

Authority: Secs. 2(a)(1)(A), 4, 4c and 8a of the Commodity Exchange Act, 7 U.S.C. 2, 6, 6c and 12a.

2. Appendix C to Part 30 is amended by adding the following citation to the existing entry for the Association of Futures Brokers and Dealers and The Securities Association to read as follows:

Appendix C—Foreign Petitioners Granted Relief from the Application of Certain Part 30 Rules Pursuant to rule 30.10.

* * * * *

FR date and citation, March 7, 1997, 62 FR.

Issued in Washington, D.C. on March 3, 1997.

Jean Webb,

Secretary of the Commission.

[FR Doc. 97-5668 Filed 3-6-97; 8:45 am]

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17 CFR Part 30

Foreign Futures and Option Transactions

AGENCY: Commodity Futures Trading Commission.

ACTION: Order.

SUMMARY: The Commodity Futures Trading Commission ("Commission" or "CFTC"), is clarifying the procedures applicable in its prior Order issued on May 15, 1989 (the "Original Order")¹ authorizing designated members of the Investment Management Regulatory Organisation Limited ("IMRO") to solicit and to accept orders from U.S. customers for otherwise permitted transactions on all non-U.S. exchanges which have been designated as a Designated Investment Exchange ("DIE") by the United Kingdom Securities and Investments Board ("SIB").²

¹ See 54 FR 21614 (May 19, 1989).

² An exchange carrying on investment business in the United Kingdom must be authorized by the SIB as a Recognized Investment Exchange ("RIE"). See United Kingdom Financial Services Act ("FSA") §§ 3, 36, and 37. DIE's are certain non-U.K. exchanges determined by the SIB to meet adequate standards of investor protection. See SIB Financial Services (Glossary and Interpretation) Rules and Regulations 1990. Under the terms of the Original Order, an IMRO member firm may only handle transactions on behalf of U.S. customers on an RIE or DIE. See 54 FR 21614, 21615.

The Commission also notes that although a rule 30.10 Order was issued to the SIB concurrently with the Original Order (54 FR 21599 (May 19, 1989)), there are no firms currently designated by the SIB for rule 30.10 relief. Under the current United Kingdom regulatory structure the SIB no longer has direct supervisory responsibility for any firm engaged in investment business involving derivatives under the FSA. See, e.g., Andrew Large, *Financial Services Regulation—Making the Two Tier System Work* at 21 (SIB, 1993).

This Supplemental Order is issued pursuant to (1) Commission rule 30.10, which permits the Commission to grant an exemption from certain provisions of Part 30 of the Commission's regulations, and (2) the Commission's Original Order, granting relief under rule 30.10 to designated members of IMRO.

EFFECTIVE DATE: March 7, 1997.

FOR FURTHER INFORMATION CONTACT: Jane C. Kang, Esq., or Warren Gorlick, Esq., Division of Trading and Markets, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, N.W., Washington, D.C. 20581. Telephone: (202) 418-5430.

SUPPLEMENTARY INFORMATION: The Commission has issued the following Supplemental Order:

Supplemental Order Clarifying Conditions Under Which Certain Members of the Investment Management Regulatory Organisation Designated for Relief Under Commission Rule 30.10 May Solicit and Accept Orders From U.S. Customers for Otherwise Permitted Transactions on All Non-U.S. Markets Where Such Members Are Authorized by United Kingdom Law to Conduct Futures Business for Customers

In an Order issued on May 15, 1989, the Commission authorized designated members of IMRO to offer or sell certain futures and option contracts on or subject to the rules of an RIE in the United Kingdom, or any other non-U.S. exchange³ which is a DIE.

The Commission now seeks to clarify the procedures with which IMRO members should comply in order to operate pursuant to the Original Order authorizing certain IMRO member firms to engage in foreign futures and options transactions for U.S. customers on a DIE other than a U.S. exchange designated as a contract market pursuant to section 5 of the Commodity Exchange Act ("CEA" or "Act"). This Order clarifies that the funds of U.S. foreign futures and options customers must be subject to consistent protection irrespective of whether the IMRO member firm effects trades directly on an RIE,⁴ or effects

³ The term "non-U.S. exchange" refers to a foreign board of trade which is defined in Commission rule 1.3 (ss), 17 C.F.R. 1.3(ss) (1996) as:

Any board of trade, exchange or market located outside the United States, its territories or possessions, whether incorporated or unincorporated, where foreign futures or foreign options transactions are entered into.

Thus, contracts that are traded on a market that has been designated as a contract market pursuant to section 5 of the Commodity Exchange Act ("CEA" or "Act") are not within the scope of the Original Order and this Supplemental Order.

