

eligibility depending upon whether a new issue is distributed by an underwriting syndicate before or after the date a securities depository system is available for monitoring repurchases of the distributed shares by syndicate members (*i.e.*, a "flipping tracking system").

Currently, a flipping tracking system is being developed that will include a securities depository service that (i) can be activated upon the request of the managing underwriter for a period of time that the managing underwriter specifies, (ii) in certain circumstances will require the delivering participant to provide to the depository information sufficient to identify the seller of such shares as a precondition to the processing of book-entry delivery instructions for distributed shares, and (iii) will report to the managing underwriter the identify of any other syndicate member or selling group member whose customer(s) sold distributed shares (but will not report to the managing underwriter the identity of such customer[s]) and in certain circumstances will report to such syndicate member or selling group member the identity of such customer(s). Prior to the availability of a flipping tracking system, the managing underwriter may delay the date a security is deemed "depository eligible" for up to three months after trading has commenced in the security. After the availability of a flipping tracking system, a new issue must be depository eligible before commencement of trading on CBOE.

The proposed rule change is consistent with Section 6(b)(5) of the Act in that by reducing the number of transactions in depository eligible securities for which settlement is effected by the delivery of physical securities, by requiring that transactions between member firms and transactions between member firms and clients that settle on a DVP or RVP basis generally occur in a book-entry environment, and by requiring securities listed in CBOE be depository eligible, the efficiency of the U.S. clearance and settlement system will be enhanced and the potential for systemic risk will be reduced. Furthermore, the proposal is designed to foster cooperation and coordination with persons engaged in regulatory, clearing, settling, and facilitating transactions in securities and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The CBOE does not believe that the proposed rule change will 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 on the proposed rule change were neither solicited nor received.

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 CBOE 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, NW., 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 available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to File No. SR-CBOE-95-62 and should be submitted by January 8, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

Margaret H. McFarland,  
Deputy Secretary.  
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[Release No. 34-36573; File No. 600-27]

**Self-Regulatory Organizations; Clearing Corporation for Options and Securities; Order Approving Application for Exemption From Registration as a Clearing Agency**

December 12, 1995.

On December 14, 1992, the Clearing Corporation for Options and Securities ("CCOS")<sup>1</sup> filed with the Securities and Exchange Commission ("Commission") an application for exemption from registration as a clearing agency pursuant to Section 17A of the Securities Exchange Act of 1934 ("Act")<sup>2</sup> and rule 17Ab2-1 thereunder.<sup>3</sup> Notice of CCOS's application was published in the Federal Register on June 23, 1993.<sup>4</sup> Fourteen comment letters were received in response to the notice of filing of the CCOS application.<sup>5</sup> On October 7, 1993, CCOS filed an amendment to its application<sup>6</sup> setting forth its intention to register Chicago Board Brokerage, Inc. ("CBB") as a U.S. government securities broker pursuant to Section 15C of the Act<sup>7</sup> and to proceed with CBB's membership with the National Association of Securities Dealers ("NASD") as required by that section.<sup>8</sup> Notice of the amendment was published in the Federal Register on April 22, 1994, to solicit comments.<sup>9</sup> One hundred eleven comment letters were received in response to the notice of filing of the amendment.<sup>10</sup> This Order grants CCOS's application for

<sup>1</sup> CCOS is a wholly-owned subsidiary of the Board of Trade Clearing Corporation ("BOTCC") which provides clearing services for futures and commodities transactions executed on the Board of Trade of the City of Chicago ("CBOT").

<sup>2</sup> 15 U.S.C. § 78q-1 (1988).

<sup>3</sup> 17 CFR 240.17Ab2-1 (1994).

<sup>4</sup> Securities Exchange Act Release No. 32481 (June 16, 1993), 58 FR 34105 [File No. 600-27] (notice of filing of application for exemption from registration as a clearing agency) ("CCOS Release").

<sup>5</sup> A complete list of comment letters for File No. 600-27 is available for review in the Commission's Public Reference Room.

<sup>6</sup> Letter from Dennis Dutterer, Executive Vice President and General Counsel, BOTCC, to Jonathan Katz, Secretary, Commission (October 6, 1993). Letter from Fred Grede, Vice President, Board of Trade of the City of Chicago ("CBOT"), to Brandon Becker, Director, Division of Market Regulation ("Division"), Commission (October 6, 1993).

<sup>7</sup> 15 U.S.C. § 78o-5 (1988).

<sup>8</sup> 15 U.S.C. § 78o-5(e)(1) (1988).

<sup>9</sup> Securities Exchange Act Release No. 33911 (April 15, 1994) 59 FR 19263 [File No. 600-27] (notice of filing of amendment to application for exemption from registration as a clearing agency).

<sup>10</sup> *Supra* note 5.

<sup>10</sup> 17 CFR 200.30-3(a)(12) (1994).

exemption from registration as a clearing agency subject to certain limitations and conditions as set forth below.

## I. Description

### A. Trade Clearance and Settlement

#### 1. Overview

CCOS will provide clearance and settlement facilities for trades executed by CBB and its customers in the CBB trading system.<sup>11</sup> As described in the amendment,<sup>12</sup> CBB's business will be limited to acting as an intermediary for U.S. government securities transactions paired through its computer system.<sup>13</sup>

The CBB trading system is designed to offer CBOT members an opportunity to execute a customized package of transactions related to Treasury futures contracts traded on the CBOT.<sup>14</sup> The system will permit the trading of government securities, independently and in conjunction with CBOT futures on government securities ("basis trades"),<sup>15</sup> and repurchase and reverse repurchase agreement contracts in government securities ("dollar rolls").<sup>16</sup>

<sup>11</sup> CBB is a wholly-owned subsidiary of the CBOT and has requested no-action relief from the Commission staff with respect to the operation of the automated trading system for government securities. Letter from Mark D. Young, Kirkland and Ellis, Counsel for CBB, to Richard R. Lindsey, Division Director, Commission (December 11, 1995). The staff issued a no-action letter to CBB granting the relief requested and the Commission is issuing this order based on its belief that CBB is in compliance with the terms and conditions of the no-action letter. Letter from Richard R. Lindsey, Division Director, Commission, to Mark D. Young, Kirkland and Ellis, Counsel for CBB (December 12, 1995).

<sup>12</sup> *Supra* note 6.

<sup>13</sup> The government securities listed for purchase or sale through the CBB system will consist of U.S. Treasury bills, notes, and bonds in their various maturities which are deliverable under financial futures contracts traded on the CBOT.

<sup>14</sup> Only CBOT individual members, employees of individual members, and employees of CBOT member firms will be permitted to operate terminals. Each terminal will be uniquely identified in its communication with the central site, and each terminal operator will be assigned an identification number. CBB will maintain complete, time-sequenced electronic audit trails on all orders entered on, and all transactions executed through, the CBB trading system. The recorded activity will indicate, for a given order or transaction, the identity of the terminal operator entering, changing, or cancelling orders, the time such entry or change was effected, and the date, time, volume, security, and price of each transaction executed through the trading system.

<sup>15</sup> A basis trade is a trade in which the participants agree to simultaneously buy or sell government securities against the offsetting equivalent CBOT treasury futures contract. The basis represents the price differential between a government security and the futures delivery price.

<sup>16</sup> In a dollar roll transaction, the seller of the contract delivers notes or bonds to the buyer in exchange for cash. Settlement occurs the same day. At the time of execution, the seller and buyer also agree to reverse the transaction at a price that

Using the CBB trading system, therefore, CBOT traders in government securities will be able to buy and sell the government securities underlying CBOT futures contracts and using dollar rolls will be able to execute trades that help inventory management. CBB will execute transactions for system participants as broker. All trades will be effected through the CBB's electronic network. The settlement date for outright purchase and sale transactions will be the next business day except for when-issued ("WI") securities which will settle on the day of issuance by the U.S. Treasury.

Under the terms of the proposal, any CCOS participant or any customer of a CCOS participant that is also a CBOT member or member firm (hereinafter collectively referred to as a CBOT member) will be able to obtain a CBB trading terminal.<sup>17</sup> Each CCOS participant will be required to enter into an agreement with CBB setting forth the terms and conditions of access to and use of CBB's terminals. Using a CBB terminal, a terminal operator will be able to view the terminal displays to see the prices and quantities of current bids and offers, which are displayed on an anonymous basis, and to review its trading activity.

CBB is developing several methods for market participants to access the CBB trading system. CBB will: (1) provide CBOT work station terminals which will access the CBB trading system and include other market information and trading systems available through the CBOT;<sup>18</sup> (2) provide an interface between CBB's central computer and a CBOT member's internal computer network; and (3)

includes a financing interest amount with settlement occurring the next day.

<sup>17</sup> The Board of Directors of CCOS may permit other clearing agencies registered with the Commission or that are exempted from registration by the Commission access to some or all of the services offered by CCOS according to terms and conditions prescribed by the Board of Directors. Clearing agencies that are granted access to CCOS's services pursuant to CCOS Rule 309 will not be considered participants of CCOS under the rules except as determined by the Board of Directors. Letter from John C. Hiatt, President and Chief Executive Officer, BOTCC, to Jonathan Kallman, Associate Director, Commission (September 13, 1994).

<sup>18</sup> The CBB trading system is based on a modification of the CBOT's Project A trading system. Project A, available to CBOT members, is an electronic order entry facility developed to allow trading over a local area network (for example, within the CBOT building) of CBOT's futures contracts, options on futures contracts, and other financial products. The Project A system is designed to facilitate trading by active order matching or through the posting of bids/offers on an electronic bulletin board.

provide access through an interface with quotation vendors.<sup>19</sup>

The system will permit users to execute basis trades as a single transaction where the price will reflect the spread in basis points between the futures contract and the underlying government securities. The government securities will be priced at a certain number of basis points above or below the futures contract.<sup>20</sup>

The system also will provide users with the ability to execute dollar roll transactions. Dollar roll transactions are designed to facilitate the financing of government securities through the lending of government securities in exchange for cash and to facilitate the lending of funds in exchange for government securities.<sup>21</sup> Dollar rolls will result in the creation of two simultaneous government trades.

