9. In the event the rejection of forward start Repo trades and current Business Day Option Contact trades are insufficient to eliminate the Exposure Limit violation, risk management personnel shall be authorized to create a Liquidating Settlement Account for such Participant. Upon the creation of such an account, risk management personnel shall begin the process of closing such Participant's outstanding positions. Such authority to initiate the liquidation process is predicated on the Participant's inability or unwillingness to affirmatively respond to a previously executed intra-day margin call pursuant to the Procedures.

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[Release No. 34–38198; File No. SR–DCC–96–12]

Self-Regulatory Organizations; Delta Clearing Corp.; Notice of Filing of a Proposed Rule Change to Amend Procedures Relating to Monitoring and Limiting Exposure From Repurchase Agreements

January 23, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on November 26, 1996, the Delta Clearing Corp. (''DCC'') filed with the Securities and Exchange Commission (''Commission'') and on January 10, 1997, amended the proposed rule change (File No. SR–DCC–96–12) as described in Items I, II, and III below, which items have been prepared primarily by DCC. 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

DCC is proposing to amend the margining of overnight repurchase agreements (''repos''). DCC's policy statement 96–01, attached as Exhibit 1 to this notice, describes the proposed amendments in greater detail.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DCC 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. DCC 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

The purpose of the proposed rule change is to amend DCC's procedures for monitoring and limiting its exposure from the clearance and settlement of its participants' overnight repos. First, the proposed rule change will establish DCC's participants' core margin requirement as either $1 million dollars par amount of U.S. Treasury securities or a greater amount as determined by DCC based upon exposures arising out of overnight repo agreements effected by the participant.[2] DCC will calculate weekly the core margin requirement for each participant by using the most recent eight weeks (if available) of overnight repo transactions and will notify each participant of its core margin requirement. If DCC notifies a participant that the participant is required to deposit additional core margin, the participant by 11 a.m. on the business day following the notice must deposit with DCC's clearing bank U.S. Treasury securities whose market value equals or exceeds the participant's additional margin requirement.

Second, the proposed rule change will amend Section 2602 of DCC's rules to require DCC to provide each participant with a supplemental daily margin report by 3 p.m. of each business day. The supplemental daily margin report will indicate (i) the participant's overnight repo positions established during that business day, (ii) the net mark-to-market valuations for the participant's overnight repo positions,[3] (iii) the core margin and excess unreturned margin on deposit, and (iv) the amount of additional margin that the participant must deposit with DCC's clearing bank. In the event that the net mark-to-market valuation exceeds 65% of the sum of the participant's core requirement and unreturned margin on deposit, DCC will require the participant to deposit additional margin in the amount of such excess. The additional margin must be deposited with DCC no later than 5 p.m. of that business day. Failure to deposit the amount of any margin deficit shown on the supplemental daily margin report will be grounds for suspension and sanctions pursuant to Section 2608 of DCC's rules.

Third, the proposed rule change will amend DCC's rules to eliminate the collection of performance margin for overnight repos. The daily margin report will reflect only the margin required on the participant's term repo positions.

DCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act[4] and the rules and regulations thereunder because the proposed rule change will better enable DCC to safeguard the funds and securities under its possession and control by amending DCC's procedures to assure that it has adequate collateral to address a participant's default of insolvency.

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

DCC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purpose of the Act.

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

Comments were neither solicited nor 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 DCC 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

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

[2] Overnight repos will be defined as repo agreements whose off-date is the immediately succeeding business day following the on-date for such transactions. Term repos will be defined as repos agreements whose off-date is two or more business days following the on-date for such transactions.

[3] Net mark-to-market means the arithmetic sum resulting from the estimated cost to liquidate a participant's under margined positions in overnight repos offset by the estimated proceeds from liquidating a participant's over margined positions in overnight repos.

[4] 15 U.S.C. 78q–1.

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, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of DCC. All submissions should refer to the file number SR–DCC–96–12 and should be submitted by February 20, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[5]

Margaret H. McFarland,
Deputy Secretary.

