

and Exchange Commission ("Commission") is soliciting comments on the collection of information summarized below. The Commission plans to submit this existing collection of information to the Office of Management and Budget for extension and approval.

Rule 11Ab2-1 (Form of Application and Amendments) and Form SIP establish the procedures by which a Securities Information Processor ("SIP") files and amends its SIP registration form. The information filed with the Commission pursuant to Rule 11Ab2-1 and Form SIP is designed to provide the Commission with the information necessary to make the required findings under the Securities Exchange Act of 1934 ("Act") before granting the SIP's application for registration. In addition, the requirement that a SIP file an amendment to correct any inaccurate information is designed to assure that the Commission has current, accurate information with respect to the SIP. This information is also made available to members of the public.

Only exclusive SIPs are required to register with the Commission. An exclusive SIP is a SIP that engages on an exclusive basis on behalf of any national securities exchange or registered securities association, or any national securities exchange or registered securities association which engages on an exclusive basis on its own behalf, in collecting, processing, or preparing for distribution or publication, any information with respect to (i) transactions or quotations on or effective or made by means of any facility of such exchange or (ii) quotations distributed or published by means of any electronic quotation system operated by such association. The Federal securities laws require that before the commission may approve the registration of an exclusive SIP, it must make certain mandatory findings. It takes a SIP applicant approximately 400 hours to prepare documents which include sufficient information to enable the Commission to make those findings. Currently, there are only two exclusive SIPs registered with the Commission: The Securities Information Automation Corporation ("SIAC") and The Nasdaq Stock Market, Inc. ("Nasdaq"). SIAC and Nasdaq are required to keep the information on file with the Commission current, which entails filing a form SIP annually to update information. Accordingly, the annual reporting and recordkeeping burden for Rule 11Ab2-1 and Form SIP is 400 hours. This annual reporting and recordkeeping burden does not include the burden hours or cost of amending a

Form SIP because the Commission has already overstated the compliance burdens by assuming that the Commission will receive one initial registration pursuant to Rule 11Ab2-1 on Form SIP a year.

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Michael E. Bartell, Associate Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 5th Street, N.W. Washington, DC 20549.

Dated: February 13, 2002.

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

[FR Doc. 02-4168 Filed 2-20-02; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45438; File No. SR-GSCC-2002-01]

### Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Establish a Cross-Margining Program With BrokerTec Clearing Company, L.L.C.

February 13, 2002.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 18, 2002, 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. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

GSCC is seeking to establish a cross-margining program with BrokerTec Clearing Company, L.L.C. ("BCC").

### 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 these statements.<sup>2</sup>

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

On August 19, 1999, the Commission approved GSCC's proposed rule filing to establish a cross-margining program with other clearing organizations and to begin its program with the New York Clearing Corporation ("NYCC"). The GSCC-NYCC cross-margining program was implemented on February 25, 2000.<sup>3</sup> GSCC subsequently submitted a rule filing to the Commission to establish a similar cross-margining program with the Chicago Mercantile Exchange ("CME"). That program was approved on May 11, 2001.<sup>4</sup> On January 25, 2002, the Commission approved a cross-margining program between GSCC and the Board of Trade Clearing Corporation ("BOTCC").<sup>5</sup> GSCC is now seeking to establish a similar cross-margining program with BCC.

BCC is the affiliated clearing organization for futures transactions

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

<sup>3</sup> Securities Exchange Act Release No. 41766 (August 19, 1999), 64 FR 46737 (August 26, 1999) [File No. SR-GSCC-98-04]. The requisite rule changes necessary for GSCC to engage in cross-margining programs with other clearing organizations were made in the NYCC cross-margining rule filing.

<sup>4</sup> Securities Exchange Act Release No. 44301 (May 11, 2001), 66 FR 28207 (May 22, 2001) [File No. SR-GSCC-00-13]. In addition to approving GSCC's cross-margining program with the CME, the order granted approval to change GSCC Rule 22, Section 4, to clarify that before GSCC credits an insolvent member for any profit realized on the liquidation of the member's final net settlement positions, GSCC will fulfill its obligations with respect to that member under cross-margining agreements.

<sup>5</sup> Securities Exchange Act Release No. 45335 (January 25, 2002), 67 FR 4768 (January 31, 2001) [File No. SR-GSCC-2001-03].

executed on BrokerTec Futures Exchange, L.L.C. ("BTEX"). On June 18, 2001, the Commodities Futures Trading Commission approved the application of BTEX for contract market designation and approved registration of BCC as a derivatives clearing organization. BCC currently clears futures contracts on U.S. Treasury securities traded on BTEX.<sup>6</sup> It is expected that, in the future, BTEX intends to offer trading in other U.S. fixed-income futures contracts and options on futures contracts traded on BTEX. BCC will provide clearing services for these products.

