

contracting officer should consider whether the contractor made a good faith effort to comply with the subcontracting plan. Failure by the contractor to meet the subcontracting goals established in the subcontracting plan does not, in and of itself, constitute a failure to make a good faith effort. The contracting officer shall consider the totality of the contractor's effort. If the contractor failed to make a good faith effort to comply, section 8(d) of the Small Business Act mandates that liquidated damages must be assessed. When considering whether a good faith effort has been made, the contracting officer should examine whether the contractor:

(a) Submitted the periodic reports required by the subcontracting plan in a timely manner.

(b) Failed to meet its subcontracting goals because of a lack of diligence. Factors such as unavailability of anticipated sources or unreasonable prices may impact on the achievement of the contractor's goals.

(c) Made efforts to identify, contact, solicit and consider for award small, small disadvantaged, and women-owned small business concerns. Factors such as the contractor's efforts to request assistance from SBA or to reach out to other organizations, i.e., trade associations, business development associations, etc., in an effort to locate small, small disadvantaged, and women-owned small business concerns should be considered in evaluating the contractor's efforts.

(d) Maintained records and established procedures to comply with the subcontracting plan. The contracting officer should look for documentation of efforts to contact organizations to locate small, small disadvantaged, and women-owned small business concerns, participation in business fairs, information on who was solicited for particular solicitations, and any documentation of reasons for not awarding to small, small disadvantaged, or women-owned business concerns.

(e) Maintained a company official to administer the subcontracting program and monitor and enforce compliance.

(f) Assisted small, small disadvantaged, and women-owned small business concerns in responding to solicitations issued by the contractor.

(5) If the contracting officer's initial assessment is that the contractor did not make a good faith effort to comply with the subcontracting plan, the contracting officer must notify the contractor, in writing, calling the contractor's attention to the suspected failure. As part of the notification, the contractor must be given the opportunity to demonstrate that good faith efforts have been made. The contractor must be advised that failure to respond to the notice may be taken as an admission that no valid explanation exists.

(6) Before making a final decision, the contracting officer shall consider the contractor's response, if any, along with any pertinent information available. The contracting officer's final decision shall be documented in a "final decision" which is appealable by the contractor under the "Disputes" clause of the contract. The contracting officer's final decision should include:

(a) A description of the contractor's failure;

(b) Reference to the appropriate contract terms;

(c) A statement of the factual areas of agreement and disagreement;

(d) A statement of the contracting officer's decision with supporting rationale;

(e) A demand for liquidated damages; and

(f) An explanation of the contractor's appeal rights.

(7) For a contract containing an individual contract plan, the amount of liquidated damages to be assessed is the sum of the amounts by which the contractor failed to meet each subcontracting goal for small, and/or small disadvantaged, and/or women-owned small business concerns. For contracts containing a commercial plan, the amount of liquidated damages to be assessed is calculated based upon the total payments made under contracts subject to the commercial plan as a percentage of the contractor's total sales. For example, if the contractor's total sales are \$50 million and the Government's total payments under contracts subject to the commercial plan are \$5 million, the Government accounts for 10 percent of the contractor's total sales. The commercial plan stated that the subcontracting dollars to support the sales would be \$20 million. Therefore, the pro rata share of subcontracting attributable to the Government contracts would be 10 percent of the \$20 million or \$2 million. If the contractor failed to achieve its small business goal by 1 percent, the liquidated damages would be calculated as 1 percent of the \$2 million or \$20,000. The contracting officer shall make similar calculations for each category of small business where the contractor failed to achieve its goal and the sum of the dollars for all of the categories equals the amount of the liquidated damages to be assessed. The contracting officer of the agency that originally approved the plan will exercise the functions of the contracting officer on behalf of all agencies that awarded contracts subject to the commercial plan.

(8) Liquidated damages shall be in addition to any other remedies available to the Government by law or under the contract.

8. *Responsibilities.* The Federal Acquisition Regulatory Council shall ensure that the policies established herein are incorporated in the FAR within 210 days from the date this Policy Letter is published final in the Federal Register. Promulgation of final regulations within that 210 day period shall be considered issuance in a "timely manner" as prescribed in 41 U.S.C. 405(b).

