passing an examination for the purpose of demonstrating an adequate knowledge of the securities business.

2. Statutory Basis

By clarifying the rule that describes the circumstances under which a floor broker is permitted to receive orders directly from public customers, the Exchange believes that the proposed rule change is consistent with Section 6 of the Act in general and with Section 6(b)(5) in particular in that it is designed to promote just and equitable principles of trade, to foster cooperation with persons engaged in facilitating and clearing transactions in securities, and to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe the proposed rule change imposes any burdens on competition.

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

No written comments were solicited or received with respect to the proposed rule change.

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

The proposed rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act, and subparagraph (e) of Rule 19b–4 thereunder, in that the proposal is designated by the Exchange as constituting a stated policy with respect to the enforcement of an existing rule. At any time within 60 days of the filing of the rule change, the Commission may summarily abrogate the rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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. Copies of the filing will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to the file number in the caption above and should be submitted by November 13, 1996.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–27145 Filed 10–22–96; 8:45 am]

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[Release No. 34–37828; File No. SR–GSCC–96–05]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Relating to Clearing Fund Collateral and Loss Allocation Provisions

October 16, 1996.

On May 28, 1996, the Government Securities Clearing Corporation (''GSCC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–GSCC–96–05) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] to expand the types of securities that are eligible to be used as clearing fund collateral and to redefine the concept of current trading activity for loss allocation purposes. GSCC amended the filing on July 25, 1996.[2] Notice of the proposal was published in the Federal Register on August 19, 1996.[3] No comment letters were received regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

A. Clearing Fund Collateral

GSCC Rule 4 requires that each netting member make and maintain a deposit to the clearing fund, and Section 4 thereof prescribes the form that a netting member's clearing fund deposit must take. Currently under Rule 4, Section 4, there are three types of eligible clearing fund collateral: cash, eligible treasury securities, and eligible letters of credit. An eligible treasury security is defined as an unmatured, marketable debt security in book-entry form that is a direct obligation of the U.S. government.[4] Conversely, GSCC currently processes a broad range of securities (''eligible netting securities'') through its netting system. The proposed rule change expands the types of securities that will be acceptable forms of clearing fund collateral[5] to include all securities that are eligible for processing in GSCC's netting system.

Pursuant to GSCC's Rules, eligible netting securities are any non-mortgage-backed security, including zero-coupon securities, issued or guaranteed by the U.S., a U.S. government agency or instrumentality, or a U.S. government-sponsored corporation. Such securities must be Fed Wire eligible. Specific examples of eligible netting securities issued by U.S. government agencies include fixed-rate discount notes with one year maturity issued by the Tennessee Valley Authority, fixed-rate stripped interest payment or stripped principal securities sold at a discount by the Resolution Funding Corporation, and fixed-rate notes issued by the International Finance Corporation.

GSCC limits liquidity and price volatility risks by applying an appropriate haircut percentage to each type of security accepted as clearing fund collateral. Pursuant to GSCC Rules, the haircuts for eligible netting securities other than eligible treasury securities are at least equal to the haircut GSCC takes on eligible treasury securities,[6] and in no event will the haircut be lower than that applied to the

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[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] Letter from Karen Walraven, Vice President and Associate Counsel, GSCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Commission (July 22, 1996).

[3] Securities Exchange Act Release No. 37548 (August 9, 1996), 61 FR 42925.

[4] Currently, only treasury bills and coupon bearing treasury notes and bonds are eligible as clearing fund collateral. Securities Exchange Act Release No. 33237 (December 1, 1993), 58 FR 63414.

[5] At this time no change is proposed with respect to the cash and letters of credit eligible for clearing fund deposits.

[6] Section 4 of GSCC Rule 4 provides that eligible treasury securities with a remaining maturity of greater than one year and less than ten years are subject to a three percent haircut, and securities with a remaining maturity of ten years or greater are subject to a five percent haircut. Eligible treasury securities with a remaining maturity of up to one year receive no haircut. GSCC does not propose to change these existing haircut provisions at this time.

With respect to agency securities and zero coupon and stripped treasury securities, GSCC will apply the above haircuts unless GSCC's liquidity bank applies higher or more conservative haircut percentages. At this time, GSCC's haircuts are consistent with the haircut percentages applied by its liquidity bank. Letter from Karen Walraven, Vice President and Associate Counsel, GSCC to Peggy Blake, Attorney, Division of Market Regulation, Commission (August 8, 1996).

relevant security by GSCC's liquidity bank. Furthermore, GSCC retains the right to refuse to accept particular types of collateral for liquidity or other reasons upon action by its Board of Directors. Such refusal could arise under a variety of circumstances such as GSCC's liquidity bank's reluctance to accept a certain type of security as collateral for an extension of credit.

B. Loss Allocation

Rule 20, Section 4(c) of GSCC's rules provides that upon a member's default GSCC will close out the positions of the defaulting member. If the close out of all the defaulting member's positions results in GSCC incurring a loss, that loss will be allocated pursuant to GSCC Rule 4.

