

Exchange to use a four percent add-on margin level for all Cross-Rate FCOs for a six-month period until November 4, 1999.¹⁰

The Exchange has requested that the Commission approve the proposed rule change prior to the thirtieth day after the publication of the proposal in the **Federal Register**, so that the Exchange may immediately codify the four percent add-on margin until it can complete further analysis. The Commission finds good cause for approving the proposed rule change, on a pilot basis, prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**, so that the Exchange may continue to use the four percent add-on margin for Cross-Rate FCOs during this six-month period, while it is reviewing the adequacy of margin levels for these products on a permanent basis.

The Commission requires that the Exchange file a proposed rule change to permanently codify the margin system for non-customized Cross-Rate FCOs by August 4, 1999, which is three months from the date of this order. That requirement will provide the Commission with sufficient time to review that proposed rule change before this order's approval of the four percent add-on margin expires on November 4, 1999.

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, NW, Washington, DC 20549-0609. 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 20549-0609. Copies of such filing will also be available for inspection and copying at the principal

office of the Phlx. All submissions should refer to File No. SR-Phlx-99-12 and should be submitted by June 3, 1999.

V. Conclusion

It is therefore ordered, pursuant to section 19(b)(2) of the Act,¹¹ that the proposed rule change is hereby approved on an accelerated basis for a period of six months until November 4, 1999.¹²

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99-12063 Filed 5-12-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41377; File No. 600-31]

Self-Regulatory Organizations; Thomson Financial Technology Services, Inc.; Order Approving Application for Exemption From Registration as a Clearing Agency

May 7, 1999.

I. Introduction

On January 11, 1999, Thomson Financial Technology Services, Inc. (TFTS)¹ filed with the Securities and Exchange Commission (Commission) an application on Form CA-1² for exemption from registration as a clearing agency pursuant to Section 17A of the Securities Exchange Act of 1934 (Exchange Act)³ and Rule 17Ab2-1 thereunder.⁴ Notice of TFTS's application was published in the Federal Register on February 4, 1999.⁵ The Commission received one comment letter in response to the notice of TFTS's

¹¹ 15 U.S.C. 78s(b)(2).

¹² In approving the proposal, the Commission has considered the rule's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹³ 17 CFR 200.30-3(a)(12).

¹ TFTS is a wholly owned subsidiary of Thomson Information Services, Inc., which is indirectly owned by the Thomson Corporation. The Thomson Corporation is a public company incorporated under the laws of Ontario, Canada.

² Copies of TFTS's application are available for inspection and copying at the Commission's Public Reference Room in File No. 600-31. TFTS submitted a document entitled "Application for Exemptive Order" with its Form CA-1. That document was not considered in the evaluation of TFTS's application.

³ 15 U.S.C. 78q-1.

⁴ 17 CFR 240.17Ab2-1.

⁵ Securities Exchange Act Release No. 41003 (January 29, 1999), 64 FR 5691 (notice of filing of application for exemption from registration as a clearing agency).

exemption request.⁶ This order grants TFTS an exemption from registration as a clearing agency to offer an electronic trade confirmation (ETC) service and a central matching service subject to the conditions and limitations described below.

II. Description of TFTS's Services

TFTS will be permitted to offer two types of services under this order: (1) an ETC service where TFTS will transmit messages among broker-dealers, customers, and custodian banks regarding the terms of a trade executed for the customer and (2) a central matching service where TFTS will act as an intermediary in the confirmation/affirmation process by comparing a broker-dealer's trade data with a customer's allocation instructions to produce an affirmed confirmation.

The parties to institutional trades use ETC services to transmit electronically the messages (e.g., the institution's allocation instructions to the broker-dealer and the broker-dealer's submission of trade data to the institutional customer) necessary to confirm and affirm the trades. TFTS's ETC service is designed to be used by institutional customers, broker-dealers, and custodian banks to communicate the terms and acknowledgment of their securities trades.⁷

Matching services are a recent development in institutional trade processing. A matching service produces an affirmed confirmation of the trade by independently performing some of the steps in confirming and affirming an institutional trade. It thereby reduces the number of messages that have to be sent among the parties to the trade. TFTS's matching service will compare the broker-dealer's trade data submission to the institution's allocation instructions and will produce an affirmed confirmation of the trade if the two descriptions match.⁸

⁶ Letter from Frank Denaro, Senior Vice President, Salomon Smith Barney (March 5, 1999). The letter is available for inspection and copying in the Commission's Public Reference Room in File No. 600-31.

