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

The Exchange believes the proposed rule change will impose no burden on competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

Within 35 days of the 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 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. 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 at 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 CBOE. All submissions should refer to File No. SR–CBOE–96–44 and should be submitted by August 29, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[3]

[3] 17 CFR 200.30–3(a)(12) (1994

Jonathan G. Katz,
Secretary.
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[Release No. 34–37510; International Series Release No. 1012; File No. SR–ISCC–96–03]

Self-Regulatory Organizations; International Securities Clearing Corporation; Order Granting Temporary Approval on a Accelerated Basis of a Proposed Rule Change Relating to the Clearing Fund Formula

August 1, 1996.

On May 16, 1996 the International Securities Clearing Corporation (''ISCC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–ISCC–96–03) 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 July 9, 1996.[2] No comment letters were received. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change through August 1, 1997.[3]

I. Description

The proposed rule change extends approval of ISCC's clearing fund formula. In 1986, ISCC and the London Stock Exchange (''LSE'') entered into a linkage agreement which allows ISCC to obtain comparison and settlement services in the United Kingdom from the LSE on behalf of ISCC members.[4] ISCC is obligated to the LSE to pay for all securities delivered to ISCC through the ISCC–LSE link. ISCC has no responsibility to complete open pending trades (*i.e.*, once a member fails, ISCC no longer accepts delivery of securities for such member through the link). To adequately cover ISCC's exposure, each member's clearing fund deposit requirement is calculated and collected on a weekly basis. Each member is required to deposit the greater of (a) the largest clearing fund calculation over the last 365 day period or (b) the deposit that would be required based on the clearing fund calculation using trades due to settle over the next week.[5] Calculations are made each Tuesday, and members are required to deposit additional clearing fund amounts within three days.[6]

ISCC's clearing fund formula is: (Gross Debit Value) x (Market Risk Factor) + (Foreign Exchange Factor).[7] The Gross Debit Value is a member's largest single daily gross debit value based on debit values for five consecutive business days including the day on which the calculation is performed less 15% of the Institutional Net Settlement (''INS'') receive value for that same day.[8] The Market Risk Factor is based on the largest calculated percentage change in the Financial Times Index over a six day period over a minimum of 365 days.[9] The Market

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] Securities Exchange Act Release No. 37390 (July 1, 1996), 61 FR 36096.

[3] The Commission temporarily approved two previous ISCC proposed rule changes amending ISCC's clearing fund formula. Securities Exchange Act Release No. 35970 (July 13, 1995), 60 FR 37698 [File No. SR–ISCC–95–03] (notice of filing and order granting accelerated approval on a temporary basis of ISCC's clearing fund formula) and Securities Exchange Act Release No. 34392 (July 15, 1994), 59 FR 37798 [File No. SR–ISCC–94–1] (order temporarily approving on an accelerated basis ISCC's clearing fund formula).

[4] At that time, the LSE settled trades on a fortnightly basis with all trades that occurred during a two week period settling on the same day. On July 18, 1994, the LSE moved to a ten day rolling settlement cycle with trades settling ten days after trade date. On June 26, 1995, the LSE moved to a five day rolling settlement period. In response to the change to a rolling settlement cycle, ISCC adjusted its method of calculating its clearing fund requirements.

[5] During the eight week period ending April 23, 1996, the weekly clearing fund calculation exceeded the 365 day high in only three out of twenty-four calculations. Letter to Jerry Carpenter, Assistant Director, Division of Market Regulation, Securities and Exchange Commission, from Julie Beyers, ISCC (May 16, 1996).

[6] For example, ISCC calculates a member's clearing fund requirement on Tuesday, August 2, based on trades due to settle on Tuesday, August 2, through Monday, August 8, (*i.e.*, trades conducted on Tuesday, July 26, through Monday, August 1). Because an ISCC member has three business days after the calculation to make additional deposits, under the five day rolling settlement cycle, ISCC generally is collecting clearing fund contributions based on trades which already have settled. Under the prior ten day rolling settlement system, the clearing fund formula was based on the actual largest daily obligation of a member during the relevant time period, and the clearing fund deposit could be calculated and collected prior to the settlement day.

[7] Members are required to contribute a minimum of $50,000 to the clearing fund.

[8] Under the INS system, redeliveries of securities from ISCC members to institutional participants can occur automatically through the LSE. Therefore, ISCC generally is not required to pay the LSE for these securities. The debits arising from these redeliveries may be offset only partially because these securities may be reclaimed (*i.e.*, returned) by the receiver, and in such circumstance, ISCC is liable to the LSE for the full value of the reclamation.

[9] ISCC bases its clearing fund calculations on the assumption that it will take one day to sell all of a defaulting participant's positions. Under a five day settlement period, this results in a six day exposure for market risk with five days between trade date and settlement date and one day between settlement date and close out of positions. There also is a one day exposure for foreign exchange risk because ISCC converts U.S. dollars to British pounds on the settlement date and converts the proceeds from the sale of the positions to U.S. dollars the following day.

Risk Factor is set at 7%. The Foreign Exchange Factor is based in part on the estimated foreign exchange volatility, which is an amount that is equal to the largest one day percentage change in the U.S. dollar/British pound foreign exchange rate over a minimum of 365 days.[10] The estimated foreign exchange volatility is set at 4%.[11] The Market Risk Factor and Foreign Exchange Factor for members on surveillance may be increased in the discretion of ISCC by 3%, 5%, and 7% for members on Advisory, Class A, and Class B surveillance, respectively.