9. *Information Contact.* Questions regarding this Policy Letter should be directed to Linda Mesaros, Deputy Associate Administrator, Office of Federal Procurement Policy, 725 17th Street, NW, Washington, DC 20503, telephone 202-395-3501, facsimile 202-395-5105.

10. *Judicial Review.* This Policy Letter is not intended to provide a constitutional or statutory interpretation of any kind and it is not intended, and should not be construed, to create any right or benefit, substantive or procedural, enforceable at law by a party against the United States, its agencies, its officers, or any persons. It is intended only to provide policy guidance to agencies in the

exercise of their discretion concerning Federal contracting. Thus, this Policy Letter is not intended, and should not be construed, to create any substantive or procedural basis on which to challenge any agency action or inaction on the ground that such action or inaction was not in accordance with this policy letter.

11. *Effective Date.* The Policy Letter is effective 30 days after the date of issuance.

Steven Kelman,

Administrator.

[FR Doc. 95-23880 Filed 9-25-95; 8:45 am]

BILLING CODE 3110-01-M

SECURITIES AND EXCHANGE COMMISSION

[File No. 500-1]

United Fire Technology, Inc.; Order of Suspension of Trading

September 20, 1995.

It appears to the Securities and Exchange Commission that there is a lack of current and accurate information concerning the securities of United Fire Technology, Inc. ("United Fire") because of questions regarding the accuracy of assertions by United Fire in documents sent to the National Association of Securities Dealers, Inc., market-makers of the stock of United Fire, other broker-dealers, and to investors, and by others, that, among other things: (1) United Fire's products have been, or are being, tested and/or certified by various independent testing centers, including the U.S. Navy Firefighting School; (2) the company has the capability to manufacture its products; (3) the identity of the individuals in control of United Fire; and (4) information regarding the liabilities of the company and its stock issuances.

The Commission is of the opinion that the public interest and the protection of investors require a suspension of trading in the securities of the above listed company.

Therefore, it is ordered, pursuant to Section 12(k) of the Securities Exchange Act of 1934, that trading in the above listed company is suspended for the period from 9:30 a.m. EST, September 21, 1995 through 11:59 p.m. EST, on October 4, 1995.

By the Commission.

Jonathan G. Katz,

Secretary.

[FR Doc. 95-23838 Filed 9-25-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 36252; File No. SR-GSCC-95-02]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Proposed Rule Change Relating to Netting Services for the Non-Same-Day-Settling Aspects of Next-Day and Forward-Settling Repurchase and Reverse Repurchase Transactions

September 19, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on August 1, 1995, 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. On August 29, 1995, and September 19, 1995, GSCC amended the filing.² 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

GSCC proposes to modify its rules to begin implementing netting and risk management services for the non-same-day-settling aspects of next-day and forward-settling repurchase and reverse repurchase transactions involving government securities as the underlying instrument ("repos").³

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 such statements.⁴

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

GSCC plans to offer its repo services in three phases. Phase I involves providing comparison and netting services for next-day and forward-settling repo transactions, Phase II will focus on providing comparison, netting, and risk management services for open repos, and Phase III will focus on providing intraday netting and risk management services for same-day settling aspects of repo transactions.

In a previous rule filing the Commission approved the comparison element of Phase I,⁵ and GSCC implemented its comparison service for next-day and forward-settling repos on May 12, 1995. Currently, there are forty members participating in this process. In this rule filing, GSCC seeks the authority to implement the next stage of Phase I of its repo services, which is providing netting and risk management services for the non-same-day-settling aspects of next-day and term repo transactions.⁶

All non-same-day settling repo legs (i.e., the close leg of overnight and term repos and the start leg of forward-settling repos) in GSCC netting-eligible securities will be netted with regular buy/sell (i.e., cash) activity and Treasury auction purchases in GSCC's system. Thus, a participant's repo activity will be netted with its cash activity and Treasury auction purchases to arrive at a single net position in the security. Appropriate netting output, including the breakdown of the repo versus the cash component of each net settlement position, will be generated and distributed to participants.

