forth in the first paragraph of Section 2401 do not apply to novated repos. Instead, as a condition for Delta to assume on such business day the obligation to clear the off-date portion, novated repos must be reported to Delta by 5:00 p.m. on any business day prior to the settlement day of the off-date portion. However, if the settlement day of the off-date portion is the next business day following the business day on which a novated repo is reported to Delta, such novated repo must be reported to Delta prior to 2:15 p.m. so that Delta will be able to collect margin related to the transaction in a timely manner.[4]

Section 2507 is added to the Repo Procedures to clarify that provisions relating to on-date settlement do not apply to novated repos. Similarly, Sections 2801 and 2802 are amended to clarify that no delivery of collateral or payment of net money through Delta is required on the on-date of a novated repo.

Finally, Section 2904 is added to the Repo Procedures to provide that Delta may accept novated repos for clearance. Section 2904 provides that a participant's net exposure resulting from the assumption by Delta of a novated repo on any business day will be included for purposes of calculating the margin required to be deposited by the participant by 11:00 a.m. of the following business day pursuant to Article XXVI of the Repo Procedures relating to margin. If Delta assumes by 5:00 p.m. the obligation to clear the off-date portion of a novated repo, any margin required from a participant as a result of the participant's net exposure resulting from Delta's assumption of such novated repo will have to be deposited by the participant on or before 11:00 a.m. on the next day. However, if a novated repo has an off-date which is the next business day following the business day on which the novated repo is reported to Delta, such novated repo is treated as an overnight repo for margin collection purposes.[5]

II. Discussion

Section 17A(b)(3)(F)[6] of the Act requires that a clearing agency be organized and its rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that the proposed rule change is consistent with section 17A(b)(3)(F). The proposal will allow more trades to be cleared through Delta's clearance and settlement system. Such trades will receive the benefit of Delta's guarantee and automated settlement capabilities. Because of Deltas netting of transactions, the proposal also may reduce the number of securities movements needed to settle transactions. By reducing the number of trades settled ex-clearing, the proposal should assist in the prompt and accurate clearance and settlement of repo transactions consistent with section 17A(b)(3)(F).

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–DCC–97–03) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[7]

Margaret H. McFarland,

Deputy Secretary.

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[4] Section 2401 also is amended to require that overnight repo transactions be reported to Delta prior to 2:15 p.m. Overnight repos and novated repos reported one day prior to settlement will be margined in the same manner. *See infra* note 5.

[5] Delta sends a supplemental daily margin report to members at 2:30 p.m. each day that indicates the amount of margin a member must deposit prior to 3:00 p.m. that day. The margin is based on an intraday mark-to-market calculation based on overnight repos.

[6] 15 U.S.C. 78q–1(b)(3)(F).

[7] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39068; File No. SR–GSCC–97–07]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Election of Directors

September 12, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Act''),[1] notice is hereby given that on July 23, 1997, the Government Securities Clearing corporation (''GSCC'') filed with the Securities and Exchange Commission (the ''Commission'') and on August 18, 1997, amended the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by GSCC. 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

GSCC is filing the proposed rule change to amend its Shareholder Agreement (''Agreement''), By-laws, and Certificate of Incorporation in order to revise GSCC's procedures for election of directors and to revise restrictions currently placed on transfers of GSCC's securities.

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

In its filing with the Commission, GSCC 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. GSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[2]

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

GSCC recently completed a comprehensive review of its Agreement, By-laws, and Certificate of Incorporation. Pursuant to that review, GSCC proposes to amend the Agreement, By-laws, and Certificate of Incorporation as described below.[3]

1. Background

The Agreement was first executed in 1988 before GSCC had a set of rules in place and before there was any business history on which to base certain provisions of the Agreement. Consequently, the Agreement covers a broad range of issues, including certain business matters not found in most shareholder agreements. For example, the Agreement includes provisions relating to loss allocation procedures, which are now comprehensively covered by GSCC's rules.

Moreover, since 1988 there have been many significant changes in GSCC's services and membership and in the government securities marketplace in

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

[2] The Commission has modified the text of the summaries prepared by GSCC.

