

Proactive discussions between the audit committee and the company's senior management and auditor about critical accounting policies are appropriate.

4. If Companies, Management, Audit Committees or Auditors Are Uncertain About the Application of Specific GAAP Principles, They Should Consult With our Accounting Staff

We encourage all those whose responsibility it is to report fairly and accurately on a company's financial condition and results to seek out our staff's assistance. We are committed to providing that assistance in a timely fashion; our goal is to address problems before they happen.

Dated: December 12, 2001.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45146; File No. SR-DTC-2001-14]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change Relating to the Closing Down of the Mortgage-Backed Securities Division of The Depository Trust Company

December 10, 2001.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 24, 2001, 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 by DTC. 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 concerns the closing of DTC's Mortgage-Backed

controversial or emerging areas for which there is a lack of authoritative guidance or consensus; (3) the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates; and (4) disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements. *Id.*

¹ 15 U.S.C. 78s(b)(1)

Securities Division ("MBS Division").² To accomplish this, DTC plans to close the MBS Division's transaction processing system and to amend DTC's rules to delete the MBS Division's rules.³ The securities formerly serviced by the MBS Division will remain eligible for processing on DTC's main processing system to the same extent that other Fedwire securities are currently processed at DTC although the issuance and the majority of clearance of these securities will be moved to the Fedwire system.

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.⁴

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 obtain Commission approval of DTC's closing the operations of its MBS Division. Currently, among other things, the MBS Division issues and settles mortgage-backed securities that are guaranteed by the Government National Mortgage Association ("GNMA"). However, GNMA wishes to transfer the settlement of these mortgage-backed securities to the Fedwire system of the Federal Reserve Board.⁵ GNMA plans to convert its securities to Fedwire by the end of the first quarter of 2002.

GNMA announced its plans to move its securities to Fedwire in May 2000. The conversion plans were developed in consultation with a task force organized by The Bond Market Association ("BMA") that consisted of

² The MBS Division is the successor to The Participants Trust Company, which was merged into DTC effective August 31, 1998.

³ These rules are currently in Annex A of DTC's Rules.

⁴ The Commission has modified the text of the summaries prepared by DTC.

⁵ The Fedwire system of the Federal Reserve Board is currently used for, among other things, the issuance and settlement of U.S. Treasury securities and mortgage-backed securities guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA").

representatives from broker-dealers, custodial banks, GNMA, the Federal Reserve Banks, the Mortgage Bankers Association, DTC, and the BMA. The force formed a GNMA Conversion Subcommittee to develop a conversion plan and implementation schedule. In February 2001, the subcommittee issued its Conversion Plan.⁶

The conversion is taking place in phases over a series of weekends beginning October 6, 2001, and is scheduled for completion by March 31, 2002. During this period, different classes of GNMA securities will be moved electronically from the MBS Division to Fedwire in accordance with delivery instructions provided to the MBS Division by the MBS Division's participants. Other securities issued and settled on the books of the MBS Division, namely securities guaranteed by the Department of Veterans Affairs and a limited number of FNMA and FHLMC securities which are collateralized by GNMA securities, will also move to Fedwire at some time during the GNMA conversion or immediately after on dates to be determined.

Shortly after the completion of the payment of principal and interest with respect to securities last converted to Fedwire, DTC will close the transaction processing system of the MBS Division, return the MBS Division participant fund deposits to the MBS Division's participants, and amend DTC's rules to delete the rules that apply to the MBS Division. After the conversion, FNMA securities will remain eligible for processing on DTC's main system in the same manner as other Fedwire securities are currently processed at DTC. Fedwire securities processed at DTC must be deposited and withdrawn free of payment over Fedwire to and from DTC's Fedwire account. Once deposited at DTC, Fedwire-eligible securities will be processed among DTC participants subject to DTC's rules and procedures without additional restrictions.

