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Deputy Secretary.
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[Release No. 34-36437; File No. SR-DTC-95-15]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of a Proposed Rule Change Relating to Processing Securities With Indexed Principal Features Through the Receiver Authorized Delivery Facility

October 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on August 23, 1995, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-95-15) 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 is filing the proposed rule change to require transactions in securities issued under a Money Market Instrument ("MMI") program having an indexed principal² feature and settling in DTC's Same Day Funds Settlement ("SDFS") system to be directed to DTC's Receiver Authorized Delivery facility ("RAD").³ RAD requires the receiver to authorize the transaction prior to it being processed by DTC.

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.⁴

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

The purpose of the proposed rule change is to ensure that DTC participants receiving a valued delivery of MMI securities with an indexed principal feature will receive complete and accurate information about whether or not such securities have an indexed principal feature. The value of MMI securities with an indexed principal feature may change dramatically in a short period of time; therefore, DTC's participants have asked DTC to develop controls to ensure that participants have accurate information about this feature before accepting delivery of such a security. DTC has responded to these concerns by developing procedural changes that will reduce the likelihood that a DTC participant will purchase this type of security without full knowledge of its indexed principal feature.

Under the proposal, DTC will require mandatory authorization from receivers of securities having an indexed principal feature before DTC will process the transaction. DTC participants will transmit such authorization via DTC's RAD facility.⁵ In addition, DTC will revise its twenty and forty-eight character CUSIP descriptions to include a unique identifier that will indicate that an issue has an indexed principal feature.

DTC believes the proposed rule change is consistent with the requirements of Section 17A of the Act⁶ and the rules and regulations thereunder because it promotes the prompt and accurate clearance and settlement of transactions in securities that settle in same-day funds. The proposed rule change will be implemented in a manner designed to safeguard the securities and funds in DTC's custody or under its control.

(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 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

In June 1995, DTC released a memorandum to its participants about DTC's efforts to provide more complete information regarding the indexed principal feature of MMI securities. Written comments from DTC participants or others have not been solicited on the proposed change; however, State Street Bank and Trust Company ("State Street") submitted a comment letter to DTC expressing two concerns regarding the proposed rule change. First, State Street wrote that it currently uses DTC's Main Frame Dual Host System ("MDH") for daily settlement purposes rather than DTC's Participant Terminal System ("PTS"). State Street explained that because the new RAD authorization function only is available on PTS and not MDH, it would be forced to process the new RAD authorizations manually. DTC responded to State Street's concern by agreeing to enable them to process the new RAD authorizations through MDH.

Secondly, State Street commented that DTC should be able to provide accurate and complete issuance information without the need for an additional RAD control. DTC responded in its letter to State Street that DTC participants and the Public Securities Association ("PSA") asked DTC to develop a method of identifying securities with an indexed principal feature and a procedure to affirmatively notify participants when they take delivery of securities having such a feature. DTC participants and the PSA requested the development of these procedures to ensure that DTC participants know before taking delivery that a particular security has an indexed principal feature. DTC believes that the proposed rule change effectively addresses these requests.

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

¹ 15 U.S.C. 78s(b)(1) (1988).

² An "indexed principal" is principal directly derived by reference to a currency, composite currency, commodity, or other financial index.

³ For a description of DTC's RAD facility, refer to Securities Exchange Act Release Nos. 25886 (July 8, 1988), 53 FR 26698 [File No. SR-DTC-88-07] (notice of filing and immediate effectiveness of the RAD facility) and 35720 (May 16, 1995), 60 FR 27360 [File No. SR-DTC-95-07] (order granting accelerated approval of a \$15 million per transaction minimum threshold to utilize the RAD facility for approval or cancellation of deliveries).

⁴ The Commission has modified the text of the summaries prepared by DTC.

⁵ The transactions will be directed to DTC's existing RAD facility; however, they will be subject to a separate approval and reporting process.

⁶ 15 U.S.C. 78q-1 (1988).

(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, 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, 450 Fifth Street, NW., 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-95-15 and should be submitted by November 27, 1995.

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

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 36435; File No. SR-GSCC-95-04]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Modifying GSCC's By-laws to Provide Indemnification Protection for Members of Committees

October 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on August 25, 1995, Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-GSCC-95-04) 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 purpose of the proposed rule change is to amend GSCC's by-laws to provide indemnification protection for members of committees established by GSCC's Board of Directors who are not officers or directors of 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

The proposed filing seeks to amend GSCC's by-laws to provide indemnification protection for members of committees established by GSCC's Board of Directors who are not officers or directors of GSCC. Article IV, Section 4.1, of GSCC's by-laws currently requires, among other things, that GSCC indemnify to the full extent permitted by law a present or past director or officer of GSCC who is made a party to any action or proceeding, whether civil or criminal, by reason of the fact that such person is or was a director or officer of GSCC.

The indemnification obligation does not extend to members of committees established by GSCC's Board of Directors if the members of the committees are not directors or officers of GSCC. Thus, for example, the indemnification protection in GSCC's by-laws does not cover most of the members of GSCC's Risk Management Committee who are senior credit officers of GSCC member firms.

In order to ensure that GSCC can obtain the services of qualified individuals on committees established by its Board of Directors and to ensure that such individuals freely are able to provide guidance to GSCC's Board of

Directors and to GSCC management, GSCC believes it appropriate to provide members of such Board-established committees with indemnification protection comparable to the protection currently given to GSCC's directors and officers. This indemnification will facilitate GSCC's ability to obtain directors and officers liability insurance that covers committee members who are not GSCC directors or officers.

GSCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the rule proposal will help ensure that GSCC obtains the services of qualified individuals on its Board-established committees.

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

GSCC does not believe that the proposed rule 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

Comments on the proposed rule change have not yet been solicited. GSCC members will be notified of the rule 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 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 NW., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule

⁷ 17 CFR 200.30-3(a) (12) (1994).

¹ 15 U.S.C. § 78s(b)(1) (1988).

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