GSCC believes that incorporating repos into GSCC's net will afford its members and the marketplace in general a number of important benefits, including the following: guaranteed settlement, enhanced risk protection, reduction in funds wire transfer activity, elimination of the bulk of the

⁵ Securities Exchange Act Release No. 35557 (March 31, 1995), 60 FR 17598 [File No. SR-GSCC-94-10] (order approving proposed rule change relating to implementing a comparison service for repurchase and reverse repurchase transactions involving government securities as the underlying instrument).

⁶ Future phases will add the following repo services (not necessarily in this order): (1) an intraday start leg settlement service, (2) comparison, netting, and risk management services for open repos including the tracking of rate changes, (3) the tracking and facilitation of collateral substitutions, (4) enhanced comparison services for forward-starting repos, (5) interest rate protection for forward-starting repos, and (6) intra-day netting, settlement, and risk management services for all same-day-settling start and close legs.

underlying collateral movements, reduction of daylight overdraft charges, and provision of an automated coupon tracking system.

The repo netting process will begin in test mode and then move into "non-live" production. Once the repo netting system is running smoothly (i.e., when GSCC and participating members are satisfied with the test results and generated output) and the Commission approves this rule filing, GSCC will be ready to fully implement repo netting.

Netting implementation entails a number of rule changes including, most notably, substantial modifications to GSCC's forward margin and clearing fund procedures and methodologies. The necessary rule changes are set forth below.

(1) Eligibility for Netting

GSCC netting members, other than interdealer broker netting members, will be able to participate in repo netting upon being designated by GSCC's Membership and Standards Committee as eligible for such services.⁷ This determination of eligibility will be based on: (1) satisfactory participation in the repo comparison service, (2) demonstration by the member of its ability to meet its obligations with regards to repos, and (3) execution by the member of documentation provided by GSCC ensuring that the netting and settlement of its repos is to be done in conformance with GSCC's rules.

A single repo transaction could have two corresponding netting-eligible settlements. In other words, both the start and the close legs of a repo transaction may be netted if data on the repo is received and compared by GSCC prior to the scheduled settlement date for the start leg.

In order for a start leg or a close leg of a repo transaction to be eligible for netting and settlement through the netting system, it must meet various requirements: (1) the repo must be compared by GSCC, (2) the number of business days between the scheduled settlement date for the close leg and the business day on which the repo is submitted to GSCC must not be greater than the maximum number of business days established by GSCC which initially will be no more than 195

⁷ Interdealer broker netting members will not be eligible for GSCC's repo netting service during this first phase because brokering in the repo market currently is done on a "giveup" basis with interdealer brokers giving up the names of each counterparty to the other counterparty and dropping completely out of the transaction. The various issues related to GSCC's acting with its interdealer broker members as principals with regard to repo transactions will be addressed in the next repo netting rule filing.

¹ 15 U.S.C. 78s(b)(1) (1988).

² Letters from Jeffrey F. Ingber, General Counsel, GSCC, to Christine Sibille, Senior Counsel, Division of Market Regulation, Commission (August 24, 1995, and September 14, 1995).

³ The text of the proposed revised rules is attached as Exhibit A to File No. SR-GSCC-95-02 and is available for review in the Commission's Public Reference Room.

⁴ The Commission has modified the text of the summaries prepared by GSCC.

calendar days,⁸ (3) netting of the leg must occur on or before its scheduled settlement date (*i.e.*, the leg cannot be a same-day settling leg), (4) data on each side of the repo must be submitted to GSCC by members designated as eligible to participate in the repo netting process, (5) the underlying securities must be eligible for netting, and (6) the maturity date of the underlying securities must be no later than the scheduled settlement date of the leg. A forward-settling start leg,⁹ if submitted to GSCC within 195 calendar days of the scheduled settlement date for the close leg associated with that start leg, will not be submitted into the netting system until the scheduled settlement date for that start leg. At that time, it will drop into the net as does any other trade, and its settlement will become guaranteed by GSCC. A forward-settling close leg, if submitted within 195 calendar days of its scheduled settlement date, will not be submitted to the netting system until the scheduled settlement date for the associated start leg.

