

principal membership must pass a qualifying examination prior to undertaking any active duties on the Floor. As a result, regular members, who may trade stocks and options, take both the Qualifying Examination for Regular Floor Members and the Put and Call Stock Option Examination. OPMs, who are prohibited from trading equities, take the Qualifying Examination for OPMs and the Put and Call Stock Option Examination. Limited Trading Permit Holders⁵ take the Qualifying Examination for OPMs and the Put and Call Stock Option Examination.

Commentary .01 to Exchange Rule 50(a) requires that a regular member who applies to register as a specialist and a regular or OPM member who applies to register as a registered floor trader must also pass an examination. Specialists take the Specialist Examination. Registered floor traders take the Registered Equity Trader and Registered Equity Market Maker Examination.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Sections 6(b)(5) and 6(c)(3)(B).⁶ Section 6(b)(5) requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and national market system, and, in general, to protect investors and the public interest. Section 6(c)(3)(B) provides that a national securities exchange may examine and verify the qualifications of an applicant to become a person associated with a member in accordance with procedures established by the rules of the exchange, and may require any person associated with a member, or any class of such persons, to be registered with the exchange in accordance with procedures so established.

The Commission also believes that the proposed rule change is consistent with Section 15(b)(7) of the Act⁷ which stipulates that prior to effecting any transaction in, or inducing the purchase or sale of any security, a registered

broker or dealer must meet certain standards of operational capability, and that such broker or dealer must meet certain standards of training, experience, competence, and such other qualifications as the Commission finds necessary or appropriate in the public interest or for the protection of investors.

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, 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-94-46 and should be submitted by April 11, 1995.

Finally, the Commission finds good cause for approving Amendment No. 1 prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. The Commission believes that accelerated approval of the proposal is appropriate in order to allow the Amex to begin utilizing the exams, as corrected. Further, the use of the six qualification exams has been noticed previously in the **Federal Register** for the full statutory period and the Commission did not receive any comments on it.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (SR-Amex-94-46) is approved.

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

Jonathan G. Katz,
Secretary.

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[Release No. 34-35491; File No. SR-DGOC-94-06]

Self-Regulatory Organizations; Delta Government Options Corp.; Notice of Proposed Rule Change Relating to Implementing New Procedures Allowing for the Clearance and Settlement of Repurchase Transactions and Reverse Repurchase Transactions

March 15, 1995.

Pursuant to Section 19 (b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on October 31, 1994, Delta Government Options Corp. ("DGOC") 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 DGOC. On December 9, 1994, January 10, 1995, January 24, 1995, February 13, 1995, and March 3, 1995, DGOC filed amendments to the proposed rule change.² 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

DGOC is proposing amendments to its Procedures that will insert new procedures allowing for the establishment of a clearance and settlement system for repurchase agreements ("repos") and reverse repurchase agreements ("reverse repos"). Standards for participation, financial requirements, financial reports, audits, admission procedures, withdrawal of a participant(s), and such other standards as described in these new procedures are similar to DGOC's existing procedures and have been modified only insofar as they reflect repos and reverse repos.

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letters from Barry E. Silverman, President, DGOC, to Jerry Carpenter, Assistant Director, Securities Processing Regulation, Division of Market Regulation ("Division"), Commission, (December 16, 1994); Barry E. Silverman, President, DGOC, to Jerry W. Carpenter, Assistant Director, Office of Securities Regulation ("OSPR"), Division, Commission (January 9, 1995); Kathryn V. Natale, Morgan, Lewis & Bockius, to Jerry W. Carpenter, Assistant Director, Division, Commission, (January 20, 1995); Kathryn V. Natale, Morgan, Lewis & Bockius, to Jerry W. Carpenter, Assistant Director, Division, Commission (February 10, 1995); and Barry Silverman, President, DGOC, to Christine Sibille, Senior Counsel, OSPR, Division, Commission (March 2, 1995).

⁵ This type of member may execute on the Floor transactions in options and other derivative products initiated by him for his own account and may give orders for such securities for his own account to regular members for execution provided, however, that this type of member may not trade in individual stock options listed on the Exchange. See Amex Constitution, Article IV §1(j)(3).

⁶ 15 U.S.C. 78f(b)(5) & (c)(3)(B) (1988).

⁷ 15 U.S.C. 78o(b)(7) (1988).

⁸ 15 U.S.C. 78s(b)(2) (1988).

⁹ 17 CFR 200.30-3(a)(12) (1994).

