

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42482; File No. SR-DTC-00-03]

### Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change Relating to Establishing a Depository Link With SIS SegalInterSettle AG

March 1, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on February 22, 2000, The Depository Trust Company ("DTC") 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 DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

DTC proposes to open a free-of-payment omnibus account at SIS SegalInterSettle AG ("SIS"), a Swiss depository.

#### II. Self-Regulatory Organization's 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 these statements.<sup>2</sup>

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

(1) DTC is proposing to establish a depository link with SIS through use of a free-of-payment omnibus account at SIS. The central purpose of the proposed link between SIS and DTC will be to facilitate the efficient processing of cross-border securities transactions between DTC participants and SIS participants.

DTC proposes to open a free-of-payment omnibus account at SIS, creating a one-way DTC-SIS interface.

The link would permit, but would not require, DTC positions in issues that are eligible at both DTC and SIS to be held in DTC's account at SIS. The proposed interface will enable DTC participants to effect book-entry transactions with SIS participants. In addition, it is noteworthy that there are a number of major banks and broker-dealers that are participants of both DTC and SIS. The link will enable these dual participants to engage in efficient inventory positioning by moving their security positions from one depository's books to the other in order to meet the dual participants' internal needs.<sup>3</sup>

Establishment of the link will allow DTC (and through it, DTC's participants) to use SIS's custody, book-entry delivery, and other depository services for securities that are eligible in both depositories. The link will enable a DTC participant to settle, on a free-of-payment basis, a cross-border transaction with an SIS counterparty by making a book-entry delivery from DTC's omnibus account at SIS to the SIS participant's account at SIS. Conversely, an SIS participant would be able to settle, on a free-of-payment basis, a cross-border transaction with a DTC participant by making a book-entry delivery from the SIS participant's account at SIS to the DTC omnibus account at SIS (while identifying the DTC participant to which the delivered securities should be credited). The receiving DTC participant could then redeliver the securities on either a free-of-payment or versus-payment basis to any other DTC participant within DTC.

By opening a DTC account at SIS, DTC would enable its participants to substitute efficient book-entry movements for cumbersome physical movements of securities certificates between SIS and DTC. The link will markedly reduce the significant costs and risks associated with withdrawing physical certificates from one depository and then physically transporting the certificates and ultimately reregistering and redepositing them at the other depository.

SIS will make SIS's depository services (such as income collection, maturity presentments, and reorganization processing) available to DTC in accordance with SIS procedures on securities held in DTC's account at SIS. Whether DTC holds its underlying

inventory in Switzerland or in the U.S., DTC services to DTC participants will be the same as are currently provided.

(2) The principal benefits that will attend DTC's opening an omnibus account at SIS are: (i) the accelerated speed of settlement of cross-border transactions in the subject securities; (ii) the elimination of most physical movements of the subject securities between SIS, transfer agents in the U.S. and Switzerland, and DTC; and (iii) a reduction of costs and risks to DTC participants and SIS participants as a result of the above advances. DTC's providing these benefits to participants is in keeping with DTC's objective of providing efficient book-entry clearance and settlement facilities while at the same time reducing risk to DTC participants.

The proposed rule change is consistent with the requirements of Section 17A(b)(3)(A) of the Act and the rules and regulations thereunder applicable to DTC because the proposed link will reduce risks and associated costs to DTC participants and SIS participants.<sup>4</sup>

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

DTC does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, in the public interest, and for the protection of investors.

##### (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. DTC will notify the Commission of any written comments received by DTC.

#### 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)

<sup>4</sup> In establishing an account at a foreign depository such as SIS, DTC performs risk analysis of the foreign depository to assess whether, in the aggregate, the foreign depository has what DTC determines to be an acceptable risk profile. DTC's risk analysis includes, among other things, an evaluation of the foreign depository in the areas of operational control, financial strength, technological capabilities, market reputation and standing, contract and legal protection, regulation, audit arrangements, and subcustody usage. Once an account is established, DTC conducts ongoing monitoring of material events and periodic risk assessments evaluating the same areas as when the account was being established.