(2) Netting Process

As noted above, each night a participating repo netting member's eligible repo transactions will be netted with its regular buy/sell cash activity and Treasury auction purchases in the same CUSIP to establish a single net position in the security. For netting purposes, the settlements associated with repo start legs and reverse repo close legs will be treated as short positions. The settlements associated with repo close legs and reverse repo start legs will be treated as long positions. The difference between a member's total shore activity and its total long activity within a CUSIP is its net position in the CUSIP.

While netting will result in the establishment of a single net position for each participant in each of its active securities, GSCC will provide each participant with a breakdown of its net positions by reporting for each security: (1) The net buy/sell position, (2) the net repo position, and (3) the total net position. A participant's forward settling net position for a security is recalculated on a daily basis. Forward settling net positions automatically convert into deliver or receive obligations on their scheduled settlement dates.

⁸ *Supra* note 2. The September 19, 1995 letter amended the maximum number of business days between the scheduled settlement date for the close leg and the date on which the repo is submitted from 364 days to 195 calendar days.

⁹ A forward-settling start leg is a start leg that is submitted one or more business days prior to its scheduled settlement date.

(3) Settlement

GSCC conducts two settlement processes on a daily basis: a morning funds-only settlement process and a day-long securities settlement. For securities settlement, each netting member is obliged to deliver to or to receive from GSCC its net deliver or receive obligation in a given CUSIP that is generated as a result of the netting process. Securities settlement for repo legs will not differ from securities settlement for regular buy/sell activity.

For funds-only settlement, amounts pertaining to repos will be added to amounts pertaining to regular buy/sell activity and Treasury auction purchases and will be reported within the existing categories. In addition, the daily net funds-only settlement amount for each netting member will be adjusted to reflect certain changes to GSCC's margining processes. With these changes, forward margin debits will be paid through to the credit side, interest will be paid to members with forward margin debits and will be paid by members with forward margin credits [as discussed below in Section (7)], and forward debit margin obligations will be satisfied on a cash-only basis.

(4) Coupon Protection

In a repo transaction, when the start leg is initiated, securities are moved from the account of the funds borrower (*i.e.*, the long side for the close leg) to the account of the funds lender (*i.e.*, the short side for the close leg) in exchange for a negotiated cash amount. Securities remain in the account of the funds lender until the settlement of the close leg takes place. However, the funds lender is not entitled to any coupon payments made while the securities are in its possession. In order to ensure that coupon payments related to the underlying collateral are collected by the appropriate party, GSCC will automatically pass the coupon payment from the funds lender (the holder of the securities) to the funds borrower when the repo term crosses a coupon payment date.

The coupon payments that are made by the issuer directly to the funds lender's clearing bank on coupon date therefore will be passed through to the funds borrower by GSCC on coupon date when appropriate. On the coupon payment date, GSCC will pass the coupon payment from the funds lender (short side) to the funds borrower (long side) when (1) the coupon date is after the repo start date and (2) the repo settlement date is on or after the coupon date. GSCC's current procedures for paying coupon on all fail obligations

will not change and will apply to fail obligations arising from repos as well.

(5) Collateral Substitution

In this initial phase of repo netting, GSCC will not perform collateral substitutions on an automated basis. However, GSCC will facilitate the ability of participants to make collateral substitutions by allowing them to designate new underlying collateral for a repo transaction through use of the "cancel and correct" feature of its comparison system. GSCC's operations staff will manually process the collateral substitution as it does now for clearing fund securities margin. An automated facility for performing repo collateral substitutions will be provided as part of a future phase of repo services.

(6) Guarantee of Settlement

When GSCC nets repo transactions, it interposes itself between the two submitting participants for transaction settlement purposes as it does for cash transactions. For example, in the case of a repo close leg, GSCC will interpose itself between the participant that submitted the repo (the long participant for the close leg) and the participant that submitted the corresponding reverse (the short participant for the close leg). In doing so, GSCC assumes contraparty responsibility and guarantees settlement of all repos that enter its netting system, including the return of the underlying collateral to the funds borrower and both the return of principal (repo start amount) and the payment of interest to the term of the repo transaction to the funds lender.

Again, forward-settling repo start legs are eligible for netting but are not netted or guaranteed until they reach scheduled settlement date. Forward-settling repo close legs are not guaranteed until the settlement date of the associated start leg.

