

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-26842]

Filings Under the Public Utility Holding Company Act of 1935, as Amended ("Act")

March 13, 1998.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated thereunder. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendments thereto is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by April 6, 1998, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After said date, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Central and South West Corporation, et al. (70-9091)

Central and South West Corporation ("CSW"), a registered holding company, its nonutility subsidiary companies CSW Energy, Inc. ("Energy"), and CSW International, Inc. ("CSWI") (collectively, "Applicants"), all located at 1616 Woodall Rodgers Freeway, P.O. Box 660789, Dallas, Texas 75202, have filed a declaration under section 13(b) of the Act, and rules 83, 87(b)(1), 90 and 91 under the Act.

By orders dated September 28, 1990, November 22, 1991, December 31, 1992 and November 28, 1995 (HCAR Nos. 25162, 25414, 25728 and 26417, respectively) and certain other orders, the Commission authorized CSW, directly or through Energy, to engage in development activities to conduct preliminary studies of, to investigate, research, develop, consult with respect

to, and to agree to construct (the construction subject to further Commission authorization), qualifying facilities ("QF"), as defined under the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"), and independent power facilities, including exempt wholesale generators, as defined in section 32 of the Act ("EWG").

By additional orders dated November 3, 1994, September 27, 1995 and January 24, 1997 (HCAR Nos. 26156, 26383 and 26531, respectively), the Commission authorized CSW, directly or through CSWI, to engage in development and investment activities in EWGs and foreign utility companies, as defined in section 33 of the Act ("FUCO") (collectively, EWGs and FUCOs "Exempt Projects"), and is authorized to provide design, construction, engineering, operation, maintenance, management, administration, employment, tax, accounting, economic, financial, fuel, environmental communications, energy conservation, demand side management, overhead efficiency, utility performance and electronic data processing services and software development and support services in connection therewith to Exempt Projects and (except for operation services) to foreign electric utility enterprises that are not Exempt Projects.

The Applicants and any of their subsidiaries other than CSW's domestic operating utility subsidiaries (collectively, the "Operating Companies"), now request authorization to enter into agreements to provide energy-related services to associate companies at fair market prices. The Applicants request an exemption pursuant to section 13(b) from the requirements of rules 90 and 91 as applicable to transactions in any case in which any one or more of the following circumstances will exist: (1) An associate company is a FUCO, or is an EWG, that derives no part of its income, directly or indirectly, from the generation, transmission or distribution of electric energy for sale within the United States; (2) an associate company is an EWG that sells electricity at market-based rates which have been approved by the Federal Energy Regulatory Commission ("FERC") or the appropriate state public utility commission, provided that the purchaser of energy produced by such associate company is not an Operating Company; (3) services rendered to an associate company in respect of a QF that sells electricity exclusively at rate negotiated at arm's length to one or more industrial or commercial customers purchasing the electricity for

their use not for resale, or to an electric utility company, other than an Operating Company, at the purchaser's "avoided cost" determined in accordance with the regulations promulgated by FERC under PURPA or at such other rates negotiated at arm's length with such electric utility company; and (4) an associate company is an EWG or a QF that sells electricity at rates approved by FERC or any state public utility commission having jurisdiction, provided that the purchaser of such electricity produced by such associate company is not an Operating Company.

The Applicants also request an exemption from section 13(b) of the Act if: (i) An associate company is a subsidiary of an Applicant, the sole business of which is developing, owning and/or operating Exempt Projects or QFs described in clauses (1), (2), (3) or (4) above; or (ii) an associate company is a subsidiary of an applicant, which subsidiary does not derive, directly or indirectly, any material part of its income from sources within the United States and is not a public utility company operating within the United States. None of the associate companies specified in clauses (i) or (ii) above that acquire services at market-based rates under the authority sought in this declaration will sell, or offer to sell, services to any Operating Company without additional Commission authority.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-7283 Filed 3-19-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39747; File No. SR-MBSCC-97-10]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Approving a Proposed Rule Change Relating to Modifications to MBSCC's Liquidation Rules

March 13, 1998.

On November 13, 1997, the MFS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-MBSCC-97-10) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ On January 30, 1998,

¹ 15 U.S.C. 78s(b)(1).

MBSCC filed an amendment to its proposed rule change. Notice of the proposal was published in the **Federal Register** on February 17, 1998.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change modifies MBSCC's rules governing the liquidation of open trades when MBSCC ceases to act for a participant. The modifications to Section 5 of Rule 3 of Article III of MBSCC's rules, which governs the disposition of a former participant's open commitments, are as follows.

