

submission deadline, as required, in accordance with future business developments and market practices. Finally, the earlier submission deadline supports GSCC's cross-margining initiatives with other clearing corporations, including those in Europe. Earlier submission will facilitate close coordination of data transfer among clearing corporation across multiple time zones.

The imposition of the fine schedule is important in order to promote full compliance with the earlier submission deadline. The proposed fine schedule closely tracks GSCC's existing fine schedule for the late payment of funds settlement debits and the late satisfaction of clearing fund deficiency calls. Like the existing fine schedule, the proposed fine schedule provides for a warning mechanism before any fine is imposed. In addition, the dollar amounts of the fines in the proposed schedule are similar to those in the existing schedule.

GSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder because it will ensure that members will be able to reconcile their trading activity by the end of the processing day and will support GSCC initiatives that will provide important benefits to members such as real-time processing and cross-margining.

#### *B. Self-Regulatory Organization's Statement on Burden on Competition*

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

#### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others*

Written comments relating to the proposed rule change have not yet been solicited or received.<sup>3</sup> GSCC will notify the Commission of any written comments received by GSCC.

### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty-five days of the date of publications 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

<sup>3</sup> Members will be notified of the rule change filing and comments will be solicited by an Important Notice.

for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change or

(B) institute proceeds to determine whether the proposed rule change should be disapproved.

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, DC. Copies of such filing will also be available for inspection and copying at GSCC's principal office. All submissions should refer to File No. SR-GSCC-00-09 and should be submitted by September 12, 2001.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>4</sup>

**Jonathan G. Katz,**  
*Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-44714; File No. SR-GSCC-00-08]**

### **Self-Regulatory Organizations Government Securities Clearing Corporation; Order Approving a Proposed Rule Change Relating to Permitting Clearing Fund Offsets for Category 2 Dealer Netting Members and Category 2 Futures Commission Merchants**

August 16, 2001.

On July 31, 2000, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and

<sup>4</sup> 17 CFR 220.30-3(a)(12).

Exchange Commission ("M" a proposed rule change (File No. SR-GSCC-00-08) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published in the **Federal Register** on January 11, 2001.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

### **I. Description**

GSCC has established two membership categories, "category 1" and "category 2," for dealers and futures commission merchants ("FCMs") that want to participate in GSCC's netting system. GSCC established category 2 membership for dealers and FCMs that meet all of GSCC's requirements for participating in the netting system but have less net worth than GSCC's category 1 members. The minimum net worth requirement for category 1 members is \$50 million, and the minimum net worth requirement for category 2 members is \$25 million.<sup>3</sup>

While category 2 members have a lower net worth threshold than category 1 members, category 2 members currently have a more stringent clearing fund requirement under GSCC Rule 4, Section 2(d). Specifically, the clearing fund requirement for category 2 members is calculated (i) without the benefit of any of the offsets across opposite net settlement positions<sup>4</sup> that are permitted for category 1 members and (ii) with margin factors set at the 99 percent-of-movements confidence level.<sup>5</sup> (Margin factors for a category 1 member are set at the 95 percent confidence level.) In addition, if a category 2 member elects to receive credit forward margin amounts<sup>6</sup> in its daily funds-only settlements, its margin factors are set at levels that are based on the greater of: (i) the category 2 margin factors or (ii) margin factors adjusted to reflect GSCC's historical two-day price

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

<sup>2</sup> Securities Exchange Act Release No. 43793 (Jan. 3, 2001), 66 FR 2465 (Jan. 11, 2001).

<sup>3</sup> Both categories have identical requirements for minimum excess net or liquid capital of \$10 million.

<sup>4</sup> This means that GSCC does not allow category 2 members to offset long positions against short positions.

<sup>5</sup> This means that the category 2 margin factors are based on GSCC's historical daily price volatility data covering 99 percent of all movements.