CBB will have a morning trading session for dollar rolls from the opening of trading at 8:00 a.m. to 11:00 a.m. and an afternoon session for dollar rolls from 3:15 p.m. to 5:00 p.m.<sup>22</sup> For dollar rolls executed during the morning session, the first leg will be for same day ("T") settlement, and the second leg will be for next day ("T+1") settlement. For dollar rolls executed during the afternoon session, the first leg will settle on T+1, and the second leg will settle on the following business day ("T+2").

CBB will match member trades and will submit the matched trades to CCOS on a real time basis so that trade data executed through CBB immediately flows to CCOS.<sup>23</sup> CCOS will perform the

<sup>19</sup> Quotation vendors will offer CBB trading screens and order entry capability through their terminals which are served by national telecommunications networks. CBB will contract on a nonexclusive basis with one or more quotation vendors, each having interactive capabilities, to carry the CBB system for use by CBOT members.

<sup>20</sup> The futures leg of the basis trade will take the last reported trade price from the CBOT trading floor as the futures transaction price. The transaction ticket for the government securities leg of basis trades will include the commission charges and accrued interest. Settlement for the government securities leg will occur on the next business day in the same manner as outright government securities trades.

<sup>21</sup> The CBB terminals will list the dollar roll spreads through bid and offer financing rates reflecting the annualized interest rates paid or received on the transactions. The transaction amount or value price on the trade date will reflect the settlement value of the first leg of the dollar roll. The settlement value is the amount of funds required to make or take delivery of the security. The transaction amount for the second leg of the dollar roll will reflect the fact that the holder of the overnight bond will not earn the coupon interest during the term of the transaction.

<sup>22</sup> Unless otherwise noted, all times stated are Eastern Standard Time.

<sup>23</sup> CBB will create, operate, and maintain the computer system that enables orders to be entered and executed. CBB has developed trade matching

clearance and settlement functions for transactions executed through CBB, including: delivery versus payment processing, position consolidation, and original and variation margin calculation and processing as discussed below.

## 2. CCOS & BOTCC Cross-Margining Agreement

CCOS and BOTCC will establish a cross-margining arrangement whereby all CCOS members, all of which are BOTCC members or CBOT members affiliated with a BOTCC member, will hold certain futures and government securities cleared by the respective clearing organizations in special cross-margin accounts.<sup>24</sup> All futures positions will be held at BOTCC, and all government securities will be held at CCOS. Government securities and futures held in the cross-margin accounts at the respective clearing organization will be margined as if held in a single account based upon the net risk of the positions. To facilitate the cross-margining arrangement, CCOS and BOTCC will establish procedures whereby CCOS and BOTCC each will have a security interest in the positions held in the cross-margin accounts to secure all obligations of the clearing members arising in connection with those positions.

### B. System Safeguards

#### 1. Margin Payment/Collection

CCOS will adopt, as one of its principal safeguards, a practice of collecting original margin and variation margin on participant obligations.<sup>25</sup> In essence, CCOS will use the margin calculation and payment time frames currently used by BOTCC in connection with its clearance of CBOT futures contracts.<sup>26</sup> CCOS will modify BOTCC's margining system to address risks

software for U.S. Treasury bills, notes, and bonds, including when-issued securities, basis trades, and dollar rolls.

<sup>24</sup> Because all CCOS members are also BOTCC members or CBOT members affiliated with a BOTCC member, all accounts at CCOS are cross-margin accounts.

<sup>25</sup> Original margin represents a performance bond that both buyers and sellers must post when executing trades to assure that their respective contractual obligations will be satisfied. Variation margin is a mark to the market payment collected on a twice daily basis to account for changes in the value of the positions before the delivery process.

<sup>26</sup> BOTCC collects clearing member margin on a portfolio, or net basis, reflecting the overall risk to the clearing corporation associated with the totality of contracts in that clearing member's portfolio. BOTCC uses a portfolio-based simulation model, the Standard Portfolio Analysis ("SPAN") system, which establishes parameters to collect original margins based on the simulated losses of clearing member portfolios under various scenarios.

specific to the U.S. government securities market.

CCOS will calculate margin requirements at least twice daily, with one calculation reflecting trading activity occurring from the 8:00 a.m. opening to 1:30 p.m. and with another calculation reflecting trading activity from 1:30 p.m. to 5:00 p.m. CCOS will collect margin deficiencies arising from participants' morning trading activity at 4:00 p.m. on that trade date ("T") and will collect margin deficiencies arising from participants' afternoon trading activities at 7:40 a.m. on T+1. In the event a clearing member fails to perform its obligations to CCOS, the original margin will be used to cover any financial liabilities which may result from the failed obligation. CCOS will retain the authority to collect additional margin at any time.<sup>27</sup>

In order to margin government securities and futures positions in a parallel fashion, CCOS will convert government securities to futures contract equivalents prior to original margin determination.<sup>28</sup> CCOS will convert government securities positions to futures-equivalents based upon conversion factors established and published by the CBOT for the most similar futures delivery month and the most similar futures contract par amounts (*i.e.*, face values).<sup>29</sup> CCOS will

<sup>27</sup> BOTCC, as facilities manager, will perform all margin collection/payment functions on behalf of CCOS. CCOS will collect commissions and settlement payments through its agent, the Bank of New York.

<sup>28</sup> In establishing the original margin for government securities it clears, CCOS began with the premise that cross-margined government securities and futures products have essentially the same market and credit risks. Therefore, CCOS will use the original margin rates for futures contracts established by the Board of Governors of BOTCC following recommendations of the BOTCC Risk Management Committee.

The BOTCC Risk Management Committee is comprised of five of the nine Governors of the BOTCC Board of Governors. All nine Governors are owners or officers of BOTCC clearing member firms. The BOTCC Risk Management Committee meets once a month or at the call of the BOTCC Board Chairman or the Risk Management Committee Chairman. The Committee bases its recommendation upon review by BOTCC and CBOT staff of the conditions of the market place, including: statistical analysis of central tendencies, dispersion, and correlations between price changes of different commodities. Additionally, the Committee draws upon the experiences of its members and uses their judgement to predict market conditions in the near future. From this information, the Risk Management Committee will typically set margin rates that cover approximately the 99th percentile of absolute daily price changes over the previous one, three, and six month periods.

<sup>29</sup> The formula for the conversion of government securities is:

$$\text{Futures-Equivalents} = \text{Government Securities Par Amounts} \times \text{Conversion Factor} = \text{Futures Par Amount}$$

Since bonds being delivered into futures contract obligations will have greater or lesser value than the

net the futures-equivalent positions of all government securities deliverable with the corresponding futures contracts to produce a net futures-equivalent position.<sup>30</sup> The performance bond for all trades generally will be collected at 7:40 a.m. on T+1.

CCOS will calculate each participant's variation margin pay/collect amount and transmit the data to BOTCC for margin payment or collection. Payment or collection amounts for each participant will include the combined variation effects of the government securities and futures positions in the participant's cross-margined account. Participants will pay or collect midday variation margin in same-day funds by 4:00 p.m. each day, through their settlement banks. BOTCC will pay out 80% of variation gains in excess of original margin deficits<sup>31</sup> and will collect 100% of variation losses.

#### 2. Settlement Values

At 3:00 p.m., CCOS will establish a settlement value for government securities trades executed between 8:00 a.m. and 1:30 p.m. That value will be based on the prices collected at 2:30 p.m. from GovPx, a government securities pricing vendor. CCOS will mark new positions from their transaction value,<sup>32</sup> which will be

futures, the conversion factor is a means of equating bonds with various coupons and maturity dates with the standard bond set by BOTCC. The standard bond, which is equal to the corresponding future, has an 8% coupon and a conversion factor of 1.

For example, assume there are two bonds, Bond X and Bond Y. Bond X is the standard bond having an 8% yield to maturity and conversion factor of 1 (Bond X is equal to the corresponding future). Bond Y is worth 1.5 times Bond X (Bond Y could have greater coupon rates or a longer period to maturity). If the future is trading at 85, then Bond X is worth 85, and Bond Y is worth 1.5 times 85. Therefore, 1.5 is the conversion factor for Bond Y. In order to determine the number of futures that equate with Bond Y, the face amount of Bond Y is multiplied by the conversion factor, producing the futures value amount. The futures value amount is then divided by 100,000 (each futures contract equals \$100,000) to give the number of futures contracts equal to the bond.

<sup>30</sup> Futures on government securities act as an index of the many bonds deliverable into them. Treasury bonds ("T-bonds") having at least fifteen years remaining to maturity are deliverable into the T-bond future. Ten-year Treasury notes ("T-notes") must have maturities between six and one-half and ten years to be deliverable into the ten-year T-note future. Five-year T-note futures accept Treasury notes with time to maturity between four years, three months and five years, three months. Two-year notes having maturities between one year, nine months and two years are deliverable into the two-year T-note future.

<sup>31</sup> CCOS will withhold distribution of any variation margin gains from participants with original margin requirement deficits.

<sup>32</sup> The transaction value provided by CBB to CCOS will include the accrued interest paid or received on each transaction. For normal deliveries the accrued interest at the time of the transaction and at marking to market are the same amount, but

established at the execution of the trade, to their settlement value,<sup>33</sup> which will reflect gains or losses in the interim period, and CCOS will mark open positions that were previously marked to the prior day's settlement value to the new settlement value.