MBSCC's rules now provide that participants authorize MBSCC to obtain, if necessary, immediate disclosure of the settlement status of any trade from depository institutions or clearing banks. Any liquidation of a former participant's open trades will occur on a net basis as determined by MBSCC and as reflected on the open commitment report.³ However, transactions will be liquidated on a net basis only if the contraside participants and trade terms are eligible for netting. Any open trade of the former participant that contains a specified pool will be disposed of as if it did not contain such specified pool (*i.e.*, the trade is disposed of based on its generic trade terms such as agency, product, coupon rate, and maturity) unless otherwise determined by MBSCC.

MBSCC's rules now provide that in a liquidation situation MBSCC may temporarily delay settlement balance order market differential ("SBOMD") credits due to original contrasides (*i.e.*, the participants with whom the former participant contracted) until the completion of the liquidation of the former participant's open trades.⁴ In addition, MBSCC is able to apply SBOMD credits due to original contrasides of the former participant to offset any assessment against such original contrasides pursuant to MBSCC's liquidation rules.

The proposed rule change makes explicit that MBSCC does not allow claims for variance pursuant to The

Bond Market Association's guidelines relating to a former participant's open trades that have not completed SBO netting or that have a trade-for-trade status.⁵ Claims will be allowed for cash adjustments relating to a former participant's open trades that have completed SBO netting if such claims are reasonable as determined solely by MBSCC. In addition, the proposed rule change clarifies that original contrasides are reasonable for prorated cash adjustments of the former participant if the amount available from the former participant is insufficient to cover its obligations.

MBSCC generally gives priority to claims by contrasides that were matched with the former participant through MBSCC's netting process provided that the contraside was not the original contraside to the trade ("SBO contrasides") before claims by original contrasides in the event that the amount available from the former participant is insufficient to cover its obligations. The proposed rule change creates an additional priority that gives claims for losses by original contrasides relating to unmarginated trades a lesser priority than claims for losses by original contrasides relating to previously margined trades if the amount available from the former participant is insufficient to cover its obligations. As a result of this modification, MBSCC's priority structure is (1) SBO contrasides, (2) original contrasides for previously margined trades,⁶ and (3) original contrasides for unmarginated trades.

II. Discussion

Section 17A(b)(3)(F)⁷ 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 MBSCC or for which it is responsible. The Commission believes that MBSCC's proposed rule change is consistent with its obligation under the Act because the proposal should enhance MBSCC's ability to provide appropriate risk

protection to its members in the case of a liquidation situation.

Many of the modifications are designed to reduce the amount of time needed for liquidation. For example, immediate disclosure of the settlement status of any trade from depository institutions or clearing banks reduces MBSCC's reliance on independent contraside verification and, therefore, the time required to identify and to liquidate a former participant's open trades. Liquidation of trades on a net basis should reduce the number of trades requiring liquidation. Similarly, disposition of trades without regard to whether they contain specified pools should simplify and expedite the liquidation process. By shortening the time required to liquidate a former member's positions, these changes reduce the risk that a participant's open positions will decrease in value and thus reduces the potential liability to which MBSCC is subject.

Other amendments will enhance MBSCC's liquidity and reduce its risk of loss. For example, the delay in payment of SBOMD credits to original contrasides and the ability to apply such payments against amounts owed may strengthen MBSCC's cash flow position. The limitation on claims for variances and cash adjustments may reduce the amount of claims that could be made against MBSCC in a liquidation. Therefore, the Commission believes that the proposed rule change is consistent with MBSCC's obligation to safeguard funds and securities 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 Section 17A(b)(3)(F) 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-MBSCC-97-10) be and hereby is approved.

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

Margaret H. McFarland,
Deputy Secretary.

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² Securities Exchange Act Release No. 39633 (February 9, 1998), 63 FR 7844.

³ MBSCC's open commitment report is a daily report that shows a participant's open compared trades and is used to identify a former participant's open commitments in a liquidation situation.

⁴ SBOMD represents the cash difference between the contract price of a transaction and the settlement price as a result of SBO netting. MBSCC typically pays SBOMD credits to participants on settlement date.

⁵ Sellers in the mortgage-backed securities market are typically permitted to deliver securities that vary by a certain percentage from the originally traded face value pursuant to The Bond Market Association's guidelines for mortgage-backed securities (*i.e.*, a variance). MBSCC calculates a cash adjustment for its participants that includes variance only for trades that have gone through the netting process.

⁶ In this instance, original contrasides could include an original party to the trade which was again matched against the former participant through the netting process or an original contraside to a trade that has been margined but has not yet been through the netting process.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 17 CFR 200.30-3(a)(12).