

NSCC and its members can settle in same day funds.<sup>5</sup>

The proposed rule change allows members settling mutual fund transactions in same day funds to settle their obligations with NSCC through a settling bank. Because settlement banks net their settling members, fund members, and their own NSCC debits and credits into a single debit or credit balance with NSCC, the number of payments made to NSCC or by NSCC at settlement will be reduced. Reducing the number of payments between members and NSCC should make the settlement process more efficient and should reduce the risk of error associated with multiple payments between NSCC and individual members. As a result, the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible should be promoted.

Furthermore, the use of settling banks should reduce the risks associated with a member's failure to settle because a settling bank must notify NSCC by the designated cutoff time of its refusal to settle for a particular member. The settling bank's notice to NSCC allows NSCC the opportunity to prepare for the possibility of member failure by identifying alternate sources of financing (e.g., lines of credit or member collateral). This also should further NSCC's ability to meet its obligation to safeguard securities and funds which are in its custody or control or for which it is responsible.

### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with Section 17A(b)(3)(F) of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-NSCC-95-13) be, and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

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[Release No. 34-36708; International Series Release No. 915; File No. SR-NYSE-95-36]

## **Self-Regulatory Organizations; New York Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to the Specifications and Content Outline for the Japan Module (Series 47) of the General Securities Registered Representative Examination**

January 11, 1996.

### I. Introduction

On October 25, 1995, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to adopt the Japan module of the General Securities Registered Representative Examination.

The proposed rule change was published for comment in the Federal Register on December 4, 1995.<sup>3</sup> No comments were received on the proposal. This order approves the proposal.

### II. Description of the Proposal

Presently, registered representatives who already are qualified to conduct business in Japan and who wish to sell securities in the United States must qualify as registered representatives in the U.S. by successfully completing the General Securities Registered Representative Examination (Series 7).<sup>4</sup> In an effort to reduce redundant qualification requirements, the Exchange has developed the Japan module (Series 47) of the Series 7. As a subset of the Series 7, this 160 question module is designed to test the Japanese registered representatives' knowledge of U.S. securities laws, markets, investment products, and sales practices.

To become registered with the Exchange, qualified Japanese registered representatives in good standing with the Japanese securities authorities would be required to obtain a passing score on the Series 47. Japanese representatives seeking to sell municipal securities, however, would

be required to pass either the standard Series 7 or a combination of the Series 47 and the Series 52 (Municipal Securities Representative Examination).

### III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. In particular, the Commission believes the proposal is consistent with the requirements of Section 6(b)(5) and Section 6(c)(3)(B).<sup>5</sup>

The Commission believes the proposal is consistent with Section 6(b)(5)<sup>6</sup> because it is designed to help perfect the mechanism of a free and open market. The Series 47 reduces duplicative qualification requirements and, at the same time, allows the Exchange to ensure that the Japanese representatives wishing to become registered with the Exchange are fully qualified.

The Commission believes the proposal is consistent with Section 6(c)(3)(B)<sup>7</sup> because it establishes standards of training, experience, and competence for persons associated with Exchange members and member organizations. The Japan module should provide comprehensive coverage of the topics contained in the Series 7 that are not covered, or are not covered in sufficient detail, in the Securities Sales Representative Qualification Examination. Accordingly, the Series 47, combined with the Securities Sales Representative Qualification Examination, should measure the qualifications of Japanese representatives adequately.

### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (SR-NYSE-95-36) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,  
Deputy Secretary.

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 36514 (Nov. 27, 1995), 60 FR 62118.

<sup>4</sup> Likewise, U.S. qualified registered representatives desiring to conduct securities business in Japan must satisfy Japanese requirements by passing the Securities Sales Representative Qualification Examination or by meeting experiential requirements.

<sup>5</sup> 15 U.S.C. 78f(b)(5) and 78f(c)(3)(B).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> 15 U.S.C. 78f(c)(3)(B).

<sup>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</sup> 17 CFR 200.30-3(a)(12).

