

## SECURITIES AND EXCHANGE COMMISSION

### Sunshine Act Meeting

Notice is hereby given, pursuant to the provisions of the Government in the Sunshine Act, Pub. L. 94-409, that the Securities and Exchange Commission will hold the following meetings during the week of September 10, 2001:

Closed meetings will be held on Tuesday, September 11, 2001, at 10:00 a.m. and Friday, September 14, 2001, at 11:30 a.m.

Commissioner Hunt, as duty officer, determined that no earlier notice thereof was possible.

Commissioners, Counsel to the Commissioners, the Secretary to the Commission, and recording secretaries will attend the closed meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c)(5), (7), (8), (9)(A), 9(B), and (10) and 17 CFR 200.402(a)(5), (7), (8), (9)(i), 9(ii) and (10), permit consideration of the scheduled matters at the closed meeting.

The subject matters of the closed meeting scheduled for Tuesday, September 11, 2001, and Friday, September 14, 2001, will be:

- Institution and settlement of injunctive actions;
- Institution and settlement of administrative proceedings of an enforcement nature;
- Formal orders; and an
- Inspection report.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact the Office of the Secretary at (202) 942-7070.

Dated: September 6, 2001.

**Jonathan G. Katz,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44766; File No. SR-GSCC-2001-03]

### Self-Regulatory Organizations; Government Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Establish a Cross-Margining Agreement with the Board of Trade Clearing Corporation

September 5, 2001.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on April 4, 2001, 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.

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

GSCC is seeking to establish a cross-margining arrangement with the Board of Trade Clearing Corporation ("BOTCC").

#### 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").<sup>3</sup> More

recently, the Commission approved GSCC's proposed rule filing to establish a similar cross-margining program with the Chicago Mercantile Exchange ("CME").<sup>4</sup> GSCC is now seeking to establish a similar cross-margining arrangement with the Board of Trade Clearing Corporation.<sup>5</sup>

This development is significant because the Chicago Board of Trade, for which BOTCC clears, is by far the largest Treasury futures exchange market, and certain of its products, such as the 10-Year Note futures contract, which will be cross-margined with GSCC products, continue to experience growth in volume. Thus, establishing the cross-margining program between GSCC and BOTCC has the potential to provide significant collateral savings to the industry in general and to GSCC's and BOTCC's common members in particular. From each clearing organization's perspective, the cross-margining program will provide important risk management benefits. These benefits include such things as providing the clearing organizations with more data concerning members' intermarket positions to enable them to make more accurate decisions regarding the true risk of the positions to the clearing organizations and encouraging coordinated liquidation processes for a joint participant, or a participant and its affiliate, in the event of an insolvency.<sup>6</sup>

##### (i) GSCC's Cross-Margining Program

GSCC believes that the most efficient and appropriate approach for establishing cross-margining programs for fixed-income and other interest rate products is to do on a multilateral basis with GSCC as the "hub." Each clearing organization that participates in a cross-margining program with GSCC (hereinafter a "Participating CO") enters into a separate cross-margining agreement between itself and GSCC, as

margin 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> BOTCC is a Delaware corporation that acts as the clearing organization for certain futures contracts and options on futures contracts that are traded on the Chicago Board of Trade and that are regulated by the Commodity Futures Trading Commission.

<sup>6</sup> The GSCC-BOTCC cross-margining agreement requires ownership of 50 percent or more of the common stock of an entity to indicate control of the entity for purposes of the definition of "affiliate".

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

<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-

in the case of NYCC, CME, and now BOTCC. Each of the agreements will have similar terms and no preference will be given by GSCC to one Participating CO over another.

Cross-margining is available to any GSCC netting member (with the exception of interdealer 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 of its offsetting and correlated positions in related contracts carried at the Participating CO. Cross-margining is intended to lower the cross-margining participant's (or pair of affiliated members') overall margin requirement. The GSCC member (and its affiliate, if applicable) will 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 vice versa) that results from a default of the member (or its affiliate).

Margining based on the net combined risk of correlated positions is based on an arrangement under which GSCC and each Participating CO agree to accept the 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 make available for cross-margining, referred to as the "residual margin amount."

GSCC computes the amount by which the cross-margining participant's margin requirement can be reduced at each clearing organization (*i.e.*, the "cross margin reduction") by comparing the participant's positions and the related margin requirements at GSCC as against those at each Participating CO. GSCC offsets each cross-margining participant's residual margin amount at GSCC against the offsetting residual margin amounts of the participant (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 participant, GSCC will first allocate its margin to the Participating CO with the most highly correlated position.<sup>7</sup> If, within a given pair of offset classes, the positions are equally correlated, GSCC will allocate pro rata based upon the residual margin amount available at 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 participant's positions at GSCC and its (or its affiliate's) positions at the Participating CO.<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 participant's (or its affiliate's) performance to each Participating CO up to a specified maximum amount which relates back to the cross-margin reduction, and each Participating CO will provide the same guaranty up to the same specified maximum amount to GSCC. The guaranty represents a contractual commitment that each clearing organization has to the other. There will always be a cap on the amount that one clearing organization is required to pay to the other clearing organization.

