

along" orders does not prohibit a floor broker from properly exercising discretion in the representation of an order or prevent market participants from effecting legitimate trading strategies. In addition, the proposed rule change was published for the full comment period and Amendment Nos. 1 and 2 do not substantively change the proposal. Accordingly, the Commission believes that it is consistent with Section 6(b)(5) of the Act to approve Amendment Nos. 1 and 2 to the proposal on an accelerated basis.

Interested persons are invited to submit written data, views, and arguments concerning Amendment Nos. 1 and 2 to the rule proposal, including whether Amendment Nos. 1 and 2 are consistent with the Act. 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 also will be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-CBOE-97-50 and should be submitted by May 26, 1998.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-CBOE-97-50), including Amendment Nos. 1 and 2, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Jonathan G. Katz,

Secretary.

[FR Doc. 98-11746 Filed 5-1-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39925; File No. SR-CBOE-97-67]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to Substantive Revisions of the Exchange's Rules Governing Margin Regulation

April 27, 1998.

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 Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") 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. 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 proposes substantive changes to its rules concerning margin requirements. The revisions would: (i) Expand the types of short positions that would be considered "covered" in a cash account, specifically, certain short positions that are components of limited-risk spread strategies (e.g., butterfly and box spreads); (ii) allow a bank-issued escrow agreement to serve as cover in lieu of cash for certain spread positions held in a cash account; (iii) recognize butterfly and box spreads as strategies for purposes of margin treatment and establish appropriate margin requirements; (iv) recognize various strategies involving stocks (or other underlying instruments) paired with long options, and provide for lower maintenance margin requirements on such hedged stock positions; (v) permit the extension of credit on certain long term options and certain long box spreads; (vi) consolidate in one chapter, the various margin requirements that presently are dispersed throughout the Exchange's rules; (vii) revise other Exchange rules impacted by the proposal; and (viii) update and improve, as necessary, current margin rules.

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 proposes to make revisions to its rules governing margin regulation that would: (i) Expand the types of short positions that would be considered "covered" in a cash account, specifically, certain short positions that are components of limited-risk spread strategies (e.g., butterfly and box spreads); (ii) allow a bank-issued escrow agreement to serve as cover in lieu of cash for certain spread positions held in a cash account; (iii) recognize butterfly and box spreads as strategies for purposes of margin treatment and establish appropriate margin requirements; (iv) recognize various strategies involving stocks (or other underlying instruments) paired with long options, and provide for lower maintenance margin requirements on such hedged stock positions; (v) permit the extension of credit on certain long term options and certain long box spreads; (vi) consolidate in one chapter, the various margin requirements that presently are dispersed throughout the Exchange's rules; (vii) revise other Exchange rules impacted by the proposal; and (viii) update and improve, as necessary, current margin rules.

Previously, the margin requirements governing options were set forth in Regulation T, "Credit by Brokers and Dealers."² However, recent amendments to Regulation T that became effective June 1, 1997, modified or deleted certain margin requirements regarding options transactions in favor of rules to be adopted by the option self-regulatory organizations ("OSROs"),

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 12 CFR 220 *et seq.* The Board of Governors of the Federal Reserve System issued Regulation T pursuant to the Act.

subject to approval by the Commission.³ In a rule filing approved last year, the Exchange adopted certain options-related margin requirements that were dropped from Regulation T.⁴ The rule filing also made changes to clarify several margin rules and to establish consistency with certain margin rules maintained by the New York Stock Exchange ("NYSE").

At the present time, the Exchange seeks to revise its margin rules to implement enhancements long desired by Exchange members and member firms, public investors, and the Exchange staff. The Exchange believes that certain multiple options position strategies and other strategies that combine stock with option positions warrant identification and recognition for purposes of establishing more equitable margin requirements. Currently, the two components of a strategy that combines stock with an options position must be margined separately. The Exchange believes the risk limitation that results if the stock and options position are viewed collectively is not reflected in the current maintenance margin requirements.⁵ Lastly, the proposal would permit credit to be extended on certain types of options.

