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

Within 35 days of the publication of this notice in the **Federal Register** or within such other period (i) as the Commission may designate up to 90 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 the 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, 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 at the Commission's Public Reference 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 the Exchange. All submissions should refer to File No. SR–CHX–92–11 and should be submitted by June 13, 1995.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–12519 Filed 5–22–95; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–35720; File No. SR–DTC–95–06]

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Accelerated Approval of a Proposed Rule Change Modifying the Same-Day Funds Settlement System to Accommodate the Overall Conversion to Same-Day Funds Settlement for Securities Transactions

May 16, 1995.

On March 22, 1995, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–DTC–95–06) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'').[1] Notice of the proposal was published in the **Federal Register** on April 21, 1995.[2] No comment letters were received. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

I. Description of the Proposal

DTC currently processes the money settlements related to different types of securities transactions in either the next-day funds[3] settlement (''NDFS'') system or the same-day funds[4] settlement (''SDFS'') system. The NDFS system is used primarily for the money settlement of equity, corporate debt, and municipal debt issue transactions. The SDFS system began operation in 1987 and is used primarily for the money settlement of transactions in commercial paper and other money market instruments (''MMIs'').[5]

DTC and the National Securities Clearing Corporation (''NSCC'') jointly have issued three memoranda which describe DTC's and NSCC's respective plans for converting their payment systems to SDFS.[6] DTC's sections of the memoranda describe its plan to combine its NDFS and SDFS systems into a single system which will be based on the design of the current SDFS system with some modifications. DTC's and NSCC's plans are in accord with the 1989 recommendation of the international Group of Thirty[7] that all securities transactions should settle in same-day funds.[8]

Under the conversion plan, all issues currently settling in DTC's NDFS system will be transferred to the SDFS system on a single day, which DTC anticipates will occur in the fourth quarter of 1995 or the first quarter of 1996.[9] In order to assure an efficient conversion, certain modifications to the current SDFS system will be implemented at various times during 1995 prior to the overall conversion date. The purpose of the current rule change is to convert DTC's current SDFS system Participants Fund to an all cash fund and to modify certain risk management controls and other features of the SDFS system. The Participants Fund for the NDFS system will not be affected by this rule change. The rule change implements a number of the modifications described in the 1994 Memorandum.[10]

Currently, the SDFS system Participants Fund consists of cash and securities and has separate components for money market instruments and for other SDFS system securities.[11] The rule change converts DTC's SDFS system Participants Fund to an all-cash fund with no separate component for the MMI Program.[12] The rule change also

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] Securities Exchange Act Release No. 35613 (April 17, 1995), 60 FR 19971.

[3] The term ''next-day funds'' refers to payment by means of certified checks that are for value on the following day.

[4] The term ''same-day funds'' refers to payment in funds that are immediately available and generally are transferred by electronic means.

[5] For a description of the SDFS system, refer to Securities Exchange Act Release Nos. 24689 (July 9, 1987), 52 FR 26613 [File No. SR–DTC–87–04] (order granting temporary approval to DTC's SDFS settlement service); 26051 (August 31, 1988), 53 FR 34853 [File No. SR–DTC–88–06] (order granting permanent approval to DTC's SDFS settlement service); 33958 (April 22, 1994), 59 FR 22878 [SR–DTC–93–12] (order temporarily approving DTC's MMI settlement program through April 1, 1994); and 35655 (April 30, 1995), 60 FR 22423 [File No. SR–DTC–95–05] (order temporarily approving DTC's MMI settlement program through April 30, 1996).

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

[7] The Group of Thirty was established in 1978 as an independent, nonpartisan, nonprofit organization composed of international financial leaders whose focus is on international economic and financial issues.

[8] Group of Thirty, Clearance and Settlement Systems in the World's Securities Markets (March 1989) (''Group of Thirty Report'').

[9] Only one DTC Participants Fund will be needed when the NDFS system and the SDFS system are combined into a new SDFS system.

[10] *Supra* note 6 and accompanying text.

[11] Currently, the SDFS system Participants Fund consists of approximately $253 million in cash and $567 million in pledged securities.

