

and a national market system, to protect investors and the public interest, and is not designed to permit unfair discrimination between customers, issuers, brokers and dealers.

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

The Exchange believes that the proposed rule change will impose no burden on competition.

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

No written comments were solicited or received with respect to the proposed rule change.

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

The foregoing rule change has become effective pursuant to section 19(b)(3)(A)(iii) of the Act¹¹ and Rule 19b-4(f)(3)¹² thereunder because the Exchange has designated it as concerned solely with the administration of the Exchange. At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, 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. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All

submissions should refer to File No. SR-Amex-2001-111 and should be submitted by February 21, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 02-2370 Filed 1-30-02; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45335; File No. SR-GSCC-2001-03]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Relating to Establishment of a Cross-Margining Agreement With the Board of Trade Clearing Corporation

January 25, 2002.

I. Introduction

On April 4, 2001, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-GSCC-2001-03 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the *Federal Register* on September 11, 2001.² No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description³

On August 19, 1999, the Commission approved GSCC's proposed rule filing to establish a cross-margining program with other clearing organizations and to begin its program with the New York Clearing Corporation ("NYCC").⁴ More recently, the Commission approved GSCC's proposed rule filing to establish a similar cross-margining program with the Chicago Mercantile Exchange ("CME").⁵ GSCC is now establishing a

similar cross-margining arrangement with the Board of Trade Clearing Corporation.⁶

This development is significant because the Chicago Board of Trade, for which BOTCC clears, is by far the largest Treasury futures exchange market, and certain of its products, such as the 10-Year Note futures contract, which will be cross-margined with GSCC products, continue to experience growth in volume. Thus, establishing the cross-margining program between GSCC and BOTCC has the potential to provide significant collateral savings to the industry in general and to GSCC's and BOTCC's common members in particular. From each clearing organization's perspective, the cross-margining program will provide important risk management benefits. These benefits include such things as providing the clearing organizations with more information concerning members' intermarket positions to enable the clearing organizations to make more accurate decisions regarding the true risk of the positions to the clearing organizations and encouraging coordinated liquidation processes for a joint participant, or a participant and its affiliate, in the event of an insolvency.⁷

A. GSCC's Cross-Margining Program

GSCC believes that the most efficient and appropriate approach for establishing cross-margining programs for fixed-income and other interest rate products is to do so on a multilateral basis with GSCC as the "hub." Each clearing organization that participates in a cross-margining program with GSCC, such as NYCC, CME, and now BOTCC, (hereinafter "Participating CO") enters into a separate cross-margining agreement between itself and GSCC. Each of the agreements will have similar terms and no preference will be given by GSCC to one Participating CO over another.

Cross-margining is available to any GSCC netting member (with the exception of inter-dealer broker netting

GSCC-00-13]. In addition to approving GSCC's cross-margining program with the CME, the order granted approval to change GSCC Rule 22, Section 4, to clarify that before GSCC credits an insolvent member for any profit realized on the liquidation of the member's final net settlement positions, GSCC will fulfill its obligations with respect to that member under cross-margining agreements.

⁶ BOTCC is a Delaware corporation that acts as the clearing organization for certain futures contracts and options on futures contracts that are traded on the Chicago Board of Trade and that are regulated by the Commodity Futures Trading Commission.

⁷ The GSCC-BOTCC cross-margining agreement requires ownership of 50 percent or more of the common stock of an entity to indicate control of the entity for purposes of the definition of "affiliate."

¹³ 17 CFR 200.30-3(a)(12).

¹¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 44766 (September 5, 2001), 66 FR 47251.

³ The description of GSCC's cross-margining program is drawn largely from representations made by GSCC.

⁴ Securities Exchange Act Release No. 41766 (August 19, 1999), 64 FR 46737 (August 26, 1999) [File No. SR-GSCC-98-04]. The requisite rule changes necessary for GSCC to engage in cross-margining programs with other clearing organizations were made in the NYCC cross-margining rule filing.

⁵ Securities Exchange Act Release No. 44301 (May 11, 2001), 66 FR 28207 (May 22, 2001) [File No. SR-

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19-4(f)(3).

members) that is, or that has an affiliate that is, a member of a Participating CO. Any such member (or pair of affiliated members) may elect to have its margin requirements at both clearing organizations calculated based upon the net risk of its cash and repo positions at GSCC and of its offsetting and correlated positions in related contracts carried at the Participating CO. Cross-margining is intended to lower the cross-margining participant's (or pair of affiliated members') overall margin requirement. The GSCC member (and its affiliate, if applicable) will sign an agreement under which it (or they) agree to be bound by the cross-margining agreement between GSCC and the Participating CO and which allows GSCC or the Participating CO to apply the member's (or its affiliate's) margin collateral to satisfy any obligation of GSCC to the Participating CO (or vice versa) that results from a default of the member (or its affiliate).

