

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.<sup>3</sup>

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

The purpose of the proposed rule change is to provide participants with additional flexibility in their use of RTS. Under RTS, a participant that has purchased a security ("repo buyer") is obligated to make payments on future P&I distributions, other than the final distribution, to the participant recorded in RTS as the seller of the security ("repo seller"). At issue is the concern for a P&I distribution which includes a principal payment large enough to significantly affect the value of the securities. In such cases, RTS tracking of the distribution might expose the repo buyer to significant credit risk until a related "mark-to-market" payment is received from the repo seller.

To control this risk, DTC's current procedures permit the repo buyer to unilaterally cancel a particular P&I payment through RTS at the participant level by submitting a hard copy letter of instruction to DTC by 11:30 a.m. (ET) on the distribution payment date. The rule change provides a PTS function, called PIAR (Principal and Income Adjustments resulting from Repurchase agreements), to submit instructions to cancel a P&I payment, and thus eliminate the need to submit a hard copy letter of instruction.<sup>4</sup> Participants will be charged the current \$.09 PTS inquiry fee for each PIAR PTS inquiry and the same \$.31 fee currently charged for RTS adjustments for each credit or debit adjustment that results from a PIAR entry.

Under the rule change, participants will be able to use the new PIAR PTS function to review and cancel P&I payments resulting from RTS tracking. The PIAR function will allow repo buyers to cancel P&I payments scheduled to be credited to the repo seller on payable date and it will also allow participants to view all of their repo P&I payments, both as repo buyer and repo seller, for the current day.

DTC believes that the proposed rule change is consistent with Section

17A(b)(3)(A) of the Act<sup>5</sup> and the rules and regulations thereunder because the proposed rule change will give participants greater flexibility in controlling risk without substantially changing the current operation of RTS.

*B. Self-Regulatory Organization's Statement on Burden on Competition*

DTC perceives no adverse impact on competition by reason of the proposed rule change.

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

The proposed rule change was developed in response to an ongoing effort by The Bond Market Association to address industry concerns regarding potential credit exposure as a result of principal paydowns. The proposed rule change has been developed through discussions with several participants. Written comments from DTC participants or others have not been solicited or received on the proposed rule change.

**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)(i) of the Act<sup>6</sup> and pursuant to Rule 19b-4(f)(1)<sup>7</sup> promulgated thereunder because the proposal constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. 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, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. 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-99-13 and should be submitted by July 2, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**  
Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-41478; File No. SR-NSCC-99-06]

**Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change That Establishes Additional Procedures for Class A Surveillance of Certain Settling Members and Permits the Collection of Clearing Fund and Other Collateral Deposits From These Settling Members**

June 4, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on May 10, 1999, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") and amended on June 2, 1999, the proposed rule change as described in Items I and II below, which items have been prepared primarily by NSCC.<sup>2</sup> The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change through May 31, 2000.

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> Letter from Julie Beyers, Vice President and Associate Counsel, NSCC, to Jerry Carpenter, Assistant Director, Division of Market Regulation, Commission (June 2, 1999).

<sup>3</sup> The Commission has modified the text of the summaries prepared by DTC.

<sup>4</sup> DTC has included in its filing an Important Notice to Participants, dated April 19, 1999, which describes the rule change enhancements to RTS and includes a new section of the dividend service guide relating to PIAR. DTC's filing is available for inspection at the Commission's Public Reference Room or through DTC.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(A).

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>7</sup> 17 CFR 240.19b-4(f)(1).

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

The proposed rule change extends the temporary approval of additional procedures which govern the placement of NSCC members on Class A surveillance and the clearing fund deposit and other collateral requirements for such members.

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>3</sup>

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

NSCC seeks to extend the temporary approval of a rule change governing the application of Class A surveillance procedures and the additional collateralization requirements to settling members that engage in certain over-the-counter ("OTC") market making activities.<sup>4</sup> To decrease the risk associated with OTC market makers, NSCC has added Addendum O to its rules and procedures. Addendum O permits NSCC to place settling members on Class A surveillance under certain conditions.

NSCC has also adopted an interim collateralization policy which permits NSCC in its discretion to require settling members that clear for or are themselves OTC market makers and that are placed on Class A surveillance to deposit special collateral in amounts based upon the settling member's OTC activities relative to its amount of excess net capital.

NSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>5</sup>

and the rules and regulations thereunder because the surveillance procedures and additional collateralization will facilitate the prompt and accurate clearance and settlement of securities transactions and in general will protect investors and the public interest.

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

NSCC does not believe that the proposed rule change will have an impact on or impose a burden on competition.