[3] GSCC currently has forty-six shareholders, each of which is a party to the Agreement. The National Securities Clearing Corporation (''NSCC''), is the largest shareholder, holding approximately eighteen percent of GSCC's shares.

general making the Agreement inadequate to meet the realities of that marketplace and GSCC's business as it is conducted today. For example, when the Agreement was drafted, participation in the interdealer broker government securities marketplace was limited exclusively to primary and aspiring primary dealers and their brokers. Therefore, the Agreement contemplates only primary dealers, aspiring primary dealers, and brokers as participants in GSCC. Today, there is a much broader range of participation in the interdealer broker government securities marketplace, including nonprimary dealers and nondealers.

Furthermore, GSCC believes that the Agreement sets forth a great number of fixed standards relating to corporate governance and shareholder rights, particularly related to participation on the board of directors and the issuance and sale of shares, that are unnecessarily and overly specific and rigid and that do not best serve the interest of GSCC members, shareholders, and the industry in general. For example, the Agreement currently allows for only a set number of board seats for each category of dealer, broker, and clearing agent bank. As described below, the proposed revisions would provide for the addition of an ''at-large'' director seat in lieu of one of the clearing agent bank seats, which would allow for participation on the board by an individual from a nonmember firm. Also, certain proposed revisions will allow for much greater transferability of GSCC shares, including shares held by entities that are no longer involved in the government securities marketplace or that are no longer in business.

Finally, the proposed revisions will allow for more flexibility of action by GSCC to meet future business needs, including potential matters such as business partnerships and acquisitions. Thus, they would provide more flexibility to GSCC in its business planning and make the Agreement a more dynamic, ''living'' document.

2. Proposed Changes

As described more fully below, the proposed changes fall under four major categories: (a) nomination and election process for board members, (b) composition of the board, (c) restrictions on issuance and transfer of shares, and (d) miscellaneous.

(a) *Nomination and Election Process for Board Members.* The current nomination process for participant directors is open to all members with every member being able to nominate any shareholder member, including itself. However, a member is restricted to submitting nominations only for its own correlative participant category (*i.e.*, broker participants nominate broker participant directors, clearing agent bank participants nominate clearing agent bank participant directors, and all other participants nominate dealer participant directors). The election process involves ballots being circulated to every member with such voting being similarly limited to one's own correlative participant category.

(i) *Creation of a Nominating Committee.* Similar to the process in place at NSCC and other clearing corporations, GSCC proposes to create a nominating committee that will be responsible for nominating candidates for election as participant directors to the board. NSCC will continue to nominate and to elect two directors to the board outside the nominating committee process. The board seat for a management representative and for the GSCC president will also remain outside the nominating committee process.

With respect to the composition of the nominating committee, it is proposed that the nominating committee be comprised of five individuals, a majority of which will be representatives from active participants and which may be but are not required to be former board members. With the exception of the initial nominating committee, GSCC proposes that there must be a one year break between serving on the board and serving on the nominating committee (*i.e.*, a year must pass between a board member's serving on the board and being eligible to serve on the nominating committee and likewise between a nominating committee member's serving on the nominating committee and being eligible to serve on the board).

With the exception of the first nominating committee, GSCC proposes that incoming nominating committee members be designated by the board taking into account but not being bound by the recommendations of current nominating committee members. GSCC also proposes that participant category be irrelevant for purposes of the selection of nominating committee members. However, as a general guideline, the individuals serving on the nominating committee will be reflective of GSCC's overall membership and potential membership base.

The term of a nominating committee member will be two years. There must be a one year absence from the nominating committee before a former committee member is eligible to serve again. The terms of nominating committee members will be staggered. For example, one class with three individuals will be designated in the first year for a two year term and another class with two individuals will be designated for a one year term. After these initial terms, both classes will serve for two year terms. Therefore, subsequent nominating committees will have two staggered classes of members.

(ii) *Nomination Process for Board Members.* GSCC proposes that there be two levels of nomination processes for board members. The first level will be a standard process for the nominating committee to name candidates for board seats. The second level will be a supplemental process to allow participants to formally nominate candidates in addition to those named by the nominating committee. As with the designation of nominating committee members described above, nominating committee members and participants will be able to nominate individuals in all participant categories, not only the committee member's or participant's own category.

