

with the inclusion of longer term repo transactions in the netting system.

GSCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing because accelerated approval will allow GSCC to immediately expand its netting services to include repos with terms between 196 and 360 calendar days. This will permit more participants that conduct repo transactions to benefit from the positive effects of netting. Furthermore, the Commission has not received any comment letters and does not expect to receive any comment letters on the proposal.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549. Copies of the submissions, 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 filings will also be available for inspection and copying at the principal office of GSCC. All submissions should refer to the file number SR-GSCC-96-11 and should be submitted by December 27, 1996.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>10</sup> that the proposed rule change (File No. SR-GSCC-96-11) be, and hereby is, approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-37995; File No. SR-GSCC-96-07]

#### Self-Regulatory Organization's; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Modifying the Rights and Responsibilities of Interdealer Broker Netting Members

November 27, 1996.

On July 2, 1996, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-96-07) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> to modify the rights and responsibilities of interdealer broker ("IDB") netting members. GSCC amended the filing on July 23, 1996.<sup>2</sup> Notice of the proposed rule change, as amended, was published in the Federal Register on August 20, 1996.<sup>3</sup> On August 16, 1996, and on August 21, 1996, GSCC filed amendments No. 2 and No. 3 to the filing.<sup>4</sup> Because the amendments were substantive in nature, notice of the proposed amendments was published in the Federal Register on September 12, 1996.<sup>5</sup> No comment letters were received regarding the proposed rule change or proposed amendments. For the reasons discussed below, the Commission is approving the proposed rule change, as amended.

#### I. Description

This rule change modifies GSCC's loss allocation and clearing fund requirements for IDBs.<sup>6</sup> The percentage allocated collectively to IDBs from losses arising from member brokered transactions is raised to fifty percent with a dollar cap on each IDB's potential liability, as discussed below. Each IDB's individual share of the collective broker allocation will be

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> Letter from Karen Walraven, Vice President and Associate Counsel, GSCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation ("Division"), Commission (July 18, 1996).

<sup>3</sup> Securities Exchange Act Release No. 37565 (August 14, 1996), 61 FR 43103.

<sup>4</sup> Letter from Karen Walraven, Vice President and Associate Counsel, GSCC, to Jerry W. Carpenter, Division, Commission (August 12, 1996, and August 15, 1996).

<sup>5</sup> Securities Exchange Act Release No. 37658 (September 6, 1996), 61 FR 48190.

<sup>6</sup> Unless otherwise indicated, the term IDB refers to both Category 1 and Category 2 IDBs. Under current rules, Category 1 IDBs act exclusively as brokers, trade exclusively with GSCC netting members and certain grandfathered nonmember firms, and must maintain \$10 million in net or liquid capital. Category 2 IDBs may transact up to 10% of their trading volume with nonmembers and must maintain \$25 million in net worth and \$10 million in excess net or liquid capital.

allocated pro rata based on the dollar value of its trading activity with the defaulting member. By implementing this change, the IDB will no longer be subject to an allocation of a portion of a loss arising from the default of a firm with which the IDB never traded. Because only Category 2 IDBs may enter into brokered transactions with nonmembers,<sup>7</sup> the entire loss from such a transaction will be allocated among Category 2 IDBs pro rata based on the level of their trading activity with the defaulting member.

Currently, the loss amount allocated to each IDB is capped at \$1.6 million per calendar year for losses attributable to brokered transactions with members. The proposed rule change raises the maximum amount of loss that can be allocated to each IDB to \$5 million per loss allocation event as opposed to a calendar year maximum.<sup>8</sup>

GSCC is raising the clearing fund requirement for Category 1 IDBs from a fixed \$1.6 million to a fixed \$5 million and raising the minimum clearing fund requirement for Category 2 IDBs from \$1.6 million to \$5 million. Under the proposed rule change, at least thirty percent of a Category 1 IDB's clearing fund deposit must consist of cash or eligible netting securities, and no more than seventy percent of the clearing fund deposit may be met by pledging eligible letters of credit. Category 2 IDBs will be subject to the same clearing fund deposit composition requirement as other non-Category 1 IDB netting members, which is ten percent of the required fund deposit (\$500,000) must be in cash, and no more than seventy percent of the total may consist of eligible letters of credit.

Category 1 IDBs are now subject to all of the surveillance requirements of Section 3 of GSCC Rule 4, including GSCC's authority to increase the amount of clearing fund deposit for any IDB on surveillance status. Category 1 IDBs are now required to participate in the daily funds-only settlement process. In addition, the proposed rule change eliminates the exception in Section 3 of GSCC Rule 11 that permitted IDBs to exclude trades from GSCC's netting system if the inclusion of such trade would have resulted in the IDB having a net settlement position other than zero. GSCC Rule 11, Section 3 will continue to permit netting members to exclude repo transactions from the

<sup>7</sup> A nonmember brokered transaction is a brokered transaction where either the buy-side or sell-side counterparty to the IDB is a nonmember.

