orders in accordance with Exchange rules, including the firm quote rule.[3]

Members will be notified of any deactivation of RAES in particular classes of options by an OBO or a Post Director pursuant to proposed Rule 6.6(e) by means of a message that is printed at each trading post on the floor and is transmitted to terminals throughout the floor over the Exchange's TextNet system.

The Exchange believes that the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act in that, by permitting the Exchange to act expeditiously to prevent automatic executions of options transactions at stale prices in the event of significant news announcements or other potentially disruptive situations, it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

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

The Exchange does not believe that the proposed 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 on the proposed rule change were neither solicited nor received.

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

Within 35 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 90 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 such proposed rule change, or

(b) institute proceedings to determine whether the proposed rule change should be disapproved.

[3] The firm quote rule, which obligates the trading crowd to fill public orders for up to 10 contracts at published quotes, remains in effect unless suspended by two Floor Officials acting under Rule 6.6(b) in the event of a fast market. The proposed rule change would not authorize an OBO or DPM to declare a fast market or suspend the firm quote rule.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to File No. SR–CBOE–96–36 and should be submitted by July 24, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[4]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–16921 Filed 7–2–96; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–37368; File No. SR–GSCC–96–01]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to the Enhancement of Risk Management Processes

June 25, 1996.

On January 5, 1996, the Government Securities Clearing Corporation (''GSCC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change (File No. SR–GSCC–96–01) 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 March 13, 1995.[2] No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

[4] 17 CFR 200.30–3(a) (12).

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] Securities Exchange Act Release No. 36933 (March 6, 1996), 61 FR 10045.

I. Description

As part of GSCC's continuous process of reviewing its risk management mechanism, GSCC has made various enhancements and revisions to that mechanism. The design of the risk management process for GSCC's newly implemented netting service for repurchase agreements (''repos'') and recommendations made by Commission staff during their inspection of GSCC last year provided the impetus for certain of the enhancements and revisions. Each of the changes to GSCC's risk management process is described in detail below.

A. Change in the Clearing Fund Formula

1. Funds Adjustment Component

There are three components to a netting member's clearing fund deposit requirement: (1) the funds adjustment component, (2) the receive/deliver settlement component, and (3) the repo volatility component. The sum of the three components is a member's total clearing fund deposit requirement. The first component of the clearing fund, the funds adjustment component, addresses the potential risk that a member might not pay a funds-only settlement amount due to GSCC.[3]

Prior to this amendment, the funds adjustment component was 125% of the average of a member's ten largest funds-only settlement amounts measured on an absolute basis during the most recent seventy-five business days.[4] Under the proposed rule change, the funds adjustment component is now 100% of the average of the member's twenty largest funds-only settlement amounts during the most recent seventy-five business days.[5] However, GSCC retains the right to reinstitute at its discretion

[3] Historically, this component has represented about ten percent of the total clearing fund requirement.

[4] Prior to the implementation of GSCC's netting service for repos, GSCC's rules required computation of the average of a member's absolute funds amounts over the prior twenty business days. Securities Exchange Act Release No. 36491 (November 17, 1995), 60 FR 61577 (order approving proposed rule change).

[5] This change has been made to both paragraphs (b) and (d) of Rule 4, Section 2 of GSCC's rules. Paragraph (b) applies to bank netting members, Category 1 dealer netting members, Category 1 futures commission merchant netting members, Category 2 inter-dealer broker netting members, government securities issuer netting members, insurance company netting members, and registered investment company netting members. Paragraph (d) applies to Category 2 dealer netting members and Category 2 futures commission merchant netting members.

all or a part of the twenty-five percent cushion for a temporary period. For example, GSCC might reinstitute this cushion during volatile market conditions.

