

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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-99-43 and should be submitted by September 28, 1999.

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

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41799; File No. SR-DTC-99-20]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Implementing a Freeze on New Participant Accounts and a Contingency Plan for Withdrawal by Transfer Transactions

August 27, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (Act),¹ notice is hereby given that on August 19, 1999, The Depository Trust Company (DTC) 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 DTC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposal.

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

The proposed rule change provides that generally, DTC will not activate any

new participant accounts after September 15, 1999, and until reasonably practicable in January 2000.² In addition, DTC will temporarily implement a contingency plan for the processing of withdrawal by transfer (WT) transactions in the unlikely event that participant's customers seek to withdraw security positions from participants due to concerns regarding systems problems related to the century date change.

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

In its filing with the Commission, DTC 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. DTC has prepared summaries, set forth in sections (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

September 15th New Participant Account Freeze

The proposed rule change provides that generally DTC will not activate any new participant accounts after September 15, 1999 (the end of the participant validation testing period),⁴ and until reasonably practicable in January, 2000. DTC announced in its June 3, 1999, Important Notice that "[a]ny organization currently seeking admission as a direct Participant should plan to complete the admission process by [September 15], or defer activation of its account until after the century date change. Similarly, Participants wishing to switch to computer-to-computer input of settlement-related transactions or switch to another mode of computer-to-computer input for transactions must have completed implementation of the changes (and complete the necessary validation testing) by September 15."

DTC's Rule 2 provides in part that:

The Corporation may decline to accept the application of any applicant upon a determination by the Corporation that the Corporation does not have adequate

personnel, space, data processing capacity or other operational capability at that time to perform its services for additional Participants without impairing the ability of the Corporation to provide services for its existing Participants, to assure the prompt, accurate and orderly processing and settlement of Securities transactions, to safeguard the funds and Securities held by or for the Corporation for Participants or Pledges or otherwise to carry out its functions; provided, however, that applicants whose applications are denied pursuant to this paragraph shall be approved as promptly as the capabilities of the Corporation permit in the order in which their applications were filed with the Corporation.

DTC believes that continuing to activate numerous new participant accounts or allowing participants to change their mode of settlement-related computer input after September 15th could potentially be disruptive to the rest of its Year 2000 efforts. Specifically, DTC will be devoting a great deal of resources to its second internal certification test in October and November of 1999. The internal certification test involves the testing of DTC's mainframe applications and systems in order to confirm their Year 2000 readiness. Additionally, DTC would like to ensure that it has enough time to deal with any unanticipated issues that arise before the end of the calendar year.

Withdrawal By Transfer Contingency Plan

In response to concerns expressed by some participants and in consultation with the Securities Industry Association and the Securities Transfer Association, DTC will temporarily implement a contingency plan to deal with the processing of an increased number of WT transactions (WT contingency plan). The concerns stem from the possibility that customers will seek to withdraw security positions from participants due to fears relating to the century date change in spite of customer education campaigns by participants and industry groups. Should a potential substantial increase in volume materialize, the WT contingency plan will enable DTC to process as many as 30,000 WT transactions daily, over triple the current volume of 9,000 WTs daily. Because WT processing and the related direct mail service⁵ are highly labor intensive operations for DTC and transfer agents alike, the WT contingency plan also provides a

² The proposed rule change is also applicable to DTC's Mortgage Backed Securities Division.

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

⁴ Securities Exchange Act Release No. 40696 (November 20, 1998), 63 FR 65829 (Commission order approving DTC's validation testing requirement).

⁵ DTC's direct mail service is comprised of two components, direct mail by the agent (DMA) and direct mail by DTC (DMD). Participants may elect to use either DMA or DMD to have their newly issued WT securities mailed directly to customers by transfer agents or DTC, respectively.

⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

mechanism for curbing volume in the unlikely event it exceeds 30,000 WT requests on any given day. As described in more detail below, this aspect of the contingency plan will potentially affect only participants whose volumes grow substantially higher than their present day volumes.