Exhibit 1

Risk Basked Core Margin Analysis

Introduction

Delta Clearing Corp. (''Delta'') collects a fixed core margin. The purpose for collecting core margin is to ensure that Delta has sufficient funds so as to minimize the risk of exposure to Participants engaging in Overnight Repo or Reverse Repo (collectively ''Overnight Repo'') transactions. Because Delta does not currently collect margin on overnight trades until 11:00 a.m. the following day, there is a potential exposure for up to 27 hours (assuming market opening at 8:00 a.m.) Although the vast majority of trades unwind on a next day basis before the 11:00 a.m. deadline, there is nevertheless a need to collect margin funds in a more timely manner in order to reduce the level of the exposure Delta assumes opposite each Participant. The methodology that Delta will employ to address potential exposures for Overnight Repo trades will be a two-step process. The first step is to establish core margin requirements based on an evaluation of each Participant's Overnight Repo trading activity. The goal is to set core margin requirements at a level sufficiently high enough to cover the majority of potential mark-to-market exposures Delta assumes opposite each Participant. The second step is to employ intra-day margin calls in the event market exposure exceeds the core margin. The amounts of total margin collected should be sufficient to cover the intra-day exposure and any additional exposure which could arise the following day.

Core Margin Methodology

Using a statistically based methodology, core margin levels will be established by Delta that are sufficient to cover 97.5% of Participant's statistically predicted potential Overnight Repo mark-to-market exposure to Delta. The adequacy of core margin will be evaluated weekly.

Average Overnight Exposure

Each week, Delta will review the Overnight Repo trading activity for each Participant to determine the Overnight Repo mark-to-market exposure that Participant posed to Delta. Mark-to-market exposure is the total net sum of the differences between the contract value of an Overnight Repo when such Overnight Repo was effected and the mark-to-market value of such Overnight Repo reflective of the end-of-day pricing for the collateral underlying such Overnight Repos. A negative number represents an exposure for Delta, while a positive number represents overcollateralization. An exposure can result from either a Long Repo or Short Repo Position. The following example shows how mark-to-market exposure is calculated.

Participant	Position	Contract value	Mark-to-market	Delta's (exposure) or over collateralization	Delta's net (exposure) or over collateralization
A	Repo	100	101	1	
	Reverse	102	104	(2)	
	Repo	100	97	(3)	
	Reverse	101	100	1	(3)
B	Reverse	104	102	(2)	
	Repo	99	103	4	
	Repo	98	92	(6)	(4)

Delta would have a net mark-to-market exposure to Participants A and B of 3 and 4, respectively. Such daily mark-to-market exposures would be calculated for each Participant on each Business Day during the prior eight calendar weeks. Such daily mark-to-market exposures will then be averaged to derive an average daily mark-to-market exposure for each Participant. It should be noted that Business Days on which a net overcollateralization is derived will be eliminated from the survey for the purposes of deriving an average daily mark-to-market exposure.

Statistical Analysis

The average Overnight Repo mark-to-market exposure is a starting point but may not be a sufficient determinant of market risk exposure. The core margin level will be set at an amount in excess of the average net negative mark-to-market in order to ameliorate exposures that vary from the mean. To determine an adequate level of core margin Delta performed the following analysis:

• Delta reviewed the trading activity of all Participants dating back so that 8

[5] 17 CFR 200.30–3(a)(12).

weeks (40 observations) could be studied.

• The core margin for each Participant will be adjusted to reflect a two (2) standard deviation test of the net negative mark-to-market over the course of the observation period. By statistical inference, such a level of core margin should be sufficient to cover 95% of all mark-to-market exposures. The left tail of the distribution curve represents those market movement occurrences when the Overnight Exposure will be 2 standard deviations (''sigma'') less than the average. The resulting exposure will be covered by the core amount. Therefore, Delta is only potentially exposed on the right tail and the core statistically predicted to cover 97.5% of the occurrences of exposure. The remaining 2.5% will be covered by intra-day margin calls.

• In the event there are an insufficient number of actual observations (i.e., less than 40), Delta will calculate an average based upon the number of actual observations. Delta will apply the calculated average to the number of observations derived by subtracting the number of known observations from 40. This shall be the population of observations used to calculate the average negative net mark-to-market.

For example, a Participant with an average overnight exposure for the prior eight weeks of $1MM whose standard deviation is calculated to be $250M would be required to post core margin of $1.5MM.

