

[Release No. 34-37650 File No. SR-MBSCC-96-03]

**Self-Regulatory Organizations; MBS Clearing Corporation; Order Approving Proposed Rule Change Relating to Eliminating the Monthly Audit Package Requirements.**

September 5, 1996.

On June 18, 1996, the MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-MBSCC-96-03) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published on July 17, 1996, in the Federal Register to solicit comments on the proposed rule change.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

**I. Description**

MBSCC is modifying its rules and procedures to eliminate the requirement that it provide a monthly audit package to each participant and the requirement that such participant review and respond to the package. MBSCC currently provides each participant with the participant's Open Commitment Report on a daily basis pursuant to its rules. Participants have a duty under the rules to review each report for errors and discrepancies and to report any error or discrepancy to MBSCC. MBSCC's rules and source book also require MBSCC to send each participant a monthly audit package which consists of a copy of the participant's Open Commitment Report dated the last business day of the previous month and an Audit Exception Reporting Form which must be completed by the participant and returned to MBSCC whether or not any exceptions are found.

In connection with this rule change, MBSCC will eliminate the late audit confirmation penalties from its schedule of penalty fees.

**II. Discussion**

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder and particularly with the requirements of Section 17A(b)(3)(F).<sup>3</sup> Section 17A(b)(3)(F) requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and

settlement of securities transactions. The Commission believes that MBSCC's rule change meets this requirement because by eliminating the monthly audit package and the participants' requirement to review it, the administrative and economic burdens on participants' resources due to the duplicative nature of the requirements should be eliminated without any substantive effect. Such elimination should facilitate efficiencies in the administration of participant operations thereby promoting the prompt and accurate clearance and settlement of securities transactions.

**III. Conclusion**

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, particularly with Section 17A(b)(3)(F) 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-MBSCC-96-03) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>4</sup>

Margaret H. McFarland,

*Deputy Secretary.*

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[Release No. 34-37655; File No. SR-OCC-96-08]

**Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Regarding the Exercise of Certain Foreign Currency Options**

September 6, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on July 18, 1996, The Options Clearing Corporation ("OCC") 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 OCC. The Commission is publishing this notice to solicit comments from interested persons.

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

The proposed rule change will permit the exercise of certain foreign currency

options on the business day immediately preceding the expiration date of such 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. The self-regulatory organization 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 its results to permit the exercise of American-style<sup>3</sup> foreign currency and cross-rate foreign currency options ("currency options") on the business day immediately preceding their expiration date. Currently, OCC Rule 801(c) prohibits the exercise of option contracts on the business day immediately preceding their expiration unless such options are American-style flexibly structured options. At the time this restriction was incorporated into OCC's rules, all option contracts expired on Saturday. The restriction ensured that there was adequate time for all unmatched transactions to be resolved and for OCC to receive and process exercise notices for the preliminary and final exercise by exception ("ex-by-ex") processing cycles that were then in effect. Subsequently, OCC has replaced the preliminary and final processing cycles for currency options with a single ex-by-ex processing procedure.

With the conversion to Friday night as the expiration date for all standardized currency options,<sup>4</sup> Rule 801(c) has

<sup>2</sup> The Commission has modified the language in these sections.

<sup>3</sup> The term "American" or "American-style" option contract means the option contract may be exercised at any time from its commencement time until its expiration. In contrast, a European style option may only be exercised on its expiration.

<sup>4</sup> For a complete description of the conversion of the expiration date for all standardized currency options from Saturday to Friday, refer to Securities Exchange Act Release Nos. 32458 (June 11, 1993), 58 FR 3384 [File No. SR-OCC-93-09] (notice of filing and order granting accelerated approval on a temporary basis of a proposed rule change that changed the expiration day for American-style foreign currency options from Saturday to Friday) and 32630 (July 14, 1993), 58 FR 38800 [File No.

Continued

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

<sup>2</sup> Securities Exchange Act Release No. 37420 (July 11, 1996), 61 FR 37307.

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

<sup>4</sup> 17 CFR 200.30-3(a)(12) (1996).

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

operated to preclude the exercise of currency options on Thursday. OCC clearing members have requested that OCC lift the restriction with respect to currency options since their non-U.S. customers have expressed a desire to submit exercises on Thursday due to time zone differences with the United States. OCC believes that the protections afforded by the Rule 801(c) exercise restriction are no longer necessary for currency options because of the single cycle expiration processing procedures that are in effect and because currency options expire on Friday instead of Saturday.

OCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>5</sup> because it promotes the prompt and accurate clearance and settlement of securities transactions.

*(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 have been received.

**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 publishes its reasons for so finding or (ii) as to which OCC 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 disapproved.

**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

SR-OCC-93-15] (order granting permanent approval on an accelerated basis of a proposed rule change that changed the expiration day for American-style foreign currency options and cross-rate foreign currency options from Saturday to Friday).

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

Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 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 NW., Washington, DC 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-96-08 and should be submitted by October 3, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

Margaret H. McFarland,  
Deputy Secretary.

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**[Release No. 34-37645; File No. SR-OCC-96-09]**

**Self-Regulatory Organizations; the Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the Valuation of Government Securities**

September 5, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> notice is hereby given that on July 18, 1996, The Options Clearing Corporation ("OCC") 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 OCC. On August 22, 1996, OCC filed an amendment to the proposal.<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 proposed rule change will modify OCC's valuation of government

<sup>6</sup> 17 CFR 200.30-3(a)(12) (1996).

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

<sup>2</sup> Letter from Michael G. Vitek, Counsel, OCC, to Jerry W. Carpenter, Assistant Director, Division, Commission (August 19, 1996).

securities used by clearing members as margin clearing fund deposits.

**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>3</sup>

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

The purpose of this proposed rule change is to modify the valuation methodology on deposits of government securities for margin and clearing fund purposes. The valuation rules for government securities for margin and clearing fund purposes have remained largely unchanged since the mid-1970's when OCC only valued such collateral at the time of deposit. Government securities are currently valued at either: (1) The lesser of par value or 100% of the current market value for maturities less than one year or (2) the lesser of par value or 95% of the current market value for maturities between one and ten years.<sup>4</sup>

The par value limitation was initially included in the valuation methodology because the security could be carried to its maturity, when it would reach par value, without any subsequent valuations after its initial deposit with OCC. The restriction of maturities to less than ten years was initially implemented as a risk control device because it precluded the deposit of longer, more volatile securities which were not subject to revaluation after their initial deposit with OCC.

Since the early 1980's, OCC has revalued government securities on a monthly basis. However, OCC is now prepared to revalue government securities on a daily basis and to

<sup>3</sup> The Commission has modified parts of these statements.

<sup>4</sup> Government securities are currently defined as securities issued or guaranteed by the United States or Canadian government or by any other foreign government acceptable to OCC and that matures within ten years. The term "short-term government securities" means securities maturing within one year. The term "long-term government securities" means all other government securities. The proposed rule change will amend the definition to delete the ten year restriction.