

Commission, and recording secretaries will attend the closed meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b (c)(4), (8), (9)(A) and (10) and 17 CFR 200.402(a) (4), (8), (9)(i) and (10), permit consideration of the scheduled matters at the closed meeting.

Commissioner Hunt, as duty officer, voted to consider the items listed for the closed meeting in a closed session.

The subject matter of the closed meeting scheduled for Monday, June 16, 1997 at 2:00 p.m., will be:

Institution and settlement of injunctive actions.

Institution and settlement of administrative proceedings of an enforcement nature.

Formal order of investigation.

Opinions.

The subject matter of the open meeting scheduled for Wednesday, June 18, 1997 at 10:00 a.m., will be:

Consideration of whether to adopt certain recommendations of the Task Force on Disclosure Simplification. The recommendations include the rescission of two forms and one rule that are no longer necessary or appropriate for the protection of investors and the adoption of one rule and amendment of a number of other rules and forms to eliminate unnecessary requirements and to streamline the disclosure process. For further information, please contact Felicia H. Kung at (202) 942-2990.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: the Office of the Secretary at (202) 942-7070.

Dated: June 11, 1997.

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 97-15838 Filed 6-12-97; 12:53 pm]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38729; File No. SR-NASD-97-14]

Self-Regulatory Organizations; Order Granting Approval of Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1 Thereto by the National Association of Securities Dealers, Inc., Relating to the Amendment of its Margin Rules

June 10, 1997.

I. Introduction

On February 26, 1997, the NASD Regulation, Inc. ("NASD Regulation") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to amend certain sections of the National Association of Securities Dealers, Inc.'s ("NASD" or "Association") margin rules.

The proposed rule change was published for comment in Securities Exchange Act Release No. 38463 (April 1, 1997), 62 FR 17260 (April 9, 1997). The NASD submitted to the Commission Amendment No. 1 on May 30, 1997.³ No comments were received on the proposal.

This order approves the proposed rule change.

II. Description of the Proposal

The NASD Regulation proposes to amend its margin rule, Rule 2520 of the Conduct Rules, of the NASD. Specifically, the NASD Regulation proposes to amend Rule 2420 ("old Rule 2520") to: (1) renumber paragraphs (a) and (b) as Rules 2521 and 2522, respectively, and renumber paragraph (c) as Rule 2520 (referred to herein as "Rule 2520"); (2) conform Rule 2520 to recent amendments to Regulation T ("Regulation T")⁴ of the Board of Governors of the Federal Reserve System ("Federal Reserve Board" or "Board"); and (3) add margin requirements for various over-the-counter ("OTC") options and interest rate composite securities.

As a result of the Federal Reserve Board's recent amendments to

Regulation T, which governs the extension of credit by broker/dealers,⁵ and the NYSE's proposed amendments to its margin rule, NYSE Rule 431,⁶ NASD Regulation proposes to renumber old Rule 2520 so as to permit its members and others to more easily use and compare the provisions of the rule with NYSE Rule 431. In addition, NASD Regulation proposes amendments to Rule 2520, the NASD's margin rule, to conform the NASD's margin requirements to those of Regulation T and NYSE Rule 431.

Numbering

The NASD Regulation proposes to renumber old Rule 2520 by: (1) Renumbering paragraphs (a) and (b) as Rules 2521 and 2522, respectively; and (2) renumbering paragraph (c) as Rule 2520. The NASD Regulation states that this renumbering will cause most of the paragraphs and subparagraphs of Rule 2520 to have the same numbering as those of NYSE Rule 431, thereby facilitating comparison and use of the two rules. The renumbered Rule 2520 is set forth in Exhibit 2 to the rule filing; however, the former numbering of each subsection is not shown.

Amendments to Conform Rule 2520 to Regulation T

The NASD Regulation proposes two technical changes to Rule 2520 (as renumbered) to correct references to recently-repealed or renumbered provisions of Regulation T: (1) definition of OTC margin bond, and (2) cash equivalent. NASD Rule 2520(e)(2)(C), which refers to the definition of OTC margin bond as stated in Regulation T, 12 CFR 220.2(t),⁷ is proposed to be amended to eliminate the "(t)" because Regulation T, 12 CFR 220.2 has been amended to eliminate subsection numbering. NASD Rule 2520(f)(2)(H)(iv), which refers to cash equivalents as "those instruments referred to in Section 220.8(a)(3)(ii) of Regulation T," is proposed to be amended to change the reference to "Section 220.2 of Regulation T."