Trades executed from 1:30 p.m. through the 5:00 p.m. end of the day's trading session will be marked to the 3:00 p.m. settlement value, and the variation margin on the entire position will be calculated at the end of the day. Participants will pay or collect the second variation margin obligation the following morning at 7:40 a.m. CCOS will send delivery instructions for normal settlement of government securities transactions executed on T to the participants' settlement banks at 11:30 a.m. on T+1.<sup>34</sup>

### 3. Loss Allocation and Liquidity Sources

CCOS will begin operations with an initial capitalization of \$2 million. Together with CCOS's earnings, BOTCC will commit to provide CCOS with additional capital as necessary to cover CCOS's continuing costs of operations. Because CCOS will rely on BOTCC for certain liquidity resources and because BOTCC's capital and credit lines are committed to its futures business, BOTCC has agreed to dedicate specific credit and financial resources to CCOS, and CCOS and BOTCC have established a framework for allocating losses arising from cross-margined accounts between the two entities.

With respect to liquidity, CCOS will establish a committed credit facility which will be guaranteed by BOTCC. The credit facility initially will be \$5 million and will be increased in increments of \$5 million for each \$1 billion increase in CCOS's daily average net settlements of government securities transactions over a ninety day period. When the credit facility reaches \$30 million as a result of daily average net settlements of government securities reaching \$6 billion, CCOS will review the size of the credit facility in consultation with the Division staff.<sup>35</sup>

for failed deliveries, the seller will have to pay the incremental accrued interest for each day the fail continues. The daily variation margin payments will include this incremental accrued interest.

<sup>33</sup> Settlement values will reflect the settlement price established twice a day and will include accrued interest but will not include commissions and finance charges from dollar rolls.

<sup>34</sup> Participants may transact dollar rolls (with same-day settlement for the first leg) between 8:00 a.m. and 11:00 a.m. on T+1 to offset delivery obligations due to settle on T+1.

<sup>35</sup> As discussed below, \$6 billion is the maximum average daily net settlements of transactions in government securities agreed to by CCOS and the Division during the exemptive period. Also as

With respect to loss allocation, under the cross-margining arrangement between CCOS and BOTCC, all government securities positions cleared by CCOS will be maintained in a cross-margin account for which BOTCC and CCOS have agreed to assume joint responsibility in the event that a default or failure to settle occurs and there is a shortfall in that account. BOTCC and CCOS each are guaranteeing up to 50% of the obligations owed to each other with respect to a defaulting participant's cross-margin account after use of the original margin deposits of the participant and proceeds from the liquidation of the participant's positions. Therefore, CCOS will have adequate resources to protect itself and to fulfill its settlement obligations for a loss up to at least \$60 million.<sup>36</sup>

### II. Comment Letters

Public comment both supported and opposed CCOS's application.<sup>37</sup> More than sixty commenters, including several common members of the Government Securities Clearing Corporation ("GSCC") and CCOS, supported the proposal. More than forty commenters opposed the proposal, raising three basic arguments as to why the Commission should deny the exemption request.<sup>38</sup> These arguments

agreed to by CCOS and the Division, CCOS's operations will be limited to a maximum of \$24 billion average daily net settlements of dollar rolls.

These limits represent approximately five percent or less of government securities and average daily volumes in dollar rolls. The Commission believes these limits are appropriate at this time in that they are large enough to allow CCOS to commence effective operations yet of a limited nature that allows the Commission to observe the effects of the CCOS clearing and settlement activities on the government securities market.

<sup>36</sup> I.e., \$30 million from CCOS's guaranteed credit facilities (repayment of which is guaranteed by BOTCC) plus \$30 million from BOTCC under its guarantee of cross-margining losses.

<sup>37</sup> *Supra* note 5.

<sup>38</sup> Commenters raised additional issues in opposition to CCOS's application. These issues included the concern that the introduction of CCOS as another government securities clearing agency would result in an increase in costs for U.S. Treasury brokers and the concern that in the future decisions at GSCC will be made based on the fear of losing potential customers to CCOS rather than based on the best interest of the participants. With regard to the first point, the Commission believes that if in fact any increase in costs results from granting CCOS's exemption application, the benefits to the government securities market, such as innovation arising from competition, will outweigh any such costs. With regard to the second point, while the Commission believes that GSCC will continue in the future to base its decisions on what is in the best interest of its participants and the government securities market and not on any fear of losing current or potential participants, commenters should be comforted by the fact that GSCC is subject to Section 19(b) of the Act which requires SROs to file with the Commission any proposed changes to their procedures, operations, or rules.

include the potential fragmentation of clearance and settlement facilities for the U.S. Treasury market the concern that exempting CCOS will mean ineffective and unequal regulation of clearing facilities for those securities, and the concern that approval of CCOS will not promote fair competition among clearing agencies. CCOS filed several responses to the comments.<sup>39</sup>

The Commission received two letters from the Commodity Futures Trading Commission ("CFTC") regarding CCOS's application.<sup>40</sup> BOTCC, as a futures clearing organization, is subject to regulation by the CFTC under the Commodity Exchange Act ("CEA"); therefore, the Commission carefully considered the comments of the CFTC regarding CCOS's application. In its first letter to the Commission,<sup>41</sup> the CFTC noted that because of its position as the regulator of BOTCC, it would have to consider and address the potential impact of CCOS's activity on the financial integrity of BOTCC and on the futures market for which it clears. Specifically, the CFTC was concerned with BOTCC's role as a guarantor of CCOS's obligations and the impact on BOTCC's financial integrity of any minimum capitalization or other requirements imposed on CCOS by the Commission.<sup>42</sup> The CFTC also stated that any arrangements presenting cross-jurisdictional issues between the CFTC and the Commission would require approval by both agencies. This would include cross-margining programs, the imposition of clearing limits and/or minimum margin requirements, and futures/cash basis trades traded on the CBB and cleared through BOTCC and CCOS. The CFTC urged a cooperative effort between itself and the Commission to avoid duplicative or inconsistent regulation being imposed on the affected entities.

The CFTC's second letter<sup>43</sup> responded to CCOS's amended application in which CBOT set forth its intention to register CBB as a government securities broker and its willingness to enter into certain linkage arrangements with GSCC. The CFTC noted that the proposal to enter into a linkage

<sup>39</sup> The comment letters and CCOS's responses are discussed in detail in the Discussion section of this order.

<sup>40</sup> Letters from Jean A. Webb, Secretary, CFTC, to Jonathan G. Katz, Secretary, Commission (July 23, 1993 and May 31, 1994).

<sup>41</sup> Letter from Jean A. Webb (July 23, 1993), *supra* note 40.

<sup>42</sup> Ultimately, this concern was alleviated by changing the general BOTCC guarantee to a guarantee of a limited committed credit facility. Refer to "BOTCC Guarantee" above.

<sup>43</sup> Letter from Jean A. Webb (May 31, 1994), *supra* note 40.

arrangement with GSCC could have positive effects on the government securities market, that the CBB/CCOS amended proposal could increase competition among market participants, that the CBB electronic trading system would provide government securities market participants with easier access to market information, and that the registration of CCOS as a clearing agency might lower the level of risk present in the government securities market. While the CFTC's comments were generally positive, it also reiterated its regulatory interests and the need to review the potential impact of the various arrangements on BOTCC's financial integrity and to assure compliance with the CEA.

The Commission recognizes the validity of the CFTC's concerns and understands the importance of coordinating efforts among all regulators concerned with the government securities market. The Commission will continue to coordinate with these regulatory agencies to safeguard one of the world's largest securities markets.

### III. Discussion

#### A. Overview

The Commission is granting CCOS's application for exemption subject to the conditions described below. The Commission believes such action is consistent with the Act including the goals of fostering cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, removing impediments to and perfecting the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and protecting investors and the public interest.

As noted above, CCOS proposes to provide clearing facilities in support of CBB's and CBOT's proposals. CBB's proposed automated trading system for government securities represents an effort to make government securities more readily available to CBOT members that trade futures on government securities and thereby improves the efficiency of arbitrage between the futures and cash markets and potentially increases liquidity in both of those markets. Traders in these markets often are called upon to accept position or market risks from participants in the market for government securities. The market for U.S. Treasury bonds, bills, and notes is the deepest, most liquid market in the world. While these securities are traded all over the world, the primary U.S. marketplace involves a core group of dealers, brokers' brokers, banks, and

institutional investors that trade extensively among themselves over-the-counter. These market participants often rely on futures markets, such as the CBOT, for their derivative products as a way to transfer to traders on these markets position and market risks related to U.S. government securities. Traders on the futures exchanges, in turn, must be able to buy and sell government securities to help manage their own risk and position exposures efficiently.

Approval of the CCOS application will allow CCOS and its parent, BOTCC, to provide the clearance and settlement services that are necessary to support the CBB and CBOT proposals. This in turn should help foster greater integration of clearing facilities that serve the futures market and the underlying cash markets and should facilitate the development of cross-margin facilities between those markets. BOTCC already has extensive arrangements with its clearing bank network to receive and deliver government securities among its clearing members, and its clearing members maintain government securities at those banks for their proprietary and customer accounts. As described above, CCOS plans to build on those arrangements in providing its services in support of CBB. Exempting CCOS from clearing agency registration should allow CBB to move forward with its proposal and should allow CCOS and BOTCC to obtain greater experience in managing risk exposures before taking on self-regulatory responsibilities that would otherwise accompany clearing agency registration.