In the standard nomination process, the nominating committee will nominate one nominee for each open participant director seat. The nominating committee will select candidates based on both suggestions solicited from participants as well as from its own deliberations. GSCC proposes that participants be provided an opportunity early in the nomination process to suggest one nominee for each open board seat. Participants will then be notified of the nominating committee's slate of candidates for open board seats.

After participants are notified of the nominating committee's selections, participants will be given the opportunity to suggest additional nominees pursuant to a formal supplemental nomination process. Specifically, participants will be invited to nominate additional nominees with a petition signed by the lesser of seven participants or five percent of GSCC's participants. Each participant will be limited to signing one petition for each open board seat.

(iii) *Election Process for Board Members.* Similar to the nomination process described above, there will also be two levels of election processes for participant directors. In the standard election process, which will be followed if no nominating petitions have been filed by participants, the nominating committee will certify to the shareholders the participant directors selected by the nominating committee. Shareholders will then be bound to cast their votes supporting the nominating

committee selections at the annual meeting.

However, if participants have filed one or more formal nominating petitions, the supplemental election process will be followed. This process will involve circulating ballots to all participants and permitting them to cast their votes to fill each open participant director seat in the contested participant category or categories. GSCC proposes to eliminate the requirement that participants only may vote for directors of their participant category.

Participants will have the following voting entitlements: (i) active comparison only participants will be entitled to one vote per open board seat, (ii) active netting participants will be entitled to at least two votes per open seat, and (iii) active clearing agent bank participants will be entitled to two votes per open seat.[4] Supplemental voting entitlements will be allocated to netting members based on their level of clearing fund deposit. Each netting member will receive an additional two votes for approximately every ten million dollars of its clearing fund deposit up to a total of twelve votes.[5] Finally, cumulative voting rights will be removed.

(iv) *Vacancies on the Board.* Currently, the board appoints new directors to replace directors who resign or are removed. (NSCC designates the person to be appointed by the board if the vacating director was an NSCC director.) The replacement director must be in the same participant category as the vacating director. Such replacement directors serve on the board until the next annual meeting, at which point the current nomination and election process is followed to refill that board seat with a permanent replacement. This permanent replacement director then serves until the vacating director's original term would have expired.

GSCC proposes to retain the current replacement mechanism but to conform the nomination and election processes that occur at the annual meeting following the board's appointment of the replacement director with the revised nominating and election processes. For example, the nominating committee will select a nominee for the open replacement director's seat. If no participant petitions have been filed, shareholders will vote their shares to support the nominating committee's selection. If a participant petition has been filed, the participants will then elect the permanent replacement director.

(v) *Election Process for the Chairman of the Board.* Currently, there is no provision in the Agreement for selecting the chairman of the board. GSCC proposes that the incoming board based upon the recommendation of the outgoing executive committee will designate the chairman of the board. The chairman will be elected for a one year item with no overall term limit other than the six year term limit applicable to all participant directors.

(b) *Composition of the Board.* Currently, the Agreement provides for twelve participant directors consisting of a set number of directors from each of the three categories of participants. The categories and number of participants are six dealer participant directors, three broker participant directors, and three clearing agent bank participant directors. GSCC believes that the current composition is inadequate to meet the reality of GSCC's business as it is conducted today. For many years now, there have been only two clearing agent banks eligible to fill three director seats. Moreover, while all participants are eligible to nominate participant directors, not all participants are eligible to serve as participant directors. Thus, GSCC proposes to restructure the board's composition and the methodology used to fix its composition in a manner that will provide enough flexibility to reflect future demographic changes in GSCC membership.

GSCC believes that specific board composition requirements should be removed from the Agreement and that the Agreement should outline only broad parameters such as a maximum number of board seats and a minimum required number of categories of directors that will be represented. This will allow the Agreement to be a flexible, ''living'' document that will enable GSCC to deal readily with significant changes in its membership base, largest shareholders, and business relationships.

