

trade the products. In particular, CHX's BEST Rule, which will apply to the trading of SPDRs and MidCap SPDRs, guarantees the execution of agency orders from 100 shares up to 2099 shares at the best bid or offer on any ITS market center that trades SPDRs and MidCap SPDRs. In addition, CHX specialists will have the ability to monitor the current SPDR and MidCap SPDR quotations disseminated by Amex through the Consolidated Quotation System. Finally, CHX specialists will have the ability to place limit orders on the Amex specialist's book or send market orders to the Amex specialist for execution against the Amex specialist's quote, through Amex's PER System (although through a correspondent firm). Though not as efficient as full ITS access, these alternative procedures are reasonable given the very short time until ITS accepts 64ths.

The Commission believes that Amex's statements in its comment letter regarding the trading of SPDRs and MidCap SPDRs through ITS should be resolved, as the Amex letter suggests, through the proper ITS committee, not through Commission action on the CHX proposal. Otherwise, the ITS process could be used to prevent action on the CHX's proposal for competitive reasons.³⁹

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁴⁰ that the proposed rule change (SR-CHX-97-6) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39070; File No. SR-DTC-97-10]

Self-Regulatory Organizations; the Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Certificate of Deposit Early Redemption Service

September 12, 1997.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 3, 1997, the Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change will modify DTC's existing Certificate of Deposit Early Redemption Service ("CERR") to allow participants to transmit certificate of deposit ("CD") early redemption instructions by electronic delivery rather than by delivery of hardcopy forms (i.e., paper).

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

In its filing with the Commission, DTC 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. DTC 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

Currently, DTC participants redeeming CDs prior to maturity must process such transactions through DTC's Voluntary Offering Program. These participants submit early redemption instructions to DTC by way of a

hardcopy Voluntary Offering Instruction Form ("VOI Form") which must be accompanied by any additional required documentation.³ Upon receipt of early redemption instructions, DTC debits the participant's general free account and enters a corresponding credit in the same account using a contra-CUSIP number. When DTC receives the proceeds of an early redemption from the issuer, DTC credits the principal amount and any accrued interest minus any applicable penalty for early redemption to the participant's settlement account.

DTC proposes to modify CERR by offering participants the ability to transmit early redemption instructions to DTC electronically through DTC's Participant Terminal System ("PTS"). DTC will modify its already existing PTS function, the Reorganization Inquiry for Participants System ("RIPS"), to offer information regarding early redemption⁴ such as: (i) a CD's eligibility for processing through CERR; (ii) the last date prior to maturity on which an issuer will accept a CD for early redemption; and (iii) whether or not an issuer requires the immediate submission of documents supporting an exempt early redemption. In addition, DTC will add a CERR function to PTS through which participants will be able to transmit early redemption instructions electronically to DTC.

In order to submit an early redemption instruction to DTC electronically, a participant will input information into CERR, including (i) the quantity of the eligible securities to be

³ When a CD is redeemed prior to maturity, the beneficial owner of the CD is charged an early withdrawal fee unless the beneficial owner is deceased or has been adjudicated incompetent (or for any other reason listed in the applicable trust agreement or bond indenture). If the early withdrawal request is based on one of those circumstances, the early withdrawal fee is waived, and the early redemption is considered "exempt." Some issuers require owners seeking an exempt early redemption to submit documentation substantiating the exemption. Such documentation presently is submitted to DTC by participants with the VOI form.

⁴ DTC has advised the Commission that the RIPS procedures currently contain the following provision which will also be applicable to CD early redemption information on RIPS:

The information provided by means of the RIPS function is based upon communications (whether oral or written) received by DTC from a variety of sources, and DTC does not represent that such information is accurate, or adequate or fit for any particular purpose. DTC shall not be liable for (1) any loss resulting directly or indirectly from mistakes, omissions, interruptions, delays, errors or defects arising from or related to the information provided on the RIPS function, and (2) any special, consequential, exemplary, incidental, or punitive damages. The information provided in the RIPS function with respect to a particular reorganization activity is subject to change at any time without prior notice.

³⁹ The Commission does not want to suggest that Amex's concerns are unfounded, but only that the proper venue for their resolution is the proper ITS committee, not the Rule 19b-4 process.

