

proposals will enable SCCP and Philadep to provide information regarding their respective participants funds, including excess or deficit amounts, and to provide comprehensive data on underlying collateral to NSCC for inclusion in the CMS. Participants of SCCP or Philadep that desire access to the CMS data will be required to execute a CMS participation application.

II. Discussion

Section 17A(b)(3)(F) of the Act requires that 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.⁸ The Commission believes the proposed rule changes are consistent with SCCP's and Philadep's obligations under Section 17A(b)(3)(F) because the proposals set forth SCCP's and Philadep's responsibilities and obligations with regard to the release of participants' clearing data and facilitate SCCP's, Philadep's, and their participants' participation in NSCC's CMS by enabling SCCP and Philadep to provide information regarding their participants to NSCC for the CMS. The participation of SCCP, Philadep, and their participants in NSCC's CMS should help SCCP, Philadep and other clearing agencies to better monitor clearing fund, margin, and other similar required deposits that protect clearing agencies against loss should a member default on its obligations to the clearing agency.⁹

complete description of the CMS, refer to Securities Exchange Act Release No. 36091 (August 5, 1995), 60 FR 30912 [File No. SR-NSCC-95-06] (order approving the CMS).

⁸ 15 U.S.C. 78q-1(b)(3)(F) (1988).

⁹ NSCC's CMS will be especially beneficial to those participating clearing entities that have executed cross-guaranty agreements or have other cross-guarantee arrangements. Currently, SCCP and Philadep have a cross-guarantee arrangement between themselves but not between themselves and other clearing entities. The Commission supports the use of cross-guaranty agreements and other similar arrangements among clearing agencies as a method of reducing clearing agencies' risk of loss due to a common participant's default and encourages SCCP and Philadep to explore such agreements or arrangements with other clearing entities.

Generally, a cross-guaranty agreement, as the one between The Depository Trust Company ("DTC") and NSCC, provides that in the event of a default of a common member, any resources remaining after the failed common member's obligations to the guaranteeing clearing agency have been satisfied will be made available to the other clearing agency. The guaranty is not absolute but rather is limited to the extent of the resources relative to the failed member remaining at the guaranteeing clearing agency. The principal resources will be the failed member's settlement net credit balances and deposits to the clearing agencies' clearing funds. For a complete description of DTC's and NSCC's

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposals are consistent with the requirements of Section 17A(b)(3)(F) 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 changes (File Nos. SR-SCCP-95-04 and SR-Philadep-95-06) be, and hereby are, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36740; File No. SR-MCC-95-05]

Self-Regulatory Organizations; Midwest Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Relating to a Contingency Plan for Participants in Connection With Midwest Clearing Corporation's Decision to Withdraw From the Securities Clearing Business

January 19, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 26, 1995, the Midwest Clearing Corporation ("MCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which items have been prepared primarily by MCC. On January 11, 1996, MCC filed an amendment to the proposed rule change to clarify certain provisions in the proposal.² The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change.

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

MCC proposes to add an Article XI, Sponsored Accounts, to its rules to limit the types of persons and entities that are eligible to be participants at MCC and to provide for a contingency, to be

agreement, refer to Securities Exchange Act Release No. 33548 (January 31, 1994), 59 FR 5638 [File Nos. SR-DTC-93-08 and SR-NSCC-93-07].

¹⁰ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letter from David T. Rusoff, Foley & Lardner, to Peter Geraghty, Division of Market Regulation, Commission (January 11, 1996).

implemented solely at MCC's discretion, in the event that certain MCC participants have not made arrangements with alternate service providers by January 19, 1996.³

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

In its filing with the Commission, MCC 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. MCC has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.⁴

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

On January 5, 1996, the Commission approved a proposed rule change filed by MCC relating to its withdrawal from the securities clearance and settlement business in conjunction with an agreement with the National Securities Clearing Corporation ("NSCC").⁵ Under the agreement with NSCC, MCC and its parent, the Chicago Stock Exchange ("CHX"), will provide certain floor members and member organizations of the CHX with access to the services offered by NSCC through sponsored accounts with NSCC. This filing implements that portion of the transaction and provides a contingency plan, to be implemented solely at MCC's discretion, for current participants of MCC that are unable to find alternative clearance and settlement services by January 19, 1996.

