

higher than the Joint Repo Rate and, if applicable, the yield on the Central Funds, but lower than the Bank Loan Rate and, if applicable, the Committed Loan Rate; (b) compliance with the collateral requirement as set forth in the application; (c) compliance with the percentage limitations on interfund borrowing and lending; (d) allocation of interfund borrowing and lending demand in an equitable manner and in accordance with procedures established by the Boards; and (e) that the interest rate on any interfund loan does not exceed the interest rate on any third party borrowing of a borrowing Fund at the time of the interfund loan.

After the final report is filed, the Fund's external auditors, in connection with their Fund audit examinations, will continue to review the operation of the Proposed Credit Facility for compliance with the conditions of the application and their review will form the basis, in part, of the auditor's report on internal accounting controls in Form N-SAR.

17. No Fund will participate in the Proposed Credit Facility upon receipt of requisite regulatory approval unless it has fully disclosed in its SAI all material facts about its intended participation.

For the SEC, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42175; File No. SR-ISCC-99-01]

Self-Regulatory Organizations; International Securities Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to ISCC's Decision To Withdraw From the Clearance and Settlement Business

November 23, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on September 23, 1999, the International Securities Clearing Corporation ("ISCC") 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 primarily by ISCC. The Commission is publishing this notice to solicit comments on the

proposed rule change from interested parties.

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

Under the proposed rule change, ISCC will withdraw from the clearing agency business and transfer its core services to the National Securities Clearing Corporation ("NSCC").

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

In its filing with the Commission, ISCC 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. ISCC has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of these statements.²

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

On May 12, 1989, the Commission granted, pursuant to Sections 17A and 19(a) of the Act³ and Rule 17Ab2-1,⁴ the application of ISCC for registration as a clearing agency on a temporary basis for a period of eighteen months.⁵ Since that time, the Commission has extended ISCC's temporary registration through February 29, 2000.⁶

ISCC was created to provide safe and efficient clearance and settlement of securities transactions between United States broker-dealers and foreign financial institutions.⁷ ISCC serves this function through its core services, the Global Clearance Network ("GCN") and International Link services.⁸

ISCC, a wholly owned subsidiary of NSCC, proposes to deregister as a

clearing agency and transfer its core services to NSCC because it is no longer cost-effective to provide such services through a separate company.⁹ The transfer of services of NSCC will be transparent to ISCC users. They will be required to perform any system modifications, and they will be charged the same fees for the services at NSCC as they are currently paying ISCC.

ISCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act¹⁰ and the rules and regulations thereunder applicable to ISCC, because it will facilitate the prompt and accurate clearance and settlement of securities transactions.

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

The proposed arrangements would impose no burden on competition. After consummation of the proposed arrangements, securities industry members will continue to have access to high-quality, low-cost clearing and custody service.

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

No written comments relating to the proposed rule change have been solicited or 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 the self-regulatory organization 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

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

³ 15 U.S.C. 78q-1 and 78s(a),

⁴ 17 CFR 240.17AB2-2-(c).

⁵ Securities Exchange Act Release No. 26812 (May 12, 1989), 54 FR 21691.

⁶ Securities Exchange Act Release Nos. 28606 (November 16, 1990), 55 FR 47976; 30005 (November 27, 1991), 56 FR 63747; 33233 (November 22, 1993), 58 FR 63195; 36529 (November 29, 1995), 60 FR 62511; 37986 (November 25, 1996), 61 FR 64184; 38703 (May 30, 1997), 62 FR 31183; 39700 (February 26, 1998), 63 FR 10669; and 41103 (February 24, 1999), 64 FR 10521.

⁷ Securities Exchange Act Release Nos. 29841 (October 18, 1991), 56 FR 55960, and 32564 (June 30, 1993), 58 FR 36722.

⁸ ISCC has offered the International Link service since its inception in 1989.

⁹ In connection with this rule filing, NSCC has submitted a proposed rule change (File No. SR-NSCC-99-12) to amend its rules to allow it to provide the GCN and the International Link Services.

¹⁰ 15 U.S.C. 78q-1.

