

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47151; File No. SR-OC-2002-05]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by OneChicago, LLC Relating to Customer Risk Disclosure Statements

January 9, 2003.

Pursuant to section 19(b)(7) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-7 under the Act,<sup>2</sup> notice is hereby given that on December 18, 2002, OneChicago, LLC ("OneChicago") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change described in Items I, II, and III, below, which Items have been prepared by OneChicago. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. OneChicago also filed the proposed rule change with the Commodity Futures Trading Commission ("CFTC"), together with a written certification under section 5c(c) of the Commodity Exchange Act ("CEA"),<sup>3</sup> on December 18, 2002.

#### I. Self-Regulatory Organization's Description of the Proposed Rule Change

OneChicago is proposing to amend its Rule 510 relating to customer risk disclosure statements to clarify that clearing members and, if applicable, exchange members or access persons, will provide customers with a written risk disclosure statement, in accordance with applicable requirements of the National Futures Association ("NFA") (in the case of any clearing member, exchange member or access person that is registered with the NFA) or the National Association of Securities Dealers, Inc. (the "NASD") (in the case of any clearing member, exchange member or access person that is registered with the NASD).

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

OneChicago has prepared statements concerning the purpose of, and statutory basis for, the proposed rule change, burdens on competition, and comments received from members, participants, and others. The text of these statements may be examined at the places specified

in Item IV below. These statements are set forth in Sections A, B, and C below.

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

##### 1. Purpose

The proposed rule change is designed to clarify that clearing members and, if applicable, exchange members or access persons will provide customers with a written risk disclosure statement in accordance with applicable requirements of the NFA (in the case of any clearing member, exchange member or access person that is registered with the NFA) or the NASD (in the case of any clearing member, exchange member or access person that is registered with the NASD). The revised language reflects accepted industry practice and takes account of the fact that the intermediaries referenced in OneChicago Rule 510 are already subject to the pertinent NFA and NASD requirements.

##### 2. Statutory Basis

The proposed rule change is authorized by, and consistent with, section 6(b)(5) of the Act<sup>4</sup> because it is designed to promote just and equitable principles of trade.

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

OneChicago believes that the proposed rule change will not impose or relieve any burden on, or promote, competition.

#### C. Self-Regulatory Organization's Statement on Comments on Proposed Rule Change Received From Members, Participants, or Others

Comments on the proposed rule change have not been solicited.

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

Pursuant to section 19(b)(7)(B) of the Act,<sup>5</sup> the proposed rule change, as filed with the Commission on December 18, 2002, became effective on December 19, 2002. Within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of section 19(b)(1) of the Act.<sup>6</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change conflicts with the Act. Persons making written submissions should file nine copies of the submission with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Comments also may be submitted electronically to the following e-mail address: [rule-comments@sec.gov](mailto:rule-comments@sec.gov). 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 these filings will also be available for inspection and copying at the principal office of OneChicago. Electronically submitted comments will be posted on the Commission's internet Web site (<http://www.sec.gov>). All submissions should refer to File No. SR-OC-2002-05 and should be submitted by February 6, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**J. Lynn Taylor,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47146; File No. SR-OCC-2002-04]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Money Market Funds as Margin Collateral

January 9, 2003.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 29, 2002, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and

<sup>1</sup> 15 U.S.C. 78s(b)(7).

<sup>2</sup> 17 CFR 240.19b-7.

<sup>3</sup> 7 U.S.C. 7a-2(c).

<sup>4</sup> 15 U.S.C. 78f(g).

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

<sup>6</sup> 15 U.S.C. 78s(b)(1).

<sup>7</sup> 17 CFR 200.30-3(a)(75).

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

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 persons.

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

The proposed rule change would expand the acceptable forms of margin collateral to include shares of money market funds meeting specified criteria.

### **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*

The principal purpose of the proposed rule change is to expand the permissible forms of margin collateral to include shares in money market funds. The proposed amendment to OCC's Rule 604 would also reorganize the rule and make certain nonsubstantive format changes.

Rule 604 specifies the forms of collateral that may be deposited as margin. Permitted forms include cash, government securities, letters of credit, and certain equity and debt securities.<sup>3</sup> OCC regularly reviews these forms of collateral for suitability with the intent of addressing clearing members' desire to use a diverse combination of readily available and cost-effective forms of collateral while ensuring that collateral is limited to instruments that are relatively stable in value and are easily converted to cash. OCC believes that shares in certain money market funds meet these criteria and that it is appropriate for OCC to expand its

<sup>2</sup> The Commission has modified parts of these statements.

