

yield of the security based on the last one hundred day period's closing prices. DCC's clearing bank, Bank of New York, will accept these securities without further haircut. However, if the Bank of New York alters its haircut schedule such that this proposed rule change is not acceptable to it, DCC will submit a proposed rule change seeking Commission approval to amend its rule to conform to the Bank of New York haircut schedule.

DCC believes that the proposed rule change is consistent with Section 17A of the Act and the rules and regulations thereunder applicable to DCC. In particular, Section 17A(b)(3)(F) of the Act⁶ which requires that a clearing agency be organized and its rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and to perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. DCC believes the proposed rule change will permit wider utilization of the system by providing participants with the opportunity to meet efficiently margin requirements consistent with DCC's obligations to safeguard funds and securities.

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

DCC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

(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.

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 such proposed rule change or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. 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 in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of DCC. All submissions should refer to the file number SR-DCC-96-09 and should be submitted by October 3, 1996.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-37652; International Release No. 1017; File No. SR-DTC-96-13]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of a Proposed Rule Change Relating to the Admission of Foreign Entities As Depository Participants

September 5, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ Notice is hereby given that on July 12, 1996, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-96-13) as described in Items I, II, and III below, which items have been prepared primarily by DTC. 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

DTC proposes to amend its current participants admissions policy to permit entities that are organized in a foreign country and are not subject to U.S. federal or state regulation ("foreign entities") to become DTC participants.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC 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. DTC 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

DTC Rules 2 and 3 set forth the basic standards for the admission of DTC participants. The admission of an entity that is unable to meet the financial obligations arising from its depository transactions can directly affect all other participants. Accordingly, DTC's rules provide that the admission of a participant is subject to an applicant's demonstration that it meets reasonable standards of financial responsibility, operational capability, and character. Furthermore, DTC's rules require all participants to demonstrate to DTC that these standards are met on an ongoing basis.

In determining whether to grant access to its services, DTC's 1990 "Policy Statement on the Admission of Participants" ("1990 Policy Statement") considers whether the applicant is subject to comprehensive U.S. federal or state regulation to be a critical factor.³ Such regulation includes, among other things, capital adequacy, financial reporting and recordkeeping, operating performance, and business conduct of the applicant. Under the 1990 Policy Statement, an applicant not subject to

² The Commission has modified the text of the summaries prepared by DTC.

³ The 1990 Policy Statement is set forth in Securities Exchange Act Release No. 27808 (March 16, 1990), 55 FR 11279 [SR-DTC-90-01] (notice of filing of proposed rule change). For a complete discussion of the 1990 Policy Statement, refer to Securities Exchange Act Release No. 28754 (January 8, 1991), 56 FR 1548 (order approving proposed rule change).

⁶ 15 U.S.C. 78q-1(b)(3)(F) (1988).

¹ 15 U.S.C. 78s(b)(1) (1988).

state of federal regulatory oversight generally would not be eligible to become a participant.⁴ However, since 1990 DTC has admitted a small number of foreign entities as participants if their obligations to DTC are guaranteed by participants deemed creditworthy by DTC.

Recently, certain participants have requested that DTC consider changes in the admissions policy that would allow foreign affiliates of DTC participants to become direct participants without first obtaining financial guarantees. The purpose of the proposed rule change is to establish, in lieu of requiring foreign entities to obtain such guarantees, admissions criteria that will permit a well-qualified foreign entity to obtain direct access to DTC's service while assuring that the unique risks associated with the admission of foreign entities are adequately addressed.⁵

The admission of foreign entities as participants raises a number of unique risks and issues, including, without limitation, (i) the level of state and federal regulation to which the foreign entity would be subject, (ii) whether the operation of the laws of the entity's home country and time zone differences⁶ may impede the successful exercise of DTC's rights and remedies, particularly in the event of the entity's failure to settle, and (iii) whether the financial information regarding the foreign entity made available to DTC for monitoring purposes would be less adequate than information received from U.S. domestic entities.

