

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42997; File No. SR-GSCC-00-01]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Financing Necessary for the Provision of Securities Settlement Services

June 30, 2000.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on March 7, 2000, the Government Securities Clearing Corporation ("GSCC") 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 GSCC. 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

GSCC proposes to amend its rules to allow it to obtain financing in connection with its securities settlement process by entering into repurchase transactions with GSCC netting members and/or clearing agent bank members.

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

In its filing with the Commission, GSCC 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. GSCC 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

According to GSCC, it is occasionally required to obtain financing in connection with its securities settlement process. For example, a member with a net short position may deliver securities so near the close of the securities Fedwire that GSCC is unable to redeliver the securities to member(s) with the net long position(s). GSCC's rules contemplate that GSCC will obtain financing under these circumstances in the form of loans, because the rules expressly permit GSCC to grant security interests in the securities in question. The costs or expenses that GSCC incurs in obtaining such financing are generally allocated pro rata among all netting members based upon usage of GSCC's services.³

Another example of a situation where GSCC might need to obtain financing is when a GCF inter-dealer broker has a GCF net settlement position as the result of for example, a data submission error. As a result, GSCC is required to finance the settlement of the other-side of the transaction. Again, GSCC's rules currently contemplate that GSCC will obtain the requisite cash or securities through loans or securities borrowing/lending transactions.

GSCC is proposing to amend its rules to give it the option to obtain the requisite financing in the circumstances described above by entering into repurchase transactions with GSCC netting members and/or clearing agent bank members.⁴ The ability to enter into repurchase transactions will enable GSCC to obtain more favorable financing terms and thus will result in lower financing costs being allocated to members. Repurchase transactions are a safe, widely accepted financing mechanism. GSCC will engage in such transactions only with highly creditworthy counterparties who are GSCC netting members or GSCC's clearing agent banks.

The proposed rule change also addresses the situation where an inter-dealer broker netting member obtains financing of a net settlement position. For example, an inter-dealer broker may have a net settlement position as the

result of an uncomparated trade. Under the proposed rule change, the inter-dealer broker-netting member would be required to obtain financing by entering into overnight repurchase transactions with GSCC netting members or clearing agent bank members, and GSCC may reimburse the inter-dealer broker for the costs of such finances if the net settlement position was incurred through no fault of the inter-dealer broker.⁵

GSCC believes that the proposed rule change is consistent with the requirements of section 17A of the Act⁶ and the rules and regulations thereunder because the proposal will provide GSCC with an additional financing alternative and will result in lower financing costs for GSCC's members.

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

GSCC does not believe that the proposed rule change will have an 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

Written comments relating to the proposed rule change have not yet been solicited or received. Members will be notified of the rule change filing and comments will be solicited by an Important Notice. GSCC will notify the Commission of any written comments received by GSCC.

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

⁵ GSCC may also reimburse certain dealer netting members in a similar situation. This additional possibility for reimbursement would apply to a division or other separate operating unit within a dealer netting member that GSCC has determined: (a) operates in the same manner as a broker and (b) has agreed to, and does, participate in the repo netting service pursuant to the same requirements imposed under GSCC's rules on inter-dealer broker netting members that participate in that service.

⁶ 15 U.S.C. 78q-1.

⁴ 17 CFR 200.30-3(a)(1).

¹ 15 U.S.C. 78s(b)(1).

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

³ GSCC's rules also provide that if the GSCC Board determines in its sole discretion that a netting member has on a frequent basis and without good cause caused GSCC to incur financing costs, the member can become obligated to pay for or reimburse GSCC for the entire amount of the financing costs.

⁴ GSCC already has the authority to enter into repurchase agreements in connection with clearing fund deposits and proprietary funds.

(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 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. Copies of such filings also will be available for inspection and copying at the principal office of GSCC. All submissions should refer to File No. SR-GSCC-00-01 and should be submitted by August 1, 2000.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42996; File No. SR-GSCC-00-04]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Accepting Mortgage-Backed Securities for Processing in the GCF Repo Service

June 30, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 1, 2000, Government Securities Clearing Corporation ("GSCC") 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 GSCC. 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

The proposed rule change would allow GSCC to accept non-Fedwire eligible mortgage-backed securities for processing in GSCC's GCF Repo Service.

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

In its filing with the Commission, GSCC 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. GSCC 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

GSCC introduced its GCF Repo Service in November 1998.³ The GCF Repo Service allows GSCC's non-inter-dealer broker netting members ("dealers") to trade general collateral repos involving U.S. Government securities throughout the day without requiring trade for trade settlement on a delivery versus payment basis.

GSCC has been activating the generic CUSIP numbers representing the securities that are eligible for GCF Repo processing in stages. U.S. Treasury securities with a maturity of ten years or less and U.S. Treasury securities with a maturity of thirty years or less were the first products to be made eligible for GCF Repo processing. At the beginning of this year, GSCC also began accepting non-mortgage-backed agency securities for GCF Repo processing and then more recently began accepting mortgage-

backed securities ("MBS") for GCF Repo processing.⁴

GSCC members active in the MBS markets have expressed an interest, both directly and through The Bond Market Association, in having GSCC process all types of MBS, especially those issued by the Government National Mortgage Association (Commonly referred to as "GNMAs").⁵ Because these members engage in transactions involving all types of MBS, not just Fedwire-eligible MBS, they desire to have the risk reducing benefits associated with GSCC processing extend to GCF Repo transactions involving non-Fedwire-eligible MBS.

When GSCC submitted its original GCF Repo rule filing to the Commission, it only contemplated Fedwire-eligible securities (treasuries, agencies, and certain MBS) as eligible products. In response to the industry demand, GSCC desires to expand the acceptable types of underlying securities processed in the GCF Repo Service to include all types of MBS, not just Fedwire-eligible MBS.

The proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder because it will enhance the GCF Repo Service by making it more responsive to the needs of GSCC's members.

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

GSCC does not believe that the proposed rule change will have an 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

Written comments relating to the proposed rule change have not yet been solicited or received. GSCC will notify the Commission of any written comments received by GSCC.

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

The foregoing rule change has become effective pursuant to section 19(b)(3)(A)(iii)⁶ of the Act and Rule

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

³ On November 5, 1998, the Commission approved a rule change (Release No. 34-40623, File No. SR-GSCC-98-02) that allowed GSCC to implement the GCF Repo Service on an intrabank basis. On April 16, 1999, the Commission approved a rule change (Release No. 34-41303, File No. SR-GSCC-99-01) that allowed GSCC to implement an enhancement to the GCF Repo Service to enable participating dealers to engage in GCF Repo trading with participating dealers that use a different clearing bank.

⁴ On March 20, 2000, GSCC activated the generic CUSIP number representing Federal Home Loan Mortgage Corporation and Federal National Mortgage Association fixed-rate MBS.

⁵ The Government National Mortgage Association recently announced that it has decided to move its NBS clearance and settlement activities to the Federal Reserve System. No specific timetable has been specified for this move which will make GNMAs Fedwire-eligible.

⁶ 15 U.S.C. 78s(b)(3)(A)(iii).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).