Because many of CCOS's likely users are GSCC members and use GSCC's services to clear and settle trades among themselves, a linkage among CCOS, BOTCC, and GSCC to facilitate efficient clearance of trades is essential.<sup>44</sup> To this end, the Boards of Directors of GSCC, BOTCC, and CCOS have been requested to establish a joint user committee to settle the outstanding linkage and cross-margining issues and to report to the GSCC, BOTCC, and CCOS Boards the committee's proposal for linkage and cross-margining within three months of formation of the committee.<sup>45</sup>

<sup>44</sup> *Market Reform Act of 1990*, S. Rep. 101-300 at 58-62. President's Working Group on Financial Markets, Interim Report, Appendix D (May 1988).

<sup>45</sup> Letter from Richard R. Lindsey, Division Director, Commission, to John G. Macfarlane III, Chairman of the Board, GSCC, and David Johnson, Chairman of the Board, BOTCC (December 12, 1995). The Commission believes it is appropriate for CCOS to begin limited operations prior to the implementation of such arrangements because these arrangements, while important to coordinating

The Commission will monitor closely efforts in this regard and expects prompt action to implement linkages and cross-margin systems that are acceptable to the common membership so that appropriate linkages are in place when warranted. If it does not appear after six months that the parties are able to agree to establish appropriate linkage and cross-margining facilities, the Commission will consider whether to mandate the development of linkage and cross-margining facilities. If necessary, the Commission will use its authority under the Act to direct that the responsible parties act in their best interests to establish "linked or coordinated facilities for clearance and settlement of transactions in securities \* \* \* [and] contracts of sale for future delivery \* \* \*."<sup>46</sup>

Approval of the application also should help foster innovation in clearance and settlement of government securities. The CCOS proposal will provide central clearing facilities for dollar rolls, which represent a type of repurchase agreement transaction. CCOS's proposal was one of the first formal responses to the recommendations of the 1992 Joint Report on the Government Securities Market,<sup>47</sup> and the Commission believes that the CCOS proposal may well have encouraged others, including GSCC, to develop similar or wider services.

#### B. Section 17A of the Act

##### 1. Grant of Exemption

Section 17A(b)(1) of the Act authorizes the Commission to exempt applicants from some or all of the clearing agency requirements of Section 17A if the Commission finds such exemptions are consistent with the public interest, the protection of investors, and the purposes of Section 17A including the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds.<sup>48</sup> While the

GSCC's and CCOS's systems, are not necessary for CCOS to commence operations.

<sup>46</sup> 15 U.S.C. §§ 78q-1 (a)(2)(A)(ii) and (d)(1) (1988).

<sup>47</sup> *Joint Report on the Government Securities Market*, issued by the Department of Treasury, the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System (January 1992) at 31 (recommending that an efficient processing system for government securities repo activity be developed).

<sup>48</sup> For legislative history concerning Section 17A of the Act, see, e.g., Report of Senate Comm. on Housing and Urban Affairs, Securities Acts Amendments of 1975: Report to Accompany S. 249, S. Rep. No. 75, 94th Cong., 1st Sess., 4 (1975); Conference Comm. Report to Accompany S. 249, Joint Explanatory Statement of Comm. of Conference, H.R. Rep. No. 229, 94th Cong., 1st Sess., 102 (1975).

Commission has never exercised its authority to exempt an applicant entirely from the requirements of Section 17A, it has granted newly registered clearing agencies narrowly drawn, temporary exemptions from specific statutory requirements imposed by Section 17A in a manner that achieves those statutory goals.<sup>49</sup>

The market break in October 1987 and the markets' decline in October 1989 demonstrated the central role of clearing agencies in U.S. securities markets in reducing risk, improving efficiency, and fostering investor confidence in the markets.<sup>50</sup> In light of the foregoing, the Commission believes it is appropriate for applicants requesting exemption from clearing agency registration to meet standards substantially similar to those required of registrants in order to assure that the fundamental goals of Section 17A (*i.e.*, safe and sound clearance and settlement) will be achieved.

Because the Commission believes that CBB and CCOS will promote innovation in the trading and clearing of government securities and will further the integration of the futures and government securities markets, it is approving CCOS's application for exemption in order that CCOS may begin limited operations without meeting the entire panoply of clearing agency registration requirements.<sup>51</sup> Although, as described below, CCOS is being held to substantially the same standards as other registered clearing agencies, certain areas of CCOS's

<sup>49</sup> *E.g.*, in the Commission's order approving GSCC's temporary registration as a clearing agency, the Commission temporarily exempted GSCC from compliance with the statutory standards of Sections 17A(b)(3)(B) and 17A(b)(4)(B) of the Act regarding a clearing agency's rules designating classes of participants and the standards used by the clearing agency to determine participation. The Commission also exempted GSCC from Section 17A(b)(3)(C) regarding fair representation of clearing agency participants in the selection of its directors. Securities Exchange Act Release No. 25740 (May 24, 1988), 53 FR 19839.

<sup>50</sup> Gerald Corrigan, President of the Federal Reserve Bank of New York ("FRBNY"), noted: "[T]he greatest threat to the stability of the financial system as a whole [during the 1987 market break] was the danger of a major default in one of these clearing and settlement systems." Luncheon Address: Perspectives on Payment System Risk Reduction by E. Gerald Corrigan, President, FRBNY, reprinted in *The U.S. Payment System: Efficiency, Risk and the Role of the Federal Reserve* 129-30 (1990).

<sup>51</sup> Section 17A, as amended by the Market Reform Act, directs the Commission to use its authority to facilitate the establishment of linked or coordinated facilities for clearance and settlement of transactions in securities, securities options, contracts of sale for future delivery and options thereon, and commodity options. [Market Reform Act of 1990, § 5, amending § 17A(a)(2) of the Securities Exchange Act of 1934, 15 U.S.C. 78q-1 (1990)].

operation require further development before CCOS can be considered for registration under Section 17A of the Act. The Commission believes that granting CCOS an exemption from registration subject to the regulatory requirements and Commission oversight on CCOS during the exemptive period should allow CCOS to further develop its system for clearing and settling government securities in a safe and sound manner before it seeks full registration as a clearing agency. In granting CCOS an exemption from clearing agency registration, the Commission believes that such an exemption is consistent with the requirements of Section 17A and that the framework of the exemption is such that the Commission retains adequate regulatory power and oversight to ensure that CCOS's services do not pose a threat to the stability of the government securities markets.

The Commission is imposing significant limits on CCOS as set forth below.<sup>52</sup> Should CCOS determine that a change in its operations or procedures is necessary, CCOS will be required pursuant to this exemptive order to amend its CA-1 and request that the Commission modify the exemptive order. The Commission's oversight of CCOS, in conjunction with the CFTC's oversight responsibilities of BOTCC, should help nurture the establishment of safety mechanisms, such as cross-margining, that further the goals of competition and integration in the government securities and futures markets. Furthermore, as competition leads to innovation and progress, the Commission believes CCOS's entry into the clearance and settlement of government securities should be a positive step towards the continued development of the world's largest government securities market.

## 2. Registration Standards

Before granting registration to a clearing agency, Section 17A of the Act requires that the Commission make a number of determinations with respect to the clearing agency's organization, capacity, and rules. Paragraphs (A) through (F) of Section 17A(b)(3) set forth general criteria which a clearing agency must satisfy in order to be registered. Congress reserved to the Commission the task of making specific determinations as to whether an applicant's organization, capacity, and rules satisfy the general criteria. In Securities Exchange Act Release No. 16900, the Division set forth its views

<sup>52</sup> The limits are described in Section III., Part D., Conditions.

and positions concerning satisfaction of the general criteria ("Standards Release").<sup>53</sup>

These statutory standards are designed to assure the safety and soundness of the clearance and settlement system. As previously stated, the Commission, in granting CCOS's exemption is requiring CCOS to meet in substantial form these same statutory standards and is satisfied that CCOS's operation will not be a threat to the safety or soundness of the national market system. Furthermore, the Commission will continue to monitor CCOS's operations to assure its soundness in the clearance and settlement of government securities.

### a. Safeguarding of Securities and Funds

Sections 17A(b)(3) (A) and (F) of the Act require a clearing agency be organized and its rules designed to facilitate the prompt and accurate clearance and settlement of securities transactions for which it is responsible and to safeguard securities and funds in its custody or control or for which it is responsible.<sup>54</sup> The Commission believes that CCOS meets these standards. Among other things, CCOS will maintain appropriate audit and internal controls<sup>55</sup> and will make available

<sup>53</sup> Securities Exchange Act Release Nos. 16900 (June 17, 1980), 45 FR 41920 (announcement of standards for the registration of clearing agencies) and 20221 (September 23, 1983), 48 FR 45167 (omnibus order granting full registration as clearing agencies to The Depository Trust Company, Stock Clearing Corporation of Philadelphia, Midwest Securities Trust Company, The Options Clearing Corporation, Midwest Clearing Corporation, Pacific Securities Depository, National Securities Clearing Corporation, and Philadelphia Depository Trust Company).

Refer also to Section 19 of the Act, 15 U.S.C. 78s (1988), and Rule 19b-4, 17 CFR 240.19b-4 (1992), setting forth certain procedural requirements for registration and continuing Commission oversight of clearing agencies and other self-regulatory organizations.

<sup>54</sup> 15 U.S.C. 78q-1(b)(3) (A) and (F) (1988).

In addition to BOTCC's responsibilities as facilities manager, CCOS must assure itself that BOTCC complies with all of the safeguards, as appropriate, set forth in the section of the Standards Release regarding the safeguarding of securities and funds and prompt and accurate clearance and settlement of securities transactions; and that these operations will be subject to examination by CCOS's independent public accountant, the Commission and the appropriate regulatory agency to the same extent as in the case of a clearing agency which carries out its own processing. Standards Release, *supra* note 53.