In an effort to address these issues and concerns, the proposed rule change will require that the foreign entity, in addition to executing the standard DTC Participants Agreement, enters into a series of undertakings and agreements that are designed to address jurisdictional concerns, sufficiency of collateral, and to assure that DTC is

provided with audited financial information that is acceptable to DTC. With regard to the undertakings and agreements between the foreign entity and DTC, jurisdictional issues, and waivers of rights or immunity with regard to all collateral of the foreign entity deposited with or pledged to DTC, DTC will require an opinion of counsel satisfactory to DTC that states, among other things, that all such undertakings, agreements, and waivers are legal and enforceable against the foreign entity and will be recognized and given effect under the laws of the foreign entity's home country.

The proposed rule change also will require that the foreign entity (i) be subject to regulation in its home country, (ii) be in good standing with its home country regulator, and (iii) if there is a central securities depository established in the foreign entity's home country, be eligible to become a member of that depository. Furthermore, the proposed rule change will require that the home country regulatory of the foreign entity have entered into a memorandum of undertaking with the Commission to share or exchange information.

The proposal also sets forth special financial conditions for foreign entities. Under the proposed rule change, foreign entities will be required to have and maintain excess net capital equal to 1000% of the excess net capital required of U.S. participants.⁷ Foreign entities also will be required to deposit with or pledge to DTC special collateral having a value equal to fifty percent of the entity's net debit cap after the imposition of specified haircuts. Except for U.S. Treasury securities, securities included in the special collateral account will receive a haircut of fifty percent. In addition, securities for which the foreign entity is the sole or a principal market maker would not be acceptable as special collateral. Most importantly, the foreign entity will not receive credit for the special collateral in DTC's Collateral Monitor. Any net debit must be supported by the value of other, non-special collateral (including any securities received by the

participant) reflecting DTC's customary haircuts. The effect of these special collateral requirements will help to assure that DTC does not suffer a loss even if the foreign entity fails to settle and the market value of the collateral supporting its net debit decreases by fifty percent or less.

The central purpose of the special financial conditions is to compensate for the fact that foreign entities are not subject to regulatory oversight in the U.S. As such, information concerning impending insolvency of foreign entities will not be available to DTC through the information-sharing network that has been established among U.S. self-regulatory organizations.⁸ After receipt of an early warning from a domestic participant's regulator or from another clearing agency of which the participant is a member, DTC can take early measures to protect itself. For example, DTC can demand additional collateral or permit the participant to effect transactions on a "cash and carry" basis only. Because such information-sharing will not necessarily be available for a foreign entity, DTC's proposed financial conditions will require foreign participants to deposit this special collateral before such participants are permitted to create a net debit in DTC's settlement system.

DTC believes that the proposed rule changes is consistent with the requirements of Section 17A of the Act⁹ because the proposal does not unfairly discriminate against foreign entities seeking admission as participants. Instead, DTC believes the proposed rule change appropriately accounts for the unique risks to the depository raised by their admission.

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

While DTC acknowledges that the proposed rule change may impose an additional burden for foreign entities due to the modified admissions criteria, DTC believes that any such burden is necessary and appropriate in furtherance of the purposes of the Act.

⁴ However, DTC recognizes that any person designated by the Commission pursuant to Section 17A(b)(3)(B)(vi) of the Act even if not subject to such regulatory oversight could be eligible for admission.

⁵ Certain of these criteria could be waived where inappropriate to a particular applicant or class of applicants (e.g., certain foreign governments or international or national central securities depositories).

⁶ Time zone differences could complicate communications between foreign participants and their correspondent U.S. settling banks with respect to the timely payment of participants' net debit to DTC or intraday demands for payment. These differences also could delay DTC's receipt of information concerning a participant's financial condition thereby placing DTC at a potential disadvantage relative to other foreign creditors that already have received the information because actions subsequently taken by DTC to protect itself or its participants could be limited or foreclosed by the prior actions of the foreign creditors.

⁷ To qualify to be a DTC participant, DTC currently requires that U.S. broker-dealers have and maintain a minimum of \$500,000 excess net capital and that banks must have and maintain minimum equity of \$2 million. Therefore, under the proposal, foreign broker-dealers would be required to have and maintain excess net capital of \$5 million and foreign banks would be required to have and maintain equity of \$20 million to qualify for admission. Telephone conversation between Richard B. Nesson, Executive Vice President and General Counsel, DTC, and Mark Steffensen, Special Counsel, Division of Market Regulation, Commission (August 15, 1996).

