

solicit comments from interested persons on the proposed rule change.

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

The proposed rule change will allow DTC to enter into contracts with individual participants to provide customized processing services under DTC's branch deposit service ("BDS").

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.²

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

BDS currently allows DTC participants to route securities certificates and related documentation from their branches and other satellite offices directly to DTC rather than to the participants' own central locations for processing before being deposited at DTC.³ DTC has advised the Commission that some participants have requested customization of BDS in order to suit their individual needs.⁴ The purpose of the proposed rule change is to permit DTC to enter into contracts with individual participants to provide such customized processing services under BDS. Under the proposed rule change, however, DTC would not be obligated to enter into any such contracts with participants or to offer the same terms under any such contracts to all participants.⁵

DTC believes that the proposed rule change is consistent with the requirements of section 17A(b)(3)(A) of

the Act⁶ and the rules and regulations thereunder because it promotes efficiencies in the clearance and settlement of securities transactions.

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

DTC believes that no burden will be placed on competition as a result of the proposed rule change.

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

Comments were neither solicited nor received.

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 finding or (ii) as to which DTC 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 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 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-97-13 and should be submitted by October 10, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-24969 Filed 9-18-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39066; File No. SR-GSCC-97-05]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change To Modify Rules Relating to the Loss Allocation Process

September 12, 1997.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 8, 1997, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") and on July 23, 1997, amended the proposed rule change (File No. SR-GSCC-97-05) as described in Items I, II, and III below, which items have been prepared primarily by GSCC. 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 purpose of the proposed rule change is to modify GSCC rules relating to its loss allocation process.

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

In its filing with the Commission, GSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments that it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. GSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.²

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified the text of the summaries submitted by GSCC.

² The Commission has modified the text of the summaries prepared by DTC.

³ For a complete description of BDS, refer to Securities Exchange Act Release No. 34600 (August 25, 1994), 59 FR 45317 [File No. SR-DTC-94-05] (order approving proposed rule change).

⁴ For example, DTC has advised the Commission that one participant has requested that DTC develop a certain imaging functionality for BDS. That specific service, however, would not be used by other participants that utilize BDS.

⁵ DTC has advised the Commission that it will charge fees for customization of BDS based on a consistently applied methodology.

⁶ 15 U.S.C. 78q-1(b)(3)(A).

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

GSCC's loss allocation process is designed to provide members with incentives to assess the creditworthiness of their counterparties. Thus, to the extent that GSCC, using its own capital, does not absorb the loss that results from a member default, it allocates the loss among members pro rata based on the extent of their recent activity with the defaulting member. In order to determine which members will be subject to loss allocation, GSCC will look at trading activity that entered GSCC's netting system during as many days as is necessary to reach a level of activity that is equal to or greater than five times the dollar value of the liquidated positions.

Over the years, a number of members and prospective members have raised an issue regarding the application of the loss allocation process for losses arising from blind brokered transactions. Their concern is that members that are not interdealer brokers neither have knowledge nor have control over whether they may be matched against any other member. Thus, they have no ability to limit the amount of trading that they do on a blind basis against a member on which they would otherwise place trading limits for credit or other reasons. The concern by a dealer firm over the inability to exercise control from a credit perspective over its trading activity with particular counterparties has been heightened with last year's introduction of blind brokering activity involving repurchase agreement transactions.

GSCC believes that while the possibility of a loss allocation occurring is de minimis the concern over bearing a disproportionate amount of loss is a legitimate one that needs to be addressed. Among other methods, GSCC considered simply mutualizing among all netting members, either in an equal or pro rata manner, any loss allocation arising from blind brokered activity. The disadvantage of this approach is that it removes any incentive for a member to assess the creditworthiness of one's counterparties. GSCC believes that the loss allocation process should continue to function in a manner that preserves to some extent this incentive.

In order to balance these considerations, GSCC is seeking authority to cap at a preset level the degree to which any netting member that is not an interdealer broker is liable for loss allocation arising from blind

brokered activity.³ The proposed cap per loss event will be equal to the lesser of \$5 million or five percent of the total loss amount arising from blind brokered activity that is allocated to members that are not interdealer brokers as a group. To the extent that this cap is applicable, any amounts not collected from individual netting members will be reallocated to the entire netting membership pro rata based on each member's average daily clearing fund deposit requirement over the twelve month period prior to the insolvency.

GSCC believes that the \$5 million cap will provide to all members the same level of protection that interdealer broker members currently have for blind brokered activity. GSCC also states that because dealer members do not control the degree to which they may be matched by interdealer brokers against other members, the number of trades that they engage in with an insolvent member is outside of their control. The 5% limit is intended to compensate for this lack of control by ensuring that no single member will be liable for an amount of loss for blind brokered activity that is significantly greater than the amount of loss allocated to other dealer members.

GSCC believes the proposed rule change is consistent with the requirements of section 17A of the Act and the rules and regulations thereunder because the rule proposal will promote the prompt and accurate clearance and settlement of securities transactions and will assure the safeguarding of securities and funds in the custody or control of GSCC or for which GSCC is responsible.

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

GSCC does not believe that the proposed rule change will have an 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. GSCC will notify the Commission of any written comments received by GSCC.

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**

³ Interdealer broker netting members already have a \$5 million cap per loss event on their liability for loss allocation.

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 finding or (ii) as to which GSCC 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 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 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 20549. Copies of such filing will also be available for inspection and copying at the principal office of GSCC. All submission should refer to the file number SR-GSCC-97-05 and should be submitted by October 10, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-24860 Filed 9-18-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39054; File No. SR-GSCC-97-04]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to the Implementation of a Fine Schedule

September 11, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

⁴ 17 CFR 200.30-3(a)(12).