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

GSCC computes the amount by which the cross-margining participant's margin requirement can be reduced at each clearing organization by comparing the participant's positions and the related margin requirements at GSCC as against those at each Participating CO. GSCC offsets each cross-margining participant's residual margin amount at GSCC against the offsetting residual margin amounts of the participant (or its affiliate) at each Participating CO.⁸ If, within a given pair of offset classes, the margin that GSCC has available for a participant is greater than the combined margin submitted by the Participating COs, GSCC will allocate a portion of its margin equal to the combined margin at the Participating COs. If, within a given pair of offset classes, the combined margin submitted by the Participating COs is greater than the margin that GSCC has available for that participant, GSCC will first allocate its margin to the Participating CO with the most highly correlated position. If, within a given

⁸ The residual margin amount is the long margin amount or the short margin amount in each offset class that is available for cross-margining after all internal offsets are conducted within and between offset classes at a particular clearing organization.

pair of offset classes, the positions are equally correlated, GSCC will allocate pro rata based upon the residual margin amount available at each Participating CO. GSCC and each Participating CO may then reduce the amount of collateral that they collect to reflect the offsets between the cross-margining participant's positions at GSCC and its (or its affiliate's) positions at the Participating CO.⁹ In the event of the default and liquidation of a cross-margining participant, the loss sharing between GSCC and each of the Participating COs will be based upon the foregoing allocations and the cross-margin reduction.

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

B. Information Specific to the Current Agreement Between GSCC and BOTCC

1. Participation in the cross-margining program: Any netting member of GSCC other than an inter-dealer broker will be eligible to participate.¹⁰ Any clearing member of BOTCC will be eligible to participate.

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

⁹ GSCC and each Participating CO unilaterally have the right not to reduce a participant's margin requirement by the cross-margin reduction or to reduce it by less than the cross-margin reduction. However, the clearing organizations may not reduce a participant's margin requirement by more than the cross-margin reduction.

¹⁰ Because inter-dealer brokers should not and generally do not have positions at GSCC at the end of the day, they should have no margin requirement to be reduced.

BOTCC.¹¹ All eligible positions maintained by a cross-margining participant in its account at GSCC and in its (or its affiliate's) proprietary account at BOTCC will be eligible for cross-margining.¹² Initially, as a conservative measure, residual margin amounts will be applied only within the same offset class (e.g., the 2-Year Note against the 2-Year Note future). An appropriate disallowance factor¹³ based on correlation studies and a minimum margin factor¹⁴ will be applied.¹⁵

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

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

C. Benefits of Cross-Margining

GSCC believes that its cross-margining program enhances the safety

¹¹ Non-mortgage backed agency securities will be added at a later date. GCF Repo products will not be included in the arrangement. GSCC will notify the Commission when additional securities and futures are added to the cross-margining program.

¹² The GSCC-BOTCC cross-margining arrangement will be applicable on the futures side only to positions in a proprietary account of a cross-margining participant at BOTCC. The arrangement will not apply to positions in a customer account at BOTCC that would be subject to segregation requirements under the Commodity Exchange Act. This is also the case with respect to the arrangements with NYCC and the CME.

¹³ The disallowance factor is the haircut reflective of the correlation analysis done by GSCC for each offset class.

¹⁴ The minimum margin factor is the contractually agreed upon cap on the amount of the margin reduction that the clearing organizations will allow. (In some of the documents submitted by GSCC, the minimum margin factor is referred to as the minimum disallowance factor.) Initially, the GSCC-BOTCC cross-margining program will employ a 50% minimum margin factor. Should GSCC decide to change the minimum factor, it will submit a proposed rule filing under Section 19(b) of the Act.