#### A. GSCC's Cross-Margining Program

GSCC believes that the most efficient and appropriate approach for establishing cross-margining links for fixed-income and other interest rate products is to do so on a multilateral basis with GSCC as the "hub." Each clearing organization that participates in a cross-margining program with GSCC ("Participating CO") enters into a separate cross-margining agreement between itself and GSCC, as in the case of NYCC, CME, BOTCC, and now proposed for BCC. Each of the agreements do and will continue to have similar terms, and no preference will be given by GSCC to one Participating CO over another. Under GSCC's arrangement, cross-margining occurs between GSCC and each Participating CO and not between Participating COs.

Cross-margining is available to any GSCC netting member (with the exception of inter-dealer broker netting members) that is or that has an affiliate that is a member of a Participating CO. Any such member (or pair of affiliated members) may elect to have its margin requirements at both clearing organizations calculated based upon the net risk of its cash and repo positions at GSCC and its offsetting and correlated positions in certain futures contracts carried at the Participating CO. Cross-margining is intended to lower the cross-margining member's (or pair of affiliated members') overall margin requirement, as inter-market hedges are taken into consideration in the margining process. The GSCC member (and its affiliate, if applicable) sign an agreement under which it (or they) agree to be bound by the cross-margining agreement between GSCC and the Participating CO and which allows GSCC or the Participating CO to apply the member's (or its affiliate's) margin collateral to satisfy any obligation of GSCC to the Participating CO or the

Participating CO to GSCC that results from a default of the member (or its affiliate).

Margining based on the combined net risk of correlated positions is based on an arrangement under which GSCC and each Participating CO agree to accept the offsetting correlated positions in lieu of supporting collateral. Under this arrangement, each clearing organization holds and manages its own positions and collateral and independently determines the amount of margin that it will collect from its member and that it will make available for cross-margining. This available margin is referred to as the "residual margin amount."<sup>7</sup>

GSCC computes the amount by which the cross-margining member's margin requirement can be reduced at each clearing organization by comparing the member's positions and the related margin requirements at GSCC against those submitted to GSCC by each Participating CO. This reduction amount is referred to as the "cross margin reduction." GSCC offsets each cross-margining member's residual margin amount (based on related positions) at GSCC against the offsetting residual margin amounts of the member (or its affiliate) at each Participating CO. If, within a given pair of offset classes, the margin that GSCC has available for a participant is greater than the combined margin submitted by the Participating COs, GSCC will allocate a portion of its margin equal to the combined margin at the Participating COs. If, within a given pair of offset classes, the combined margin submitted by the Participating COs is greater than the margin that GSCC has available for that member, GSCC will first allocate its margin to the Participating CO with the most highly correlated position. If, within a given pair of offset classes, the positions are equally correlated, GSCC will allocate pro rata based upon the residual margin amount submitted by each Participating CO. GSCC and each Participating CO may then reduce the amount of collateral that they collect to reflect the offsets between the cross-margining member's positions at GSCC and its (or its affiliate's) positions at the Participating CO(s).<sup>8</sup> In the event of the default and liquidation of a cross-

margining participant, the loss sharing between GSCC and each of the Participating COs will be based upon the foregoing allocations and the cross-margin reduction.

GSCC will guarantee the cross-margining member's (or its affiliate's) performance to each Participating CO up to a specified maximum amount based on the loss sharing formula contained in the Cross-Margining Agreement. Each Participating CO will provide the same guaranty to GSCC. The amount of the guarantee is the lowest of: (1) The cross-margin loss of the worse off party; (2) the higher of the cross-margin reduction or the cross-margin gain of the better off party; (3) the amount required to equalize the parties' cross-margin results; or (4) the amount by which the cross-margining reduction exceeds the better off party's cross-margin loss if both parties have cross-margin losses.

#### B. Information Specific to the Current Agreement Between GSCC and BCC

1. *Participation in the cross-margining program:* Any netting member of GSCC other than an inter-dealer broker will be eligible to participate.<sup>9</sup> Any clearing member of BCC will be eligible to participate.<sup>10</sup>

2. *Products subject to cross-margining:* The products that will be eligible for the GSCC-BCC cross-margining program are the Treasury and non-mortgage-backed Agency securities of certain remaining maturities that fall into GSCC's Offset Classes A through G and a through g as defined in the cross-margining agreement that are cleared by GSCC and the 2-year Note, 5-year Note, 10-year Note, and the 30-year Bond futures contracts cleared by BCC.<sup>11</sup> In addition, it is anticipated that the GSCC products specified above will be cross-margining with the 5-year and 10-year Agency futures and options on futures when these products are traded on the BTEX and cleared by BCC.<sup>12</sup> All eligible positions maintained by a cross-margining member in its account at GSCC and in its (or its affiliate's) proprietary account at BCC will be

<sup>9</sup> Because inter-dealer brokers should not and generally do not have positions at GSCC at the end of the day, they should have no margin requirement to be reduced.

<sup>10</sup> The GSCC-BCC cross-margining agreement requires ownership of 50 percent or more of the common stock of an entity to be deemed "control" of that entity for purposes of the definition of "affiliate."

