already able to do. Additionally, approval of this proposal will conform the Interpretation to Rule 345A to the requirements of NYSE Rule 345A, which Rule was amended in 1998. The Commission finds, therefore, that granting accelerated approval of the proposed rule change, as amended, is appropriate and consistent with the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of Act,[13] that the proposed rule change (SR–NYSE–00–55), as amended, is hereby approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[14]

Johnathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–43837; File No. SR–OCC–00–12]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Accelerated Approval of a Proposed Rule Change Relating to the Creation of a Program to Relieve Strains on Clearing Members' Liquidity in Connection With Exercise Settlements

January 12, 2001.

On November 27, 2000, The Options Clearing Corporation (''OCC'') filed with the Securities and Exchange Commission (''Commission'') and on January 8, 2001 amended, a proposed rule change (File No. SR–OCC–00–12) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'').[1] Notice of the proposal was published in the **Federal Register** on December 28, 2000.[2] No comment letters were received. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

Description

1. Background

Under the Third Amended and Restated Options Exercise Settlement Agreement (the ''Accord'') dated February 16, 1995, between OCC and the National Securities Clearing Corporation (''NSCC''), OCC and NSCC each guarantee that if the other sustains a loss on liquidation of a common member[3] with pending settlement activity at NSCC resulting from option exercises and assignments, it will make a payment to the other in an amount (which may be zero) determined by a formula set forth in the Accord.[4]

Under the Accord, NSCC has until 6:00 a.m. Central Time on the day after an option exercise settlement date (E+4) to notify OCC that it has ceased to act or may cease to act for a common member. If NSCC fails to give such notice by that time, OCC is released from its guarantee obligation with respect to transactions for which E+3 was the settlement date. Because OCC is not released from its guarantee obligation until the morning of E+4, it must continue to hold margin on assignments settling on E+3 until E+4. This means that assets that a clearing member has deposited with OCC as margin for pending assignments cannot be used to settle or to finance settlement of those assignments. Instead, the clearing member must find other sources of financing, which can strain some clearing members' liquidity in months with heavy exercise and assignment activity.

2. The Rule Change

In an effort to reduce the strains on liquidity resulting from the after-the-fact release of margin on pending assignments, OCC, in conjunction with NSCC and The Depository Trust Company (''DTC''), has worked out a program to allow OCC clearing members to withdraw equity securities[5] deposited with OCC as margin and to pledge them to DTC participant lenders as collateral for loans. The proceeds of such loans will be disbursed by the lender directly to OCC and used to discharge settlement obligations of the clearing member at NSCC that were guaranteed by OCC. OCC's liability exposure to NSCC under the Accord will be correspondingly reduced as will OCC's need to continue to hold margin until E+4.

The program will work as follows:

- On the morning of E+3, a clearing member will learn from OCC the amount of the loan that it may collateralize with securities held by OCC as margin. That amount will be no less than the value assigned by OCC to such securities for margin purposes[6] and will be no more than the lesser of (i) the margin requirement for the account from which the securities were to be withdrawn[7] and (ii) the amount of OCC's guarantee exposure to NSCC (assuming that the clearing member's NSCC positions liquidated to a deficit).[8]
- The clearing member will then contact its lender and arrange for the loan. When the terms of the loan are agreed upon, the clearing member will use a new Participant Terminal System screen developed by DTC to confirm both to the lender and to OCC the amount of the loan and the quantity and description of the securities to be withdrawn from OCC and pledged to the lender as collateral. The lender and OCC will use that information to validate the loan request.
- When both the lender and OCC approve the loan, DTC will transfer the securities from a ''pledged to OCC'' field in the clearing member's DTC account to a special OCC account at DTC. From that account, the securities will be pledged to the lender against receipt of the loan proceeds. The proceeds will thus be paid directly to OCC without passing through the hands of the clearing member.
- Upon receipt in the special OCC account, the loan proceeds will automatically be paid over to NSCC for the benefit of the clearing member resulting in a corresponding reduction in OCC's guarantee exposure to NSCC under the Accord.
- At the end of the day, DTC will automatically transfer the securities from a ''pledged to lender'' field in the special OCC account to a ''pledged to

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 43755, (December 20, 2000), 65 FR 82431.

[3] The Accord also covers situations where an OCC clearing member that is not an NSCC member settles option exercises and assignments through an NSCC member.

[4] For a description of the Accord's formula, refer to Securities Exchange Act Release No. 37731 (September 26, 1996), 61 FR 51731.

[5] OCC plans to allow the use of Government securities as well once the necessary systems are developed. At December 31, 1999, OCC's margin deposits included over $36 billion in equities compared to $9 billion in Governments.

