

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. MCC has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.<sup>5</sup>

*(A) Self-Regulatory Organization's 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. The primary purpose of the proposed arrangements is to permit CHX and MCC to achieve this objective while affording MCC participants an opportunity to become NSCC participants. MCC 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.<sup>6</sup> Currently, transactions in equities, corporate debt, and municipal debt are settled in next-day funds.<sup>7</sup> 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 last 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.<sup>8</sup> 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 ago, an industry consensus was reached that the conversion date will be February 22, 1996. As a result of this scheduled conversion date, CHX and MCC have determined to cease providing securities clearing services by January 15, 1996.

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

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

MCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the rule proposal will facilitate the industry's conversion to same-day funds settlement for virtually all securities transactions and thereby facilitate the prompt and accurate clearance and settlement of such transactions. The proposal will provide qualified sole MCC participants with access to NSCC's facilities and will be implemented consistently with the safeguarding of securities and funds in MCC's custody and control. In addition, the proposal will foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.

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

MCC believes the proposed arrangements will not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Securities clearing corporations registered under Section 17A of the Act are not conventional businesses but utilities created to serve members of the securities industry for the purpose of providing certain services that are ancillary to the businesses in which industry members compete with one another. Operating a securities clearing corporation requires a substantial and continuing investment in infrastructure, including telecommunications links with users, data centers, and disaster recovery facilities in order to meet the increasing needs of participants and respond to regulatory requirements. Both the Boston Stock Exchange in 1981 and the Pacific Stock Exchange in 1987 substantially terminated the operation of their securities clearing corporations.

After consummation of the proposed arrangements, securities industry members will continue to have access to high-quality, low-cost clearing services provided under the mandate of the Act. The overall cost to the industry of having such services available will be reduced thereby permitting a more efficient and productive allocation of industry resources. Furthermore, because most of a clearing corporation's interface costs must be mutualized, thereby requiring some participants to subsidize costs incurred by others, CHX's and MCC's withdrawal from maintaining clearing facilities will reduce costs to participants and thereby remove impediments to competition. Finally, CHX's ability to focus its resources on the operations of the exchange should help enhance competition among securities markets.

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

Written comments on the proposal have not 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

<sup>5</sup> The Commission has modified the text of the summaries prepared by MCC.

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

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

<sup>8</sup> 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).