Calculated to Scheduled Settlement Date

The resulting value is then subtracted from the contract value to calculate the

appropriate margin amount.

To take into account differences between the repo market and the when-issued cash market, including the fact that the liquidation process for repos involves a cost-of-carry element, forward margin calculations for repos will differ from those of cash market trades. To margin a forward-settling repo close leg, GSCC begins by calculating market value, using the following formula:

Market Value=GSCC Price×Par Amount+Accrued Coupon Interest Calculated to Current Date

The market value calculated is subtracted from the repo's contract value¹⁵ to establish a debit or credit collateral mark.

Next, the repo financing mark for the transaction is calculated. If a member in a net short position (reverse side) fails, GSCC will replace the position by buying securities and putting them out on repo in the market and thus will incur a financing cost. Conversely, if a member in a net long position (repo side) fails, GSCC will replace the position by selling securities obtained by doing a reverse repo in the market and thus will create interest income potential. To account for its possible financing costs and interest income potential, GSCC computes the financing mark and includes it in the clearing margin calculation. The formula used to calculate the financing mark is:

Financing Mark=Market Value of Repo×GSCC Repo Rate×Number of Days to Scheduled Settlement Date÷360

GSCC tailors its repo rate to each individual repo transaction. To establish the repo rate, GSCC first determines if the collateral underlying the repo is general or specific.16 For general collateral repos, GSCC uses the remaining term of the repo to determine the appropriate market repo rate. For specific collateral repos, GSCC uses both the CUSIP and the remaining term of the repo to determine the specific repo rate. GSCC uses multiple market sources to obtain repo rates which are monitored on a daily basis. After calculating, GSCC debits from the reverse (short) side the financing mark

and credits the financing mark to the repo (long) side.

The total forward margin for repos is calculated using the following formula: Total Forward Margin=Collateral Mark+Financing Mark

The debit and credit margins calculated for the individual transactions comprising the participant's net settlement position are then added together. A participant's total forward margin is the mathematical sum of the individual debit and credit margins calculated across all securities and across all settlement dates.

Any credit margin amounts resulting from both cash and repo trades remaining after being used to fully offset debit margin amounts across CUSIPs will be paid out to participants in funds settlements. There are the following exceptions to this pay-through policy: (1) only bank and category one dealer netting members that have been active in the netting system for at least sixty days may collect credit forward margin amounts, (2) if a member has been awarded Treasury securities at auction, GSCC's obligation to pay to such member a credit forward margin payment will be limited by the amount of debit forward margin payment(s) that under GSCC's rules the Federal Reserve Banks are not obligated to pay to GSCC, and (3) GSCC may suspend a member's right to collect credit forward margin if the member is placed on surveillance.

Because credit margins now will be paid to participants, only cash may be used as margin. Members will no longer be able to post collateral in advance in lieu of their cash forward margin obligations. GSCC will pay interest on all margin amounts collected and will charge interest on all margin amounts paid on a daily basis using the effective Fed Funds rate.

(8) Clearing Fund

GSCC's method of calculating a member's clearing fund contribution now is based on the net settlement positions of all of the cash and repo activities of the participant. The funds settlement risk component and the securities settlement risk component of the clearing fund calculation has been changed to take into account the average of a member's most active ten days over the most recent seventy-five business days instead of the average of the most recent twenty business days.¹⁷

The clearing fund formula also has been modified to anticipate any exposure resulting from the clearance of the present day's settlement transactions. Specifically, a member's outstanding net settlement position for clearing fund purposes is calculated alternately by disregarding an by including the amount of securities underlying the positions that are scheduled to settle that day. The portion of the clearing fund formula that reflects securities settlement exposure is calculated by taking the average offset margin amount 18 or, if greater, the greatest of the following three calculations; (1) fifty percent of that day's gross margin amount, (2) one hundred percent of that day's offset margin amount calculated by excluding positions that are schedule to settle that day or (3) one hundred percent of that day's offset margin amount including positions that are scheduled to settle that day.19

The calculation of the securities settlement exposure for a Category 2 dealer netting member or a Category 2 futures commission merchant netting member also is revised to require such member to deposit the greatest (1) such member's average gross margin amount based on the average of the ten most active days over the most recent seventy-five business days, (2) such member's gross margin amount calculated by including positions settle that day, or (3) such member's gross margin amount calculated by excluding positions settling that day.

The proposed rule change adds a new component, the repovolatility factor, to the clearing fund formula. Repo volatility factors are a set of percentages which are applied to the net settlement repo positions to cover the securities' settlement exposure posed by such repo activity.²⁰ Initially, the repo volatility factor for general collateral repos will be set at fifty basis points. The repo volatility factor for specific repos that

¹⁵The contract value of the repo is the dollar value at which the close leg is to be settled.

¹⁶ General collateral repos refer to repo transactions that do not specify the underlying collateral by a CUSIP number while specific collateral repos indicate by CUSIP number what the underlying security must be.

¹⁷This change has been made to both the general rules on clearing fund deposits and the specific rules for Category 2 dealer netting members and Category 2 futures commission merchants.

¹⁸ The offset margin amount is the gross margin (the dollar value of a member's net settlement positions multiplied by the appropriate margin factors) as reduced by offsetting short and long positions based on maturity date and par amount. The average offset margin, which is part of the securities settlement risk component discussed above, takes the average of offset margins from the ten most active days over the previous seventy-five business days.

¹⁹ Prior to this filing, securities settlement exposure was calculated as the greater of the average offset margin amount or 50% of the gross margin amount.

²⁰These percentages are derived based on GSCC's research, which has been conducted with the assistance of tits members, on historical repo rate volatility including repo market participants' analytics and raw data itself. GSCC is building and will maintain its own date base on the historical daily volatility of repo rates.