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

Margaret H. McFarland,

Deputy Secretary.

Exhibit 1—GSCC Fine Schedule

LATE PAYMENT OF FUNDS SETTLEMENT DEBIT/LATE SATISFACTION OF CLEARING FUND DEFICIENCY CALL

Amount	First occasion	Second occasion	Third occasion	Any lateness more than 1 hour or fourth occasion
$1 to $100M	(1)	$100	$200	$500
Greater than $100M to $1MM	(1)	300	600	1,000
Greater than $100MM to $2MM	(1)	600	1,200	2,000
Greater than $2MM	$250	1,000	2,000	3,000

Notes

(1) A warning letter is sent to senior officials of the offender describing the nature of the violation and the consequences of successive violations.

(2) Each instance of late payment of a funds settlement debit or late satisfaction of a Clearing fund deficiency call is deemed to be a separate occasion. Such instances are combined, regardless of type, to determine the number of occasions.

(3) The number of occasions is determined over a moving 30 calendar-day period beginning with date of the first occasion.

(4) A specific determination will be made by the Membership & Standards Committee of the Board of Directors when the number of occasions exceeds four, or when the number of occasions of lateness of more than an hour exceeds two.

(5) The Membership & Standards Committee reserves the discretion to waive or reduce scheduled fines when a particular occasion is not deemed to be the fault of the affected member.

[FR Doc. 97–24862 Filed 9–18–97; 8:45 am]

BILLING CODE 8010–01–M

[6] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39060; File No. SR–GSCC–97–03]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to Eligibility of Forward-Starting Repos for Netting and Guaranteed Settlement Prior to Their Scheduled Start Date

September 11, 1997.

On May 8, 1997, the Government Securities Clearing Corporation (''GSCC'') filed with the Securities and Exchange Commission (''Commission'') and on June 13, 1997, amended a proposed rule change (File No. SR–GSCC–97–03) pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act).[1] Notice of the proposal was published in the **Federal Register** on July 30, 1997.[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 amends several of GSCC's rules to make transactions in forward-starting repurchase agreements (''repos'') eligible for netting and guaranteed settlement before they reach their scheduled start date.[3] Previously, forward-starting repos were not eligible for netting and guaranteed settlement until they reach their scheduled settlement date.

Since November 1995, GSCC has provided netting services for repo transactions.[4] After GSCC nets repo transactions, it interposes itself between the submitting participants for transaction settlement purposes as it does for cash transactions. In doing so, GSCC guarantees settlement of all repos that enter its netting system. GSCC's guarantee for netted repos includes guaranteeing the return of repo collateral to repo participants, the return of principal (*i.e.*, repo start amount) to reverse participants, and the payment of repo interest to the full term of the repo to reverse participants.

Forward-starting repos generally are either: (1) ''specific collateral'' repos for which the underlying CUSIP is known from the date of execution of the repo, or (2) ''general collateral'' repos for which the specific security and par amount that will be transferred from the repo participant to the reverse participant on the start date are not known at the time of execution. Repo participants submitting to GSCC data on general collateral repo transactions will use one of the seventeen generic CUSIP numbers established by the CUSIP service bureau for identifying collateral. These CUSIP numbers identify the type of Government security (*e.g.*, bill, bond, or note) and indicate the remaining length to maturity for the issue. In addition, the par amount of the underlying collateral is no longer an item that must be included when the repo is submitted to GSCC. This will allow GSCC to match submitted trades in general collateral forward-starting repos upon their submission to GSCC without inclusion of the par amount. The parties to a general collateral forward-starting repo have the obligation to inform GSCC when the specific CUSIPs and associated par values that will be used for settlement purposes are determined. The notification must be made to GSCC no later than by the close of business on the business day prior to the date on which the repo is scheduled to start.[5]

Until a forward-starting repo actually starts, the forward margin and clearing fund requirements applied to it will differ from those applied to all other repos. With regard to forward margin, because a forward-starting repo that has not yet started presents only interest rate exposure and not exposure to movements in the value of the underlying collateral, only an interest

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

[2] Securities Exchange Act Release No. 38871 (July 24, 1997), 62 FR 40877.

[3] Forward-starting repo transactions are repo transactions that have start legs settling one or more business days in the future.

[4] Each business day, all eligible repo transactions are netted with regular cash activity and Treasury auction purchases in the same CUSIP to establish a single net position in the security for each netting member participating in the repo netting process. For netting purposes, the settlements associated with repo close legs and reverse start legs are treated as long positions. The settlements associated with repo start legs and reverse close legs are treated as short positions. The difference between a participant's total short activity and its total long activity within a CUSIP is the participant's net position in the CUSIP.

