

will attend the closed meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c)(4), (8), (9)(A) and (10) and 17 CFR 200.402(a)(4), (8), (9)(i) and (10), permit consideration of the scheduled matters at the closed meeting.

Commissioner Johnson, as duty officer, voted to consider the items listed for the closed meeting in a closed session.

The subject matter of the closed meeting scheduled for Wednesday, April 28, 1999, at 11:00 a.m., will be:

Institution and settlement of administrative proceedings of an enforcement nature  
Institution and settlement of injunctive actions

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact:

The Office of the Secretary at (202) 942-7070.

Dated: April 22, 1999.

**Jonathan G. Katz,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41303; File No. SR-GSCC-99-01]

### Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Granting Approval of Proposed Rule Change Regarding the Expansion of GSCC's GCF Repo Service

April 16, 1999.

On January 27, 1999, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission"), and on February 11, 1999, amended<sup>1</sup> the proposed rule change (File No. SR-GSCC-99-01) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>2</sup> Notice of the proposed rule change was published in the

**Federal Register** on February 17, 1999.<sup>3</sup> The Commission received one comment letter in response to the proposed rule change.<sup>4</sup> For the reasons discussed below, the Commission is approving the proposed rule change.

#### I. Description

The GCF Repo service allows GSCC members that are not interdealer brokers to trade general collateral repos involving U.S. Government securities throughout the day without requiring trade for trade settlement on a delivery versus payment ("DVP") basis.<sup>5</sup> This change expands GSCC's GCF Repo service to allow participating dealers to engage in GCF Repo trading with participating dealers that use different clearing banks.<sup>6</sup>

Currently, not all of GSCC's dealer members clear at the same bank. As a result of free and unrestricted trading among all GSCC members, on any particular business day net securities and cash positions with respect to GFC Repo transactions will most likely not balance within each GFC Repo clearing bank. That is, the net securities borrowed position will not match the net securities loaned position across dealers intrabank.

GSCC has been discussing with the staff of the Federal Reserve Bank of New York ("FRBNY") and the Board of Governors of the Federal Reserve System ("Board of Governors") the possibility of reopening the securities Fedwire for a brief period of time after the normal 3:30 p.m. close to accomplish after-hours DVP movement of securities between the GFC Repo clearing banks. However, GSCC understands that an after-hours DVP window cannot be established until FRBNY completes its Year 2000 systems changes and the Board of Governors issues a proposal for public comment to help determine if establishing such a window is in the public interest.

As a result, GSCC and its two clearing banks, The Bank of New York ("BONY") and The Chase Manhattan Bank ("Chase"), have agreed to establish a mechanism to permit after-hours

movements of cash and securities between the two clearing banks. Each clearing bank will establish a special clearance account in the name of GSCC to be used exclusively to effect this after-hour movement of securities. At the end of each business day, GSCC will establish the net GCF Repo settlement position and collateral allocation obligation or entitlement for each participating dealer with respect to each generic CUSIP number, and each clearing bank will make all possible internal cash and securities GCF Repo deliveries between GSCC and the dealers that clear at that bank. At this stage, the dealers that clear through one of the two banks will be in an aggregate net funds borrower position and aggregate net short securities position. The dealers that clear through the other bank will be in an aggregate net funds lender position and aggregate net long securities position.

GSCC will establish on its own books and records two "securities accounts" as defined in Article 8 of the New York Uniform Commercial Code ("NYUCC"): one in the name of Chase and one in the name of BONY. The Chase securities account will be comprised of the securities in GSCC's special clearance account maintained by BONY, and the BONY securities account will be comprised of the securities in GSCC's special clearance account maintained by Chase. GSCC will appoint Chase as its agent to maintain GSCC's books and records with respect to the BONY securities account, and GSCC will appoint BONY as its agent to maintain GSCC's books and records with respect to the Chase securities account.

The securities accounts will enable the bank that is in the net long securities position to receive securities after the close of the securities Fedwire. Once the bank has received the securities, it will credit them by book-entry movement to a GSCC account and then to the dealers that clear at that bank that are net long securities. The establishment of the securities accounts by GSCC also will give each clearing bank a "securities entitlement" under Article 8 of the NYUCC and the comfort of relying on GSCC as its "securities intermediary" as defined in Article 8 of the NYUCC.