Under Section 8 of Rule 4, GSCC looks first to the defaulting member's clearing fund collateral. If the defaulting member's collateral does not fully cover GSCC's loss, GSCC determines the proportion of the remaining loss that arose in connection with non-brokered (*i.e.,* direct) transactions and the proportion that arose in connection with brokered transactions. Brokered transactions are categorized as either brokered transactions involving only GSCC members or brokered transactions involving a nonmember on one side of the trade. After the brokered and non-brokered proportions are determined, the remaining loss is allocated among participants based largely upon their trading activity with the defaulting member netted and novated on the day of default.[7]

GSCC Rule 4, Section 8(a)(v) defines ''trading activity with the defaulting member netted and novated on the day of default'' as trading activity with a defaulting member submitted by a netting member that was compared, entered GSCC's net system, and was novated on the business day on which the failure of the defaulting member to fulfill its obligations to GSCC occurred. However, if the aggregate level of such trading activity was less than the dollar value amount of the defaulting member's securities liquidated pursuant to GSCC's close out procedure, the term had encompassed trading activity going back as many days as was necessary to reach a level of activity that was equal to or greater than the dollar value amount of such liquidated securities. The proposed rule change modified the concept of ''trading activity with the defaulting member netted and novated on the day of default'' to capture a level of trading activity that is at least five times the dollar value amount of the securities of the defaulting member that are liquidated.[8]

II. Discussion

The Commission finds that the proposed rule change is consistent with the Act, and specifically with Section 17A(b)(3)(F).[9] Section 17A(b)(3)(F) requires the rules of a clearing agency be designed 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 that the expansion of GSCC's acceptable clearing fund collateral will help to assure the safeguarding of securities because it should provide GSCC's members with more flexibility in meeting their clearing fund obligations with risk levels that should not be significantly higher than those present under the current clearing fund collateral definition. GSCC is limiting the potential for liquidity and price volatility risks in this regard by applying haircut percentages to each type of security accepted as clearing fund collateral. GSCC also will retain the right to refuse to accept particular types of collateral for liquidity or other reasons.

The Commission believes that GSCC's modifications to its loss allocation procedures also will help to assure the safeguarding of securities or funds in its control or for which it is responsible. Expanding the amount of trading that will be encompassed for loss allocation purposes should spread out the loss among a greater number of participants and thus decrease the likelihood that any one participant will be disproportionately affected. As a result, GSCC should be in a better position to collect such funds should the need ever arise. Because the rule change also results in participants having potential liability for trades entered into with a failing participant over a greater time period, it should encourage participants to assess the creditworthiness of their counterparties more carefully. As a result, the level of risk of the trades submitted to GSCC should be reduced, and GSCC's ability to safeguard securities and funds should be enhanced.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with Section 17A of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR–GSCC–96–05) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[10]

Margaret H. McFarland,

Deputy Secretary.

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[7] To the extent a remaining loss is determined to arise in connection with non-brokered transactions (*i.e.,* direct transactions), the loss is allocated pro rata among netting members other than interdealer brokers based on the dollar value of the trading activity of each such netting member with the defaulting member netted and novated on the day of default. If the loss is determined to arise in connection with member brokered transactions, GSCC allocates ten percent of the loss to the interdealer broker netting members on an equal basis regardless of the level of trading activity of each such broker with the defaulting member. The remainder of the loss is divided pro rata among all other netting members based upon the dollar value of each netting member's trading activity through interdealer brokers with the defaulting member netted and novated on the day of default. If the loss is determined to arise in connection with nonmember brokered transactions, GSCC allocates ten percent of the loss to the interdealer broker netting members on an equal basis regardless of the level of trading activity of each such broker with the defaulting member. The remainder of the loss is allocated pro rata among the Category 2 interdealer broker netting members that were parties to such nonmember brokered transactions based upon the dollar value of each such broker member's trading activity with the defaulting member netted and novated on the day of default. Category 1 interdealer brokers act exclusively as brokers and trade only with netting members and with certain grandfathered nonmember firms. Category 2 interdealer brokers are permitted to have up to ten percent of their business with nonnetting members other than grandfathered nonmembers. GSCC has filed a proposal to amend certain aspects of the loss allocation provisions related to the percentage of the loss allocated to interdealer brokers. Securities Exchange Act Release No. 37565 (August 14, 1996), 61 FR 43103.

[8] The five-fold multiple is based on the approximate netting factor of eighty percent. Historically, the aggregate transactions processed through GSCC's netting system net down to approximately twenty percent of the aggregate transactional volume (*i.e.,* for approximately every five transactions that enter the netting process, only one needs to be settled through the movement of securities and cash).

[9] 15 U.S.C § 78q–1(b)(3)(F) (1988).

[10] 17 CFR 200.30–3(a)(12) (1996).

[Release No. 34–37829; File No. SR–NSCC–96–13]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to the Guarantee of When-Issued and Balance Order Trades

October 16, 1996.

On June 21, 1996, the National Securities Clearing Corporation (''NSCC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–