<sup>55</sup> Clearing agencies should have an audit committee which selects or makes recommendations to the Board of Directors of the clearing agency regarding the selection of the clearing agency's public accountant. CCOS Rule 213 requires the establishment of an audit committee consisting of at least three nonmanagement directors of CCOS. The committee will, among other things, make recommendations to the Board of Directors regarding the selection of CCOS's independent public accountants.

reports to participants concerning its internal accounting controls.<sup>56</sup> In addition, CCOS has developed several procedures to safeguard securities and funds; prevent loss or destruction of securities, funds, or data; and to recover from losses that do occur.<sup>57</sup>

i. Organization and Processing Capacity

A clearing agency should be organized in a manner that effectively establishes operational and audit controls while fostering director independence.<sup>58</sup> As in the example set forth in the Standards Release, CCOS meets these standards by keeping its Board of Directors informed of its operations and the impact that new or expanded services or volume increases would have on its processing capacity. CCOS also will keep its Board of Directors informed by reporting on periodic risk assessments of CCOS's operations, automated data processing systems, and facilities and by supervising the establishment, maintenance and updating of

CCOS proposes to employ outside independent auditors rather than establish an internal audit department for CCOS. The outside independent auditors will perform those duties typically performed by an internal audit department and will report to the audit committee, and conduct audit reviews as requested by the audit committee, but not less than once per fiscal year. The Commission believes that CCOS's method of establishing an audit committee and its use of outside independent auditors meets the requirements of the Act. Although the Standards Release recommends the use of an internal audit department, the Commission has on previous occasions found the use of outside auditors acceptable and falling within the requirements of the Act. See Securities Exchange Act Release No. 27611 (January 12, 1990), 55 FR 1890 (order granting Delta Government Options Corp. temporary registration as a clearing agency).

<sup>56</sup> The Standards Release noted that the objectives of internal accounting control are presumed to be a fundamental aspect of management's responsibilities. CCOS proposes to direct its independent public accountants to prepare an annual report on CCOS's system of internal accounting controls, and present the report to the CCOS Board of Directors. CCOS's proposal to use independent public accountants to produce an annual report on its system of internal accounting controls meets the requirements of the Act with regard to the security and accuracy requirements under Section 17A(b)(3) (A) and (F) because it aids in assessing the safety and integrity of the clearing agency operations and promotes confidence and increased participation in the national clearance and settlement system.

<sup>57</sup> CCOS proposes three levels of safeguards to prevent or minimize interruption of service as a result of hardware, systems software, or applications software failures. The first level addresses procedural practices within CCOS to control migration of changes in application systems to the production environment and the implementation of new systems. The second and third levels address interruptions in service due to equipment and systems software failures at different levels of severity, *i.e.* short and long term interruptions.

<sup>58</sup> *Standards Release, supra* note 53.

safeguards.<sup>59</sup> The Commission is satisfied that CCOS's organizational and processing capacity meets the requirements of the Act, explained in the Standards Release, by providing a necessary flow of information to its Board of Directors which will allow it to oversee management's performance and to assure the operational capability and integrity of CCOS.

ii. Financial Reports

Participants that have made clearing fund contributions or have money or securities in a clearing agency's system should receive timely, audited annual financial statements. CCOS meets the requirements regarding financial reports, and the distribution of financial statements will enable CCOS's Board of Directors and participants to remain apprised of the clearing agency's financial condition and the adequacy and accuracy of its records.<sup>60</sup> By making the financial statements available, CCOS is assisting the Commission and other appropriate regulatory agencies in the discharge of their regulatory responsibilities by facilitating access to important information that is necessary in evaluating the safety and soundness of clearing agencies.

b. Fair Representation

Section 17A(b)(3)(C) of the Act requires that the rules of a clearing agency provide for fair representation of the clearing agency's shareholders or members and participants in the selection of the clearing agency's directors and administration of the clearing agency's affairs. This section contemplates that users of a clearing agency have a significant voice in the direction of the affairs of the clearing agency.

CCOS is a privately owned for profit corporation run for the benefit of its sole shareholder, BOTCC. Therefore, the Board of Directors of CCOS will be selected from members of the Board of Governors of BOTCC, and the officers of CCOS will be elected by the Board of Directors. While CCOS participants will have the opportunity to provide input to

<sup>59</sup> For a detailed description of the Commission's policy on self-regulatory organization systems reviews, refer to Securities Exchange Act Release No. 29185 (May 9, 1991), 56 FR 22490 [File No. S7-12-91] (release setting forth the Commission's second automation review policy statement ["ARP II"]).

<sup>60</sup> CCOS Rule 214 states that within 60 days after the end of each of the Corporation's fiscal years, CCOS shall deliver to each participant unconsolidated audited financial statements for the fiscal year then ended covered by a report prepared by CCOS's independent public accountants. CCOS Rule 214 also states that upon request by any participant, CCOS shall deliver unconsolidated, unaudited quarterly financial statements.

the CCOS Board through the CCOS Participant's Advisory Committee, this committee is only advisory in nature and its advice or recommendations is not binding on CCOS.<sup>61</sup>

The Commission believes that neither the method in which CCOS's directors are selected nor the method for participant input meets the requirements of fair representation under Section 17A(b)(3)(C) of the Act but that the request for an exemption is appropriate in this context, as it was in the context of Delta Government Options Corp. CCOS expects that if its clearing volumes grow, it will file with the Commission for full registration as a clearing agency. At that time, the Commission will reevaluate whether CCOS's methods for assuring participants representation in the selection of its Board of Directors and in the administration of its affairs is consistent with the Act. If in its reevaluation the Commission believes that because of changed circumstances an exemption that does not comport with the fair representation requirement is no longer justified, the Commission will modify the conditions or terminate CCOS's clearing agency exemption.<sup>62</sup>

c. Financial Risk Management

Commenters expressed concern about the financial resources available to CCOS in the event of liquidity problems. Because CCOS will rely on BOTCC for certain liquidity resources and because BOTCC's capital and credit lines are committed to its futures business, commenters expressed concern that a shortfall could occur if a member common to BOTCC and CCOS were to fail. In response, BOTCC has agreed to dedicate specific credit and financial resources to CCOS, and CCOS and BOTCC have established a framework for allocating losses between the two entities. As a condition to its exemption, CCOS has agreed to evaluate

<sup>61</sup> As provided in CCOS Rule 501, the Participant's Advisory Committee will be comprised of three to ten participants who may advise CCOS on matters pertaining to the operation of CCOS. The purpose of the Participant's Advisory Committee is to provide representation to participants on matters which are of concern to them. In addition, participants will have prior notice of changes to rules that may affect their rights, obligations, or clearing requirements. CCOS will accept comments from participants with respect to any such changes; however, the Participant's Advisory Committee serves only in an advisory capacity and any advice or recommendation of the Committee is not binding on CCOS.

<sup>62</sup> Because CCOS is being granted full exemption from registration as a clearing agency, a specific exemption is not being issued with regard to fair representation. Rather, the exemption from these requirements is included within the grant of a complete exemption from registration as a clearing agency.

its capital and liquidity resources periodically, and BOTCC has agreed to supplement, in consultation with the Commission and the CFTC, CCOS's liquid resources as necessary to meet prudential standards.

In addition to its financial resources, CCOS has facilities to identify its potential financial exposure from its participants and to collect margin deposits or other collateral adequate to address that exposure. As discussed above, CCOS in conjunction with BOTCC will calculate margin requirements and collect margin deposits from its participants for open positions. CCOS will obtain information from its participants regarding their financial condition and will have the authority to collect additional margin or collateral if it deems it appropriate. CCOS and BOTCC also will cooperate in sharing risk management information, to the extent possible, with securities and futures clearing organizations where CCOS and BOTCC members also are members.

The Commission believes that entering into additional information sharing agreements is an area in which CCOS should explore in order to help ensure the safety and soundness of the clearance and settlement system and to promote financial risk management. The Commission recommends that CCOS become a part of the information sharing system established between all of the commodities clearing houses.<sup>63</sup> In addition, the Commission encourages CCOS to pursue obtaining membership in the Securities Clearing Group ("SCG").<sup>64</sup> The Commission believes

<sup>63</sup> Since 1980, the Chicago Mercantile Exchange ("CME") and BOTCC have been sharing original margin and pay/collect information. In 1987, an information sharing agreement was executed between all U.S. commodity clearing houses. The Options Clearing Corporation ("OCC") became a party to this information sharing agreement in 1993. Letter from Dennis Dutterer, Executive Vice President and General Counsel/Secretary, BOTCC, to Margaret R. Blake, Attorney, Division of Market Regulation, Commission (May 5, 1995). Pursuant to the information sharing agreement, each commodity clearing house and the OCC send its margin requirements and daily cash flow information to BOTCC every night. The following morning, BOTCC sends the information back to the clearing houses so they can compare the margin account excesses, deficits, and cash flows.

<sup>64</sup> The SCG was established in 1989 as a result of developments surrounding the October 1987 Market Break and subsequent studies on the causes of the Market Break. The stated purpose of the SCG is to increase cooperation and coordination among securities clearing entities and to facilitate the sharing of certain clearance and settlement information regarding surveillance and member risk monitoring. While SCG membership is limited to registered clearing agencies, the Commission encourages SCG to review its membership standards and consider whether certain clearing agencies with conditional registration exemptions should be eligible for membership.

that CCOS's membership in both of these information sharing systems should permit CCOS and other clearing organizations to be more aware of common member risks and to implement effective crisis management procedures if needed.