¹⁵ GSCC will review the cross-margining parameters on a yearly basis unless market events dictate the need for more frequent reviews. Letter from Jeffrey F. Ingber, Managing Director, General Counsel, and Secretary, GSCC (November 6, 2001).

and soundness of the settlement process for the Government securities marketplace by: (1) Providing clearing organizations with more information concerning members' intermarket positions (which is especially valuable during stressed market conditions) to enable them to make more accurate decisions regarding the true risk of such positions to the clearing organizations; (2) allowing for enhanced sharing of collateral resources; and (3) encouraging coordinated liquidation processes for a joint participant, or a participant and its affiliate, in the event of an insolvency. GSCC further believes that cross-margining benefits participating clearing members by providing members with the opportunity to more efficiently use their collateral. More important from a regulatory perspective, however, is that cross-margining programs have long been recognized as enhancing the safety and soundness of the clearing system itself. Studies of the October 1987 market break gave support to the concept of cross-margining. For example, The Report of the President's Task Force on Market Mechanisms (January 1988) noted that the absence of a cross-margining system for futures and securities options markets contributed to payment strains in October 1987. The Interim Report of the President's Working Group on Financial Markets (May 1988) also recommended that the SEC and the Commodity Futures Trading Commission facilitate cross-margining programs among clearing organizations. This resulted in the first cross-margining arrangement between clearing organizations which was approved in 1988.¹⁶

III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. In section 17A(a)(2)(A)(ii) of the Act, Congress directs the Commission having due regard for, among other things, the public interest, the protection of investors, the safeguarding of securities and funds, to use its authority under the Act 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.¹⁷ Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency for which it is responsible.¹⁸ The Commission finds that the approval of GSCC's proposed rule change is consistent with these Sections.

First, the Commission's approval of GSCC's proposed rule change to establish a cross-margining arrangement with BOTCC and to extend its hub and spoke approach to cross-margining to include BOTCC along with CME and NYCC is in line with the Congressional directive to the Commission to facilitate linked and coordinated facilities for the clearance and settlement of securities and futures.¹⁹ Second, approval of GSCC's proposal should result in increased and better information sharing between GSCC and Participating COs regarding the portfolios and financial conditions of participating joint and affiliated members. As a result, GSCC and participating COs will be in a better position to monitor and assess the potential risks of participating joint or affiliated members and will be in a better position to handle the potential losses presented by the insolvency of any joint or affiliated member. Therefore, GSCC's proposal should help GSCC better safeguard the securities and funds in its possession or control or for which it is responsible. While cross-margining should provide benefits and efficiencies to common participants in GSCC and BOTCC, GSCC has determined to adopt a conservative approach in introducing its cross-margining program with BOTCC. We believe that that is a prudent approach consistent with maintaining the safety and soundness of the national system for prompt and accurate clearance and settlement of transactions in securities.

IV. 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 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-2001-03) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.²⁰

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 02-2371 Filed 1-30-02; 8:45 am]

BILLING CODE 8010-01-P

DEPARTMENT OF STATE

[Public Notice 3901]

Bureau of Educational and Cultural Affairs Request for Grant Proposals: International Sports Programming Initiative

SUMMARY: The Office of Citizen Exchanges of the Bureau of Educational and Cultural Affairs announces an open competition for International Sports Programming Initiative. Public and private non-profit organizations meeting the provisions described in Internal Revenue Code 26 U.S.C. 501(c)(3) may submit proposals to discuss approaches designed to enhance and improve the infrastructure of youth sports programs in selected countries in Africa, South Asia, Central Asia, South East Asia and the Near East.

Program Information:

Overview

The Office of Citizen Exchanges welcomes proposals that directly respond to the following thematic areas. Given budgetary limitations, projects for other themes will not be eligible for consideration under the FY-2002 Sports Program Initiative.

Training Sports Coaches

The World Summit on Physical Education (Berlin, 1999) stated that a "quality physical education helps children to develop the patterns of interest in physical activity, which are essential for healthy development and which lay the foundation for healthy, adult lifestyles." Coaches are critical to the accomplishment of this goal. A coach not only needs to be qualified to provide the technical assistance required by young athletes to improve, but must also understand how to aid a young person to discover how success in athletics can be translated into achievement in the development of life skills and in the classroom. Projects submitted in response to this theme would be aimed at aiding youth, secondary school and university coaches in the target countries in the development and implementation of appropriate training methodologies,

¹⁶ Securities Exchange Act Release No. 26153 (October 3, 1988), 53 FR 39567 (October 7, 1988) [File No. SR-OCC-86-17] (order approving cross-margining program between OCC and The Intermarket Clearing Corporation).

¹⁷ 15 U.S.C. 78q-1(a)(2)(A)(ii).

¹⁸ 15 U.S.C. 78q-1(b)(3)(F).

¹⁹ 15 U.S.C. 78q-1(a)(2)(A)(ii).

²⁰ 17 CFR 200.30-3(a)(12).