<sup>5</sup> For a complete description of the same-day funds conversion, refer to NSCC, Important Notice (October 16, 1995 and November 29, 1995).

<sup>6</sup> 17 CFR 200.30-3(a)(12) (1994).

[Release No. 34-36711; File No. SR-PTC-95-06]

**Self-Regulatory Organizations;  
Participants Trust Company; Order  
Approving Proposed Rule Change  
Modifying Processing System**

January 11, 1996.

On September 15, 1995, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-PTC-95-06) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> The proposed rule change amends PTC's rules to reflect changes to its processing system. The Commission published notice of the proposed rule change in the Federal Register on October 25, 1995.<sup>2</sup> For the reasons discussed below, the Commission is approving the proposed rule change.

**I. Description**

The proposed rule change amends PTC's rules to reflect changes to its processing system that will cause both the deliver and receive sides in a securities transaction to simultaneously receive debits and credits to their respective securities and cash positions. The changes to the processing system are intended to satisfy a commitment ("Commitment No. 3") made by PTC to the Commission and to the Board of Governors of the Federal Reserve System ("Board of Governors") when PTC was established. Commitment No. 3 stated that PTC would "make the necessary technical changes (including Rules changes) for Delivering Participants to: (i) be immediately notified, or able to ascertain, that securities debited from a Delivering Participant's Account or associated Transfer Account have not been credited to the Receiving Participant's Account or associated Transfer Account; and (ii) be able to retrieve such undelivered securities and to redeliver, pledge or hold such securities."<sup>3</sup> These amendments took effect on January 8, 1996, concurrent with the implementation of new software, SPEED Release 5.6, which software will make

the corresponding changes to PTC's SPEED transaction processing system.<sup>4</sup>

Under PTC's previous procedures, a delivering participant initiated a transfer of securities to another participant by instructing an account transfer of securities from its account or associated transfer account. If the account from which the transfer was requested satisfied the conditions set forth in PTC's rules,<sup>5</sup> PTC debited the securities from the account or associated transfer account of the delivering participant and if the transfer was versus payment credited the related cash balance.

Prior to crediting securities to the account of the receiving participant or in an account transfer versus payment transaction to the associated transfer account, the receipt of securities was required to comply with the receipt mode selected by the receiving participant.<sup>6</sup> Furthermore, if the transfer was versus payment, the receiving participant was required to have sufficient NFE, and the resulting debit to the account cash balance could not have caused the receiving participant's net debit balance to exceed its Net Debit Monitoring Level ("NDML").<sup>7</sup>

Securities deliveries for which the receipt was not preauthorized were posted to the await match list associated with the receiving account, were recorded in an abeyance account, and were credited to the receiving account or associated transfer account only after the receiving participant approved the transfer. The delivering participant had no means of ascertaining whether the transfer account of the receiving participant or whether the securities remained recorded in the abeyance

account and placed on the await match list associated with the account of the receiving participant. Recording the securities delivery in the abeyance account was not deemed to effect any transfer of the securities or create or extinguish any interest in the securities held by PTC prior to such recording.<sup>8</sup> Any securities remaining on the await match list that were not approved or rejected prior to the close of the daily processing were deemed approved by the receiving participant.

Under PTC's modified processing system, debits and credits will be made simultaneously to the accounts of delivering and receiving participants irrespective of the receipt mode chosen by the receiver. As was possible with PTC's previous processing system, there will no longer be a situation where the delivering participant receives a cash credit before the receiving participant has received a cash debit. Securities credits and cash debits in the case of an account transfer versus payment will be posted to the account or associated transfer account of the receiving participant regardless of the receipt mode applied to the account.<sup>9</sup> Similarly, the delivering participant's account or associated transfer account also will be posted with the appropriate entries for securities debits and cash credits when the delivery has satisfied all conditions necessary to complete the transfer.<sup>10</sup>

The proposed amendments to PTC's rules delete references throughout the rules to the abeyance account and to the use of a receipt mode as a condition to completion of an account transfer. PTC also will make corresponding changes to its Participant Operating Guide that are consistent with the systems changes of SPEED Release 5.6 and the proposed rule amendments.

