

MCC participants the opportunity to become NSCC participants if they meet NSCC's qualifications.

(3) DTC and MSTC would cooperate to assure the orderly transfer of securities from the custody of MSTC to the custody of DTC for DTC participants that authorize such transfers. Open positions of MCC participants that are or that become NSCC participants and that authorize the transfer of their positions will be transferred to the books of NSCC.

(4) DTC would acquire certain assets and assume certain lease and other contractual obligations of STC/NJ.

(5) DTC would assume certain lease obligations of CHX.

(6) DTC and NSCC would make certain payments to CHX, MSTC, MCC, and STC/NJ.

(7) In general, for a period of ten years CHX, MCC, MSTC, and STC/NJ would not engage in the businesses from which they have decided to withdraw (*i.e.*, the securities clearing, securities depository, and branch receive businesses). However, CHX and its subsidiaries would be free to provide specified securities depository-related and securities clearing-related services and products to CHX members and certain third-parties under certain circumstances.³

The proposed rule change also seeks to modify CHX's Constitution to reduce the size of the Board of Governors.⁴

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

In its filing with the Commission, the self-regulatory organization included statements concerning the propose 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. CHX has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.⁵

³ A more detailed description of these proposed arrangements is contained in Exhibit 2 to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁴ The text of these proposed changes is contained in Exhibit A to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁵ The Commission has modified the text of the summaries prepared by CHX.

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

CHX has determined to close its clearance and settlement and securities depository business in order to focus its resources on the operations of the exchange itself. The primary purpose of the proposed arrangements is to permit CHX to achieve this objective while affording MCC participants an opportunity to become NSCC participants and affording MSTC participants an opportunity to become DTC participants and transfer their open positions and securities to NSCC and DTC. Both MCC and MSTC participants, however, would be free to utilize any other service provider of their choosing. This is consistent with the industry's effort to eliminate redundant infrastructure costs associated with operating separate organizations.

The timing of the proposal is related to the industry's planned conversion to same-day funds settlement.⁶ Currently, transactions in equities, corporate debt, and municipal debt are settled in next-day funds.⁷ Transactions in commercial paper and other money market instruments are settled in same-day funds. As the Commission is aware, the registered clearing agencies have been working with the industry over the least few years to develop a system that will provide for the settlement of virtually all securities transactions in same-day funds. These efforts have been encouraged by the Commission, the Board of Governors of the Federal Reserve System, and the Federal Reserve Banks of New York and Chicago, and these plans have been monitored by the staffs of these regulatory bodies.⁸ Under the conversion plan, all issues currently settling in DTC's next-day funds settlement system will be transferred to DTC's same-day funds settlement system on a single day. Several months

⁶ The term "same-day funds" refers to payment in funds that are immediately available and generally are transferred by electronic means.

⁷ The term "next-day funds" refers to payment by means of certified check that is for value on the following day.

⁸ In approving certain modifications of DTC's existing system in order to accommodate the overall conversion to same-day funds settlement, the Commission stated that it "believes that the overall conversion to an SDFS system will help reduce systemic risk by eliminating overnight credit risk. The SDFS system also will reduce risk by achieving closer conformity with the payment methods used in the derivatives markets, government securities markets and other markets." Securities Exchange Act Release No. 35720 (May 16, 1995), 60 FR 27360 [File No. SR-DTC-95-06] (order granting accelerated approval to proposed rule change modifying the same-day funds settlement system).

ago, a consensus was reached that the conversion date will be February 22, 1996. As a result of this scheduled conversion date, CHX has determined to cease providing securities depository, securities clearing, and branch receive services by January 15, 1996.

The proposed arrangements should result in substantial savings for the securities industry. In connection with this proposal, former sole MSTC participants may become DTC participants if they qualify, and former sole MCC participants may become NSCC participants if they qualify or utilize any other clearing and depository service provider. Moreover, interdepository and clearing interfaces involve the maintenance of substantial facilities, communications networks, and account and inventory reconciliation mechanisms. As a result of the proposal, the substantial costs incurred by both DTC, NSCC, MCC, and MSTC in operating interfaces would be eliminated.

Another purpose of the proposed rule change is to reduce the size of the CHX's Board of Governors. This reduction conforms with the simultaneous reductions in the size of the boards of directors of MCC and MSTC. Because of its withdrawal from the businesses described above, CHX no longer believes it is necessary to maintain such a large board of directors. As a result, CHX is eliminating the Participant Governor positions. Those current board members whose slots have been eliminated may serve out the remainder of their terms.

CHX believes that proposed rule change is consistent with Section 6(b)(5) of the Act⁹ in that it will enable the CHX to focus its energies on its core business, the exchange. This, in turn, will promote just and equitable principles of trade, remove impediments and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. The proposal also will foster cooperation and coordination with persons engaged in clearing and settling transactions in securities.

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

CHX does not believe the proposed arrangements will improve any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Securities depositories and securities clearing corporations registered under Section 17A of the Act are not conventional

⁹ 15 U.S.C. 78f(b)(5) (1988).