[12] Under the conversion plan, the SDFS system Participants Fund will consist of $400 million in cash. Based on current activity levels, DTC believes that a $400 million cash-only Participants Fund will provide sufficient protection against present liquidity and credit risks. Pursuant to its rules, DTC may change the formulas used to determine a participant's required deposit or require a

decreases the minimum deposit to the SDFS system Participants Fund from $200,000 to $10,000 and changes the method of calculating a participant's required deposit.

The new SDFS Participants Fund formula bases each participant's required deposit on the amount of liquidity that the participant uses in the system. A participant's liquidity use will be determined using a sixty day rolling average of the participant's intraday net debit peaks.[13] The rule change requires a participant to deposit in the SDFS Participants Fund an amount equal to that participant's proportional liquidity needs.[14]

In addition, the rule change modifies certain risk management controls in the SDFS system. The method used to calculate the net debit cap for each participant is being changed [15] and the maximum net debit cap for each participant is being increased to $900,000,000 from approximately $580,000,000 today. The rule change also adds the Largest Provisional Net Credit (''LPNC'') calculation control which is designed to protect DTC against the combined failure of an issuer of MMIs and a participant. The LPNC control creates a provisional net balance by withholding a participant's largest net settlement credit due to transactions in any single issuer's MMIs. DTC's risk management controls will be applied to the provisional net balance that is created by the LPNC procedure, and transactions that cause the provisional net balance to violate those risk management controls will not be completed.[16]

The rule change also modifies certain aspects of DTC's Participant Operating Procedures on reclamations [17] for both the NDFS and the SDFS system, the Receiver Authorized Delivery (''RAD'') service [18] and the recycle algorithm for deliver orders.[19] The modified procedures provide for the validation of all reclaims by DTC's system. When a participant submits a reclaim for processing in DTC's NDFS or SDFS systems, DTC's system will verify that a corresponding original delivery that was completed on the same day exists for every reclaim presented for processing.

The modified procedures also establish a minimum threshold of $15,000,000 for bilateral RAD limits. Participants currently are permitted to set individual dollar limits against other possible contra-participants so that deliveries with a settlement value exceeding the specified limit will not be processed until the receiver-participant has reviewed and approved the delivery. To limit the number of transactions subject to RAD, participants will not be able to set RAD limits at an amount less than $15 million.

The new recycle algorithm for deliver orders will offer SDFS system users a second recycle options for deliver orders. Transactions that are recycled because of insufficient positions or violations of risk management controls are currently prioritized based on transaction type and then on transaction size (''Option 1''). The new option (''Option 2'') provides participants with the ability to choose whether pending transactions caused by an insufficient position will be recycled in the order in which they were entered (*i.e.*, first in, first out) or in the Option 1 prioritization schedule.[20]

Most of the modifications to be implemented by the rule change will be effective on dates to be specified by DTC in the second quarter of 1995. The control involving the LPNC calculation and the $15,000,000 threshold for bilateral RAD limits will be made effective on dates to be specified by DTC in the third quarter of 1995.

II. Discussion

Section 17A(b)(3)(F) requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible.[21] As discussed below, the Commission believes that DTC's proposed rule change is consistent with DTC's obligations under the Act.

The Commission believes that DTC's SDFS system rules and procedures provides certain protections for DTC and its participants from financial loss associated with member defaults and insolvencies. The rule change contains a number of protections designed to decrease the chance of member default and to limit loss in the event of a default. Those protections include an all-cash SDFS Participants Fund, a new Participants Fund formula based on liquidity use, a new net debit cap formula, a new fixed net debit cap of $900 million, and the application of the LPNC control.

The new SDFS Participants Fund will be comprised of approximately $400

participant to make additional deposits to the Participants Fund.

[13] The new SDFS system will monitor the levels of a participant's net settlement debits during each day and will record the highest net debit experienced by that participant. This measure of liquidity is referred to as the participant's ''intraday debit peak.''