⁴⁰ 15 U.S.C. 78s(b)(2).

⁴¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified the text of the summaries prepared by DTC.

redeemed, (ii) customer information, (iii) information required by the issuer, (iv) whether the early redemption is exempt or nonexempt, and (v) if exempt, details regarding the circumstances supporting the exemption.⁵ Next, the participant will transmit the early redemption instructions after which CERR will report any editing errors to the participant and will determine whether the participant's general free account contains a position sufficient to cover the instruction.⁶ After the submitted information is verified, the participant will be required to transmit the information to DTC again. By transmitting the instruction the second time, the participant will be acknowledging that the information inputted is correct and that the participant agrees to maintain and submit, if requested within thirty months from the date of redemption, documentation supporting an exempt early redemption. If an issuer requires that documentation be submitted prior to early redemption, the participant must also acknowledge that it will provide such documentation to DTC within five business days from the date of the instruction.

Upon receipt of an electronic early redemption instruction, DTC will deduct the securities from the participant's general free account and add the securities to the participant's reorganization account. If the issuer requires the participant to submit documentation supporting an exempt early redemption, the instruction will spend until the fifth business day from the date of the instruction.⁷ Participants may determine the status of an early

redemption instruction by using an inquiry function on CERR PTS.

When DTC receives the proceeds of a CD early redemption, DTC will promptly credit the funds to the participant's settlement account and debit the participant's reorganization account. If the issuer rejects the presentment, DTC will endeavor to determine the reason for the rejection, convey this information to the participant, and restore the position to the participant's general free account.

All early redemption instructions, whether exempt or not, will be subject to acceptance by the issuer. Therefore, it is possible that a presentment could be rejected by the issuer because the CD does not provide for early redemption. If DTC is able to identify such CDs itself, the RIPS function will indicate that the CD does not have an early redemption privilege and will automatically prevent a participant from entering early redemption instructions for such CDs.

DTC does not believe that it is feasible to determine whether all of the 20,000 CDs currently eligible for services at DTC provide for early redemption. Therefore, a participant's early redemption instruction ultimately may be rejected by the issuer even if it initially is accepted for processing by CERR. When such a rejection occurs, DTC will convey the reason for the rejection to the participant and will restore the position to the participant's general free account.

DTC believes that the proposed rule change is consistent with the requirements of section 17A(b)(3)(A) of the Act⁸ and the rules and regulations thereunder because it promotes efficiencies in the clearance and settlement of securities transactions.

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

DTC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

DTC has not solicited or received any comments.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to section 19(b)(3)(A) of the Act⁹ and Rule 19b-4(e)(4) thereunder¹⁰ because it effects a change in an existing service of DTC that (i) does not adversely affect the safeguarding of securities or funds in the custody or control of DTC or for which it is responsible and (ii) does not significantly affect the respective rights or obligations of DTC or persons using the service. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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, NW., Washington, DC 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of DTC. All submissions should refer to File No. SR-DTC-97-10 and should be submitted by October 10, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,
Deputy Secretary.

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⁵ Under the existing system, participants must submit any documentation required to support as exempt early redemption in hardcopy along with the early redemption instruction. However, under the CERR PTS function the participant requesting early redemption will not be required to submit such documentation in hardcopy at the time of the early redemption instruction but must agree to supply such information to DTC if requested by the issuer within thirty months of the early redemption. If a participant fails to provide such documentation to DTC when requested to do so within such thirty-month period, DTC will charge the participant the amount of the nonexempt early redemption fee and will remit the proceeds to the issuer.

⁶ If the participant does not have a position sufficient to support the instruction, the instruction will be dropped because instructions submitted through the CERR PTS function are not subject to DTC's recycle procedures. Accordingly, participants will be required to monitor their general free account and enter a new instruction once a position sufficient to satisfy the instruction is available.

⁷ If DTC has not received the required supporting documents by the end of the fifth business day, the instruction will be dropped.

⁸ 15 U.S.C. 78q-1(b)(3)(A).

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(e).

¹¹ 17 CFR 200.30-3(a)(12).