As an example, assume that after all intrabank cash and securities movements, the dealers that clear through Chase are in an aggregate net funds borrow/short securities position and the dealers that clear through BONY are in an aggregate net funds lender/long securities position. GSCC will then instruct Chase to allocate to the special GSCC clearance account at Chase securities in an amount equal to the net

<sup>1</sup> The February 11, 1999, amendment represents a technical amendment to the proposed rule change and as such does not require republication of notice.

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> Securities Exchange Act Release No. 41022 (February 5, 1999), 64 FR 7932.

<sup>4</sup> Letter from Scott C. Rankin, Assistant General Counsel, The Bond Market Association (March 10, 1999).

<sup>5</sup> For a detailed description of the GCF Repo Service, refer to Securities Exchange Act Release No. 40623 (October 30, 1998) 63 FR 59831 (November 5, 1998) [File No. SR-GSCC-98-02] (order approving proposed rule).

<sup>6</sup> Currently, there are two banks approved by GSCC to provide GCF Repo settlement services. In the future, other banks that GSCC in its sole discretion determines to have met its operational requirements may be approved to provide GCF Repo settlement services.

short securities position. Chase will then transmit to BONY a description of the securities in the BONY securities account (which will be the same securities as in the GSCC special clearance account at Chase). Based on this transmission, BONY will transfer funds equal to the aggregate net funds borrowed position to a demand deposit account in the name of GSCC that is maintained by Chase. Upon Chase's receipt of the funds, Chase will release any liens it may have on the securities in the special GSCC clearance account, and GSCC will release any liens it may have on the securities in the BONY securities account (which accounts are comprised of the same securities). BONY will credit the securities in the BONY securities account to GSCC's regular GCF Repo clearance account at BONY and to the dealers that clear at BONY that are in a net long securities position.

All securities and funds movements occurring on a particular business day between the participating clearing banks will be reversed the next business day within a timeframe established by GSCC and the clearing banks. This timeframe will correspond to the timeframe already established by GSCC's Rule 20 for the reversal of GCF Repo transactions between GSCC and its participating netting members.

## II. Comment Letters

The Commission received one comment letter.<sup>7</sup> The Bond Market Association ("Association") supports the approval of the proposed rule change because the Association believes the change would provide a wide array of market participants with an increased flexibility in satisfying their funding needs as well as the funding needs of their customers.

## III. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and 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. The Commission believes that the proposed rule change is consistent with these obligations. The proposed rule change should increase the number of transactions that can be cleared through the GCF Repo service and therefore should facilitate the prompt and accurate clearance and settlement of general collateral repo transactions by

increasing the number of such transactions that are cleared and settled through the facilities of GSCC. In addition, the Commission believes the procedures and arrangements GSCC has established for the movements between GSCC's clearing banks of securities and funds related to GCF Repo transactions should help to assure the safeguarding of securities and funds which are in GSCC's custody or control or for which it is responsible.

## IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with Section 17A of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-99-01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 99-10308 Filed 4-23-99; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41311; File No. SR-NASD-99-15]

### Self-Regulatory Organization; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to the National Adjudicatory Council's Call for Review of Membership Decisions

April 20, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 19, 1999, the National Association of Securities Dealers, Inc. ("NASD" or "Association"), through its wholly owned subsidiary NASD Regulation, Inc. ("NASD Regulation"), filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NASD. On April 16, 1999, the NASD filed an amendment to

the proposal.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The NASD is proposing to amend NASD Rule 1015 to temporarily suspend the authority of the NAC to call for review membership decisions issued by district staff. The text of the proposed rule change is available at the NASD Office of the Secretary and at the Commission.

### 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 Association 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. The NASD 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

##### (1) Purpose

The purpose of the proposed rule change is to temporarily suspend the NAC's authority under NASD Rule 1015 to call for review of membership decisions while the Association considers other options for review of the membership admittance process. Currently, NASD Rule 1015(a)(2) provides that a membership decision rendered by the Department of Member Regulation shall be subject to a call for review by the NAC. Since the Association has not been able to adequately implement this authority, it proposes to suspend NAC review of membership decisions from the date of approval by the Commission until October 31, 1999, for the reasons set forth below.

<sup>3</sup> See letter from Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, to Katherine A. England, Assistant Director, Division of Market Regulation, Commission (April 16, 1999) ("Amendment No. 1"). In Amendment No. 1, the NASD changes the date the suspension of the national Adjudicatory Council's ("NAC's") call for review of membership decisions will end from June 1, 1999 to October 31, 1999. In Amendment No. 1, the NASD also deletes a description of the activities and composition of the Membership Admissions Review Committee.

<sup>7</sup> *Supra* note 4.

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.