(7) Forward Margin

Because GSCC guarantees the settlement of all transactions once they are compared and netted, forward settling net positions are marked-to-market daily, and participating members are assessed forward margin accordingly in their daily funds settlement.¹⁰ A member's required margin will continue to be recalculated daily; therefore, each day, the previous day's debit/credit will be reversed and a new forward margin obligation established.

Margin for cash trades will continue to be calculated by marking each

¹⁰ Because forward-settling start legs are not guaranteed until the scheduled settlement date, such transactions are not margined.

transaction to-the-market using the following formula:

$$\text{Market Value} = \text{GSCC Price} \times \text{Par Amount} + \text{Accrued Coupon Interest Calculated to Scheduled Settlement Date}$$

The resulting value is then subtracted from contract value to calculate the appropriate margin amount.

One significant change to the daily forward margin process for both cash and repo trades is that credit margin amounts will be used to fully offset debit margin amounts across CUSIPs with any remaining credits being paid out to participants in funds settlement. There will be the following exceptions to this pay-through policy: (1) As an initial measure, until GSCC is able to more extensively assess the risks that arise from paying through debit forward margin amounts to the credit side, GSCC will limit members' right to collect credit forward margin amounts to bank and category one dealer netting members that have been active in the netting system for at least sixty days, (2) if a member has been awarded Treasury securities at auction, GSCC's obligation to pay to such member a credit forward margin payment will be limited by the amount of debit forward margin payment(s) that under GSCC's rules the Federal Reserve Banks are not obligated to pay to GSCC, and (3) GSCC may suspend a member's right to collect credit forward margin if the member is placed on surveillance.

Another fundamental change to the daily forward margin process is that because credit margins will now be paid through, only cash may be used to post margin. Members will no longer be able to post collateral in advance in lieu of their cash forward margin obligations. Moreover, to take into account differences between the repo market and the when-issued cash market, including the fact that the liquidation process for repos involves a cost-of-carry element, forward margin calculations for repos will differ from those of cash market trades.

To margin a forward settling repo close leg to-the-market, GSCC will begin by calculating market value, using the following formula:

$$\text{Market Value} = \text{GSCC Price} \times \text{Par Amount} + \text{Accrued Coupon Interest Calculated to Current Date}$$

The market value calculated will be subtracted from the repo's contract value¹¹ to establish a debit or credit collateral mark. Next, the repo financing mark for the transaction will be calculated. The rationale for including

¹¹ The contract value of the repo is the dollar value at which the close leg is to be settled.

such a component is that if the member in the net short position (reverse side) fails, GSCC will replace the position by buying securities and putting them out on repo in the market and thus will incur a financing cost. Conversely, if the member in the net long position (repo side) fails, GSCC will replace the position by selling securities obtained by doing a reverse repo in the market and thus will create interest income potential. Therefore, GSCC will compute the financing mark and will include it in the clearing margin calculation. The formula used to calculate the financing mark will be:

$$\text{Financing Mark} = \text{Market Value of Repo} \times \text{GSCC Repo Rate} \times \text{Number of Days to Scheduled Settlement Date} \div 360$$

The financing mark will be debited to the reverse (short) side and will be credited to the repo (long) side.

The total forward margin for repos will be calculated using the following formula:

$$\text{Total Forward Margin} = \text{Collateral Mark} + \text{Financing Mark}$$

The debit and credit margins calculated for the individual transactions comprising the participant's net settlement position will then be added together. As noted above, credit margins will offset debit margins. A participant's total forward margin will be the mathematical sum of the individual debit and credit margins calculated across all securities and across all settlement dates.

It should be noted that the GSCC repo rate used in margin calculations will be tailored to each individual repo transaction. GSCC will determine if the collateral underlying the repo is general or specific.¹² For general collateral repos, GSCC will use the remaining term of the repo to determine the appropriate market repo rate. For specific collateral repos, GSCC will determine the specific repo rate by CUSIP and the remaining term of the repo. GSCC will use multiple market sources to obtain repo rates which will be monitored on a daily basis.