The Commission believes that CCOS's rules and procedures are adequately designed to protect CCOS and its participants against financial losses associated with its services. CCOS's financial risk management initiatives, including its initial capitalization, its twice daily margin collection,<sup>65</sup> and its committed credit facility, are aimed at preventing financial loss by participants and CCOS.<sup>66</sup> As a result, the Commission believes that CCOS's rules and procedures and the methods by which CCOS proposes to safeguard the financial security of its clearing facilities adequately satisfies the requirements of the Act.

#### d. Participation standards

Section 17A(b)(3)(B) of the Act enumerates certain categories of persons that a clearing agency's rules must authorize as potentially eligible for access to clearing agency membership and services. Section 17A(b)(4)(B) of the Act contemplates that a registered clearing agency have financial responsibility, operational capability, experience, and competency standards that are used to accept, deny, or condition participation of any participant or any category of participants enumerated in Section 17A(b)(3)(B). The Commission believes that an exempt clearing agency should impose the same standards. In addition, the Act recognizes that a clearing agency may discriminate among persons in the admission to or the use of the clearing agency if such discrimination is based on standards of financial responsibility, operational capability, experience and competence.

CCOS Rule 301 requires each member to maintain personnel and facilities adequate to ensure the expeditious and

<sup>65</sup> *Supra* note 28. The Commission believes that the method by which CCOS converts government securities to futures equivalents in its margin calculations is a prudent risk management measure.

<sup>66</sup> As discussed above, CCOS will begin operations with an initial capitalization of \$2 million and BOTCC's commitment to provide additional capital as necessary to cover CCOS's continuing costs of operations. CCOS will calculate margin requirements at least twice daily and will collect margin deficiencies from participants on T and on T+1 while retaining the authority to collect additional margin at any time. CCOS will establish a committed credit facility guaranteed by BOTCC. The credit facility initially will be \$5 million and will be increased in increments of \$5 million for each \$1 billion increase in CCOS's daily average net settlements over a 90 day period.

orderly transaction of business with CCOS or other participants. In addition, CCOS Rule 302 requires participants in CCOS to meet initial and continuing financial and operational standards as determined by the CCOS Board of Directors and administered by CCOS management.<sup>67</sup> Participation in CCOS will be open to members of BOTCC and members of the CBOT that are affiliated with members of BOTCC.<sup>68</sup> The Board of Directors also may approve access by other clearing agencies that are regulated by the Commission or are excepted from regulation by the Commission.<sup>69</sup>

<sup>67</sup> CCOS will monitor each participant's financial condition as measured by its financial stability, the level and quality of its earnings, and other generally accepted measures of liquidity, capital adequacy, and profitability.

<sup>68</sup> BOTCC's by-laws require BOTCC members to be CBOT members, approved by the CBOT board of directors for BOTCC membership. In addition, the BOTCC board of directors sets, from time to time, BOTCC membership requirements, including, but not limited to, financial and operational requirements, continuing compliance with CBOT and BOTCC rules, financial and other reporting, and such other factors as the BOTCC board may consider necessary or appropriate in assessing an applicant's suitability for participation in BOTCC. BOTCC also has the authority to require additional capital on a discretionary basis and parental guarantees on member proprietary positions. See, e.g., BOTCC By-Law 401.

BOTCC's minimum financial requirements for BOTCC corporate futures commission merchants ("FCM") include the greater of a specified amount of capital or a percentage of funds required to be segregated and secured pursuant to the Commodities Exchange Act, 7 U.S.C. §§ 1, *et seq.* (1988), combined with non-customer margin requirements for proprietary trading. Once admitted, a clearing member may operate below the initial minimum, but must maintain a specific minimum amount of capital with no formal action taken (Level I). When the clearing member's initial minimum falls below the Level I minimum, but remains above the Level II minimum, the clearing member is subject to detailed financial analysis with a written report provided to senior management recommending no action or a change in status to Level III. At Level III the clearing member must maintain a minimum amount of capital and is immediately subject to 125% of normal margin requirements and provision of pro forma weekly capital computations for one month. If the capital ratios do not meet Level I standards by the next month, the clearing member will be moved to Level IV status. The Risk Management Committee is notified when the firm is subject to Level III requirements. When the clearing member falls below the Level III minimum they will be immediately subject to 150% of normal margin requirements. A formal report will be prepared for the Risk Management Committee outlining the problem with a recommendation for appropriate action which may include a further increase in margin requirements, restrictions on business activities or suspension or termination of clearing privileges. Letter from Dennis A. Dutterer, General Counsel, BOTCC, to Margaret R. Blake, Attorney, Division of Market Regulation, Commission (May 1, 1995).

<sup>69</sup> Clearing agencies that are granted access to CCOS's services are not considered participants of CCOS for the purposes of CCOS's Rules except to the extent determined by the Board of Directors.

Continued

The Commission believes that temporarily exempting CCOS from Sections 17A(b)(3)(B) and 17A(b)(4)(B) of the Act is appropriate. CCOS rules do not meet the requirements of Section 17A(b)(3)(B) of the Act with regard to participants because CCOS rules do not provide for membership by all of the enumerated categories of persons. In addition, CCOS rules do not specify applicant and member financial standards as contemplated in Section 17A(b)(4)(B) of the Act.<sup>70</sup> Financial and operational membership standards depend on factors that CCOS will develop based on the scope of CCOS's operations. CCOS's Board of Directors will review these factors from time to time and establish membership standards based on its findings. Presently, however, the participant standards have not been determined as required by the Act, and an exemption from participation requirements is appropriate.

### C. Comments and the Commission's Responses

#### 1. Fragmentation of the Clearance and Settlement of Government Securities

Some commenters believe that approval of CCOS's exemption application will result in fragmentation of the clearance and settlement of government securities and will preclude one account settlement. These commenters believe allowing CCOS to settle government securities trades in a manner not effectively integrated with the existing registered clearing corporation process would be deleterious to the systemic risk management currently provided by GSCC by causing lowered overall netting capability, incomplete management of the risk exposure presented by individual firms, and impairment of crisis management. The commenters argue that government securities transactions will operate in the safest and most efficient manner if participants have all of their government securities trades netted, margined, and settled through one central facility ("one account settlement").<sup>71</sup>

Following Commission approval of its application and upon receipt of a bona fide request for access, CCOS will prepare and submit to the Commission for review, rules providing broader access to CCOS services for persons other than those currently envisioned by the CCOS Rules, consistent with the requirements of Section 17A of the Act.

<sup>70</sup> CCOS Rule 302 and Rule 309 anticipate the determination of participant financial standards by the Board of Directors. At this time, however, the standards remain undefined.

<sup>71</sup> One-account settlement enables a market participant to settle all of its trades through one clearing agency regardless of the location of the

Although commenters fear fragmentation in the clearance and settlement of government securities, the clearance and settlement of government securities transactions already is subject to diverse clearing arrangements. While GSCC is the only registered clearing agency providing clearance and settlement services in the government securities market, it is not the sole government securities clearing facility. Banks currently clear and settle substantial amounts of government securities transfers among themselves through the Federal Reserve System's book-entry wire system without any involvement by GSCC. Furthermore, BOTCC provides clearance and settlement services for futures and options on government securities including the physical delivery of government securities to satisfy futures delivery obligations.

Section 17A(a)(2) of the Act directs the Commission, having due regard for the maintenance of fair competition among clearing agencies, to facilitate the establishment of linked or coordinated facilities for clearance and settlement of transactions in securities, securities options, contracts of sale for future delivery and options thereon, and commodity options.<sup>72</sup> Moreover, the requirement in Section 17A(b)(3)(B)(ii) that clearing agencies admit other clearing agencies as participants appears to indicate that Congress, and the Commission which worked with Congress in developing the 1975 Amendments,<sup>73</sup> contemplated a national system for the clearance and settlement of securities transactions in which there could be multiple clearing agencies serving a securities market.

Where more than one clearing agency for a market exists, the Commission believes that the linking of these clearing agencies, such as the envisioned linkage of CCOS, BOTCC, and GSCC, promotes competition and innovation while still allowing for one-account settlement. The Commission believes that one-account settlement can be achieved in a multiple-clearing agency environment through the use of interclearing agency links and interfaces.<sup>74</sup>

other parties to the trades and regardless of the markets in which the trades were executed.

<sup>72</sup> *Standards Release, supra* note 53.

<sup>73</sup> Securities Acts Amendments of 1975, Pub. L. No. 94-29 § 17A(a), 89 Stat. 97.

<sup>74</sup> In the Commission release addressing conditions for the National Securities Clearing Corporation's ("NSCC") approval as a clearing agency, the Commission stated that "even though a broker-dealer would be able to achieve one account processing through any one of the clearing corporation components of the National System, a broker-dealer would be able to use more than one

The approach to one-account processing for the clearance and settlement of government securities transactions advocated by GSCC, where one clearing agency compares, nets, and settles all trades in government securities, is not the approach taken by the Commission when establishing the National System for clearance and settlement. The Commission believes that rather than mandate centralized clearance and settlement in the government securities market, it should encourage the coordination of any competing systems through economically efficient linkages that ultimately will foster both competition and investor confidence. For these reasons, the Commission, as a part of its granting CCOS an exemption from clearing agency registration, is urging CCOS, BOTCC, and GSCC to develop settlement interface and cross-margining programs.<sup>75</sup>

#### 2. Illusory Regulatory Oversight

As stated above, BOTCC will be the sole shareholder and will act as the facilities manager for the CCOS operations. Because of the relationship between CCOS and BOTCC, some commenters expressed concern that the Commission would be unable to oversee appropriately the operations of CCOS. Furthermore, these commenters stated that the Commission's regulatory authority over CCOS would be illusory because CCOS would be controlled and operated by BOTCC. These commenters stated that CCOS is merely a shell for BOTCC and that approval of CCOS's application will allow BOTCC to provide clearance and settlement services for government securities. Finally, several commenters noted their concern with and objection to CCOS performing the services of a registered clearing agency without the federal oversight imposed upon all other registered clearing agencies. These commenters argued that for the safety and soundness of the national clearance and settlement system, CCOS should be subject to the same standards and requirements as all other registered clearing agencies.

