liquidity. For the reasons set forth below, the Commission believes that the proposed rule change will provide the Exchange with greater flexibility in determining which securities warrant inclusion on the Exchange, without compromising the benefits that the Exchange's listing standards offer to investors.

The Commission notes that most of the Exchange's new listing standards are substantially similar to the rules of existing national securities exchanges and the Nasdaq National Market and, therefore, finds that these standards are equally acceptable for the Exchange. To the extent that the Exchange's proposed rules do differ from those of existing national securities exchanges and the Nasdaq National Market, the Commission finds them also to be consistent with the Act.

In addition to the quantitative standards, the other qualitative requirements, such as the establishment of audit committees, voting rights, shareholder approval, and disclosure policies, ensure that companies trading on the Exchange will adequately protect the interests of public shareholders. The Commission also notes that because extensive listing and maintenance standards are being adopted, only companies suitable for exchange listing are eligible for trading on the Exchange. Further, as noted above, for Tier I securities the listing and maintenance criteria are not waivable. This will ensure that the minimum requirements necessary to ensure adequate depth and liquidity to support exchange trading will be met.[33]

Moreover, with respect to the CHX's proposal to list other securities, the Commission believes that the proposed rule change is consistent with the Act because it relates only to those securities that are similar to products currently listed for trading by the Exchange. If a new product raises novel or significant regulatory issues, the Exchange must file a proposed rule change so that the Commission would have an opportunity to review the regulatory structure for the product.[34]

With respect to CVRs, the CHX's proposed standards are identical to those of the other securities exchanges. Moreover, the Exchange has represented that it will distribute a circular to its membership explaining the specific risks associated with CVRs and providing guidance regarding member firm compliance responsibilities when handling transactions in such securities. The Commission believes that this should help ensure that only customers with an understanding of the risks attendant to the trading of CVRs trade these securities on their brokers' recommendations.

Finally, the Commission believes that inclusion of a security for listing on an exchange should not depend solely on meeting quantitative criteria, but should also entail an element of judgment given the expectations of investors and the imprimatur of listing on a particular market.[35] The Commission believes that this rule provides the necessary flexibility to determine whether to list an issuer, while ensuring that certain minimum standards must be met. Thus, the Commission believes that the new listing and maintenance standards strike the appropriate balance between protecting investors and providing a marketplace for issuers satisfying the disclosure requirements under the federal securities laws. The new standards will provide important guidance to the Exchange review process, and will alert issuers seeking listing on the Exchange, as well as current Exchange issuers, of the Exchange's specific standards.

Moreover, the Commission finds good cause for approving Amendment Nos. 1, 2, and 3 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof. These amendments made clarifying changes to the rule proposal and strengthened the listing requirements under the proposal. Moreover, the Commission did not receive any comments on the original proposal,[36] which was noticed for the full statutory period, nor did it receive comments on a similar PSE proposal that was also noticed for the full statutory period.[37] Based on the above, the Commission finds that there is good cause, consistent with Section 6(b)(5) of the Act, to accelerate approval of Amendment Nos. 1, 2, and 3.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment Nos. 1, 2, and 3. 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, NW., Washington, DC 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–95–26 and should be submitted by August 22, 1996.

V. Conclusion

For the reasons stated above, the Commission believes the rule change is consistent with the Act and, therefore, has determined to approve it. The rule change provides enhanced listing standards for Exchange listed securities which provide greater protection for investors and the public interest.

The Commission does not believe that the rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[38] that the proposed rule change (SR–CHX–95–26), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[39]

Margaret H. McFarland,

Deputy Secretary.

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[33] The Commission notes that for Tier II securities, the Exchange may revise the requirements upward under certain circumstances, but only the Executive Committee of the Board of Governors may make an exception to the requirements. The Commission expects the Exchange to treat these standards generally as minimum requirements. To the extent the CHX Executive Committee has authority to permit lower standards, the Commission believes this should only be permitted in the rarest of circumstances and only when the CHX is assured an adequate market in the security can continue to be made and continued listing is supported in the public interest.

[34] *See* Amendment No. 3, *supra* note 3.

[35] *See, e.g., In the Matter of Silver Shield Mining and Milling Company,* Securities Exchange Act Release No. 6214 (Mar. 18, 1960) (''use of the facilities of a national securities exchange is a privilege involving important responsibilities under the Exchange Act''); *In the Matter of Consolidated Virginia Mining Co.,* Securities Exchange Act Release No. 6192 (Feb. 26, 1960) (same).