Pursuant to its agreement with NSCC, MCC will become a member of NSCC and may sponsor Temporary Sponsored Participants ("TSP") and Sponsored Participants ("SP") at NSCC. MCC will maintain subaccounts at NSCC for each TSP and SP. The purpose of the TSP membership category is to provide existing participants of MCC temporary

³ MCC's filing refers to January 15, 1996, as the date by which MCC participants must have made arrangements with alternate service providers. This date was postponed to January 19, 1996. Telephone conversation between J. Craig Long, Foley & Lardner, [counsel to MCC], and Jerry Carpenter, Assistant Director, Peter Geraghty, Senior Counsel, and Cheryl Tumlin, Staff Attorney, Division of Market Regulation, Commission (January 18, 1996).

⁴ The Commission has modified the text of the summaries prepared by MCC.

⁵ For a description of the agreement, refer to Securities Exchange Act Release No. 36684 (January 5, 1996), [File No. SR-MCC-95-04] (order approving proposed rule change).

clearing arrangements if they are unable to find appropriate alternative clearing arrangements by the January 19, 1996 deadline.⁶ The purpose of the SP category is to provide a mechanism for specialists, market makers, and floor brokers of the CHX who are not members of any registered clearing agency other than MCC to have access to the services of a registered clearing agency. The only services that MCC will provide to TSPs and SPs is access to the facilities of a Qualified Clearing Agency ("QCA").⁷

MCC and CHX will guarantee the obligations of TSPs and SPs to NSCC to the extent provided in an agreement between CHX and NSCC. Only entities that are participants of MCC as of January 19, 1996 will be eligible to be TSPs. Only entities that are members or member organizations of CHX, that are registered as specialists, market makers, or floor brokers, and that meet the other eligibility standards of financial responsibility, operational capacity, experience, and competence will be eligible to be SPs.⁸ If implemented, the TSP category will terminate on or before March 31, 1996, at which time MCC will definitively cease to act for all TSPs.

Under the proposed arrangement for SPs, CHX will transmit compared trade information to NSCC so that NSCC can determine each SP's net settlement obligation. NSCC then will transmit SPs' settlement obligations to MCC. Based on NSCC's final settlement figures, MCC will use funds received from an SP or will initiate payments against an SP's bank account to satisfy an SP's payment obligation. In this regard, each SP is required to maintain funds that are sufficient for purposes of settlement and that are accessible to MCC. If an SP has a credit balance, NSCC will forward the credit to MCC, and MCC will make available to such SP the amount of the credit balance.⁹

Each SP that maintains a sponsored account will be permitted to utilize the

sponsored account only for the clearance of transactions in issues traded on the CHX trading floor which are effected by the SP in its capacity as a specialist, market maker, or floor broker, as the case may be. SPs will be required to contribute to a sponsored account fund as provided in proposed Article XI, Rule 11. Each SP's required contribution will consist of the greater of its minimum contribution or its alternative contribution. The minimum contribution for an SP will be \$15,000. The alternative contribution will be 110% of the SP's required contribution to the participant's fund of any registered clearing agency that has entered into appropriate agreements with MCC as a QCA. As of the date of this filing, only NSCC has entered into such an agreement. MCC also may require an SP to deposit a supplemental contribution not based on an SP's usage of MCC's services. All contributions to the sponsored account fund must be in cash. All sponsored account fund contributions not forwarded to a QCA by MCC may be invested by MCC. The sponsored account fund may be used to cover losses in a manner similar to that provided for in the current MCC participants fund rules.

