

[Release No. 34-36965; File Nos. SR-MCC-96-02 and SR-MSTC-96-02]

**Self-Regulatory Organizations;  
Midwest Clearing Corporation;  
Midwest Securities Trust Company;  
Notice of Filing and Immediate  
Effectiveness of Proposed Rule  
Changes Relating to Termination of  
Services Provided by Midwest Clearing  
Corporation and Midwest Securities  
Trust Company**

March 13, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on February 16, 1996, the Midwest Clearing Corporation ("MCC") and the Midwest Securities Trust Company ("MSTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule changes (File Nos. SR-MCC-96-02 and SR-MSTC-96-02) as described in Items I, II, and III below, which items have been prepared primarily by MCC and MSTC. On February 26, 1996, MCC and MSTC filed an amendment to the proposed rule changes to make technical corrections which did not affect the substance of the proposals.<sup>2</sup> The Commission is publishing this notice to solicit comments from interested persons.

**I. Self-Regulatory Organizations' Statement of the Terms of Substance of the Proposed Rule Changes**

On February 16, 1996, MCC and MSTC notified their participants of the procedures that MCC and MSTC will follow with respect to returning to participants their MCC and MSTC participant funds contributions. MSTC also notified its participants on February 16, 1996, that the interface between MSTC and The Depository Trust Company ("DTC") was to be discontinued on February 20, 1996.

**II. Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes**

In its filing with the Commission, MCC and MSTC included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. MCC and MSTC have prepared summaries, set forth in section (A), (B),

and (C) below, of the most significant aspects of such statements.<sup>3</sup>

**(A) Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes**

On January 5, 1996, the Commission approved proposed rule changes filed by MCC, MSTC, and Chicago Stock Exchange, Incorporated regarding their decisions to terminate as of January 15, 1996, securities clearing and depository services offered by MCC and MSTC. The decision to terminate such services was made in conjunction with an agreement with the National Securities Clearing Corporation and DTC.<sup>4</sup>

MCC and MSTC have issued a Conversion Flash describing a method for the orderly and equitable return of participants' MCC and MSTC participant funds contributions.<sup>5</sup> MSTC also issued a Conversion Flash on February 16, 1996, notifying its participants that the MSTC/DTC interface would be discontinued with the close of business on February 20, 1996, in anticipation of the conversion to same-day funds settlement on February 22, 1996.<sup>6</sup>

MCC and MSTC believe that the proposed rule changes are consistent with Section 17A of the Act and the rules and regulations thereunder because the proposals will facilitate the prompt and accurate clearance and settlement of securities transactions and will assure the safeguarding of securities and funds which are in MCC's and MSTC's custody or control of for which MCC and MSTC are responsible.

**(B) Self-Regulatory Organizations' Statement on Burden on Competition**

MCC and MSTC do not believe the proposed rule changes will impose any burden on competition.

**(C) Self-Regulatory Organizations' Statement on Comments on the Proposed Rule Changes Received from Members, Participants or Others**

MCC and MSTC have neither solicited nor received written comments on the proposed rule changes.

<sup>3</sup> The Commission has modified the text of the summaries prepared by MCC and MSTC.

<sup>4</sup> Securities Exchange Act Release No. 36684 (January 5, 1996), 61 FR 1195, [File Nos. SR-MCC-95-04 and SR-MSTC-95-10] (order approving proposed rule changes).

<sup>5</sup> The Conversion Flash is attached as Exhibit A to MCC's and MSTC's filings and is available in the Commission's Public Reference Room or through MCC or MSTC.

<sup>6</sup> The Conversion Flash is attached as Exhibit A to MSTC's proposed rule change and is available in the Commission's Public Reference Room or through MSTC.

**III. Date of Effectiveness of the Proposed Rule Changes and Timing for Commission Action**

The foregoing rule changes have become effective pursuant to Section 19(b)(3)(A)(i) <sup>7</sup> of the Act and pursuant to Rule 19b-4(e)(1) <sup>8</sup> promulgated thereunder because the proposals constitute stated policies, practices, or interpretations with respect to the meaning, administration, or enforcement of existing rules of MCC and MSTC. At any time within sixty days of the filing of such rule changes, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission 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 changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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 Room, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing also will be available for inspection and copying at the principal offices of MCC and MSTC.

All submissions should refer to the file numbers SR-MCC-96-02 and SR-MSTC-96-02 and should be submitted by April 10, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

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<sup>7</sup> 15 U.S.C. § 78s(b)(3)(A)(i) (1988).