<sup>3</sup> Pursuant to a rule filing recently approved by the Commission, OCC clearing members are allowed to deposit as margin debt securities issued by Congressionally chartered corporations that the OCC's membership/margin committee has approved. Securities Exchange Act Release No. 45745 (April 12, 2002), 67 FR 19467 [File No. SR-OCC-2001-04].

categories of acceptable collateral to include such instruments.

OCC believes that the professional asset management, liquidity, and stable principal value typically associated with money market funds make shares in such funds an attractive collateral alternative for all OCC clearing accounts. As a result of recent amendments to the regulations of the Commodity Futures Trading Commission ("CFTC"), clearing members that are registered as futures commission merchants are now permitted to invest customer funds of their futures customers in money market fund shares.<sup>4</sup> Accordingly, clearing members want to be able to hypothecate shares in such funds as margin for their "non-proprietary" cross-margining accounts. OCC believes that such deposits are appropriate collateral not only for cross-margining accounts but for all accounts.

#### **Requirements for Eligibility of Funds**

OCC proposes to define acceptable money market funds as those meeting the criteria of SEC Rule 2a-7,<sup>5</sup> "Money Market Funds," under the Investment Company Act of 1940 ("ICA"),<sup>6</sup> subject to certain additional criteria. The ICA sets the standards by which mutual funds and other investment vehicles operate, and Rule 2a-7 thereunder requires a qualifying money market fund to meet certain portfolio maturity, quality, and diversification criteria. Instruments which may qualify as permitted investments for money market funds typically include U.S. Treasury securities, repurchase agreements, Federal agency securities, commercial paper, certificates of deposit, time deposits, corporate notes, asset-backed securities, and municipal securities. To minimize credit risk, OCC will accept only money market funds that limit their investments to "first tier securities" as defined in Rule 2a-7 under the ICA.<sup>7</sup> Although certain types

<sup>4</sup> In December 2000, the CFTC amended its Regulation 1.25 to expand the range of instruments in which FCMs and clearing organizations may invest customer segregated funds to include highly liquid instruments such as money market mutual funds. Rules Relating to Intermediaries of Commodity Interest Transactions, 65 FR 77993 (December 13, 2000).

<sup>5</sup> 17 CFR 270.17a-7.

<sup>6</sup> 15 U.S.C. 80a *et. seq.*

<sup>7</sup> In general, a first tier security is a security with a remaining maturity of 397 calendar days or less that: (i) Has received a short-term rating from at least two nationally recognized statistical rating organizations in the highest short-term rating category for debt obligations; (ii) is unrated but is deemed to be of comparable quality to securities identified in (i) as determined by the fund's board of directors; (iii) is issued by a registered investment company that is itself a money market

of instruments that qualify as first tier securities would not qualify to be pledged directly as margin collateral under Rule 604,<sup>8</sup> OCC believes that the rating requirements and maturity prerequisites combined with inherent diversification of the funds provides sufficient protection to warrant acceptance of shares of money market funds containing such instruments.

To ensure a diverse group of fund investors so that the actions of any one shareholder (*e.g.*, redeeming a large interest in a fund) do not materially disrupt the ability of the fund to redeem shares in an orderly manner, Rule 604(b)(3) would prohibit a clearing member from depositing as margin collateral any money market fund where a registered holder of the money market fund has an interest of 10% or more in the money market fund.

In order for a fund's shares to be acceptable as margin deposits, the fund (and/or its sponsor, transfer agent, or other agents as appropriate) will be required to represent to OCC that it meets the foregoing requirements and to agree that it will continue to do so. In addition, OCC will require the fund to make certain other agreements intended to further ensure OCC's ability to convert fund shares promptly to cash if necessary.

#### **Redemption**

While the ICA generally prohibits mutual funds from suspending the right of redemption, the ICA does allow funds to postpone the payment of redemption proceeds for up to seven days after tender of fund shares to the fund or its agent. The ICA also allows for the suspension or postponement of redemption in certain emergency situations. In addition, while the intent of a money market fund is to redeem shares in cash, most issuers retain the right to redeem their shares in kind where the redeeming shareholder would receive portfolio securities rather than cash. Any such action would introduce a liquidation risk as well as additional costs associated with the sale of such securities.

