the amendments to the uniform net capital rule, OCC has provided the theoretical profit and loss values free of charge to broker-dealers using its service. Beginning January 1, 1998, OCC intends to begin charging OCC clearing members for theoretical profit and loss values. OCC also will provide theoretical profit and loss values to broker-dealers that are not clearing members and will use the same fee structure. The proposed fee structure is based on the ongoing operational costs that OCC will incur to provide the service to broker-dealers regardless of whether they are OCC clearing members. The fee structure for OCC's theoretical profit and loss value service is attached as Exhibit 1.

Operationally, OCC will provide theoretical profit and loss values to broker-dealers through two means: (1) By computer interface or (2) by dial-up access through OCC's theoretical information online system ("TIO"). Broker-dealers that choose to receive data by computer interface will be required to receive each day a full file containing theoretical values for each class group.¹⁰ Broker-dealers that choose to receive data by TIO will be able to receive partial theoretical information.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act¹¹ because it simplifies the net capital treatment of options and more accurately reflects the risk inherent in broker-dealer option position. OCC also believes that the proposed rule change allocates fees in an equitable manner.

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

OCC does not believe that the proposed rule change would impose any burden 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 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 Act¹² requires that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for prompt and accurate clearance and settlement of securities transactions. The Commission believes that the proposed rule change is consistent with OCC's obligations under Section 17A(b)(3)(F) because the use of OCC's theoretical profit and loss values should increase the accuracy of the valuation of broker-dealer option positions. This increased accuracy should allow OCC's clearing members and other broker-dealers using the service to improve their operations and therefore to improve the mechanism of the national clearance and settlement system.

In addition, Section 17A(b)(3)(D) of the Act¹³ requires that the rules of a clearing agency provide for the equitable allocation of reasonable dues, fees, and other charges among its participants. The Commission believes that the proposed rule change is consistent with OCC's obligations under Section 17A(b)(3)(D) because the fees for the theoretical profit and loss value services are applied equally to all broker-dealers using the service whether or not they are OCC 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 the proposed rule change prior to the thirtieth day after publication of notice will allow OCC to continue to offer its theoretical profit and loss value service without interruption. This is important because currently OCC's model is the only approved theoretical options pricing model.

⁴ The Commission has modified the text of the summaries prepared by OCC.

⁵ Securities Exchange Act Release No. 38248 (February 6, 1997), 62 FR 6474 (February 12, 1997). The amendments adopted in the release took effect on September 1, 1997.

⁶ *Id.*

⁷ Securities Exchange Act Release No. 33761 (March 15, 1994), 59 FR 13275 (March 21, 1994).

⁸ Letter from Brandon Becker, Division of Market Regulation, Commission, to Mary L. Bender, First Vice President, CBOE, and to Timothy Hinkas, Vice President, OCC (March 15, 1994).

⁹ OCC has informed the Commission that prior to the expiration of the two year approval period it will clarify the status of its theoretical option pricing model by appropriate approval from the examining authority designated pursuant to Section 17(d) of the Act, 15 U.S.C. 78q(d).

¹⁰ OCC has informed the Commission that a full file will contain approximately 2000-3000 class groups.

¹¹ 15 U.S.C. 78q-1.

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 15 U.S.C. 78q-1(b)(3)(D).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making such 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the File No. SR-OCC-97-19 and should be submitted by January 30, 1998.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-97-19) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,
Deputy Secretary.

Exhibit 1

Theoretical profit and loss values

Computer Interface:		
Monthly fee (per broker*) ..	\$2,000.00	
Month-end only (per class group for all class groups in the database**) (per broker)		0.10
Dial-up access (via Theoretical Information Online System) per class group per day per broker** (\$200.00 minimum and \$2,000.00 maximum per month per broker)		0.10

* "Per broker" essentially means "per seaparte net capital calculation," i.e., does not mean that the charges apply to each market-maker/specialist whose positions are taken into account calculating a broker's net capital.

** Approximately 2000-3000 class groups

[FR Doc. 98-494 Filed 1-8-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39509; File No. SR-PTC-97-05]

Self-Regulatory Organizations; Participants Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Declaring a Dividend

December 31, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 16, 1997, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-PTC-97-05) as described in Items I, II, and III below, which Items have been prepared by PTC. 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 Substances of the Proposed Rule Change

The proposed rule change declares a dividend in the amount of \$1.05 per share, payable on January 20, 1998, to PTC's stockholders of record as of December 31, 1997.

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

In its filing with the Commission, PTC 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. Set forth in sections (A), (B), and (C) below, are the most significant aspects of such statements.²

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

By letter dated March 27, 1989, from the Board of Governors of the Federal Reserve System ("Board of Governors"), PTC was prohibited from paying dividends to its stockholders.³ By letter dated June 9, 1992, the Board of Governors relieved PTC of the

restriction on payment of dividends with the understanding that dividends, if declared, would be declared periodically by PTC's Board of Directors and would be paid at a rate not to exceed the 90-day United States Treasury bill rate in effect at the time the dividend is declared.⁴

The Commission approved PTC's practice of paying dividends out of net profits subject to the limitations imposed by the Board of Governors and subject to the further requirements that (i) prior to using excess income from invested principal and interest ("P&I") to pay a dividend, PTC's Board of Directors be advised of any amount related to the investment of P&I which has not been rebated and is part of the net profits used to declare the dividend and affirmatively approve the application of such excess P&I income for the dividend and (ii) PTC file a proposed rule change pursuant to Section 19(b)(3)(A) of the Act each time it declares a dividend.⁵

PTC has paid dividends: on January 18, 1993, in the amount of \$.52 per share to stockholders of record as of the close of business on December 31, 1992;⁶ on January 20, 1994, in the amount \$.525 per share to stockholders of record as of the close of business on December 31, 1993;⁷ on January 20, 1995, in the amount of \$1.00 per share to stockholders of record as of the close of business on December 31, 1994;⁸ on December 29, 1995, in the amount of \$.98 per share to stockholders of record as of the close of business on December 21, 1995;⁹ and on January 21, 1997, in the amount of \$.98 per share to stockholders as of the close of business on December 31, 1996.¹⁰

At its meeting on December 11, 1997, PTC's Board of Directors declared a dividend payable on January 20, 1998, in the amount of \$1.05 per share to stockholders of record as of the close of business on December 31, 1997. This dividend rate does not exceed the 90-

⁴ Letter from Jennifer J. Johnson, Associate Secretary to the Board, Board of Governors, to Leopold S. Rassnick, Vice President and General Counsel, PTC (June 9, 1992).

⁵ Securities Exchange Act Release No. 31746 (January 15, 1993), 58 FR 6319 [File No. SR-PTC-92-15].

⁶ *Id.*

⁷ Securities Exchange Act Release No. 33487 (January 18, 1994), 59 FR 3900 [File No. SR-PTC-93-07].

⁸ Securities Exchange Act Release No. 35205 (January 9, 1995), 59 FR 3444 [File No. SR-PTC-94-08].

⁹ Securities Exchange Act Release No. 36790 (January 30, 1996) 61 FR 4507 [File No. SR-PTC-95-09].

¹⁰ Securities Exchange Act Release No. 38280 (February 12, 1997) 62 FR 8072 [File No. SR-PTC-96-09].

¹⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified parts of these statements.

³ Letter from William A. Wiles, Secretary of the Board, Board of Governors, to Thomas A. Williams, Milbank, Tweed, Hadley & McCloy (March 27, 1989).