During the development of the proposed rule change, the Exchange reviewed its margin rules with a view towards updating and improving the rules. In some instances, the Exchange found it necessary to make minor changes to certain rules because they would be impacted by the more substantive proposals.

a. *Definition Section.* Presently, the Exchange's definition "current market value" is equivalent to the definition found in Regulation T. Instead of repeating the Regulation T definition, the proposal would revise the definition found in the Exchange's rules to note that the meaning of the term "current market value" is as defined in Regulation T. Because the Exchange and other OSROs intend to seek a change in the Regulation T definition, a linkage to the Regulation T definition would keep the Exchange's definition equivalent without requiring a future rule filing.

The Exchange also seeks to establish definitions for the "butterfly spread" and "box spread" options strategies.

The definitions relate to the Exchange's proposed rules that would recognize and specify cash and margin account requirements for butterfly and box spreads.⁶ The Exchange believes the definitions are necessary to specifically establish what multiple option positions, if held together, qualify for classification as butterfly or box spreads, and consequently are eligible for the proposed cash and margin treatment.

Finally, the proposal would define the term "listed." Because "listed" is frequently used in the Exchange's margin rules, the Exchange believes it would be more efficient to define the term once rather than specifying the meaning each time the term is utilized.

b. *Extension of Credit on Long Options, Stock Index Warrants, Foreign Currency Warrants, and Currency Index Warrants.* The proposal would allow extensions of credit on certain listed long options and warrant productions (including currency and index warrants, but excluding traditional stock warrants issued by a corporation on its own stock).⁷ Only those options or warrants that are more than 9 months from expiration would be eligible for credit extension. The proposal requires initial and maintenance margin of not less than 75% of the current market value of a listed option or warrant. Therefore, a broker-dealer would be able to loan up to 25% of the current market value of a listed option or warrant.

The proposal also would permit the extension of credit on options and warrants not listed or traded on a registered national securities exchange or a registered securities association ("OTC options"). However, in addition to being more than 9 months from expiration, an OTC option or warrant must be in-the-money and guaranteed by the carrying broker-dealer. The proposal requires initial and maintenance margin of not less than 75% of the OTC option's (warrant's) in-the-money amount (or intrinsic value), plus 100% of the amount, if any, by which the current market value of the OTC option or warrant exceeds the in-the-money amount.

When the time remaining until expiration for a warrant or option (listed and OTC) on which credit has been extended reaches nine months, the maintenance margin requirement would become 100% of the purchase price.

The proposal also would provide for the extension of credit on a long box

spread composed entirely of European-style option. A long box spread is a strategy composed of four option positions which essentially lock-in the ability to buy and sell the underlying component or index for a profit, even after netting the cost of establishing the long box. The two exercise prices embedded in the strategy determine the buy and the sell price. The Exchange believes that because the cost of establishing the long box is covered by the profit realizable at expiration, there is no risk in carrying the debit incurred to establish the box spread. Although the Exchange believes that 100% of the debit could be loaned, the Exchange proposes to implement a margin requirement and approximates 50% of the debit. The Exchange's proposal would require 50% of the aggregate difference in the two exercise prices (buy and sell) which results in a margin requirement slightly higher than 50% of the debit typically incurred. This is both an initial and maintenance margin requirement. The proposal would afford a long box position a market value for margin equity purposes of not more than 100% of the aggregate exercise price differential.

c. *Cash Account.* The proposal would make butterfly and box spreads in cash-settled, European-style options eligible for the cash account. To qualify for carrying in the cash account, the butterfly and box spreads would be required to meet the specifications, contained in the proposed definition section. The proposal would require full cash payment of the debit that is incurred when a long butterfly or box spread strategy is established. The Exchange believes that if the debit is fully paid, there is no risk to the carrying broker-dealer.