The By-laws will state that the composition of the board may be changed by majority vote of the shareholders or by majority vote of the board. In this manner, the board will be empowered to make changes within the Agreement's broad parameters, including changing the size or composition requirements of the board in order to reflect membership demographics and other criteria.[6]

GSCC believes that major changes in the board's composition are not now necessary because the current members, the vast majority of which are brokers, dealers, or banks, are adequately represented. However, GSCC proposes revisions to the Agreement and By-laws that will restructure and redefine the board's composition in order to ensure continued fair representation in the future and to ensure representation to those types of entities that are neither brokers, dealers, nor banks. As the most significant step towards that end, the dealer participant category will be replaced with a ''general user participant'' category to include more types of participants. In addition, one of the clearing agent bank director positions will be recategorized as a new ''at-large'' director position which will be filled by any person whose service as a board member will be beneficial to GSCC. The current board composition is fifteen directors, which will be recategorized as one management director, one at-large director, two NSCC directors, six general user participant directors, three broker participant directors, and two clearing agent bank directors.

In order to effect these changes, the proposal will amend certain definitions in the Agreement. ''Broker'' is currently defined as an entity regularly engaged in the business of effecting transitions specifically in treasury securities and specifically for the account of primary dealers and aspiring primary dealers. GSCC believes this definition is too narrow and limiting. Hence, GSCC proposes to broaden the definition of ''broker'' to include any entity regularly engaged in the business of effecting transactions in any securities eligible for processing by GSCC on behalf of participants. In a related matter, references to treasury securities in the Agreement generally will be changed to reference all securities eligible for GSCC services.

''Clearing agent bank'' is currently defined as any clearing bank regularly used by brokers, primary dealers, and aspiring primary dealers for the clearance and settlement of transactions in treasury securities. Under the proposal, ''clearing agent bank'' will be more broadly defined essentially to mean any commercial bank member of the Federal Reserve System that provides clearing services with respect to GSCC eligible securities on behalf of others for at least ten percent of GSCC's participants and that provides those services using its own Federal Reserve account.

''Dealer participant'' is currently defined as a primary dealer or an

[4] Affiliated members will be considered one participant for purposes of determining voting entitlements.

[5] The clearing fund of affiliated members will be aggregated to determine their number of votes.

[6] Before changing the number of directors, GSCC must file a proposed rule change with the Commission.

aspiring primary dealer that is a participant. Again, GSCC believes this definition is too narrow and limiting. Thus, GSCC proposes to use the term ''general user participant'' instead of ''dealer participant.'' In addition, GSCC proposes to use the corresponding term ''general user participant director'' instead of ''dealer participant director.'' The definition of general user participant will be broader than the current dealer member category defined in the rules in that it will include essentially any participant that is not a broker or clearing agent bank, including futures commission merchants and registered investment companies.

A related proposal will remove all references to primary and aspiring primary dealers from the Agreement. As noted above, restricting nonbroker participants to primary and aspiring primary dealers, the latter of which the Federal Reserve no longer recognizes, disenfranchises participants that nonetheless act in a traditional dealer capacity.

As noted above, GSCC proposes to add an at-large category of director to further fair representation. The use of this category will allow GSCC the flexibility to add to the board a representative from a type of member not already represented on the board or an individual from an entity that plays an important role in the government securities marketplace but is not a GSCC member or shareholder.

Finally, GSCC directors are currently limited to serving two consecutive three year terms on the board. GSCC is proposing to retain the current term limits for all but the vice chairman and management director, who will not have term limits. Furthermore, the Agreement will specify that there must be a one year absence from the board before a former director is eligible for a new overall six year term limit. GSCC proposes to retain the three staggered classes of directors. The By-laws will specify the categories of directors that compose each of the three classes.

(c) *Restrictions on Issuance and Transfer of GSCC Shares.* GSCC is subject to restrictions on the issuance and repurchase of its shares. In addition, GSCC's shareholders, including NSCC, are subject to restrictions on the transfer GSCC shares. The restrictions differ for Class A voting shares and Class B non-voting shares.

(i) *Restrictions on Shares.* One of the primary restrictions that GSCC would like to remove from its shares is the price restrictions. Generally, both Class A and Class B shares must be issues, sold, or transferred at a price of $500 per share. Only NSCC and GSCC, if selling shares it acquired from NSCC, are authorized to sell or transfer Class A shares for a price other than $500. GSCC proposes to remove this price restriction completely which will provide a great deal more flexibility to shareholders wishing to sell their shares. One exception to removing the price restriction will be that GSCC generally will not be able to sell shares at less than current book value.