<sup>6</sup> A credit forward margin amount refers to GSCC's daily process of computing a member's collateral by marking to market the member's transactions that will settle in the future. The result will produce a net credit or a net debit. If the member has a net credit, it can elect to have GSCC pay it the value of the net credit. If the member has a net debt, it must pay GSCC.

volatility data covering 95 percent of all movements.<sup>7</sup>

GSCC currently has no active category 2 members. GSCC believes that certain entities that meet the eligibility requirements for category 2 membership and that recognize the many benefits of GSCC's netting system have not applied for membership because they consider the liquidity burden associated with the current clearing fund calculation for category 2 members to be too onerous. In order to broaden the availability of GSCC's netting services, GSCC proposes to allow for offsets in the clearing fund calculation for category 2 members. The current prohibition of offsets for category 2 members was implemented years ago as a conservative measure designed to avoid any risk arising from the creation of the category 2 level. Now, after many years of experience in conducting risk assessments, netting, and calculating margin, GSCC believes that prohibiting offsets is overly conservative and punitive. In addition, expanding the roster of GSCC netting members should also enhance the netting benefits for the existing members that currently trade with potential category 2 members.

Recognizing that category 2 members have smaller net worth bases and may therefore be deemed to pose a greater risk of default than category 1 members, the margin factors applied to category 2 members will continue to be set at the 99 percent confidence level (versus 95 percent for category 1 members). Furthermore, category 2 members will still be required to make an election regarding the receipt of forward margin. By permitting certain offsets for category 2 members and at the same time maintaining the more stringent margin factor requirements, GSCC will collect sufficient margin from category 2 members while expanding the range of netting members in a prudent manner.

## II. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder and particularly with the requirements of Section 17A(b)(3)(F)<sup>8</sup> of the Act. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of

the clearing agency or for which it is responsible. The Commission finds that GSCC's rule change meets these requirements because it should result in additional broker-dealers and banks becoming GSCC netting members, which will promote the prompt and accurate clearance and settlement of securities transactions. In addition, by maintaining the more stringent margin factor requirements for category 2 members, GSCC should collect sufficient margin from duly approved category 2 members to allow GSCC to assure the safeguarding of securities and funds even while permitting certain offsets for category 2 members.

## III. Conclusion

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

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-00-08) be, and hereby is, approved.

For the Commission by the Division of Market Regulation pursuant to delegated authority.<sup>9</sup>

**Jonathan G. Katz,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44709; File No. SR-Phlx-2001-71]

### Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Trading of Standardized Equity Options on Trust Issued Receipts

August 16, 2001.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 19, 2001, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change, and amended such proposed rule change on August

13, 2001,<sup>3</sup> as described in Items I and II below, which Items have been prepared by the Phlx. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons and to approve the proposal and Amendment No. 1 on an accelerated basis.

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

The Exchange proposes to adopt new listing and maintenance standards to allow for trading of standardized equity options on trust issued receipts. Below is the text of the proposed rule change. Proposed new language is in italics.

\* \* \* \* \*

#### Rule 1009. Criteria for Underlying Securities

Rule 1009(a)-(c)—No change.

\* \* \* \* \*

#### Commentary

.01-.06—No change.

.07 *Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:*

(a)(i) *the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Commentary .01 to this Rule 1009; or*

(ii) *the Trust Issued Receipts must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and*

(b) *not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.*

\* \* \* \* \*

#### Rule 1010. Withdrawal of Approval of Underlying Securities

Rule 1010—No change.

\* \* \* \* \*

<sup>3</sup> Amendment No. 1 added language stating that options on trust issued receipts will be physically-settled and have the American-style exercise feature and that FLEX Equity options will be available with both the American-style and European-style exercise feature. See letter from Carla Behnfeldt, Director, New Product Development Group, Legal Department, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation, SEC, dated August 10, 2001.

<sup>7</sup> A category 2 member that elects to receive credit forward margin amounts will have higher margin factors than a category 2 member that does not make that election.

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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