

market segment identified by TBMA.²² In light of these comments, the MSRB has weighed the potential for liquidity problems against the potential for transparency benefits and has concluded that any liquidity problems that may occur with respect to the issues in question are likely to be temporary and will resolve over time as market participants make adjustments in response to the more transparent environment.²³ The MSRB also believes that the potential for transparency benefits, such as more accurate pricing, lower transaction costs for investors and increased investor confidence, outweighs the potential for short-term liquidity problems.²⁴

III. Discussion and Commission Findings

The Commission has carefully reviewed the proposed rule change and comment letter, and finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the MSRB²⁵ and, in particular, the requirements of Section 15B(b)(2)(C) of the Act and the rules and regulations thereunder.²⁶ Section 15B(b)(2)(C) of the Act requires, among other things, that the MSRB's rules be 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 municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.

In particular, the Commission finds that the proposed rule change will provide the market with more efficient pricing information, enhance the surveillance database and audit trail of transaction data used by enforcement agencies, and enhance investor confidence in the market. The Commission believes that real-time price transparency will enhance investor confidence by providing, for the first time, a comprehensive and contemporaneous view of the municipal securities market to any interested party. The Commission also believes

that the open availability of market prices should instill greater confidence that pricing mechanisms in the municipal securities market are fair, open, and efficient.

IV. Conclusion

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,²⁷ that the proposed rule change (SR-MSRB-2004-02) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁸

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. E4-2076 Filed 9-3-04; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-50280; File No. SR-OCC-2004-13]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Borrowing Against the Clearing Fund

August 27, 2004.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 23, 2004, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change would amend Article VIII (Clearing Fund), Section 5 (Application of the Clearing Fund), paragraph (e) of OCC's By-Laws, which authorizes OCC to borrow against the clearing fund in specified situations.

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.²

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

Article VIII, Section 5(e) of OCC's By-Laws authorizes OCC to take possession of and pledge as security for a loan cash and securities in its clearing fund under the following circumstances:

(1) If a clearing member is suspended and OCC is unable to obtain prompt delivery of or convert promptly to cash any asset credited to any of the clearing member's accounts; and as a result OCC deems it necessary or advisable to borrow funds to meet obligations arising out of the suspension or

(2) If OCC sustains a loss due to the failure of a bank or another clearing organization, and elects to borrow funds in lieu of immediately charging the loss to the clearing fund.

In either case, OCC must first determine that it cannot borrow the necessary funds on an unsecured basis and must use the proceeds from the borrowing solely for the purposes above. Such use of clearing fund assets are limited to a maximum of 30 days. After 30 days, the amount of the loan must be charged against the clearing fund.

In the event of a clearing member default, OCC may need immediate liquidity even before it has made the decision to suspend the clearing member. Historically, defaults tend to occur at 9 a.m. (CT) when clearing members' accounts are debited for options premiums, exercise settlement payments, and mark-to-market payments.³ Although OCC may be able to make settlement by using its own cash or by borrowing against its unsecured credit lines, which are currently \$20 million, it is possible that those resources would not be sufficient.

In order to borrow against its secured lines of credit, which are currently \$150 million and are in the process of being doubled, using a defaulting member's clearing fund contributions or collateral OCC would have to (i) suspend the clearing member and (ii) have difficulty in obtaining or liquidating the defaulting clearing member's collateral.

² The Commission has modified parts of these statements.

³ 9 a.m. (CT) is also the time when members' accounts are debited for margin deficiencies; but margin payments, unlike premium, exercise settlement, and mark-to-market payments, are not pass-through payments.

²² See *supra* note 3, at 38939.

²³ *Id.*

²⁴ *Id.*

²⁵ In approving this rule the Commission notes that it has considered the proposed rule's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

²⁶ 15 U.S.C. 78o-4(b)(2)(C).

²⁷ 15 U.S.C. 78s(b)(2).

²⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

If a default is not quickly remedied, OCC will likely suspend the defaulting clearing member. However, OCC believes that it should not have to make the decision to suspend as a precondition to borrowing against the clearing fund. Similarly, OCC believes that it should not be a precondition to such use of the clearing fund that OCC is unable to obtain "prompt" delivery of, or convert "promptly" to cash, any asset credited to an account of a defaulting clearing member. OCC interprets "prompt" and "promptly" in this context as meaning "in sufficient time to enable OCC to use the proceeds to meet its obligations." However, OCC does not believe that its ability to such use of the clearing fund should turn on questions of interpretation.

Accordingly, OCC is proposing to amend Article VIII, Section 5(e) of its By-Laws to eliminate the requirements that OCC (i) suspend a defaulting clearing member and (ii) be unable to obtain prompt delivery of collateral or be unable to convert it promptly to cash as preconditions to use of the clearing fund. As amended, Section 5(e) would allow OCC to use clearing fund assets as collateral for loans whenever OCC deems such borrowings to be necessary or advisable in order to meet obligations arising out of the default or suspension of a clearing member or any action taken by OCC in connection therewith.

OCC believes that the proposed rule change is consistent with Section 17A of the Act and the regulations thereunder because it enhances OCC's ability to respond to and manage clearing member defaults in a manner that increases the protection of investors and persons facilitating transactions by and acting on behalf of investors and because it limits systematic risk.

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

OCC does not believe that the proposed rule change would 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

Within thirty five 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

ninety 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 the proposed rule change or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

VI. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2004-13 on the subject line.

Paper Comments

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609.

All submissions should refer to File Number SR-OCC-2004-13. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's Web site at <http://www.optionsclearing.com>. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You

should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-OCC-2004-13 and should be submitted on or before September 28, 2004. For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. E4-2078 Filed 9-3-04; 8:45 am]

BILLING CODE 8010-01-P

SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #P044]

Commonwealth of the Northern Mariana Islands (Amendment #1)

In accordance with a notice received from the Department of Homeland Security—Federal Emergency Management Agency, effective August 23, 2004, the above numbered Public Assistance declaration is hereby amended to include the islands of Agrigan, Alamagan, and Pagan located within the Commonwealth of Northern Mariana Islands as disaster areas due to damages caused by flooding, high surf, high winds, and wind driven rain associated with Typhoon Tingting occurring on June 27–29, 2004.

All other information remains the same, *i.e.*, the deadline for filing applications for physical damage is September 27, 2004.

(Catalog of Federal Domestic Assistance Program Nos. 59008)

Dated: August 27, 2004.

Herbert L. Mitchell,

Associate Administrator for Disaster Assistance.

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SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #3618]

Commonwealth of the Northern Mariana Islands

As a result of the President's major disaster declaration for Public Assistance on August 26, 2004, and Amendment 1 adding Individual Assistance on August 27, 2004, I find that the islands of Rota, Saipan, and Tinian, located within the Commonwealth of the Northern Mariana Islands, constitute a disaster area due to damages caused by flooding, high surf, storm surge, and high winds as a result

⁴ 17 CFR 200.30-3(a)(12).