GSCC currently may issue Class A shares only to participants not already holding Class A shares. GSCC proposes to provide itself more flexibility by being able to issue Class A shares to an existing Class A shareholder, participant, or affiliate of a participant.[7] This expansion will help GSCC broaden its shareholder base in an appropriate manner.

GSCC currently may issue Class B shares only to holders of Class A shares. However, the board recently stated its intention to repurchase the existing Class B shares when GSCC is determined to be adequately capitalized which is expected to occur by year end 1997. Because GSCC's intention is to repurchase and then cancel all its Class B shares, GSCC proposes to remove from the Agreement GSCC's authority to issue new Class B shares.

In addition, the Agreement contains restrictions on transfers of Class A shares by participant shareholders including a requirement that the Class A shareholder must transfer all of its Class A shares and that the transfer must be to a single participant not already holding Class A shares. GSCC proposes to make Class A shares more freely transferable by permitting sales to any existing Class A shareholder, participant, or affiliate of a participant in lots of 300 shares. However, no shareholder other than NSCC will be able to own more than five percent of Class A shares unless such shares are held as a result of acquisition, merger, or a comparable event. Similarly, holders of Class B shares can sell such shares only to participant shareholders in lots of 200 and only with GSCC's consent. GSCC proposes to authorize shareholders to sell Class B shares to any existing shareholder, participant, or affiliate of a participant in lots of 200 shares. This loosening of the transfer restrictions would provide a benefit to existing shareholders in the form of more flexibility in ownership. For example, it would allow shareholders that have multiple sets of GSCC shares by virtue of acquisitions or mergers to transfer the ownership of one or more share sets to an affiliated entity.

Currently, GSCC has a right of first refusal only with respect to NSCC's sale of its Class A shares. GSCC proposes to extend its right of first refusal to any sale or transfer of shares by any shareholder. GSCC may purchase such shares at the lesser of the agreed price or the current book value. GSCC may resell such securities for a price at least equal to the book value unless the board approves a lower price.

Unlike other shareholders, NSCC may sell any number of its Class A shares at any price to nonparticipants. However, GSCC has a right of first refusal to purchase any of NSCC's Class A shares for $500 per share. GSCC can then sell these repurchased Class A shares to participants not already holding Class A shares or to any person at any price if approved by GSCC's board. The proposed rule change will amend GSCC's right of refusal to require the sale price to be the lesser of book value or the negotiated price. Similar to its proposal with respect to the issuance of shares, GSCC's proposal will permit GSCC to sell repurchased Class A shares to any existing Class A shareholder, participant, or affiliate of a participant at a price equal to current book value.

With respect to shareholders other than NSCC, GSCC can request to purchase Class A shares from participant shareholders provided that each participant shareholder sells the same percentage of Class A shares as each other participant shareholder and NSCC continues to hold twenty percent of GSCC's Class A shares unless NSCC agrees otherwise. The Agreement currently provides that GSCC does not intend to repurchase outstanding Class A shares unless all Class B shares have been converted to Class A shares or have already been repurchased by GSCC. The proposal will allow GSCC to repurchase shares at current book value or at any price determined by the board.

Class B shares are also subject to restrictions on conversions. Participant shareholders can convert Class B shares to Class A shares only upon GSCC's request to convert. GSCC is only authorized to issue such a request in order to effect a transfer of converted shares to one or more participants that do not hold any Class A shares. Because GSCC's intention is to repurchase and then cancel all its Class B shares, GSCC proposes to delete the conversion provisions.

(ii) *Provision for Extraordinary Corporate Action.* The proposed changes to the Agreement will allow GSCC to issue shares in response to an

[7] If GSCC issues additional Class A shares, NSCC has the right to request that enough additional Class A shares be issued to it in order for NSCC to retain its twenty percent holdings in GSCC. The proposal will not change this provision.

extraordinary corporate action. For example, in the event GSCC engages in a joint business venture with another entity or enters into a profit sharing agreement with another entity, it will be able to issue Class A shares or a new class of shares. Pursuant to such an issuance, GSCC may exchange or transfer such shares for cash in any amount or for any noncash consideration.

