

routing and execution system known as SCOREX<sup>2</sup> and concurrently, phased in and upgraded its new system, known as P/COAST.<sup>3</sup> Accordingly, the Exchange is proposing to replace all references to "SCOREX" in the Exchange's Rules with references to "P/COAST."

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act<sup>4</sup> in that it is designed to promote just and equitable principles of trade.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that proposed rule change will impose any burden on competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

The foregoing rule change is concerned solely with the administration of the Exchange and, therefore, has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>5</sup> and subparagraph (e) of Rule 19b-4 thereunder.<sup>6</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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 at 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 the Pacific Exchange. All submissions should refer to File No. SR-PCX-97-14 and should be submitted by June 6, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38604; File No. SR-PTC-97-01]

### **Self-Regulatory Organizations; Participants Trust Company; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Relating to Limited Cross-Guarantee Agreements**

May 9, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on February 11, 1997, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-PTC-97-01) as described in items I and II below, which items have been prepared primarily by PTC. The Commission is publishing this notice and order 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 purpose of the proposed rule change is to amend PTC's rules to permit PTC to enter into limited cross-guarantee agreements with other clearing organizations.

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

In its filing with the Commission, PTC 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. PTC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.<sup>2</sup>

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

The purpose of the proposed rule change is to amend PTC's rules to permit PTC to enter into limited cross-guarantee agreements contain a guarantee from one clearing agency to another clearing agency that can be invoked in the event of a default of a common member. The guarantee provides that the resources of a defaulting common member remaining after its obligations to the guaranteeing clearing agency have been satisfied will be used to satisfy its obligations that remain unsatisfied at the other clearing agency. The guarantee is limited to the amount of a defaulting common member's resources remaining at the guaranteeing clearing agency.

Generally, limited cross-guarantee agreements may be beneficial to the clearing agency because amounts available under limited cross-guarantee agreements may be applied to satisfy or reduce unpaid obligations of the defaulting participant. With regard to PTC, these amounts may reduce charges against the participants fund or amounts borrowed from other participants or third party lenders or allocations of losses to the original counterparties of a defaulting participant under PTC's rules. The benefits generally accruing to the clearing agencies from a limited cross-guarantee agreement are illustrated by the following example: Participant A, a common participant of clearing agency 1 and clearing agency 2, declares bankruptcy. Upon insolvency, participant A owes clearing agency 1 \$10 million and clearing agency 2 owes participant A \$7 million. In the absence of an inter-clearing agency limited cross-guarantee agreement, clearing agency 2 would be obligated to pay \$7 million to participant A's bankruptcy estate and clearing agency 1 would have

<sup>2</sup> Securities Communication Order Routing and Execution System.

<sup>3</sup> Pacific Computerized Order Access Securities System.

<sup>4</sup> 15 U.S.C. 78f(b).

<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>6</sup> 17 CFR 240.19b-4.

<sup>7</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> The Commission has modified the text of the summaries prepared by PTC.

a claim for \$10 million against participant A's bankruptcy estate as a general creditor with no assurance as to the extent of recovery. However, an effective cross-guarantee arrangement would obligate clearing agency 2 to pay clearing agency 1 an amount equal to participant A's \$7 million receivable from clearing agency 2 thereby reducing clearing agency 1's net exposure from \$10 million to \$3 million. This approach would enable clearing agency 1 to secure earlier payment and would allow clearing agency 2 to fulfill its obligations without making an actual payment to participant A's bankruptcy estate.

PTC currently intends to enter into a limited cross-guarantee agreement with MBS Clearing Corporation ("MBSCC"), a clearing agency registered under the Act. At a later date, PTC may determine to enter into limited cross-guarantee agreements with other clearing organizations, subject to authorization by PTC's Board of Directors.

In order to allow PTC to enter into one or more limited cross-guarantee agreements with other clearing organizations, the proposed rule change will add new Rule 9, to Article IV of PTC's rules to govern PTC's limited cross-guarantee agreements. As proposed, the rule will authorize PTC to enter into limited cross-guarantee agreements, subject to approval of PTC's Board of Directors. The rule also provides that each participant will be liable to PTC for any payments that PTC is required to make with respect to such participant pursuant to a limited cross-guarantee agreement, and that securities, funds, or other property of the participant to which PTC has a lien, other than securities in the participants' proprietary or agency accounts, may be applied in satisfaction of such obligation. In addition, the rule provides that amounts received by PTC under any limited cross-guarantee agreement will be applied to reduce the common participant's unpaid obligations to PTC and assessments made in respect thereof under PTC's rules.

PTC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>3</sup> and the rules and regulations thereunder because it is designed to assure the safeguarding of securities and funds in the custody or control of PTC or for which it is responsible and to foster cooperation and coordination

with persons engaged in the clearance and settlement of securities transactions. The staff of the Board of Governors of the Federal Reserve System ("Board of Governors") has concurred with the Commission's granting of accelerated approval.<sup>4</sup>

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

PTC does not believe that the proposed rule change imposes any burden on competition.

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

PTC has not solicited and does not intend to solicit comments on this proposed rule change. PTC has not received any unsolicited written comments from participants or other interested parties.

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

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>5</sup> The Commission believes that PTC's rule change is consistent with its obligation to assure the safeguarding of securities and funds in its custody or control because, as the Commission found in several recently approved limited cross-guarantee agreements,<sup>6</sup> PTC's proposed limited cross-guarantee agreement is a method to reduce the risk of loss due to a common member's default.

The Commission also believes the rule change is consistent with PTC's obligation under Section 17A(b)(3)(F) to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The Commission believes

<sup>4</sup> Telephone conversation between Theo Lubke, Board of Governors, and Jeffrey Mooney, Attorney, Division of Market Regulation, Commission (May 8, 1997).

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>6</sup> Securities Exchange Act Release Nos. 37616 (August 28, 1996) 61 FR 46887. [File Nos. SR-MBSCC-96-02, SR-GSCC-96-03, and SR-ISCC-96-04] (order approving proposed rule changes seeking authority to enter into limited cross-guarantee agreements) and 38410 (May 17, 1997) 62 FR 13931 [File No. SR-OCC-96-18] (order granting approval of proposed rule change to revise rules to include limited cross-guarantee agreements).

that by entering into such cross-guarantee agreements, PTC and the other clearing agencies can mitigate the systemic risks posed to them and to the national clearance and settlement system that arises as a result of a defaulting member.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after publication of the notice of filing because accelerated approval will allow PTC to immediately participate in a limited cross-guarantee agreement with MBSCC thereby allowing both PTC and MBSCC to benefit from the reduction of risk that results from this type of arrangement.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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 Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of PTC. All submissions should refer to the file number SR-PTC-97-01 and should be submitted by June 6, 1997.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-PTC-07-01) be, and hereby is, approved on an accelerated basis.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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<sup>7</sup> 17 CFR 200.30-3(a)(12).

<sup>3</sup> 15 U.S.C. 78q-1.