

Section, 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 GSCC. All submissions should refer to File No. SR-GSCC-94-08 and should be submitted by February 23, 1995.

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

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35288; File No. SR-GSCC-94-10]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Proposed Rule Change Relating to Implementing a Comparison Service for Repurchase and Reverse Repurchase Transactions Involving Government Securities as the Underlying Instrument

January 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 30, 1994, 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

GSCC proposes to modify its rules to provide comparison services for repurchase and reverse repurchase transactions involving government securities as the underlying instrument ("repos").

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.

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

GSCC proposes to provide comparison, netting, and risk management services to participants in the government securities repo market. GSCC ultimately intends to provide services for the opening ("on") and closing ("off") legs of all overnight repos (also referred to as next-day repos), term repos (also referred to as forward setting repos), and open repos, including the same-day settling aspects of those repos. These services will include the tracking of rate changes and open repo interest, the provision to the funds borrower of coupon protection, the provision to all parties of a comprehensive audit trail for their repo activity from inception to settlement, and the monitoring and facilitation of collateral substitutions.

Of paramount importance to GSCC is that it ensures that the types of services that it provides are appropriate for the repo market and beneficial to its participants. In this regard, several years ago, GSCC began discussing with its Board members and with the Public Securities Association's ("PSA") Repo Committee how GSCC might best provide centralized and automated comparison, netting, risk management, and settlement services for the repo market.

A Working Group of the PSA's Repo Committee, in a December 10, 1992, letter to GSCC, encouraged GSCC to proceed with providing comparison services for repos while working on establishing an acceptable plan for the provision of netting services for repos. At that time, GSCC undertook several initiatives that helped establish a foundation for the safe and effective provision of services for repos. In particular, it significantly upgraded its technological capabilities. GSCC now has two physically remote data processing sites. At each site, GSCC maintains redundant hardware configurations. Each processing site is in an environment totally dedicated to GSCC and is capable of processing the day's business independent of the other. Also, GSCC is in the process of implementing a real time communications switch that will support interactive communication with members in order to facilitate their sending data to GSCC as trades occur.

GSCC commenced its efforts to implement services for repos this past June by taking in data on repo

transactions from certain member firms that are active in the repo market. The main objective of the tests was to collect live data that GSCC could use to evaluate the viability of its draft input specifications and to assess the impact of repo processing on existing systems and services. With these tests having been successfully concluded, GSCC now plans to implement the initial stage of the first phase of its planned repo services commencing in the first quarter of 1995.

The comprehensive services to be provided by GSCC for repos will be offered in three phases. The first phase will involve the provision of comparison and netting services. This rule filing will provide authority for GSCC to implement the initial stage of the first phase, which is the provision of comparison services for overnight and term repos. Subsequent rule filings will be made for authority to implement both the next stage of the first phase of repo services, which is the provision of netting and risk management services for the non-same-day settling aspects of next-day forward settling repo transactions, and future phases of repo services.

The second implementation phase of GSCC's planned repo services will focus on the provision of comparison, netting, and risk management services for open repos as well as the offering of additional services of benefit to industry participants, including the tracking of rate changes, the tracking and facilitation of collateral substitutions, and other enhancements to the comparison process designed to provide full service comparison for the repo product.

The last phase of GSCC's planned implementation of repo services will focus on providing intraday netting and risk management services for the same-day settling aspects of repo transactions, including settlement of same-day settling start legs and close-outs of open repos.

Encompassing repos in GSCC's automated comparison process will provide industry participants with many benefits, including: (1) Elimination of the need for physical confirmations, (2) timely comparison of repo trade data, (3) easier monitoring of the status of open repo transactions and of the modifications made to those transactions over their life (e.g., tracking of repo interest rate changes), (4) enhanced ability for identification and correction of errors, (5) easier recordkeeping, and (6) easier access to audit trail information.

Again, Phase 1 comparison will involve the comparison of all overnight

¹ 15 U.S.C. 78s(b)(1) (1988).

and term repo trades involving eligible securities whether or not the on leg occurs before, on, or after the submission date. Open repos will not be accepted during the first phase. GSCC will accept and compare data on all of the components of a repo transaction, including information on the on and off legs of a repo, with members providing such data via a single input. Same-day settling on and off legs will be compared but not netted.