[5] The notification must be made by submitting an ''intent to substitute'' notification that provides specific collateral details to GSCC using an on-line function (*i.e.*, a screen input facility) provided by GSCC. If one of the members that has submitted the data on the repo is a broker, GSCC will accept the ''intent to substitute'' notification solely from that broker without the need for a matching notification from the dealer counterparty. If neither of the members that submitted the data on the repo are brokers, GSCC will accept the ''intent to substitute'' notification from the member in the short or delivering position without the need for a matching notification from the dealer counterparty. However, GSCC will attempt to verify manually with the other member the accuracy of the details of the notification from the member with the short position.

rate mark-to-market will be applied.[6] This interest rate mark component will be calculated by multiplying the principal value of the repo first by a factor equal to the absolute difference between the system and contract repo rates and then by a fraction where the numerator is the number of calendar days from the scheduled start date of the repo until the scheduled close date for the repo and the denominator is 360. The interest rate mark differs from the financing mark applied to repos that have already started in that, because the exposure presented to GSCC is a pure rate risk exposure, it can be a debit to either the short side or the long side.[7] The clearing fund requirement for a forward-starting repo during its forward-starting period will be based solely on the interest rate mark.

In addition to the changes relating to forward-starting repos, the proposal clarifies that a right of substitution continues after GSCC novates the trade. Section 4 to Rule 18 specifies the method of substituting collateral. Should a repo participant want to implement a substitution, either it or its broker must submit an ''intent to substitute'' notification to GSCC using GSCC's on-line collateral substitution function. For money fill substitutions, the par amount and/or CUSIP may change, and for par fill substitutions, the principal, CSUIP, and/or end money may change. GSCC does not review the appropriateness of the substitute collateral. All movements associated with the substitution will be made through GSCC.

Regardless of the type of substitution, GSCC will maintain accrued interest information throughout the life of the repo across multiple collateral substitutions as required. GSCC also will reverse any previous mark-to-market and clearing fund monies calculated for the collateral being replace. These amounts will be recalculated using the security information for the replacement collateral.

Finally, the proposal makes eligible for GSCC's netting system repos with underlying collateral that matures on or prior to the scheduled close date by eliminating from the list of requirements for netting-eligibility the requirement that the maturity date of the underlying securities be on or later than the scheduled settlement date of the close leg. Section 6 of Rule 18 requires that if a repo participant has transferred securities as underlying collateral that mature prior to the settlement date of the close leg, that participant must substitute equivalent securities with a later maturity date prior to the business day before the maturity date.

II. Discussion

Section 17A(b)(3)(F) requires that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to ensure the safeguarding of securities and funds which are in the custody and control of the clearing agency or for which it is responsible.[8] The Commission believes that proposal will enhance GSCC's ability to clear and to settle forward-starting repos. GSCC will be better able to evaluate participants' true positions by including more of participants' pending positions in the margin and clearing fund calculations. By collecting funds based on a more accurate reflection of a participant's actual risk, the proposal assists GSCC in safeguarding securities and funds. By guaranteeing forward-starting repos earlier in the process, the proposal increases the likelihood that these trades will eventually settle.

Furthermore, by making forward-starting repos eligible for netting and guaranteed settlement, the proposal should increases the number of repos that will be cleared and settled through GSCC and should increase the utility of GSCC's clearance system. By enhancing the settlement process, GSCC's proposal is consistent with the prompt and accurate clearance and settlement of securities.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with 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–GSCC–97–03) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[9]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–24866 Filed 9–18–97; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39063; File No. SR–NASD–97–64]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Small Order Execution System Tier Size Classifications

September 12, 1997.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on September 4, 1997, the National Association of Securities Dealers, Inc. (''NASD'' or ''Association'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD. 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

The NASD is submitting this filing to effectuate The Nasdaq Stock Market, Inc.'s (''Nasdaq'') periodic reclassification of Nasdaq National Market (''NNM'') securities into appropriate tier sizes for purposes of determining the maximum size order for a particular security eligible for execution through Nasdaq's Small Order Execution System (''SOES''). Specifically, under the proposal, 537 NNM securities will be reclassified into a different SOES tier size effective October 1, 1997. Since the NASD's proposal is an interpretation of existing NASD rules, there are no language changes.

---

[6] As a part of the morning funds-only settlement process, GSCC collects and passes through on a daily basis forward margin based on its ongoing exposure on each forward net settlement position. For repos, the market value is subtracted from the repo's contract value (*i.e.,* the amount of money that was exchanged for the collateral), and a debit or credit is established depending upon the result of the calculation and whether or not the participant is on the reverse or repo side of the transaction. The forward margin calculation for repos differs from that for cash market trades in that there is an additional financing mark component. The financing mark component reflects the fact that, if GSCC replaced the reverse side of the repo by buying securities and putting them out on repo, a financing cost would be incurred. The financing mark is debited to the reverse side and credited to the repo side.

[7] For repos for which the underlying collateral has already been exchanged, each day GSCC guarantees to the reverse repo party the interest payment on the principal amount. However, until the repo begins, GSCC only guarantees the difference between the agreed upon repo rate and the rate the party could receive in the open market.

[8] 15 U.S.C. 78q–1(b)(3)(F).

[9] 17 CFR 200.30–3(a)(12).

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