(ii) Information Specific to the Current Agreement between GSCC and BOTCC

(a) *Participation in the cross-margining program:* Any netting member of GSCC other than an interdealer broker will be eligible to participate. Any clearing member of BOTCC will be eligible to participate.

(b) *Products subject to cross-margining:* The products that will be eligible for the GSCC-BOTCC cross-margining arrangement are the Treasury securities of certain remaining maturities that fall into GSCC's Offset Classes C, E, F, and G as defined in GSCC's Rules that are cleared by GSCC and the 2-Year Note, 5-Year Note, 10-Year Note and the U.S. Treasury Bond futures contracts and options on these futures contracts that are cleared by

BOTCC.<sup>9</sup> Initially, as a conservative measure, residual margin amounts will be applied only within the same offset class (*e.g.*, the 2-Year Note against the 2-Year Note future). Appropriate disallowance factors based on correlation studies will be applied, as well as a minimum margin factor. All eligible positions maintained by a cross-margining participant in its account at GSCC and in its (or its affiliate's) proprietary account at BOTCC will be eligible for cross-margining.<sup>10</sup>

(c) *Margin Rates:* GSCC and BOTCC currently use different margin rates to establish margin requirements for their respective products. Margin reductions in the GSCC-BOTCC cross-margining arrangement will always be computed based on the lower of the applicable margin rates. This methodology results in a potentially lesser benefit to the participant but ensures a more conservative result (*i.e.*, more collateral held at the clearing organization) for both GSCC and the Participating COs.

(d) *Daily Procedures:* On each business day, it is expected that BOTCC will inform GSCC of the residual margin amounts it is making available for cross-margining by approximately 11:00 p.m. New York time. GSCC will inform BOTCC by approximately 1:00 a.m. New York time how much of these residual margin amounts it will use. Reductions as computed will be reflected in the daily clearing fund calculation.

(iii) 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 participant, or a participant and its affiliate, in the event of an insolvency. GSCC further believes that cross-margining benefits participating clearing

<sup>9</sup> Non-mortgage backed agency securities will be added at a later date. GCF Repo products will not be included in the arrangement.

<sup>10</sup> At least initially, the GSCC-BOTCC cross-margining arrangement will be applicable, on the futures side, only to positions in a proprietary account of a cross-margining participant at BOTCC. The arrangement will not apply to positions in a customer account at BOTCC that would be subject to segregation requirements under the Commodity Exchange Act. This is also the case with respect to the arrangements with NYCC and the CME.

<sup>7</sup> GSCC has computed and tested disallowance factors that will be applicable to each potential pair of positions being offset.

<sup>8</sup> GSCC and each Participating CO unilaterally have the right not to reduce a participant'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.

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 crash 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>11</sup>

GSCC believes that the proposed rule change is consistent with the requirements of section 17A of the Act<sup>12</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, N.W., Washington, D.C. 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, N.W., 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-2001-03 and should be submitted by September 26, 2001.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-44760; File No. SR-Phlx-2001-79]

**Self Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Increase the Number of Options Included in Its Pilot Program To Disengage Its Automatic Execution System ("AUTO-X") for a Period of Thirty Seconds After the Number of Contracts Automatically Executed in a Given Option Meets the AUTO-X Minimum Guarantees for That Option**

August 31, 2001.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 21, 2001, 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 and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to approve the proposal on an accelerated basis, for the duration of the six-month pilot, which expires on November 30, 2001.

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

The Phlx proposes to expand the number of options eligible for inclusion in its pilot effecting a system change to the Exchange's Automated Options Market ("AUTOM") System,<sup>3</sup> whereby AUTO-X is disengaged for a period of thirty seconds after the number of contracts automatically executed in a given option meets the AUTO-X minimum guarantee for that option. The pilot currently includes up to 100 option classes, subject to the approval of the Options Committee. The Phlx

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> AUTOM is the Exchange's electronic order delivery and reporting system, which provides for the automatic entry and routing of equity option and index option orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution feature, AUTO-X. Equity option and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange members into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor.

<sup>11</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 The Options Clearing Corporation and The Intermarket Clearing Corporation).

<sup>12</sup> 15 U.S.C. 78q-1.

<sup>13</sup> 17 CFR 200.30-3(a)(12).