

temporary registration as a clearing agency through November 30, 1996.⁵

GSCC provides clearance and settlement services for its members' transactions in government securities. GSCC offers its members services for next-day settling trades, forward settling trades, auction takedown activity, repurchase transactions ("repos"), the multilateral netting of trades, the novation of netted trades, and daily marking-to-the-market. In connection with GSCC's clearance and settlement services, GSCC provides a centralized loss allocation procedure and maintains margin to offset netting and settlement risks.

At the time of GSCC's initial temporary registration, the Commission granted GSCC exemptions from compliance with the participation standards in Sections 17A(b)(3)(B) and 17A(b)(4)(B)⁶ and with the fair representation requirements in Section 17A(b)(3)(C). GSCC has requested that the Commission rescind GSCC's exemption from the participation standards in Sections 17A(b)(3)(B) and 17A(b)(4)(B). As more fully set forth in the February Registration Letter, GSCC believes that it has adequately addressed the Commission's concerns regarding GSCC's membership eligibility standards by establishing new categories of membership.⁷ In the February Registration Letter, GSCC also stated that it believes its current method

⁵ On May 24, 1988, the Commission granted GSCC's initial application for registration as a clearing agency pursuant to Sections 17A and 19(a) of the Act and Rule 17Ab2-1 [17 CFR 240.17Ab2-1 (1994)] thereunder for a period of three years. Securities Exchange Act Release No. 25740 (May 24, 1988), 53 FR 19639. The Commission subsequently extended GSCC's registration until November 30, 1995. Securities Exchange Act Release Nos. 29067 (April 11, 1991), 56 FR 15652; 32385 (June 3, 1993), 58 FR 32405; and 35787 (May 31, 1995), 60 FR 30324.

⁶ The Commission determined that GSCC's rules did not provide for all the statutory categories of membership required by Section 17A(b)(3)(B) or the financial standards for such applicants and members as contemplated by Section 17A(b)(4)(B). 15 U.S.C. 78q-1(b)(3)(B), 78q-1(b)(4)(B) (1988).

⁷ Since the Commission's original order granting GSCC temporary registration, the Commission has approved two proposed rule changes that increased the categories of those eligible for membership in GSCC's netting system. Securities Exchange Act Release Nos. 34935 (November 3, 1994), 59 FR 56100 (order approving establishing of new categories of netting system membership for futures commission merchants) and 32722 (August 5, 1993), 58 FR 42993 (order approving establishment of new categories of netting system membership for Category 2 dealers and interdealer brokers, issuers of government securities, insurance companies, registered clearing agencies, and registered investment companies). Under GSCC's rules, a Category 2 dealer netting member has a lower net worth threshold but more stringent margin requirements than Category 1 dealer members.

of selecting its Board of Directors assures members fair representation.⁸

GSCC has made substantial progress toward satisfying the requirements enumerated in Section 17A(b) of the Act. The Commission believes that while GSCC's new categories of membership are not extensively used at this time, GSCC is in compliance with the requirements of Sections 17A(b)(3)(B) and 17A(b)(4)(B) of the Act.⁹ Therefore, the Commission is eliminating GSCC's exemption from the provisions of Sections 17A(b)(3)(B) and 17A(b)(4)(B).

GSCC has recently introduced clearance and settlement services for certain repurchase agreement transactions.¹⁰ Because institutional entities are much more involved in the repo market than in the cash market, GSCC expects much greater utilization of its nontraditional membership categories (e.g., those membership categories for entities other than dealers and banks) in the coming years. The Commission believes that as the number of members in these nontraditional categories grows, GSCC should continue to review its criteria for membership in the various categories.

The Commission will continue GSCC's exemption from the fair representation standards of Section 17A(b)(3)(C) during the temporary registration period. Prior to granting permanent registration, the Commission will evaluate GSCC's criteria for selecting its Board of Directors to ensure that the selection criteria is sufficiently flexible to assure adequate representation of members in each of GSCC's membership categories consistent with Section 17A(b)(3)(C) of the Act.

It is therefore ordered that GSCC's temporary registration as a clearing agency (File No. 600-23) be and hereby is extended through November 30, 1996, subject to the terms set forth above.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹¹

⁸ GSCC's current selection process for its Board of Directors permits any GSCC member to nominate candidates for election to the Board and to vote for candidates so nominated. In the February Registration Letter, GSCC stated that it recognizes future membership growth may require GSCC to adjust the selection process to ensure fair member representation on the Board.

⁹ Currently, GSCC has one Category 2 dealer netting member and one futures commission merchant. None of the other membership categories discussed *supra* in note 7 are being used.

¹⁰ Securities Exchange Act Release No. 36491 (November 17, 1995).

¹¹ 17 CFR 200.30-3(a)(50)(i) (1994).

