

receives permanent registration as a clearing agency under Section 17A(b) of the Act.<sup>9</sup>

In light of DCC's past performance, the Commission believes that DCC complies with the statutory prerequisites for registration as a clearing agency contained in Section 17A(b)(3) of the Act except for the fair representation requirement discussed above.<sup>10</sup> Therefore, the Commission believes that DCC should continue to be registered on a temporary basis. Comments received during DCC's temporary registration will be considered in determining whether DCC should receive permanent registration as a clearing agency.

Interested persons are invited to submit written data, views, and arguments concerning the foregoing application. 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 application and all written comments will be available for inspection and copying at the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. All submissions should refer to the File No. 600-24 and should be submitted by August 29, 1997.

*It is therefore ordered*, pursuant to Section 19(a) of the Act, that DCC's registration as a clearing agency (File No. 600-24) be and hereby is temporarily approved through July 31, 1998.

For the Commission by the Division of Market Regulation pursuant to delegated authority.<sup>11</sup>

**Jonathan G. Katz,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38868; File No. SR-DCC-97-06]

### Self-Regulatory Organizations; Delta Clearing Corp.; Notice of Filing of a Proposed Rule Change Relating to the Clearance and Settlement of Mortgage-Backed Securities Repurchase Agreements

July 23, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act"),<sup>1</sup> notice is hereby given that on April 7, 1997, the Delta Clearing Corp. ("DCC") filed with the Securities and Exchange Commission ("Commission") and on May 12, May 29, June 18, and July 9, 1997, amended the proposed rule change (File No. SR-DCC-97-06) as described in Items I, II, and III below, which items have been prepared primarily by DCC. 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

DCC is proposing amendments to its Procedures for the Clearing of Securities and Financial Instrument Transactions ("Procedures") that will establish procedures for the clearance and settlement of repurchase agreements and reverse repurchase agreements ("repos") in which the underlying collateral is book-entry mortgage-backed securities issued by the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC").

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

In its filing with the Commission, DCC 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. DCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>2</sup>

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

DCC proposes to revise its Procedures to permit it to clear and settle repo transactions on mortgage-backed securities.<sup>3</sup> Under the proposal, DCC will limit its clearing activity to repos on mortgage-backed securities which are issued or guaranteed directly by FNMA or FHLMC, secured by an underlying

pool of mortgages, held in book-entry form, and transferable through the Federal Reserve System.

According to DCC, the market for repo transactions in mortgage-backed securities is estimated to be approximately 25% to 40% of the size of the market for repo transactions in U.S. Treasury securities. DCC states that this estimate suggests that the outstanding notional size of the market is between \$250 billion to \$400 billion with daily turnover at 10% of the notional size. DCC believes that the market in FNMA and FHLMC instruments that may be cleared and settled through DCC under its proposed Procedures is approximately 60% to 70% of the marketplace for repo transactions in mortgage-backed securities.

The netting benefits which may accrue to participants effecting transactions through DCC's clearing system for mortgage-backed securities are twofold. First, participants will be able to net for balance sheet reporting purposes repo transactions in mortgage-backed securities pursuant to the provisions of FASB Interpretation No. 41 ("FIN 41"). Such netting could have a positive and material effect on the participants' balance sheet. Second, also pursuant to the provisions of FIN 41, participants may be able to net repo transactions in Treasury securities cleared through DCC with repo transactions in mortgage-backed securities cleared through DCC. Thus, the opportunities for a positive impact on a participant's balance sheet is significantly enhanced. DCC does not believe that any changes are required to the structuring of its clearing system in order for the netting benefits described above to accrue to participants.<sup>4</sup>

DCC states that although most of the primary dealer community is equipped to effect repo transactions in mortgage-backed securities, there is a core group of approximately twenty to twenty-five primary dealers for whom mortgage-backed repo trading is considered to be a core activity. Of the twenty to twenty-five active participants in the marketplace, approximately ten to fifteen consistently act as market makers in mortgage-backed repo instruments.