[6] For example, if the clearing member had equity securities with a market value of $10 million on deposit in an account with OCC as margin (which OCC would value at $7 million for margin purposes), the amount of the loan collateralized by those securities would have to be not less than $7 million. If the loan amount were, for example, $6 million OCC would be exchanging $7 million worth of margin for a reduction of only $6 million in its guarantee exposure to NSCC.

[7] If, in the preceding example, the margin requirement in the relevant account were only $6 million, the loan would be limited to that amount, and OCC would only release equity securities with a market value of $8.57 million ($6 million in margin value). The remaining $1.43 million of securities would be excess margin, which the clearing member would be free to withdraw and pledge separately.

[8] If, in the preceding examples, OCC's guarantee exposure to NSCC were only $5 million, the loan would be limited to that amount, and OCC would only release equity securities with a value of $7.15 million ($5 million in margin value). If the loan amount were in excess of $5 million, OCC would be releasing margin worth more than $5 million for a reduction of only $5 million in its guarantee exposure.

lender'' field in the clearing member's DTC account, leaving the clearing member in the same position as if it had been able to pledge the securities to the lender without OCC's intermediation.

Upon allowing securities to be withdrawn and pledged under the program, OCC will reduce its margin requirement in the account from which the secruties were withdrawn by an amount equal to the value assigned to the securities for margin purposes. The account will, however, be required to be fully margined the next morning.

Initially, clearing members will be permitted to withdraw and pledge securities held by OCC as margin only on settlement dates for exercises of expiring equity options. OCC may at a future date decide to make the program available on other exercise settlement dates as well.

3. Timing

Historically, the heaviest volume of option expirations and hence exercises occurs in January. In January 2000, 26,099,346 option contracts expired, accounting for 41.9% of total open interest. Open interest as of November 21, 2000, included 26,378,070 contracts expiring in January 2001 (43.2% of total open interest). OCC believes that it is important to have the new program in place in time for the January 2001 expiration to help relieve potential strains on liquidity resulting from the large volume of exercise activity expected to occur at that time.

II. Discussion

Section 17A(b)(3)(F) [9] of the Act requires that 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. For the reasons set forth below, the Commission believes that OCC's proposed rule change is consistent with OCC's obligations under the Act.

The central purpose of the rule change is to allow a clearing member to use assets that it has deposited with OCC as margin for pending assignments to settle and to finance settlement of those assignments. The rule change should relieve clearing members from the responsibility of finding other sources of financing that could strain some clearing members' liquidity in months with heavy exercise and assignment activity. The Commission believes that OCC's program by which clearing members will withdraw and pledge securities that are deposited with OCC as margin and by which OCC in return will receive loans from DTC participant lenders is a safe and acceptable method by which clearing members' will finance their settlement obligations at NSCC. Accordingly, the Commission finds that OCC's program satisfies OCC's obligations to assure the safeguarding of securities and funds which are in the custody or control of OCC or for which it is responsible.

OCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirty day after publication of the notice of filing. The Commission finds good cause for approving the proposed rule change prior to the thirty day after publication of the notice of filing because accelerated approval will permit OCC to implement its program before the January 2001 expiration.

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–00–12) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[10]

Jonathan G. Katz,

Secretary.

[FR Doc. 01–1653 Filed 1–19–01; 8:45 am]

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[9] 15 U.S.C. 78q–1(b)(3)(F).

[10] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–43836; File No. SR–PCX–00–33]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Use of Telephones on the Options Trading Floor

January 11, 2001.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on September 1,2000, the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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 PCX proposes to amend and codify its policy governing the use of member-owned or Exchange-owned telephones on the trading floor with respect to communications at option trading posts. The text of the proposed rule change is available at the PCX and at the Commission.

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

In its filing with the Commission, the Exchange 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 III below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

According to the PCX, the purpose of the proposed rule change is to expand the existing PCX policy governing the use of telephones at option trading posts to allow the receipt of orders over outside telephone lines at option trading posts. The proposed rule would generally allow for the receipt of orders directly at the post over outside telephone lines only when the order(s) is placed during *outgoing* telephone calls. Registered Exchange Market Makers, however, may transmit orders directly to the trading post.

Under the proposed rule change, the use of telephones at the option posts must comply with the requirements and conditions set forth in proposed Rule 6.2(h)(3). This proposed rule would provide that: (A) only those quotations that have been publicly disseminated pursuant to PCX Rule 6.73 may be provided over telephones at the post; (B) orders transmitted by registered Exchange Market Makers may be entered directly to the trading posts; all other orders may be entered directly to

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.