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

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

<sup>3</sup> Today, the "Swiss" issues that are DTC-eligible consist of over five dozen issues of depository receipts, debt, and warrants. DTC understands, however, that UBS AG ("UBS") plans to list UBS registered shares on the New York Stock Exchange at the end of March 2000 and to concurrently have them made eligible in the DTC system.

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, 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, N.W., Washington, D.C. 20549-0609. 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 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-00-03 and should be submitted by March 30, 2000.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 00-5758 Filed 3-8-00; 8:45 am]

BILLING CODE 8010-01-M

#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42487; File No. SR-NYSE-99-34]

#### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the New York Stock Exchange, Inc. To Amend the Exchange's Allocation Policy

March 2, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act"),<sup>1</sup> notice is hereby given that on July 20, 1999, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change. On February 7, 2000, the Exchange submitted Amendment No. 1 to its proposal.<sup>2</sup> The proposed rule change, as amended, is described in Items I, II and III below, which Items have been prepared by the Exchange. 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 consists of changes to the Exchange's Allocation Policy and Procedures ("Policy").

#### 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 Exchange 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 and is set forth in Sections A, B, and C below.

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

##### 1. Purpose

The intent of the Exchange's Policy is to (1) ensure that the allocation process for securities is based on fairness and consistency and that all specialist units have a fair opportunity for allocations based on established criteria and procedures; (2) provide an incentive for ongoing enhancement of performance by specialist units; (3) provide the best possible match between a specialist unit and security; and (4) contribute to the strength of the specialist system.

Since 1987, the Exchange's Quality of Markets Committee has appointed a number of Allocation Review

Committees ("ARCs") to review the Policy and make recommendations with respect to changes.<sup>3</sup> In February, 1999, the Quality of Markets Committee again appointed in ARC, ARC V, to review the Policy and make recommendations with respect to improvements in the allocation process. Those recommendations, which the Exchange is proposing as changes to the Policy, are discussed below.

#### Composition of Allocation Committee

Currently, the Allocation Committee is composed of nine members, consisting of seven floor brokers (including three broker Governors (one of whom may be an independent/two dollar broker) and four other floor brokers from the Allocation Panel (one of whom must be an independent/two dollar broker)) and two allied members<sup>4</sup> from the Market Performance Committee<sup>5</sup> or the Allocation Panel. The Allocation Committee presently does not have representation from institutional investor organizations. The Exchange believes that these organizations are significant participants in the securities markets, including the Exchange and therefore, that such representation enhances the expertise and objectivity of the Allocation Process. The proposal would add one institutional investor representative member to the Allocation Committee drawn from the Allocation Panel or from the institutional investor members of the Market Performance Committee.

In connection with this change, however, the Exchange does not believe it is necessary to expand the size of the Committee. Therefore, the NYSE proposes to decrease the number of floor brokers on the Committee from seven to six. This would be accomplished by decreasing from four to three the number of other floor brokers from the Allocation Panel (one of whom must be an independent/two dollar broker).

#### Composition of Allocation Panel

The Allocation Panel ("Panel") is the resource from which the Allocation Committee is assembled. A Panel is appointed by the Exchange's Quality of Markets Committee from among

<sup>1</sup> 5 U.S.C. 78s(b)(1).

<sup>2</sup> In Amendment No. 1, the Exchange provided additional information regarding the allocation of target stocks and merged companies; clarified the selection process for institutional investors and the definition of a senior officer; and revised its procedures so that members of the committee eligible for election as chairman include brokers with four months remaining in their committee term. See Letter from James E. Buck, Senior Vice President and Secretary, NYSE, to Terri Evans, Attorney, Commission, dated February 4, 2000 ("Amendment No. 1").

<sup>3</sup> See Securities Exchange Act Release No. 38372 (March 7, 1997), 62 FR 13421 (March 20, 1997) (containing recommendations made by ARCs I through IV).

<sup>4</sup> See Sec. 3(c) of Art. I of the NYSE Constitution.

<sup>5</sup> The Market Performance Committee is appointed by the Exchange's Board of Directors to develop and administer procedures designed to improve the performance of members on the floor. It consists of floor Directors, floor Governors, allied members and representatives of institutional investor organizations.

<sup>5</sup> 17 CFR 200.30-3(a)(12).