According to DCC, the trading practices and protocols associated with

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> The Commission has modified the text of the summaries prepared by DCC.

<sup>3</sup> Currently, DCC has separate procedures for repo transactions and option transactions. DCC has filed a proposed rule change to combine the two sets of procedures into a single set of procedures [File No. SR-DCC-97-04]. While the combined procedures have not yet been approved by the Commission, this proposed rule change amends the procedures as combined.

<sup>4</sup> Paragraph 3 of FIN 41 sets forth the conditions for the availability of offset for repo transactions. While paragraph 3 requires that the counterparties and settlement date be the same for all transactions which are to be netted, there is no requirement that the securities be of the same type. Therefore, to the extent that offset was available for Treasury repo transactions, it should be available for transactions with mortgage-backed securities.

<sup>9</sup> 15 U.S.C. 78q-1(b).

<sup>10</sup> 15 U.S.C. 78q-1(b)(3).

<sup>11</sup> 17 CFR 200.30-3(a)(16).

effecting repo transactions in mortgage-backed securities are similar in nature to those employed in connection with effecting repo transactions in Treasury securities.<sup>5</sup> For example, the repos in mortgage-backed securities that DCC proposes to clear will be limited to those where the collateral consists of securities which are eligible for transfer through the FedWire. Therefore, participants to a transaction or authorized brokers<sup>6</sup> will be required to report trades within the same time periods as for repo transactions in Treasury securities to permit DCC to process the trade before the closing of the Fed Wire.

DCC anticipates that the report structure currently employed for repo transactions in Treasury Securities is generally applicable and appropriate for mortgage-backed securities repo transactions. DCC believes only modest changes to the report structures are necessary to accommodate, for example, monthly principal and interest payment associated with mortgage-backed securities repo transactions. Other than these report and certain processing system enhancements, DCC believes its existing operating environment is generally able to accommodate the introduction of clearing services for mortgage-backed securities.<sup>7</sup>

### 1. The Clearing Process

As with repo transactions in Treasury securities, mortgage-backed securities repo transactions involve two settlement dates. The first settlement date ("on-date") is the date on which one participant ("selling participant") delivers mortgage-backed securities to the other party ("purchasing participant") in exchange for the delivery of cash ("delivery money") by the purchasing participant to the selling participant. The second settlement date ("off-date") is the date on which the purchasing participant returns to the selling participant the mortgage-backed securities delivered on the on-date in exchange for the return by the selling participant of the delivery money together with interest based upon a rate agreed to by the participants ("repo rate"). DCC generally clears both the on-date and off-date portion of a repo

transaction. However, there may be certain repo transactions where DCC clears only the off-date portion of the transaction.<sup>8</sup>

a. *Execution and Reporting of Trades.* As with repo transactions in Treasury securities, mortgage-backed securities repo transactions to be cleared by DCC may be entered into and reported to DCC in one of two ways: (i) They may be entered into directly between the two participants to a transaction and reported to DCC by the participants or (ii) they may be entered into between two participants through the facilities of an authorized broker and reported to DCC by the authorized broker.<sup>9</sup>

The trade reports for each mortgage-backed securities repo transaction will need to set forth the identity of the parties to the transaction, including which party is the selling participant and which party is the purchasing participant; the CUSIP number or numbers for the mortgage-backed securities being delivered in connection with the repo transaction; the par amount of the securities being delivered; the delivery money being delivered by the purchasing participant; the trade date and time; the on-date and off-date for the transaction; and any details relating to any rights of substitution, including the number of rights of substitution to be permitted and any restrictions on rights of substitution.

