

system or the options clearing system if DCC determines that the risk involved is *de minimis* (i.e., the additional exposure is less than 5%). Previously, if a participant exceeded its trading limit, DCC was required to reject the participant's trades. Now, if a participant exceeds its exposure limit twice or more in one month, the revised rule obligates DCC to review with the participant and the insurer, if necessary, whether to change the participant's exposure limit.

The definition of maximum potential system exposure ("MPSE") in the procedures also is revised to clarify and to limit the circumstances under which margin funds due and owing from participants may be deducted for purposes of determining MPSE. DCC will continue to include as a credit in calculating MPSE those margin funds due and owing from such participants at or before the immediately succeeding settlement time (1) That were called for by DCC in the ordinary course of entering trades into the options or repo clearing systems, (2) that were reflected in the daily margin report, and (3) that were not an additional margin requirement pursuant to Section 603 or 2603 of DCC's procedures.

II. Discussion

Section 17A(b)(3)(F) of the Act requires that a clearing agency's rules be designed to ensure the safeguarding of securities and funds in its custody or control or for which it is responsible.⁴ The Commission believes that DCC's proposal is consistent with the Act in that the proposed rule change should provide DCC with greater flexibility to manage and to address credit and liquidity difficulties among its participants.

DCC's procedures will allow participants to effect trades for clearance and settlement in the repo clearing system or in the options clearing system above their exposure limits only if DCC determines that the risk involved is below a defined *de minimis* amount. While this provision gives DCC some flexibility in determining whether to reject or accept a participant's trades, it does so in a limited and prudent manner. Furthermore, the unification of each participant's exposure limit for its options and repo transactions should allow DCC to improve its understanding of the overall risk each participant poses to DCC. In addition, the limitation on the types of margin that may be used as a credit for MPSE calculations should reduce the possibility that routine margin calls designed to reduce DCC's

credit exposure inadvertently compound DCC's exposure. By enhancing DCC's risk management system, the proposal assists DCC in safeguarding securities and funds in its possession and control.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and particularly with Section 17A(b)(3)(F) of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁵ that the proposed rule change (File No. SR-DCC-96-13) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38645; File No. SR-NASD-96-29; Amendment No. 4]

Self-Regulatory Organizations; Notice of Filing and Order Granting Temporary Accelerated Approval of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Allocation and Delegation of Authority and Responsibilities by the National Association of Securities Dealers, Inc., to NASD Regulation, Inc., and The Nasdaq Stock Market, Inc.

May 15, 1997.

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 May 14, 1997, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("Commission") Amendment No. 4 to the proposed rule change as described in Items I, II and III below, which Items have been prepared by the NASD.¹ The

⁵ 15 U.S.C. 78s(b)(2).

⁶ 17 CFR 200.30-3(a)(12).

¹ The NASD originally filed the rule change on July 2, 1996. On July 8, 1996, the NASD filed Amendment No. 1 to the proposed rule change. Amendment No. 1 amended the language of proposed new Subsections II.C.4. and III.C.3 of the Delegation Plan to clarify that it is proposed that the NASD Board of Governors have authority to determine to both call for review or not call for review a matter of the subsidiary Board during the 15-day period provided for consideration by the NASD Board.

On July 10, 1996, the NASD filed Amendment No. 2 to the proposed rule change. Amendment No.

Commission is publishing this notice to solicit comments on the proposed rule change as further amended by Amendment No. 4 from interested persons and is simultaneously granting accelerated approval to the proposed rule change for a period of six months.

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

The NASD is proposing to extend the effectiveness of: (1) Rule 0130 to the subsidiaries of the NASD, NASD Regulation, Inc. ("NASDR") and The Nasdaq Stock Market, Inc. ("Nasdaq"), the authority to act on behalf of the Association as set forth in a Plan of Allocation and Delegation adopted by the NASD Board of Governors and approved by the Commission pursuant to its authority under the Act; and (2) adopt a Plan of Allocation and Delegation of Functions by NASD to Subsidiaries ("Delegation Plan") setting forth the purpose, function, governance, procedures and responsibilities of the NASD, NASDR and Nasdaq, following the reorganization of the NASD.

