

purposes of the Act. In reviewing this filing, the Commission considered the proposal's impact on efficiency, competition, and capital formation.⁵

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. 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 submissions, 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 persons, 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 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 the Exchange. All submissions should refer to File No. SR-BSE-98-4 and should be submitted by May 22, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Jonathan G. Katz,

Secretary.

[FR Doc. 98-11566 Filed 4-30-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39920; File No. SR-DCC-98-01]

Self-Regulatory Organizations; Delta Clearing Corp.; Order Granting Approval of a Proposed Rule Change to Permit the Use of Mortgage Backed Securities as Margin Collateral

April 27, 1998.

On January 5, 1998, Delta Clearing Corp. ("Delta") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-DCC-98-01) pursuant to Section 19(b)(1) of the Securities

Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on February 25, 1998.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

Delta's participants may clear and settle repurchase and reverse repurchase agreements in both treasury securities³ ("treasury repos") and in mortgage backed securities⁴ ("mortgage backed repos") through Delta's system. Some participants only clear and settle mortgage backed repos through Delta. Because Delta currently only accepts federal funds⁵ or treasury securities as margin collateral, these participants incur an additional cost associated with obtaining treasury securities for purposes of supplying margin collateral. Because these participants already possess mortgage backed securities related to the transactions they are clearing through Delta, it would be a more straightforward process for them to honor their margin obligations with these mortgage backed securities.

Delta has stated its belief that with appropriate haircuts, the acceptance of margin in the form of mortgage backed securities should pose no additional risk to the system. Delta notes that the Commission under its net capital rule generally applies the same haircuts to treasury securities and mortgage backed securities.⁶ Consistent with Delta's

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 39684 (February 19, 1998), 63 FR 9621.

³ Treasury securities are defined in Delta's procedures as a treasury bill, treasury bond or treasury note issued by the United States Department of the Treasury.

⁴ Mortgage backed securities are defined in Delta's procedures as book entry securities directly issued by the Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC"), as applicable, through its mortgage origination program, and which is designed to receive principal payments using a predetermined principal balance schedule. A mortgage security may either be a fixed rate mortgage security or an adjustable rate mortgage security. All of the following securities are excluded from the definition of mortgage securities: (i) securities which are issued in registered or bearer form, (ii) securities which are not transferable through the Federal Reserve System, (iii) securities which are not issued or guaranteed directly by FNMA or FHLMC, (iv) securities where the underlying assets are mortgage backed securities, rather than a pool of mortgages, and (v) notional, interest only, principal only, accrual and partial accrual securities, and floaters and inverse floaters.

⁵ Federal funds are defined in Delta's procedures as cash balances available for immediate withdrawal in accounts maintained at banks that are members of the Federal Reserve system.

⁶ Section 3(a)(42)(B) of the Act defines government securities to include securities which

treatment of treasury securities used for margin collateral, Delta will value mortgage backed securities in accordance with the schedule of applicable haircuts found in the Commission's uniform net capital rule.⁷ Furthermore, Delta notes that its clearing bank, The Bank of New York, will accept mortgage backed securities from Delta without further haircuts.

II. Discussion

Section 17A(b)(3)(F) of the Act⁸ requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that the rule change is consistent with Delta's obligations under the Act. The rule change should encourage wider use of Delta's system by providing participants with the ability to more efficiently and more economically meet their margin requirements. The revised margin collateral procedures should especially encourage more use of Delta's system by those participants that only clear and settle mortgage backed repos by allowing these participants to honor their margin obligations with mortgage backed securities they possess. Wider use of Delta's system should assist Delta in promoting the prompt and accurate clearance and settlement of securities transactions.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DCC-98-01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Jonathan G. Katz,

Secretary.

[FR Doc. 98-11653 Filed 4-30-98; 8:45 am]

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are issued or guaranteed by corporations in which the United States has a direct or indirect interest and which are designated by the Secretary of the Treasury for exemption as necessary or appropriate in the public interest or for the protection of investors. The Department of Treasury has designated securities issued by FNMA and by FHLMC as exempt. Notice issued by the Department of Treasury (October 7, 1987), 52 FR 38559.

⁷ Rule 15c3-1(c)(2)(vi)(A)(I), 17 CFR 240.15c3-1(c)(2)(vi)(A)(I).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 17 CFR 200.30-3(a)(12).

⁵ See 15 U.S.C. 78c(f).

⁶ 17 CFR 200.30-3(a)(12).