<sup>8</sup> As noted above, Category 2 IDBs are subject to an unlimited loss allocation, based on trading volume, for losses related to brokered transactions with nonmembers.

<sup>10</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>11</sup> 17 CFR 200.30-3(a)(12) (1996).

netting system in accordance with GSCC Rule 18.

## II. Discussion

The Commission finds that the proposed rule change is consistent with the Act and specifically with Section 17A(b)(3)(F).<sup>9</sup> Section 17A(b)(3)(F) requires the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

By changing the loss allocation procedures for IDBs, GSCC is increasing the percentage allocated among IDBs from losses arising from brokered transactions. IDBs will share on a collective basis equally with the dealers any loss allocation arising from brokered transactions and in proportion to the amount of trading the IDB conducted with the defaulting member. The Commission believes that the new loss allocation procedures should give IDBs a greater incentive to assess the creditworthiness of their counterparties, which should reduce the risk to GSCC of the trades submitted from IDBs. The Commission believes that by reducing the number of trades with financially suspect participants that are submitted to GSCC, the proposed rule change should enhance GSCC's ability to safeguard securities and funds. Furthermore, by placing a dollar cap on each IDB's share of a loss, the IDBs will continue to be protected from unusually large loss allocations.

The Commission believes that increasing the clearing fund requirement for IDBs should provide GSCC with more readily accessible funds if needed to cover a member's default. Moreover, the Commission believes that by requiring IDBs to fulfill a larger portion of their clearing fund deposit with cash and eligible netting securities, GSCC will increase the liquidity of its clearing fund thereby further enabling GSCC to assure the safeguarding of securities and funds in its control or for which it is responsible.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with Section 17A of the Act.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-96-07) be and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority,<sup>10</sup>

<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F) (1988).

<sup>10</sup> 17 CFR 200.30-3(a)(12) (1996).

Margaret H. McFarland,

*Deputy Secretary.*

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[Release No. 34-38005; File No. SR-MBSCC-96-07]

### **Self-Regulatory Organizations; MBS Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Modifying MBS Clearing Corporation Rules and By-Laws**

December 2, 1996.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 ("Act"), notice is hereby given that on October 29, 1996, the MBS Clearing Corporation ("MBSCC") 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 MBSCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

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

The proposed rule change modifies MBSCC's rules and by-laws to create the new title of Managing Director.

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

In its filing with the Commission, MBSCC 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. MBSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>2</sup>

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

In order to conform with how MBSCC and many firms in the industry operate, MBSCC has created the new title of Managing Director. The purpose of the proposed rule change is to modify MBSCC's rules and by-laws to accommodate the change in MBSCC's internal management structure. Article

V, Rule 1 of MBSCC's rules is being amended to establish the authority of a Managing Director to act for the Corporation. Article V, Section 5.1 of MBSCC's by-laws, which describes the designation, number, and selection process for the officers of MBSCC, is being amended to establish the office of managing director and the number of managing directors that will serve as officers of the corporation. Article V, Section 5.6 is being added to the by-laws to describe the duties and responsibilities of Managing Directors. Article V, Section 5.7 is being amended to include the Managing Director as an officer for whom the vice president shall act in the Managing Director's absence. Article V, Section 5.9 and 5.10 are being amended to include the Managing Director as an officer authorized to sign certificates of stock with the secretary or assistant secretary. Article 7, Section 7.1 is being amended to include the Managing Director as one of several officers who must sign, along with the secretary or treasurer, the stockholder's certificate certifying the number of shares owned by the stockholder in the corporation.

The proposed rule change is consistent with the requirements of Section 17A of the Act<sup>3</sup> and the rules and regulations thereunder because it makes technical modifications to MBSCC's rules and by-laws so that they coincide with MBSCC's new internal management structure.

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

MBSCC does not believe that the proposed rule change will impact or impose a burden on competition.

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

No written comments have been solicited or received. MBSCC will notify the Commission of any written comments received by MBSCC.

#### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>4</sup> of the Act and pursuant to Rule 19b-4(e)(3)<sup>5</sup> promulgated

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> The Commission has modified the text of the summaries prepared by MBSCC.

<sup>3</sup> 15 U.S.C. 78q-1 (1988).

<sup>4</sup> 15 U.S.C. 78s(b)(3)(A)(iii) (1988).

<sup>5</sup> 17 CFR 240.19b-4(e)(3) (1996).