

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-49491; File No. SR-SCCP-2001-09)

March 29, 2004

Self-Regulatory Organizations; Stock Clearing Corporation of Philadelphia; Order Approving a Proposed Rule Change Relating to Establishing Risk Management Procedures for Short Settlement Transactions

On August 30, 2001, the Stock Clearing Corporation of Philadelphia (“SCCP”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change File No. SR-SCCP-2001-09 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and on October 9, 2001,² and September 20, 2002,³ amended the proposed rule change. Notice of the proposal was published in the Federal Register on January 27, 2004.⁴ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change will require SCCP specialists and alternate specialists (“SCCP margin members”) to comply with certain new procedures when they engage in short settlement

¹ 15 U.S.C. 78s(b)(1).

² In October 2001, SCCP filed Amendment No. 1 to its original filing in order to replace its request for immediate effectiveness under Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) with a request for approval pursuant to Section 19(b)(2). Amendment No. 1 also revised SCCP Rule 9 to reflect the addition of the schedule for late margin call payments which had previously been approved by the Commission in another SCCP rule filing. Securities Exchange Act Release No. 44722 (Aug. 20, 2001), 66 FR 44661 (Aug. 24, 2001) [SR-SCCP-2001-04].

³ In September 2002, SCCP filed Amendment No. 2 to its original filing whereby SCCP added the requirement that the SCCP Operations Committee or Board of Directors shall determine whether additional margin will be required prior to the settlement date for short settlement transactions.

⁴ Securities Exchange Act Release No. 49079 (Jan. 14, 2004), 69 FR 3988.

transactions.⁵ Specifically, SCCP will add supplementary material to Rule 9 to require a SCCP margin member to notify SCCP on trade date (“T”) whenever the SCCP margin member executes a short settlement transaction. This will enable SCCP to verify the SCCP margin member’s net capital and net settlement cap, and to allow SCCP to calculate any net settlement obligations to the National Securities Clearing Corporation (“NSCC”). The new rule establishes a cap on net settlement obligations undertaken by any SCCP margin member of two times net capital. On the day after the trade date (“T+1”), SCCP will notify the SCCP margin member of any settlement obligations to NSCC exceeding the net settlement cap or whether the SCCP Board of Directors or Operations Committee has decided, in its sole discretion, that SCCP will finance the increased settlement obligations on behalf of the SCCP margin member.

Under the rule change, a SCCP margin member must obtain approval from the SCCP Board of Directors or Operations Committee to continue carrying any transactions having an aggregate value above the net settlement cap. A SCCP margin member may only carry a short settlement transaction with an aggregate value above the net settlement cap until the clearance and settlement of such transaction with NSCC. The SCCP Board of Directors or Operations Committee shall determine, in its sole discretion, whether SCCP will finance the short settlement transaction in excess of the margin member’s net settlement cap. If the SCCP Board of Directors or Operations Committee, as the case may be, determines that SCCP will not finance such short settlement transaction, the SCCP margin member shall be required to pay 100 percent of its

⁵ As defined in SCCP’s proposed rule, “a short settlement transaction occurs when, for example, the buy (or sell) side of the trade (“opening transaction”) settles on T+1 or T+2 and the sell (or buy) side of the trade (“covering transaction”) settles on T+2 or T+3.”

settlement obligations to SCCP above the net settlement cap. In this manner, SCCP will satisfy its obligations to NSCC for the additional clearing funds caused by a net settlement transaction.

The SCCP margin member shall have until 3:00 p.m. eastern time on the date following the initial notification (T+2) to provide sufficient funds to cover 100 percent of the settlement obligations above its net settlement cap. The net settlement cap related provisions are intended to require any SCCP margin member who executes a short settlement transaction to bear the credit risk from such transaction and to decrease associated risks to SCCP. Finally, the rule change reminds SCCP margin members that SCCP has the authority to initiate a disciplinary proceeding or to cease to act on behalf of such SCCP margin member if sufficient funds are not provided by the T+2 deadline. These provisions currently appear in SCCP Rules 9 and 15.

II. Discussion

Section 17A(b)(3)(F) of the Act⁶ requires, among other things, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds that are in the custody or control of the clearing agency or for which it is responsible. The Commission finds that the proposed rule change is consistent with this requirement because the new procedures should help protect SCCP from the credit risk and settlement risk associated with SCCP margin members' short settlement transactions. In the absence of explicit risk management procedures, SCCP would otherwise potentially face unlimited credit risk with its lending institutions and settlement risk in connection with its clearance and settlement of transactions with NSCC.

III. Conclusion

⁶ 15 U.S.C. 78q-1(b)(3)(F).

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁷ 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-SCCP-2001-09) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland
Deputy Secretary

⁷ 15 U.S.C. 78q-1.

⁸ 17 CFR 200.30-3(a)(12).