In designing the repo netting system, GSCC sought not to affect adversely the economics of the repo. Therefore, GSCC will pay interest on margin amounts collected and will charge interest on margin amounts paid on a daily basis using the effective Fed Funds rate. Because there will be a single margining process for all forward net settlement positions, interest will be paid on all

¹² General collateral repos refer to repo transactions that do not specify the underlying collateral by a CUSIP number while specific collateral repos indicate by CUSIP number what the underlying security must be in a given transaction.

debit forward margin payments and interest will be collected on all credit forward margin payments including margin payments relating to cash buy/sell trades.

It should be noted that GSCC's margining process effectively provides a daily repricing service that operates on a cash rather than a collateral basis. Therefore, participants will not need to build margin into the original value of the repo but rather should price the repo at the current market value. GSCC's margining and repricing services will provide a standardized approach for moving repo cash collateral with interest.

(8) Clearing Fund

GSCC's clearing fund was established to require each participant to collateralize its calculated exposure to ensure that GSCC has sufficient assets at all times to provide orderly settlement by meeting its payment and delivery obligations even if one or more of its participants became insolvent. Consistent with these objectives, the following changes will be made to the clearing fund in conjunction with repo netting implementation.

(a) *Clearing Fund Calculations Will Include Repo Activity.*

The net settlement positions used in clearing fund calculations will include the net of all cash and repo activities.

(b) *Change in the Clearing Fund Calculation.*

Currently, the funds settlement risk component of the clearing fund calculation and the securities settlement risk component of the clearing fund calculation each takes into account the average of a member's settlement activity over the most recent twenty business days. To better take into account the exposure presented by a member during periods of relatively high volume and activity (e.g., quarterly refunding periods), each calculation will be changed to take into account the average of a member's most active ten days over the most recent seventy-five business days.¹³

(c) *Clearing Fund Calculations Will Anticipate the Settlement of the Current Day's Activities.*

The current clearing fund formula for any particular day fails to take into account the fact that certain trades that comprise net settlement positions are scheduled to settle on that day and that their settlement will change the nature of those positions. In this sense, the

¹³ This change will be made to both the general rules on clearing fund deposits and the specific rules for Category 2 dealer netting members and Category 2 futures commission merchants.

clearing fund adjusts to the changing nature of a member's net settlement positions one business day late.

To adjust for this, the clearing fund formula will be modified to anticipate any exposure resulting from the clearance of the present day's settlement transactions. Specifically, a member's outstanding net settlement positions for clearing fund purposes will be calculated alternately by disregarding and including the amount of securities underlying positions that are scheduled to settle that day. Thus, the portion of the clearing fund formal that reflects securities settlement exposure will be calculated by taking the average offset margin amount¹⁴ or, if greater, the greatest of the following three calculations: (1) Fifty percent of that day's gross margin amount, (2) one hundred percent of that day's offset margin amount calculated by disregarding the amount of securities underlying such positions that are scheduled to settle that day, or (3) one hundred percent of that day's offset margin amount calculated as it is today.¹⁵

The calculation of the securities settlement exposure for a Category 2 dealer netting member or a Category 2 futures commission merchant netting member also is being revised to require such member to deposit the greatest of (1) such member's average gross margin amount based on the average of the ten most active days over the most recent seventy-five days, (2) such member's gross margin amount, or (3) such member's gross margin amount calculated by disregarding positions settling that day.

(d) *Addition of Repo Rate Volatility.*

A new component of the clearing fund formula will reflect the historical daily volatility in repo rates and its impact on the financing component of net settling positions involving repo activity. Specifically, GSCC will apply a set of percentages ("repo volatility factors") to repos that constitute net settlement positions as necessary to cover the securities' settlement exposure posed by such repo activity. These percentages will be derived based on GSCC's research, which has been conducted with the assistance of its

members, on historical repo rate volatility including repo market participants' analytics and raw data itself. GSCC is building and will maintain its own data base on the historical daily volatility of repo rates.

A member will be required to add to its clearing fund requirement the greater of (1) the product of the repo volatility factors and the market value of the member's repo transactions reduced by offsetting short and long positions based on maturity date and par amount ("offset repo volatility amount") or (2) the average of a member's ten highest offset repo volatility amounts over the most recent seventy-five days.