<sup>8</sup> 17 CFR 240.19b-4(e)(1) (1995).

<sup>9</sup> 17 CFR 200.30-3(a)(12) (1995).

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> Letter from David T. Rusoff, Foley & Lardner [counsel to MCC/MSTC], to Cheryl Tumlin, Staff Attorney, Division of Market Regulation, Commission (February 26, 1996).

[Release No. 34-36958; File No. SR-OCC-95-19]

**Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change to Adjust the Exercise Threshold for Yield-Based Treasury Options**

March 11, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on December 26, 1995, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared primarily by OCC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change will revise OCC's rules to adjust the exercise threshold for yield-based Treasury option contracts carried in clearing members customers' accounts in connection with OCC's exercise-by-exception ("ex-by-ex") processing procedures. OCC believes the proposal will provide cost savings to its members without affecting the risks of processing options.

**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.<sup>2</sup>

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

Under the proposed rule change, OCC will amend Rule 1702 to adjust the exercise threshold for yield-based

Treasury option contracts<sup>3</sup> carried in clearing members customers' accounts in connection with OCC's ex-by-ex processing procedures.<sup>4</sup> Currently, OCC Rule 1702 specifies two threshold amounts whereby option contracts that are in-the-money by those threshold amounts will be deemed by OCC to have been exercised. One of the threshold amounts is used for yield-based Treasury options carried in clearing members' customer's accounts and the other threshold amount is used for yield-based Treasury options carried in all other clearing members' accounts. For customer positions in yield-based Treasury options, the current threshold amount is \$25.00 per contract, and for all other positions in such options, the current threshold amount is \$1.00 per contract. OCC proposes to reduce the threshold amount for customer positions in yield-based Treasury options from \$25.00 to \$1.00 per contract. The current \$1.00 threshold amount for clearing members' non-customer positions in yield-based Treasury options will remain unchanged. As a result, all yield-based Treasury option positions that are in-the-money by \$1.00 per contract or more will be exercised unless clearing members submit a timely, contrary instruction to OCC. The change to the threshold amount for ex-by-ex processing will not affect an OCC clearing member's obligations to its customers or correspondent brokers, which are determined by contract and generally applicable principals of law.

OCC believes the proposed rule change is consistent with the purposes and requirements of Section 17A of the Act because it reduces costs to those acting on behalf of investors without adversely affecting the safeguarding of securities in OCC's custody or control or for which it is responsible.

<sup>3</sup> Yield-based Treasury option contracts are sometimes referred to as "interest rate option contracts" in the rules of various national securities exchanges and the National Association of Securities Dealers.

<sup>4</sup> Ex-by-ex processing presumes that clearing members want to exercise all options that are in-the-money by a specified threshold amount. Accordingly, all options subject to ex-by-ex processing are identified as being in-the-money, at-the-money, or out-of-the-money in a report provided to the clearing member electronically through OCC's Clearing/Management and Control system or by hard copy. This report reflects that the clearing member instructs OCC to exercise all options that are in-the-money by the threshold amount. However, the clearing member is able to issue contrary instructions to OCC by notating on the report additional contracts it wishes to exercise and in-the-money contracts that it does not want to exercise.

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

OCC does not believe that the proposed rule change will 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 are not intended to be solicited with respect to the proposed rule change and none were received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Section 17A(b)(3)(F) of the Act requires that the rules of clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>5</sup> As discussed below, the Commission believes that the rule change is consistent with this obligation because it should facilitate the prompt and accurate clearance and settlement of yield-based Treasury options transactions by providing promptness and precision in the exercise of certain in-the-money yield-based Treasury options.

The rule change should assure that certain customer-held yield-based Treasury options that are in-the-money by \$1.00 or more per contract will not go unexercised unless the clearing member provides to OCC contrary exercise instructions. By lowering the ex-by-ex threshold for yield-based treasury options carried in customer accounts from \$25.00 to \$1.00, OCC has reduced the burden placed on its clearing members to provide exercise instructions on yield-based Treasury options in-the-money by \$1.00 or more that are due to expire. Reducing the ex-by-ex processing threshold to \$1.00 per contract will mean that clearing members will have to manually identify for exercise only those customer-held yield-based Treasury options that are in-the-money by less than \$1.00 per contract; therefore, the cost associated with manually exercising customer-held yield-based Treasury options should be reduced. The rule change also should reduce the risk that a clearing member will fail to exercise a customer-held yield-based Treasury option because under the new lower threshold only those options that are in-the-money by less than \$1.00 will not be exercised.<sup>6</sup>

<sup>5</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).