[14] For example, assume DTC had three participants, A, B, and C, and had established $400,000,000 as the size of the SDFS system Participants Fund. Each participant's minimum deposit would be $10,000 for a total of $30,000 which leaves $399,970,000 as the incremental fund deposit amount needed for the Participants Fund. In order to allocate the $399,970,000 among the three participants, their respective average intraday net debit peaks would be used. Assume Participant A's average net debit peak is $300,000,000, Participant B's is $500,000,000, and Participant C's is $500,000,000. Since all incurred net debit peaks of at least $300,000,000, each created liquidity needs of $300,000,000 and would contribute equally to provide DTC's first $300,000,000. Each would be responsible for a $10,000 minimum deposit plus a $99,990,000 incremental deposit bringing the total to $100,000,000 for each participant and $300,000,000 in total. Participants B and C would be assigned an additional $100,000,000 increment since they were responsible for creating liquidity needs up to $500,000,000. Together, A, B, and C would be assigned incremental amounts totaling $499,970,000. Since the goal is to create a $400,000,000 Participants Fund, the $499,970,000 must be prorated downward to 399,970,000, the amount needed in addition to their minimum contributions to achieve $400,000,000. Each participant's increments would be reduced by applying a factor of .799988 (*i.e.*, 399,970,000/ 499,970,000). Their required deposits would then be as follows:

A: $10,000 + ($99,990,000 × .799988)=$80,000,800

B: $10,000 + ($199,990,000 × .799988)=$159,999,600

C: $10,000 + ($199,990,000 × .799988)=$159,999,600

Total: $400,000,000

[15] A participant's net debit cap will be based on an average of the participant's three highest intraday net debit peaks over a rolling three-month period multiplied by factors ranging from 1 to 2 based on a sliding scale relative to the size of the participant's net debit peaks. Net debit caps will be determined by and will be applied to a participant's simulated net debit balances caused by the Largest Provisional Net Credit (''LPNC'') procedure describe below.

[16] DTC will subtract the amount of a participant's largest provisional net credit due to transactions in any single issuer's MMIs from the participant's collateral monitor (''simulated collateral monitor'') and net debit or credit balance (''simulated balance''). If a transaction will cause the simulated collateral monitor to turn negative (*i.e.*, the participant's collateral would be insufficient to cover its simulated net debit after the transaction) or the resulting net debit balance to exceed the participant's net debit cap, the transaction will be blocked. Blocked transactions will be recycled until credits from other transactions in MMIs of issuers other than those of the largest provisional net credit cause the simulated collateral monitor to be positive or the resulting net debit to be within the net debit cap limits.

[17] A reclamation is the return of a delivery order or a payment order by a participant.

[18] RAD allows participants to review and either approve or cancel incoming deliveries before they are processed in DTC's system.

[19] DTC's Account Transfer Processor system provides for the recycling or pending of transactions that cannot be completed due to a participant's insufficient positions or violations of risk management controls (*i.e.*, Net Debit Cap and Collateral Monitor).

[20] Under Options 1 and 2, CNS deliveries are always given the highest priority on the recycle queue.

[21] 15 U.S.C. 78q–1(b)(3)(F) (1988).

million in cash deposit and $700 million in committed line(s) of credit.[22] In the event that a participant fails to settle for any reason, the all-cash fund in most cases should provide enough immediate liquidity to complete settlement without causing DTC to use its lines of credit. The size of the fund, $400 million in cash, was designed to provide sufficient liquidity to cover all but a few of DTC's largest participants' individual net settlement debits. The $700 million in committed lines of credit should provide additional liquidity sufficient to cover the large end-of-day net debits expected to be produced by these few largest participants with the application of a new net debit cap of $900 million.

Although the minimum deposit to the Participants Fund has been decreased from $200,000 to $10,000, participants will be required to deposit additional amounts based on the size of their intraday net debits weighted against other participants' net debits. As a result, the cash deposits in the SDFS system fund will be increased from $210 to $400 million. The allocation under the new Participants Fund formula will apportion fund deposits among participants in proportion to the liquidity requirements they generate in the system. The new Participants Fund formula also will more accurately reflect each participant's liquidity requirements because it is based on a participant's net debit peaks for the prior sixty days. The current fund formula is based on a participant's average gross debits and credits only for the prior month. While the use of gross debits and credits reflects a participant's activity levels, the use of net debit peaks reflects a participants actual liquidity needs.