(e) *Return of Excess Clearing Fund.*

Participants will have the ability to submit requests for the return of excess collateral on a monthly basis, as opposed to on a quarterly basis. This change is being made for a number of reasons. One is to help position GSCC to better accommodate market initiatives such as NSCC's Collateral Management Service, which facilitates market participants' management of their margin balances at clearing organizations and which ultimately will allow those market participants to move margin amounts from one clearing organization to another in an automated fashion. This change also responds to members' requests to make excess funds available more frequently.

(9) *Loss Allocation*

GSCC conducted an extensive review of its loss allocation procedures in conjunction with repo netting implementation and determined that the existing loss allocation procedures remain adequate and appropriate. Loss allocation, whether related to regular buy/sell activity or repo activity, will continue to be a function of the extent of a member's activity with the defaulting member done prior to the default.

(10) *Obligation to Submit Trades*

GSCC will amend its Rule 11, Section 3, to state that such rule, which requires a netting member to submit all eligible trades to GSCC for comparison and netting, is not applicable to a netting member's repo transactions. Rule 18, Section 4, will be added to require a repo netting member to submit for comparison and netting all repo trades eligible for netting to either GSCC, another Commission registered clearing agency, or to a clearing agency exempted by the Commission from clearing agency registration.

GSCC believes that the proposed rule changes are consistent with the requirements of Section 17A of the Act

and specifically with 17A(b)(3)(A) and (F)¹⁶ because the proposed rule changes will allow GSCC to expand in a prudent manner its existing netting, settlement, and risk management services to a broader range of Government securities transactions and thus will facilitate the prompt and accurate clearance and settlement of securities transactions.

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

GSCC does not believe that the proposed rule 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

Comments on the proposed rule change have not yet been solicited or received. Members will be notified of the rule 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

(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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street N.W., Washington, DC 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

¹⁴ The offset margin amount is the gross margin (the dollar value of a member's net settlement positions multiplied by the appropriate margin factors) as reduced by offsetting short and long positions based on maturity date and par amount. The average offset margin, as discussed above in (b), will take the average of offset margin from the ten most active days over the previous seventy-five days.

¹⁵ Currently, securities settlement exposure is calculated as the greater of the average offset margin amount or 50% of the gross margin amount.

¹⁶ 15 U.S.C. 78q-1(b)(3) (A) and (F) (1988).

available for inspection and copying in the Commission's Public Reference Section, 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 GSCC. All submissions should refer to File No. SR-GSCC-95-02 and should be submitted by October 17, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-23760 Filed 9-25-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36248; File No. SR-PHLX-95-39]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to Increasing the Maximum Size of Options Orders Eligible for Automatic Execution

September 19, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on August 21, 1995, the Philadelphia Stock Exchange, Inc. ("PHLX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. 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

Generally, public customer market and marketable limit orders for up to 25 option contracts are eligible for execution through the automatic execution ("AUTO-X") feature of the PHLX's Automated Options Market ("AUTOM") system.¹ The PHLX proposed to increase the maximum AUTO-X order size eligibility for public customer market and marketable limit orders for all equity and index options from 25 contracts to 50 contracts.

The text of the proposed rule change is available at the Office of the

Secretary, PHLX, and at the Commission.

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 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. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

The purpose of the proposal is to increase the maximum order size eligibility for AUTO-X from 25 to 50 contracts. The PHLX notes that this number represents the maximum size of a permissible AUTO-X order, which is determined by the specialist in that option. Under the 10-up rule,² the minimum size of the Exchange's AUTO-X guarantee is 10 contracts.

AUTOM, which has operated on a pilot basis since 1988 and was most recently extended through December 31, 1995,³ is the PHLX's electric order routing, delivery, execution and

² See PHLX Rule 1033(a), "Size of Bid/Offer and 10-up Guarantee."

