

rule change modifies the current interface procedures.

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

DTC perceives no impact on competition by reason of the proposed rule change.

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

All participants were informed of the proposed rule change by a DTC Important Notice,⁶ as well as by the 1994 memorandum referred to above.⁷ Written comments from DTC participants or others have not been solicited or received on the proposed rule change.

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

Section 17A(b)(3)(F) of the Act⁸ requires that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The Commission believes that DTC's proposed procedures relating to inter-depository deliveries are consistent with DTC's obligations under Section 17A(b)(3)(F) because the proposed rule change establishes procedures for the processing of inter-depository deliveries between participants of DTC and Philadep.

Under the proposed procedures, DTC will immediately update a participant's account for deliver orders and payment orders sent to a Philadep participant through the interface. In the event that the delivery fails to complete at Philadep by the end of the day, the procedures provide a mechanism by which DTC will reverse the transaction to the original delivering participant without subjecting that reversal to RAD or risk management controls. DTC has represented that the expected volume of deliveries through the interface and the possibility of such reversal procedures being employed are minimal. However, the Commission encourages DTC to examine and consider future enhancements to the interface to provide a mechanism through which DTC participants can receive notification of transactions pending at Philadep.

The Commission realizes that the proposed inter-depository delivery

procedures could create the situation where an inter-depository reversal resulting from an uncompleted delivery at Philadep forces a DTC participant to violate its net debit cap at DTC near the end of the day. Therefore, the Commission believes the proposed procedures for inter-depository reversals should be carefully monitored before they become permanent. DTC has agreed to monitor activity through the DTC-Philadep interface and to submit monthly reports to the Commission concerning the number of inter-depository reversals performed pursuant to the proposed procedures that cause participants to violate their net debit caps. For this reason, the Commission is temporarily approving the proposed rule change through August 31, 1996.

DTC 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 filing. The Commission finds good cause for so approving the proposed rule change because accelerated approval of the proposed procedures will allow DTC participants to utilize the procedures for deliveries through the interface between DTC and Philadep immediately following DTC's conversion to an all SDFS system on February 22, 1996.

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, N.W., 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, N.W., 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-96-05 and should be submitted by March 19, 1996.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-96-05) be, and hereby is, approved

on a temporary basis through August 31, 1996.

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

Dated: February 15, 1996.

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36867; File No. SR-DTC-96-06]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Amending Rules and Cross-Guarantee Agreement to Accommodate Same-Day Funds Settlement

February 21, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on February 2, 1996, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-96-06) as described in Items I and II below, which items have been prepared primarily by DTC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change.

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 DTC's rules and to amend the current Netting Contract and Limited Cross-Guarantee agreement between the National Securities Clearing Corporation ("NSCC") and DTC ("NSCC/DTC Agreement") to accommodate the conversion of DTC's money settlement system entirely to a same-day funds settlement ("SDFS") system.

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 that it received on the proposed rule change. The text of these statements may be examined at the

⁶ DTC Important Notice (January 9, 1996).

⁷ *Supra* note 3.

⁸ 15 U.S.C. 78q-1(b)(3)(F) (1988).

⁹ 17 CFR 200.30-3(a)(12) (1995).

¹ 15 U.S.C. § 78s(b)(1) (1988).

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.²

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

On February 22, 1996, DTC plans to combine its next-day funds settlement ("NDFS") system and its SDFS system into a single SDFS system, which will be based on the design of the current SDFS system with some modifications. The conversion was described in three memoranda issued jointly by NSCC and DTC³ and was discussed in a DTC proposed rule change approved by the Commission on May 16, 1995.⁴

In order to assure an efficient conversion, some of the modifications to the current SDFS system were implemented at various times during 1995. The amendments which are the subject of this proposal to DTC's rules are technical changes and are mainly concerned with the elimination of provisions relating to the NDFS system. Certain amendments to the rules are being made for purposes of clarity and consistency of style.⁵

