



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

August 8, 1986

Eric D. Roiter, Esq.
Debevoise & Plimpton
1777 F Street, N.W.
Washington, D.C. 20006

Re: Sections 3(a)(10), 5, and 6 of the Securities
Exchange Act of 1934

Dear Mr. Roiter:

This is in response to your letter of May 19, 1986, informing the staff of proposed changes in the structure of the Security Pacific National Bank's ("Security Pacific") proposed system for trading options on U.S. Treasury securities ("OTC System") and requesting that the staff: (1) reaffirm its no-action position with respect to registration of the OTC System as an exchange pursuant to Section 6 of the Securities Exchange Act of 1934 ("Exchange Act") and (2) take the position that it will not recommend enforcement action to the Commission if the guarantee of the options traded in the OTC System, which is provided by the General Electric Credit Corporation ("GECC"), is not registered with the Commission under the Exchange Act, pursuant to Section 3(a)(10) of the Exchange Act.

Under the terms of the original no-action letter, 1/ Security Pacific was to act as the issuer and guarantor of all options traded in the OTC System, a function comparable to the function performed by the Options Clearing Corporation with respect to exchange traded options. You represent that, due to certain considerations relating to the federal banking laws, Security Pacific has restructured the OTC System to withdraw from the role of issuer and guarantor of the options.

You represent in your letter that the GECC Options Corporation ("GOC") will issue the options pursuant to the provisions of an agreement ("Operating Agreement") among GECC, GOC, Security Pacific Options Services Corporation ("SPOSC"), Security Pacific Options Trading Corporation ("SPOT") 2/ and the Security Pacific

1/ See letter to Eric D. Roiter, Debevoise & Plimpton, from Richard T. Chase, Associate Director, SEC dated July 19, 1985 ("1985 Letter").

2/ SPOSC will perform the clearing functions and SPOT will perform the brokerage functions for the OTC System.

Corporation ("SPC"). 4/ GOC will register the options under the Securities Act of 1933 ("Securities Act"). GECC will fully and unconditionally guarantee the obligations of GOC in respect of options issued in the OTC System. GECC will register the guarantee of the options under the Securities Act. In addition, Security Pacific has agreed to issue a revolving standby letter of credit for the account of OTC System Participants. 5/ The letter of credit is payable to GOC in an amount not to exceed \$35 million in the event of certain specified defaults by one or more Participants. You represent that issuance of the letter of credit will be specifically approved by management of Security Pacific with responsibility for credit decisions.

On the basis of the representations in your letter of May 19, 1986, as well as the representations contained in the Original No-Action Request, 6/ the staff will not recommend enforcement action under Section 5 of the Exchange Act against Security Pacific, its affiliates or Participants in the OTC System if Security Pacific operates the OTC System in the manner described without registering under Section 6(a) of the Exchange Act. Furthermore, the staff will not recommend enforcement action to the Commission against GECC or Security Pacific if they do not register the guarantee of the options, which cannot be traded separate from the underlying option, with the Commission under the provisions of the Exchange Act.

As a condition to this staff position, we request that Security Pacific provide us on a quarterly basis certain data on the operation of the System. Such data is necessary to review the operation of the OTC System, as well as the continuing appropriateness of the staff no-action position. Specifically, we request data on: (1) the number and identity of (a) Participants in the system and (b) applicants who have been denied participation; (2) the volume of transactions through the system; (3) the number of options positions that are (a) closed out by offset, (b) exercised, and (c) allowed to expire; (4) the number of defaults on options contracts; (5) the number of, and cost to, Security Pacific (or its affiliates) of satisfying such defaults; and (6) the number of, and estimated cost to, Participants of any defaults not satisfied by Security Pacific, GECC or GOC. We request that Security Pacific provide the staff with current

4/ SPC is the holding company parent of Security Pacific, SPOSC, and SPOT.

5/ Participants will include primary dealers, other dealers in U.S. Government Securities, and institutional investors.

6/ See letter from Eric D. Roiter, Debevoise & Plimpton, to Division of Market Regulation, dated July 12, 1985 and reply letter from Richard T. Chase, Associate Director, SEC to Eric D. Roiter, Debevoise & Plimpton, dated July 19, 1985.

copies of any rules, regulations or similar documents as well as copies of any contracts Participants must sign. The staff also requests that Security Pacific provide the staff with thirty days prior notice of any material changes in the operation of the OTC System that are contemplated in order for the staff to re-evaluate this no-action position in light of such changes. In addition this staff position is conditioned upon the agreement of Security Pacific, if Security Pacific should elect to terminate or suspend its Treasury options program for financial, operational or other reasons, to continue to operate the program as long as any options issued under the program remain outstanding.

This no-action position is conditioned on the current and continuing accuracy of the representations noted above and the information in the Original No-Action Request. Specifically, the no-action position is based solely on the current method of operation of the OTC System as described by Security Pacific; any change in the operation of the OTC System may lead the staff to re-evaluate its position. The position is further conditioned on your providing the Commission with the requested information. Failure to comply with these representations or conditions would be grounds for withdrawal of the no-action position. In addition, this no-action position is based on the current law governing participants in, and the market for, Treasury securities; any changes in such law may supersede this no-action position or require the staff to re-evaluate this position.

Finally, the no-action position is subject to modification or revocation at any time the Commission determines that modification or revocation is consistent with the public interest or the protection of investors.

The foregoing is a staff position regarding enforcement action only and should not be understood to express any legal conclusions regarding the applicability of statutory or regulatory provisions of the federal securities laws. Our position is based solely on the representations you have made; any different facts or conditions might require a different response.

Sincerely,



Richard G. Ketchum
Director