Rule 604(b)(3)(i)(H) would require each fund to waive its rights under the ICA to delay redemption or to redeem in kind. The fund will instead have to agree to redeem fund shares in cash no later than the business day following a redemption request by OCC with limited exceptions for unscheduled

fund; or (iv) is a government security. 17 CFR 270.2a-7(a)(12).

<sup>8</sup> For example, OCC does not currently accept commercial paper, certificates of deposit, time deposits, corporate notes, asset-backed securities, or municipal securities.

closings of Federal Reserve Banks or the New York Stock Exchange. These waivers of redemption restrictions along with the next day payment requirement have been established to maintain adequate liquidity of margin collateral and are also intended to be consistent with the redemption conditions contained in CFTC Rule 1.25.<sup>9</sup>

#### Valuation

OCC will require funds to perform a net asset value computation at least once per day with the dissemination of such computation to be made available to OCC no later than 9:00AM central time the following day. Given the diversified nature of eligible fund investments as well as the investment duration limitations, a daily computation of net asset value appears reasonable. OCC nevertheless proposes, under proposed Rule 604(b)(4), a 2% haircut on the current market value of fund shares. The 2% haircut was selected for consistency with the treatment of similar assets under the net capital rule.<sup>10</sup>

#### OCC's Security Interest

As in the case of other securities held as collateral, OCC will require that clearing members give OCC a first priority perfected security interest in deposited fund shares. Because shares in money market funds are typically not issued in certificated form, ownership is established by registration of the securities on the books of the fund or its transfer agent. OCC can ordinarily obtain a perfected security interest in fund shares registered in the name of a clearing member by execution of the fund's standard three-party agreement among OCC, the clearing member, and the fund or its transfer agent.

In addition, to preclude a situation whereby a clearing member secures its obligations to OCC with collateral managed and within the control of that clearing member or a related party, an association restriction is proposed in Rule 604(b)(3)(iii). This restriction is consistent with current OCC rules regarding the deposit of government securities, debt or equity issues, or letters of credit as margin collateral.<sup>11</sup> This standard may be waived if the issuing institution can demonstrate that an acceptable arrangement has been

made for the control of underlying portfolio investments and for the processing of OCC redemption requests by a third party.

One additional point is worth noting even though it is not related specifically to money market fund shares. The provisions formerly in Rule 604(d)(2), which require compliance with the Commission's Rule 15c3-3 when applicable, have been moved so that they apply not only to equity and debt securities but to all securities deposited as margin under Rule 604(b). A sentence has been added to require compliance with the CFTC's customer protection regime when securities are deposited with respect to futures accounts.

OCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because it enhances the efficiency of the clearing system while safeguarding funds and securities by permitting clearing members to collateralize their obligations to OCC with an additional form of highly liquid assets of stable value.

#### (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.

#### (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 the self-regulatory organization 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,

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 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 OCC. All submissions should refer to the File No. SR-OCC-2002-04 and should be submitted by February 6, 2003.

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

**J. Lynn Taylor,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[File No. 1-00905]

### Self-Regulatory Organizations; Notice of Application To Strike From Listing and Registration; The Philadelphia Stock Exchange, Inc. (PPL Electric Utilities, \$3.35%, \$4.40%, \$4.50% and \$4.60% Series Preferred Stock, no par value)

January 10, 2003.

PPL Electric Utilities, a Pennsylvania Corporation, ("Issuer") has filed an application with the Securities and Exchange Commission ("Commission"), pursuant to section 12(d) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 12d2-2(d) thereunder,<sup>2</sup> to withdraw the \$3.35%, \$4.40%, \$4.50% and \$4.60% Series Preferred Stock, no par value ("Securities"), from listing and registration on the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange").

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

<sup>1</sup> 15 U.S.C. 78L(d).

<sup>2</sup> 17 CFR 240.12d2-2(c).

<sup>9</sup> CFTC Regulation 1.25(c)(5), 65 FR 77993, 78010, 78011 (Dec. 13, 2000); see also, 65 FR 82270 (Dec. 28, 2000). CFTC Interpretive Letter No. 01-31 (April 2, 2001) (Funds will be deemed in compliance with Regulation 1.25(c)(5) even though they provide for delayed redemption in specified emergency situations).

<sup>10</sup> 17 CFR 240.15c3-1(c)(2)(vi)(D)(1).

<sup>11</sup> OCC Rule 604, Interpretation and Policies .07 and .10.