

weeks (40 observations) could be studied.

- The core margin for each Participant will be adjusted to reflect a two (2) standard deviation test of the net negative mark-to-market over the course of the observation period. By statistical inference, such a level of core margin should be sufficient to cover 95% of all mark-to-market exposures. The left tail of the distribution curve represents those market movement occurrences when the Overnight Exposure will be 2 standard deviations ("sigma") less than the average. The resulting exposure will be covered by the core amount. Therefore, Delta is only potentially exposed on the right tail and the core statistically predicted to cover 97.5% of the occurrences of exposure. The remaining 2.5% will be covered by intra-day margin calls.

- In the event there are an insufficient number of actual observations (i.e., less than 40), Delta will calculate an average based upon the number of actual observations. Delta will apply the calculated average to the number of observations derived by subtracting the number of known observations from 40. This shall be the population of observations used to calculate the average negative net mark-to-market.

For example, a Participant with an average overnight exposure for the prior eight weeks of \$1MM whose standard deviation is calculated to be \$250M would be required to post core margin of \$1.5MM.

Intraday Margin Calls

In the event that the intra-day mark-to-market valuation with respect to Overnight Repos exceeds the Participant's core requirement and any additional margin, Delta would require the Participant to deposit supplemental margin in the amount of such excess already on deposit by 5 p.m. of such Business Day.

Operational Procedures

On each Business Day, prior to 3:00 p.m., Delta's margining system will produce a Supplemental Daily Margin Report which will list the following:

1. All Overnight Repos in which the On-date is the current Business Day and the Off-date is the subsequent Business Day;
2. Cash prices used to value underlying collateral;
3. The Overnight Repo mark-to-market values utilizing current prices for the collateral underlying such Overnight Repos; and
4. The net exposure.

In the event the net exposure is in excess of 65% of the core margin and

any additional margin, supplemental margin will be called for by Delta. Such supplemental margin must be deposited by 5:00 p.m.

Every Monday, Delta's credit department will produce a spreadsheet which will calculate the week's core margin requirement. The spreadsheet will contain the following headings:

1. Participant;
2. 8 Week Average Exposure;
3. Standard deviation of the 8 week average mark-to-market exposure; and
4. Core Margin Requirement.

A database of the daily market-to-market exposures will be created and maintained for each Participant in a spreadsheet. The database will contain the latest 40 daily mark-to-market exposures for each Participant (over-collateralized values will be excluded). Each Participant's 8 week average and the applicable standard deviation will be calculated as described above. The average net mark-to-market will be adjusted to reflect the two standard deviation test. The resulting product becomes the new core margin requirement for each Participant. These new core margin requirements will then be forwarded to Delta's Risk Manager for input into the margining system.

By 3:00 p.m. on Each Business Day on which such core margin requirement has been calculated, each Participant will be notified of its new core margin requirement. If the requirement is greater than the then prevailing core requirement, the Participant must post the difference the following Business Day. If the new core requirement is below the then prevailing core requirement, the deposited excess will be returned to the Participant by 11:00 a.m. the following Business Day.

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[Release No. 34-38201; File No. SR-DTC-96-17]

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change Relating to the Movement of Securities Positions Within a Collateral Group

January 23, 1997.

On October 4, 1996, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-96-17) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") to permit the movement of securities positions within a collateral group.¹

¹ 15 U.S.C. 78s(b)(1).

Notice of the proposal was published in the Federal Register on November 8, 1996.² No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description

The rule change offers a new service to DTC participants that permits the movement of securities positions within a collateral group.³ The fee for this new service is \$.43 per transaction. Under the rule change, DTC will eliminate certain processing steps associated with transactions within a collateral group and thereby will lower the cost of such transactions. DTC has determined that the credit and financial controls employed for regular book-entry deliveries are not necessary for transfers that occur within the same collateral group because a participant's collateral monitor and net debit position are not affected by such transfers.

DTC anticipates that the new service will be used in connection with participant compliance with Rule 15c3-3 under the Act.⁴ Presently, a broker-dealer can use DTC's Memo Segregation Service ("memo seg") to help them comply with Rule 15c3-3. The memo seg service allows a participant to create a "memo" position within its free account to enable the participant to avoid making an unintended delivery of a designated quantity of customer fully-paid securities that either are in the participant's free account or are expected to be received into that account. Other participants prefer to comply with Rule 15c3-3 by moving customer fully-paid securities from a free account to an additional DTC account established by the participant. Under DTC's previous procedures, any book-entry movement required DTC to perform its regular risk management procedures for book-entry deliveries (e.g., review of the participant's collateral monitor and net debit position). Accordingly, the application of these procedures to book-entry

² Securities Exchange Act Release No. 37916 (November 1, 1996), 61 FR 57933.

³ A participant with multiple accounts may group its accounts into "families" (i.e., "collateral groups") and instruct DTC to allocate a specified portion of its overall collateral and net debit cap to each family. All accounts that a participant designates as belonging to a common collateral group share a single collateral monitor and single net debit cap.