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

No written comments relating to the proposed rule change have been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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

Section 17A(b)(3)(F) 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 the clearing agency and generally to protect investors and the public interest. As the Commission previously stated, it finds that the proposed rule change is consistent with NSCC's obligations under the Act because it will help NSCC protect itself, its members, and investors from members that pose an increased risk because of their involvement in OTC market making.<sup>6</sup>

Under the proposal, NSCC will continue to have the authority with respect to settling members which participate in OTC market making activities or clear for correspondents that engage in such activity (1) to place such members on Class A surveillance, (2) to require such members to post additional collateral with NSCC, and (3) to calculate an alternative clearing fund requirement for such members when additional risk factors are present. Collectively, the higher level of surveillance, the additional level of collateralization, and the alternative clearing fund requirements should help ameliorate NSCC's exposure which in turn should assist NSCC in fulfilling its obligations under the Act to safeguard securities and funds for which it has control of or is responsible for and to

protect investors and the public interest.<sup>7</sup>

NSCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after publication of the notice of filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after publication of the notice of filing because accelerated approval will allow NSCC to continue to utilize its Class A surveillance procedures, the interim collateralization policy, and the alternative clearing fund formula without interruption until it makes a filing requesting permanent approval of the rule change. This will allow NSCC to continue to protect itself and its participants from the potential risks of OTC market making activities.

## **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549. Copies of the submissions, 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. 20549-0609. Copies of such filings will also be available for inspection and copying at the principal office of NSCC. All submissions should refer to the file number SR-NSCC-99-06 and should be submitted by July 2, 1999.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-NSCC-99-06) be, and hereby is, approved on an accelerated basis through June 4, 2000.

<sup>7</sup> As noted in each of the previous approval orders, prior to filing a proposed rule change seeking permanent approval of the procedures set forth in this temporary approval order, NSCC shall present to the Commission a more detailed report on its findings regarding the adequacy of the controls and discussing any changes to be made to the procedures.

<sup>3</sup> The Commission has modified the text of the summaries prepared by NSCC.

<sup>4</sup> For a complete discussion of NSCC's Class A surveillance procedures and collateralization requirements, refer to Securities Exchange Act Release Nos. 37202 (May 10, 1996), 61 FR 24993 [File No. SR-NSCC-95-17]; 38622 (May 19, 1997), 62 FR 27285 [File No. SR-NSCC-97-04]; and 40034 (May 27, 1998), 63 FR 30277 [File No. SR-NSCC-98-03].

<sup>5</sup> 15 U.S.C. 78q-1

<sup>6</sup> *Supra* note 3.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41477; File No. SR-NSCC-99-04]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding NSCC's Annuities Processing Service

June 4, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on March 30, 1999, the National Securities Clearing Corporation ("NSCC") 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 NSCC. 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 proposed rule change amends NSCC's Annuities Processing Service ("APS") to change the name of the service to "Insurance Processing Service." In addition, the rule change makes corresponding name and clarification changes to reflect that NSCC's members may use the service to submit data, information, and settle payments for life insurance products as well as for annuity products.

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

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC 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

On September 19, 1997, the Commission approved NSCC's rule filing to establish APS,<sup>3</sup> which provides a centralized communication link connecting participating insurance carriers with their multiple distribution channels, including broker-dealers, banks, and the broker-dealers' or banks' affiliated insurance agencies ("distributors") where appropriate. Phase one of the APS system provided NSCC participants with the ability to send and receive daily information regarding annuity contract positions, the value of the contract's underlying assets, and the settlement of commission monies.

The Commission approved phase two of APS on December 16, 1998,<sup>4</sup> which provides distributors with the ability to transmit to insurance carriers information regarding annuity applications and subsequent premium payments and to settle initial and subsequent premiums. In addition, phase two enables insurance carriers to transmit to distributors information about transactions and events that have occurred with respect to existing annuity contracts.

On October 8, 1998,<sup>5</sup> the Commission approved a rule change to permit NSCC to transmit data and information and to settle payments regarding life insurance products as well as annuity products. At that time, no changes were made to the rules which referred only to annuities processing. Thus, the purpose of the proposed rule change is to change the name of the APS service and make corresponding name and clarification changes to the related provisions of NSCC's rules and procedures to reflect the nature of the insurance processing services available to NSCC's members.<sup>6</sup>

NSCC believes that the proposed rule change is consistent with Section 17A of the Act<sup>7</sup> and the rules and regulations thereunder because it clarifies NSCC's rules and procedures to more accurately

reflect the nature of its annuity and insurance processing system, which facilitates the prompt and accurate clearance and settlement of securities transactions by providing centralized communication between insurance carriers and broker-dealers, banks, and their affiliated insurance agencies.

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

NSCC does not believe that the proposed rule change will impact or impose a burden on competition.

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

No written comments have been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

### 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)(i) of the Act<sup>8</sup> and pursuant to Rule 19b-4(f)(1)<sup>9</sup> promulgated thereunder because the proposal constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. 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, including whether the proposed rule change is consistent with the Act. 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

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

<sup>3</sup> Securities Exchange Act Release No. 39096 (September 19, 1997), 62 FR 50416, for a detailed description of APS.

<sup>4</sup> Securities Exchange Act Release No. 40799 (December 16, 1998), 63 FR 71175.

<sup>5</sup> Securities Exchange Act Release No. 40634 (November 4, 1998), 63 FR 63096.

<sup>6</sup> Under the rule change, NSCC is also deleting the provisions of Section I.B of Addendum Q which were originally included by mistake.

<sup>7</sup> 15 U.S.C. 78q-1

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>9</sup> 17 CFR 240.19b-4(f)(1).

<sup>7</sup> 17 CFR 200.30-3(a)(12).

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