³ See Securities Exchange Act Release No. 35183 (December 30, 1994), 60 FR 2420 (January 9, 1995) (order approving File No. SR-PHLX-94-41). See also Securities Exchange Act Release Nos. 25540 (March 31, 1988), 53 FR 11390 (order approving AUTOM on a pilot basis); 25868 (June 30, 1993), 53 FR 35563 (order approving File No. SR-PHLX-88-22, extending pilot through December 31, 1988); 26354 (December 13, 1988), 53 FR 51185 (order approving File No. SR-PHLX-88-33, extending pilot program through June 30, 1989); 26522 (February 3, 1989), 54 FR 6465 (order approving File No. SR-PHLX-89-1, extending pilot through December 31, 1989); 27599 (January 9, 1990), 55 FR 1751 (order approving File No. SR-PHLX-89-03, extending pilot through June 30, 1990); 28625 (July 26, 1990), 55 FR 31274 (order approving File No. SR-PHLX-90-16, extending pilot through December 31, 1990); 28978 (March 15, 1991), 56 FR 12050 (order approving File No. SR-PHLX-90-34, extending pilot through December 31, 1991); 29662 (September 9, 1991), 56 FR 46816 (order approving File No. SR-PHLX-91-31, permitting AUTO-X orders up to 20 contracts in Duracell options only); 29837 (October 18, 1991), 56 FR 36496 (order approving File No. SR-PHLX-91-33, increasing size of AUTO-X orders from 10 contracts to 20 contracts); 32906 (September 15, 1993), 58 FR 15168 (order approving File No. SR-PHLX-92-38, permitting AUTO-X orders up to 25 contracts in all options); and 33405 (December 30, 1993), 59 FR 790 (order approving File No. SR-PHLX-93-57, extending pilot through December 31, 1994).

reporting system for equity and index options. AUTOM is an on-line system that allows electronic delivery of options orders from member firms directly to the appropriate specialist on the Exchange's trading floor.

Certain orders are eligible for AUTOM's automatic execution feature, AUTO-X.⁴ AUTO-X orders are executed automatically at the disseminated quotation price on the Exchange and reported to the originating firm. Orders that are not eligible for AUTO-X are handled manually by the specialist.

The Commission approved the use of AUTO-X as part of the AUTOM pilot program in 1990.⁵ In 1991, the Commission approved a PHLX proposal to extend AUTO-X to all equity options.⁶ As noted earlier, orders for up to 500 contracts are eligible for AUTOM and orders for up to 25 contracts, in general, are eligible for AUTO-X.

The PHLX believes that the proposed expanded AUTO-X parameter should improve the AUTOM system by offering the benefits of AUTO-X, including prompt and efficient automatic executions at the displayed price, to additional customer orders. The Exchange states that the proposed AUTO-X increase from a maximum of 25 to 50 contracts is in line with prior changes. For example, the PHLX notes that the Commission previously has approved other PHLX proposals to increase the maximum AUTO-X contract size limit.⁷

Further, the Exchange believes that it is appropriate to permit automatic executions of option orders up to 50 contracts for several reasons. First, the PHLX states that AUTO-X affords each order the opportunity for price improvement, such that the price discovery mechanism is not impaired. Specifically, AUTO-X orders, although immediately reported with the best bid/offer as the execution price, may be subject to price improvement by the specialist, if a better bid/offer is

⁴ Orders for up to 500 contracts are eligible for AUTOM and public customer orders for up to 25 contracts, in general, are eligible for AUTO-X. See Securities Exchange Act Release Nos. 35782 (May 30, 1995), 60 FR 30136 (June 7, 1995) (order approving File No. SR-PHLX-95-30); and 32000 (March 15, 1993), 58 FR 15168 (March 19, 1994) (order approving File No. SR-PHLX-92-38). As noted above, public customer orders for up to 50 contracts in TPX options are eligible for AUTO-X. See Securities Exchange Act Release No. 35781, *supra* note 1.

⁵ See Securities Exchange Act Release No. 27599 (January 9, 1990), 55 FR 1751 (January 18, 1990) (order approving File No. SR-PHLX-89-03).

⁶ See Securities Exchange Act Release No. 28978 (March 15, 1991), 56 FR 12050 (March 21, 1991) (order approving File No. SR-PHLX-90-34).

⁷ See Securities Exchange Act Release No. 29837, *supra* note 3.

¹⁷ 17 CFR 200.30-3(a)(12) (1994).

¹ For USTOP 100 Index ("TPX") options, public customer market and marketable limit orders for up to 50 contracts are eligible for AUTO-X. See Securities Exchange Act Release No. 35781 (May 30, 1995), 60 FR 30131 (June 7, 1995) (File No. SR-PHLX-95-29).