

As is the case with the SPX and interest rate firm facilitation exemptions, Exchange Rule 6.74(b) procedures for crossing a customer order with a firm facilitation order must be followed. In this regard, before a customer order can be crossed with a firm facilitation order, the trading crowd must be given reasonable opportunity to participate. Moreover, only after it has been determined that the trading crowd will not fill the order, may the firm's customer order be crossed with the firm's facilitation order.

In addition, except for the existing SPX and interest rate firm facilitation exemptions which are set at higher levels, the expanded firm facilitation exemption will be twice the standard limit.¹⁰

The CBOE notes that the firm facilitation exemption will be in addition to and separate from the standard limit, as well as other exemptions available under Exchange position limit rules. For example, if a firm desires to facilitate a customer order in the XYZ option class, which is assumed to be a class of options traded exclusively on the Exchange with a 25,000 contract standard position limit, the firm may qualify for a firm facilitation exemption of up to twice the standard limit (50,000 contracts), as well as an equity hedge exemption of up to twice the standard limit (50,000 contracts), in addition to the 25,000 contract standard limit. If both exemptions are allowed, the facilitation firm may hold or control a combined position of up to 125,000 XYZ contracts on the same side of the market.¹¹

The CBOE notes, however, that the firm facilitation exemption will not extend to all option classes listed on the Exchange. Rather, until coordinated intermarket procedures are developed, the exemption will be extended only to non-multiply-listed option classes.¹²

The CBOE also proposes a new provision with respect to the requirement that the "facilitation firm" hedge the exempted position within five business days. The new provision would allow the facilitation firm to be granted an exemption from this requirement when opposite side of the market contracts are used to hedge the original facilitated customer order. In

securities options (Rule 21.3) each mandate compliance with Rule 4.11.

¹⁰The CBOE notes that this filing does not propose to change the existing SPX and interest rate firm facilitation exemptions.

¹¹50,000 facilitation+50,000 hedge+25,000 standard=125,000 contracts

¹²The CBOE notes, however, that the Intermarket Surveillance Group ("ISG") is currently working on developing such procedures.

this regard, the Department of Market Regulation's staff would be responsible for granting the exemption for the hedge, and the facilitation firm would be required to submit documentation to the regulatory staff as to how the position was hedged.

Lastly, to aid in understanding the scope of the firm facilitation exemption, Interpretation .06 will include both a table and an example showing how the exemption will be applied.

The Exchange believes that expanding the firm facilitation exemption will contribute to the depth and liquidity of the market by allowing those member firms who are willing to commit firm capital the ability to facilitate large customer orders in a wide range of option classes. In approving the firm facilitation exemptions for SPX and interest rate options, the Commission expressed its opinion that providing member organizations with exemptions for the purpose of facilitating large customer orders would better serve the needs of the investing public by distributing the risks of large customer transactions to several market participants. At that time, the Commission also noted that safeguards were built into the exemption to minimize any potential disruption or manipulation concerns. The CBOE believes that these same benefits and assurances are also applicable with respect to the new firm facilitation exemption.

Because the expanded firm facilitation exemption will enhance the depth and liquidity of the market for both members and investors, the Exchange believes that the rule proposal is consistent with and furthers the objectives of Section 6(b)(5) of the Act in that it would remove impediments to and perfect the mechanism of a free and open market in a manner consistent with the protection of investors and the public interest.

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

The CBOE 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

No written comments were solicited or received 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 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 CBOE 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. 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 at the Commission's Public Reference Section, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-68 and should be submitted by January 17, 1996.

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

Margaret H. McFarland,
Deputy Secretary.

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¹³ 17 CFR 200.30-3(a)(12) (1994).

[Release No. 34-36605; International Series Release No. 904; File No. SR-ISCC-95-5]

Self-Regulatory Organizations; International Securities Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Global Clearance Network Service

December 20, 1995.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 22, 1995, the International Securities Clearing Corporation ("ISCC") 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 primarily by ISCC. On November 29, 1995, and on November 30, 1995, ISCC filed amendments to its 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 proposed rule change is to accommodate an additional service provider in ISCC's Global Clearance Network ("GCN") service.

