

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 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 the above-mentioned self-regulatory organization. All submissions should refer to the file number SR-ISCC-95-05 and should be submitted by January 17, 1995.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-31309 Filed 12-26-95; 8:45 am]

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[Release No. 34-36606; International Series Release No. 905; File No. SR-CC-95-11]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Modifying the Capital Computation Formula and Reporting Requirements Applicable to Canadian Clearing Members of The Options Clearing Corporation

December 20, 1995.

On July 13, 1995, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-95-11) pursuant to Section 19(b)(1) of the Securities and Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the Federal Register on September 13, 1995.² No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

¹ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 36197, International Series Release No. 850 (September 7, 1995), 60 FR 47633.

I. Description of the Proposal

OCC is modifying its rules concerning the financial requirements of Canadian clearing members, including the capital computation formula and reporting requirements applicable to Canadian clearing members, to reflect revisions to the capital computation and reporting standards recently adopted by various Canadian regulatory authorities. OCC's rules allow Canadian clearing members to submit required financial reports in accordance with the accounting and reporting standards of their appropriate self-regulatory body.³ In monitoring Canadian clearing members' compliance with OCC financial requirements, OCC converts this financial information into a form consistent with Rule 15c3-1 under the Act.⁴

The capital formula applied under Canadian securities regulations to Canadian securities firms has been revised and incorporated into a new standard report format. The prior capital formula applied a minimum capital requirement, as assessed by a working capital computation (*i.e.*, total capital less nonallowable assets), based upon volume of business determined by a percentage of adjusted liabilities. The new capital formula continues to be based on a working capital computation minus certain charges, including charges that reflect the risk of proprietary securities held in inventory. However, the new capital formula replaces the concept of adjusted liabilities with revised definitions of allowable assets and margin charges that are intended to reflect the credit worthiness of counterparties and the economic substance of transactions.

The report format used by Canadian securities firms to report their capital computation also has been revised. Accordingly, OCC is changing its financial requirements and reporting rules to conform them to the revised capital formula and reporting format.

Specifically, the prior Interpretations and Policies ("Interpretation") .01 to OCC Rule 301, regarding initial financial requirements, provided that a Canadian clearing member that commenced doing business as a broker or dealer within twelve months prior to its admission to OCC clearing membership must have maintained "initial net free capital," as defined in the Supplementary Instructions re

³ OCC By-law, Article I.N. (2) employs the term "appropriate self-regulatory body" as defined in the Supplementary Instructions re Completion of the Joint Regulatory Financial Questionnaire to refer to the government agency or self-regulatory authority primarily responsible for regulating the activities of a Canadian Clearing Member.

⁴ 17 CFR 240.15c3-1.

Completion of the Joint Regulatory Financial Questionnaire ("Supplementary Instructions"),⁵ of not less than ten percent of such clearing member's "adjusted liabilities," as defined in the Supplementary Instructions, until the later of (i) three months after its admission to OCC clearing membership or (ii) twelve months after it commenced doing business as a broker or dealer. Interpretation .01 to OCC Rule 302, regarding minimum net capital requirements, provided that a Canadian clearing member must have maintained net free capital, as defined in the Supplementary Instructions, of not less than the amount of net free capital that would be required of such clearing member under Section 100.2 of the By-Laws of the Investment Dealers Association of Canada ("IDAC") if the clearing member was a member of the IDAC.

As amended, Interpretation .01 to Rule 301 requires a Canadian clearing member to maintain an initial "early warning reserve," as determined in accordance with the Joint Regulatory Financial Questionnaire and Report ("JRFQ&R"),⁶ of not less than \$1,000,000 (U.S.) for the same period as previously required. The amended Interpretation .01 to Rule 302 will provide that the minimum net capital requirement of a Canadian clearing member is the early warning reserve, as determined under the JRFQ&R, in an amount not less than the greater of \$750,000 (U.S.) or 2% of such Canadian clearing member's total margin requirements as determined in accordance with the JRFQ&R. Application of the early warning reserve as determined under the JRFQ&R also replaces the use of the net free capital formula as determined under the Interpretations to OCC Rules 303 and 304, regarding early warning notice and restrictions on distributions.

Finally, in connection with OCC's financial reporting requirements, each Canadian clearing member now is required to file its JRFQ&R with OCC on a monthly basis except as provided in the Interpretations to Rule 306. The JRFQ&R replaces the Joint Industry Monthly Financial Report which was previously required under the

⁵ The Supplementary Instructions are issued by the Investment Dealers Association of Canada and provide additional guidance for securities firms in connection with the preparation of the Joint Regulatory Financial Questionnaire and Report.