2. Receive/Deliver Settlement Component

The second component of the clearing fund requirement is the receive/deliver settlement component, which is based on the size and nature of a member's net settlement positions. The receive/deliver component for GSCC netting members other than Category 2 dealer or Category 2 future commission merchant members [6] is the largest of the following four calculations based on a member's gross margin:[7]

(1) *Post-Offset Margin Amount (''POMA''):* The POMA essentially is a member's total gross margin taking into account allowable offset percentages.[8]

(2) *Average POMA:* Prior to this amendment, the average POMA typically was based on a member's ten highest POMA amounts occurring in the most recent seventy-five business days, including the current day's POMA amount. Under the proposed rule change, GSCC will now use an average of the twenty largest POMA amounts during the most recent seventy-five business days.

(3) *Adjusted POMA:* The adjusted POMA is calculated the same way as the POMA with the exception of excluding all trades that are scheduled to settle on the current day.[9]

(4) *Liquidation Amount:* This is a floor amount which previously equalled fifty percent of the total gross margin on all long and short positions without offsets. The proposed rule change lowers this amount to twenty-five percent.

The proposed rule change also deletes sections (2)(g)(i) and (2)(g)(ii) of Rule 4 regarding alternative formulas for the receive/deliver settlement component of the required clearing fund deposit. GSCC rarely used the alternative calculation under subsection (g)(i), which disregards when-issued trades that have been issued. Subsection (g)(ii) has been made obsolete by the changes approved in GSCC's filing pertaining to its repo netting service.[10]

With respect to Category 2 dealer or Category 2 futures commission merchant members, the receive/deliver settlement component was the largest of (1) the member's total gross margin without offsets, (2) the member's total gross margin without offsets and excluding positions due to settle that day, or (3) the average of the member's largest ten gross margin amounts over the most recent seventy-five business days. GSCC has revised the third calculation to use the average of the largest twenty gross margin amounts over the most recent seventy-five business days.

3. Repo Volatility Component

The third component of the clearing fund requirement is the repo volatility component. This component was recently added to GSCC's clearing fund formula to cover securities' settlement exposure posed by repo activity. The repo volatility component was the greater of (1) the product of the repo volatility factor and the market value of the member's repo transactions taking into account allowable offset percentages (''repo offset amount'') or (2) the average of a member's ten highest repo offset amounts over the most recent seventy-five business days. GSCC has revised the second element of this calculation to take the average of a member's twenty highest repo offset amounts over the most recent seventy-five business days.

B. Providing GSCC With Discretion, Within Parameters, To Lower Margin Factors

GSCC's Membership and Standards Committee (''Committee'') reviews on an ongoing basis the appropriateness of its margin factors [11] by examining third-party price volatility data and GSCC's own short-term and long-term data covering ninety-five and ninety-nine percent of all price movements. However, prior to this amendment, GSCC was not allowed to lower any of its margin factors without first obtaining Commission approval through a formal rule filing process.

GSCC has revised its rules to permit the Committee to lower a margin factor subject to a predefined limitation if the Committee determines it appropriate based on its review of historical price volatility data and if the GSCC Board of Directors approves such a lower margin factor. With respect to GSCC netting members other than Category 2 dealer members and futures commission merchant members, the predefined limitation permits GSCC to reduce a margin factor to a level that is no lower than the higher of (1) the price volatility for that remaining maturity category taking into account ninety-five percent of all movements during the last calendar quarter or (2) the price volatility for that remaining maturity category taking into account ninety-five percent of all movements during the last calendar year. With respect to the margin factors for Category 2 dealer members and futures commission merchant members, the limitation provides that GSCC can reduce a margin factor to a level that is no lower than the higher of (1) the price volatility for that remaining maturity category taking into account ninety-nine percent of all movements during the last calendar quarter or (2) the price volatility for that remaining maturity category taking into account ninety-nine percent of all movements during the last calendar year.

C. Revision of Certain Margin Factors for Zero-Coupon Government Securities Other Than Treasury Bills (''Zeros'')

As noted above, GSCC's margin factors are based on an assessment of historical daily price volatility data. Zeros require different margin factors than other Treasury securities because zeros generally are subject to greater price volatility than are other Treasury securities with the same maturity.[12] The applicable margin percentages for zeros range from percentages that are the same as those for other Treasury securities with respect to shorter-term maturities to percentages that are two-and-a-half times the percentages applicable to other Treasury securities with respect to long-term maturities.[13]

[6] GSCC's method of calculating the receive/deliver/settlement component for Category 2 dealer and Category 2 futures commission merchant members is set forth below.