As with repo transactions in Treasury securities, the terms of the mortgage-backed securities repo transactions will be agreed to by the participants prior to the submission of trade reports to DCC. As indicated in the previous paragraph, these terms will include the CUSIP number or numbers and par amount or amounts of the collateral required to be delivered by the selling participant on the on-date. There is an existing practice among mortgage-backed security traders in which the parties to a transaction may agree to a trade amount subject to the right of the delivering party, based upon their inventory, to adjust the amount of the trade by over-delivering or under-delivering mortgage-backed security collateral within a specified percentage of the amount initially agreed to by the parties. DCC will require that such adjustments, commonly known as "variances," be made prior to the submission of trade

reports to DCC and reflected in the trade reports submitted to DCC. Therefore, such variances should not affect DCC's operations.

Mortgage-backed securities repo transactions with an on-date later than the trade date will need to be reported to DCC prior to 6:00 p.m. on the trade date. Mortgage-backed securities repo transactions with an on-date on the trade date will need to be reported to DCC: (i) Within one-half hour after the transaction occurs, if the transaction occurs prior to 1:30 p.m.; (ii) within five minutes after the transaction occurs, if the transaction occurs between 1:30 p.m. and 2:15 p.m.; and (iii) as soon as possible but in no event later than five minutes after the transaction, if the transaction occurs after 2:15 p.m.

With respect to mortgage-backed securities repo transactions entered into directly between two participants, each participant will forward a trade report to DCC. If DCC does not receive a trade report from one of the participants to the transaction, DCC will contact that participant within one half-hour of receipt of the trade report to confirm the terms of the trade reported by the other participant. When DCC receives trade reports from both participants, it will match the two trade reports. In order for a transaction to be accepted for clearance, the details of the trade reports for the transaction must agree. If the details of the trade reports do not match, DCC will contact the parties regarding the transaction. Matching of mortgage-backed securities repo transactions will be done continuously throughout the day and at the close of each trading day at 2:30 p.m. All trade reports received through an authorized broker will be confirmed by DCC either orally or via facsimile with the participants to the transaction.

b. *Acceptance of Trades.* DCC will be deemed to have accepted a transaction for clearance when DCC has matched and verified all the information on the trade reports. However, DCC may reject any transaction if it causes a participant to exceed its exposure limit<sup>10</sup> or if the participant has been suspended from DCC's clearing system. If a transaction is accepted by DCC, DCC will interpose itself as the counterparty to both sides of the transaction. Therefore, for any mortgage-backed securities repo transactions, DCC will assume the position of the purchasing participant with respect to the selling participant and assume the position of the selling participant with respect to the

<sup>5</sup> Areas where market practices for repos in mortgage-backed securities differ from market practices for repos in Treasury securities include rights of substitution (Section 5 below) and principal payments (Section 7 below).

<sup>6</sup> Authorized brokers are interdealer brokers that have been specially authorized by DCC to offer their services to DCC participants.

<sup>7</sup> For a description of DCC's current system for the clearance and settlement of repo transactions in Treasury securities, refer to Securities Exchange Act Release No. 36367 (October 13, 1995), 60 FR 54095.

<sup>8</sup> These transactions are referred to in the procedures as novated repos. Securities Exchange Act Release No. 38736 (June 11, 1997), 62 FR 33145 [File No. SR-DCC-97-03] (notice of filing of proposed rule change).

<sup>9</sup> Article 30 of DCC's Procedures sets forth the requirements regarding the reporting and acceptance of trades.

<sup>10</sup> A participant's exposure limit is the limit prescribed for each participant by DCC based on the incremental margin due to DCC by the participant.

purchasing participant. Prior to 8:00 a.m. each business day, participants will receive a written activity report indicating such participant's transactions which were accepted by DCC the previous business day and indicating all transactions due to settle that day.

c. *Clearing and Failures to Deliver or Receive.* The details of each transaction accepted by DCC will be sent to DCC's clearing bank. Each participant will need to maintain a bank account in one or more correspondent banks for margin and trade settlements. Because the mortgage-backed securities which DCC proposes to clear must be maintained in book-entry accounts at Federal Reserve Banks and will be delivered through the FedWire, the selected correspondent bank must be a depository institution with access to the FedWire.

