

highest price or one percentage point lower than the lowest price for the underlying security on the day of the submission of data on the transaction to GSCC (with such prices being obtained by GSCC from a third-party source selected by GSCC for such purpose); or (3) a pattern of transactions submitted by two members that if looked at as a single transaction would constitute an off-the-market transaction.

If a member submits data on a trade day before settlement, GSCC will not be able to collect margin before it has guaranteed the trade. Thus, if one side defaults, GSCC could be exposed to a significant loss if the transaction has a price significantly different from the market price. Pursuant to this rule change, GSCC will continue to allow off-the-market transactions to the insolvent's counterparty.

This rule change also amends GSCC's rules on payments of credits resulting from an increase in the value of a member's positions. Every day, GSCC collects from its members any debit and pays to its members any credit from the difference between the contract price of such member's positions at GSCC and GSCC's system price (i.e., a mark-to-market payment). If the failed member's counterparty also defaults on its settlement obligations to GSCC after that member has received the benefit of the mark-to-market relating to an off-the-market transaction, GSCC is exposed to significant loss. Pursuant to the rule change, if the debit side has not paid the mark-to-market amount associated with an off-the-market transaction to GSCC on the morning of the business day following the submission of the trade (i.e., the debit side fails before it has satisfied its funds settlement obligation), GSCC will not pay the credit to the other side.

II. Discussion

Section 17A(b)(3)(F)³ of the Act requires that the rules of a clearing agency assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. GSCC's risk management system is designed to margin and to allocate loss for transactions based on the current market price. GSCC's margining system through the mark-to-market process reprices transactions every day to the current market price and thus assures that GSCC's loss is limited to a one day price movement. GSCC maintains a clearing fund designed to cover the remaining loss. Because off-the-market transactions have a price significantly different from

the current market price, GSCC's margining system is not designed to cover losses resulting from these trades.

The proposal adopts loss allocation and margin rules that take into account off-the-market transactions. Such rules should limit the loss that GSCC could incur upon a member default. Without the proposal, GSCC could be exposed to a loss that could effect its ability to meet its settlement obligations to its participants. By limiting GSCC's exposure to these trades, the proposal is consistent with GSCC's obligation to safeguard securities and funds.

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-97-01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Jonathan G. Katz,
Secretary.

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SMALL BUSINESS ADMINISTRATION

[Declaration of Economic Injury Disaster #9533]

Commonwealth of Pennsylvania

Allegheny County and the contiguous Counties of Armstrong, Beaver, Butler, Washington, and Westmoreland in the Commonwealth of Pennsylvania constitute an economic injury disaster loan area as a result of flash flooding that occurred on July 1, 1997. Eligible small businesses and small agricultural cooperatives without credit available elsewhere may file applications for economic injury assistance for this disaster until the close of business on April 16, 1998 at the address listed below or other locally announced locations:

U.S. Small Business Administration,
Disaster Area 1 Office, 360 Rainbow Blvd. South, 3rd Fl., Niagara Falls, NY 14303

The interest rate for eligible small businesses and small agricultural cooperatives is 4 percent.

(Catalog of Federal Domestic Assistance Program No. 59002)

Date: July 16, 1997.

Aida Alvarez,
Administrator.

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SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster #2962]

State of Texas

As a result of the President's major disaster declaration on July 7, 1997, and an amendment thereto on July 14, I find that Bandera, Bexar, Burnet, Guadalupe, Kendall, Kerr, Llano, Mason, Medina, Real, Travis, and Uvalde Counties in the State of Texas constitute a disaster area due to damages caused by severe thunderstorms and flooding beginning on June 21, 1997 and continuing. Applications for loans for physical damages may be filed until the close of business on September 5, 1997, and for loans for economic injury until the close of business on April 7, 1998 at the address listed below or other locally announced locations: U.S. Small Business Administration, Disaster Area 3 Office, 4400 Amon Carter Blvd., Suite 102, Fort Worth, Texas 76155.

In addition, applications for economic injury loans from small businesses located in the following contiguous counties in the State of Texas may be filed until the specified date at the above location: Atascosa, Bastrop, Bell, Blanco, Caldwell, Comal, Edwards, Frio, Gillespie, Gonzales, Hays, Kimble, Kinney, Lampasas, Maverick, McCulloch, Menard, San Saba, Williamson, Wilson, and Zavala.

	Percent
For Physical Damage:	
Homeowners with credit available elsewhere	8.000
Homeowners without credit available elsewhere	4.000
Businesses with credit available elsewhere	8.000
Businesses and non-profit organizations without credit available elsewhere	4.000
Others (including non-profit organizations) with credit available elsewhere	7.250
For Economic Injury:	
Businesses and small agricultural cooperatives without credit available elsewhere	4.000

The number assigned to this disaster for physical damage is 296211 and for economic injury the number is 952700.

³ 15 U.S.C. 78q-1(b)(3)(F).

⁴ 17 CFR 200.30-3(a)(12).