[7] Gross margin is the product of GSCC's margin factors multiplied by the dollar value of a member's current outstanding net settlement position. GSCC's margin factors are designed to estimate daily security price movements, are expressed as percentages, and are determined by historical daily price volatility. See Section 4 below for a discussion of GSCC's margin factors.

[8] Margin amounts on receive (long) and deliver (short) positions are allowed to offset each other. The extent to which an offset is allowed is determined by product and the degree of similarity in time remaining to maturity.

[9] This is done based on the assumption that those trades will settle on the current day; thus, calculating POMA in this manner will more accurately reflect GSCC's settlement exposure during the current day.

[10] *Supra* note 4.

[11] As defined in GSCC's rules, margin factors and Category 2 margin factors are percentage, which GSCC publishes from time to time, representing variations weighted by maturity and product type. These margin factors are used in GSCC Rule 4, Section 2 to calculate the receive/deliver settlement component of the required fund deposit for GSCC's members described above in Section 2.

[12] GSCC's margin factor schedule for zeros is contained in GSCC's filing. A copy of the filing is available for copying and inspection in the Commission's Public Reference Room.

[13] These differences initially were based on the differences in the amount of haircut factors between zeros and other Treasury securities found in the United States Treasury Department's liquid capital requirements for government securities brokers and dealers.

Prior to this filing, the margin factors for zeros in several categories were well above the price volatility that GSCC's internal data show for such categories under any measure. GSCC has lowered the applicable margin factor for zeros in the seven to ten years remaining maturity category from 1.870 percent to 1.50 percent. GSCC has lowered the applicable margin factor for the ten to fifteen years remaining maturity category from 2.813 percent to 1.813 percent. GSCC has lowered the applicable margin factor for the fifteen years and higher remaining maturity category from 3.625 percent to 2.625 percent.

D. Introduction of a Tiered Surveillance Status Mechanism

GSCC is placing members that pose a heightened level of potential risk to GSCC in various classes of surveillance status instead of in one surveillance status.[14] GSCC's rules required that a member be placed on surveillance status if one or more of a number of circumstances is present. These circumstances include, but are not limited to, a significant reorganization or change in control or management of the member. In addition, GSCC could place a member on surveillance status if one or more of a number of factors, such as a member experiencing a condition that could materially affect its financial or operational capability so as to potentially increase GSCC's exposure to loss or liability, was present.

The proposed rule change establishes three surveillance categories. A member will be placed on Class 1 surveillance status if one or more of a number of factors pertaining to its financial condition is present,[15] if it has been placed on surveillance status by another self-regulatory organization, or if it has been upgraded from Class 2 surveillance status within the past three calendar months. Class 1 surveillance status will result in GSCC more thoroughly monitoring a member's financial condition and activities and will provide GSCC with discretion to require a member to make more frequent financial disclosures, including interim and/or pro forma reports.

GSCC will place a netting member on Class 2 surveillance status if one or more of a number of factors is present. These factors include but are not limited to (1) any element of a member's capital position falls below the minimum requirements, (2) a member has been upgraded from Class 3 surveillance status within the last three calendar months, (3) a member temporarily experiences an inability to meet its securities settlement obligations to GSCC in a timely fashion, and (4) a member's designated examining authority or appropriate regulatory agency has a pending action against or investigation of the member that could call into question the member's ability to meet its obligations to GSCC. In addition to the consequences resulting from placement on Class 1 surveillance status, a member placed on Class 2 surveillance status will be required to maintain a required fund deposit in excess of the amount ordinarily required, as permitted under GSCC's rules.

A GSCC netting member will be placed on Class 3 surveillance status if GSCC is considering taking action under GSCC Rule 18 (Ceasing to Act for a Member) or GSCC Rule 20 (Insolvency of a Member).[16] A GSCC netting member on Class 3 surveillance status will be placed on a final notification list. A netting member will remain on such final notification list until the condition(s) that resulted in its assignment to Class 3 surveillance status have improved to an extent that GSCC deems appropriate to support reassignment of the member to Class 2 surveillance status.