Rule 0130 and the Delegation Plan originally were filed with the Commission in SR-NASD-96-16 and were simultaneously published for comment and approved by the Commission on a temporary basis for a period of 90 days.² Release 34-37107 contained the full text of Rule 0130 and the Delegation Plan with the exception of three changes thereto. On July 11, 1996, the Commission issued a release publishing for comment the three changes to the Delegation Plan and further approving Rule 0130 and the Delegation Plan as amended for a period of 120 days.³ Release 34-37107 and

2 requests temporary approval of the proposed rule change for a period of 120 days. See Letter from T. Grant Callery, Senior Vice President and General Counsel, NASD to Katherine A. England, Assistant Director, Division of Market Regulation, Commission (dated July 10, 1996).

On November 12, 1996, the NASD filed Amendment No. 3 to the proposed rule change. Amendment No. 3 requested temporary approval of the proposed rule change for a period of six months. See Letter from T. Grant Callery, Senior Vice President and General Counsel, NASD to Katherine A. England, Assistant Director, Division of Market Regulation, Commission (dated November 12, 1996). The Commission previously published notice of the proposed rule change and granted accelerated approval to the proposed rule change for periods of 120 days and six months (Securities Exchange Act Release No. 37425 (July 11, 1996), 61 FR 37518 (July 18, 1996) ("Release 34-37425") and Securities Exchange Act Release No. 37957 (November 15, 1996), 61 FR 59267 (November 21, 1996) ("Release 34-37957").

² Securities Exchange Act Release No. 37107 (April 11, 1996), 61 FR 16948 (April 18, 1996) ("Release 34-37107").

³ Release 34-37425.

⁴ 15 U.S.C. 78q-1(b)(3)(F).

Release 34-37425 published the complete text of the rule change. On November 15, 1996, the Commission extended temporary approval of the instant proposed rule change for a six month period.⁴

The NASD hereby files this Amendment No. 4, pursuant to Section 19(b)(1) of the Act and Rule 19b-4 thereunder, to obtain authorization for an interim extension of the Delegation Plan as amended for an additional period of six months.⁵ During this interval, there will be no further amendments to the Delegation Plan, absent Commission approval of a corresponding Rule 19b-4 filing.⁶

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 may be examined at the places specified in Item V below. The NASD 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 purpose of this Amendment No. 4 is to ensure continued effectiveness of the Delegation Plan while the Commission considers whether to grant permanent approval to the instant NASD rule filing.

Description of Delegation Plan

The Delegation Plan is organized in three principal parts, one for each of the

three major entities that will constitute the reorganized NASD: the parent corporation, National Association of Securities Dealers, Inc.; the regulatory subsidiary, NASD Regulation, Inc.; and the stock market operating subsidiary, The Nasdaq Stock Market, Inc.⁷ The Delegation Plan, the contents of which are self-explanatory, describes the purposes, functions, governance, procedures and responsibilities of each entity.

The first part of the Delegation Plan describes the parent corporation, National Association of Securities Dealers, Inc. The Delegation Plan sets forth the purpose and function of the NASD; the composition of the Board of Governors, including provisions relating to the qualifications for Governors, election procedures, creation of a National Nominating Committee,⁸ term of office, vacancies and removal from office; the function, composition and reporting structure of the Audit Committee and the Office of Internal Review; the function and composition of the Management Composition Committee; and the Commission's access to and status of officers, directors, employees, books, records and premises of the subsidiaries.

The second part of the Delegation Plan describes the regulatory subsidiary, NASD Regulation, Inc. The Delegation Plan sets forth the delegation of authority to NASDR by the NASD; the purpose, function and authority of NASDR; the composition of and qualifications for members of the Board of Directors from 1997 forward, including provisions relating to election procedures; the function and composition of the National Business Conduct Committee; the Board's procedures for reviewing disciplinary actions, statutory disqualification decisions and proposed rule change

recommendations; and the Board's procedures for initiating actions.

