

principles for the processing of principal and income payments in same-day funds.<sup>11</sup> Towards this end, the operational arrangements memorandum incorporates the relevant provisions of the "Standards for Principal and Income Payments Guidelines" established by the U.S. Working Committee of the Group of Thirty. Pursuant to this rule change, the relevant provisions of these principles, as set forth below, will become a part of DTC's income and reorganization/redemption payments standards.

First, all new issues are required to meet depository-eligibility requirements and must be structured so that all payments to depositories of principal and income are made in same-day funds on payment date by 2:30 p.m. Eastern Standard time.

Second, for all depository-eligible issues already outstanding, paying agents must remit to DTC all principal and income payments in same-day funds on payment date by 2:30 p.m. Eastern Standard time according to existing arrangements between the paying agent and DTC. Recognizing that paying agents for certain issues may need to modify their current business arrangements to account for this change, DTC will continue through July 31, 1996, to pay the same rebates it now pays to paying agents that pay municipal interest and municipal and corporate redemptions to DTC in same-day funds on payment date.<sup>12</sup>

However, once DTC converts to same-day funds settlement for all security transactions, DTC will make all payments to its participants on payment date in same-day funds. As a result, DTC will not have funds resulting from overnight investing available to rebate to paying agents. Recognizing that participants will benefit by receiving all their expected payments in same-day funds on payment date DTC will charge participants in proportion to their holdings in each issue for which a rebate applies the funds needed to pay the rebate from the date of the conversion to same-day funds settlement for all security transactions until July 31, 1996. With respect to

<sup>11</sup> DTC's operational arrangements were published in a June 1987 memorandum and were updated in both June 1988 and February 1992. For a complete description of the operational arrangements memorandum, refer to Securities Exchange Act Release No. 24818 (August 19, 1987), 52 FR 31833 [File No. SR-DTC-87-10] (order approving the implementation of DTC's operational arrangements for the eligibility of security issues), and Securities Exchange Act Release No. 30625 (April 30, 1992), 57 FR 18534 [File No. SR-DTC-92-06] (order approving modifications to DTC's operational arrangements).

<sup>12</sup> *Supra* note 9.

payments made on or after August 1, 1996, these charges to participants will no longer be required. The rebate will not be applied to payments of corporate interest, dividends, and reorganizations for which the paying agents already pay DTC in same-day funds on payment date and which currently are not subject to interest earnings rebates. However, DTC will require that 100% of corporate interest, dividend, and reorganization payments to paid to DTC in same-day funds on payment date by 2:30 p.m. Eastern Standard time.

Third, DTC will require paying agents to provide DTC with the CUSIP numbers for each issue for which payment is being sent as well as the dollar amount of the payment for each issue no later than noon Eastern Standard time on the payment date. Notification of payment details should be made using automated communications.

Finally, if an issuer or agent continually fails to make payment as called for in DTC's guidelines, DTC may decide to systematically prevent the allocation of such payments to participants on the payable date. Eventually, DTC also may elect to deny depository-eligibility to issues brought to market by noncomplying issuers or agents.

## II. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The Commission believes that the proposed rule change is consistent with Section 17A(b)(3)(F) because it provides a framework for the conversion of principal and income payments to same-day funds. Making principal and income payments in same-day funds is consistent with the goal of prompt and accurate clearance and settlement because it will give participants same-day access to their funds. Requiring paying agents to provide DTC with the corresponding CUSIP numbers for each issue for which payment is being made will make the processing of such payments more accurate. The Commission also believes that the guidelines for converting to a same-day funds payment standard for principal and interest payments are consistent with the goal of fostering cooperation and coordination among persons engaged in the clearance and settlement of securities transactions. Specifically, in order to allow paying

agents time to modify their current business practices, DTC will continue to pay rebates through July 31, 1996, to those paying agents currently making payments to DTC in same-day funds on payment date for municipal interest and municipal and corporate redemption payments.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with Section 17A of the Act and the rules and regulations thereunder.

*It Is Therefore Ordered*, pursuant to Section 19(b)(2) of the Act,<sup>13</sup> that the proposed rule change (File No. SR-DTC-94-19) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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[Release No. 34-35647; File No. SR-MSTC-94-12]

## Self-Regulatory Organization; Midwest Securities Trust Company; Order Granting Temporary Approval of Proposed Rule Change Enabling Midwest Securities Trust Company To Enter Into Contracts With Participants To Provide Custodial, Transactional, and Related Services

April 25, 1995.