⁷ The Commission has approved proposed rule changes by the Municipal Securities Rulemaking Board (MSRB), the National Association of Securities Dealers (NASD), and the New York Stock Exchange (NYSE) under which their broker-dealer members are permitted to use ETC services provided by an entity that has received an exemption from clearing agency registration to provide confirmation and affirmation services. Securities Exchange Act Release No. 41378 (May 7, 1999) [File Nos. SR-MSRB-98-06, SR-NASD-98-20, and SR-NYSE-98-07]. Previously, those rules required broker-dealers to use ETC services provided by a registered clearing agency.

⁸ The notice of TFTS's application contains a detailed description of both the confirmation/affirmation process for institutional trades and

¹⁰ The Commission believes that the Exchange should consider requiring a sufficient add-on margin level for all German mark/Japanese yen FCOs to achieve at least a 96% confidence level.

III. Comment Letter

We received one comment letter in response to the notice of filing of TFTS's application.⁹ The commenter generally supported TFTS's application.

The Commenter expressed concern with the scope of TFTS's undertaking to develop fair and reasonable linkages between its matching service and The Depository Trust Company (DTC). Specifically, the commenter stated that vendors may require direct linkages for matching and confirmation services and that it did not want to incur charges to connect with each new vendor. The commenter stated that it believes that broker-dealers and banks that have links to DTC should be able to use those links to communicate with matching and confirmation service providers.

The commenter also noted TFTS's undertaking that it will give us 20 business days' advance notice of any material changes to its matching service. The commenter stated that TFTS, like DTC, should be required to give participants a comment period before making changes to its matching system.

IV. Discussion

A. Statutory Standards

Section 17A(b)(1) of the Exchange Act requires all clearing agencies to register with us.¹⁰ On April 6, 1998, we issued an interpretive release in which we conclude that an entity that provides matching services as an intermediary between broker-dealers and institutional customers is a clearing agency¹¹ and is subject to the registration requirements of Section 17A(b)(1) (Matching Release).¹² However, Section 17A(b)(1) also states that upon our own motion or upon a clearing agency's application we may conditionally or unconditionally exempt a clearing agency from any provisions of Section 17A or the rules or regulations thereunder if we find that such exemption is consistent with the

TFTS's matching service. Securities Exchange Act Release No. 41003, *supra* note 5.

⁹ Letter from Salomon Smith Barney, *supra* note 6.

¹⁰ 15 U.S.C. 78q-1(b)(1).

¹¹ Section 3(a)(23) of the Exchange Act, 15 U.S.C. 78c(a)(23), defines the term clearing agency as, among other things:

[A]ny person who acts as an intermediary in making payments or deliveries or both in connection with transactions in securities or who provides facilities for comparison data respecting the terms of settlement of securities transactions, to reduce the number of settlements of securities transactions, or for the allocation securities settlement responsibilities.

¹² Securities Exchange Act Release No. 39829 (April 6, 1998), 64 FR 17943. Specifically the Meeting Release concluded that matching constitutes "comparison of data respecting the term of settlement of securities transactions."

public interest, the protection of investors, and the purposes of Section 17A, including the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds. For the reasons set forth below, we believe that an exemption for TFTS from full clearing agency registration is consistent with Section 17A

B. Evaluation of TFTS's Application for Exemption

We have previously granted three conditional exemptions from clearing agency registration.¹³ In those cases, we reviewed the applicants' risk management procedures, operational capacity and safeguards, corporate structure, and ability to comply with the requirements of Section 17A in order to assure that the fundamental goals of that section (*i.e.*, the safety and soundness of the national clearance and settlement system) were furthered.¹⁴

In our consideration of TFTS's application, we noted that the matching service would be the only clearing agency function that TFTS would perform under an exemptive order. In addition, we recognized that while TFTS's matching service could have a significant impact on the national clearance and settlement system, all of the concerns raised by an entity that performs a wider range of clearing agency functions are not raised in TFTS's situation.¹⁵ Also in our review, we took into account that TFTS had represented in its Form CA-1 that it would comply with certain conditions that we would impose under an exemptive order. Therefore, we have decided not to require TFTS to satisfy all of the standards normally required of

¹³ Securities Exchange Act Release Nos. 36573 (December 12, 1995), 60 FR 65076 (order approving applications for exemption from clearing agency registration for the Clearing Corporation for Options and Securities); 38328 (February 24, 1997), 62 FR 9225 (order approving application for exemption from clearing agency registration for Cedel Bank); and 39643 (February 11, 1998) 63 FR 8232 (order approving application for exemption from clearing agency registration by Moran Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System).