Short butterfly spread generate a credit balance when established. However, in the worst case scenario where all options are exercised, a debit (loss) greater than the initial credit balance received would accrue to the account. This debit or loss is limited. To eliminate the risk to the carrying broker-dealer, the proposal would require that the initial credit balance, plus an amount equal to the difference between the initial credit and the total risk, be held in the account in the form of cash or cash equivalents. The total risk potential in a short butterfly spread comprised of call options is the aggregate difference between the two lowest exercise prices. When respect to short butterfly spreads comprised of put options, the total potential is the aggregate difference between the two highest exercise prices. Therefore, to carry short butterfly spreads in the cash

³ See Board of Governors of the Federal Reserve System Docket No. R-0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

⁴ See Securities Exchange Act Release No. 38709 (June 2, 1997), 62 FR 31643 (June 10, 1997).

⁵ Telephone conversation between Richard Lewandowski, Assistant Vice President, Exchange, and Michael Loftus, Attorney, Division of Market Regulation, Commission, April 27, 1998.

⁶ The proposed rules are outlined below under the "Cash Account" and "Margin Account" sections.

⁷ Throughout the remainder of this notice, the term "warrant(s)" means this type of warrant.

account, the proposal would require that cash or cash equivalents equal to the maximum risk be held or deposited.

Short box spreads also generate a credit balance when established, but unlike the butterfly spread, this credit is sufficient to cover the total debit (loss) that, in the case of a box spread, will accrue to the account if held to expiration. The Exchange believes the credit should be retained in the account. Therefore, the proposal would require that cash or cash equivalent coverings the maximum risk, which is equal to the aggregate difference in the two exercise prices involved, be held or deposited.

In addition, the proposal would allow an escrow agreement to be utilized in lieu of the cash or cash equivalents that are a prerequisite to carrying short butterfly and box spreads in the cash account.

d. *Margin Account.* Currently, the Exchange's margin rules do not recognize butterfly and box spreads for margin purposes. Therefore, margin requirements tailored to the risks of these respective strategies, which the Exchange believes have limited risk, are not currently provided. A butterfly spread is a pairing of two standard spreads, one bullish and one bearish. Under current Exchange margin rules, the two spreads (bullish and bearish) must be margined separately. The Exchange believes this practice requires more margin than necessary because the two spreads serve to offset each other with respect to risk. The Exchange believes that the two individual spreads should be viewed in combination to form a butterfly spread, and that commensurate with the lower combined risk, investors should receive the benefit of lower margin requirements. The proposal would recognize butterfly spreads as distinct strategies and specify requirements that are the same as the cash account requirements described above.

As noted earlier, under the proposal the margin required for a long box spread would be 50% of the aggregate difference in the two exercise prices framing the strategy. This is both an initial and maintenance margin requirement. For margin equity purposes, a long box spread could not be valued at more than 100% of the aggregate exercise price differential. The requirement for a short box spread in the margin account would be the same as the cash account requirement described earlier. Short box spreads would not be recognized for margin equity purposes.

In addition to butterfly and box spreads, the Exchange proposes to recognize five options strategies that are

designed to limit the risk of a position in the underlying component. The strategies are: (i) Long Put/Long Stock; (ii) Long Call/Short Call; (iii) Conversion; (iv) Reverse Conversion; and (v) Collar. Proposed Exchange Rule 12.3(c)(5)(C)(3), "Exceptions," would identify and set forth the requirements for these hedge strategies.

The five strategies are summarized below in terms of a stock position held in conjunction with an overlying option (or options). However, the proposal is structured to also apply to components that underlie index options and warrants. The Exchange's proposal only addresses maintenance margin relief for the stock component (or other underlying instrument) of the five proposed strategies. The Exchange believes that a reduction in the initial margin for the stock component of these strategies is not currently possible because the 50% initial margin requirement under Regulation T continues to apply, and the Exchange does not possess the independent authority to lower the initial margin requirement for stock. However, the Exchange notes that the Federal Reserve Board is considering recognizing the reduced risk afforded stock by these option strategies for the purpose of lowering initial stock margin requirements and is also considering other changes that would facilitate risk-based margins.