The WT contingency plan will be implemented and remain in effect during the fourth quarter of 1999.⁶ The WT contingency plan is primarily comprised of (1) an internal task force of employees available to process increased volumes and (2) system changes to DTC's automated WT (AWT) system, which commences the WT processing stream. The AWT system changes described below are designed to prevent daily WT volume from exceeding 30,000 items in a manner that is fair and equitable to all participants and requires no programming changes by participants.

DTC has established a database showing the maximum allowable amount of WTs for each participant. The maximum allowable amount is based on participants' daily average WT volume for the three month period of February through April 1999. The maximum allowable amounts will be triggered only if the aggregate number of WTs submitted by participants exceeds the threshold of 30,000 on any day in the fourth quarter. A participant exceeding its maximum allowable amount will not be limited in its WT volume as long as fewer than 30,000 WTs are requested in total.

During the fourth quarter, the AWT system will initially process WT requests as normal, collecting WT requests transmitted by participants and sending them to the account transaction processor (ATP) to perform account updating. The WTs are processed in the same sequence as transmitted by participants. This process is usually finished each day by 9:30 a.m. Eastern Time (ET).

Under the proposed rule change a new procedure will be introduced in which AWT will count the aggregate number of items successfully processed by ATP to determine whether the overall cap of 30,000 items was exceeded, and the excess amount (total reversal amount). If the cap is exceeded, procedures will begin to automatically identify and reverse the required number of WTs to lower the day's total to 30,000 items. To accomplish this, AWT will identify the participants that

surpassed their maximum allowable amounts and will record the excess items that were processed after their maximum allowable amounts were reached. The excess items will be stored on a temporary file, sorted in last in first out order by participant. The system will then select one excess item per participant from the temporary file and will continuously repeat this process until enough excess items have been selected to meet the total reversal amount. WT reversal transactions will then be created and processed to reverse the chosen excess WTs. This WT reversal process will be finished by approximately 9:45 a.m. (ET). Normal processing for WTs not reversed will then resume with DTC preparing certificates and transfer registration instructions for delivery to transfer agents.

Under the proposed rule change DTC will not automatically pend WTs that were reversed by the above procedure. Participants will therefore be required to submit new WT requests the following business day.

DTC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder. In particular, the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁷ which requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.

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

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

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

No comments were solicited or received on the proposed rule change.

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

Section 17A(b)(3)(F) of the Act⁸ requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission finds that the proposed rule change is consistent with

this obligation because the proposed modifications to DTC's Year 2000 policies will permit DTC sufficient time before year end to complete its Year 2000 preparations. In addition, the implementation of the proposed WT contingency plan will enable DTC to deal with any substantial increase in the processing of WT transactions. As a result, DTC should be able to continue to provide prompt and accurate clearance and settlement of securities transactions before, on, and after Year 2000 without interruption.

DTC requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the publication of notice of the filing. The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the publication of notice of the filing because such approval will allow DTC to better prepare for a smooth Year 2000 transition.

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 Room, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of DTC. All submissions should refer to the File No. SR-DTC-99-20 and should be submitted by September 28, 1999.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-DTC-99-20) be and hereby is approved.

⁶ In the unlikely event that DTC experiences sustained volumes of 30,000 WTs daily into the first quarter of the Year 2000, DTC will keep the WT contingency plan in effect until such time as volumes return to normal levels.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 15 U.S.C. 78s(b)(2).

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41803; File No. SR-MBSCC-99-05]

Self-Regulatory Organizations; MBS Clearing Corporation; Order Granting Accelerated Approval of a Proposed Rule Change Relating to the Acceptance of Letters of Credit

August 27, 1999.

On June 25, 1999, the MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-MBSCC-99-05) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ to permit MBSCC to replace its current letter of credit form with a letter of credit form developed by the Uniform Clearing Group ("UCG").² Notice of the proposal was published in the **Federal Register** on August 13, 1999.³ No comment letters were received. For the reasons discussed below, the Commission is granting accelerated approval of the proposed rule change.