Under the proposal, CCOS will share office space and staff with BOTCC, and BOTCC will perform all margin calculations and collection and payment

clearing corporation if the broker-dealer chose to do so." Later in that same release the Commission stated, "The development and expansion of interfaces during the past year, particularly the establishment of regional interfaces for the processing of over-the-counter transactions, has made one-account processing almost universally available." Securities Exchange Act Release No. 12954 (November 3, 1976), 41 FR 49722.

<sup>75</sup> *Supra* note 45.

functions for CCOS. Sharing office space and staff among clearing agencies and contracting out certain clearing agency functions is not unusual.<sup>76</sup>

The standards established for registration of a clearing agency that hires a facility manager to perform data or other processing functions requires the clearing agency to maintain appropriate procedures to insure the prompt and accurate clearance and settlement of securities transactions.<sup>77</sup> The clearing agency also should assure itself that the facilities manager complies with all of the appropriate safeguards set forth in the Standards Release. The Standards Release also requires any such clearing agency to assure itself that its facility manager will cooperate fully with clearing agency auditors, Commission examiners, independent public accountants, and any other appropriate regulatory agency to the same extent as a clearing agency which conducts its own processing functions.

The Commission's experience with facilities management arrangements is that the Commission can carry out its clearing agency oversight responsibilities through its jurisdiction over the clearing agencies. Facilities managers cannot, for example, unilaterally make systems changes that would alter the rules of the clearing agency or the rights and obligations of clearing agency participants without having those changes filed by the clearing agency with the Commission.<sup>78</sup> To the extent that the Commission needs access to a facilities manager's premises or personnel, the Commission expects and has found clearing agencies and their facilities managers to be cooperative with Commission staff.<sup>79</sup>

Regarding commenters' concerns about the need for uniform federal oversight, in granting its application for

exemption the Commission is requiring CCOS to meet basically the same standards as those registered clearing agencies must meet, and believes that CCOS has set forth a plan to enable it to meet those standards.<sup>80</sup> CCOS recognizes that it must comply with the regulatory standards governing the operations of clearing agencies in a manner consistent with its operational structure and with the specific services it will offer. CCOS has represented that it intends to comply fully with all relevant regulatory requirements applicable to other clearing agencies.<sup>81</sup>

### 3. Fair Competition

Some commenters believe that the approval of CCOS's application will not promote fair competition among clearing agencies as contemplated by Section 17A of the Act because CCOS will have exclusive access to cross-margining with BOTCC with respect to government securities. The Commission recognizes that to promote competition among clearing agencies, the benefits of CCOS's operations (e.g., greater access to the government securities market by persons other than primary dealers, the development of improved systems capabilities and new services, and perhaps lower prices to participants) must not "impose any burden on competition not necessary or appropriate in furtherance of the purposes" of the federal securities laws.<sup>82</sup>

Since approval of the first cross-margining program in 1988,<sup>83</sup> the Commission repeatedly has found that cross-margining programs are consistent with clearing agency responsibilities under Section 17A of the Act. As the Commission has previously noted, cross-margining programs, among other things, tend to enhance clearing member and systemic liquidity both in times of normal trading and in times of stress.<sup>84</sup> Under routine trading, clearing

members that participate in cross-margining programs have lower margin requirements which help clearing members manage their cash flows by increasing available cash to be used for other purposes. In times of market stress and high volatility, lower margin requirements could prove crucial in maintaining the liquidity of clearing members and thus could enhance liquidity in the market as a whole. By enhancing market liquidity, cross-margining arrangements remove impediments to and help perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.<sup>85</sup>

Because CCOS and BOTCC have proposed a cross-margining plan between themselves, the Commission has encouraged CCOS, BOTCC, and GSCC to create and implement a cross-margin arrangement so that fair competition in the clearing of government securities will exist. The Commission believes that competition among clearing agencies should not be based on margin levels but should be based on technology, services, or product types offered by the competing clearing agencies. Therefore, the Commission views the implementation of a cross-margining arrangement among CCOS, BOTCC, and GSCC as vital to the satisfaction of the statutory goals of Section 17A of the Act. Towards this end, CCOS, BOTCC, and GSCC have entered into negotiations regarding cross-margining and linkage agreements. However, because such an agreement has not yet been finalized, the Commission believes it is appropriate to allow CCOS to begin operations with certain limits in place prior to the implementation of cross-margining and linkage agreements.<sup>86</sup>

### D. Conditions

This Order exempts CCOS from registration as a clearing agency under Section 17A of the Act subject to certain conditions which the Commission believes are appropriate for an entity operating under an exemptive framework. As explained in detail below, these conditions include:

<sup>85</sup> Shortly after the 1987 market break, then Treasury Secretary Nicholas F. Brady referred to the clearance and settlement system as the weakest link in the nation's financial system and noted that improvements to the clearance and settlement system, such as those provided by cross-margining arrangements, would "help ensure that a securities market failure does not become a credit market failure." *The Market Reform Act of 1989: Joint Hearings on S. 648 before the Subcomm. on Securities and the Senate Comm. on Banking, Housing and Urban Affairs*, 101st Cong., 1st Sess. 225 (Oct. 26, 1989) (statement of Nicholas F. Brady, Secretary of the Treasury).

<sup>86</sup> *Supra* note 45.

<sup>76</sup> In 1988, GSCC began operations with a facilities management agreement with NSCC whereby NSCC provides GSCC with the necessary administrative and technical services. GSCC continues to share staff and office space with its affiliates, NSCC and International Securities Clearing Corporation. In fact, NSCC and GSCC do not operate their own clearance and settlement systems; instead, they contract that function out to the Securities Industry Automation Corporation.

<sup>77</sup> *Standards Release, supra* note 53.

<sup>78</sup> As discussed below, because CCOS will operate under an exemption from registration as a clearing agency, it will not file rule changes under the Section 19(b) process. Rather, CCOS will have to file amendments to its Form CA-1 exemption application and request modification of its exemptive order to change its rules or procedures.

<sup>79</sup> The Commission generally has not required that facilities management contracts specifically grant the Commission unlimited access to a facilities manager's premises. If in the future the Commission perceives a need for express authority for such access, it will revisit the issue at that time.

<sup>80</sup> *Id.*

<sup>81</sup> Letters from John C. Hiatt, President and Chief Executive Officer, BOTCC, to Jonathan G. Katz, Secretary, Commission (May 23 and June 22, 1994).

<sup>82</sup> 15 U.S.C. 78q-1(b)(3)(i) (1988).

<sup>83</sup> Securities Exchange Act Release No. 26153 (October 3, 1988), 53 FR 39567 (approving nonproprietary cross-margining program between OCC and ICC).

<sup>84</sup> E.g., Securities Exchange Act Release Nos. 30413 (February 26, 1992), 57 FR 7830 (order approving OCC/Kansas City Board of Trade Clearing Corporation cross-margining program for proprietary positions); 29991 (November 26, 1991), 56 FR 61458 (order approving expansion of OCC/CME cross-margining program to include positions held for market professionals); 29888 (October 31, 1991), 56 FR 56680 (order approving OCC/BOTCC cross-margining program for proprietary positions); 27296 (September 26, 1989), 54 FR 41195 (order approving OCC/CME cross-margining program for proprietary positions).

1. Establishment of acceptable linkage and cross-margining agreements between CCOS, BOTCC, and GSCC;

2. The Commission's access to CCOS and related BOTCC facilities and records in order to inspect CCOS's operations and to insure CCOS's compliance with the federal securities laws and this Order;

3. The requirement that all proposed material changes to CCOS's rules, operations, and systems be submitted as proposed amendments to its Form CA-1;

4. The requirement that CCOS notify the Commission of participant defaults;

5. The establishment of sound automation review programs including system change notification procedures and system outage notification procedures; and

6. Until the establishment of acceptable linkage and cross-margining agreements between CCOS, BOTCC, and GSCC, the requirement that CCOS limit its activity to no more than \$3 billion net daily settlement for government securities and \$12 billion for dollar rolls.

### 1. Linkage and Cross-Margining

Throughout this Order, the Commission has emphasized the importance of linkage and cross-margining agreements between CCOS, BOTCC, and GSCC. While the Commission recognizes that such agreements will entail substantial negotiations among the parties, the Commission also recognizes the importance of allowing CCOS to begin operations without further delay.<sup>87</sup> Therefore, the Commission is approving CCOS's application for exemption and will allow CCOS to commence operating with a volume cap of \$3 billion net daily settlement for government securities and \$12 billion for dollar rolls.<sup>88</sup> During CCOS's initial period of operation, the Commission anticipates that CCOS, BOTCC, and GSCC will finalize linkage and cross-margining agreements pursuant to the Commission's recommendations at which time CCOS will be permitted to proceed to its exemptive limits of \$6 billion and \$24 billion.<sup>89</sup> Either upon

<sup>87</sup> As noted, a joint user committee established by the Boards of Directors of GSCC, BOTCC, and CCOS will provide to the respective Boards within three months of formation of the committee a report of its analysis and proposed resolutions to the outstanding linkage and cross-margining issues. The Commission expects prompt action with regard to the establishment of linkage and cross-margining facilities, and if necessary, the Commission will use its authority under the Act to direct that such facilities be established. *Supra* notes 45-46 and accompanying text.

<sup>88</sup> These amounts are half of the maximum daily net settlement amounts agreed to by CCOS and the Division, as discussed in note 35. The Commission believes these limits are large enough to allow CCOS to begin effective operations while it works with GSCC to develop linkage and cross-margining facilities to advance efficient clearance and settlement.