¹⁴ Specifically, the applications were considered against standards that the Commission's Division of Market Regulation has published for the evaluation of applications for clearing agency registration. Securities Exchange Act Release No. 16900 (June 17, 1980), FR 45 49102.

¹⁵ TFTS specifically represented that it will not perform other functions of a clearing agency such as net settlement, maintaining a balance of open positions between buyers and sellers, or marking securities to the market. In addition, in its Form CA-1 TFTS (1) represents that it will not handle funds or securities and (2) states that it will not impose prohibitions or limit access to its service by potential customers but that it might terminate a subscription for failure to pay fees.

registrants under Section 17A.¹⁶ As a result, in addition to considering the public interest and the protection of investors, the primary factor in our consideration of TFTS's application was whether TFTS is so organized and has the capacity to be able to facilitate prompt and accurate matching services.¹⁷

C. Terms of TFTS's Exemption

1. Scope of Exemption

This order grants TFTS an exemption from registration as a clearing agency under Section 17A of the Exchange Act to provide a matching service where it will act as an intermediary in the confirmation/affirmation process to compare a broker-dealer's trade data with a customer's allocation instructions to produce an affirmed confirmation. The exemption is granted subject to conditions that we believe are necessary and appropriate in light of the statutory requirements of the Section 17A objective of promoting a safe and efficient national clearance and settlement system and in light of TFTS's structure and operation. This exemptive order and the conditions and limitations contained in it are consistent with our statement in the Matching Release that an entity that limits its clearing agency functions to providing matching services does not have to be subject to the full range of clearing agency regulation.

2. Conditioning of Exemption

We are including specific conditions in our order exempting TFTS from clearing agency registration. As noted above, these conditions are designed to promote a safe and efficient national clearance and settlement system and to

¹⁶ Accordingly, TFTS will not be subject to the requirements of Section 17A which require a registered clearing agency to:

(1) Fairly represent the clearing agency's shareholders in the selection of the clearing agency's directors. Section 17A(b)(3)(C), 15 U.S.C. 78q-1(b)(3)(C).

(2) Limit the categories of persons that are potentially eligible for clearing agency services. Section 17A(b)(3)(B), 15 U.S.C. 78q-1(b)(3)(B).

(3) Equitably allocate reasonable dues, fees, and other charges among clearing agency participants. Sections 17A(b)(3)(D) and (E), 15 U.S.C. 78q-1(b)(3)(D) and (E).

(4) Enforce compliance by its participants with its rules. Sections 17A(b)(3)(A), (G) and (H), 15 U.S.C. 78q-1(b)(3)(A), (G) and (H). Because we are granting TFTS an exemption from clearing agency registration, TFTS will not be a self-regulatory organization and therefore will not be required to file rule changes in accordance with Section 19(b) of the Exchange Act, 15 U.S.C. 78s(b). Furthermore, we are not requiring TFTS to comply with the rule change filing requirements of section 19(b) as a condition of its exemption.

¹⁷ See Section 17A(b)(3)(A) of the Exchange Act, 15 U.S.C. 78q-1(b)(3)(A).

enable us to monitor the operation of TFTS's matching service.

1. Before beginning the commercial operation of its central matching service, TFTS must provide us with an audit report that addresses all the areas discussed in our Automation Review Policies (ARPs).¹⁸ In order to verify that TFTS is organized and has the capacity to be able to facilitate prompt and accurate matching services, the exemption contained in this order will take effect thirty days after our staff has received an acceptable audit report pursuant to this condition.

2. TFTS must provide the Commission (beginning in the central matching service's second year of operation) with annual reports and any associated field work prepared by competent, independent audit personnel that are generated in accordance with the annual risk assessment of the areas set forth in the ARPs.

3. TFTS must provide the Commission with twenty business days' advance notice of any material changes that TFTS makes to its matching service. These changes will not require our approval before they are implemented.¹⁹

4. TFTS must provide the Commission with prompt notification of systems outages lasting more than thirty minutes.

5. TFTS must respond to requests from the Commission for additional information relating to its matching service and provide access to the Commission to conduct on-site inspections of all facilities (including automated systems and systems environment), records, and personnel related to the matching service. The requests for information shall be made and the inspections shall be conducted solely for the purpose of reviewing the matching service's operations and compliance with the federal securities laws and the terms and conditions of TFTS's exemptive order.