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36509; File No. SR-CHX-95-27]

Self-Regulatory Organizations; The Chicago Stock Exchange, Incorporated; Notice of Filing of Proposed Rule Change Relating to Chicago Stock Exchange, Incorporated's Decision To Withdraw From the Clearance and Settlement and Securities Depository Businesses

November 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 16, 1995, the Chicago Stock Exchange, Incorporated ("CHX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-CHX-95-27) as described in Items I, II, and III below, which items have been prepared primarily by CHX. 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 involves proposed arrangements relating to a decision by CHX to withdraw from the clearance and settlement, securities depository, and branch receive businesses conducted through its subsidiaries, the Midwest Clearing Corporation ("MCC"), Midwest Securities Trust Company ("MSTC"), and Securities Trust Company of New Jersey ("STC/NJ").² Parties to the proposed arrangements are The Depository Trust Company ("DTC"), CHX, MSTC, the National Securities Clearing Corporation ("NSCC"), MCC, and STC/NJ. The proposed arrangements as they relate to CHX would provide for the following:

(1) MSTC and MCC would cease providing securities depository and securities clearing services, respectively, by January 15, 1996.

(2) DTC would offer sole MSTC participants an opportunity to become DTC participants, if they meet DTC's qualifications. NSCC would offer sole

¹ 15 U.S.C. § 78s(b)(1)(1988).

² STC/NJ is a wholly-owned subsidiary of CHX that currently provides certain services, including a securities custody service. STC/NJ is not a clearing agency as defined in the Act and therefore is not required to register with the Commission.

MCC participants the opportunity to become NSCC participants if they meet NSCC's qualifications.

(3) DTC and MSTC would cooperate to assure the orderly transfer of securities from the custody of MSTC to the custody of DTC for DTC participants that authorize such transfers. Open positions of MCC participants that are or that become NSCC participants and that authorize the transfer of their positions will be transferred to the books of NSCC.

(4) DTC would acquire certain assets and assume certain lease and other contractual obligations of STC/NJ.

(5) DTC would assume certain lease obligations of CHX.

(6) DTC and NSCC would make certain payments to CHX, MSTC, MCC, and STC/NJ.

(7) In general, for a period of ten years CHX, MCC, MSTC, and STC/NJ would not engage in the businesses from which they have decided to withdraw (*i.e.*, the securities clearing, securities depository, and branch receive businesses). However, CHX and its subsidiaries would be free to provide specified securities depository-related and securities clearing-related services and products to CHX members and certain third-parties under certain circumstances.³

The proposed rule change also seeks to modify CHX's Constitution to reduce the size of the Board of Governors.⁴

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 propose 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. CHX has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.⁵

³ A more detailed description of these proposed arrangements is contained in Exhibit 2 to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁴ The text of these proposed changes is contained in Exhibit A to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁵ The Commission has modified the text of the summaries prepared by CHX.

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

CHX has determined to close its clearance and settlement and securities depository business in order to focus its resources on the operations of the exchange itself. The primary purpose of the proposed arrangements is to permit CHX to achieve this objective while affording MCC participants an opportunity to become NSCC participants and affording MSTC participants an opportunity to become DTC participants and transfer their open positions and securities to NSCC and DTC. Both MCC and MSTC participants, however, would be free to utilize any other service provider of their choosing. This is consistent with the industry's effort to eliminate redundant infrastructure costs associated with operating separate organizations.

The timing of the proposal is related to the industry's planned conversion to same-day funds settlement.⁶ Currently, transactions in equities, corporate debt, and municipal debt are settled in next-day funds.⁷ Transactions in commercial paper and other money market instruments are settled in same-day funds. As the Commission is aware, the registered clearing agencies have been working with the industry over the last few years to develop a system that will provide for the settlement of virtually all securities transactions in same-day funds. These efforts have been encouraged by the Commission, the Board of Governors of the Federal Reserve System, and the Federal Reserve Banks of New York and Chicago, and these plans have been monitored by the staffs of these regulatory bodies.⁸ Under the conversion plan, all issues currently settling in DTC's next-day funds settlement system will be transferred to DTC's same-day funds settlement system on a single day. Several months

⁶ The term "same-day funds" refers to payment in funds that are immediately available and generally are transferred by electronic means.

⁷ The term "next-day funds" refers to payment by means of certified check that is for value on the following day.

⁸ In approving certain modifications of DTC's existing system in order to accommodate the overall conversion to same-day funds settlement, the Commission stated that it "believes that the overall conversion to an 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." Securities Exchange Act Release No. 35720 (May 16, 1995), 60 FR 27360 [File No. SR-DTC-95-06] (order granting accelerated approval to proposed rule change modifying the same-day funds settlement system).

ago, a consensus was reached that the conversion date will be February 22, 1996. As a result of this scheduled conversion date, CHX has determined to cease providing securities depository, securities clearing, and branch receive services by January 15, 1996.