The "Long Put/Long Stock" and the "Long Call/Short Stock" strategies are very similar to the "Collar" and "Reverse Conversion" strategies that are addressed below.

A "Conversion" is a long stock position held in conjunction with a long put and a short call. The put and call must have the same expiration and exercise price. The long put/short call is essentially a synthetic short stock position which offsets the long stock, and the exercise price of the options acts like a predetermined sale price. The short call is covered by the long stock and the long put is a right to sell the stock at a predetermined price—the put exercise price. Regardless of any decline in market value, the stock, in effect, is worth no less than the put exercise price.

A "Reverse Conversion" is a short stock, short put, and long call trio. Again, the put and call must have the same expiration and exercise price. The long call/short put is essentially a synthetic long stock position which offsets the short stock and the exercise price of the options acts like a predetermined purchase (buy-in) price. The short put is covered by the short stock and the long call is a right to buy

the stock (in this case closing the short position) at a predetermined price—the call exercise price. Regardless of any rise in market value, the stock can be acquired for the call exercise price, in effect, the short position is valued at no more than the call exercise price. The "Long Call/Short Stock" hedge described above is a Reverse Conversion without the short put, or simply short stock offset by a long call.

A "Collar" is a long stock position held in conjunction with a long put and a short call. A Collar differs from a Conversion in that the exercise price of the put is lower than the exercise price of the call in the Collar strategy, therefore, the options do not constitute a pure synthetic short stock position. The "Long Put/Long Stock" hedge mentioned above is similar to a Collar without the short call, or simply long stock hedged by a long put.

The proposal would establish reduced maintenance margin requirements for the stock component of these five strategies as described below:

1. Long Put/Long Stock

The lesser of:

- 10% of the put exercise price, plus 100% of any amount by which the put is out-of-the-money; or
- 25% of the long stock market value.

2. Long Call/Short Stock

The lesser of:

- 10% of the call exercise price, plus 100% of any amount by which the call is out-of-the-money; or
- The maintenance margin requirement on the short stock.

3. Conversion

- 10% of the exercise price.

The stock may not be valued at more than the exercise price.⁸

4. Reverse Conversion

- 10% of the exercise price, plus any in-the-money amount.⁹

5. Collar

The lesser of:

- 10% of the put exercise price, plus 100% of any amount by which the put is out-of-the-money; or

⁸ The writer of a call option has an obligation to sell the underlying component at the call exercise price. The writer cannot receive the benefit of a market value that is above the call exercise price because, if assigned an exercise, the underlying component would be sold at the exercise price, not the market price.

⁹ The writer of a put option has an obligation to buy the underlying component at the put exercise price. If assigned an exercise, the underlying component would be purchased (the short position effectively closed) at the exercise price, even in the event the market price is lower. To offset the benefit to the account of a lower market value, the put in-the-money amount is added to the requirement.

- 25% of the call exercise price.

The stock may not be valued at more than the call exercise price.

These same maintenance margin requirements will apply, for example, when these strategies are utilized with a mutual fund or a stock basket underlying index options or warrants.

e. *Restructuring.* The proposal would replace the present margin requirement for short (uncovered) listed options with current Interpretation and Policy .01 to Exchange Rule 12.3 ("Interpretation"). The Interpretation contains a table listing all existing options and warrant products, their underlying component or index, the percentage used in a basic formula for calculating the margin requirement, and the percentage used in the calculation of a minimum requirement that becomes operative whenever the basic formula results in a lower requirement.¹⁰ The revision will ensure that the margin requirements for all types of options and warrants will be set forth in one section in an efficient and organized manner. The restructuring also allows the deletion of the short, uncovered option margin requirements for option/warrant products that now appear in the other chapters (Chapter 23 (interest rate options), Chapter 24 (index options), and Chapter 30 (warrants)) because the methodology for calculating the margin is identical—only the percentages and underlying components or indexes differ.

