

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38592; File No. SR-GSCC-96-14]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving a Proposed Rule Change to Eliminate Grandfather Privileges

May 9, 1997.

On December 19, 1996, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-96-14) 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 February 25, 1997.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

Effective June 30, 1997, the proposed rule change eliminates the list of grandfather non-members. GSCC established the grandfather list in May 1993, when GSCC created category 1 IDBs and category 2 interdealer broker netting members ("IDB") and placed limitations on their trading activity with firms that were not members of GSCC's netting system.³ GSCC restricted category 1 IDBs to trading only with GSCC netting members and limited to ten percent the trading activity of category 2 IDBs with nonmember firms.

At that time, GSCC decided to allow IDBs to continue to trade with certain nonmember firms ("grandfather nonmembers") that historically have had access to the IDB's screens and that GSCC has identified on its grandfather list.⁴ Accordingly, category 1 IDBs would continue to trade with the grandfather nonmembers and trades between category 2 IDBs and grandfathered firms did not count

toward category 2 IDBs' ten percent limit.

Currently, all grandfather nonmembers are eligible for GSCC membership or could have their trades submitted to GSCC's netting system through an affiliated netting member. The proposed rule change eliminates the grandfather list. As a result, category 2 IDBs, which do virtually all of the brokered transactions with the current grandfathered nonmembers, will have to trade with the formerly grandfathered firms that do not join GSCC's netting system under the category 2 IDB's authority to engage in ten percent of its trading activity with nonmember firms. Category 1 IDBs will be prohibited from doing any netting eligible activity with a formerly grandfathered firm that does not join GSCC's netting system.

II. Discussion

Section 17A(b)(3)(F)⁵ of the Act requires that 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 GSCC's proposed rule change is consistent with GSCC's obligations under the Act because eliminating the grandfather list ends the additional exposure to GSCC that the trading by the IDBs with grandfather nonmembers creates.

Specifically, these trades expose GSCC to greater risks than trades between an IDB and a netting member because trades with a grandfather nonmember are not eligible for netting by GSCC. As a result, when an IDB has offsetting trades with a netting member and with a grandfather nonmember, only the trade with the netting member will be netted thereby leaving the IDB instead of a grandfathered firm with a position. The traditional role of IDBs is to net out of every transaction. GSCC's system reflects this role. (For example, IDBs have lower net capital requirements.) As a result, an IDB with a position presents a greater risk to GSCC. By reducing the risks to GSCC, the proposed rule change enables GSCC to better assure the safeguarding of securities and funds which are in its custody or control.

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 the requirements of Section 17A 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-GSCC-96-14) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38603; File No. SR-GSCC-96-12]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to Interdealer Broker Repurchase Agreement Transactions

May 9, 1997.

On November 21, 1996, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-96-12) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ On December 3, 1996, GSCC filed with the Commission an amendment to the proposed rule change. Notice of the proposal was published in the **Federal Register** on February 20, 1997.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

Generally, interdealer brokered ("IDB") submit data to GSCC on corresponding repo transactions entered into with two non-IDB counterparties with the intent of maintaining a flat position (*i.e.*, the IDB's deliver obligations are equal to its receive obligations). Thus, the IDB does not have margin or clearing fund consequences from the trades at GSCC. However, when one non-IDB counterparty fails to submit in a timely or accurate fashion data related to the transaction, the IDB's trade with the non-submitting counterparty will not compare and will not enter GSCC's

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 38287 (February 13, 1997), 62 FR 8068.

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 38302 (February 18, 1997), 62 FR 8475.

³ Securities Exchange Act Release No. 32722 (August 5, 1993), 58 FR 42993 (order approving establishment of new membership categories).

⁴ The grandfather list includes the following firms:

Aubrey G. Lanston & Co., Inc.
The Nikko Securities Co., Ltd. (Tokyo)
Nikko Europe PLC (London)
Nomura International Inc. (Tokyo)
Nomura Securities Co., Ltd. (Tokyo)
Nomura International PLC (London)
Daiwa Europe Ltd. (London)

⁵ 15 U.S.C. 78q-1(b)(3)(F).