The conversion also requires DTC to make certain amendments to the current NSCC/DTC Agreement.⁶ The current NSCC/DTC Agreement provides that with respect to participants common to both entities ("common members"), DTC and NSCC agree to net daily a common member's final net settlement debit or credit at one entity with the common member's final net settlement credit or debit at the other entity. In most instances, the result will be either one net debit obligation payable to either DTC or NSCC or one net credit receivable from either DTC or NSCC.⁷ In the event of a default of a common member, the current NSCC/DTC

Agreement also provides that any resources remaining after the failed common member's obligations to the guaranteeing clearing agency have been satisfied will be made available to the other clearing agency. The guarantee is not absolute but rather is limited to the extent of the resources relative to the failed member remaining at the guaranteeing clearing agency. The principal resources will be the failed member's settlement net credit balances and its deposits to the clearing agencies' clearing funds.⁸

The proposed rule change amends the current NSCC/DTC Agreement to include cross-guarantees of NSCC and DTC arising from transactions effected through NSCC's continuous net settlement ("CNS") system. NSCC's CNS system continually nets all trades due to settle the next day against each other and against prior days' unsettled long and short positions in the same securities. NSCC is the contra-party to each CNS transaction. Thus, NSCC participants obligated to deliver securities will deliver the securities to NSCC as free book-entry movements at DTC ("short covers"). NSCC participants obligated to receive securities will receive the securities from NSCC as free book-entry movements at DTC ("long allocation").

Certain cross-guarantees between NSCC and DTC are being established to permit transactions to flow smoothly between DTC's system and the CNS system in a collateralized SDFS environment. DTC will provide a guarantee to NSCC of all long allocations, and NSCC will provide a guarantee to DTC for all short covers. The guarantees provided in the amended NSCC/DTC Agreement, among other things, will ensure that debits created in DTC's system will continue to be collateralized when the securities serving as collateral are delivered into the CNS system as short covers. The guarantees also will reduce risk at NSCC by ensuring that long allocations or the approximate value of long allocations will be made available to NSCC to cover certain exposures.

When securities that are received versus payment in DTC's system are turned into CNS short covers, NSCC will provide a guarantee to DTC equal to the prior day's closing price of the securities.⁹ If CNS short covers are satisfied from securities that were not

received versus payment in DTC's system, NSCC will provide a guarantee to DTC equal to the prior day's closing market value less an applicable haircut. DTC will take this guarantee into account for collateral monitor purposes.

When long allocations to participants are redelivered in DTC's system, DTC will provide a guarantee to NSCC equal to the prior day's closing price of the long allocations less an applicable haircut. The guarantee will serve as a collateral substitute for long allocations and only will be called on to the extent a participant fails to settle due to insolvency and NSCC's own internal close-out procedures result in a net loss to NSCC. DTC will apply its normal collateralization controls to the value of its guarantee to NSCC to ensure that it has sufficient collateral to cover potential guarantee obligations to NSCC as the result of a participant redelivering CNS long allocations in DTC's system.

DTC believes the proposed rule change is consistent with Section 17A of the Act¹⁰ and the rules and regulations thereunder because the conversion entirely to an SDFS system will promote efficiency and safety in the clearance and settlement of securities transactions. DTC also believes the proposed rule change will be implemented consistently with the safeguarding of securities and funds in DTC's custody or control or for which it is responsible because the proposal modifies DTC's current SDFS system.

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

DTC perceives no impact on competition by reason of the proposed rule change.

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

The conversion plans were described in detail in the three joint memoranda referred to above and have been discussed extensively with participants and securities industry organizations. The 1994 memorandum described changes in the conversion plans as a result of those discussions. Since the distribution of the 1994 memorandum, written comments from DTC participants or others have not been solicited or received on the amendments to DTC's rules and the amendments to the NSCC/DTC Agreement which are the subject of the proposed rule change.

²The Commission has modified the text of the summaries submitted by DTC.

³The Depository Trust Company and National Securities Clearing Corporation, Memorandum (July 1, 1992; July 26, 1993; and July 29, 1994).