The margin requirements for short (uncovered) positions in OTC options would be relocated under Exchange Rule 12.3(c)(5)(B). The text of the Interpretation (margin requirements for short listed options) currently differs from the text of the Exchange rule that sets forth the margin requirements for short OTC options. The difference stems from the fact that the current Exchange rule relating to OTC options was modeled after the NYSE margin rule. To establish consistency and better organization, the proposal would revise the text of the margin requirements for both listed and OTC short options to make them similar. The Exchange has noted that the methodology of both margin requirements is essentially the same, only different percentages are applied.

In addition, to the extent possible, the proposal has combined the margin requirements pertaining to long position offsets for short OTC options with those for short listed options. The revision

will combine two sets of relatively identical requirements that currently exist.

f. *Consolidation.* For the most part, the proposal would delete the margin requirements applicable to short options/warrants and spreads that currently appear in Chapters 23, 24, and 30. Exchange Rule 12.3 would be restructured to generically cover the margin requirements for short and spread positions in options/warrants of the types currently in the other chapters. Other complex requirements located elsewhere that are not amenable to such generic treatment, have been incorporated into Exchange Rule 12.3 as necessary.

g. *Miscellaneous.* 1. *Time Margin Must Be Obtained.* The proposal would clarify the time in which initial margin, or payment in respect of cash account transactions, is due. Exchange Rule 12.2, which was adopted at a time when the Exchange had authority only to set maintenance margin levels, currently requires that margin be obtained as promptly as possible. Because the Exchange now has additional rulemaking responsibility for initial margin requirements, the proposal specifies that initial margin requirements are due in one "payment period" as defined in Regulation T.¹¹ The proposal also revises Exchange Rule 12.2 to specify that maintenance margin must be obtained as promptly as possible, but in any event within 15 days (rather than the former standard—"within a reasonable time"). The Exchange believes this revision is consistent with the current NYSE requirement.

2. *Effect of Mergers and Acquisitions on the Margin Required for Short Equity Options.* The proposal would implement as Interpretation and Policy .13 of Exchange Rule 12.3, an exception to the margin requirement for short options in the event trading in the underlying security ceases due to a merger or acquisition. The exception currently exists pursuant to an Exchange Regulatory Circular. Under the exception, if an underlying security ceases to trade due to a merger or acquisition, and a cash settlement price has been announced by the issuer of the option, margin would be required only for in-the-money options and would be set at 100% of the in-the-money amount. The Exchange has noted that the NYSE currently maintains a similar written interpretation.

3. *Determination of Value for Margin Purposes.* The proposal would revise Exchange Rule 12.5 to make it

consistent with the other portion of the Exchange's proposal that allows the extension of credit on certain long-term options. Currently, Exchange Rule 12.5 does not allow the market value of long-term options to be considered for margin equity purposes. The revision would allow options and warrants eligible for loan value pursuant to proposed Rule 12.3 to be valued at current market prices for margin purposes. The Exchange believes the change is necessary to ensure that the value of the option or warrant (the collateral) is sufficient to cover the debit carried in conjunction with the purchase.

4. *OTC Options.* Some minor corrections have been made to the table in Exchange Rule 12.3(c)(5)(B) that displays the margin requirements for short OTC options.

5. *Exempted Securities.* Currently, the Exchange's maintenance margin requirement for a non-convertible debt security is found in Exchange Rule 12.3(c)(1), "Exempted Securities." However, the term "non-convertible debt security" refers to corporate bonds which are not considered exempt securities under the Act. Therefore, the Exchange seeks to remove the paragraph regarding non-convertible debt securities from the "Exempted Securities" category, and redesignate it as a separate section of Exchange Rule 12.3(c)(2).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act,¹² in that it is designed to perfect the mechanisms of a free and open market, and to protect investors and the public interest.