¹⁸ Securities Exchange Act Release Nos. 27445 (November 16, 1989), 54 FR 48703; and 29185 (May 9, 1991), 56 FR 22490. In addition, Form CA-1 requires applicants to attach its most recent balance sheet and statement of income and expenses. TFTS did not include this information with its Form CA-1 but represented in its Form CA-1 that it will provide us with a current balance sheet and income statement before beginning operations.

¹⁹ While the commenter expressed concern with this condition, we believe that receiving advance notice of material changes to TFTS's matching service is sufficient for the purposes of this exemption. TFTS must file with the Commission a request to modify this order if it makes any changes in its operations as summarized in this order, in its Form CA-1, dated January 11, 1999, or in any subsequently filed amended Form CA-1, that would change the fundamental nature of its matching service.

6. TFTS must supply the Commission or its designee with periodic reports regarding the affirmation rates for depository-eligible transactions that settle in the United States effected by institutions that utilize TFTS's matching service.²⁰

7. TFTS must preserve a copy or record of all trade details, allocation instructions, central trade matching results, reports and notices sent to customers, reports regarding affirmation rates that are sent to the Commission or its designee, and any compliant received from a customer, all of which pertain to the operation of TFTS's matching service.²¹ TFTS must retain these records for a period of not less than five years, the first two years in an easily accessible place.

8. TFTS must develop fair and reasonable linkages between the matching service and DTC and other central matching services that are regulated by the Commission or that receive an exemption from clearing agency registration from the Commission. At this time, we are not specifying the type of linkages that TFTS must develop. Our staff will consult with TFTS and industry participants to ensure that appropriate linkages are developed in a timely fashion. However, we believe that at a minimum the linkages should allow parties to trades that are processed through one or more matching services to communicate through one or more appropriate and effective interfaces with clearing agencies and other matching services. For example, a broker-dealer that has a link to DTC should be able to transmit trade data through that link to an institutional customer that uses TFTS's services without having to establish a separate link with TFTS.

3. Modification of Exemption

The Commission may modify by order the terms, scope, or conditions of TFTS's exemption from registration as a clearing agency if we determine that such modification is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act. Furthermore, we may limit, suspend, or revoke this exemption if we find that TFTS has violated or is unable to comply with any of the provisions set forth in this order if such

²⁰ For purposes of this condition, we designate DTC as agent for receipt of the periodic reports.

²¹ All electronic messages that are sent through TFTS's systems will originate at the sender's (i.e., the broker-dealer's or the customer's) computer terminal and will be routed through TFTS's data center. TFTS's data center will copy and store the data that passes through it.

action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act

V. Conclusion

Pending the receipt of TFTS's initial audit report, we believe that TFTS will have sufficient operational and processing capability to facilitate prompt and accurate matching services. In particular, we note that TFTS's exemption will be subject to conditions that are designed to enable us to monitor TFTS's operational and processing capability with respect to its matching service. Therefore, the Commission finds that TFTS's application for exemption from registration as a clearing agency meets the standards and requirements deemed appropriate for such an exemption.

It is therefore ordered, pursuant to Section 19(a)(1) of the Exchange Act, that the request for exemption from registration as a clearing agency filed by Thomson Financial Technology Services, Inc. (File No. 600-31) be, and hereby is, granted subject to the conditions contained in this order.

By the Commission.

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 99-12138 Filed 5-12-99; 8:45 am]

BILLING CODE 8010-01-M

SELECTIVE SERVICE SYSTEM

Forms Submitted to the Office of Management and Budget for Extension of Clearance

The following forms have been submitted to the Office of Management and Budget (OMB) for extension of clearance in compliance with the Paperwork Reduction Act (44 U.S. Chapter 35):

SSS—1

Title: The Selective Service System Registration Form.

Need and/or Use: Is used to register men and establish a data base for use in identifying manpower to the military services during a national emergency..

Respondents: All 18-year-old males who are United States citizens and those male immigrants residing in the United States at the time of their 18th birthday are required to register with the Selective Service System.

Frequency: Registration with the Selective Service System is a one-time occurrence.

Burden: A burden of 2 minutes or less on the individual respondent.