DCC has established delivery cut-off times. For example, the selling participant on the on-date of a mortgage-backed securities repo transactions and the purchasing participant on the off-date of a mortgage-backed securities repo transaction must deliver mortgage-backed securities to the clearing bank against payment no later than one minute prior to the close of the FedWire system for delivery of securities on the settlement date. The clearing bank will redeliver such securities to the purchasing participant on the on-date or the selling participant on the off-date. If the delivering participant fails to deliver mortgage-backed securities on the settlement date by one minute prior to the close of the FedWire system, DCC has the option to buy-in the securities with the cost of buy-in being charged to the defaulting delivering participant. If DCC effects a buy-in, DCC will give the defaulting delivering participant written notice of the buy-in which will describe the security, quantity, and price.

If the receiving participant does not accept all of the mortgage-backed securities on the settlement date by one half-hour after the close of the FedWire system, DCC may sell-out the securities with the cost of sell-out being charged to the defaulting receiving participant. After the sell-out, DCC will give the participant written notice of the sell-out which will describe the security, quantity, and the selling price.

d. *Netting of Deliveries.* As a general rule, repo transactions in mortgage-backed securities will be cleared on a delivery versus payment basis. Therefore, the delivery of mortgage-backed securities will be required on settlement date. However, if a participant has a repo and reverse repo agreement with the same underlying collateral and the same on-date or off-date, as applicable, the participant's

payment and delivery obligations with respect to such agreements will be netted. This means that if a participant is required to deliver \$3 million par amount of a specified security on the off-date of a reverse repo and to receive on that same date \$2 million par amount of the same security on the off-date of a repo, these obligations will be netted to a net delivery obligation of \$1 million par amount. Payment obligations for such transactions including repo interest will also be netted.

e. *Margin.* DCC will adapt its existing margining methodology for Treasury security repos to incorporate exposures from mortgage-backed securities repo transactions. Under DCC's current margin system,<sup>11</sup> every participant is obligated to maintain a margin account for the benefit of DCC at DCC's clearing bank. Margin will be calculated every business day using a generally available source of mortgage-backed security prices. With respect to term repos, margin will be based on a mark-to-market amount and an amount based on an estimated shortfall from the liquidation of positions on the next day. For overnight repos, margin will be based on an intraday mark-to-market amount.<sup>12</sup>

## 2. Definition of Mortgage-Backed Security

Pursuant to DCC's Procedures, a mortgage-backed security is defined as a book-entry security directly issued by FNMA or FHLMC whose underlying value is represented by a pool of mortgages accumulated by FNMA or FHLMC through its mortgage origination program. Certain securities are excluded from the definition of mortgage-backed securities: (i) Securities which are issued in registered or bearer form and therefore cannot be transferred through FedWire, (ii) securities which are not issued or guaranteed directly by FNMA or FHLMC, (iii) securities for which the underlying assets are mortgage-backed securities rather than a pool of

mortgages, and (iv) notional, interest only, principal only, accrual, and partial accrual securities and floaters and inverse floaters.<sup>13</sup>

A mortgage-backed security may be either a fixed rate mortgage-backed security or an adjustable rate mortgage-backed security. A fixed rate mortgage-backed security is defined as a mortgage-backed security whose coupon rate is a fixed rate of interest. An adjustable rate mortgage-backed security ("ARMS") is defined as a mortgage-backed security whose coupon rate is a variable rate of interest consisting of an index and a spread to such index. Sample indices include: (i) The CD rate, which is the weekly average of secondary market interest rates on six month negotiable certificates of deposit as published by the Federal Reserve Board in its Statistical Release H.15(519), Selected Interest Rates; (ii) the LIBOR rate, which is a rate which banks charge other banks for U.S. dollar deposits outside the United States for a specified period; (iii) the 11th District cost of funds index, which is the index made available monthly by the Federal Home Loan Bank Board of the cost of funds to members of the Federal Home Loan Bank 11th District; and (iv) the Treasury index, which is the weekly average yield of the benchmark Treasury securities as published by the Federal Reserve Bank. A sample ARMS could bear interest at LIBOR plus 50 basis points with LIBOR adjusting periodically as specified by the terms of the security.