The third part of the Delegation Plan describes the stock market operating subsidiary, The Nasdaq Stock Market, Inc. The Delegation Plan sets forth the delegation of authority to Nasdaq; the purpose and function of Nasdaq; the composition of and qualifications for members of the Board of Directors, including, provisions relating to election procedures and the authority of the Board; the Board's procedures for reviewing listing/delisting decisions, and rule change recommendations; the Board's procedures for initiating actions; the functions and composition of the Quality of Markets Committee; and functions of the Stockwatch Department.

2. Statutory Basis for the Proposed Rule Change

The NASD believes that the proposed rule change as further amended by Amendment No. 4 is consistent with the provisions of Section 15A(b)(2) of the Act⁹ in that the terms of the Delegation Plan will provide for the organization of the Association in a manner that will permit the Association, through its operating subsidiaries, to carry out the purposes of the Act, to comply with the Act, and to enforce compliance by Association members and persons associated with members with the Act, the rules and regulations thereunder, the rules of the Association and the federal securities laws.

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

The NASD does not believe that the proposed rule change as further amended by Amendment No. 4 will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received. However, in connection with the publication for member vote of proposed amendments to the By-Laws to implement the Delegation Plan in Notice to Members 95-101 (December 11, 1995), attached as Exhibit 2 to proposed rule change SR-NASD-96-02, the NASD received three comments which were attached as Exhibit 4 to that proposed rule change. The NASD's statement on the comments received with respect to Notice to

⁴ Release 34-37957.

⁵ The NASD also filed Amendment No. 5 to SR-NASD-96-20, requesting an extension of the Commission's temporary approval of the amended NASD By-Laws for a period of six months. The Commission is separately approving that rule change as further amended by Amendment No. 5. See Securities Exchange Act Release No. 38644 (May 15, 1997).

⁶ The NASD filed SR-NASD-97-28, the Notice of Filing of a Proposed Rule Change by the National Association of Securities Dealers, Inc. ("NASD") to Proposed Changes in the By-Laws of the NASD, NASD Regulation, Inc., The Nasdaq Stock Market, Inc., the Plan of Allocation and Delegation of Functions by the NASD to Subsidiaries, Membership Application Procedures, Disciplinary Proceedings, Other Proceedings, and Other Conforming Changes, which contains proposed amendments to the Delegation Plan. The comment period for this rule filing expires on June 6, 1997.

⁷ The Delegation Plan does not discuss other wholly owned subsidiary corporations of the NASD, such as, the Securities Dealers Risk Purchasing Group, Inc. and Securities Dealers Insurance Co., Ltd. These and any other wholly owned subsidiaries of the NASD not described in the Delegation Plan do not perform any of the Association's regulatory functions or the operating functions related to the operation of The Nasdaq Stock Market. In addition, the Delegation Plan does not address the NASD's ownership role in corporations such as the National Securities Clearing Corporation or the Depository Trust Company.

⁸ The National Nominating Committee is composed of at least six and not more than nine members equally balanced between Industry and Non-Industry Committee Members (including at least two Public Committee Members). Two members of the National Nominating Committee are selected by each of the Subsidiaries and the NASD, of which it is anticipated that at least three will be Non-Industry Members.

⁹ 15 U.S.C. § 78o-3.

Members 95-101 is set forth in SR-NASD-96-02 and was published by the Commission in Securities Exchange Act Release No. 37106 (April 11, 1996), 61 FR 16944 (April 18, 1996). SR-NASD-96-02 proposed certain of the By-Law amendments issued for member vote in Notice to Members 95-101 (December 11, 1995) in order to permit the reorganization of its Board of Governors consistent with the Delegation Plan submitted in SR-NASD-96-16.

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

The NASD has requested that the Commission find good cause pursuant to Section 19(b)(2) for approving the proposed rule change as further amended by Amendment No. 4 prior to the 30th day after publication in the **Federal Register**.