⁴ 17 CFR 240.15c3-3. Rule 15c3-3 under the Act requires, among other things, that broker-dealers maintain possession or control of fully-paid or excess margin securities they hold for the accounts of customers ("customer fully-paid securities").

deliveries between the participant's free account and the additional account made this approach more expensive than the memo seg approach as a means of complying with Rule 15c3-3. The rule change will accommodate transfers of securities, including customer fully-paid securities, from a participant's free account to an additional account within the same collateral group and will do so using procedures that are less expensive than a regular book-entry delivery.

II. Discussion

Section 17A(b)(3)(F) requires 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 or for which it is responsible. The Commission believes that the proposed rule change is consistent with DTC's obligations under the Act. The new service will permit participants to move securities positions from a participant's free account to an additional DTC account within the same collateral group without undergoing DTC's usual risk monitoring controls and therefore at a lower cost. Because such transfers do not affect the overall level of a participant's collateral monitor or its net debit position, the Commission believes that DTC can implement the new procedure while still assuring the safeguarding of securities and funds in its custody or for which it is responsible. Furthermore, because the fees associated with the transfer of securities within a collateral group will now be comparable to the costs of memo seg, participants will be afforded the flexibility to choose which method to protect customer fully-paid securities that best suits their needs without cost differences being a significant factor.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular 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-DTC-96-17) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-38191; File No. SR-NASD-97-02]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to Access to Nasdaq's SelectNet Service by National Securities Exchanges Trading Nasdaq Securities on an Unlisted Trading Privilege Basis

January 22, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on January 17, 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 the 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 proposing to grant national securities exchanges trading securities listed on The Nasdaq Stock Market ("Nasdaq") on an unlisted trading privilege ("UTP") basis access to Nasdaq's SelectNet Service for those securities in which the exchange disseminates quotations through the Nasdaq system.

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

In its filing with the Commission, the NASD 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. The NASD has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis of the Proposed Rule Change

On January 10, 1997, the SEC approve several NASD rule changes and a variety of modifications to Nasdaq's Small Order Execution System ("SOES") and SelectNet

Service¹ that are designed to integrate the Commission's new order handling and execution rules.² In particular, among other things, the SEC approved an amendment to SOES that provides that orders entered into SOES will be rejected when a UTP exchange is alone at the best bid or offer displayed on Nasdaq. Because SOES will not execute orders when a UTP exchange is alone at the inside market, the NASD and Nasdaq believe it is absolutely critical that NASD members have the ability to readily access such superior priced orders displayed by the UTP exchange. Accordingly, in order to ensure that the NASD members can efficiently access UTP exchanges and that SOES will not reject order for more than very brief periods of time when a UTP exchange is alone at the inside, Nasdaq proposes to modify SelectNet to provide UTP exchanges with the ability to send and receive preferred and broadcast SelectNet orders.³ For example, if the inside market in stock ABCD is 10-10 $\frac{1}{8}$, 10x10, and the Chicago Stock Exchange ("CHX") represents the only offer at 10 $\frac{1}{8}$ SOES will reject all incoming market orders to buy for as long as the CHX is alone at the best offer and NASD members will have the ability to send a preferred SelectNet order to the CHX specialist.⁴

In addition to minimizing the time that SOES will reject orders when a UTP exchange is alone at the inside, giving the UTP exchanges access to SelectNet will provide Nasdaq market makers and UTP specialists with a more efficient means to access each others quotes. In this connection, Nasdaq market makers have expressed their desire to have a

¹ See Securities Exchange Act Release No. 38156 (January 10, 1997) (order partially approving file SR-NASD-96-43).

² Among others, the new SEC rules include a new rule, SEC Rule 11Ac1-4 ("Display Rule"), governing the display of customer limit orders, and amendments to the SEC's firm quote rule, Rule 11Ac1-1, requiring market makers to reflect in their quotes any better priced orders that they place into an ECN ("ECN Rule"). The SEC also adopted an "ECN Display Alternative" that permits market makers to comply with the ECN Rule by having an ECN display their orders to the marketplace. See Securities Exchange Act Release No. 37619A (September 6, 1996), 61 FR 48290 (September 12, 1996).

³ SelectNet permits NASD members to direct buy or sell orders in Nasdaq securities to a single market maker (preferred orders) or broadcast the order to all market makers in the security. Nasdaq operates SelectNet to provide investors and members with an automated means to facilitate the communication of trading interest between members, the negotiation of orders with the possibility of price improvement, and the dissemination of last sale reports to the tape. SelectNet also serves as an effective auxiliary mechanism to one-on-one telephone communication between members, especially in times of market stress. The service is available for members to negotiate and execute orders form 9:00 a.m. until 5:15 p.m., Eastern Standard Time.

⁴ Each exchange currently is permitted to trade up to 500 Nasdaq National Market securities on a UTP basis. At the present time, however, the CHX is the only exchange that trades Nasdaq stocks pursuant to UTP. Accordingly, the CHX would be the only exchange that would be granted access to SelectNet at this time.

⁵ 17 CFR 200.30-3(a)(12).