

temporary registration as a clearing agency through November 30, 1996.⁵

GSCC provides clearance and settlement services for its members' transactions in government securities. GSCC offers its members services for next-day settling trades, forward settling trades, auction takedown activity, repurchase transactions ("repos"), the multilateral netting of trades, the novation of netted trades, and daily marking-to-the-market. In connection with GSCC's clearance and settlement services, GSCC provides a centralized loss allocation procedure and maintains margin to offset netting and settlement risks.

At the time of GSCC's initial temporary registration, the Commission granted GSCC exemptions from compliance with the participation standards in Sections 17A(b)(3)(B) and 17A(b)(4)(B)⁶ and with the fair representation requirements in Section 17A(b)(3)(C). GSCC has requested that the Commission rescind GSCC's exemption from the participation standards in Sections 17A(b)(3)(B) and 17A(b)(4)(B). As more fully set forth in the February Registration Letter, GSCC believes that it has adequately addressed the Commission's concerns regarding GSCC's membership eligibility standards by establishing new categories of membership.⁷ In the February Registration Letter, GSCC also stated that it believes its current method

of selecting its Board of Directors assures members fair representation.⁸

GSCC has made substantial progress toward satisfying the requirements enumerated in Section 17A(b) of the Act. The Commission believes that while GSCC's new categories of membership are not extensively used at this time, GSCC is in compliance with the requirements of Sections 17A(b)(3)(B) and 17A(b)(4)(B) of the Act.⁹ Therefore, the Commission is eliminating GSCC's exemption from the provisions of Sections 17A(b)(3)(B) and 17A(b)(4)(B).

GSCC has recently introduced clearance and settlement services for certain repurchase agreement transactions.¹⁰ Because institutional entities are much more involved in the repo market than in the cash market, GSCC expects much greater utilization of its nontraditional membership categories (e.g., those membership categories for entities other than dealers and banks) in the coming years. The Commission believes that as the number of members in these nontraditional categories grows, GSCC should continue to review its criteria for membership in the various categories.

The Commission will continue GSCC's exemption from the fair representation standards of Section 17A(b)(3)(C) during the temporary registration period. Prior to granting permanent registration, the Commission will evaluate GSCC's criteria for selecting its Board of Directors to ensure that the selection criteria is sufficiently flexible to assure adequate representation of members in each of GSCC's membership categories consistent with Section 17A(b)(3)(C) of the Act.

It is therefore ordered that GSCC's temporary registration as a clearing agency (File No. 600-23) be and hereby is extended through November 30, 1996, subject to the terms set forth above.

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

⁸ GSCC's current selection process for its Board of Directors permits any GSCC member to nominate candidates for election to the Board and to vote for candidates so nominated. In the February Registration Letter, GSCC stated that it recognizes future membership growth may require GSCC to adjust the selection process to ensure fair member representation on the Board.

⁹ Currently, GSCC has one Category 2 dealer netting member and one futures commission merchant. None of the other membership categories discussed *supra* in note 7 are being used.

¹⁰ Securities Exchange Act Release No. 36491 (November 17, 1995).

¹¹ 17 CFR 200.30-3(a)(50)(i) (1994).

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-29319 Filed 11-30-95; 8:45 a.m.]

BILLING CODE 8010-01-M

[Release No. 34-36509; File No. SR-CHX-95-27]

Self-Regulatory Organizations; The Chicago Stock Exchange, Incorporated; Notice of Filing of Proposed Rule Change Relating to Chicago Stock Exchange, Incorporated's Decision To Withdraw From the Clearance and Settlement and Securities Depository Businesses

November 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 16, 1995, the Chicago Stock Exchange, Incorporated ("CHX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-CHX-95-27) as described in Items I, II, and III below, which items have been prepared primarily by CHX. 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

The proposed rule change involves proposed arrangements relating to a decision by CHX to withdraw from the clearance and settlement, securities depository, and branch receive businesses conducted through its subsidiaries, the Midwest Clearing Corporation ("MCC"), Midwest Securities Trust Company ("MSTC"), and Securities Trust Company of New Jersey ("STC/NJ").² Parties to the proposed arrangements are The Depository Trust Company ("DTC"), CHX, MSTC, the National Securities Clearing Corporation ("NSCC"), MCC, and STC/NJ. The proposed arrangements as they relate to CHX would provide for the following:

(1) MSTC and MCC would cease providing securities depository and securities clearing services, respectively, by January 15, 1996.

(2) DTC would offer sole MSTC participants an opportunity to become DTC participants, if they meet DTC's qualifications. NSCC would offer sole

¹ 15 U.S.C. § 78s(b)(1)(1988).

² STC/NJ is a wholly-owned subsidiary of CHX that currently provides certain services, including a securities custody service. STC/NJ is not a clearing agency as defined in the Act and therefore is not required to register with the Commission.

⁵ On May 24, 1988, the Commission granted GSCC's initial application for registration as a clearing agency pursuant to Sections 17A and 19(a) of the Act and Rule 17Ab2-1 [17 CFR 240.17Ab2-1 (1994)] thereunder for a period of three years. Securities Exchange Act Release No. 25740 (May 24, 1988), 53 FR 19639. The Commission subsequently extended GSCC's registration until November 30, 1995. Securities Exchange Act Release Nos. 29067 (April 11, 1991), 56 FR 15652; 32385 (June 3, 1993), 58 FR 32405; and 35787 (May 31, 1995), 60 FR 30324.

⁶ The Commission determined that GSCC's rules did not provide for all the statutory categories of membership required by Section 17A(b)(3)(B) or the financial standards for such applicants and members as contemplated by Section 17A(b)(4)(B). 15 U.S.C. 78q-1(b)(3)(B), 78q-1(b)(4)(B) (1988).

⁷ Since the Commission's original order granting GSCC temporary registration, the Commission has approved two proposed rule changes that increased the categories of those eligible for membership in GSCC's netting system. Securities Exchange Act Release Nos. 34935 (November 3, 1994), 59 FR 56100 (order approving establishing of new categories of netting system membership for futures commission merchants) and 32722 (August 5, 1993), 58 FR 42993 (order approving establishment of new categories of netting system membership for Category 2 dealers and interdealer brokers, issuers of government securities, insurance companies, registered clearing agencies, and registered investment companies). Under GSCC's rules, a Category 2 dealer netting member has a lower net worth threshold but more stringent margin requirements than Category 1 dealer members.