(iii) *Shareholder Ceasing To Be a Participant.* Regardless of the class of shares, if a shareholder ceases to be a GSCC participant, GSCC has the discretionary right to repurchase its shares provided that GSCC repurchases all of the shares for $500 per share. However, GSCC is not obligated to repurchase such shares. Difficulties arise when a GSCC shareholder is no longer a participant due to insolvency or merger or because it no longer engages in the business of trading in government securities. In these types of instances, contacting the shareholder or obtaining required shareholder action such as shareholder votes is made more difficult.

GSCC proposes to expand its authorized process for dealing with situations where a shareholder no longer is a participant. GSCC proposes to amend its current authority to mandate repurchase of shares of such a shareholder at book value. However, the proposal also will authorize GSCC to offer to repurchase shares for any price determined by the board.

(d) *Miscellaneous Amendments.* There are a number of other provisions in the Agreement that GSCC proposes to amend including: (i) loss allocation provisions, (ii) specific time and name references, (iii) supermajority voting requirements, and (iv) changes in GSCC's business.

With respect to loss allocation, the Agreement currently has detailed loss allocation provisions that are redundant with the loss allocation provisions set forth in GSCC's rules. These loss allocation provisions represent business considerations that are not typically covered by a shareholder agreement. Therefore, because GSCC believes that the rules are inherently more flexible than the Agreement, GSCC proposes to delete the loss allocation provisions from the Agreement as they are more appropriately handled in the rules. Furthermore, according to GSCC, inconsistencies can be avoided by having the loss allocation provisions in only one document.

With respect to time and name references, there are a number of references that are no longer relevant to the Agreement. For example, there are provisions in the Agreement relating to shareholder meetings, classes of directors, and staggered elections. These developmental provisions make a number of references to procedures that had to be followed during the period between 1988 and 1991 at which time standard procedures went into effect. Similar to the time references, the Agreement specifically refers to NSCC in a number of sections and names a specific individual to hold one NSCC director seat and another specific individual to act as the management director for purposes of the 1988 annual meeting. GSCC propose to remove all timing references and procedures specific to the period between 1988 and 1991. In addition, GSCC proposes to remove the obsolete provision naming the specific individuals.

The Agreement now also sets forth a number of supermajority board voting requirements that must be met in order to make certain changes to the Agreement. These changes to the Agreement include classification of directors, procedures for electing and replacing directors, provisions related to loss allocation, and procedures and requirements for amending the Agreement. Furthermore, eighty percent of the entire board must vote to change GSCC's business.

GSCC proposes to remove these supermajority voting requirements with respect to future amendments of the Agreement. Many of the provisions affected by the supermajority voting requirements will be changed to such an extent that such requirements will no longer be logical. Furthermore, one of the overall goals of amending the Agreement is to make it more flexible.

Notwithstanding the above, GSCC would retain the requirement that it be authorized to change its business from that of a registered clearing agency including any change that would put GSCC in the business of being a broker or of performing brokered transactions, only upon an affirmative vote of at least eighty percent of the entire board. Moreover, for the protection of its shareholders and members, GSCC proposes that any change of business that puts GSCC in competition with clearing agent banks also be subject to a veto by a unanimous vote of all the clearing agent bank directors and one other participant director.

According to GSCC, the proposed rule change will benefit GSCC's members by allowing a more flexible, efficient, and responsive administration. Therefore, GSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations promulgated thereunder.

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

GSCC does not believe that the proposed rule change will have an impact or impose a burden on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. Members will be notified of the rule change filing and comments will be solicited by an Important Notice. GSCC will notify the Commission of any written comments received by GSCC.

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 GSCC 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 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 in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of GSCC. All submissions should refer to the file number SR–GSCC–97–

07 and should be submitted by October 14, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[8]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–25028 Filed 9–19–97; 8:45 am]

BILLING CODE 8010–01–M

SECUTITIES AND EXCHANGE COMMISSION

[Release No. 34–39083; File No. SR–NASD–97–54]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the National Association of Securities Dealers, Inc., Relating to Computer-to-Computer Interface Circuit Fees for Non-NASD Members

September 16, 1997.

