

scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact:

The Office of the Secretary at (202) 942-7070.

Dated: November 29, 1999.

Jonathan G. Katz,

Secretary.

[FR Doc. 99-31455 Filed 11-30-99; 4:19 pm]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42180; File No. SR-EMCC-99-7]

Self-Regulatory Organizations; Emerging Markets Clearing Corporation; Order Granting Approval of a Proposed Rule Change Regarding Clearing Agency Cross-Guaranty Agreements

November 29, 1999.

On June 4, 1999, the Emerging Markets Clearing Corporation ("EMCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-EMCC-99-7) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposed was published in the **Federal Register** on August 6, 1999.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

EMCC's Rule 21 authorizes EMCC to enter into "clearing agency cross-guaranty agreements."³ On June 2, 1999, EMCC entered into clearing agency cross-guaranty agreements with the National Securities Clearing Corporation ("NSCC"), the Government Securities Clearing Corporation ("GSCC"), and the International Securities Clearing Corporation ("ISCC"). According to EMCC, the form of agreement with each of these entities is substantially similar to the form of agreement approved by the Commission

in rule changes previously submitted by NSCC, MBSCC, GSCC, and ISCC.⁴

Generally, the limited cross-guaranty provided for by the clearing agency cross-guaranty agreements is invoked when a clearing entity ceases to act for a common member. This limited guaranty enables clearing agencies that have entered into limited cross-guaranty agreements to benefit from a defaulting member's excess collateral at other clearing agencies in which the defaulting member was a participant. The guaranty provides that resources of the defaulting common member remaining after the defaulting common member's obligations to the guaranteeing clearing agency have been satisfied may be used to satisfy any unsatisfied obligations to the other clearing agencies. The guaranty is limited to the extent of the resources relative to the defaulting common member remaining at the guaranteeing clearing agency.

EMCC believes that the clearing agency cross-agency agreements should be beneficial because the funds that may be made available to it may provide resources that may make a pro rata charge against its clearing fund unnecessary or lesser in amount.

The benefits accruing to EMCC from a Clearing agency cross-guaranty agreement are illustrated by the following example:

Broker-dealer BD upon insolvency owes EMCC a net of \$5 million. BD is owed a net of \$3 million by Clearing Entity X. In the absence of a clearing agency cross-guaranty agreement, Clearing Entity X would be obligated to pay \$3 million to BD's bankruptcy estate, and EMCC would have a claim for \$5 million against BD's bankruptcy estate as a general creditor with no assurance as to the extent of recovery. Under an effective cross-guaranty agreement, however, Clearing Entity X would pay to EMCC the \$3 million it owned to BD. As a result, EMCC's net exposure to the defaulting common member BD would be reduced.

II. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the

safeguarding of securities in the custody or control of the clearing agency or for which it is responsible and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The Commission believes that the proposal is consistent with EMCC's obligation to assure the safeguarding of securities and funds in the custody or control of the clearing agency for which it is responsible because cross-guarantee agreements among clearing entities are a method of reducing risk of loss due to a common member's default. Furthermore, the Commission has encouraged the use of cross-guarantee agreements and other similar arrangements among clearing agencies.⁵ Consequently, cross-guarantee agreements should assist clearing agencies in assuring the safeguarding of securities and funds in their custody or control.

The Commission also believes the proposals are consistent with EMCC's obligation to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The Commission believes that by entering into such agreements, EMCC can mitigate the systematic risks posed to it and to the national clearance and settlement system as a result of a defaulting common member.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposals are 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-EMCC-99-7) be, and hereby is, approved.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 99-31391 Filed 12-2-99; 8:45 am]

BILLING CODE 8010-01-M

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 41673 (July 30, 1999), 64 FR 43006 [File No. SR-EMCC-97-7].

³ Under EMCC's Rule 1, "clearing agency cross-guaranty agreement" means an agreement between EMCC and another clearing entity relating to the guaranty by EMCC of certain obligations of a member to such clearing entity.

⁴ Securities Exchange Act Release Nos. 37616 (August 28, 1996), 61 FR 46887 [File Nos. SR-MBSCC-96-02, SR-GSCC-96-03, and SR-ISCC-96-04], and 39020 (September 4, 1997), 62 FR 47862 [File No. SR-NSCC-97-11].

⁵ *E.g.*, Securities Exchange Act Release Nos. 36431 (October 27, 1995), 60 FR 55749 [File No. SR-GSCC-95-03] and 36597 (December 15, 1995), 60 FR 66570 [File No. SR-MBSCC-95-05].

⁶ 17 CFR 200.30-3(a)(12).