

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, N.W., Washington, D.C. 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, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to file number SR-AMEX-98-05 and should be submitted by March 18, 1998.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-4759 Filed 2-24-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39684; File No. SR-DCC-98-01]

Self-Regulatory Organizations; Delta Clearing Corp.; Notice of Filing of a Proposed Rule Change to Permit the Use of Mortgage Backed Securities as Margin Collateral

February 19, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on January 5, 1998, Delta Clearing Corp. ("Delta") filed with the Securities Exchange Commission ("Commission") the proposed rule change (File No. SR-DCC-98-01) as described in Items I, II, and III below, which items have been prepared primarily by Delta. 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

Delta proposes to modify its procedures in order to accept mortgage backed securities as margin collateral.

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

In its filing with the Commission, Delta 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. Delta 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

Currently, Delta only accepts federal funds³ or treasury securities as margin collateral. Delta proposes revisions to its procedures which would authorized Delta to accept mortgage backed securities as margin collateral.⁴

Delta's participants may clear and settle repurchase and reverse repurchase agreements in treasury securities ("treasury repos") and repurchase and reverse repurchase agreements in mortgage backed securities ("mortgage repos") through Delta's system. Some participants have chosen to clear and to settle only mortgage repos through

Delta. For those participants, there is an additional cost associated with obtaining treasury securities for purposes of supplying margin collateral. Because those participants already possess mortgage backed securities related to the transactions they are clearing through Delta, it is a more straightforward process for them to honor their margin obligations with these mortgage backed securities.

Delta believes that, with the appropriate haircuts, the provision of margin in the form of mortgage backed securities poses no additional risk to the system. Delta notes that the Commission under its uniform net capital rule generally applies the same haircuts to treasury securities and mortgage backed securities.⁵ Consistent with Delta's treatment of treasury securities used for margin collateral, Delta proposes that mortgage backed securities should be valued in accordance with the schedule of applicable haircuts found in Rule 15c3-1(c)(2)(vi)(A)(I) under the Act.⁶ Delta also notes that its clearing bank, The Bank of New York, will accept mortgage backed securities in accordance with Delta's proposal without further haircuts.

Delta believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to Delta and in particular with Section 17A(b)(3)(F) of the Act⁷ which requires that a clearing agency be organized and its rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. Delta believes the proposed rule changes will permit wider use of its system by providing participants with the opportunity to efficiently meet margin requirements consistent with Delta's obligation to safeguard funds and securities.

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

³ Federal funds are defined in Delta's procedures as cash balances available for immediate withdrawal in accounts maintained at banks that are members of the Federal Reserve System.

⁴ Mortgage backed securities are defined in Delta's procedures as book entry securities directly issued by the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC") whose underlying value is represented by a pool of mortgages. These may be fixed rate or adjustable rate mortgage backed securities backed by fixed rate or adjustable rate mortgage loans, respectively. Such securities must be transferable through the federal reserve system. Delta is not authorized to clear mortgage backed securities that have underlying assets that are mortgage backed securities rather than a pool of mortgage loans. Delta also is not authorized to clear notional, interest only, principal only, accrual and partial accrual securities, or floaters and inverse floaters, as such terms are defined in Schedule A to Delta's procedures. Securities Exchange Act Release No. 39241 (October 14, 1997), 62 FR 54663 (order approving proposed rule change authorizing Delta to clear mortgage repos).

⁵ Rule 15c3-1(c)(2)(vi)(A)(I), 17 CFR 240.15c3-1(c)(2)(vi)(A)(I).

⁶ Section 3(a)(42)(B) of the Act defines government securities to include securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest and which are designated by the Secretary of the Treasury for exemption as necessary or appropriate in the public interest or for the protection of investors. The Department of Treasury has designated securities issued by FNMA and by FHLMC as exempt. Notice issued by the Department of Treasury (October 7, 1987), 52 FR 38559.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

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

Delta does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

(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 Delta 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, N.W., Washington, D.C. 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, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of Delta. All submissions should refer to the file number SR-DCC-98-01 and should be submitted by March 18, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-4756 Filed 2-24-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39680; File No. SR-PCX-97-49]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Margin and Net Capital Requirements for Joint Back Office Participants and Clearing Firms

February 18, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 18, 1997, 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 Exchange seeks to amend Exchange Rule 2.16(c)(5) and adopt a new Exchange Rule 2.16(c)(6) to establish margin and net capital requirements for joint Back Office ("JBO") participants and clearing firms.

The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and at the Commission.

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

In its filing with the Commission, the Exchange 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 Exchange has prepared summaries, set forth in sections A, B, and C below, of

the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to revise Exchange Rule 2.16(c)(5) and adopt a new Exchange Rule 2.16(c)(6) to establish margin and net capital requirements for JBO participants and clearing firms. JBO arrangements permit a participating broker-dealer to be deemed self-clearing for margin purposes and entitle the participating broker-dealer to good faith credit. Pursuant to Regulation T, a JBO participant must maintain an ownership interest in the JBO clearing firm.²

In recent amendments to Regulation T, the Board of Governors of the Federal Reserve System ("FRB") placed its reliance on the authority of self-regulatory organizations ("SROs") to ensure that reasonableness of JBO arrangements.³ When the provision permitting JBO arrangements was first adopted, the FRB assumed there would be a reasonable relationship between the good faith credit extended to a JBO participant and its ownership interest in the clearing firm. However, because Regulation T does not provide an ownership standard, good faith credit has been extended to "owners" maintaining only a nominal interest in a clearing firm.

In conjunction with other SROs and representatives from the securities industry, the Exchange has established standards for JBO participants and clearing firms. These standards will permit the extension of good faith credit to clearing firm "owners" only when the owners maintain meaningful assets on deposit with the JBO clearing firm, and the clearing firm maintains sufficient net capital and risk control procedures to carry such accounts. The Exchange's proposed rule change would establish the following requirements:

(a) *Broker-Dealer Accounts.* The Exchange proposes to adopt a new Exchange Rule 2.16(c)(6)(A) that would permit a member organization to carry the proprietary account of another broker-dealer that is registered with the

² Regulation T, "Credit by Brokers and Dealers," requires that a JBO clearing firm be "a clearing and servicing broker or dealer owned jointly or individually by other [broker-dealers]." 12 CFR 220.11(a)(2). The Board of Governors of the Federal Reserve System issued Regulation T pursuant to the Act.

³ See Board of Governors of the Federal Reserve System Docket No. R-0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).