⁴ With respect to transactions on an RIE, applicable U.K. laws and regulations and the

trades on a DIE directly or through the intermediation of a foreign exchange member.⁵ Accordingly, the Commission has determined to clarify that the relief authorized in its Original Order with respect to transactions on a DIE is applicable only if an IMRO member firm complies with the following procedures, which are consistent with the requirements applicable to Commission registered futures commission merchants ("FCMs") concerning the protection of customer funds under the provisions of Commission rule 30.7:⁶

With respect to transactions effected on behalf of U.S. customers on any non-U.S. futures and options exchange which is a DIE, whether by the IMRO member directly as a clearing member of such other exchange or through the intermediation of one or more intermediaries, the IMRO member complies with paragraphs a, b or c below:

a. (1) Maintains in a separate account or accounts money, securities and property in an amount denominated as the foreign futures or foreign options secured amount, at least sufficient to cover or satisfy all of its current obligations to U.S. customers;

(2) Does not commingle such money, securities and property with the money, securities or property of the member, or with any proprietary account of such member and does not use such money, securities and property to secure or guarantee the obligations of, or extend credit to, the member or any proprietary account of the member;

(3) Provided that it may deposit together with the secured amount required to be on deposit in the separate account or accounts referred to in paragraph a-1 above money, securities or property held for or on behalf of non-U.S. customers of the member for the purpose of entering into foreign futures and options transactions. In such a case, the

Original Order require segregation of all money, securities and property deposited on behalf of U.S. customers in respect of such transactions and the accruals thereon. See paragraphs 2(c) and (h) of the Original Order, 54 FR 21614, 21616.

⁵ The Commission notes that substantially similar conditions were imposed in its Order authorizing members of the New Zealand Futures and Options Exchanges (NZFOE) that are designated for relief under Commission rule 30.10 to solicit and to accept orders from U.S. customers for otherwise permitted transactions on all non-U.S. exchanges where such members are authorized by the rules of the NZFOE to conduct futures business for customers. See 61 FR 64985 (December 10, 1996).

⁶ See Commission rule 30.7, 17 C.F.R. § 30.7 (1996). To the extent that a depository is unable to provide the required acknowledgement (for example, as in the case of an intermediary firm which does not segregate customer from house assets), that foreign depository is not a good secured amount depository. To use such an intermediary, an FCM must establish a "mirror" account in the United States to meet its secured amount obligations. Thus, the procedures articulated in this Order are intended to be consistent with the requirements applicable to the treatment of customer funds under rule 30.7 by FCMs and to clarify that these same obligations apply to foreign firms operating under rule 30.10 orders permitting the execution of trades on exchanges outside of their home jurisdiction (see n.5 above).

amount that must be deposited in such separate account or accounts must be no less than the greater of (1) the foreign futures and foreign options secured amount required by paragraph a-1 above plus the amount that would be required to be on deposit if all such customers (including non-U.S. customers) were subject to such requirement, or (2) the foreign futures and foreign options secured amount required by paragraph a-1 above plus the amount required to be held in a separate account or accounts for or on behalf of such non-U.S. customers pursuant to any applicable law, rule, regulation or order, or any rule of any self-regulatory organization;

(4) Maintains the separate account or accounts referred to in paragraph a-1 above under an account name that clearly identifies them as such, with any of the following depositories:

(a) Another person registered with the Commission as an FCM or a firm exempted from FCM registration pursuant to CFTC rule 30.10;

(b) The clearing organization of any foreign board of trade;

(c) Any member and/or clearing member of such foreign board of trade; or

(d) A bank or trust company which any of the depositories identified in (a)-(c) above may use consistent with the applicable laws and rules of the jurisdiction in which the depository is located; and

(5) The separate account or accounts referred to in paragraph a-1 may be deemed located at a good secured amount depository only if the member obtains and retains in its files for the period required by applicable law and IMRO rules a written acknowledgement from such separate account depository that:

(a) It was informed that such money, securities or property are held for or on behalf of customers of the member; and

(b) It will ensure that such money, securities or property will be held and treated at all times in accordance with the provisions of this paragraph; and, *provided further*, that the member assures itself that such separate account depository will not pass on such money, securities or property to any other depository unless the member has assured itself that all such other separate account depositories will treat such funds in a manner consistent with the procedures described in paragraph a hereof;⁷ or

⁷This proviso is intended to clarify that the originating member makes reasonable inquiries and understands prior to the initiation of a trade the conditions under which its customers' funds will be held at all subsequent depositories, so that it may determine whether a particular intermediary or clearing house is a good separate account depository for purposes of this Order or must alternatively set aside funds in the manner set forth in paragraph b. The member would be expected to discuss with its immediate intermediary broker whether funds would be transferred to any subsequent depositories and determine the conditions under which such funds would be treated. Compliance with this proviso would be satisfied by the member obtaining relevant information or assurances from appropriate sources such as, for example, the immediate intermediary broker, exchanges or clearinghouses, exchange regulators, banks, attorneys or other relevant references, including regulatory sources.