I. Description

Article IV, Rule 2, Section 9 of MBSCC's rules governs deposits of letters of credit by participants to the participants' fund for margin purposes. Currently, the rule requires participants to amend letters of credit expiring on September 1 by extending the expiration date to March 1 of the following year and to deposit new letters of credit on March 1 of the following year. The proposed rule change will reserve these dates and require participants to annually provide new letters of credit

by September 1 and to amend letters of credit by March 1. The proposed rule change will also require that letters of credit delivered to MBSCC on or after September 1, 1999, be in the form of the uniform letter of credit ("ULC") developed by the UCG.

The ULC consists of a cover page with variable terms plus preprinted uniform terms. Variable terms include the name of the participant, the beneficiary clearing organization, the issuing bank, the amount of the credit, and the expiration date. To assist letter of credit issues and participants in completing the ULC, the UCG has drafted general instructions. In addition, MBSCC has provided supplemental instructions relating specifically to letters of credit furnished to MBSCC.

MBSCC expects that in the future modifications may be made to the ULC. If and when that occurs, MBSCC will require its members to use the revised form.⁴

II. Discussion

Section 17A(b)(3)(F)⁵ of the Act requires that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. MBSCC and the other members of the UCG developed the ULC to foster uniformity among the various U.S. securities and futures clearing organizations with respect to letters of credit that are deposited as collateral. This uniformity will help reduce operational burdens for securities and futures industry participants and their letter of credit issuers. It should also enhance the legal certainty that the letters of credit received by MBSCC and other UCG members as collateral will be enforceable. Accordingly, the Commission finds that the rule change is consistent with MBSCC's obligations under the Act.

MBSCC 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 accelerated approval will permit MBSCC to implement the ULC by September 1, 1999, at which time its previous letters of credit expire. Since September 1, 1999, is the scheduled implementation date of the ULC by certain UCG members, accelerated

approval will also provide for a more coordinated implementation of the ULC. Furthermore, the Commission has not received any comment letters and does not expect to receive any comment letters on the proposal.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A 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 change (File No. SR-MBSCC-99-05) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41802; File No. SR-GSCC-99-03]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Granting Accelerated Approval of a Proposed Rule Change Relating to the Acceptance of Letters of Credit as Clearing Fund Collateral

August 27, 1999.

On May 3, 1999, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-99-03) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ to permit GSCC to replace its current letter of credit form with a letter of credit form developed by the Uniform Clearing Group ("USG").² Notice of the proposal was published in

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The UCG is an organization comprised of all of the major securities and futures clearing organizations and depositories in the U.S. The members of the UCG include the Boston Stock Exchange Clearing Corporation, The Depository Trust Company, Government Securities Clearing Corporation, MBSCC, National Securities Clearing Corporation, Options Clearing Corporation, Board of Trade Clearing Corporation, Chicago Mercantile Exchange, Clearing Corporation of New York, Kansas City Board of Trade, Minneapolis Grain Exchange, New York Mercantile Exchange, Emerging Markets Clearing Corporation, and Clearing Corporation for Options and Securities.

³ Securities Exchange Act Release No. 41717 (August 6, 1999), 64 FR 44250.

⁴ MBSCC will file a proposed rule change with the Commission prior to requiring members to comply with any substantive change made to the ULC by the UCG.

⁵ U.S.C. 78q-1(b)(3)(F).

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The UCG is an organization comprised of all major securities and futures clearing corporations and depositories in the United States. The members of the UCG include the Boston Stock Exchange Clearing Corporation, The Depository Trust Company, GSCC, MBS Clearing Corporation, National Securities Clearing Corporation, The Options Clearing Corporation, Board of Trade Clearing Corporation, Chicago Mercantile Exchange, Clearing Corporation of New York, Kansas City Board of Trade, Minneapolis Grain Exchange, New York Mercantile Exchange, Emerging Markets Clearing Corporation, and Clearing Corporation for Options and Securities.