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

The Exchange does not believe that 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**

¹⁰ A row also has been added to the table to incorporate the margin requirement for a narrow-based stock index warrant. This requirement is being moved from Chapter 30.

¹¹ 12 CFR 220.2.

¹² 15 U.S.C. 78f(b)(5).

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 approve the 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, including whether the proposed rule change is consistent with the Act. 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 submission should refer to File No. SR-CBOE-97-67 and should be submitted May 26, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Jonathan G. Katz,
Secretary.

[FR Doc. 98-11747 Filed 5-1-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39924; File No. SR-DTC-98-01]

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Accelerated Approval of Proposed Rule Change to Conform DTC's Rules to Revised Article 8 of the Uniform Commercial Code of the State of New York

April 27, 1998.

On January 14, 1998, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-DTC-97-14) 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** on April 14, 1998.² The Commission received no comment letters in response to the filing. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

I. Description

The rule change amends DTC's rules to make them consistent with revised Article 8 of the Uniform Commercial Code ("UCC") as adopted by the State of New York. Generally, the revisions to Article 8, which governs the transfer of securities, reflect that the transfer of ownership of securities and other investment vehicles are no longer effected by the delivery and holding of certificates. Instead, securities are transferred by debits and credits to securities accounts maintained by securities intermediaries. The rule change adds new terminology to DTC's rules,³ revises certain definitions,⁴ and deletes section references based on the prior version of Article 8. The amendments do not change the

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 39836 (April 7, 1998), 63 FR 18239.

³ The proposed rule change will add the following terms to DTC's rules: (1) Certificated security; (2) control; (3) deposit; (4) entitlement holder; (5) entitlement order; (6) free pledge; (7) free release; (8) NYUCC; (9) person; (10) pledge; (11) pledge versus payment; (12) release; (13) release versus payment; (14) security entitlement; (15) security certificate; (16) uncertificated security; and (17) withdrawal.

⁴ The proposed rule change will make technical revisions to the following terms: (1) Clearing agency agreement; (2) deliverer; (3) delivery; (4) deposited security; (5) incomplete transaction; (6) instructor; (7) minimum amount securities; (8) net addition securities; (9) participant; (10) payee; (11) payor; (12) pledge security; (13) pledgee; (14) pledgor; (15) receiver; (16) securities account; (17) security; (18) segregated account; and (19) settlement amount.

substance or meaning of DTC's current rules.

The rule change also amends DTC Rule 20 to specifically state that DTC's board of directors may be resolution delegate to the chairman of the board the power to approve fees and charges.

II. Discussion

Section 17A(b)(3)(F)⁵ of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes that the proposed rule changes are consistent with this requirement because by conforming its rules to the revised Article 8 of the UCC, DTC should help maintain certainty with respect to the substantive rights and obligations under New York State's version of the UCC that are applicable to DTC and its participants.

The Commission also believes that providing DTC's board of directors with the authority to delegate to the chairman of the board the power to approve fees and charges is consistent with this requirement because it allows DTC's board to act more expeditiously.

DTC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after publication in order to enable DTC to revise its rules to be consistent with New York State's version of Article 8 of the UCC as soon as possible.⁶

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the 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-DTC-98-01) be, and hereby is, approved on an accelerated basis.

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ The staff of the Board of Governors of the Federal Reserve System has concurred with the Commission's granting of accelerated approval. Telephone conversation between Kristen Wells, Senior Analyst, Division of Reserve Bank Operations, Board of Governors of the Federal Reserve System, and Jeffrey Mooney, Special Counsel, Division of Market Regulation, Commission (April 24, 1998).

¹³ 17 CFR 200.30-3(a)(12)