⁸ In 1988, DTC and other U.S. clearing agencies created the Securities Clearing Group ("SCG"). The primary purpose of the SCG was to establish formal procedures for the sharing of appropriate financial, operational, and clearing information about common members. For a complete description of SCG, refer to Securities Exchange Act Release No. 27044 (July 18, 1989), 54 FR 30963 [File Nos. SR-DTC-88-20, SR-MCC-88-10, SR-MSTC-88-07, SR-NSCC-88-09, SR-OCC-89-02, SR-PHILADEP-89-01, and SR-SCCP-89-01].

⁹ 15 U.S.C. 78q-1 (1988).

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

DTC has not sought or received comments on the proposed rule change.

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 DTC consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. 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, 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 the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of DTC. All submissions should refer to the file number SR-DTC-96-13 and should be submitted by October 3, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37647; File No. SR-GSCC-96-8]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Repurchase Agreement Netting Service

September 5, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on August 1, 1996, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-GSCC-96-8) as described in Items I, II, and III below, which items have been prepared primarily by GSCC. On August 9, 1996, GSCC filed an amendment to the proposed rule change.² 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

GSCC proposes to reimburse two costs related to interdealer broker netting members' ("IDBs") participation in GSCC's netting system for repurchase and reverse repurchase transactions ("repo") involving government securities as the underlying instruments.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, GSCC 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. GSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.³

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

Recently, the Commission approved File No. SR-GSCC-96-04 to allow IDB netting members to participate in

GSCC's netting service for repos.⁴ Under the rule, IDB and non-IDB netting members can submit data on brokered repos to GSCC in the same manner as they do for cash transactions.⁵ GSCC compares, nets, and settles repo close legs and repo start legs submitted prior to start date (i.e., non-same-day-settling start legs) pursuant to GSCC's existing procedures for the netting and settlement of repos. The member parties to brokered repos assume the responsibility for the intraday settlement of start legs outside of GSCC.

This filing will amend GSCC's rules to accommodate IDB participation in repo netting and, more particularly, the ineligibility of intraday settling start legs for netting and settlement through GSCC. The first change relates to the clearance charges incurred by participating IDBs for the settlement of the start legs of brokered repos. The term clearance charges is a commonly used term that refers to costs charged by a clearing agent bank to a broker-dealer customer related to the settlement by that customer of its securities movement obligations. Such costs many include both fixed charges and pass through charges such as the costs of Fed Wire.

As GSCC stated in its prior rule filing,⁶ its long-range plans for repo services entail the full and complete automation of all aspects of start and close leg processing, including the intraday settlement of repo start legs. GSCC believes that intraday settlement of start legs will be introduced next year. Once intraday settling start legs are netted by GSCC, participating IDBs will not incur any clearance cost for them because no movements of securities between IDBs and their dealer customers will be required. Rather, IDB's settlement obligations will be satisfied through the netting process.⁷ In order to not disadvantage IDBs that wish to participate in the repo netting process immediately, GSCC will absorb IDBs' clearance charges related to the settlement of intraday repo start legs. To protect itself from being obligated to pay for clearance charges that are significantly higher than those that are customary in the industry, GSCC will reserve the right to absorb such charges

⁴ Securities Exchange Act Release No. 37482 (August 1, 1996), 61 FR 40275 ("Release No. 37482").

⁵ IDBs are restricted to submitting to GSCC data on offsetting repo transactions done with GSCC repo netting participants in order to ensure that the IDB will net out of the repo transaction.

⁶ Release No. 37482.

⁷ Because IDBs will be permitted only to submit to GSCC data on offsetting repo transactions done with GSCC netting participants, their settlement obligations for the start legs will net out as they do with the close legs.

¹⁰ 17 CFR 200.30-3(a)(12) (1996).

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letter from Jeffrey Ingber, General Counsel and Secretary, GSCC, to Christine Sibille, Division of Market Regulation, Commission (August 6, 1996).

³ The Commission has modified the text of the statements GSCC submitted.