<sup>89</sup> These are the maximum average daily net settlements agreed to by CCOS and the Division

or by its own initiative, the Commission may review whether the current volume limitations should be modified or removed. Such review may be conducted even if the linkage and cross-margining agreements among CCOS, BOTCC, and GSCC have not been finalized.

### 2. Inspection

As noted above, pursuant to this Order the Commission has the authority to inspect at any time the operations of CCOS in order to insure its compliance with its obligations to safeguard securities and funds and to provide prompt and accurate clearance and settlement of securities transactions. As facilities manager for CCOS, BOTCC's facilities and operations as they pertain to CCOS are also subject to inspection by the Commission in order that the Commission may assure itself that BOTCC's operations with regard to CCOS are in compliance with the safety and soundness requirements set forth in the Act. The Commission expects to coordinate any inspections of BOTCC with the CFTC.

### 3. Rule Changes

Under Section 19(b)(1) of the Act,<sup>90</sup> a registered clearing agency as a self-regulatory organization must file proposed rule changes with the Commission for approval. The Commission uses the rule filing process as a method to monitor and regulate the operations of clearing agencies. Because CCOS is not a registered clearing agency, amendments to its rules need not be made through use of the Section 19(b) process. As a condition to this Order, however, should CCOS desire to amend its rules, it must submit proposed amendments to its Form CA-1 for Commission review.<sup>91</sup> The Commission believes that this method of notifying the Commission of proposed changes at CCOS will allow the Commission to conduct a thorough examination of each proposed change and its potential effects on CCOS and the clearance and settlement of government securities. Submission by CCOS of a proposed amendment to its Form CA-1 each time it proposes to make a change in its rules, operations,

during the exemptive period. In addition, limits on CCOS's clearing capacity must be considered in light of the limits to be placed on CBB as a government securities broker. CCOS will be limited to clearing \$6 billion in net daily cash securities and \$24 billion in dollar rolls on an average basis over a ninety-day period. *Supra* note 35.

<sup>90</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>91</sup> CCOS will be required to amend its CA-1 application for any proposed changes to its stated policies, practices, or interpretations as that phrase is defined in Rule 19b-4 (17 CFR 240.19b-4).

or systems is an appropriate method by which the Commission can exercise its regulatory responsibilities with regard to CCOS.

### 4. Notice of Defaults

CCOS will be required to notify the Commission of any defaults by participants so that the Commission can monitor the situation and determine if all appropriate methods of recovery are being utilized. Failure by a participant or user could create or exacerbate systemic risks. Prompt notification should help facilitate cooperation and coordination among regulators and market participants.

### 5. Automation Review

CCOS also will be required to establish a sound automation review program based upon the Commission's second automation review policy statement ("ARP II").<sup>92</sup> The automation review program should include appropriate planning processes (i.e., contingency planning and security assessment), independent reviews by CCOS of its systems, notification to the Commission of significant systems changes, and procedures for timely notification of significant system outages. The Commission believes the automation review program is essential for the safety and soundness of CCOS's operations and the national market system because it will require, among other things, CCOS to evaluate regularly its processes related to the capacity and vulnerabilities of its automated systems.

### 6. Limits on Activity

The Commission believes that until acceptable linkage and cross-margining plans are in place, CCOS's clearing activity should be limited to one half of the maximum daily net settlement amounts agreed to by CCOS and the Division. These limit amounts are no more than \$3 billion in net daily settlement for government securities, and \$12 billion for dollar rolls. Once the linkage and cross-margining plans are in place, CCOS's activity may proceed to the full amounts agreed to in this Order.

The Commission reserves the right to modify by order the terms, scope, or conditions of CCOS's exemption from registration as a clearing agency, including such terms, scope, or condition that the Commission may issue in the future regarding amendments to CCOS's Form CA-1, if the Commission determines that such modification is appropriate for the

<sup>92</sup> Securities Exchange Act Release Nos. 27445 (November 16, 1989) [54 FR 48704] ("ARP I"), and 29185 (May 9, 1991) [56 FR 22489], ("ARP II").

protection of investors or in the public interest. Furthermore, the Commission reserves the right to suspend or revoke this exemption or to censure or impose limitations upon the activities, functions, and operations of CCOS if the Commission finds that CCOS has violated or is unable to comply with any of the provisions set forth in this Order or in its own rules or that CCOS has failed without reasonable justification to enforce compliance with any provision of its own rules by one of its participants.

#### IV. Conclusion

The Commission finds that CCOS's application for exemption from registration as a clearing agency meets the standards and requirements deemed appropriate for such an exemption including those standards set forth under Section 17A of the Act.

It is therefore ordered, pursuant to Section 19(a)(1) of the Act, that the application for exemption from registration as a clearing agency filed by the Clearing Corporation for Options and Securities (File No. 600-27) be, and hereby is, approved subject to the conditions listed in this Order.

By the Commission.

Margaret H. McFarland,  
*Deputy Secretary.*

[FR Doc. 95-30660 Filed 12-15-95; 8:45 am]

BILLING CODE 8010-01-P

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### SMALL BUSINESS ADMINISTRATION

#### Data Collection Available for Public Comments and Recommendations

**ACTION:** Notice and request for comments.

**SUMMARY:** In accordance with the Paperwork Reduction Act of 1995, this notice announces the Small Business Administration's intentions to request approval on a new, and/or currently approved information collection.

**DATES:** Comments should be submitted on or before February 16, 1996.

**FOR FURTHER INFORMATION CONTACT:** Jacqueline White, Management Analyst, Small Business Administration, 409 3rd Street, S. W., Suite 5000, Washington, D. C. 20416. Phone Number: 202-205-6629. Copies of these collections can also be obtained.

**SUPPLEMENTARY INFORMATION:**

*Title:* Office of Women's Business Ownership Year End Follow Up Survey

*Type of Request:* New Information Collection

**Description of Respondents:** Women-owned businesses

**Annual Responses:** 2,750  
**Annual Burden:** 825

**Comments:** Send all comments regarding this information collection to Harriet Fredman, Small Business Administration, Women's Business Ownership, 409 3rd Street, S. W., Suite 6200, Washington, D. C. 20416. Phone No. 202-205-6673. Send comments regarding whether this information collection is necessary for the proper performance of the function of the agency, accuracy of burden estimate, in addition to ways to minimize this estimate, and ways to enhance the quality.

*Dated:* December 13, 1995.

Jacqueline White,

*Acting Chief, Administrative Information Branch.*

[FR Doc. 95-30679 Filed 12-15-95; 8:45 am]

BILLING CODE 8025-01-P

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#### Data Collection Available for Public Comments and Recommendations

**ACTION:** Notice and request for comments.

**SUMMARY:** In accordance with the Paperwork Reduction Act of 1995, this notice announces the Small Business Administration's intentions to request approval on a new, and/or currently approved information collection.

**DATES:** Comments should be submitted on or before February 16, 1996.

**FOR FURTHER INFORMATION CONTACT:** Jacqueline White, Management Analyst, Small Business Administration, 409 3rd Street, SW., Suite 5000, Washington, DC 20416. Phone Number: 202-205-6629. Copies of these collections can also be obtained.

**SUPPLEMENTARY INFORMATION:**

*Title:* Prime Contracts Program Quarterly Report.

*Type of Request:* Extension of a currently approved information collection.

*Description of Respondents:* Procurement Center Representatives.

*Annual Responses:* 1,340.

*Annual Burden:* 670.

**Comments:** Send all comments regarding this information collection to Susan Monge, Small Business Administration, Office of Government Contracting, 409 3rd Street, SW., Washington, DC 20416. Phone No.: 202-205-6471.

Send comments regarding whether this information collection is necessary for the proper performance of the

function of the agency, accuracy of burden estimate, in addition to ways to minimize this estimate, and ways to enhance the quality.

Jacqueline White,

*Acting Chief, Administrative Information Branch.*

[FR Doc. 95-30680 Filed 12-15-95; 8:45 am]

BILLING CODE 8025-01-P

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### DEPARTMENT OF TRANSPORTATION

#### Coast Guard

[CGD 95-084]

#### Review of Icebreaking Program for the East Coast of the United States

**AGENCY:** Coast Guard, DOT.

**ACTION:** Request for comments.

**SUMMARY:** The Coast Guard is reviewing its domestic icebreaking mission along the east coast of the United States from Maine to Virginia. Consistent with the President's effort to reinvest government, this review is necessary to assess the effectiveness of the present program, the impacts resulting from changes in the Coast Guard's icebreaking fleet, and the needs of the future. The Coast Guard is requesting comments and data to assist in this review.

**DATES:** Comments must be received on or before February 16, 1996.

**ADDRESSES:** Written comments may be mailed to the Chief, Ice Operations Division, U.S. Coast Guard Headquarters, 2100 Second Street S.W., Washington, DC 20593-0001, or may be delivered to room 1202A at the above address between 8 a.m. and 3 p.m., Monday through Friday, except Federal holidays. The telephone number is (202) 267-1450.

**FOR FURTHER INFORMATION CONTACT:** LCDR Robert Garrett, Icebreaker Facilities Branch, Ice Operations Division, Office of Navigation Safety and Waterway Services between 7:30 a.m. and 4 p.m., Monday through Friday, except Federal holidays. Telephone (202) 267-1460, telefax (202) 267-4425.

**SUPPLEMENTARY INFORMATION:**

Request for Comments

The Coast Guard encourages interested persons to participate in this review by submitting written views and data on icebreaking operations on the east coast of the United States. Persons submitting comments should include their names and addresses, identify this docket (CGD 95-084), identify the aspect of icebreaking operations on