On October 11, 1994, the Midwest Securities Trust Company ("MSTC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-MSTC-94-12) pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal appeared in the **Federal Register** on October 19, 1994, to solicit comment from interested persons.<sup>2</sup> For the reasons discussed below, the Commission is approving the proposed rule change through October 1, 1995.

### I. Description of the Proposal

The purpose of the proposed rule change is to permit MSTC to enter into contracts with any of its participants whereby MSTC will provide certain

<sup>13</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>14</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b) (1988).

<sup>2</sup> Securities Exchange Act Release No. 34835 (October 13, 1994), 59 FR 52851.

custodial and transactional processing services for the participant with respect to the participant's certificated securities. The proposed services will consist, among other things, of processing and accepting physical deposits of certificates, processing the physical withdrawal of certificates, and providing incidental services in connection thereto. Book-entry movements of deposited securities will not be permitted.<sup>3</sup>

Under the proposal, MSTC will provide all custodial and transactional processing services on a negotiated basis with its participants. MSTC will not be obligated to enter into such contracts with any participant, and if it chooses to enter into such a contract with any participant, it will not be obligated to enter into a contract with similar terms with any other participant.

## II. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder and more specifically with the requirements of Section 17A(b)(3)(F).<sup>4</sup> Section 17A(b)(3)(F) requires that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. The Commission believes that MSTC's service is consistent with this obligation.

MSTC's new service will provide custodian, transaction processing, and related data-entry services with respect to participants' certificated securities. Participants have been experiencing a continual decline in their activity associated with the processing of physical securities primarily due to the increase in book-entry eligibility of securities at the clearing agency level. Many participants no longer find it desirable to maintain their own custodial operations. As a result, MSTC has been requested to provide such custodial and processing services as part of MSTC's operations.

The Commission believes that MSTC's proposed rule change should help to minimize inefficient procedures employed by individual participants by concentrating these operations in one centralized facility. As a result, the individual participants will be able to eliminate their own custodial operations and the high fixed costs associated with

them while maintaining the required safeguarding of these securities.

## III. Conclusion

For the reasons stated above, the Commission finds that MSTC's proposal is consistent with Section 17A of the Act<sup>5</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>6</sup> that the proposed rule change (File No. SR-MSTC-94-12) be, and hereby is, approved until October 1, 1995.

For the Commission of the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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[Release No. 34-35650; File No. SR-NYSE-95-08]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the New York Stock Exchange, Inc., Relating to Listed Company Relations Proceedings

April 26, 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 March 3, 1995, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") 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 self-regulatory organization. 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 new Rule 103C concerning procedures relating to initiation and conduct of a review of the relationship between a listed company and its specialist organization. The text of the proposed Rule 103C is attached as Exhibit A.

#### 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 self-regulatory organization 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 self-regulatory organization 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

##### 1. Purpose

The Exchange proposes to adopt new Rule 103C (Listed Company Relations Proceedings) to provide its listed companies and specialist units with a procedure for resolving non-regulatory issues that may arise between them. The Exchange believes that the relationship between a listed company and its specialist unit is a significant one.

Specialist units work to foster and promote sound mutual understanding and effective communications with their listed companies, but situations may occasionally arise in which one or both sides cannot easily resolve differences with respect to non-regulatory issues. Such issues might include, for example, misunderstandings with respect to the frequency and adequacy of communications between a company and its specialist unit. Proposed new Rule 103C contains a formal procedure by which a listed company could make a written notification (known as an "Issuer Notice") to the Exchange's New Listings and Client Services Division of its desire to commence a proceeding to mediate and resolve such issues. The Exchange's Quality of Markets Committee ("QOMC"), a Board of Directors level committee, would be responsible for oversight of the Listed Company Relations Proceeding ("LCRP") through a subcommittee consisting of the two Exchange vice-chairmen, a senior Exchange official, and two listed company representatives, all of whom would be appointed from the QOMC membership. This subcommittee would work with the listed company and the specialist unit through written submissions and meetings designed to produce an action plan with specific steps for resolution of the matter. At regular intervals of three, six and nine months, the subcommittee would work with the parties to resolve their issues. The listed company could conclude the LCRP at any time during the process if it believed that matters had been satisfactorily addressed.

<sup>3</sup> Letter from George T. Simon, Foley & Lardner, to Jonathan Kallman, Associate Director, Division of Market Regulation, Commission (January 23, 1995).

<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F) (1988).

<sup>5</sup> 15 U.S.C. 78q-1 (1988).

<sup>6</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>7</sup> 17 CFR 200.30-3(a)(12) (1994).