

Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW, Washington, DC 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 provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street NW, Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number SR-ISCC-95-05 and should be submitted by January 17, 1995.

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

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-36606; International Series Release No. 905; File No. SR-CC-95-11]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving a Proposed Rule Change Modifying the Capital Computation Formula and Reporting Requirements Applicable to Canadian Clearing Members of The Options Clearing Corporation

December 20, 1995.

On July 13, 1995, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-OCC-95-11) pursuant to Section 19(b)(1) of the Securities and Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the Federal Register on September 13, 1995.² No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description of the Proposal

OCC is modifying its rules concerning the financial requirements of Canadian clearing members, including the capital computation formula and reporting requirements applicable to Canadian clearing members, to reflect revisions to the capital computation and reporting standards recently adopted by various Canadian regulatory authorities. OCC's rules allow Canadian clearing members to submit required financial reports in accordance with the accounting and reporting standards of their appropriate self-regulatory body.³ In monitoring Canadian clearing members' compliance with OCC financial requirements, OCC converts this financial information into a form consistent with Rule 15c3-1 under the Act.⁴

The capital formula applied under Canadian securities regulations to Canadian securities firms has been revised and incorporated into a new standard report format. The prior capital formula applied a minimum capital requirement, as assessed by a working capital computation (*i.e.*, total capital less nonallowable assets), based upon volume of business determined by a percentage of adjusted liabilities. The new capital formula continues to be based on a working capital computation minus certain charges, including charges that reflect the risk of proprietary securities held in inventory. However, the new capital formula replaces the concept of adjusted liabilities with revised definitions of allowable assets and margin charges that are intended to reflect the credit worthiness of counterparties and the economic substance of transactions.

The report format used by Canadian securities firms to report their capital computation also has been revised. Accordingly, OCC is changing its financial requirements and reporting rules to conform them to the revised capital formula and reporting format.

Specifically, the prior Interpretations and Policies ("Interpretation") .01 to OCC Rule 301, regarding initial financial requirements, provided that a Canadian clearing member that commenced doing business as a broker or dealer within twelve months prior to its admission to OCC clearing membership must have maintained "initial net free capital," as defined in the Supplementary Instructions re

Completion of the Joint Regulatory Financial Questionnaire ("Supplementary Instructions"),⁵ of not less than ten percent of such clearing member's "adjusted liabilities," as defined in the Supplementary Instructions, until the later of (i) three months after its admission to OCC clearing membership or (ii) twelve months after it commenced doing business as a broker or dealer. Interpretation .01 to OCC Rule 302, regarding minimum net capital requirements, provided that a Canadian clearing members must have maintained net free capital, as defined in the Supplementary Instructions, of not less than the amount of net free capital that would be required of such clearing member under Section 100.2 of the By-Laws of the Investment Dealers Association of Canada ("IDAC") if the clearing member was a member of the IDAC.

As amended, Interpretation .01 to Rule 301 requires a Canadian clearing member to maintain an initial "early warning reserve," as determined in accordance with the Joint Regulatory Financial Questionnaire and Report ("JRFQ&R"),⁶ of not less than \$1,000,000 (U.S.) for the same period as previously required. The amended Interpretation .01 to Rule 302 will provide that the minimum net capital requirement of a Canadian clearing member is the early warning reserve, as determined under the JRFQ&R, in an amount not less than the greater of \$750,000 (U.S.) or 2% of such Canadian clearing member's total margin requirements as determined in accordance with the JRFQ&R. Application of the early warning reserve as determined under the JRFQ&R also replaces the use of the net free capital formula as determined under the Interpretations to OCC Rules 303 and 304, regarding early warning notice and restrictions on distributions.

Finally, in connection with OCC's financial reporting requirements, each Canadian clearing member now is required to file its JRFQ&R with OCC on a monthly basis except as provided in the Interpretations to Rule 306. The JRFQ&R replaces the Joint Industry Monthly Financial Report which was previously required under the

⁵ The Supplementary Instructions are issued by the Investment Dealers Association of Canada and provide additional guidance for securities firms in connection with the preparation of the Joint Regulatory Financial Questionnaire and Report.

⁶ The JRFQ&R is a financial reporting form which Canadian securities firms are required to prepare and submit to appropriate Canadian regulatory authorities and provincial exchanges to advise them of such firms' financial condition.

¹ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 36197, International Series Release No. 850 (September 7, 1995), 60 FR 47633.

³ OCC By-law, Article I.N. (2) employs the term "appropriate self-regulatory body" as defined in the Supplementary Instructions re Completion of the Joint Regulatory Financial Questionnaire to refer to the government agency or self-regulatory authority primarily responsible for regulating the activities of a Canadian Clearing Member.

⁴ 17 CFR 240.15c3-1.