<sup>11</sup> GCF Repo products will not be included in the program.

<sup>12</sup> GSCC will notify the Commission when additional securities are added to the cross-margining program.

<sup>7</sup> The residual margin amount is the long margin amount or the short margin amount in each offset class that is available for cross-margining after all internal offsets are conducted within and between offset classes at a particular clearing organization.

<sup>8</sup> GSCC and each Participating CO unilaterally have the right not to reduce a member's margin requirement by the cross-margin reduction or to reduce it by less than the cross-margin reduction. However, the clearing organizations may not reduce a participant's margin requirement by more than the cross-margin reduction.

<sup>6</sup> Currently, BTEX offers trading in futures contracts on the 5-year Note, 10-year Note, and 30-year Bond.

eligible for cross-margining.<sup>13</sup> An appropriate disallowance factor<sup>14</sup> based on correlation studies and a minimum margin factor<sup>15</sup> will be applied.<sup>16</sup>

3. *Margin Rates:* Margin reductions in the GSCC-BCC cross-margining program will always be computed based on the lower of GSCC's and BCC's margin rates. This methodology results in potentially less benefits to the members but ensures a more conservative result (*i.e.*, more collateral held at the clearing organization) for both GSCC and the Participating COs.

4. *Daily Procedures:* On each business day, it is expected that BCC will inform GSCC of the residual margin amounts it is making available for cross-margining by approximately 10:30 p.m. New York time. GSCC will inform BCC by approximately 12:30 a.m. New York time of how much of these residual margin amounts it will use (*i.e.*, the cross-margining reduction). The actual reductions which may be no greater than the cross-margining reduction, will be reflected in the daily clearing fund calculation.

#### C. Benefits of Cross-Margining

GSCC believes that its cross-margining program enhances the safety and soundness of the settlement process for the Government securities marketplace by: (1) Providing clearing organizations with more data concerning members' intermarket positions (which is especially valuable during stressed market conditions) to enable them to make more accurate decisions regarding the true risk of such positions to the clearing organizations; (2) allowing for enhanced sharing of collateral resources; and (3) encouraging coordinated liquidation processes for a joint member, or a member and its affiliate, in the event of an insolvency.

<sup>13</sup> The GSCC-BCC cross-margining program will be applicable, on the futures side, only to positions in a proprietary account of a cross-margining member (or its affiliate) at BCC. Positions in a customer account at BCC that would be subject to segregation requirements under the Commodity Exchange Act will not be included in the program. This is also the case with respect to the arrangements with NYCC, CME, and BOTCC.

<sup>14</sup> The disallowance factor is the haircut reflective of the correlation analysis done by GSCC for each offset class.

<sup>15</sup> The minimum margin factor is the contractually agreed upon cap on the amount of the margin reduction that the clearing organizations will allow. (In some of the documents submitted by GSCC, the minimum margin factor is referred to as the minimum disallowance factor.) Initially, the GSCC-BCC cross-margining program will employ a 25% minimum margin factor. Should GSCC decide to change the minimum margin factor, it will submit a proposed rule filing under Section 19(b) of the Act.

<sup>16</sup> GSCC will review the cross-margining parameters on a yearly basis unless market events dictate the need for more frequent reviews.

GSCC further believes that cross-margining benefits participating clearing members by providing members with the opportunity to more efficiently use their collateral. More important from a regulatory perspective, however, is that cross-margining programs have long been recognized as enhancing the safety and soundness of the clearing system itself. Studies of the October 1987 market break gave support to the concept of cross-margining. For example, The Report of the President's Task Force on Market Mechanisms (January 1988) noted that the absence of a cross-margining system for futures and securities options markets contributed to payment strains in October 1987. The Interim Report of the President's Working Group on Financial Markets (May 1988) also recommended that the SEC and CFTC facilitate cross-margining programs among clearing organizations. This resulted in the first cross-margining arrangement between clearing organizations which was approved in 1988.<sup>17</sup>

GSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>18</sup> and the rules and regulations thereunder applicable to GSCC because it will provide members with significant benefits such as greater liquidity and more efficient use of collateral in a prudent manner and will enhance GSCC's overall risk management process.

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

GSCC does not believe that the proposed rule change will have any impact or impose any burden on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. 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, 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, NW., Washington, DC 20549-0609. 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 Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of GSCC.

All submissions should refer to File No. SR-GSCC-2002-01 and should be submitted by March 8, 2002.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>19</sup>

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

[FR Doc. 02-4170 Filed 2-20-02; 8:45 am]

**BILLING CODE 8010-01-P**

<sup>17</sup> Securities Exchange Act Release No. 26153 (October 3, 1988), 53 FR 39567 (October 7, 1988) [File No. SR-OCC-86-17] (order approving cross-margining program between OCC and The Intermarket Clearing Corporation).

<sup>18</sup> 15 U.S.C. 78q-1.

<sup>19</sup> 17 CFR 200.30-3(a)(12).