b. Sets aside funds constituting the entire secured amount requirement in a separate account as set forth in Commission rule 30.7, 17 C.F.R. 30.7 (1996), and treats those funds in the manner described by that rule; or

c. Complies with the terms and procedures of paragraph a or b, except that the amount required to be segregated under IMRO rules and United Kingdom laws may be substituted for the secured amount requirement as set forth in such paragraphs.⁸

The rule 30.10 relief already granted to IMRO also is contingent upon IMRO and IMRO members' continued compliance with the Original Order and the enumerated conditions above.

Further, if experience demonstrates that the continued effectiveness of this Order in general, or with respect to a particular member, would be contrary to public policy or the public interest, or that the systems in place for the exchange of information or other circumstances do not warrant continuation of the exemptive relief granted herein, the Commission may condition, modify, suspend, terminate, withhold as to a specific member, or otherwise restrict the exemptive relief granted in this Order, as appropriate, on its own motion. If necessary, provisions will be made for servicing existing client positions.

List of Subjects in 17 CFR Part 30

Commodity Futures, Commodity Options, Foreign Futures.

This Supplemental Order is intended to clarify that funds provided by U.S. customers for foreign futures and options transactions, whether held at a U.S. FCM under rule 30.7(c) or a firm exempted from registration as an FCM under CFTC rule 30.10, will receive equivalent protection at all intermediaries and exchange clearing organizations. Thus, for example, an exchange that does not segregate customer from firm obligations and firms which trade on such exchanges and which do not arrange to comply otherwise with any of the procedures described herein would not be deemed an acceptable separate account. Specifically, such exchange or firms could not provide a valid and binding acknowledgement to a rule 30.10 exempted firm.

This provision is not necessarily intended to create a duty on a rule 30.10 firm that it audit intermediaries it uses for continued compliance with the undertakings it has obtained based on discussions with those relevant intermediaries. It is intended to make clear that firms seeking the benefit of the Commission's 30.10 relief must undertake a due diligence inquiry before customer funds are transferred to another intermediary and must take appropriate action (*i.e.*, set aside funds) in the event that such firms become aware of facts leading them to conclude that customer funds are not being handled consistent with the requirements of Commission rules or this Order by any subsequent intermediary or clearing house.

⁸ Any United Kingdom laws or regulations or IMRO rules which permit an IMRO member firm to obtain from its customers a waiver, acknowledgement or similar document in which such customer effectively waives the right to segregation protection would be inconsistent with compliance with paragraphs a, b, and c.

Accordingly, 17 CFR Part 30 is amended as set forth below:

PART 30—FOREIGN FUTURES AND OPTIONS TRANSACTIONS

1. The authority citation for Part 30 continues to read as follows:

Authority: secs. 2(a)(1)(A), 4, 4c and 8a of the Commodity Exchange Act, 7 U.S.C. 2, 6, 6c and 12a.

2. Appendix C to Part 30 is amended by adding the following citation to the existing entry for the Investment Management Regulatory Organisation to read as follows:

Appendix C—Foreign Petitioners
Granted Relief From the Application of
Certain Part 30 Rules Pursuant to Rule
30.10

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FR date and citation, March 7, 1997, 62 FR.

Issued in Washington, D.C. on March 3, 1997.

Jean Webb,

Secretary of the Commission.

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SECURITIES AND EXCHANGE COMMISSION

17 CFR Part 300

[Release No. SIPA-163; File No. SIPC-96-1]

Rules of the Securities Investor Protection Corporation

AGENCY: Securities and Exchange Commission.

ACTION: Order approving a proposed rule change of the Securities Investor Protection Corporation.

SUMMARY: The Securities and Exchange Commission ("Commission") is approving a rule change submitted by the Securities Investor Protection Corporation ("SIPC") as required by Section 3(e)(2) of the Securities Investor Protection Act of 1970 ("SIPA"). SIPC's proposed rule change amends two Series 300 SIPC Rules relating to the closeout and completion of contracts for the purchase or sale of securities made by debtors in liquidation under SIPA. Because SIPC rules have the force and effect as if promulgated by the Commission, those rules are published in Title 17 of the Code of Federal Regulations ("CFR").

EFFECTIVE DATE: April 7, 1997.

FOR FURTHER INFORMATION CONTACT: Michael A. Macchiaroli, Associate Director, 202/942-0131, Peter R.