

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39824; File No. SR-DCC-98-03]

### Self-Regulatory Organizations; Delta Clearing Corp.; Notice of Filing and Order Granting Accelerated, Temporary Approval of a Proposed Rule Change Relating to Margin Requirements for Overnight Repurchase Agreements

April 1, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on March 20, 1998, Delta Clearing Corp. ("DCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which items have been primarily prepared by DCC. The Commission is publishing this notice and order to solicit comments on the proposed rule change from interested persons and to grant accelerated approval of the proposed rule change through March 31, 1999.

#### 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 extend the temporary approval for DCC's rules regarding the collection of margin for overnight repurchase and reverse repurchase agreements ("overnight repos").

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

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

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

DCC seeks an extension of the temporary approval of its rules relating to the collection of margin for overnight repos. On April 2, 1997, the Commission granted approval of DCC's

overnight repo margining rules through September 30, 1997.<sup>3</sup> On September 30, 1997, the Commission granted accelerated approval of DCC's overnight repo margining rules through March 31, 1998.<sup>4</sup>

Prior to the proposed rule change, DCC calculated each participant's margin requirement for all repos, including overnight repos, at the end of each business day and required margin to be deposited by 11:00 a.m. the next business day. DCC does not believe that this procedure is appropriate for overnight repos because overnight repos terminate on the following day. As a result, DCC amended its procedures for calculating and collecting margin for overnight repos.<sup>5</sup>

These procedures require each participant which engages in overnight repos to deposit with DCC as core margin either \$1 million or a greater amount as determined by DCC at the end of each week based upon the participant's daily overnight repo exposures during the eight prior weeks.<sup>6</sup> If DCC determines as a result of any weekly calculation that a participant is required to maintain a higher core margin amount on deposit with DCC, DCC will notify the participant of such higher core margin requirement by 3:00 p.m. on that date of the calculation, and the participant is required to deposit by 11:00 a.m. on the following business day margin whose value equals or exceeds the participant's additional margin requirement. Such deposit must be in cash or U.S. Treasury securities.

In addition to the weekly calculation described above, DCC calculates on each business day each participant's mark-to-market exposure from overnight repos. If a participant's exposure from overnight repos exceeds 65 percent of the participant's core margin requirement, DCC requires the participant to deposit additional margin equal to the amount of such excess. Such additional margin must be deposited with DCC no later than 5:00 p.m. on the applicable business day. If additional margin is required, DCC may apply towards a participant's exposures on overnight repos excess margin

maintained by the participant with DCC which is not then being used to collateralize other margin obligations to DCC. However, DCC may not apply a participant's core margin amount maintained with DCC towards other margin obligations to DCC arising from options transactions or term repos.

In connection with the proposed rule change, DCC agreed that during the temporary approval period, the Commission may request reports detailing the operation of the margining system for overnight repos. DCC instituted the new margining system on July 1, 1997, and has been periodically providing reports to the Commission since that time.

DCC believes the proposed extension of the temporary approval of the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>7</sup> and the rules and regulations promulgated thereunder because the proposed rule change will better enable DCC to safeguard the funds and securities under its possession and control by giving DCC procedures to help assure that it has adequate collateral to address a participant's default or insolvency.

##### B. Self-Regulatory Organization's Statement on Burden on Competition

DCC does not believe that the proposed rule change will 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

Comments were neither solicited nor received.

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

Section 17A (b)(3)(F)<sup>8</sup> of the Act requires, among other things, 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. The Commission believes that DCC's proposed rule change is consistent with this obligation because the proposal provides for: (1) a minimum core margin requirement to reflect DCC's exposure to each participant's overnight repo activity and (2) an intraday margin requirement that is triggered if a participant's mark-to-market exposure is valued at more than 65 percent of the core requirement. Therefore, the

<sup>3</sup> Securities Exchange Act Release No. 38471 (April 2, 1997), 62 FR 17257.

<sup>4</sup> Securities Exchange Act Release No. 39174 (October 7, 1997), 62 FR 52368.