The Phase 1 comparison process for repos will be substantially similar to the comparison process offered by GSCC today. Each party to a repo will submit its transaction data to GSCC.² If all mandatory data fields that are required to match do in fact match, a comparison will be generated by GSCC.³ If the data on a repo remains uncomparated at end-of-day, the submitter of the repo data will receive a comparison request advisory. If a repo transaction has not yet been compared, it may be unilaterally canceled, and the submitter will receive notification of the cancellation. To cancel a repo that has been compared, bilateral agreement is required. Trade data on repo transactions that remain uncomparated shall be deleted from GSCC's Comparison System the later of (1) The processing cycle after the second business day after the repo start date or (2) the processing cycle after the second business day after the date of submission of such data.

As is the case now for non-repo transactions, comparison of a repo trade will occur immediately upon the receipt by GSCC from two members of matching data. GSCC comparison output will continue to be available on an on-line basis.

To be eligible for comparison, both submitting members must be deemed eligible for repo comparison processing by GSCC. GSCC will make such a determination based on the demonstration by a member of its ability

to submit designated input to and receive designated output from GSCC.

The implementation of Phase 1 comparison services for repos will require the following modifications to GSCC's comparison processes:

(1) The "transaction type" data field will be expanded to include two additional transaction types: "repo" (designating the side of the repo transaction that is borrowing funds and lending securities) and "revr" (designating the side of the repo transaction that is lending funds and borrowing securities). Repos and reverse repos will compare only with each other and not with buy and sell activity.

(2) Two new mandatory match items for repo transactions will be introduced: start date and start amount. The repo start date will indicate the settlement date for the start leg of the repo. The repo start amount will contain the contract value for the start leg of the repo. Initially, a \$1 per repo transaction tolerance for start amount will be established.

(3) If a participating member does not submit the settlement amount, GSCC will calculate it using the start amount, repo rate, and the number of days from start date to settlement date. Initially, a \$1 per million tolerance will be established for settlement amount.

(4) The repo rate will be a required submission field. If the settlement amount is not provided, this field along with the start amount and the repo term will be used to calculate the settlement amount.

(5) Two optional data fields have been added to bolster the comparison process for repos, the give-up broker field and the secondary reference number field. Dealer members may use the give-up broker field to identify the broker, if any, used to conduct the repo. GSCC will provide members with a standardized list of brokers for this purpose. The secondary reference number field may be used by dealers to provide additional identification information on the repos.

(6) Phased comparison of trade date (*i.e.*, the comparison of a trade where the information submitted regarding trade date does not match based on a presumption that the earlier trade date submitted is the correct trade date) will not apply to repos in Phase 1. Also, par summarization (*i.e.*, the comparison of a trade based on a match of either the total of the par amounts on two or more buy sides equaling the par amounts on one or more sell sides or the total of the par amounts on two or more sell sides equaling the par amounts on one or more buy sides) will not apply to repo transactions in Phase 1.

(7) The \$40 per million tolerance on final money that applies to buy/sells will not apply to repos. This tolerance is used by GSCC in its phased comparison process to account for commission differences.

GSCC represents that its automated facilities are sufficient to implement the proposed comparison services for repos that are the subject of this filing and that the addition of these services will not diminish GSCC's ability to provide its current services for non-repo transactions in a safe, efficient, and timely manner.

GSCC believes that the proposed rule change will allow GSCC to provide the benefits of centralized, automated comparison to a broader segment of government securities transactions. GSCC believes that the proposed rule change is consistent with the requirements of the Act, and specifically with Section 17A of the Act,⁴ and the rules and regulations thereunder.

B. Self-Regulatory Organization's Statement on Burden on Competition

GSCC does not believe that the proposed rule will have an impact 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 or received. 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.

²The proposed rule change will establish a new schedule of required data submission items applicable to all trades. In addition to the items on the schedule of required match data, a member must submit the broker reference number, contra submitting member's executing firm, executing firm, external reference number, price or rate, pricing method, and trade date.

³The following items must match for a trade to compare: (1) contra member identifying information, (2) CUSIP number, (3) member's identifying number, (4) par amount (quantity), (5) settlement amount, (6) settlement date, and (7) transaction type (*i.e.*, buy, sell, repo, or reverse). In addition, these required match data items must match only for repo transactions: (1) start amount (*i.e.*, the contract value for the start leg of the repo transaction) and (2) start date (*i.e.*, the settlement date for the start leg of a repo transaction).

