

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

1. Purpose

As the securities industry prepares for the conversion to decimal pricing, it will be necessary for various constituents of the securities industry to test their computer systems in order to avoid widespread problems. The CSE, in cooperation with the Commission and other self-regulatory organizations, has been working toward a successful transition to decimal pricing. The purpose of the proposed rule change is to require CSE member firms to participate in tests of computer systems designed to prepare for the industry's conversion to decimal pricing.

The proposed rule change would create new CSE Rule 4.6 to require CSE members to participate in the testing of computer systems in a manner and frequency to be prescribed by the Exchange. It is the CSE's understanding that other self-regulatory organizations, including the National Association of Securities Dealers, Inc., the New York Stock Exchange, the American Stock Exchange, and the Chicago Board Options Exchange are also proposing rule changes to require testing by their members in connection with the industry's conversion to decimal pricing.

The Securities Industry Association has undertaken to coordinate industry-wide computer testing to ensure that the securities industry is adequately prepared to convert to decimal pricing. Industry constituents to participate in the testing will include, among others, national securities exchanges, registered clearing corporations, data processors, and broker-dealers. Several industry-wide tests have been planned, the first of which took place in April 2000.

The CSE will employ its new rule 4.6 to require that its members participate in these tests. New CSE Rule 4.6 further provides that any firm having an electronic interface with the Exchange would be required to conduct point-to-point testing with the Exchange. Point-to-point testing refers to tests conducted between two entities, in this case a member having an electronic interface and the Exchange.<sup>4</sup>

<sup>4</sup> A member that has its electronic interface with the Exchange through a service provider may be exempted from this requirement if such service provider conducts successful tests with the Exchange on behalf of the firms it serves, and if the member conducts successful point-to-point testing with the service provider by a time to be designated by the Exchange.

Under the proposal, the Exchange would require member firms to participate in industry-wide testing to the extent such firms can be accommodated by the testing schedule. The Exchange would exercise its authority under new CSE Rule 4.6 to the extent it deems that the participation of particular members in the testing is important, and to the extent those members would otherwise not voluntarily choose to participate.

The proposed rule change would also allow the CSE to require members to file reports with the CSE concerning the required tests in the manner and frequency determined by the Exchange. A member subject to new CSE Rule 4.6 who failed to participate in the mandatory tests or who failed to file any required reports, would be subject to disciplinary action pursuant to Chapter VIII of the Exchange's rules.<sup>5</sup>

The proposed new CSE Rule 4.6 would expire automatically upon the completion of decimal pricing implementation.

2. Statutory Basis

The CSE believes proposed new CSE Rule 4.6, whose purpose is to ensure the participation of Exchange members in important testing prior to the securities industry's conversion to decimal pricing, is consistent with section 6(b) of the Act<sup>6</sup> in general and further the objectives of section 6(b)(5)<sup>7</sup> in particular in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest.

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

The CSE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

*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**

Because the foregoing rule change is concerned solely with the administration of the Exchange, it has become effective pursuant to section

<sup>5</sup> See CSE Rules, Chapter VIII, "Discipline."

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

19(b)(3)(A)(iii) of the Act<sup>8</sup> and subparagraph (f)(3) of Rule 19b-4 thereunder.<sup>9</sup> At any time within 60 days of the filing of such proposed rule change, 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, 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, NW., Washington, DC 20549-0609. 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 in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-CSE-00-04 and should be submitted by August 11, 2000.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

[FR Doc. 00-18234 Filed 7-18-00; 8:45 am]

BILLING CODE 8010-01-M

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-43029; File No. SR-OCC-00-02]

**Self-Regulatory Organizations; Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to OCC Clearing Members Pledging Long Options Positions**

July 12, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</sup> 17 CFR 240.19b-4(f)(3).

<sup>10</sup> 17 CFR 200.30-3(a)(12).

("Exchange Act"),<sup>1</sup> notice is hereby given that on March 6, 2000, 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 on the proposed rule change from interested parties.

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

The proposed rule change would allow OCC to expand the categories of accounts from which a clearing member can pledge long option positions and the categories of permitted pledgees.<sup>2</sup>

### **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 the proposed rule change is to expand the categories of accounts from which clearing members may pledge long option positions to third party lenders and to expand the categories of permitted pledgees. The proposed rule change is intended to reflect liberalizing amendments to Regulation T (12 CFR part 220) and Regulation U (12 CFR part 221) made by the Board of Governors of the Federal Reserve System ("Fed Board").