<sup>6</sup> Clearing members can issue contrary exercise advice instructions to exempt specified customer-held yield-based Treasury options from ex-by-ex processing.

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> The Commission has modified the text of the summaries prepared by OCC.

Originally, the \$25.00 threshold was established because of the anticipation of transaction costs related to the exercise and settlement of yield-based Treasury options. Because yield-based treasury options are cash settled and the exercise fees for such options either do not exist, are waived, or are not expected to exceed the exercise proceeds, OCC believes that a lower ex-by-ex threshold can be applied and that its clearing members will not charge a fee for the cash settlement of a yield-based Treasury option where a customer will be left with a loss.

OCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after publication of the notice of filing. The Commission finds good cause because accelerated approval will permit OCC to immediately implement the lower threshold amount for the ex-by-ex processing of customer-held yield-based Treasury options which will bring the treatment of such options in line with the procedures already in place for yield-based Treasury options held by non-customers and for index options.<sup>7</sup> Moreover, because no comment letters were received with regard to OCC's recent modification of its ex-by-ex processing procedures involving index options, which similarly adjusted the exercise threshold for customer-held index options, the Commission does not expect to receive any adverse comments on the present rule change.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission 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 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 Room, 450 Fifth Street, N.W.,

<sup>7</sup> For a complete description of the modification of OCC's threshold amount used in the ex-by-ex processing of index options, refer to Securities Exchange Act Release No. 35982 (July 18, 1995), 60 FR 38072 [SR-OCC-95-03] (order approving proposed rule change).

Washington, D.C. 20549. Copies of such filings will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the file number SR-OCC-95-19 and should be submitted by April 10, 1996.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-95-19) be, and hereby is, approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36960; File No. SR-OCC-95-20]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to the Issuance, Clearance, and Settlement of Buy-Write Options Unitary Derivatives

March 13, 1996

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on December 27, 1995, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-OCC-95-20) as described in Items I, II, and III below, which items have been prepared primarily by OCC. On February 5, 1996, OCC filed an amendment to the proposed rule change.<sup>2</sup> 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 certain OCC By-Laws and Rules and to add new sections to OCC By-Laws and rules and to add new sections to OCC's By-Laws and Rules to provide for the issuance, clearances, and settlement of a new equity derivatives product referred to as Buy-Write Options Unitary Derivatives ("BOUNDS").

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> Letter from James C. Young, First Vice President and General Counsel, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Commission (February 5, 1996).

#### 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 that 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.<sup>3</sup>

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

The purpose of the proposed rule change is to amend certain OCC By-Laws and Rules and to add new sections to OCC's By-Laws and Rules to provide for the issuance, clearance and settlement of a new equity derivatives product referred to as BOUNDS. The Commission recently approved proposed rule changes filed by the American Stock Exchange ("Amex"), the Chicago Board Options Exchange ("CBOE"), and the Pacific Stock Exchange ("PSE") (collectively referred to as the "exchanges") to list and trade BOUNDS.<sup>4</sup>

#### 1. Organization of Proposed Rule Change

The proposed rule change consists of five sections: (i) a description of BOUNDS; (ii) amendments to existing By-Laws; (iii) a new Article XXIV of the By-Laws applicable only to BOUNDS; (iv) amendments to existing Rules; and (v) a new Chapter XXV of the Rules applicable only to BOUNDS.

#### 2. Description of BOUNDS

The purchase of a BOUND is intended to be substantially equivalent to a "buy-write" transaction (*i.e.*, the simultaneous writing of a call option and purchase of the underlying stock). However, unlike an actual buy-write transaction, the purchase of a BOUND is effected in a single exchange transaction. As with all OCC issued options, BOUNDS will be created when an opening buy and an opening sell order are executed. The execution of

<sup>3</sup> The Commission has modified the text of the summaries submitted by OCC.

<sup>4</sup> For a complete description of the characteristics of BOUNDS, refer to Securities Exchange Act Release No. 36710 (January 11, 1996), 61 FR 1791 [File Nos. SR-AMEX-94-56, SR-CBOE-95-14, and SR-PSE-95-01] (order approving proposed rule change relating to BOUNDS).