

obtained by a brief extended trading session against the difficulties presented when options trade after the underlying securities have closed, the Exchange has determined that a two minute extended session is the correct balance.

The Exchange also proposes to change the closing time for narrow-based indexes under Rule 24.6 because these indexes are subject to the same pricing problems as options on individual stocks. A significant news announcement on one component of a narrow-based index could have a significant effect on that index. The Exchange is not at this time proposing to change the closing time of 3:15 p.m. for broad-based index options because it is unlikely that a significant news announcement by the issuer of one component stock of a broad-based index is likely to have a significant effect on the price of that broad-based index.

The Exchange is also proposing to amend Interpretations .02 and .03 of its trading rotation rule, Rule 6.2, to reflect the changes in the closing time for stock options and narrow-based index options from 3:10 p.m. to 3:02 p.m. Chicago time. A change would also be made to allow a closing rotation in non-expiring options to be held five minutes after news of such rotation is disseminated. Currently, the rule requires notice of ten minutes before a closing rotation may be held.

Finally, the Exchange is proposing to amend Interpretation .01 to Rule 6.1 to make it clear that the Board may designate a person or persons to change the hours for the trading of options when unusual conditions exist. This change is consistent with the Exchange's current Rule 24.6.

2. Statutory Basis

The proposed rule changes further the objectives of Section 6(b)(5) of the Act, in that they are designed to promote just and equitable principles of trade, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

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

announcements during the ten minute period after the close of trading in stocks, the Exchange filed a rule with the Commission which permits the Exchange to employ a system to suspend the operation of the RAES system in the event of news announcements near the close of trading. See Securities Exchange Act Release No. 37885 (October 29, 1996), 61 FR 56724 (approving CBOE-96-55).

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

No written comments were solicited or received 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 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.

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 Room. 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-CBOE-96-71 and should be submitted by December 26, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96-30812 Filed 12-3-96; 8:45 am]

BILLING CODE 8010-01-M

⁵ 17 CFR 200.30-3(a)(12).

[Release No. 34-37985; File No. SR-OCC-96-16]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Order Granting Permanent Approval on an Accelerated Basis of a Proposed Rule Change Concerning Equity TIMS

November 25, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 8, 1996, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared primarily by OCC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant permanent approval of the proposed rule change on an accelerated basis.

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

The proposed rule change seeks permanent approval of OCC's use of its Theoretical Intermarket Margin System ("TIMS") for calculating clearing margin positions in equity options.² Since its initial temporary approval of Equity TIMS in 1991, the Commission has extended the temporary approval five times.³

¹ 15 U.S.C. 78s(b)(1) (1988).

² Equity TIMS is a modified version of OCC's Non-Equity TIMS, which is OCC's margin system used to calculate requirements on options for which the underlying asset is anything but an equity security. Securities Exchange Act Release No. 23167 (April 22, 1986), 51 FR 16127 [File No. SR-OCC-85-21] (order approving Non-Equity TIMS). On March 1, 1991, the Commission temporarily approved a proposed rule change that authorized OCC to use TIMS to calculate clearing member margin requirements on equity options. At that time, OCC phased out its previous margin system, known as the "production system," and since then has used Equity TIMS to calculate its clearing members' margin requirements on equity option positions. For a complete description of Equity TIMS, refer to Securities Exchange Act Release No. 28928 (March 1, 1991), 56 FR 9995 [File No. SR-OCC-89-12] (order approving the use of Equity TIMS to calculate margin on equity options on a temporary basis through May 31, 1992).

³ Securities Exchange Act Release Nos. 30761 (May 29, 1992), 57 FR 24286 [File No. SR-OCC-92-15] (order extending the approval of Equity TIMS through May 31, 1993); 32388 (May 28, 1993), 58 FR 31989 [File No. SR-OCC-93-06] (order extending the approval of Equity TIMS through May 31, 1994); 34065 (May 13, 1994), 59 FR 26534 [File No. SR-OCC-94-03] (order extending the approval of Equity TIMS through May 31, 1995); 36003 (July 21, 1995), 60 FR 38880 [File No. SR-OCC-95-07] (order extending the approval of Equity TIMS through May 31, 1996) and 37449 (July 17, 1996), 61 FR 38498 [File No. SR-OCC-96-06] (order extending the approval of Equity TIMS through November 30, 1996).

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.⁴

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

Equity TIMS utilizes options price theory (*i.e.*, an option pricing model) to project the cost of liquidating each clearing member's long and short equity option positions on which OCC is entitled to assert a lien in the event of a "worst case" theoretical change in the price of the underlying securities. This projected liquidation cost is then used by Equity TIMS to calculate for each clearing member a margin requirement to cover that cost.

OCC presented a report to Commission staff in April 1995 pursuant to staff inquiries as to whether volatility for a ten-year period should be used to determine equity options margin intervals. OCC's analysis suggests that a ten-year time frame presents problems in adequately assessing the potential future volatility of individual equities. OCC asserts that some equities (*e.g.*, those in initial public offerings) with traded options experienced high volatility less than ten years ago but now are well established, less volatile securities. However, some equities with traded options that historically have experienced lower volatility have experienced volatility increases due to market factors or changes in the business climate.

Accordingly, OCC explored alternatives to using a ten-year period for determining equity options margin intervals. As a result of its research into such alternatives, OCC believes that the use of a four-year stable distribution for the purposes of determining equity margin intervals within Equity TIMS should address the Commission's concerns. Stable distributions essentially seek to fit a probability distribution to a sample of historical data without any implicit assumptions of normalcy. OCC believes that stable

distribution parameters will provide it with a greater breadth and quality of information from a given period of historical data and proposes to use a four-year period for purposes of setting option margin intervals.

OCC believes the proposed rule change is consistent with the requirements of Section 17A of Act and the rules and regulations promulgated thereunder because Equity TIMS should enhance OCC's ability to safeguard the securities and funds for which it is responsible.

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

OCC does not believe that the proposed rule 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 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

Section 17A(b)(3)(F) 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 OCC's proposal to utilize Equity TIMS meets this requirement. Because the Commission wanted to analyze and to monitor the results of the use of Equity TIMS before determining whether to grant permanent approval, the Commission previously approved the proposed rule change on a temporary basis. Because OCC's use of Equity TIMS during the temporary approval period has resulted in better assessments of OCC's risk exposure associated with the clearance and settlement of its clearing members' equity option positions and has resulted in calculations of clearing margin that more accurately reflect the risk exposure, the Commission is now permanently approving Equity TIMS.

OCC has requested that the Commission find good cause for approving the proposal prior to the thirtieth day after the publication of notice of filing of the proposed rule change. The Commission finds good cause for approving OCC's proposal prior to the thirtieth day after publication of notice of filing because accelerated approval will allow OCC to

continue to use Equity TIMS without interruption at the conclusion of the current temporary approval period. The Commission notes that during the previous temporary approval periods neither OCC nor the Commission have received any adverse comments regarding Equity TIMS, and none are expected with regard to this filing.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission 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 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 filings will also be available for inspection and copying at the principal office of OCC. All submissions should refer to file number SR-OCC-96-16 and should be submitted by December 26, 1996.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-OCC-96-16) be, and hereby is, approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 96-30813 Filed 12-3-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-37993; File No. SR-OCC-96-14]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Revision of Fees

November 27, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on

⁴ The Commission has modified the text of the summaries prepared by OCC.

⁵ 17 CFR 200.30-3(a)(12) (1996).

¹ 15 U.S.C. 78s(b)(1) (1988).