[36] *See* Securities Exchange Act Release No. 36531 (Nov. 30, 1995), 60 FR 62918 (Dec. 7, 1995).

[37] *See* Securities Exchange Act Release No. 34429 (July 22, 1994), 59 FR 38998 (Aug. 1, 1994) (approval of PSE's two-tier listing structure).

[38] 15 U.S.C. § 78s(b)(2).

[39] 17 CFR 200.30–3(a)(12).

[Release No. 34–37482; File No. SR–GSCC–96–04]

July 25, 1996.

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Interdealer Broker Netting Members Participating in Repurchase Transactions Settlement Services

On May 10, 1996, the Government Securities Clearing Corporation (''GSCC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–GSCC–96–04) under Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] to allow interdealer broker (''IDB'') netting members to become eligible for GSCC's netting service for repurchase and reverse repurchase transactions involving government securities as the underlying instrument (''repos''). On May 13, 1996, GSCC amended the filing.[2] Notice of the proposal was published in the Federal Register on May 28, 1996.[3] The Commission received six comment letters[4] with GSCC responding to one of the comment letters.[5] For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

GSCC previously introduced a comparison service for repo transactions[6] and a netting service for the non-same-day-settling aspects of next-day and term repos.[7] As initially implemented, IDB netting members were not eligible for participation in the repo netting service.[8] This proposal allows IDB netting members to participate in GSCC's repo netting service.

Pursuant to this rule change, IDB netting members and their non-IDB netting member customers (*i.e.*, dealers) will submit data on brokered repos to GSCC in the same manner as they do for cash transactions. GSCC will compare, net, and settle repo start legs which are submitted prior to the start date (*i.e.*, non-same-day-settling start legs) and all repo close legs for next-day and term repos pursuant to GSCC's existing procedures for the netting and settling of repos. GSCC Rule 18, Special Provisions for Repo Transactions, will also apply to brokered repos.[9]

Because GSCC currently does not clear same-day-settling start legs, the parties to brokered repos will assume the responsibility for the intraday settlement of such start legs outside of GSCC. As a result, IDBs will be assuming principal liability for these transactions. Through its novation, GSCC will be the legal counterparty for all eligible netted close legs and start legs submitted prior to the settlement date and will guarantee settlement as of the delivery to participants of netting output information on the day following the trade date (''T+1''). Therefore, an IDB's exposure is limited to its principal liability in the event that GSCC ceases to act for its customer pursuant to GSCC Rule 19 or 20 during the period between the execution of the trade and the effectiveness of GSCC's guarantee. If a dealer fails in its settlement obligations to the IDB but is still a GSCC member, GSCC will accept the repo transaction and treat the start leg as a forward settling start leg to be settled through GSCC.

Only IDBs that have and agree to maintain a level of excess net capital or excess liquid capital, as applicable, of at least $10 million are eligible to submit data on repo transactions to GSCC.[10] Furthermore, IDBs may only submit to GSCC repo transactions that have been executed between two dealers that have been designated as eligible to participate in GSCC's repo netting services.[11] As a result, the IDB's position will always net out at GSCC.

IDBs are subject to the following operational requirements: (1) Upon being informed by either GSCC or another netting member of an error in or problem with the data on an eligible repo transaction that it has submitted to GSCC, an IDB netting member must act promptly and in good faith to correct the error; (2) each IDB repo netting member will be assigned a second GSCC participant number, and all repos must be processed using that number;[12] and (3) each IDB repo netting member will be required to establish a separate account with a separate Fedwire address at a clearing bank that will be used exclusively for the intraday settlement outside of GSCC of same-day-settling start legs. (*I.e.*, the dealer member on the repo side of the start leg will deliver securities to this separate Fedwire account, and the IDB will redeliver the securities to the contraparty from this account.) Each IDB repo netting member must authorize its clearing bank to allow GSCC to review this clearing account. GSCC will review this account to facilitate the correction of errors and

[1] 15 U.S.C. § 78(b)(1) (1988).

[2] Letter from Jeffrey F. Ingber, General Counsel and Secretary, GSCC, to Christine Sibille, Division of Market Regulation (''Division''), Commission (May 13, 1996).

[3] Securities Exchange Act Release No. 37230 (May 20, 1996), 61 FR 26550.