<sup>4</sup> SPEED Release 5.6 is the latest upgrade in PTC's transaction processing system.

<sup>5</sup> PTC Rules, Article II, Rule 13, Section 1(b), generally requires sufficient securities and Net Free Equity ("NFE") with respect to the account of the delivering participant. NFE measures the value of the collateral which is available to secure liquidity for the transaction. PTC Rules, Article II, Rule 9. PTC will not process an account transfer if, as a result of such transfer, the required NFE is not available in the account at the time delivery is attempted.

<sup>6</sup> A participant could choose one of the following receipt modes for receiving securities to its account or its associated transfer account in an account transfer versus payment transaction: Auto Buy-In Mode, authorizing the receipt of all transactions; Auto-Match Mode, authorizing the receipt of all previously designated transactions either listed with specificity or by designating specified dollar tolerances; or Manual Match Mode, in which no transactions were preauthorized.

<sup>7</sup> PTC will not process transactions that increase a participant's net debit balance to a level greater than its NDML. When the NDML is reached or exceeded, PTC is entitled to require either confirmation of the participant's ability to pay its debit balance or prefunding of such debit balance. *PTC Rules, Article II, Rule 2, Section 4.*

<sup>8</sup> PTC Rules, Article II, Rule 3, Section 1 and Rule 13, Sections 1(c)(i)(B) and 1(c)(ii)(B).

<sup>9</sup> Despite the change in the sequence of transaction processing, transfers versus payment still must satisfy PTC's normal risk management controls in order to complete the transfers (*i.e.*, the receiving participant's account must have sufficient NFE and the receiving participant's NDML must not be exceeded).

<sup>10</sup> *I.e.*, when the delivering account has sufficient available securities and sufficient NFE; in the case of an account transfer versus payment transaction when the receiving account has sufficient NFE and the receiving participant's NDML will not be exceeded; or in the case of account transfer or securities to a pledgee account by use of PTC's Collateral Loan Facility when the receipt is approved by the receiving participant. The requirement that a receiving participant must approve a transfer of securities to a pledgee account formally was specified in PTC's Participant Operating Guide description of the Collateral Loan Facility but not in PTC's rules. As a result of the proposed rule change, this requirement now will be specified in PTC's rules.

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> Securities Exchange Act Release No. 36377 (October 16, 1995), 60 FR 54741.

<sup>3</sup> Securities Exchange Act Release No. 26671 (March 28, 1989), 54 FR 13266 (approving PTC's application for registration as a clearing agency under Section 17A of the Act) and letter from the Board of Governors approving PTC's application for stock in the Federal Reserve Bank of New York (March 27, 1989).

## II. Discussion

Section 17A(b)(3)(F) of the Act<sup>11</sup> requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to provide for the safeguarding of securities and funds in its custody or control or for which it is responsible. The Commission believes that PTC's proposal is consistent with these obligations because the modifications to PTC's processing system should help decrease the potential for liquidity problems for delivering participants at the end of the day which existed under the former processing system.

Since 1989, PTC has considered various proposals to address the concerns behind Commitment No. 3.<sup>12</sup> The Commission believes that the modifications to PTC's processing system in the proposed rule change satisfies Commitment No. 3 by deleting the abeyance account, amending the receipt mode provisions, and providing for simultaneous credit and debit of an account transfer to both the receiving and delivering participant or limited purpose participant. These changes will eliminate the situation where a delivering participant's securities account has been debited and cash account credited when the receiving participant's securities account has not been credited and cash account debited.

A main policy consideration leading to Commitment No. 3 was the concern that in the case of an uncompleted account transfer versus payment the unexpected return to the delivering participant of the securities in the receiving participant's abeyance account and the corresponding elimination of the credit to the cash balance of the delivering participant could place liquidity pressures on the delivering participant. Such liquidity pressure could occur at the end of the processing day just prior to settlement when there is little time for a participant to fund an unanticipated debit. The Commission believes the modifications to PTC's processing system should help to decrease the potential for such liquidity pressure.