II. Discussion

Section 17A(b)(3)(F) of the Act [12] requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody of the clearing agency or for which it is responsible. The Commission believes that ISCC's proposal helps to assure the safeguarding of securities and funds in ISCC's custody or control or for which it is responsible because the proposal is designed to protect ISCC's settlement obligations under the LSE linkage should a participant default. The formula is based upon the risks to which ISCC is subject (*i.e.*, time market, and foreign exchange risks) and should assist ISCC in assuring the safety of the funds and securities being transferred through the LSE link. ISCC's requirement that members deposit the greater of (a) the largest clearing fund calculation over the last 365 day period or (b) the deposit that would be required based on the clearing fund calculation using trades due to settle over the next week should provide additional protection to compensate for the clearing fund calculations based upon previously settled trades rather than outstanding obligations.

ISCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing because approval of ISCC's current clearing formula will expire on August 1, 1996. The Commission believes that the proposed rule change should continue to be approved on a temporary basis in order to determine the adequacy of the formula in practice. The temporary approval will give ISCC the opportunity to study this further.

III. Conclusion

On the basis of the foregoing, the Commission finds that ISCC's proposal is consistent with the requirements of the Act and in particular with 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–ISCC–96–03) be, and hereby is temporarily approved on an accelerated basis through August 1, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[13]

Jonathan G. Katz,

Secretary.

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[Release No. 34–37512; File No. SR–MBSCC–96–01]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Approving a Proposed Rule Change To Modify Participants Fund Deposit Requirements

August 1, 1996.

On March 8, 1996, MBS Clearing Corporation (''MBSCC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–MBSCC–96–01) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') to modify its participants fund deposit requirements.[1] On March 25, and May 30, 1996, MBSCC filed amendments to the proposed rule change.[2] Notice of the proposal was published in the Federal Register on June 14, 1996.[3] No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The rule change revises the basic deposit component of the MBSCC participants fund requirements to correlate more closely with participants' actual usage of MBSCC services.[4] The basic deposit component is intended to ensure that participants' obligations to MBSCC for fees will be satisfied if participants are unable to meet such obligations.[5] The rule change reduces the basic deposit requirement for participants from $10,000 per account maintained at MBSCC to a minimum of $1,000 for each participant regardless of the number of accounts maintained.[6] If a participant's average monthly services bill, as determined by MBSCC on a semiannual basis, exceeds $1,000, the participant's basic deposit requirement will be the amount of such average monthly services bill up to a maximum amount of $10,000 per account maintained by such participant.

II. Discussion

Section 17A(b) (3) (F) [7] 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 that MBSCC's proposed rule change is consistent with MBSCC's obligations under the Act because the revised basic deposit requirements should adequately protect MBSCC from losses resulting from a participant's failure to pay MBSCC fees without placing an undue burden on participants. Moreover, revision of the basic deposit requirement should more closely

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[10] The Foreign Exchange Factor is the product of the Gross Debit Value and the estimated foreign exchange volatility less the product of the Gross Debit Value times the Market Risk Factor times the estimated foreign exchange volatility.

[11] During the period from 1989 to 1992, the maximum fluctuation in the U.S. dollar/British pound exchange rate was 4.445%. ISCC will continue to review annually the foreign exchange risk factor.

[12] 15 U.S.C. § 78q–1(b)(3)(F) (1988).

[13] 17 CFR 200.30–3(a)(12)(1995).

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] Letters from Anthony H. Davidson, MBSCC, to Christine Sibille, Division of Market Regulation (''Division''), Commission (March 18, 1996) and to Mark Steffensen, Division, Commission (May 24, 1996).

[3] Securities Exchange Act Release No. 37294 (June 10, 1996), 61 FR 30268.

[4] The MBSCC participants fund is composed of a basic deposit, a minimum market margin differential deposit (''3MD''), and a daily margin requirement referred to as a market margin differential deposit (''MMD''). The purpose of the 3MD is to provide additional assurances that each participant's fund contributions will be adequate to satisfy all open commitments recorded with MBSCC. Currently, the deposit required to satisfy this component of the participants fund is $250,000 per participant. The purpose of the MMD is to ensure that a participant. The purpose of the MMD is to ensure that a participant's open obligations to MBSCC will be satisfied in the event the participant is unable to meet such obligations. MMD is derived from a formula which assesses various factors including the type of position held and marked-to-market value fluctuations. The rule change will not affect the requirements of MBSCC participants with regard to the MMD and 3MD components of the participants fund.

[5] Notwithstanding the purposes of the basic deposit, MMD, and 3MD components of the participants fund, MBSCC is not limited in its application of participants fund proceeds. Rather, MBSCC can utilize the total participants fund to satisfy a participant's obligations to MBSCC irrespective of the nature of the obligation.

[6] MBSCC determined that its participants on average maintain two accounts at MBSCC. The monthly maintenance fee per account is $350 or $700 for two accounts. MBSCC based the minimum deposit amount of $1,000 upon these averages and other participant usage data.

[7] 15 U.S.C. § 78q–1(b)(3) (F) (1988).