[4] Letters from Edwin F. Payne, Chief Executive Officer, Liberty Brokerage Investment Corp. (''Liberty''), to Jonathan G. Katz, Secretary, Commission (May 16, 1996); David C. Bushnell, Managing Director, Salomon Brothers, Inc. (''Salomon''), to Jonathan G. Katz, Secretary, Commission (May 16, 1996); Roger J. Cohen, Chief Operating Officer, Garvin GuyButler (''Garvin'') to Jonathan G. Katz, Secretary, Commission (May 17, 1996); William S. Molloy, Managing Director, Morgan Stanley & Co. (''Morgan Stanley''), to Jonathan G. Katz, Secretary, Commission (May 20, 1996); Raymond McLaughlin, Managing Director, Patriot Securities, Inc. (''Patriot''), to Jonathan G. Katz, Secretary, Commission (May 17, 1996); and Stephen K. Lynner, President, Delta Clearing Corp. (''Delta''), to Jonathan G. Katz, Secretary, Commission (June 18, 1996).

[5] Letter from Jeffrey F. Ingber, General Counsel and Secretary, GSCC, to Jerry W. Carpenter, Assistant Director, Division, Commission (June 25, 1996).

[6] Securities Exchange Act Release No. 35557 (March 31, 1995), 60 FR 17598 [File No. SR–GSCC–94–10] (Order approving proposed rule change relating to implementing a comparison service for repos).

[7] Securities Exchange Act Release No. 36491 (November 17, 1995), 60 FR 61577 [File No. SR–GSCC–95–02] (order approving a proposed rule change relating to netting services for the non-same-day-settling aspects of next-day and term repos).

[8] GSCC's long-range plans for its repo services entail the full and complete automation of all aspects of start and close leg processing, including the intraday settlement of repo start legs. IDB netting members were not made eligible for GSCC's repo netting services because brokering in the repo market generally was done on a give-up basis (*i.e.*, the brokers give up the names of each counterparty to the other and drop out of the transaction). GSCC initially intended to address IDB participation in the repo netting system when implementing a netting and settlement service for same-day-settling start legs. Because GSCC will not be able to implement such a service until the last quarter of this year at the earliest, GSCC filed this proposed rule change in order to expedite the entry of IDB netting members in the repo netting system.

[9] Rule 18 establishes eligibility requests for participation in the repo netting process, establishes the timing for novation of repo transactions, and sets forth netting members' obligations to submit repo transactions to GSCC, another registered clearing agency, or a clearing agency that has been exempted from registration as a clearing agency.

[10] The Commission recently approved File No. SR–GSCC–96–02, which requires all IDBs, regardless of whether they participate in the repo netting service, to have and to maintain a minimum level of excess liquid/net capital of at least $10 million. Securities Exchange Act Release No. 37343 (June 20, 1996), 61 FR 33564 (order approving a proposed rule change modifying the minimum financial criteria for Category 1 IDB netting membership).

[11] The definitions for Category 1 and Category 2 IDBs have been amended to account for repo transactions with non-GSCC members which will not be submitted to GSCC. Specifically, Category 1 IDBs are not limited to acting exclusively as brokers on behalf of GSCC netting members and/or grandfathered nonmembers with respect to repo transactions. Similarly, Category 2 IDBs are not limited to acting exclusively as brokers or conducting at least ninety percent of their business with GSCC netting members and/or grandfathered nonmembers with respect to repo transactions. IDB netting members will not need to report data on repos pursuant to Section 3 of Rule 15, and the continuance standards of Rule 3, Section 5 (g) and (i) will not take into account repo transactions.

[12] The second account will make it easier for GSCC to monitor an IDB's repo activity.

problems. For example, if a same-day-settling start leg fails to settle, GSCC will be aware that the deliver and receive obligations must be carried into GSCC for settlement. GSCC will not have or will not assume any responsibility for the settlement of a same-day-settling start leg other than same-day-settling legs that are converted into forward settling start legs.

II. Comment Letters

The Commission received five letters from commenters in favor of GSCC's proposed rule change.[13] The three IDB commenters believe that being excluded from the repo netting process puts them at a disadvantage as market participants.[14] Three commenters believe that the proposal will increase liquidity in the repo market.[15] Three commenters believe that allowing IDBs to participate in repo netting will bring enhanced risk protection and a more efficient settlement process to a broader scope of repo transactions.[16]

One commenter opposed the proposed rule change.[17] This commenter believes that allowing IDBs to assume the role of principal in repo transactions introduces an element of credit and performance risk to the repo marketplace. The commenter is concerned that IDBs, which are traditionally agents, do not have the requisite experience to act as repo counterparties. The commenter also is concerned that IDBs could have exposure over several days resulting from a dealer's failure to meet its settlement obligations.