E. Simplification of the Clearing Fund Deficiency Call Mechanism

GSCC's rules permit GSCC to make clearing fund deficiency calls on a same day basis under the following four circumstances: (1) a member's current day's required clearing fund deposit exceeds by twenty-five percent the value of its clearing fund collateral, (2) a member's current day's required clearing fund deposit level exceeds by more than $250,000 the value of its clearing fund collateral, (3) a member is on surveillance status and its required clearing fund deposit as of the current day exceeds the value of its clearing fund collateral, or (4) a member's ''clearing fund funds-only settlement amount,'' which excludes clearance difference, invoice amount, and other miscellaneous amounts, for the current day exceeds by more than twenty-five percent its average daily clearing fund funds-only settlement amount over the most recent twenty business days.[17]

The fourth circumstance, a twenty-five percent jump in the member's clearing fund funds-only settlement amount, has rarely been used and is now eliminated.[18] A clearing fund deficiency call that is based on a member being on surveillance status can now be invoked only if a member is on Class 2 or Class 3 surveillance status. Finally, because GSCC has the authority to make clearing fund deficiency calls on a same day basis, GSCC's rule permitting GSCC automatically to make a clearing fund deficiency call at the beginning of each month has been deleted.

F. Elimination of the Noon Deadline for Satisfaction of Clearing Fund Deficiency Calls

By 9:00 a.m., GSCC issues by telephone calls followed by telefax notices calls for additional clearing fund deposits by 9:00 a.m. The exact time that each telephone call is made is recorded. Prior to this filing, a member had until the later of two hours after the receipt of a clearing fund deficiency call or noon to satisfy the call.

GSCC's long term goal is to develop an automated mechanism pursuant to which it will be in receipt of clearing fund collateral by the time that the securities Fedwire opens in the morning, which is currently at 8:30 a.m. As an interim step toward achieving this goal, GSCC is eliminating the noon alternative deadline for satisfaction of clearing fund deficiency call and is requiring a member to satisfy a deficiency call within two hours after it is received. The practical effect of this change is that, in the ordinary course, a member will have to satisfy a deficiency call by approximately 11:00 a.m.

[14] At the conclusion of their recent inspection of GSCC, Commission staff suggested that, in line with what many other clearing agencies have in place, GSCC should establish different classes of surveillance for its members.

[15] The financial condition factors that will result in Class 1 surveillance status include but are not limited to (1) a member incurring recent significant net losses, (2) a member's required fund deposit obligation representing a significant portion of its net worth or net capital, and (3) a member experiencing any condition that could materially affect its financial or operational capacity.

[16] Under Rule 18 (Ceasing to Act for a Member), GSCC may cease to act for a member upon notice to such member for such reasons as: (1) the member has failed to perform its obligations to GSCC or materially violated any GSCC rule, procedure, or agreement, (2) the member has failed to pay GSCC any payment required, (3) the member no longer meets its admissions or continuance standards, or (4) the member has been responsible for fraudulent or dishonest conduct. Under Rule 20 (Insolvency of a Member), GSCC will cease to act for a member if such member meets one of several tests of insolvency (*e.g.*, such member files a petition seeking relief under the Bankruptcy Code).

[17] The clearance difference is the dollar difference between GSCC's system price for a settlement obligation and the actual value at which the settlement obligation was settled. The invoice amount means all fees that a member owes GSCC.

[18] At the conclusion of their recent inspection of GSCC, Commission staff suggested that GSCC should either monitor the funds-only deficiency call requirements or file with the Commission a proposed rule change eliminating it.

However, a clearing fund deficiency call does not need to be satisfied before 10:00 a.m. regardless of when the call actually is made.

II. Discussion

Section 17A(b)(3)(F) [19] 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. The Commission believes GSCC's proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) because the proposal, by enhancing and revising GSCC's risk management mechanism, should help ensure that the mechanism accurately reflects GSCC's risk and provides CSCC appropriate risk protection while increasing members' liquidity and minimizing the operational burdens on GSCC netting members.