IV. Discussion

The Commission finds that the proposed rule change as further amended by Amendment No. 4 is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the NASD and, in particular, the requirements of Section 15A of the Act and the rules and regulations thereunder. The Commission believes that the proposed rule change will allow the NASD to carry out the purposes of the Act to comply with, and enforce compliance by its members and associated persons with, the provisions of the Act, the rules and regulations thereunder, and the rules of the NASD. Furthermore, the amendments are designed (with amendments to the NASD By-Laws simultaneously approved in SR-NASD-96-20, as set forth below) to assure a fair representation of the NASD's members, in the selection of its directors and administration of its affairs as well as comply with the public and non-industry participant requirements of the Act. It is envisioned that these rules and any subsequent changes that may be implemented from time-to-time will enable the NASD to better comply with the requirements of Section 15A(b)(2) in particular and the Act in general.

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice of filing thereof in that accelerated approval will enhance the NASD's ability to carry out its regulatory obligations under the Act. The Commission believes that the proposed rule change is intended to accomplish certain allocations and delegations of authority necessary to reorganize the NASD, and establish as

separate subsidiaries the NASDR and Nasdaq in accordance with the September 1995 recommendations of The Select Committee on Structure and Governance in order to enable the NASD to meet its regulatory and business obligations. The Delegation Plan, which is part of this proposed rule change, sets forth the purpose, functions, governance, procedures, and responsibilities of the NASD, the NASDR and Nasdaq following the reorganization of the NASD. The NASD's Board of Governors, which has been reorganized to be consistent with the proposed rule change, has held meetings to carry out the business of the Association. The subsidiaries also have held meetings of the Board of Directors of NASDR and Nasdaq in order to carry out the business of the subsidiaries during the period in which the Delegation Plan has been effective.

The instant proposed rule change was previously published for comment and approved by the Commission on a temporary basis for periods of 120 days and six months.¹⁰ The six month approval period is scheduled to expire by May 15, 1997. No comment letters concerning the instant proposed rule change were received by the Commission. The reorganization of the NASD Board of Governors is also reflected in rule changes to the NASD By-Laws submitted in rule filing SR-NASD-96-20, which also was previously granted temporary approval for six months.¹¹ The Commission is also extending its temporary approval of that proposed rule change.¹²

Accordingly, the Commission believes that accelerating the approval of the proposed rule change as further amended by Amendment No. 4 will benefit members and the public interest by fully implementing the reorganization of the NASD and its subsidiaries.

V. 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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by June 12, 1997.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change SR-NASD-29, as amended by Amendment No. 4, be, and hereby is, approved through November 15, 1997.

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

Jonathan G. Katz,
Secretary.

[FR Doc. 97-13458 Filed 5-21-97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38644; File No. SR-NASD-96-20, Amendment No. 5]

Self-Regulatory Organizations; Notice of Filing and Order Granting Temporary Accelerated Approval To Proposed Rule Change by National Association of Securities Dealers, Inc. Relating To Changes in the Structure of the NASD Board of Governors

May 15, 1997.

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 May 14, 1997, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("Commission") Amendment No. 5 to the proposed rule change as described in Items I, II and III below, which Items have been prepared by the NASD.¹ The

¹³ 17 CFR 200.30-3(a)(12).

¹ The NASD originally filed the rule change on May 28, 1996. On June 5, 1996, the NASD filed Amendment No. 1 to the proposed rule change. Amendment No. 1 amended Article VI, Section 5 of the NASD By-Laws ("By-Laws") to clarify that, in a contested election, the term of office of a candidate certified by the National Nominating Committee for inclusion on the ballot for the election of Governors pursuant to Article VI, Section 7(c) would be identical to the term of office of a candidate nominated by the National Nominating Committee pursuant to Article VI, Section 7(c). Amendment No. 1 also amended

¹⁰ Release Nos. 34-37425 and 34-37957, respectively.

¹¹ Securities Exchange Act Release No. 37956 (November 15, 1996), 61 FR 59265 (November 21, 1996).

¹² See Securities Exchange Act Release No. 38644 (May 15, 1997).