Options have traditionally had no loan value under the Fed Board's margin regulations. The Only relevant exception was for "special purpose credit" extended to broker-dealers.<sup>4</sup> A

bank or another broker-dealer could extend credit on long options carried for the account of market makers and specialists to secure credit for financing their market making functions. Accordingly, when OCC adopted Rule 614, which allowed long options to be pledged to a bank or another broker-dealer, OCC specified that options could only be pledged from clearing members' market-maker and specialist accounts.<sup>5</sup> In addition, the permitted pledgees under Rule 614 were limited to banks and broker-dealers as these were the only categories of lenders from which a broker-dealer such as a clearing member or market maker was permitted to borrow.<sup>6</sup>

In 1996, the Fed Board eliminated the general prohibition against extending credit on long options and instead deferred to the rules of the options exchanges regarding option loan value by incorporating those rules by reference into Regulation T.<sup>7</sup> Although exchange margin rules then in effect also prohibited extensions of credit against long options, these rules have subsequently been amended to permit broker-dealers to extend credit on certain long option positions in a customer margin account.<sup>8</sup>

In 1998, the Board amended the Supplement to Regulation U to allow lenders other than broker-dealers to extend 50 percent loan value against all long positions in listed options.<sup>9</sup> The Fed Board also modified the margin regulations to reflect amendments to the Exchange Act. The National Securities Markets Improvement Act of 1996 ("NSMIA") repealed section 8(a) of the Exchange Act which, among other things, had prohibited broker-dealers from obtaining credit against the collateral of exchange-traded equity

member's account at OCC. However, that use of long option value does not involve the pledging of options to third party lenders, and Rule 614 therefore has no application to such use.

<sup>5</sup> In recognition of the ability of a clearing member to pledge long options to a commodity clearing organization for the purpose of securing obligations to such clearing organization on related futures and futures option contracts, OCC later amended Rule 614 to permit this particular form of pledge. In 1999, OCC also amended its rules to permit pledging of long positions to third party lenders from a non-proprietary cross-margining account. Securities Exchange Act Rel. No. 41883 (September 17, 1999), 64 FR 51819 (September 24, 1999).

<sup>6</sup> As noted in the footnote above, the rule was later amended to permit pledging of long options to a commodity clearing organization.

<sup>7</sup> Fed Board Release, 61 FR 20385 (May 6, 1996).

<sup>8</sup> E.G., Securities Exchange Act Rel. Nos. 41658 (July 27, 1999), 64 FR 42736 (August 5, 1999) [SR-CBOE-97-67] and 42011 (October 14, 1999), 64 FR 57172 (October 22, 1999) [SR-NYSE-99-03].

<sup>9</sup> Fed Board Release, 63 FR 2806 (January 16, 1998).

securities from lenders other than broker-dealers and certain banks. For that reason, the Fed Board deleted provisions of Regulations T and U that implemented section 8(a) of the Exchange Act.

As a result of all of the foregoing statutory and regulatory changes, credit may now be extended by broker-dealers, banks and other lenders against long option positions whether carried for the account of a market-maker or specialist, another broker-dealer, a public customer, or for the clearing member's own proprietary account. This renders the provisions of Rule 614, restricting the types of OCC accounts from which long options may be pledged and the kinds of entities that may be pledgees, obsolete. In recognition of this fact, OCC now proposes to amend Rule 614 to delete the obsolete restrictions.

Of course, Regulations T and U continue to impose certain restrictions on extensions of credit secured by OCC-issued options. For example, the 50 percent loan limit would generally be applicable, with certain exceptions such as when the credit is extended to an "exempted borrower."<sup>10</sup> As is the case with other securities credit transactions, lenders and borrowers who use the OCC pledge program are obligated to comply with the Fed Board's margin regulations.

OCC is also proposing to make certain technical amendments to Rule 614. These reflect, among other things, revisions to section 8 and 9 of the Uniform Commercial Code adopted since Rule 614 was originally drafted. Conforming changes are being made to Rules 601, 602, 1105, and 1106.

OCC believes that the proposed rule change is consistent with the requirements of the Section 17A of the Exchange Act<sup>11</sup> and the rules and regulations thereunder because it increases the ability of clearing members and their customers to arrange for or maintain financing for their positions while maintaining OCC's overall protection against default.

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

OCC does not believe that the proposed rule change would impose any burden on competition.

<sup>10</sup> Exempted borrower is defined in Section 220.2 of Regulation T and in Section 221.2 of Regulation U.

<sup>11</sup> 15 U.S.C. 78-1.