While SPs will not be obligated to comply with all of MCC's rules, SP's will be obligated to comply with the MCC rules designated in Article XI as being applicable to SPs. Among other things, Article XI provides that SPs must comply with MCC's rules relating to losses, indemnification, and ceasing to act.¹⁰ SPs also must comply with the rules of any QCA.¹¹

In the event that MCC ceases to act for an SP, proposed Article XI, Rule 10 provides that MCC may buy-in a security position of the SP.¹² This will be the case even if the QCA does not issue a buy-in notice to MCC for the SP's account.

Under the proposed arrangement for TSPs, NSCC will determine each TSP's net settlement obligation. Upon notice to and with authorization from MCC, a TSP may elect to have NSCC transmit its settlement obligations directly to it instead of to MCC. If the TSP so elects, NSCC will transmit the settlement figures directly to the TSP, and the TSP will effect money settlement directly

with NSCC. The TSP must comply with NSCC's rules regarding cutoff times and the use of settlement banks. If the TSP has a credit balance, NSCC will forward the credit directly to the TSP's bank account. If the TSP elects to have NSCC transmit its final settlement figures to MCC, MCC will use the funds it receives from the TSP or will initiate payments against the TSP's bank account to satisfy the TSP's payment obligation. If a TSP has a credit balance under this arrangement, NSCC will forward the credit to MCC, and MCC will make available to the TSP the amount of the credit balance.

Each TSP will be permitted to utilize the temporary sponsored account only for the clearance of issues eligible for clearance and settlement at NSCC. In addition, each TSP will be required to contribute to the sponsored account fund in a manner and amount that is similar to SPs.

Because TSPs are existing participants, they will be required to comply with all existing MCC rules for activity occurring prior to becoming a TSP, and they will be required to comply with the MCC rules designated in Article XI as being applicable to TSPs. Under proposed Rule 10, in the event that MCC ceases to act for a TSP, MCC may buy-in a security position of the TSP. Such a buy-in may occur even if NSCC does not issue a buy-in notice to MCC for the TSP's account.

MCC believes the proposed rule change is consistent with Section 17A of the Act in that it is designed to promote the accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in MCC's control or for which MCC is responsible.

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

MCC does not believe that the proposed rule change will impose a burden on competition that is 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

Written comments on the proposal have not been solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Section 17A(b)(3)(F)¹³ of the Act requires the rules of a clearing agency be

⁶ By an Important Notice dated November 17, 1996, MCC informed its participants that it intended to cease providing clearing services on January 15, 1996, and that participants should make arrangements for alternate clearing services by that date. The date was postponed to January 19, 1996. Note 3, *supra*.

⁷ As set forth in proposed Article XI, Rule 5, the term Qualified Clearing Agency refers to a registered clearing agency which has entered into an agreement with CHX and MCC pursuant to which it will, among other things, act as a securities clearing agency for SPs and TSPs and provide such services to CHX, CHX members, and MCC as CHX, MCC, and the QCA shall from time to time agree.

⁸ Proposed Article XI, Rule 2(a) sets forth the requirements for eligibility as a sponsored participant.

⁹ Proposed Article XI, Rule 7 governs the settlement of sponsored accounts and temporary sponsored accounts.

¹⁰ Proposed Article XI, Rule 2(a).

¹¹ Proposed Article XI, Rule 2(b).

¹² MCC also may buy-in a position of an SP if the SP has voluntarily ceased to be a participant in MCC but has not closed out all of its positions or if MCC determines that such action is necessary and proper in order to protect MCC or its participants or to satisfy its obligations to safeguard securities and funds and to assure the prompt and accurate clearance and settlement of securities transactions. Proposed Article XI, Rule 10.