In addition, because unmatched deliveries of account transfers versus payment transactions no longer will generate a credit to the cash balance of the delivering participant without the corresponding debit to the cash balance of the receiving participant, it was anticipated that the implementation of SPEED Release 5.6 could result in

increased incidences of failed deliveries due to NDML and NFE violations. In anticipation of the implementation of SPEED Release 5.6, PTC has monitored potential credit fails by monitoring participants' NFE and NDML usage periodically throughout the processing day using the hypothetical immediate posting of both matched and unmatched transactions to the receiving participant's account. Under the monitoring program, potential NDML violations have been minimal, but potential NFE violations have been noted.

PTC advised participants of the hypothetical NFE and NDML violations and of the amount of the hypothetical credit deficiency so that participants could monitor their transactions and adjust their businesses in order to comply with the new processing sequence when it became operational on January 8, 1996. The Commission believes that PTC's extensive work with its participants should help to ensure a smooth transition to the new transaction processing sequence and should help to minimize NFE and NDML violations.<sup>13</sup> Furthermore, consistent with PTC's obligations to safeguard securities or funds in its custody, control, or for which it is responsible, PTC has thoroughly tested SPEED Release 5.6 including performing several full participant tests and has made several changes as a result of these and other quality assurance testing procedures to ensure that SPEED Release 5.6 operates properly upon implementation.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the Act, in particular with Section 17A of the Act, and with the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (File No. SR-PTC-95-06) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>15</sup>

<sup>13</sup> The Commission recently approved a proposed rule change establishing the opening of security processing activity at PTC at 8:30 a.m. instead of the previous time of 7 a.m. This change was to conform the opening of PTC's security processing to the opening time of the Federal Reserve System's fedwire. This will eliminate the hour and a half window during which time transactions failing PTC's credit checks cannot be processed because of participants' inability to move funds to PTC until the 8:30 fedwire opening. Securities Exchange Act Release No. 36677 (January 3, 1996), [SR-PTC-95-08] (order granting accelerated permanent approval of proposed rule change).

<sup>14</sup> 15 U.S.C. § 78s(b)(2) (1988).

<sup>15</sup> 17 CFR 200.30-3(a)(12).

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96-792 Filed 1-22-96; 8:45 am]

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[Investment Company Act Rel. No. 21673; International Series Release No. 916; 812-9598]

## The Chase Manhattan Bank, N.A.; Notice of Application

January 16, 1996.

**AGENCY:** Securities and Exchange Commission (the "SEC").

**ACTION:** Notice of application for exemption under the Investment Company Act of 1940 (the "Act").

**APPLICANT:** The Chase Manhattan Bank, N.A. ("Chase").

**RELEVANT ACT SECTIONS:** Order requested under section 6(c) of the Act from section 26(a)(2)(D) of the Act.

**SUMMARY OF APPLICATION:** Applicants request an order to permit Chase, as trustee for certain unit investment trusts ("UITs"), to deposit trust assets in the custody of the Euroclear System ("Euroclear") and Cedel Bank S.A. ("Cedel").

**FILING DATE:** The application was filed on May 10, 1995 and amended on November 6, 1995 and December 7, 1995.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on February 12, 1996, and should be accompanied by proof of service on the applicant, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reasons for the request, and the issues contested. Persons who wish to be notified of a hearing may request such notification by writing to the SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 Fifth Street NW., Washington, DC 20549. Applicant, 1 Chase Manhattan Plaza, New York, New York 10081.

**FOR FURTHER INFORMATION CONTACT:** Marilyn Mann, Senior Counsel, at (202) 942-0582 (Office of Regulatory Policy, Division of Investment Management), or Robert A. Robertson, Branch Chief, at (202) 942-0564 (Office of Investment Company Regulation, Division of Investment Management).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the

<sup>11</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).

<sup>12</sup> *Supra* note 3 and accompanying text.