⁴ 15 U.S.C. 78q-1 (1988).

Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 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 Section, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of GSCC. All submissions should refer to File No. SR-GSCC-94-10 and should be submitted by February 23, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35284; File No. SR-NASD-95-01]

Self-Regulatory Organizations; Notice of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Subscriber Fees For Non-NASD Members Receiving the Nasdaq Workstation™ II Functionality

January 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on January 9, 1995 the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NASD. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

On December 14, 1994, the NASD submitted a proposed rule change—File

No. SR-NASD-94-76—to the Commission that established a new fee schedule for NASD member firms receiving the second generation of Nasdaq Workstation™ service ("NWII").¹ The fee schedule contained in File No. SR-NASD-94-76 became effective upon receipt by the SEC in accordance with Section 19(b)(3)(A)(ii) of the Act and Rule 19b-4(a) thereunder.² As specified in File No. SR-NASD-94-76, the new subscriber fees for NWII will be added to Sections A(9) and E(5) of Part VIII of Schedule D to the NASD By-Laws.

Pursuant to Section 19(b)(1) of the Act, the NASD hereby files this proposed rule change to extend to non-NASD members (e.g., institutional investors) receiving NWII functionality the same subscriber fees that members must now pay: (a) A service charge of \$100/month per server; (b) a display charge of \$500/month per presentation device; and (c) a charge of \$1,150/month for additional circuits. This rule change does not, however, entail any further modification to the fee schedule language for NWII that was set forth in File No. SR-NASD-94-76.

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 NASD 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

The sole purpose of this rule change is to extend to non-NASD members receiving the NWII, the same fees that now apply to NASD members that subscribe to the NWII. Currently, non-NASD members can access to Level 2 Nasdaq Workstation functionality by subscription to the original version of the Nasdaq Workstation service

(hereinafter referred to as "NWII").³ As the NWII roll-out proceeds, it will completely replace the existing NWI for all classes of subscribers. The instant rule change will ensure that the same NWII charges are paid by all subscribers, including those that do not belong to the NASD.

The roll-out of NWII, which began in November, 1994, constitutes a significant milestone in the upgrade of hardware, software, and network facilities that comprise the infrastructure of The Nasdaq Stock Market ("Nasdaq"). The software driving NWII is windows-based and provides several data management features that are not available in NWI. Moreover, a new network—known as the Enterprise Wide Network ("EWN")—has been developed to deliver NWII functionality. The capacity of the EWN is more than five times that of the network developed for NWI (*i.e.*, 56,000 baud versus 9,600 baud). Since the NWII roll-out has now begun, it is appropriate to implement service fees calculated to recover the higher costs of operating and maintaining the NWII functionality and the EWN.

Under the NWII, each subscriber location will have at least one service delivery platform or server that resides on the EWN. (The server functions as the subscriber's gateway to the EWN.) Each server will be capable of supporting up to eight presentation devices (*i.e.*, Workstations). To recover the operational and maintenance costs associated with providing NWII, the new fee structure establishes a charge of \$100/month per server and a charge of \$500/month for each Workstation or presentation device linked to that server. Thus, an NWII subscriber with 8 Workstations and 1 server would pay \$4,100/month under the proposed fee structure. Although it is possible to support as many as eight Workstations on a single server, an NWII subscriber might wish to configure its operating environment, for example, with two servers, each supporting 4 Workstations. In this circumstance, the subscriber would pay \$1,150/month for the second circuit at the same location, \$200/month for the two servers, and \$4,000/month for receipt of NWII functionality on 8 Workstations. The NWII fee structure is premised on the assumption that a subscriber will maximize the capacity of each server before adding a second

¹ The computer facilities that support the provision of NWII are operated by The Nasdaq Stock Market, Inc. ("NSMI"), a wholly owned subsidiary of the NASD.

² See Release No. 34-35189 (January 3, 1995), 60 FR 3014 (January 12, 1995).

³ The NWII roll-out will occur in five phases with the final phase scheduled for completion in mid-1996. Each phase consists of installing NWII at all subscriber sites in a defined geographic area. Thus, while the roll-out proceeds, some subscribers will continue to utilize NWI and will pay the existing charges for that service.

⁵ 17 CFR 200.30-3(a)(12) (1994).