<sup>5</sup> For a detailed description of DCC's overnight repo margin procedures, refer to Securities Exchange Act Release No. 38471 (April 2, 1997), 62 FR 17257.

<sup>6</sup> Overnight repos are defined as repo agreements whose off-date is the immediately succeeding business day following the on-date for such transactions. Term repos are defined as repos agreements whose off-date is two or more business days following the on-date for such transactions.

<sup>7</sup> 15 U.S.C. 78q-1

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F)

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> The Commission has modified the text of the summaries prepared by DCC.

Commission believes that the proposal should provide to DCC margin in an amount that will assist DCC in meeting its obligation to safeguard securities and funds.

Currently, DCC has operated its new margining system for only nine months. Therefore, the Commission believes that it is appropriate to extend temporary approval of the proposal in order that the Commission and DCC will have opportunity to further monitor the effectiveness of the new system in practice. Accordingly, the Commission is temporarily approving the proposed rule change through March 31, 1999. During this temporary approval period, upon the Commission's request DCC will submit reports detailing its analysis of its overnight repo margining system.

DCC 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 approving the proposed rule change prior to the thirtieth day after the date of publication of notice of filing because accelerated approval will allow DCC to continued to use its overnight repo margining procedures without interruption when the current temporary approval period expires on March 31, 1998.

#### 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 DCC. All submissions should refer to the File No. SR-DCC-98-03 and should be submitted by April 29, 1998.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the

proposed rule change (File No. SR-DCC-98-03) be, and hereby is, approved through March 31, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 98-9129 Filed 4-7-98; 8:45 am]

BILLING CODE 8010-01-M

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39825; File No. SR-PCX-98-13]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc., Relating to a Supervisory Specialist Pilot Program

April 1, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 3, 1998, the Pacific Exchange, Inc. ("PCX" or "Exchange") 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 self-regulatory organization. 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

PCX is proposing to adopt a pilot program, effective for one year, under which PCX specialist firms may operate two specialist posts based upon one Exchange membership.<sup>3</sup> The text of the proposed rule change is available at the Office of the Secretary, PCX 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 self-regulatory organization 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 self-regulatory organization 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

In an effort to streamline the way business is conducted on the Equities Floors of the PCX, and to provide Specialist Firms with greater control over the management and costs of their operations, the Exchange is proposing to adopt the Supervisory Specialist Pilot Program ("Program"). The Exchange's Executive Committee will permit qualified Specialist Firms to participate in the Program during the pilot, which is set to expire one year from the date of SEC approval. Throughout the course of the Program, the Executive Committee will seek to assure an orderly transition of Specialist Firms into the Program. The Program will apply to trading on the Equities Floors only and will not apply to trading on the Options Floor.

Under the Program, a Specialist Firm may operate two specialist posts based upon one Exchange membership, provided that both posts will be staffed by Specialists who have been qualified by the Exchange as Registered Specialists under the rules of the Exchange.<sup>4</sup> The Program will permit one specialist post to be staffed by a Member who is registered as the supervising specialist (the "Supervisory Specialist"), while the other post is staffed by an Associated Person of the Specialist Firm who is otherwise qualified to act as a Registered Specialist (the "Associate Specialist"). Under the Program, the Supervisory Specialist will act as supervising specialist over the Associate Specialist.

Under the Program, both the Supervisory Specialist and the Associate Specialist will be obligated to pay the dues, fees and charges as specified in the Exchange's Schedule of Fees and Charges for Exchange Services.

Specialist Firms may apply to participate in the Program by submitting an application to the Executive Committee. In determining whether to approve an application, the Executive Committee will take into account certain relevant factors including those specified below. The Executive

<sup>9</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Commission approved, on an accelerated basis, the Exchange's companion filing of a proposed rule change for a temporary, ninety day, Supervisory Specialist Pilot Program. See Securities Exchange Act Release No. 34-39787 (March 24, 1998).

<sup>4</sup> See e.g., PCX Rule 5.27.