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

Delta 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

Comments were neither solicited nor 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 Delta 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 Act. 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 Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of Delta. All submissions should refer to the file number SR–DCC–98–01 and should be submitted by March 18, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[8]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–4756 Filed 2–24–98; 8:45 am]

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[8] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39680; File No. SR–PCX–97–49]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Margin and Net Capital Requirements for Joint Back Office Participants and Clearing Firms

February 18, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on December 18, 1997, the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') 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 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 Exchange seeks to amend Exchange Rule 2.16(c)(5) and adopt a new Exchange Rule 2.16(c)(6) to establish margin and net capital requirements for joint Back Office (''JBO'') participants and clearing firms.

The text of the proposed rule change is available at the Office of the Secretary, the Exchange, 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 IV 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

The Exchange proposes to revise Exchange Rule 2.16(c)(5) and adopt a new Exchange Rule 2.16(c)(6) to establish margin and net capital requirements for JBO participants and clearing firms. JBO arrangements permit a participating broker-dealer to be deemed self-clearing for margin purposes and entitle the participating broker-dealer to good faith credit. Pursuant to Regulation T, a JBO participant must maintain an ownership interest in the JBO clearing firm.[2]

In recent amendments to Regulation T, the Board of Governors of the Federal Reserve System (''FRB'') placed its reliance on the authority of self-regulatory organizations (''SROs'') to ensure that reasonableness of JBO arrangements.[3] When the provision permitting JBO arrangements was first adopted, the FRB assumed there would be a reasonable relationship between the good faith credit extended to a JBO participant and its ownership interest in the clearing firm. However, because Regulation T does not provide an ownership standard, good faith credit has been extended to ''owners'' maintaining only a nominal interest in a clearing firm.

In conjunction with other SROs and representatives from the securities industry, the Exchange has established standards for JBO participants and clearing firms. These standards will permit the extension of good faith credit to clearing firm ''owners'' only when the owners maintain meaningful assets on deposit with the JBO clearing firm, and the clearing firm maintains sufficient net capital and risk control procedures to carry such accounts. The Exchange's proposed rule change would establish the following requirements:

(a) *Broker-Dealer Accounts.* The Exchange proposes to adopt a new Exchange Rule 2.16(c)(6)(A) that would permit a member organization to carry the proprietary account of another broker-dealer that is registered with the

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

[2] Regulation T, ''Credit by Brokers and Dealers,'' requires that a JBO clearing firm be ''a clearing and servicing broker or dealer owned jointly or individually by other [broker-dealers].'' 12 CFR 220.11(a)(2). The Board of Governors of the Federal Reserve System issued Regulation T pursuant to the Act.

[3] See Board of Governors of the Federal Reserve System Docket No. R–0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

Commission, upon a margin basis that is satisfactory to both parties, provided the requirements of Regulation T are adhered to and the account is not carried in a deficit equity condition. The rule would specify that the amount of any deficiency between the equity maintained in the account and the haircut requirements of Commission Rule 15c3–1 (''Rule 15c3–1'') shall be deducted in computing the net capital of the member organization under the Exchange's capital requirements.

(b) *JBO Arrangements.* The Exchange also proposes to adopt a new Exchange Rule 2.16(c)(6)(B) which will provide that an arrangement may be established between two or more registered broker-dealers pursuant to Regulation T to form a JBO arrangement for carrying and clearing, or carrying accounts of participating broker-dealers. Member organizations must provide written notification to the Exchange prior to establishing a JBO.

The proposed rule change also sets forth certain requirements that a carrying and clearing, or carrying member organization must satisfy. First, the member organization must maintain a minimum tentative net capital [4] of $25 million as computed pursuant to Rule 15c3–1, except that a member organization whose primary business consists of the clearance of options market-maker accounts, may carry JBO accounts provided that it maintains a minimum net capital of $10 million as computed pursuant to Rule 15c3–1. Second, the member organization must include in its ration of gross options market maker deductions to net capital required by the provisions of Rule 15c3–1, gross deductions for JBO participant accounts. Clearance of options market maker accounts shall be deemed to be a broker-dealer's primary business if a minimum of 60% of the aggregate deductions in the above ratio are options market maker deductions. Third, the member organization must maintain a written risk analysis methodology for assessing the amount of credit extended to participating broker-dealers which shall be made available to the Exchange upon request. Fourth, the member organization must deduct from net capital haircut requirements pursuant to Rule 15c3–1 in excess of the equity maintained in the accounts of participating broker-dealers.

In addition, the proposed rule change specifies that a participating broker-dealer must: (a) Be a registered broker-dealer subject to Rule 15c3–1; (b) maintain an ownership interest in the carrying/clearing member organization pursuant to Regulation T, Section 220.11; and (c) maintain a minimum liquidating equity of $1 million in the JBO arrangement exclusive of the ownership interest established in (b) above. When the minimum liquidating equity decreases below the $1 million requirement, the participant must deposit an amount sufficient to eliminate this deficiency within 5 business days or become subject to margin requirements pursuant to the other provisions of Exchange Rule 2.16, ''Margin Requirements.''

(c) *Specialist's Accounts.* The proposed rule change also modifies Exchange Rule 2.16(c)(5)(A) to revise the manner in which debit items to a carrying member firm's net capital are calculated. Currently, the amount of any deficiency between the margin deposited by a specialist and the margin required by Exchange Rule 2.16 is considered as debit item in the computation of the net capital of the carrying member firm. Under the proposed rule change, the debit item would consist of the amount of any deficiency between the margin deposited by a specialist and the haircut requirements of Rule 15c3–1. The proposed rule change would make the identical modification to Exchange Rule 2.16(c)(5)(B) to apply to the situation where joint accounts are carried by a member firm for specialists, and the member firm participates in such joint accounts.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,[5] in general, and furthers the objectives of Section 6(b)(5),[6] in particular, in that it is designed to 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 no believe the proposed rule change will impose any inappropriate burden on competition.

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

The Exchange did not solicit or receive written comments with respect to the proposed rule change.

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 Exchange 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 Act. 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 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 persons, 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. 20549. 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–PCX–97–49 and should be submitted by March 18, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[7]

Margaret H. McFarland,

Deputy Secretary.

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[4] The term ''tentative net capital'' generally refers to a member firm's net capital before the application of haircuts and undue concentration deductions.

[5] 15 U.S.C. 78f(b).

[6] 15 U.S.C. 78f(b)(5).

[7] 17 CFR 200.30–3(a)(12).