Amendments to Conform Rule 2520 to Recent Amendments to NYSE Rule 431

Option Products and Interest Rate Composites. NASD Rule 2520 currently

⁵ See 61 FR 20386 (May 6, 1996) (Federal Reserve Board's release adopting certain changes to Regulation T).

⁶ See Securities Exchange Act Release No. 38708 (June 2, 1997) (Commission order approving SR-NYSE-97-01, margin rule changes by NYSE).

⁷ The definition of OTC margin bond in Regulation T, 12 CFR 220.2 refers to several types of debt securities with specifically defined characteristics, all of which are sold or traded over-the-counter, not on an exchange.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from Elliot R. Curzon, Assistant General Counsel, NASD Regulation, to Katherine A. England, Assistant Director, Division of Market Regulation ("Market Regulation"), Commission, dated May 30, 1997 ("NASD Amendment No. 1").

⁴ 12 CFR 220.1 through 19 (1996).

requires customer margin for short OTC stock and index options of 100% of the option premium plus 45% of the current market value of the underlying security. The NASD proposes to amend this rule by adding specific margin requirements for OTC options equal to a specific percentage of the current value of the underlying component to conform these provisions with the corresponding provisions of NYSE Rule 431. In addition, a new definition of the term "underlying component" is being proposed as paragraph 2522(a)(66) to replace more complex references to "underlying security or the product of the current index group value of the underlying index stock group."

The principal amendments to Rule 2520, paragraphs (f)(2) (D) and (F), include new initial and maintenance margin requirements (including provisions for reduced margin requirements under certain circumstances) for:

- OTC options on stock and convertible corporate debt (30%), industry index stock groups (30%) and broad index stock groups (20%).
- OTC options on 30-year U.S. Treasury bonds and nonmortgage backed U.S. Government agency debt securities that qualify for exemption pursuant to SEC Rule 3a12-7 (3%).
- OTC options on all other U.S. Government securities including agency debt (5%), and marginable corporate debt securities (15%). OTC options on all other securities including CMO's remain subject to the current 45% general OTC option margin requirement.
- Interest rate contracts (10%) to be consistent with other exchanges.

In addition, the proposed amendments recognize certain spread and straddle positions for margin purposes between listed and OTC options when a customer's long and short positions are controlled by the same broker-dealer.

Specialists and Market-Makers Options Margin. NASD Regulation has also proposed to adopt specific provisions governing permitted offset treatment for options market-makers and specialists that were deleted from Regulation T as of June 1, 1997. The proposed rule sets forth various permitted offset positions which may be cleared and carried by a member organization on behalf of one or more options market-makers or specialists upon a margin basis satisfactory to the concerned parties ("good faith" margin). In addition, it requires that the amount of a deficiency between the equity maintained by the options market-maker or specialists and the haircuts specified

in SEC Rule 15c3-1⁸ shall be considered as a deduction from net worth in the net capital computation of the carrying broker.

III. Discussion

After careful review of the NASD's proposed amendment to its margin rules, and for the reasons discussed below, the Commission believes that the proposed rule filing is consistent with the requirements of the Act and the rules and regulations thereunder applicable to an association, and, in particular, with the requirements of Section 15A(b).⁹

Specifically, the Commission believes the proposed rule filing is consistent with the Section 15A(b)(6) requirements that an association have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to protect and perfect the mechanism of free and open market and a national market system, and in general, to protect investors and the public interest.¹⁰

Numbering

The Commission supports the NASD's decision to renumber its Rule 2520 in order to streamline comparison with NYSE Rule 431. According to the NASD, its former Article III, Section 30 of the NASD Rules of Fair Practice had substantially the same margin requirements as NYSE Rule 431. The NASD states that several years ago Section 30 was amended to adopt the same numbering scheme as NYSE Rule 431 in order to facilitate the use and comparison of the two rules. Thus, any member could find the provisions in both the NASD and NYSE's rules under the same subsection number "(f)(2)."

However, in 1996 the NASD Manual was reorganized and a new rule numbering conventions were adopted that resulted in the renumbering of Article III, Section 30, as old Rule 2520. Under the 1996 numbering scheme, old Section 30.3(f)(2), for example, became old Rule 2520(c)(6)(B). As a result of these numbering changes, comparison

between old Rule 2520 and NYSE Rule 431 became more problematic.