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

<sup>2</sup> The complete text of the proposed rule change is included in OCC's filing, which is available for inspection and copying at the Commission's public reference room and through OCC.

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

<sup>4</sup> Long options may also be given value in a customer's margin account when used to offset margin otherwise required on short option positions and are in turn given margin credit in the clearing

*(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, including whether the proposed rule change is consistent with the Exchange Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 in 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 OCC.

All submissions should refer to File No. SR-OCC-00-02 and should be submitted by August 11, 2000.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

[FR Doc. 00-18233 Filed 7-18-00; 8:45 am]

**BILLING CODE 8010-01-M**

**SMALL BUSINESS ADMINISTRATION**

**[Declaration of Disaster #3271]**

**State of Minnesota (Amendment #1)**

In accordance with a notice from the Federal Emergency Management Agency dated July 12, 2000, the above-numbered Declaration is hereby amended to include Dakota, Fillmore, Houston, and Mower Counties in the State of Minnesota as a disaster area due to damages caused by severe storms and flooding beginning on May 17, 2000, and continuing.

In addition, applications for economic injury loans from small businesses located in the following contiguous Counties may be filed until the specified date at the previously designated location: Dodge, Freeborn, Goodhue, Hennepin, Olmsted, Ramsey, Rice, Scott, Steele, Washington, and Winona Counties in Minnesota; Pierce County, Wisconsin; and Howard, Mitchell, Winneshiek, and Worth Counties in Iowa. Any counties contiguous to the above-named primary counties and not listed herein have been previously declared under a separate declaration for the same occurrence.

The economic injury number for Wisconsin is 9H8500 and for Iowa the number is 9H8600.

All other information remains the same, *i.e.*, the deadline for filing applications for physical damage is August 29, 2000 and for economic injury the deadline is March 30, 2001.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: July 13, 2000.

**Herbert L. Mitchell,**

*Acting Associate Administrator for Disaster Assistance.*

[FR Doc. 00-18270 Filed 7-18-00; 8:45 am]

**BILLING CODE 8025-01-P**

**SMALL BUSINESS ADMINISTRATION**

**[Declaration of Disaster #3269]**

**State of North Dakota (Amendment #1)**

In accordance with a notice from the Federal Emergency Management Agency, dated July 11, 2000, the above-numbered Declaration is hereby amended to change the incident period for this disaster from beginning on June 12, 2000 to beginning on April 5, 2000 and continuing.

All other information remains the same, *i.e.*, the deadline for filing applications for physical damage is August 26, 2000 and for economic injury the deadline is March 27, 2001.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: July 12, 2000.

**Becky C. Brantley,**

*Acting Associate Administrator for Disaster Assistance.*

[FR Doc. 00-18271 Filed 7-18-00; 8:45 am]

**BILLING CODE 8025-01-P**

**SMALL BUSINESS ADMINISTRATION**

**[Declaration of Disaster #3272]**

**State of Wisconsin**

As a result of the President's major disaster declaration on June 23, 2000 for Public Assistance only, and an amendment thereto on July 11 adding Individual Assistance, I find that Crawford, Dane, Grant, Kenosha, Milwaukee, Vernon, and Walworth Counties in the State of Wisconsin constitute a disaster area due to damages caused by severe storms, tornadoes, and flooding beginning on May 26, 2000, and continuing through July 5, 2000. Applications for loans for physical damage as a result of this disaster may be filed until the close of business on September 9, 2000 and for economic injury until the close of business on April 11, 2001 at the address listed below or other locally announced locations: U.S. Small Business Administration, Disaster Area 2 Office, One Baltimore Place, Suite 300, Atlanta, GA 30308.

In addition, applications for economic injury loans from small businesses located in the following contiguous counties may be filed until the specified date at the above location: Columbia, Dodge, Green, Iowa, Jefferson, Juneau, LaCrosse, Lafayette, Monroe, Ozaukee, Racine, Richland, Rock, Sauk, Washington, and Waukesha Counties in Wisconsin; Allamakee, Clayton, and Dubuque Counties in Iowa; and Boone, Jo Daviess, Lake, and McHenry Counties in Illinois. Any counties contiguous to the above-named primary counties and not listed herein have been previously declared under a separate declaration for the same occurrence.

The interest rates are:

*For Physical Damage*

Homeowners with credit available elsewhere: 7.375%

Homeowners without credit available elsewhere: 3.687%

Businesses with credit available elsewhere: 8.000%

Businesses and non-profit organizations without credit available elsewhere: 4.000%

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