ARMS differ from floaters and inverse floaters because of the underlying mortgages. The mortgage pools underlying ARMS consist of adjustable rate mortgages, and the indices and spreads on the ARMS parallel the indices and spreads on the underlying mortgages. In contrast, the mortgage pools underlying floaters and inverse floaters generally consist of fixed rate mortgages. Floaters and inverse floaters are generally issued in pairs or in a manner such that interest based upon an index which is paid on one security in a pool would be deducted from interest paid on another security in the pool. For example, if a floater of a specified principal amount bears interest at 4% plus LIBOR and LIBOR at issuance was 3.5%, the related inverse floater of the same principal amount would bear interest at 11% minus LIBOR.

<sup>11</sup> Section 2201 of DCC's Procedures.

<sup>12</sup> In a bilateral repo transaction entered into outside of DCC's clearing system, the selling participant may be required to deliver additional collateral if the value of the underlying collateral decreases, and the purchasing participant may be required to return excess collateral if the value of the underlying collateral increases. Alternatively, a cash payment can be made by the selling participant to decrease the loan amount of the repo transaction, or a cash payment can be made by the purchasing participant to increase the loan amount of the repo agreement. However, these arrangements do not apply in connection with DCC's multilateral clearing and margin collection system where increases and decreases in the value of underlying collateral result in the delivery of additional margin by a participant or the return of margin to a participant based upon changes in the value of the participant's aggregate positions in the system.

<sup>13</sup> For the definitions of these terms, refer to Schedule A.

### 3. Mortgage-Backed Securities as Underlying Collateral; Delivery and Payment Default

The definition of underlying collateral in the Procedures will be revised to provide that with respect to repos underlying collateral includes either a Treasury security or a mortgage-backed security. With respect to options transactions, underlying collateral does not include mortgage-backed securities. Therefore, DCC would not have authority under the proposed rule change to clear options transactions in mortgage-backed securities.

The terms "delivery default" and "payment default" will be revised to provide that the failure to deliver mortgage-backed securities or make payment against delivery of mortgage-backed securities constitutes a participant default. Similarly, the terms "nets par amount" and "delivery money" relating to the delivery of securities and the payment for securities delivered in repo transactions will be revised to incorporate mortgage-backed securities in addition to Treasury securities.

### 4. Exposure Limits and MPSE for Mortgage-Backed Securities

The definition of maximum potential system exposure ("MPSE") will be revised to provide that with respect to positions in repo transactions, the MPSE for the DCC's clearance and settlement system shall include net exposure in mortgage-backed securities adjusted to reflect a hypothetical adverse movement in the aggregate of six standard deviations in market prices of mortgage-backed securities.<sup>14</sup> For Treasury securities, the standard deviation is based upon the volatility during the 100 day period ending February 19, 1980, or any subsequent period of 100 days in which volatility was higher than the 100 day period ending February 19, 1980. For mortgage-backed securities, DCC proposes that the standard deviation be based upon the volatility represented by the greatest of the following three amounts: (i) the standard deviation of equivalent Treasury securities for the period of 100 consecutive trading days ending on February 19, 1980, (ii) the standard deviation of equivalent Treasury securities for any subsequent

period of 100 consecutive trading days, and (iii) the standard deviation of mortgage-backed securities during any period of 100 consecutive trading days subsequent to January 1, 1990. DCC believes that because of the limited price history for mortgage-backed securities, the most conservative approach is to measure volatility for mortgage-backed securities based upon the volatility for Treasury securities for the period described in clause (i) above, which was a period of unusually high volatility. DCC believes that there has been generally a high correlation in historical volatility between Treasury securities and mortgage-backed securities (generally above 95%). DCC believes that volatility measures for mortgage-backed securities have become more reliable recently and, therefore, that the applicable volatility measure should be the greatest of the three standard deviation measures set forth above.