Intraday Margin Calls

In the event that the intra-day mark-to-market valuation with respect to Overnight Repos exceeds the Participant's core requirement and any additional margin, Delta would require the Participant to deposit supplemental margin in the amount of such excess already on deposit by 5 p.m. of such Business Day.

Operational Procedures

On each Business Day, prior to 3:00 p.m., Delta's margining system will produce a Supplemental Daily Margin Report which will list the following:

1. All Overnight Repos in which the On-date is the current Business Day and the Off-date is the subsequent Business Day;
2. Cash prices used to value underlying collateral;
3. The Overnight Repo mark-to-market values utilizing current prices for the collateral underlying such Overnight Repos; and
4. The net exposure.

In the event the net exposure is in excess of 65% of the core margin and any additional margin, supplemental margin will be called for by Delta. Such supplemental margin must be deposited by 5:00 p.m.

Every Monday, Delta's credit department will produce a spreadsheet which will calculate the week's core margin requirement. The spreadsheet will contain the following headings:

1. Participant;
2. 8 Week Average Exposure;
3. Standard deviation of the 8 week average mark-to-market exposure; and
4. Core Margin Requirement.

A database of the daily market-to-market exposures will be created and maintained for each Participant in a spreadsheet. The database will contain the latest 40 daily mark-to-market exposures for each Participant (over-collateralized values will be excluded). Each Participant's 8 week average and the applicable standard deviation will be calculated as described above. The average net mark-to-market will be adjusted to reflect the two standard deviation test. The resulting product becomes the new core margin requirement for each Participant. These new core margin requirements will then be forwarded to Delta's Risk Manager for input into the margining system.

By 3:00 p.m. on Each Business Day on which such core margin requirement has been calculated, each Participant will be notified of its new core margin requirement. If the requirement is greater than the then prevailing core requirement, the Participant must post the difference the following Business Day. If the new core requirement is below the then prevailing core requirement, the deposited excess will be returned to the Participant by 11:00 a.m. the following Business Day.

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[Release No. 34–38201; File No. SR–DTC–96–17]

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change Relating to the Movement of Securities Positions Within a Collateral Group

January 23, 1997.

On October 4, 1996, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change (File No. SR–DTC–96–17) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') to permit the movement of securities positions within a collateral group.[1] Notice of the proposal was published in the Federal Register on November 8, 1996.[2] No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description

The rule change offers a new service to DTC participants that permits the movement of securities positions within a collateral group.[3] The fee for this new service is $.43 per transaction. Under the rule change, DTC will eliminate certain processing steps associated with other kinds of book-entry deliveries for transactions within a collateral group and thereby will lower the cost of such transactions. DTC has determined that the credit and financial controls employed for regular book-entry deliveries are not necessary for transfers that occur within the same collateral group because a participant's collateral monitor and net debit position are not affected by such transfers.

DTC anticipates that the new service will be used in connection with participant compliance with Rule 15c3–3 under the Act.[4] Presently, a broker-dealer can use DTC's Memo Segregation Service (''memo seg'') to help them comply with Rule 15c3–3. The memo seg service allows a participant to create a ''memo'' position within its free account to enable the participant to avoid making an unintended delivery of a designated quantity of customer fully-paid securities that either are in the participant's free account or are expected to be received into that account. Other participants prefer to comply with Rule 15c3–3 by moving customer fully-paid securities from a free account to an additional DTC account established by the participant. Under DTC's previous procedures, any book-entry movement required DTC to perform its regular risk management procedures for book-entry deliveries (*e.g.*, review of the participant's collateral monitor and net debit position). Accordingly, the application of these procedures to book-entry

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

[2] Securities Exchange Act Release No. 37916 (November 1, 1996), 61 FR 57933.

[3] A participant with multiple accounts may group its accounts into ''families'' (*i.e.*, ''collateral groups'') and instruct DTC to allocate a specified portion of its overall collateral and net debit cap to each family. All accounts that a participant designates as belonging to a common collateral group share a single collateral monitor and single net debit cap.

[4] 17 CFR 240.15c3–3. Rule 15c3–3 under the Act requires, among other things, that broker-dealers maintain possession or control of fully-paid or excess margin securities they hold for the accounts of customers (''customer fully-paid securities'').