In connection with the conversion of GNMA securities to Fedwire, DTC considered expanding its processing to permit GNMA securities to be delivered versus payment into and from DTC's Fedwire account subject to regulatory approval. DTC solicited comments from its participants, but fewer than a dozen

⁶ The Conversion Plan is available online at <www.frb-services.org> and at <www.bondmarkets.com/regulatory>. A copy of the Conversion Plan is also attached as Exhibit 2 of DTC's filing [DTC Important Notice No. 1483 (Feb. 15, 2001)], which is available through the Commission's Public Reference Section or through DTC.

participants expressed an interest in using such a service. In light of the development costs involved and the limited interest expressed by its participants, DTC's Board of Directors concluded that DTC's resources would be better applied to projects that serve a wider participant base.

DTC will notify the MBS Division's participants and the Commission upon the completion of the closure of the MBS Division.⁷

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

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

DTC perceives no 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

DTC solicited written comments from its participants on GNMA's proposal to move its securities to Fedwire in DTC Important Notice No. 0057 dated June 1, 2000.⁸ Participants responded by telephone and through discussions at meetings of the BMA, the GNMA Settlement Task Force formed under the auspices of the BMA, and DTC's Operations and Planning Committee. The consensus at these meetings and discussions was that DTC should support the proposed conversion to Fedwire and that GNMA securities should remain eligible for processing at DTC to the same extent as are other Fedwire eligible securities currently processed at DTC. DTC is a member of the GNMA Conversion Subcommittee and has worked closely with the BMA, GNMA, the Federal Reserve Banks, and interested industry members to facilitate the transition to Fedwire. DTC has issued Important Notices to DTC and MBS Division participants detailing the conversion processing flows and testing procedures.⁹

⁷ Notwithstanding the closure of the MBS Division, DTC will maintain the documents and records of the MBS Division in accordance with the regulations promulgated under Section 17(a) of the Exchange Act, 15 U.S.C. 78q.

⁸ A copy of this notice is attached as Exhibit 2 of DTC's filing, which is available through the Commission's Public Reference Section or through DTC.

⁹ Attached as Exhibit 2 of DTC's filing are the following DTC Important Notices relating to the GNMA conversion: Nos. 0057 (June 1, 2000); 1483 (Feb. 15, 2001) (Conversion Plan attached); 1937

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 filing or (ii) as to which the self-regulatory organization 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, 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 Room, 450 Fifth Street, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at DTC's principal office. All submissions should refer to File No. SR-DTC-2001-14 and should be submitted by January 7, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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(May 24, 2001); 2158 (June 21, 2001); 2159 (June 19, 2001); and 2198 (July 5, 2001). These documents are available through the Commission's Public Reference Section or through DTC.

¹⁰ 17 CFR 200.30-3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45144; File No. SR-PCX-2001-45]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Inactive Lessors' Eligibility to Serve on the Board of Governors

December 10, 2001.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 7, 2001, the Pacific Exchange, Inc. ("PCX" or "Exchange") 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 by the Exchange. 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 PCX proposes to amend Article III, Section 2(b) of the PCX Constitution and PCX rule 1.1(h) to provide for the eligibility of inactive lessors to serve on the PCX Board of Governors ("Board"). Below is the text of the proposed rule change. Text in *italics* indicates material to be added.

* * * * *

Article III

Eligibility of Governors

SEC. 2(b). Any member, allied member or person who is an officer or director of the parent or subsidiary corporation of a member firm, or a general partner in a partnership which owns or is wholly owned by a member firm, or an officer or director of a member firm or of a participant firm of any subsidiary of the Exchange performing depository or clearing functions, or an officer, director or general partner of the parent or a subsidiary corporation of such clearing member firm or depository participant firm, *or an inactive lessor* or any person not affiliated with a broker or dealer in securities is eligible to be elected as a member of the board of Governors. Of the governors, in each of the classes specified in Sec. 2(a), above, at least one shall be a member of the Exchange, at least one shall be an office member or office allied member of the Exchange,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.