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

In its filing with the Commission, ISCC 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. ISCC 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

ISCC's Rule 50 provides that ISCC may establish a foreign clearance, settlement, and custody service known as the Global Clearance Network ("GCN") in conjunction with banks, trust companies, and other entities. Presently, ISCC has established GCN

relationships with Citibank, N.A., Standard Bank of South Africa, Westpac Custodian Nominees Limited of Australia, and Westpac Nominees-NZ-Limited.⁴ The proposed rule change will accommodate S.D. INDEVAL, S.A. de C.V. ("INDEVAL") as an additional GCN service provider.

ISCC in conjunction with the International Operations Association ("IOA")⁵ has developed a cross-border communications link to INDEVAL using the telecommunication system provided by the Society for Worldwide Interbank Financial Telecommunications S.C. ("SWIFT"). INDEVAL was created under Mexican securities law in 1978 and has been privately owned since 1987.⁶ INDEVAL is regulated by the Government of Mexico. INDEVAL provides clearance, settlement, and custodial services for all transactions executed on the Mexican Stock Exchange and for transactions in other securities that are publicly traded in Mexico. INDEVAL accepts any security publicly offered in Mexico for custody and clearing except for certain Mexican government securities.⁷ As of December 31, 1994, 415 institutions were registered with INDEVAL, and the value of assets under custody was 744.2 billion Mexican pesos. INDEVAL may act as an eligible foreign custodian under Rule 17f-5 under the Investment Company Act of 1940.⁸

INDEVAL has entered into an agreement with ISCC pursuant to which INDEVAL has agreed to provide access to its clearance, settlement, and custody services to GCN participants that qualify to be customers of INDEVAL.⁹ The link permits ISCC members that also are

⁴ Securities Exchange Act Release Nos. 29841 (October 18, 1991), 56 FR 55960; 35392 (February 16, 1995), 60 FR 10415; and 36339 (October 5, 1995), 60 FR 53447.

⁵ IOA was established in 1980 to promote and facilitate the development of cross-border investment activities. IOA is a division of the Securities Industry Association and has membership of approximately 800 internationally active broker-dealers, banks, custodians, clearing organizations, and other service providers.

⁶ Its shareholders are brokerage houses, banks, insurance companies, Banco de Mexico (the central bank of Mexico), and the Mexican Stock Exchange.

⁷ Starting in April 1994, Banco de Mexico authorized INDEVAL to offer custodial and transfer services for government debt securities to foreign direct account depositors by means of a link between Banco de Mexico and INDEVAL.

⁸ Letter from Richard F. Jackson, Division of Investment Management, Commission, File No. 132-3 (October 19, 1990). An "eligible foreign custodian" includes a securities depository or clearing agency which is incorporated or organized under the laws of a country other than the United States and which operates the central system for handling of securities or equivalent book-entries in that country. 17 CFR 270.17f-5(c)(2)(iii) (1994).

⁹ Such agreement is governed by the laws of the United Mexican States.

members of INDEVAL to send instructions through ISCC to INDEVAL regarding such participants' INDEVAL accounts. The link does not provide a mechanism for transferring securities or funds into or out of the United States. INDEVAL is providing the services at its scheduled rates and is responsible for collecting fees directly from the participants. The agreement is terminable on ninety days prior notice. However, if ISCC notifies INDEVAL within such ninety day period that it has not been able to make arrangements with an alternative service provider, the agreement terminates thirty days after the expiration of such ninety day period.

The proposed rule change will facilitate and centralize the processing of international transactions at a beneficial cost to members which ultimately will be reflected in services to the investing public. Accordingly, these changes are consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder.

(B) Self-Regulatory Organization's Statement on Burden on Competition

ISCC does not believe that the proposed rule change will have an impact on 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. ISCC will notify the Commission of any written comments received by ISCC.

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 published its reason 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 approved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing.

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letters from Julie Beyers, Associate Counsel, ISCC, to Christine Sibille, Division of Market Regulation, Commission (November 28, 1995 and November 30, 1995).

³ The Commission has modified parts of these statements.

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.

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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.