NASD Regulation proposes to renumber old Rule 2520 by: (1) Renumbering paragraphs (a) and (b) as Rules 2521 and 2522, respectively; and (2) renumbering paragraph (c) as Rule 2520. The proposed changes will once again result in most of the paragraphs and subparagraphs of Rule 2520 having the same numbering as NYSE Rule 431, thereby facilitating comparison and use of the two rules.

The Commission believes that the NASD, by renumbering its margin rules to conform with NYSE Rule 431, is ensuring that a cohesive cross reference is available to guide NASD members and interested parties.¹¹ The Commission believes the proposal by the NASD Regulation will promote coordination in regulating, clearing, settling, and facilitating transactions in securities by providing for uniformity in the SROs' margin schemes and reducing confusion among customers. The Commission believes that a more unified set of margin rules will improve market efficiency, competition and capital formation, while at the same time reducing the risk for conflict and misunderstanding which can have detrimental effects on the market place especially regarding the use of margins.

Amendments to Conform Rule 2520 to Regulation T

The NASD Regulation proposes two technical changes to Rule 2520 (as renumbered) to correct references to recently-repealed or renumbered provisions of Regulation T: (1) definition of OTC margin bond, and (2) cash equivalent. NASD Rule 2520(e)(2)(C), which refers to the definition of OTC margin bond as stated in Regulation T, 12 CFR 220.2(t),¹² is proposed to be amended to eliminate the "(t)" because Regulation T, 12 CFR 220.2 has been amended to eliminate subsection numbering. NASD Rule 2520(f)(2)(H)(iv), which refers to cash equivalents as "those instruments referred to in Section 220.8(a)(3)(ii) of Regulation T," is proposed to be amended to change the reference to "Section 220.2 of Regulation T." This is necessary because when Regulation T was amended, Section 220.8(a)(3)(ii) was amended to eliminate conditions relating to cash equivalents and Section

⁸ See Securities Exchange Act Release No. 38248 (February 6, 1997) 62 FR 6474 (February 12, 1997) (Final rule adopting changes to SEC Rule 15c3-1).

⁹ 15 U.S.C. 78o-3.

¹⁰ In approving these rules, the Commission has considered the proposed rules' impact on efficiency, competition, and capital formation. 15 U.S.C. § 78c(f).

¹¹ The Commission notes that approval was granted to a proposal by the Chicago Board Options Exchange, Incorporated ("CBOE") which conforms several of its margin rules to those of the NYSE. See Securities Exchange Act Release No. 38709 (June 2, 1997), (Commission order approving SR-CBOE-97-17).

¹² See *supra* note 7.

220.2 was amended by adding a definition of cash equivalents. Accordingly, the Commission finds that these technical changes are reasonable.

Amendments To Conform Rule 2520 to Recent Amendments to NYSE Rule 431

Option Products and Interest Rate Composites. NASD Rule 2520, which currently requires customer margin for short OTC stock and index options of 100% of the option premium plus 45% of the current market value of the underlying security, is proposed to be amended by adding specific margin requirements for OTC options equal to a specific percentage of the current value of the underlying component to conform this provision with corresponding provisions contained in NYSE Rule 431. In addition, a new definition of the term "underlying component" is being added as paragraph 2522(a)(66) to replace more complex references to "underlying security or the product of the current index group value of the underlying index stock group."

According to the NASD, the principal amendments to Rule 2520, paragraphs (f)(2) (D) and (F), include new initial and maintenance margin requirements (including provisions for reduced margin requirements under certain circumstances) for:

- OTC options on stock and convertible corporate debt (30%), industry index stock groups (30%) and broad index stock groups (20%).
- OTC options on 30-year U.S.

Treasury bonds and non-mortgage-backed U.S. Government agency debt securities that qualify for exemption pursuant to SEC Rule 3a12-7 (3%).

- OTC options on all other U.S. Government securities including agency debt (5%), and marginable corporate debt securities (15%). OTC options on all other securities including CMO's remain subject to the current 45% general OTC option margin requirement.

- Interest rate contracts (10%) to be consistent with other exchanges.¹³

In addition, the proposed amendments recognize certain spread and straddle positions for margin purposes between listed and OTC options when a customer's long and short positions are controlled by the same broker-dealer.