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

In its filing with the Commission, DGOC 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. DGOC 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 purpose of the proposed rule change is to enable DGOC to clear and settle repos and reverse repos. Existing participants and nonparticipants have expressed an interest in such services. DGOC believes that by providing a centralized clearing and settlement facility for repos and reverse repos, it will enable users of such a facility for repos and reverse repos, it will enable users of such a facility to reduce credit exposure, decrease capital utilization, reduce transaction flow, and improve efficiency.

In the recent past, the U.S. fixed income securities dealer community has expressed significant interest in exploring mechanisms designed to reduce the risks associated with holding inventories of securities, trading derivative securities, and the attendant costs of maintaining such inventories. In particular, this exploratory effort has focused on the U.S. Treasury securities market as a consequence of the dramatic growth in the outstanding notional amounts and the resulting increased dealer trading inventories of Treasury Bills, Notes, and Bonds during the last several years.

In addition to the benefits that DGOC believes will accrue to the dealer community, DGOC believes the following systemic benefits of creating a clearing and settling mechanism for repos and reverse repos also are likely. First, through the imposition of daily margin requirements, there is an enhanced probability of performance on the part of participants even during times of market stress. Second, through netting, the exposures giving rise to margin requirements will result in optimal use of collateral. Third, as the common counterparty subject to Commission oversight, DGOC will provide transparency and access to an

activity which is fundamental to efficiently functioning capital markets.

Prior to using the system, a DGOC participant must apply for membership in DGOC's repo clearance system. All applications for membership will be reviewed by DGOC's executive committee. The standards for participation are similar to the standards for participation in DGOC's other systems. For example, broker-dealer members must have minimum net capital of \$25 million, and bank or insurance company members must have total equity capitalization of \$500 million. At the time of admission to the system, each participant will be assigned a trading limit and may be assigned a position limit for a particular CUSIP.

DGOC's system will clear repo trades that result from a direct agreement between two participants or repo trades that have been agreed to through the facilities of brokers that have been specially authorized by DGOC ("Authorized Brokers") to offer their services to DGOC participants. The Authorized Broker will make use of their own communications networks for the purpose of accepting bids and offers and effecting repo trades that will be cleared through DGOC. Specifically, bids and offers will be called in to the Authorized Broker by a participant, and the Authorized Broker will in turn display those bids and offers to all of its customers who are DGOC participants. Once the bidder and offerer agree on the repo rate, the underlying collateral description, the start date, the end date, and the partisan amount to be delivered, the trade will be effected.³ Representatives of the buyer and seller at the Authorized Broker will intermediate between the buyer and seller to obtain a price to use for the collateral. The participants will not learn the identity of their counterparty.

After the price has been agreed upon, the Authorized Broker then will prepare either one trade report, representing both sides of the trade, or two trade reports, one for each side of the trade. The Authorized Broker then will forward the trade report or reports to DGOC. If the participants have agreed to the trade directly between themselves, each participant will forward a trade report to DGOC indicating its side of the

³ Generally, participants can cancel transactions at any time until the price of the underlying collateral has been agreed upon by the parties. Depending on participant system capabilities, cancellation will typically take place either on-line or by voice communication. If the cancellation is effected through voice communication, a follow-up notice will be prepared and transmitted to the participants.

trade. If DGOC does not receive a trade report from the counterparty, DGOC will contact the counterparty within one half hour to confirm the trade entered against them.

The trade report must show for each transaction (a) the identity of the reporting party and the counterparty, (b) the type of transaction, (c) the CUSIP number for the underlying collateral, (d) the repo rate for the transaction, (e) the par amount of securities for the total transaction, (f) the par amount of securities for each delivery and the associated money, (g) the trade date and time, and (h) the on-date and the off-date of the transaction. DGOC will review all trade reports to determine if their contents are valid and that all required information has been submitted.

If two separate trade reports are received for a transaction, DGOC will match the two trade reports. In order to be accepted for clearance, the trade reports must agree as to identity of the counterparty, type of transaction, the repo rate, the price, any rights of substitution, settlement date, maturity date of the Treasury securities, coupon rate if the underlying securities are Treasury notes or bonds, the CUSIP number, the on-date, and off-date. If the details do not match, the trade report(s) will go back to the sending party or parties until the match is reconciled. Matching of positions will be done continuously throughout the day and at the close of each trading day.⁴ All trade reports received through an Authorized Broker also will be confirmed either orally or via facsimile with the buying and selling participants.