⁴For additional information regarding DTC's SDFS system, refer to Securities Exchange Act Release No. 35720 (May 16, 1995), 60 FR 27360 [File No. SR-DTC-95-06] (order granting accelerated approval of a proposed rule change modifying the SDFS system).

⁵The specific changes to DTC's rules are attached as Exhibit 2(a) to DTC's proposed rule change and is available in the Commission's Public Reference Room or through DTC.

⁶The cross-guarantees were described in the joint memorandum dated July 29, 1994, *supra* note 3.

⁷If a common member has either a net settlement debit at both DTC and NSCC or a net settlement credit at both DTC and NSCC, the common member will make payments to both DTC and NSCC or receive payments from both DTC and NSCC.

⁸For a complete description of DTC's and NSCC's agreement, refer to Securities Exchange Act Release No. 33548 (January 31, 1994), 59 FR 5638 [File Nos. SR-DTC-93-08 and SR-NSCC-93-07] (order approving proposed rule change).

⁹The guarantee from NSCC to DTC is calculated on a per share basis.

¹⁰15 U.S.C. § 78q-1 (1988).

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

Section 17A(b)(3)(F) of the Act¹¹ requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, 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, and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.

The Commission believes that DTC's proposed rule change is consistent with DTC's obligations under Section 17A(b)(3)(F) to facilitate the prompt and accurate clearance and settlement of securities transactions because the proposed rule change should facilitate DTC's conversion entirely to an SDFS system by eliminating provisions in DTC's rules relating to an NDFS system. The overall conversion to a SDFS system should help reduce systemic risk by, among other things, eliminating overnight credit risk. The SDFS system also should reduce risk by achieving closer conformity with the payment methods used in the derivatives markets, government securities markets, and other markets.

The Commission also believes the proposal is consistent with DTC's obligations to assure the safeguarding of securities and funds in its custody or control and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions because the proposed rule change should further reduce DTC's and NSCC's risk exposure by amending the NSCC/DTC Agreement to include cross-guarantees for transactions effected through NSCC's CNS system. The guarantees, among other things, should ensure that debits created in DTC's system will continue to be collateralized when the securities serving as collateral are delivered into the CNS system as short covers. Additionally, the guarantees also should reduce risk at NSCC by ensuring that long allocations or the approximate value of long allocations will be available to NSCC to cover certain exposures.

DTC 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 filing. The Commission finds good cause for so approving the proposed rule change

because the proposed rule change modifies DTC's rules and the NSCC/DTC Agreement in anticipation of DTC's conversion to an SDFS system on February 22, 1996. Accelerated approval of the proposal will allow DTC to effect the conversion and to implement the safeguards provided under the NSCC/DTC Agreement on that date.

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, N.W., 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, N.W., 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-96-06 and should be submitted by March 19, 1996.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-96-06) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36866; File No. SR-NSCC-96-03]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change to Modify NSCC's Rules and Procedures to Accommodate Same-Day Funds Settlement

February 21, 1996.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on January 16, 1996, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-NSCC-96-03) as described in Items I and II below, which items have been prepared primarily by NSCC. On January 17, 1996, and January 31, 1996, NSCC filed amendments to the proposed rule change.² The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change.

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 modify NSCC's rules and procedures and to amend the current Netting Contract and Limited Cross-Guarantee agreement between NSCC and The Depository Trust Company ("DTC") ("NSCC/DTC Agreement") to accommodate the conversion from a next-day funds settlement ("NDFS") system to a same-day funds settlement ("SDFS") system.

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

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments that it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.³

¹ 15 U.S.C. § 78s(b)(1) (1988).

² Letters from Julie Buyers, Associate Counsel, NSCC, to Jerry Carpenter, Esq., Associate Director, Division of Market Regulation, Commission (January 17, 1996, and January 31, 1996).

³ The Commission has modified the text of the summaries submitted by NSCC.

¹¹ 15 U.S.C. § 78q-1(b)(3)(F) (1988).

¹² 17 CFR 200.30-3(a)(12) (1995).