

December 9, 1997

Service Enhancements for Forward-Starting Repos

Service Overview

GSCC is pleased to announce that it is expanding its repo comparison, netting, and guaranteed settlement services to encompass general collateral and other forward-starting repos on the day they are executed. The first submission date for these transactions will be December 15, 1997. Participants may begin submitting both their new and previously executed forward-starting repos on that date.

GSCC introduced netting services for repos in November 1995, and later expanded those services to include blind-brokered repos in August 1996. Through netting, a participant's repos are combined with its other activity (buy/sell trades and auction purchases) in the same security to arrive at a single net settlement position. GSCC provides its settlement guarantee by becoming the legal counterparty for all transactions that enter its net.

GSCC recently filed, and received SEC approval of, a rules change proposal that enables GSCC to compare, net and provide interest rate protection for forward-starting general collateral and other repos.

The new service will provide increased risk-management benefits to participants, with GSCC remaining adequately protected from any potential exposure stemming from the guarantee of these transactions. The following bullets describe the key processing features of the new service:

- Participants can submit their general collateral forward-starting repos to GSCC as early as their date of execution;
- Specific collateral forward-starting repos will continue to be compared by matching transaction data submitted by both parties to the transaction;
- General collateral forward-starting repos will be compared using generic CUSIPs specifying acceptable collateral for the repo;
- GSCC will perform an interest rate mark-to-market and provide interest rate protection for the repo from its submission date until its start date;
- Participants will use GSCC's on-line collateral substitution facility to substitute specific collateral at least one business day prior to start date;

- On start date, all forward-starting repo activity will be included in the net settlement obligations generated for that settlement date and GSCC's normal, full guarantee of settlement will become effective;
- As is currently the case, repo close legs will be carried in GSCC's system, and marked and margined accordingly, until their close leg settlement date, when they will be included in the net settlement obligations generated for that settlement date.

Services for general collateral and other forward-starting repos will enhance settlement efficiencies, provide interest rate protection to participants from trade execution through start leg settlement date, and will more adequately protect GSCC and its participants from potential exposures arising from this activity.

Submission and Comparison

There are two types of forward-starting repos: 1) "specific collateral" repos, where the underlying CUSIP is known from the date of repo execution; and 2) "general collateral" repos, where the specific security and par amount are not known at the time of execution.

In the past, general collateral repos could not be matched under GSCC's current comparison process because the underlying CUSIP, a required data element, is not known.

To address this limitation, GSCC will allow repo participants to submit one of seventeen generic CUSIP numbers established by the CUSIP service bureau for general collateral repo transactions (see Attachment A for a list of these generic general collateral CUSIP numbers). These CUSIP numbers, obtained working in conjunction with the Funding Division of the Bond Market Association, identify the type of Treasury or Non-Mortgage-Backed Agency security and the remaining length to maturity of collateral that the parties agree will be acceptable for the repo.

Required fields for submission of forward-starting general collateral repos will be the same as for other repos with the following exceptions: 1) a generic general collateral CUSIP must be submitted in the CUSIP field; and 2) the repo start amount must be entered in the par amount field. Forward-starting repos will be subject to GSCC's existing maximum transaction size of \$50 million (i.e., large transactions must be submitted in multiple pieces of \$50 million each).

GSCC will compare and net forward-starting general collateral repos using the generic CUSIP numbers. Specific collateral repos will be compared and netted based upon actual security information.

The parties to a general collateral forward-starting repo must notify GSCC of the specific CUSIP(s) and the associated par value(s) that will be used for settlement purposes no later than the evening prior to the repo's start date. This will be done using GSCC's collateral substitution notification facility. GSCC will then modify existing trade data in its system by canceling the "old" generic CUSIP data and creating new, or replacement data based on the specific CUSIP and par.

For brokered repos, substitution notification must be made by the broker. For dealer-to-dealer repos, substitution notification must be made by the repo (i.e., the delivering) participant. In either circumstance, the submission of matching notification by the transaction counterparty is not required.

Failure to submit details regarding the specific collateral by the evening prior to start date will result in the automatic cancellation of the repo in GSCC's system. Under these circumstances, participants would settle the start leg outside of the GSCC, and then resubmit the repo to GSCC on start date, once specific transaction data for the repo was known, for the netting and guaranteed settlement of the close leg.

Netting and Interest Rate Guarantee

Forward-starting general collateral and other repos will be eligible for netting and guaranteed settlement once they are compared by GSCC.

Until a forward-starting repo actually starts, the forward margin requirements applied to it will differ from those applied to all other repos. Because a forward-starting repo has not yet started, it presents only interest rate exposure, and not exposure to movements in the value of the underlying collateral; therefore only an interest rate mark-to-market will be applied.

This mark component will be determined by calculating the difference between the system and contract repo rates for the term of the repo.

GSCC will collect interest rate debit marks and pay through interest rate credit marks for forwarding starting repos as part of its normal forward mark process.

Contact Information

Please contact GSCC using the information below if you have any questions or comments regarding this new service.

Operations Issues:

Joe Grima, Managing
Director

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Legal Issues:

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Written comments should be addressed to Sandy Manata, Managing Director,
GSCC Planning, (or sent by facsimile transmission to (212) 363-4607).

Thomas F. Costa

Managing Director

Attachment A

Generic General Collateral Forward-Starting Repo CUSIPs

CUSIP	Description
371488 AA 5	U.S. TREASURY BILLS
371488 AB 3	U.S. TREASURY SECURITIES
371488 AC 1	NON-MORTGAGE-BACKED U.S. AGENCY SECURITIES
371488 AD 9	AGENCY DISCOUNT NOTES
371488 AE 7	U.S. TREASURY SECURITIES UP TO & INCLUDING 1 YEAR
371488 AF 4	U.S. TREASURY SECURITIES WITH LESS THAN 2 YEARS
371488 AG 2	U.S. TREASURY SECURITIES WITH LESS THAN 3 YEARS

371488 AH 0	U.S. TREASURY SECURITIES WITH LESS THAN 4 YEARS
371488 AJ 6	U.S. TREASURY SECURITIES WITH LESS THAN 5 YEARS
371488 AK 3	U.S. TREASURY SECURITIES WITH LESS THAN 6 YEARS
371488 AL 1	U.S. TREASURY SECURITIES WITH LESS THAN 7 YEARS
371488 AM 9	U.S. TREASURY SECURITIES WITH LESS THAN 8 YEARS
371488 AN 7	U.S. TREASURY SECURITIES WITH LESS THAN 9 YEARS
371488 AP 2	U.S. TREASURY SECURITIES WITH LESS THAN 10 YEARS
371488 AQ 0	U.S. TREASURY SECURITIES WITH LESS THAN 20 YEARS
371488 AR 8	U.S. TREASURY SECURITIES WITH LESS THAN 30 YEARS
371488 AS 6	U.S. TREASURY STRIPS