

comparison-only member agreement ("Comparison Agreement") with GSCC, its performance under that agreement, and the exercise by GSCC of its rights and remedies under that agreement will not conflict with or be impeded by the laws or regulations of the foreign entity's home country and will be respected by the foreign entity's primary foreign regulator and (ii) the language in the Comparison Agreement providing that the agreement shall be governed by and construed in accordance with the laws of the State of New York will be recognized and given effect by the courts of the foreign entity's home country.

2. Minimum Financial Standards and Clearing Fund Requirements

GSCC also seeks to amend its rules to establish minimum financial standards and clearing fund requirements for foreign netting system applicants. The minimum financial standards, the clearing fund deposit, and any other payments or deposits called for under GSCC's rules required to be met by a foreign netting system member will be the same as those applicable to the domestic netting system membership category that in GSCC's sole determination is most comparable in type to the foreign entity. In making this determination, GSCC will take into account, among other things, whether the entity's trading activity is done primarily for itself or for others. If a foreign netting system member falls out of compliance with its minimum financial requirements, the consequences of such noncompliance shall be determined by reference to the subsection of GSCC Rule 3, Section 5 that is applicable to the netting system membership category upon which the foreign entity's minimum financial standards are based.

3. Home Country Standards

In order to be eligible for netting system membership, the foreign entity will have to be in compliance with the financial reporting and responsibility standards of its home country. The foreign entity applying for netting system membership will have to be regulated in its home country in ways and pursuant to provisions comparable to those imposed on domestic members of a comparable type.

4. Information Sharing/Regulatory and Financial Reporting

To insure appropriate information sharing, the foreign entity applying for netting system membership must have a home country regulator that has entered into a memorandum of understanding

with the Commission regarding the sharing or exchange of information. In its application for membership (either comparison-only or netting system), the foreign entity will have to agree to provide GSCC with all material regulatory filings made with its primary home country regulator over the prior year, audited financial statements for the prior three years, and any other financial information deemed by GSCC to be necessary in order to protect GSCC and its members. Upon acceptance to comparison-only or netting system membership, a foreign member must provide GSCC with all material regulatory filings made with its primary home country regulator promptly following its filing with such regulator, audited financial statement, and any other financial information deemed by GSCC to be necessary in order to protect GSCC and its members.

GSCC ordinarily will accept for financial monitoring purposes audited financial statements prepared in accordance with the home country's generally accepted accounting principles ("GAAP"). If GSCC believes that those statements are not satisfactory, it will assess whether the foreign entity can provide information equivalent to that information provided by financial statements prepared in accordance with U.S. GAAP. All required financial and other reports will have to be submitted to GSCC in English. All required financial reports will have to be submitted to GSCC in dollar equivalents indicating the conversion rate and date used.

As noted above, pursuant to the Agreement the foreign netting system member will have agreed to provide GSCC with information on its financial condition and/or trading activity deemed pertinent by GSCC and that GSCC may share this information with the Commission. In addition, GSCC will expect the foreign entity to prepare and provide to GSCC information in the form of unaudited financials sufficient for GSCC to monitor and assess the entity's financial condition on no less than a quarterly basis.

5. Physical Presence

With respect to the foreign netting member's physical presence in the U.S., GSCC will require every foreign entity to maintain an office in the U.S. either directly or through a suitable agent that (i) has available individuals fluent in English who are knowledgeable about the entity's business and can assist GSCC representatives as necessary and (ii) ensures that the foreign member can meet its data submission and settlement obligations to GSCC.

GSCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the rule proposal will extend the benefits of GSCC's netting and risk management processes to a broader segment of government securities market participants and will provide those benefits to trades of current members with foreign entity counterparties.

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

GSCC does not believe that the proposed rule will have an impact on 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

Comments on the proposed rule change have not yet been solicited. GSCC members will be notified of the rule filing and comments will be solicited by an important notice. 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 publication in 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 the self-regulatory organization 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 provisions of