For purposes of clauses (i) and (ii) above, DCC proposes to look to Treasury securities which are generally accepted equivalents to the applicable mortgage-backed securities. For example, DCC proposes to treat repo transaction in mortgage-backed securities where the underlying collateral are FNMA and FHLMC securities with original stated maturities of thirty years as equivalent to ten year Treasury securities. When the underlying collateral are FNMA and FHLMC securities with original stated maturities of fifteen years, DCC will treat these repo transactions as equivalent to five year Treasury securities. Finally, DCC will treat repo transaction in ARMS as equivalent to one year Treasury securities.<sup>15</sup>

### 5. Substitution of Mortgage-Backed Securities as Underlying Collateral

The right of a selling participant to substitute underlying collateral is subject to various conditions and restrictions. One restriction relates to the type of security which may be delivered in substitution of another type of security. This restriction is different for repo transactions in Treasury securities and mortgage-backed securities repo transactions. For repo transactions in Treasury securities, the following requirements will apply: (i) A Treasury note or a Treasury bond may be substituted for another Treasury note or Treasury bond; (ii) a Treasury bill may be substituted for a Treasury bill; and (iii) a Treasury note or Treasury bond may not be substituted for a Treasury bill and a Treasury bill may

not be substituted for a Treasury note or Treasury bond. For mortgage-backed securities repo transactions, the following requirements will apply: a fixed rate mortgage-backed security may be substituted for a fixed or floating rate mortgage-backed security, but a floating rate mortgage-backed security may only be substituted for a floating rate mortgage-backed security.

In addition to the foregoing requirement, substitution is subject to any restrictions on substitution which have been agreed to by the parties at the time of the trade, including restrictions on the number of rights of substitution. The right of substitution is also subject to the agreement of DCC and the purchasing participant that the fair market value of the collateral which the selling participant proposes to provide in place of the existing underlying collateral for a transaction is at least equal to the fair market value of the existing underlying collateral for such transaction. In order to obtain the consent of the purchasing participant, DCC must notify the purchasing participant of all details of the proposed substitution prior to 12:15 p.m. New York time on the day of the proposed substitution.

### 6. Variable Terms; Identification of Transaction

Section 3002 of the Procedures provides that the acceptance of a repo transaction for clearance is subject to the condition that the trade reports of the participants to the trade agree as to various terms including the CUSIP number or numbers for the underlying collateral and the "variable terms" of the transaction. The mortgage-backed securities to be cleared by DCC will all have CUSIP numbers indicating the series and class of mortgage-backed security being traded. Such CUSIP numbers will enable DCC to identify each mortgage-backed security being traded. Because a transaction may involve the delivery of more than one mortgage-backed security, the definition of variable terms will be amended to allow for multiple CUSIP numbers.

The definition of variable terms in the current Procedures provides that the variable terms of a Treasury Note or Treasury Bond includes its coupon rate. Because mortgage-backed securities may bear interest at adjustable rates, the definition of variable terms will be revised consistent with the discussion in Section 2 above to provide that the variable terms for a repo on mortgage-backed securities includes the maturity date, the CUSIP number or numbers of the mortgage-backed security, and for each item of underlying collateral (a)

<sup>14</sup> The MPSE is designed to establish the amount of liability that DCC is exposed to from the positions of all of its participants. Pursuant to DCC's rules, MPSE cannot exceed one third of the amount of DCC's credit enhancement facility. For a complete discussion of MPSE, refer to Securities Exchange Act Release No. 38646 (May 15, 1997), 62 FR 28085 (order granting approval of proposed rule change relating to definitions of trading limits and MPSE).