The proposed arrangements should result in substantial savings for the securities industry. In connection with this proposal, former sole MSTC participants may become DTC participants if they qualify, and former sole MCC participants may become NSCC participants if they qualify or utilize any other clearing and depository service provider. Moreover, interdepository and clearing interfaces involve the maintenance of substantial facilities, communications networks, and account and inventory reconciliation mechanisms. As a result of the proposal, the substantial costs incurred by both DTC, NSCC, MCC, and MSTC in operating interfaces would be eliminated.

Another purpose of the proposed rule change is to reduce the size of the CHX's Board of Governors. This reduction conforms with the simultaneous reductions in the size of the boards of directors of MCC and MSTC. Because of its withdrawal from the businesses described above, CHX no longer believes it is necessary to maintain such a large board of directors. As a result, CHX is eliminating the Participant Governor positions. Those current board members whose slots have been eliminated may serve out the remainder of their terms.

CHX believes that proposed rule change is consistent with Section 6(b)(5) of the Act⁹ in that it will enable the CHX to focus its energies on its core business, the exchange. This, in turn, will promote just and equitable principles of trade, remove impediments and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. The proposal also will foster cooperation and coordination with persons engaged in clearing and settling transactions in securities.

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

CHX does not believe the proposed arrangements will improve any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Securities depositories and securities clearing corporations registered under Section 17A of the Act are not conventional

⁹ 15 U.S.C. 78f(b)(5) (1988).

businesses but utilities created to serve members of the securities industry for the purpose of providing certain services that are ancillary to the businesses in which industry members compete with one another. Operating a securities depository and securities clearing corporation requires a substantial and continuing investment in infrastructure, including securities vaults, telecommunications links with users, data centers, and disaster recovery facilities in order to meet the increasing needs of participants and respond to regulatory requirements. Both the Boston Stock Exchange in 1981 and the Pacific Stock Exchange in 1987 terminated the operations of their securities depositories and substantially terminated the operations of their securities clearing corporations.

After consummation of the proposed arrangements, securities industry members will continue to have access to high-quality, low-cost depository and clearing services provided under the mandate of the Act. The overall cost to the industry of having such services available will be reduced, thereby permitting a more efficient and productive allocation of industry resources. Furthermore, because most of a depository's and a clearing corporation's interface costs must be mutualized, thereby requiring some participants to subsidize costs incurred by others, CHX's withdrawal from maintaining depository and clearing facilities should reduce costs to participants and thereby remove impediments to competition. Finally, CHX's ability to focus its resources on the operations of its exchange should help enhance competition among securities markets.

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

Comments on the proposal have not been solicited or 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, 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, DC. Copies of such filing also will be available for inspection and copying at the principal office of CHX. All submissions should refer to the file number SR-CHX-95-27 and should be submitted by December 22, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰
Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36511; File No. SR-MCC-95-04]

Self-Regulatory Organizations; Midwest Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Midwest Clearing Corporation's Decision To Withdraw From the Clearance and Settlement Business

November 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 16, 1995, the Midwest Clearing Corporation ("MCC") 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 MCC. 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 involves proposed arrangements relating to a decision by the Chicago Stock Exchange, Incorporated ("CHX") to withdraw from the clearance and settlement, securities depository, and branch receive businesses conducted through its subsidiaries, MCC, Midwest Securities Trust Company ("MSTC"), and the Securities Trust Company of New Jersey ("STC/NJ").² Parties to the proposed arrangements are The Depository Trust Company ("DTC"), CHX, MSTC, the National Securities Clearing Corporation ("NSCC"), MCC, and STC/NJ. The proposed arrangements as they relate to MCC, would provide for the following:

(1) MCC would cease providing securities clearing services by January 15, 1996.

(2) NSCC would offer MCC participants an opportunity to become NSCC participants if they meet NSCC's qualifications.

(3) Open positions of MCC participants that are or that become NSCC participants and that authorize the transfer of their open positions will be transferred to the books of NSCC.

(4) DTC and NSCC would make certain payments to MCC.

(5) In general, for a period of ten years MCC would not engage in the business from which it has decided to withdraw (*i.e.*, the securities clearing business). However, MCC would be free to provide specified securities clearing-related services and products to CHX members and certain third-parties under certain circumstances.³

The proposed rule change also seeks to modify MCC's By-Laws to reduce the size of its Board of Directors.⁴

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 MCC included statements concerning

² STC/NJ is a wholly-owned subsidiary of CHX that currently provides certain services, including a securities custody service. STC/NJ is not a clearing agency as defined in the Act and therefore is not required to register with the Commission.

³ A more detailed description of these proposed arrangements is contained in Exhibit 2 to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁴ The text of these proposed changes is contained in Exhibit A to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

¹⁰ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. § 78s(b)(1) (1988).