

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40045; File Nos. SR-DTC-98-09, SR-NSCC-98-05]

Self-Regulatory Organizations; The Depository Trust Company; National Securities Clearing Corporation; Notice of a Proposed Rule Change Relating to Direct Clearing Services and New York Window Services

May 29, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on May 13, 1998, The Depository Trust Company ("DTC") and the National Securities Clearing Corporation filed with the Securities and Exchange Commission ("Commission") proposed rule changes as described in Items I, II, and III below, which Items have been prepared primarily by DTC and NSCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule changes.

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

Under the proposed rule changes, NSCC will discontinue providing its Direct Clearing Services ("Direct Clearing") and New York Window Services ("Window"). DTC will begin to offer its participants most of the services currently offered by NSCC through Direct Clearing and the Window and will call the service the "New York Window Services."

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

In its filing with the Commission, DTC and NSCC included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. DTC and NSCC have 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 Changes

Direct Clearing is a physical securities processing service which NSCC has provided since its inception to NSCC participants that do not have offices in New York City. The principal services of Direct Clearing include (i) processing of over-the-window receives and deliveries, (ii) processing transfers of physical securities certificates, and (iii) processing deliveries to designated agents in connection with reorganizations and other corporate actions. In the course of providing these and other Direct Clearing services, NSCC may have custody of participants' physical securities certificates including overnight custody for one or more days.³

The Window was originally approved by the Commission as a pilot project for NSCC in 1993⁴ and became a permanent service in 1994.⁵ The principal services of the Window are similar to those of Direct Clearing, but they initially were provided to NSCC participants located in New York City. NSCC organized the Window in order to centralize redundant services provided at many of its participants' offices that were based in New York City.

NSCC has proposed to discontinue providing Direct Clearing and the Window in order to focus its resources on the core businesses of NSCC. The proposed arrangements between NSCC and DTC should assist in eliminating redundant services and facilities and thereby should result in greater efficiencies while offering the current users of Direct Clearing and the Window the ability to receive similar services from DTC.

Under the proposals, DTC will adopt new procedures for the operation of its New York Window Services.⁶ DTC's proposed procedures are substantially

the same as NSCC's Rule 31⁷ except that DTC's proposed procedures do not include provisions similar to section 4 of NSCC Rule 31, which relates to money settlement through the Window. Currently, it is anticipated that NSCC will discontinue providing Direct Clearing and the Window and DTC will begin offering its New York Window Services on July 10, 1998.

DTC and NSCC believe that the proposed rule changes are consistent with the requirements of Section 17A of the Act⁸ and the rules and regulations thereunder because the proposed arrangements should provide for more efficient clearing and depository services and thereby should facilitate the prompt and accurate clearance and settlement of such transactions. In addition, DTC believes that the proposed rule changes will be implemented consistently with its obligation under Section 17A to safeguard securities and funds in its custody and control or for which it is responsible.

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

The proposed arrangements would impose no burden on competition. Securities depositories registered under Section 17A of the Act are utilities created to serve members of the securities industry for the purpose of providing certain services that are ancillary to the businesses in which industry members compete with one another.

After consummation of the proposed arrangements between DTC and NSCC, securities industry members will continue to have access to high-quality, low-cost depository services provided under the mandate of the Act.

(C) Self-Regulatory Organizations' Statement on Comments on the Proposed Rule Changes Received from Members, Participants or Others

Written comments from DTC participants, NSCC participants, and others have not been solicited or received. NSCC and DTC have worked closely, however, with a users' group composed of many of the users of Direct Clearing and the Window in evaluating and planning the proposed transaction.

⁷ The current version of NSCC Rule 31 was approved by the Commission in 1996. Securities Exchange Act Release No. 37631 (September 3, 1996), 61 FR 47534 [File No. SR-NSCC-96-08].

⁸ 15 U.S.C. 78q-1.

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

³ For a more complete description of Direct Clearing, refer to Securities Exchange Act Release No. 32221 (April 26, 1993), 58 FR 26570 [File No. SR-NSCC-93-03].

⁴ Securities Exchange Act Release No. 31861 (February 16, 1993), 58 FR 9582 [File No. SR-NSCC-93-03].

⁵ Securities Exchange Act Release No. 34629 (September 9, 1994), 59 FR 46680 [File No. SR-NSCC-94-12].

⁶ DTC's proposed procedures are attached as Exhibit 2 to DTC's filing which is available for inspection and copying at the Commission's public reference room and through DTC.

¹¹ 17 CFR 200.30-3(a)(1).

¹ 15 U.S.C. 79s(b)(1).

III. Date of Effectiveness of the Proposed Rule Changes 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 or NSCC consents, the Commission will:

(A) By order approve such proposed rule changes or

(B) Institute proceedings to determine whether the proposed rules 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 changes are 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. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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 and NSCC. All submissions should refer to File Nos. SR-DTC-98-09 and SR-NSCC-98-05 and should be submitted by June 25, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40042; File No. SR-OCC-98-03]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the Stock Loan/Hedge Program

May 28, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on April 13, 1998, The Options Clearing Corporation ("OCC") 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 OCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

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

The purpose of the proposed rule change is to amend OCC's By-Laws and Rules governing OCC's stock loan/hedge program ("hedge program") under which OCC operates a centralized facility for administering stock loan and stock borrow transactions between OCC clearing 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, OCC 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. OCC 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

1. Overall Purpose

In general, the purpose of the proposed rule change is to make comprehensive amendments to OCC's By-Laws and Rules that govern the hedge program. Clearing members that are approved to participate in the hedge

program are referred to as "hedge clearing members." A clearing member that lends stock through the hedge program is referred to as a "lending clearing member," and a clearing member that borrows stock is referred to as a "borrowing clearing member." Stocks that are eligible for the hedge program are referred to as "eligible stocks."

2. Summary of Primary Changes in Program

(i) *Stock Loan Initiation.* Currently under the hedge program, a stock loan is initiated when two hedge clearing members agree on the terms of the loan, the lending clearing member transfers the stock to OCC's account at a "correspondent depository" (i.e., a securities depository at which OCC has an account), OCC directs the correspondent depository to redeliver the stock to the borrowing clearing member against payment of the required collateral amount to OCC, and OCC pays over the required collateral amount to the lending clearing member.

Under the revised hedge program, OCC will have no involvement in a stock loan until after the clearing members that are parties to the stock loan have completed the transaction between themselves through the facilities of The Depository Trust Company ("DTC"). Upon receiving notice of the stock loan from DTC, OCC will verify the accuracy of the clearing members' account numbers and the information supplied to OCC with respect to the transaction. If this information is verified, OCC will accept the loan into the hedge program. Upon acceptance (and only upon acceptance) by OCC, the stock loan contract between the stock lender and the stock borrower will be replaced by two parallel contracts with congruent terms: one between the stock lender and OCC as stock borrower and one between the stock borrower and OCC as stock lender. If OCC rejects a transaction, the transaction will remain in effect between the lending clearing member and the borrowing clearing member but outside the hedge program.

(ii) *Universe of Eligible Stocks.* Currently, the only stocks eligible for the hedge program are stock that are the underlying stocks for stock option contracts. Under the proposed rule change, all equity securities that are eligible for deposit at DTC will be eligible for the hedge program (other than any stock as to which OCC has made a determination pursuant to Section 2(c) of Article XXI of its By-Laws to terminate all outstanding stock loans relating to that stock).

¹ 15 U.S.C. 78s(b)(1).

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

⁹ 17 CFR 200.30-3(a)(12).