On July 28, 1997, the Nasdaq Stock Market, Inc. (''Nasdaq'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Exchange Act'')[1] and Rule 19b–4 thereunder [2] to amend Rule 7010 of the National Association of Securities Dealers, Inc. (''NASD'' or ''Association''), to charge Computer-to-Computer Interface (''CTCI'') subscribers that are not NASD members a circuit fee of $200 per month for each circuit. Notice of the proposed rule change, together with the substance of the proposal, was provided by issuance of a Commission release and by publication in the **Federal Register**.[3] No comment letters were received. The Commission is approving the proposed rule change.

I. Description of Rule Change

Nasdaq proposed the rule change in order to charge CTCI subscribers that are not NASD members a circuit fee of $200 per month for each circuit. Firms employ CTCI between their in-house computer systems and Nasdaq for a variety of functions, the most prevalent being order entry into the Small Order Execution System (''SOES'') and the reporting of transactions into the Automated Confirmation Transaction Service (''ACT''). Nasdaq currently supports a total of 449 circuits.

Although most users of CTCI are NASD members, a small number are not. Specifically, these are mutual funds or their pricing agents that may use CTCI for transmitting net asset values (''NAVs'') each day to Nasdaq's Mutual Fund Quotation Service. To ensure that the costs are uniformly allocated among all CTCI subscribers, Nasdaq is proposing to apply the circuit charge to these subscribers as well.

The CTCI network is presently managed by MCI Communications Corp., which is responsible for customer services including installation, relocation and trouble shooting. Subscribers pay a monthly fee to MCI for each circuit in use. Nasdaq does not currently charge CTCI subscribers beyond the fees associated with the transaction services supported by the CTCI network.

Nasdaq believes that the new fee structure is necessary due to adjustments and enhancements that Nasdaq has already made to support capacity for trading days of 1 billion shares currently, 1.5 billion shares by the end of 1997, and 2 billion shares in 1998. As the number of CTCI circuits grows, the potential to exceed capacity limits in the CTCI supported services, notably ACT and SOES, likewise increases. As a consequence, additional infrastructure enhancements will be required to maintain the level of support required to run these services at an acceptable level of performance. In addition to future systems enhancements, Nasdaq continues to incur costs for the support of CTCI circuits and subscribers. These costs include hardware and software enhancements and upgrades for the communications interfaces with Nasdaq systems, support of the subscriber database, customer telephone support and Nasdaq staff planning and provisioning for CTCI. A recent activity-based costing analysis indicated that these costs total approximately $1.1 million annually, which Nasdaq seeks to recover through this fee.

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A(b)(5) of the Exchange Act,[4] which requires that the rules of the NASD provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which the NASD operates or controls.

II. Discussion

The Commission finds the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to a national securities association and, in particular, the requirements of Section 15A(b)(5) of the Exchange Act.[5] Section 15A(b)(5) requires that the rules of a national securities association provide for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility or system which the association operates or controls. The Commission believes that the CTCI fee for non-members is reasonable and results in an equitable allocation of the costs between NASD members and non-members associated with operating CTCI. The proposed rule change will merely act to offset Nasdaq's costs of doing so. Further, it is important that Nasdaq continue to increase its capacity and that it continue its infrastructure enhancements. Improvements such as these, which strengthen the national market system, are in the public interest. Accordingly, the Commission finds that Nasdaq's proposal is appropriate and consistent with the Exchange Act.

III. Conclusion

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Exchange Act, that the proposed rule change (SR–NASD–97–54) 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. 34–39080; International Series Release No. 1100; File No. SR–ODD–97–1]

Self-Regulatory Organizations; OMLX, The London Securities and Derivatives Exchange Limited; Order Approving Proposed Options Disclosure Document, as Amended

September 15, 1997.

On June 30, 1997, OMLX, The London Securities and Derivatives Exchange

[8] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] Securities Exchange Act Release No. 38925 (August 12, 1997), 62 FR 44158 (August 19, 1997). Concurrently, pursuant to Section 19(b)(3)(A)(ii) of the Exchange Act, Nasdaq filed with the Commission an identical rule change that applies to NASD members. *See* Securities Exchange Act Release No. 38926 (August 12, 1997), 62 FR 44157 (August 19, 1997).

[4] 15 U.S.C. 78*o*-3.

[5] In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[6] 17 CFR 200.30–3(a)(12).