The changes to DTC's risk management controls also are intended to protect DTC and its participants against the inability of one or more participants to fulfill its or their settlement obligations. DTC's risk management controls are based on the Board of Governors of the Federal Reserve System's guidelines for book-entry securities systems that settle over Fedwire.[23] The new net debit cap formula establishes a single net debit cap as opposed to the several adjustable and fixed net debit caps currently used in the SDFS system.[24] The new net debit cap will better reflect the participants most recent liquidity needs and not just its liquidity needs for the prior month[25] because it will be calculated daily using a 90-day rolling average.[26] By requiring participants to have sufficient collateral to support their net debits and by ensuring that their net debits do not exceed their net debit caps, the new LPNC procedure should help to ensure that the occurrence of a combined MMI issuer's default and a participant's failure to settle does not expose DTC to loss and liquidity risks. The application of the LPNC procedure to both the net debit cap and the collateralization procedures should result in a failing participant's net debit remaining collateralized and within its net debit cap if the MMI issuer in which it has the largest net credit also defaulted.

The rule change implements certain modifications to DTC's current SDFS system to provide for an efficient conversion to SDFS environment for all securities transactions. The Commission believes that the overall conversion to a SDFS system will help reduce systemic risk by eliminating overnight credit risk. The SDFS system also will reduce risk by achieving closer conformity with the payment methods used in the derivatives markets, government securities markets and other markets.

For the reasons described above, the Commission believes that DTC's proposed rule change fulfills the requirements of Section 17A(b)(3)(F) of the Act because the proposal assures the safeguarding of securities and funds in the custody and control of DTC. Furthermore, the proposed rule change facilitates the overall conversion of DTC's payment system to an SDFS system which should facilitate the prompt and accurate clearance and settlement of securities transactions.

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 the filing. The Commission finds good cause for so approving the proposed rule change because the modifications implemented by the rule change are part of the planned conversion of DTC's entire money settlement system to an SDFS system. The Commission believes that participants should have the opportunity to become familiar with the SDFS system capability and the new risk management controls prior to the complete conversion to an SDFS system for securities transactions.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, particularly with Section 17A(b)(3)(F) of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR–DTC–95–06) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[27]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–12520 Filed 5–22–95; 8:45 am]

BILLING CODE 8010–01–M

[Release No. IC–21075; 812–9530]

Northern Life Insurance Company, et al.; Notice of Application

May 16, 1995.

AGENCY: Securities and Exchange Commission (''SEC'').

ACTION: Notice of application for an Order under the Investment Company Act of 1940 (the ''Act'').

APPLICANTS: Northern Life Insurance Company (''Northern Life''), Separate Account One (the ''Separate Account''), and Washington Square Securities, Inc. (the ''Distributor'').

RELEVANT ACT SECTIONS: Order requested under section 6(c) of the Act granting an exemption from sections 26(a)(2)(C) and 27(c)(2) of the Act.

SUMMARY OF APPLICATION: Applicants request an order permitting Northern Life to deduct a mortality and expense risk charge from the assets of the Separate Account in connection with the offering of certain flexible premium individual deferred variable annuity contracts.

FILING DATE: The application was filed on March 20, 1995.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be

[22] The current SDFS Participants Fund consists of approximately $253 million in cash contributions, $50 million in internal sources, $500 million in external lines of credit and $500 million in additional external lines of credit exclusively dedicated to the MMI program.

[23] ''Federal Reserve Policy Statement on Private Delivery-Against-Payment Systems,'' Board of Governors of the Federal Reserve System (June 15, 1989).

[24] A participant's net debit cap currently is the least of the following: (1) An amount which is a multiple of the participant's mandatory and voluntary deposits in the fund; (2) an amount equal to 75% of DTC's lines of credit; (3) an amount, if any, determined by the participant's settling bank; or (4) an amount, if any, determined by DTC.

[25] Because a participant's current adjustable net debit cap is based on the participant's mandatory fund deposit, it will only change on a monthly basis as the required deposit changes. However, a participant may choose to increase its adjustable net debit cap at any time by making voluntary deposits.

[26] *Supra* note 15.

[27] 17 CFR 200.30–3(a)(12) (1994).