¹ 15 U.S.C. 78s(b)(1).

should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 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, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of ISCC. All submissions should refer to File No. SR-ISCC-99-01 and should be submitted by December 22, 1999.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42173; File No. SR-MBSCC-99-06]

Self-Regulatory Organization; MBS Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to Market Margin Differential Deposits

November 23, 1999.

On July 14, 1999, the MBS Clearing Corporation ("MBSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change, File No. SR-MBSCC-99-06, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ to amend the formula MBSCC uses to calculate market margin differential deposits. Notice of the proposal was published in the **Federal Register** on October 22, 1999.² No comment letters were received. For the reasons discussed below, the

Commission is granting approval of the proposed rule change.

I. Description

The rule change amends the formula MBSCC uses to calculate market margin differential deposits to the participants fund.³ Specifically, the rule change adds net position and net-out position components to the market margin differential deposit formula.

Article IV, Rule 2, Section 4 of MBSCC's rules sets forth the formula used to calculate a participant's daily market margin differential deposit to the participants fund. This formula currently requires a participant to make a daily market margin differential deposit to the participants fund equal to the sum of: (a) 130% (or such other percentage as MBSCC from time to time may determine) of adjusted net losses plus (b) 100% (or such other percentage as MBSCC from time to time may determine) of certain projected cash settlement obligations owed to MBSCC minus (c) the amount of any market margin differential deposits previously made by the participant to and remaining in the participants fund.

The rule change replaces the 130% of adjusted net losses component as contained in subsection (a) of the formula with 130% (or such other percentage as MBSCC from time to time may determine) of the greater of: (i) adjusted net losses or (ii) 25 basis points (or such other number of basis points as MBSCC from time to time may determine) of net position and 25 basis points (or such other number of basis points as MBSCC from time to time may determine) of the largest outstanding net-out position minus excess profits from forward transactions.⁴

II. Discussion

Section 17(A)(b)(3)(F)⁵ of the Act requires that the rules of the clearing agency be designed to promote the prompt and accurate safeguarding of

³ MBSCC requires participants to maintain collateral in the form of depositions to the participants fund. Each participant's fund is comprised of a basic deposit, a minimum market margin differential deposit, and a market margin differential deposit. The basic deposit is equal to a minimum of \$1,000 and a maximum of \$10,000 with the actual amount determined based on the average six months billing for the participant. The minimum market margin differential deposit is equal to \$250,000. The market margin differential deposit is based on the formula set forth in Article IV, Rule 2, Section 4 of MBSCC's rules.

⁴ The rule change also modifies Article I, Rule 1 of MBSCC's rules to add definitions of the terms "excess profits from forward transactions" and "net position."

⁵ 15 U.S.C. 78q-1(b)(3)(F).

securities transactions. The Commission believes that the rule change is consistent with MBSCC's obligations under the Act because the revised market margin differential deposit formula encompasses more circumstances where an MBSCC participant could pose risk to MBSCC.

The revised formula establishes a margin requirement for net position risk and for net-out position risk. For example, under the previous formula a participant was not subject to a margin call on a day it did not have adjusted net losses. Under the revised formula, the net position component should address the circumstances where a participant does not have adjusted net losses but has a large net position, and there is market volatility between margin calls. (The 130% multiplier, which is designated to address market volatility, was not effective if the participant did not have adjusted net losses.)

A second situation where the revised formula addresses risk not covered by the previous formula relates to the fact that losses of non-original contra-sides in excess of an insolvent participant's participant fund are prorated to and assessments are made against this insolvent participant's original contra-sides. MBSCC's netting system pairs-off and nets-out buy and sell trades with original and non-original contra-sides. Netting substantially reduces the number of trades requiring clearance. Although netting eliminates the need to clear net-out trades, it does not eliminate the potential liability for pro-rata assessments against original contra-sides. Under the previous formula, the participants fund did not include a margin component for potential pro-rata assessments against original contra-sides. Under the revised formula, the net-out component should address the circumstances where an original contra-side nets-out of transactions and otherwise does not have sufficient deposits to the participants fund to satisfy potential pro-rata assessments.

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-99-06) be and hereby is approved.

¹¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 42005 (October 13, 1999), 64 FR 57170.