Specifically, based upon its assessment of historical data, GSCC has found that certain components of its clearing fund formula are overly conservative. Therefore, GSCC is revising the Average POMA calculation of the receive/deliver component, the funds adjustment component, and the repo volatility component of its clearing fund formula to utilize the twenty largest, rather than the ten largest, POMA amounts, funds-only settlement amounts, and repo offset amounts during the most recent seventy-five business days. GSCC also is modifying the funds adjustment component of its clearing fund formula to eliminate the twenty-five percent cushion in the component's calculation. Because GSCC will retain the right to reinstitute at its discretion all or part of the twenty-five percent cushion for a temporary period, GSCC will be able to react quickly to changing market conditions. GSCC also is lowering the liquidation amount of the receive/deliver component of its clearing fund requirement from fifty percent to twenty-five percent of the total gross margin on all long and short positions without offsets. GSCC believes that, based on historical performance, the twenty-five percent floor should provide sufficient protection to GSCC from the risk that its margin offsets will not reflect actual market conditions during a liquidation period while enabling members that engage in activity on a fully hedged basis to receive the benefits afforded by being fully hedged. Because these modifications are based upon GSCC's assessment of historical data, the changes should ensure appropriate risk protection for GSCC, while providing members with increased liquidity.

GSCC also is revising its rules to permit its Membership and Standards Committee to lower a margin factor subject to a predefined limitation if the Committee determines it appropriate based on its review of historical price volatility and if GSCC's Board of Directors approves such a lower margin factor. The Committee reviews the appropriateness of its margin factors on an ongoing basis. Thus, the proposed rule change should provide GSCC with the flexibility to lower margin factors more readily for the benefit of its members without compromising GSCC's risk protection. The limitation on the Committee's ability to lower margins (95% of all movements during the last quarter or year) should ensure that GSCC will always have a sufficient level of protection. GSCC also is lowering certain margin factors for zeros to reflect more accurately GSCC's needs based upon GSCC's data at the ninety-nine percent level over the past two years. Accordingly, members will not be subject to margin requirements that exceed GSCC's current needs.

In addition, GSCC is introducing a tiered surveillance status mechanism. The new surveillance mechanism should enable GSCC to monitor more effectively the potential risk posed by its members and to react more swiftly to changes in a member's condition. Finally, as a step toward GSCC's goal to develop an automated mechanism by which GSCC will receive clearing fund collateral by the time that the securities Fedwire opens, GSCC is eliminating the noon alternative deadline for satisfaction of a clearing fund deficiency call and to require a member to satisfy a deficiency call within two hours after it is received. By increasing the efficiency of GSCC risk management processes, the tiered surveillance mechanism and the modifications to GSCC's clearing fund deficiency call rules should help GSCC fulfill its obligation to safeguard securities and funds which are in its custody or control or for which it is responsible.

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–GSCC–96–01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[20]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–16922 Filed 7–2–96; 8:45 am]

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[19] 15 U.S.C. § 78q–1(b)(3)(F) (1988).

[20] 17 CFR 200.30–3(a)(12)(1995).

[Release No. 34–37370; File No. SR–NASD–96–23]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Small Order Execution System Tier Size Classifications

June 26, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on June 17, 1996, the National Association of Securities Dealers, Inc. (''NASD'' or ''Association'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NASD. 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 NASD is submitting this filing to effectuate The Nasdaq Stock Market, Inc.'s (''Nasdaq'') periodic reclassification of Nasdaq National Market (''NNM'') securities into appropriate tier sizes for purposes of determining the maximum size order for a particular security eligible for execution through Nasdaq's Small Order Execution System (''SOES'') and the minimum quote size requirements for Nasdaq market makers in NNM securities. Specifically, under the proposal, 728 NNM securities will be reclassified into a different SOES tier size effective July 1, 1996. Since the NASD's proposal is an interpretation of existing NASD rules, there are no language changes.

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 NASD 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