61578

Committee will base its determination of eligibility on: (1) Satisfactory participation in GSCC's repo comparison service, (2) demonstration by the member of its ability to meet its obligations with regards to the netting and settlement of repos, and (3) execution by the member of documents provided by GSCC to ensure that the netting and settlement of the member's repos will be done in conformity with GSCC's rules.

A start leg or a close leg of a repo is eligible for netting and settlement through the netting system if: (1) The repo is compared through GSCC, (2) (i) for the start leg, the number of calendar days between the business day on which the repo is submitted to GSCC and the scheduled settlement date for the close leg associated with the settling start leg must not be greater than the maximum number of calendar days set by GSCC, which initially is 195 calendar days and (ii) for the close leg, the number of calendar days between the business day on which the repo is submitted to GSCC and the scheduled settlement date for the close leg must not be greater than the maximum number of calendar days set by GSCC, (3) netting of the start or close leg must occur on or before its scheduled settlement date (*i.e.*, the leg cannot be a same-day settling leg), (4) data on each side of the repo must be submitted to GSCC by members designated as eligible to participate in the repo netting process, (5) the underlying securities must be eligible for netting,⁸ and (6) the maturity date of the underlying securities must be on or later than the scheduled settlement date of the leg.

A forward-settling start leg⁹ is not netted with other trades and is not guaranteed until the scheduled settlement date for that start leg. A forward-settling close leg is not netted with other trades and is not guaranteed until the scheduled settlement date for the associated start leg.

(2) Netting Process

Each night a participating repo netting member's eligible repo transactions will be netted with its regular buy/sell cash activity and Treasury auction purchases in the same CUSIP to establish a single net position in each security. For netting purposes, the settlements associated with repo start legs and reverse repo close legs will be treated as short positions. The settlements associated with repo close legs and reverse repo start legs will be treated as long positions. The difference between a member's total short activity and its total long activity within a CUSIP is its net position in the CUSIP.

GSCC will provide each participant with a daily netting system output that will breakdown its net positions by reporting for each security: (1) The net cash position, (2) the net repo position, and (3) the total net position.¹⁰ Each participant's forward-settling net position for each of its securities is recalculated on a daily basis. Forwardsettling net positions automatically convert into deliver or receive obligations on their scheduled settlement dates.

(3) Settlement

Each processing day, GSCC conducts two settlement processes. These are a securities settlement and a funds-only settlement.11 For securities settlement, each netting member is obliged to deliver to or to receive from GSCC its net deliver or receive obligation in each CUSIP that is generated as a result of the netting process. Securities settlement for repo legs will not differ from securities settlement for regular cash activity. For funds-only settlement, GSCC will add amounts pertaining to repos to amounts pertaining to regular cash activity and Treasury auction purchases and will report such amounts within the existing categories (e.g., forward margin or fail mark obligations).12

(4) Coupon Protection

When the start leg of a repo is initiated, securities are moved from the account of the funds borrower (*i.e.*, the long side for the close leg) to the account of the funds lender (*i.e.*, the short side for the close leg) until the settlement date of the close leg. However, because the funds lender is not entitled to any coupon payments which are made by the issuer directly to the funds lender's clearing bank while the securities are in its possession, the coupon payments will be passed through from the funds lender (short side) to the funds borrower (long side) when the coupon date is after the repo start date and on or before the repo close date. GSCC's current procedures for paying coupon on all fail obligations will not change and will apply to fail obligations arising from repos as well.¹³

(5) Collateral Substitution

In this initial phase of repo netting, GSCC will not perform collateral substitutions on an automated basis. However, participants may make collateral substitutions by designating new underlying collateral for a repo transaction through use of the "cancel and correct" feature of GSCC's comparison system. GSCC's operations staff manually will process the collateral substitution as it does now for clearing fund securities margin.

(6) Guarantee of Settlement

As in cash transactions, GSCC novates the repo transaction at the time the start or close leg is netted. At that time, GSCC assumes contraparty responsibility and guarantees settlement of the repo. GSCC's guarantee includes the return of the underlying collateral to the funds borrower and both the return of principal (repo start amount) and the payment of interest to the term of the repo transaction to the funds lender. As discussed above, forward-settling repo start legs and close legs are not netted or guaranteed until the scheduled settlement date of the start leg.

(7) Forward Margin

Because GSCC guarantees the settlement of all transactions once they are compared and netted, each day GSCC will mark-to-market each participant's forward-settling net positions and will recalculate each participant's forward margin obligation. Participating members will then be assessed forward margin accordingly in their daily funds settlement.¹⁴

Margin for cash trades will continue to be calculated by marking each transaction to the market using the following formula:

Market value=GSCC Price×Par Amount+Accrued Coupon Interest

⁸ Pursuant to GSCC's rules, an eligible security is a security issued or guaranteed by the U.S., a U.S. government agency or instrumentality, or a U.S. government-sponsored corporation (except a mortgage-backed security) that GSCC has listed on its eligible securities master file.

⁹ A forward-settling transaction is submitted one or more business days prior to its scheduled settlement date.

¹⁰ The daily netting system output separately lists forward-settling start legs and close legs until such transactions are eligible for netting (*i.e.*, the settlement date of the start leg).

¹¹ At 2:00 a.m., GSCC issues to each participant its netting output reports which establish the participant's deliver, receive, and payment obligations for the day. By 10:00 a.m., a participant must satisfy its funds only settlement obligations, and GSCC will pay funds credits owed to participants by 11:00 a.m. A participant may satisfy its securities deliver obligations at any time during the day.

¹² The daily net funds-only settlement amount for each netting member will be adjusted to reflect certain changes to GSCC's margining processes as discussed below in Section (7).

¹³ Under these procedures, on the coupon payment date GSCC will collect the coupon payment from a member with a fail net short position and pass the coupon payment to the member with the fail net long position.

¹⁴Because forward-settling start legs are not guaranteed until the scheduled settlement date, such transactions are not margined.