The margin treatment of OTC options proposed by the NASD Regulation is being patterned after, and is nearly identical to, the provisions contained in

NYSE Rule

431(f)(2)(D)(iii). Given the near identical nature of the NASD Regulation's proposal to the NYSE's previously approved proposal, the Commission believes that adoption of these proposed standards is reasonable. The Commission also believes that this approach will promote coordination in regulating, clearing, settling, and facilitating transactions in securities by providing for uniformity in this area of the SROs' margin schemes and reducing confusion among customers.

Specialists and Market-Makers

Options Margin. The NASD Regulation proposes changes to subparagraph (f)(2)(J) of Rule 2520 to make it substantially identical to that of the NYSE rule dealing with margin requirements for options transactions for market-makers and specialists. NASD Regulation has also proposed adopting specific provisions governing permitted offset treatment for market-makers and specialists that were deleted from Regulation T as of June 1, 1997. The proposed rule sets forth various permitted offset positions which may be cleared and carried by a member organization on behalf of one or more market-makers upon a margin basis satisfactory to the concerned parties ("good faith" margin). In addition, it requires that the amount of any deficiency between the equity maintained by the market-maker and the haircuts specified in SEC Rule 15c3-1 shall be considered as a deduction from net worth in the net capital computation of the carrying broker.

A permitted offset position will be defined to mean, in the case of an option in which a market-maker makes a market, a position in the underlying instrument or other related instrument, and in the case of other securities in which a market-maker makes a market, a position in options overlying the securities in which a market-maker makes a market, if the account holds the following positions: (i) A long position in the underlying instrument offset by a short option position which is "in- or at-the-money;" (ii) a short position in the underlying instrument offset by a long option position which is "in- or at-the-money;" (iii) a stock position resulting from the assignment of a market-maker short option position; (iv) a stock position resulting from the exercise of a market-maker long position; (v) a net long position in a security (other than an option) in which a market-maker makes a market; (vi) a net short position in a security (other than an option) in which the market-maker makes a market; or (vii) an offset position as defined in SEC Rule 15c3-1.

The six proposed offsets described in proposed NASD Rule 2520(f)(2)(J) (a) to (f) codify the existing permitted offsets that were provided under Regulation T until June 1, 1997. These offset reflect well-recognized market-making hedging transactions involving certain options offset strategies involving the related underlying stock. The addition of NASD Rule 2520(f)(2)(J)(g), allowing any offset position defined under SEC Rule 15c3-1,¹⁴ constitutes a significant expansion of permitted offset positions. According to the NASD Regulation, the inclusion of item (g) recognizes that options market-makers and specialists must engage in various hedging transactions to manage the risk involved in fulfilling their role, and, therefore, allows a member organization to clear and carry options market-makers and specialists offset positions as defined in SEC Rule 15c3-1 upon a good faith margin basis. The NASD Regulation has clarified its proposal to reflect that options market-makers and specialists are permitted to relieve good faith margin for all permitted offset positions only if they are effected for market-making purposes such as hedging, reducing the risk of rebalancing, liquidating open positions of the market-maker, accommodating customer orders, or another similar market-making purpose.¹⁵

The Commission believes that the proposal is a reasonable effort by NASD Regulation to accommodate the needs of options market-makers and specialists in undertaking their market-making responsibilities as it recognizes the occasional need for options market-makers and specialists to effect transactions in their course of dealing in options classes for which they are not registered. The Commission believes that this approach will not adversely affect the depth and liquidity necessary to maintain fair and orderly markets. The Commission expects clearing firms that are members of the NASD and other NASD members that extend margin to options market-makers and specialists to implement adequate procedures to ensure that the elected offsets are recorded accurately and cleared into appropriate accounts. In addition, such members should have a reasonable basis for determining that the offset transactions satisfy the market-making requirements set forth in NASD Rule 462(d)(2)(J). The Commission believes that these requirements will ensure that transactions effected by options market-makers and specialists receiving the offset treatment are in fact directly related to their market-making function

¹³ The NASD does not have a margin requirement for interest rate contracts in its rules. NASD Regulation is adding this provision for interest rate contracts pursuant to this rule filing in order to be consistent with the margin provisions of the NYSE.

¹⁴ See *supra* note 8.

¹⁵ See NASD Amendment No. 1, *supra* note 3.

and are not effected for speculative purposes on a margin basis which should be available only for bona fide market-making activity.