<sup>15</sup> Letter from Stephen K. Lynner, President, DCC (July 16, 1997).

whether the underlying collateral is a fixed rate mortgage-backed security or an ARMS and (b) whether the underlying collateral is a FNMA mortgage-backed security or a FHLMC mortgage-backed security. DCC will be able to derive the coupon of a fixed rate mortgage-backed security or in the case of ARMS the index upon which such rate is based and the spread to such index from the CUSIP number provided by the parties to the transaction.

#### 7. Netting of Coupon and Principal Payments for Repo Transactions

One difference between Treasury securities and mortgage-backed securities is that Treasury securities pay interest but not principal prior to the maturity date while mortgage-backed securities pay both interest and principal prior to the maturity date. Principal payments on mortgage-backed securities may be made on a monthly or other periodic basis prior to maturity.

Under the proposed rule change, Section 2207 of DCC's Procedures will require the purchasing participant to forward coupon interest with respect to Treasury securities or mortgage-backed securities to DCC absent an agreement of the parties to the contrary, and upon receipt, DCC will forward the coupon interest to the selling participant. In the event that repo interest on a repo transaction is due from the selling participant on the same day that coupon interest with respect to the same transaction is required to be paid by the purchasing participant, such payments will be netted. If repo interest has accrued but is not yet due with respect to a transaction, payments of coupon interest which are received by the purchasing participant will not be netted against repo interest; instead, the coupon interest will be forwarded to DCC and then to the selling participant.

As indicated above, mortgage-backed securities involve principal payments as well as payments of coupon interest. DCC's proposed Procedures provide that principal payments, like coupon payments, will be forwarded by the purchasing participant upon receipt to DCC and then forward by DCC to the selling participant. In the event that a principal payment on a mortgage-backed security is received by the purchasing participant on the same date on which a payment of repo interest is due from the selling participant with respect to a repo transaction on such mortgage-backed security, the principal payment and the repo interest payments will be netted.

DCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>16</sup> and the rules and regulations thereunder in that it will promote the prompt and accurate clearance and settlement of securities transactions, to safeguard funds and securities in DCC's possession and control, and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

#### (B) Self-Regulatory Organization's Statement on Burden on Competition

DCC does not believe that the proposed rule change imposes any burden on competition.

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

DCC has not solicited and does not intend to solicit comments on this proposed rule change. DCC has not received any unsolicited written comments from participants or other interested parties.

### 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 of (ii) as to which DCC 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, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of DCC. All submissions should refer to the file number SR-DCC-97-06 and should be submitted by August 20, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>17</sup>

**Jonathan G. Katz,**  
Secretary.

### Schedule A to Delta Clearing Corp.; Procedures for the Clearing of Securities and Financial Instrument Transactions

#### Excluded Classes of Mortgage Securities

**Notional**—A class having no principal balance and bearing interest on the related notional principal balance.

**Interest Only**—A class that receives some or all of the interest payments made on the underlying mortgage or other assets of a series trust and little or no principal. Interest only classes have either a nominal or a notional principal balance.

**Principal Only**—A class that does not bear interest and is entitled to receive only payments of principal.

**Accrual**—A class that accretes the amount of accrued interest otherwise distributable on such class, which amount will be added as principal to the principal balance of such class on each applicable distribution date. Such accretion may continue until some specified event has occurred or until such accrual class is retired.

**Partial Accrual**—A class that accretes a portion of the amount of accrued interest thereon, which amount will be added to the principal balance of such class on each applicable distribution date, with the remainder of such accrued interest to be distributed currently as interest on such class. Such accretion may continue until a specified event has occurred or until such partial accrual class is retired.

**Floater**—A class other than an adjustable rate mortgage security with an interest rate that resets periodically based upon a designated index and that varies directly with changes in such index.

**Inverse Floater**—A class other than an adjustable rate mortgage security with an interest rate that resets periodically based upon a designated index and that varies inversely with changes in such index.

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<sup>16</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>17</sup> 17 CFR 200.30-3(a)(12).