

the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of DTC. All submissions should refer to File No. SR-DTC-97-21 and should be submitted by May 12, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39860; File No. SR-GSCC-98-01]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Funds-Only Settlement Payment Procedures

April 14, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on February 17, 1998, the Government Securities Clearing Corporation ("GSCC") 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 GSCC. 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 will amend GSCC's rules regarding funds-only settlement ("FOS") payments procedures to permit GSCC to retain significant FOS payments it owes to a member to offset such amounts against any significant clearing fund deposit obligation the member owes to GSCC.

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.²

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

Two important elements of GSCC's risk management process are the daily calculation and collection of clearing fund deposit deficiency amounts and of mark to the market margin. The amount of a member's clearing fund deposit generally is the sum of (1) the absolute value of its average FOS amounts, (2) the highest of several margin calculations using the absolute value of each of the member's net settlement positions, and (3) the highest of two volatility calculations using the market value of each repo transaction that comprises its outstanding net settlement position.³ The mark to the market collections are included as part of GSCC's FOS payment procedures and are calculated and collected on every forward settling position (*i.e.*, a position not scheduled to settle the next day). The calculated mark to the market amount is collected from a member with a debit and paid to a member with a credit.⁴

At times, GSCC is obligated to pay a member a FOS amount on a day on which that member also has a clearing fund deficiency call. Pursuant to its rules, GSCC is required to make the FOS payment to such a member prior to the time the member must make its clearing fund deficiency payment to GSCC.⁵ This results in exposure to GSCC and its members for a period of time due to the potential that the member will fail after it has received a FOS payment from GSCC but before it has satisfied the clearing fund deficiency call. The proposed rule change will permit GSCC to retain FOS payments it owes to a member and to offset such amounts

against any clearing fund deposit obligation the member owes to GSCC.⁶

Under the proposed amendment to Rule 13 Section 5, GSCC will be entitled to retain the lesser of the FOS amount or the amount of the clearing fund call (or the entire FOS amount if the difference between the amounts is zero) and apply it to the member's clearing fund deposit requirement. If a member pays all or a portion of its clearing fund deficiency in any type of eligible collateral by a preestablished time before GSCC's deadline to make its own FOS payments to members,⁷ GSCC will only be entitled to offset its FOS obligation to the member against the member's remaining clearing fund deficiency. Pursuant to GSCC's existing rules, a member will have the right to substitute eligible collateral for any cash that GSCC applies to its clearing fund deposit as a result of an offset.

GSCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) because the proposed rule change should enhance its risk management process by increasing settlement efficiency and reducing payment related risks to GSCC and its members.⁸

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

GSCC does not believe that the proposed rule change will have an impact on 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

Written comments relating to the proposed rule change have not yet been solicited or received. GSCC will notify members of the rule change filing and comments will be solicited by an important notice. GSCC will notify the Commission of any written comments received by GSCC.

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

² The Commission has modified parts of these statements.

³ GSCC's Rule 4, Clearing Fund, Margin, and Loss Allocation.

⁴ For example, if the contract value exceeds the market value, the mark to the market amount will be collected from the buyer and paid to the seller. Conversely, if the market value exceeds the contract value, the mark to the market amount will be collected from the seller and paid to the buyer.

⁵ GSCC is authorized to pay FOS obligations to members by 10:00 a.m. eastern time ("ET"). Members must satisfy clearing fund deficiencies by the later of two hours after the receipt of GSCC's call or 10:00 a.m. ET. However, if the notification is not made earlier than two hours before the close of the cash FedWire, members may satisfy the calls on the next business day.

⁶ GSCC does not plan to exercise the offset right unless it has a significant FOS obligation to a member (*i.e.*, \$5 million or more) and the member has a significant clearing fund deficiency (*i.e.*, \$5 million or more).

⁷ GSCC currently plans to set the preestablished time at fifteen minutes before GSCC's deadline to make its own FOS payments to members.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

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 GSCC consents, the Commission will:

(A) By order approve such filing or

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

IV. 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the rule filing that are filed with the Commission, and all written communications relating to the rule filing 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 Room in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of GSCC. All submissions should refer to the File No. SR-GSCC-98-01 and should be submitted by May 12, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39873; File No. SR-MSRB-97-15]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Rules G-11, on Sales of New Issue Municipal Securities During the Underwriting Period, G-12, on Uniform Practice, and G-8, on Books and Records

April 14, 1998.

On December 23, 1997, the Municipal Securities Rulemaking Board ("Board" or "MSRB") filed with the Securities and Exchange Commission

("Commission" or "SEC") a proposed rule change (File No. SR-MSRB-97-15), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4 thereunder.² The proposed rule change is described in Items I, II, and III below, which Items have been prepared by the Board. 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 Board is filing herewith an amendment to Rule G-11, on sales of new issue municipal securities during the underwriting period, G-12, on uniform practice, and G-8, on books and records (hereinafter referred to as the "proposed rule change"). The proposed rule change, among other things, requires the managing underwriter of a syndicate to maintain a record of all issuer syndicate requirements; requires the managing underwriter to complete the allocation of securities within 24 hours of the sending of the commitment wire; requires the managing underwriter to disclose to syndicate members all available designation information; requires the managing underwriter to disclose to members of the syndicate, in writing, the amount of any portion of the take-down that is directed to each member of the syndicate by the issuer; and shortens the deadline for payment of designations to 30 calendar days after the issuer delivers the securities to the syndicate.

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

In its filing with the Commission, the Board 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 texts of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

As part of the Board's review of the underwriting process, the Board has

determined to adopt the proposed rule change to further strengthen the integrity of the syndicate practices process.

Issuer Syndicate Requirements

Issuer requirements involving syndicate formation, order review, designation policies and bond allocations have become much more prevalent in the municipal securities market. Such requirements are significant because they help to determine which dealers, and ultimately which investors, obtain the bonds. As issuer syndicate requirements can affect the functioning of the syndicate, and at times the final costs to the issuer of the new issue, the Board believes that records of such requirements should be maintained so that any problems or concerns regarding the functioning of the syndicate arising from these requirements can be identified and addressed and the information should be provided to syndicate members and others, upon request.

The proposed rule change amends Rules G-8(a)(viii) and G-11(f) to require the managing underwriter to maintain a record of all issuer syndicate requirements. If the requirements are in a published guideline, such guidelines should be maintained by the dealer and supplemented by a statement of any additional requirements that arise prior to settlement. If the requirements are not in published form, the managing underwriter must create a written detailed statement of such requirements and maintain such statement in its records. The managing underwriter must provide a copy of the published guidelines or underwriter prepared statement of issuer syndicate requirements to syndicate members prior to the first offer of any securities by the syndicate. Syndicate members must furnish this summary promptly to others, upon request. In addition, the managing underwriter must provide the issuer with a copy of any such statement for its review.

Allocation of Securities

The proposed rule change amends Rule G-11(g) to require the managing underwriter to complete the allocation of securities within 24 hours of the sending of the commitment wire. Delays in allocations seem to be a growing problem in the municipal securities market. Many delays in allocations appear to be the result of issuers and financial advisors failing to review orders and proposed allocations in a timely fashion. Investors complain that they have difficulty finalizing their portfolio positions when their orders

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

⁹ 17 CFR 200.3-3(a)(12).