¹³ 15 U.S.C. 78q-1(b)(3)(F) (1988).

designed to promote the prompt and accurate clearance and settlement of securities transactions and 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 the proposal is consistent with MCC's obligations under Section 17A of the Act because it should help ensure that MCC participants will have access to safe and efficient securities clearing services and should protect against disruption in their businesses upon MCC's withdrawal from the securities clearing business. Furthermore, MCC's coordination with NSCC in establishing clearing services for TSPs and SPs through sponsored accounts and temporary sponsored accounts and the requirement of a sponsored account fund to cover possible losses by MCC incident to the operation of the sponsored and temporary sponsored accounts should help MCC safeguard the securities and funds which are in its custody or control or for which it is responsible.

MCC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing. The Commission finds good cause for so approving the proposed rule change because the proposal is critical to MCC's orderly withdrawal from the securities clearing business by its announced deadline of January 19, 1996. Furthermore, the Commission received only one comment letter¹⁴ during the comment period of MCC's proposal to withdraw from the clearing business.¹⁵ Thus the Commission does not believe it will receive negative comment letters on this proposal.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submissions, 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. Copies of such filing also will be available for inspection and copying at the principal office of MCC. All submissions should refer to the file number SR-MCC-95-05 and should be submitted by February 16, 1996.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-MCC-95-05) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-36739; File No. SR-MSTC-95-11]

Self-Regulatory Organizations; Midwest Securities Trust Company; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Relating to a Contingency Plan for Participants in Connection With Midwest Securities Trust Company's Decision to Withdraw From the Securities Depository Business

January 19, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 26, 1995, the Midwest Securities Trust Company ("MSTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-MSTC-95-11) as described in Items I and II below, which items have been prepared primarily by MSTC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change.

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

MSTC proposes to add Article VIII to its rules to provide for a contingency

plan, to be implemented in MSTC's sole discretion, in the event that certain MSTC participants have not made arrangements for alternate service providers by January 19, 1996.²

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

In its filing with the Commission, MSTC 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. MSTC has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.³

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

On January 5, 1996, the Commission approved a proposed rule change filed by MSTC relating to its withdrawal from the securities depository business in conjunction with an agreement with The Depository Trust Company ("DTC").⁴ This filing provides for a contingency plan for current participants of MSTC that are unable to find alternative securities depository services by January 19, 1996.

Pursuant to MSTC's proposed contingency plan, MSTC in its sole discretion may become a member of DTC for the limited purpose of temporarily enabling Temporary Sponsored Participants ("TSPs") to utilize the depository services of DTC. If implemented, only entities that are depository participants of MSTC as of January 19, 1996 will be eligible to be TSPs. The purpose of the TSP membership category is to provide existing MSTC depository participants that are unable to find appropriate alternative arrangements by the January 19, 1996 deadline, temporary securities depository arrangements.⁵ This TSP

² MSTC's filing refers to January 15, 1996, as the date by which MSTC participants must have made arrangements with alternate service providers. This date was postponed to January 19, 1996. Telephone conversation between J. Craig Long, Foley & Lardner, [counsel to MSTC], and Jerry Carpenter, Assistant Director, Peter Geraghty, Senior Counsel, and Cheryl Tumlin, Staff Attorney, Division of Market Regulation, Commission (January 18, 1996).

³ The Commission has modified the text of the summaries prepared by MSTC.

⁴ For a description of the agreement, refer to Securities Exchange Act Release No. 36684 (January 5, 1996), [File No. SR-MSTC-95-10] (order approving proposed rule change).

⁵ By an Important Notice dated November 17, 1996, MSTC informed its participants that it

¹⁴ Letter from Leland W. Hutchinson, Jr., Freeborn & Peters, [counsel for Scattered Corporation and Laura Bryant, members of CHX] to Richard R. Lindsey, Director, Division of Market Regulation, Commission (December 15, 1995).

¹⁵ See, Securities Exchange Act Release No. 36684 (January 5, 1996), [File No. SR-MCC-95-04] (order approving MCC's proposal to withdraw from the securities clearing business).

¹⁶ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).