The proposed definition by NASD Regulation of "in- or at-the-money," for purposes of permitted offset transactions, represents a codification of a long standing practice of permitting the financing of options market-makers underlying stock positions on a good faith basis when offset on a share-for-share basis by options which are "in- or at-the-money," i.e., where the current market price of the underlying security is not more than two standard exercise price intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option.¹⁶ At this time, the Commission believes that it is reasonable for the NASD Regulation to adopt the codification of a longstanding industry practice.

The Commission finds good cause for approving Amendment No. 1 prior to the thirtieth day after the date of publication of notice of filing thereof. Amendment No. 1 addresses technical changes by correcting certain typographical errors appearing in the rule filing and also clarifies that the availability of good faith margin for options market-makers and specialists permitted offsets is limited to only bona fide market-making transactions. Based on the above, the Commission finds that there exists good cause consistent with Section 15A(b) of the Act, to accelerate approval of the amendment.

IV Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 1. 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 all such filing will also be available for inspection and copying at the principal office of the NASD Regulation. All submissions should refer to the file number SR-NASD-97-14 and should be submitted by July 7, 1997.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁷ that the proposed rule change (SR-NASD-97-14) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-15713 Filed 6-13-97; 8:45 am]

BILLING CODE 8010-01-M

SMALL BUSINESS ADMINISTRATION

Capitol Health Partners, L.P. (License No. 03/03-0209); Notice of Issuance of a Small Business Investment Company License

On December 28, 1994, an application was filed by Capitol Health Partners, L.P., at 3000 P. Street, NW., Washington, DC, with the Small Business Administration (SBA) pursuant to Section 107.102 of the 1994 Regulations governing small business investment companies (13 CFR 107.300 (1997)) for a license to operate as a small business investment company.

Notice is hereby given that, pursuant to Section 301(c) of the Small Business Investment Act of 1958, as amended, after having considered the application and all other pertinent information, SBA issued License No. 03/03-0209 on May 2, 1997, to Capitol Health Partners, L.P. to operate as a small business investment company.

(Catalog of Federal Domestic Assistance Program No. 59.011, Small Business Investment Companies)

Dated: June 6, 1997.

Don A. Christensen,

Associate Administrator for Investment.

[FR Doc. 97-15628 Filed 6-13-97; 8:45 am]

BILLING CODE 8025-01-P

¹⁷ 15 U.S.C. 78s(b)(2).

¹⁸ 17 CFR 200.30-3(a)(12).

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Generalized System of Preferences (GSP); Results of the 1995 Annual GSP Product Review

AGENCY: Office of the United States Trade Representative.

ACTION: Notice of results of 1995 Annual GSP Product Review.

SUMMARY: The purpose of this notice is to announce the disposition of the petitions accepted for review in the 1995 Annual Product Review of the GSP program.

FOR FURTHER INFORMATION CONTACT: GSP Subcommittee, Office of the United States Trade Representative, 600 17th Street, N.W., Room 518, Washington, DC 20508. The telephone number is (202) 395-6971.

SUPPLEMENTARY INFORMATION:

I. Announcement of 1995 Annual GSP Product Review

This notice describes the disposition of the product petitions accepted for review in the 1995 Annual Review of the GSP program (60 FR 38856). These petitions requested changes in the articles and countries eligible for duty-free treatment under the GSP program. The GSP is provided for in the Trade Act of 1974, as amended ("Trade Act") (19 U.S.C. 2461 *et seq.*). The review was conducted pursuant to regulations codified as 15 CFR 2007. These changes were effective May 31, 1997. The President's decisions concerning the 1995 Annual Product Review have also been reflected in Proclamation 7007 (62 FR 30415-30425) and in a June 5, 1997 USTR press release. The press release is available by contacting the USTR Public Affairs Office at (202) 395-3230 or through the USTR Fax retrieval System by telephone 202/395-4809 (Item 27004). It can also be downloaded from the USTR Home Page through the Internet at www.ustr.gov. All correspondence with respect to this notice should be addressed to the Director, Generalized System of Preferences, Room 518, 600 17th Street, N.W., Washington, DC 20508.

Frederick L. Montgomery,
Chairman, Trade Policy Staff Committee.

¹⁶ The Commission approved a similar provision by the CBOE and noted the CBOE's assertion that it has received oral no-action relief from the Federal Reserve Board permitting the two standard exercise price interval interpretation. See *supra* note 11.