If the trade reports have been matched and confirmed, DGOC will be deemed to have accepted the transaction for clearance. However, DGOC will reject the transaction if it exceeds the participant's trading or position limits, the participant has been suspended from the system, or the transaction is not designated as delivery versus payment. If the transaction is accepted, DGOC interposes itself as the counterparty to both sides of the transaction. Trade data then will be keyed into DGOC's computer system for the purposes of generating clearance instructions to the clearing bank and for purposes of margining. The participants will receive a written daily activity report indicating DGOC's acceptance of the trade. The daily activity report will

⁴ The close of each trading day will be at 2:30 p.m.

report trades DGOC accepted the previous business day.⁵

The details of the trade will be sent to the clearing bank along with the delivery instructions. Participants must maintain a bank account in one or more correspondent banks for purposes of the payment or return of margin, delivery or acceptance of the Treasury securities, or making or receiving payment for such securities. The selected correspondent bank must be a member of the Fed Wire System. The selling participant must deliver securities to the clearing bank against payment no later than one minute prior to the close of the Federal Bank Wire System. The clearing bank will redeliver such securities to the purchasing participant against payment for such securities.

DGOC will net trades under two circumstances. If a participant has a repo and a reverse repo with the same underlying collateral and off-date, the off-date settlement positions will be netted as to par amount, price, and accrued interest. If a participant renews a maturing repo for the same underlying collateral prior to the off-date for such repo, DGOC will report to the participant the net money difference between the two repo transactions.

DGOC's existing margining methodology will be adapted to incorporate repo transaction and reverse repo transaction exposures. Margin may be deposited in the form of "Central Bank Funds,"⁶ Treasury bills, Treasury Notes, or Treasury bonds. Treasury securities will be valued at 95% of their market value. All participants will be required to maintain a minimum margin deposit of \$1 million par amount Treasury bills with a maturity of less than 180 days. The amount of margin will be derived from two calculations: Mark to market and performance margin. Mark to market will represent the net amount of the estimated cost to liquidate a participant's under-margined position offset by the estimated proceeds from liquidation of its over-margined positions. Performance margin will represent an estimate of the net shortfall from the liquidation of a participant's repo positions at the close of the next business day taking into account the most adverse market movement in the price of the underlying

⁵ If the on-leg is scheduled to settle that day, participants will not receive confirmation that DGOC has accepted the trade until the day after the trade has settled.

⁶ Central Bank funds is defined as cash balances available for immediate withdrawal in accounts maintained at banks that are members of the Federal Reserve System or any other wire system operated in a similar characteristics or attributes.

Treasury securities which could reasonably be anticipated.

Price files, which will be updated several times intraday, as well as daily mark to market prices on repos will reference data on the underlying collateral as well as the participant's existing positions which are then used to calculate margin requirements. The margining system will be run and margin reports will be prepared and distributed to participants for margin collection. This process also will be the beginning point for the accounting system which will track all system activity. Margin will be set for each participant and will reflect the netting of payments and any potential exposures to the participant. Margin requirements will go into effect at the time the trade is accepted for clearance. Prior to 8:00 a.m. of each business day, each participant will be issued a daily margin report which will indicate the margin surplus or deficit. At or before settlement time on each business day, each participant will be obligated to deposit sufficient margin to satisfy the margin deficit shown on the daily report.

In the event of a failure to deliver securities on either the on-leg or off-leg, DGOC will still margin the transaction. DGOC also may elect to collect intraday margin if DGOC deems such collection necessary or advisable to reflect a market price change, the size of the participant's positions, the financial or operational condition of the participant, or otherwise to protect DGOC.

DGOC believes the proposed rule change is consistent with Section 17A of the Act and the rules and regulations thereunder applicable to DGOC and in particular with Section 17A(b) (3) (F) of the Act.⁷ That section requires that a clearing agency's rules be designed, among other things, to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. DGOC believes the proposed rule change will permit wider utilization of its system by providing participants with the ability to clear and settle repos and reverse repos.

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

DGOC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purpose of the Act.

⁷ 15 U.S.C. 78q-1(b)(3)(F) (1988).

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

Comments have neither been solicited nor received.

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, 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. 522, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of DGOC. All submissions should refer to the File Number SR-DGOC-94-06 and should be submitted by April 11, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Jonathan G. Katz,
Secretary.

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⁸ 17 CFR 200.30-3(a)(12) (1994).