GSCC responded to this commenter stating that there will be no significant risks with the participation of IDBs in repo netting because GSCC will accept only data on repo transactions that have been executed between dealer netting members eligible to participate in GSCC's repo netting service.[18] Thus, absent error, GSCC believes that IDBs should net out in every case. Furthermore, GSCC noted that in addition to certain financial requirements, GSCC will impose significant operational requirements on participating IDBs to ensure that if data submission errors do occur, they will be corrected promptly.[19] GSCC also stated that there is no possibility of multiday exposure by a participating dealer member to an IDB because if a dealer counterparty on the short side fails on trade date to deliver securities to its IDB counterparty in settlement of the start leg but is still a GSCC member, the start leg will be treated as a forward settling start leg that will be guaranteed and settled by GSCC.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder and particularly with the requirements of Section 17A(b)(3)(F).[20] 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 which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes GSCC's rule change meets these goals because the introduction of IDBs to the repo netting system continues the process whereby GSCC provides the benefits of centralized automated settlement to a broader segment of government securities transactions.

The one adverse commenter expressed concern over the credit and performance risks of IDBs as counterparties in repo transactions. The Commission believes that GSCC has in place risk management procedures that adequately address these concerns. For example, GSCC imposes minimum excess net capital or minimum excess liquid capital requirements on IDBs, as applicable, for eligibility in submitting data on repo transactions to GSCC for netting. By only accepting data on repo transactions that have been executed between two dealers that have been designated as eligible to participate in GSCC's repo netting services, GSCC reduces the risks associated with IDBs by assuring that the IDBs' positions at GSCC will generally net out. Furthermore, unless GSCC ceases to act for a dealer participant prior to the effectiveness of GSCC's guarantee of the close leg on T+1, IDBs' liability is limited to one day's exposure.

The Commission believes that GSCC's operational requirements will minimize potential risks of allowing IDBs to participate in the repo netting service. The Commission also believes that the benefits of the proposed rule change, including more efficient settlement, outweigh any possible risks of allowing IDBs to participate in the repo netting system and promote the prompt and accurate clearance and settlement of securities transactions. Furthermore, the risk management and operational procedures imposed by GSCC on IDB netting members participating in the repo netting service should help to assure the safeguarding of securities and funds in the custody or control of GSCC or for which it is responsible.

IV. Conclusion

The Commission finds that GSCC's proposal is consistent with the requirements of the Act and particularly with Section 17A 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–GSCC–96–04) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[21]

Margaret H. McFarland,

Deputy Secretary.

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[13] *Supra* note 3. Of the five commenters in favor of the proposal, three are IDBs (Liberty, Garvin, and Patriot) and two are broker-dealers (Salomon and Morgan Stanley).

[14] These commenters state that eligibility will allow them to shift to blind brokering of repos, as opposed to brokering on a give-up basis, which they believe is a preferable form of trading.

[15] Salomon, Garvin, and Morgan.

[16] Salomon, Morgan, and Liberty.

[17] Delta Clearing Corp., *supra* note 3.

[18] *Supra* note 5.

[19] As indicated above, these operational requirements include the requirement that an IDB act promptly and in good faith to correct any error in or problem with the data on an eligible repo transaction that it has submitted to GSCC; the assignment of a second GSCC participant number for processing of all repos; and the requirement that each IDB repo netting member establish a separate account with a separate Fedwire address at a clearing bank to be used exclusively for the intraday settlement outside of GSCC of same-day-settling start legs.

[20] 15 U.S.C. § 78q–1(b)(3)(F) (1988).

[21] 17 CFR 200.30–3(a)(12) (1995).

[Release No. 34–37479; File No. SR–Phlx–96–25]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Adoption of Automatic Double-Up/Double-Down Price Improvement for Eligible PACE Orders

July 25, 1996.

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 July 1, 1996, the Philadelphia Stock Exchange, Inc. (''Phlx'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change and on July 23, 1996, submitted Amendment No. 1 to the proposed rule change,[1] as described in Items I, II, and

[1] *See* letter from Gerald D. O'Connell, Senior Vice President, Phlx, to Jennifer Choi, Attorney, Division of Market Regulation, SEC, dated July 19, 1996