⁶ The JRFQ&R is a financial reporting form which Canadian securities firms are required to prepare and submit to appropriate Canadian regulatory authorities and provincial exchanges to advise them of such firms' financial condition.

Interpretations to OCC's financial reporting rule.

II. Discussion

Section 17A(b)(3)(F)⁷ of the Act requires 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 and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The Commission believes OCC's proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) because the proposal conforms OCC's rules pertaining to Canadian clearing members to the revised capital computation and reporting standards adopted by various Canadian regulatory authorities. OCC allows Canadian clearing members to submit required financial reports to OCC in accordance with the accounting and reporting standards of their appropriate Canadian self-regulatory body. OCC then converts this financial information into a form consistent with Rule 15c3-1 under the Act⁸ in order to monitor Canadian clearing member compliance with OCC financial requirements. As a result of this monitoring scheme, conformity of OCC rules to the current computation and reporting standards of Canadian regulatory authorities is critical to the efficient and proper monitoring of Canadian clearing members' compliance with OCC financial requirements. The Commission believes the proposed rule change should provide consistency between OCC's rules concerning Canadian clearing members' financial requirements and the capital computation and reporting standards adopted by Canadian regulatory authorities and thereby should help assure the safeguarding of securities and funds which are in the custody or control of OCC or for which it is responsible and should foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular 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-95-11) be, and hereby is, approved.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36607; File No. SR-OCC-95-14]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to the Processing of Late Exercise Requests for Eligible Option Contracts

December 20, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on September 15, 1995, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-OCC-95-14) as described in Items I, II and III below, which Items have been prepared primarily by OCC. On December 19, 1995, OCC filed an amendment to the proposed rule change to clarify certain language in the proposal.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 purpose of the proposed rule change is to amend OCC Rule 801(e) pertaining to late exercise of option contracts by changing the cut-off times for filing a late exercise notice and by eliminating any references to trading volume. In addition, the proposed rule change would revise OCC Rule 801(a) to provide expressly for the submission of exercise instructions through electronic means.

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 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. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.³

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

The primary purpose of the proposed rule change is to amend OCC Rule 801(e) regarding late exercises by changing the cut-off times for filing a late exercise notice and by eliminating any references to trading volume. The proposed rule change also seeks to modify OCC Rule 801(a) to provide expressly for the submission of exercise notices through electronic means.

OCC Rule 801(e) currently permits OCC clearing members to file, revoke, or modify exercise notices after the 7:00 P.M. (all time references are Central Time unless stated otherwise) deadline for the purpose of correcting bona fide errors. Once a late instruction is accepted, Rule 801(e) requires the clearing member submitting an instruction to pay a late filing fee and explain in writing the error that cause the late submission of the instruction. The filing fees for late instructions are imposed on a graduated fee schedule with variable cut-off times. The earlier that a late exercise notice is submitted the easier and less costly it is for OCC to process the request.⁴

OCC clearing members have requested that OCC provide them with data from nightly processing earlier on the night of process. Presently, Rule 801(e) requires OCC to wait until 10:00 P.M. to begin critical processing even if it has received all necessary data from exchanges⁵ and clearing members earlier in the night. Due to the many technical improvements implemented by the exchanges in recent years, the exchanges now send daily trading data to OCC much earlier. Thus, there are

³ The Commission has modified the text of the summaries prepared by OCC.

⁴ For a detailed description of OCC's procedures for processing late option exercise notices on non-expiring option contracts and amendments to the late exercise fee schedule cut-off times, refer to Securities Exchange Act Release Nos. 29390 (July 1, 1991), 56 FR 31454 [File No. SR-OCC-90-3] (order approving procedures for processing late exercise notices) and 33247 (November 24, 1993), 58 FR 63419 [SR-OCC-93-2] (order approving changes to OCC's late exercise fee schedule cut-off times).

⁵ The term "exchange" is defined in Article I, Section E(4) of OCC's by-laws as a national securities exchange or a national securities association that has qualified for participation in OCC pursuant to the provision of Article VII of OCC's by-laws.

⁹ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letter from Michael G. Vitek, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Commission (December 19, 1995).

⁷ 15 U.S.C. 78q-1(b)(3)(F) (1988).

⁸ 17 CFR 240.15c3-1.