

Disclosure Framework for Securities Settlement Systems

Developed by IOSCO & CPSS

Basic information

What is the name of the SSS?

Government Securities Clearing Corporation (GSCC)

B) Where and in which time zone is the SSS located?

C)

GSCC is located in New York City, in the Eastern Time zone.

What functions does the SSS perform?

GSCC does not serve as a securities depository, but does provide securities settlement services.

Since GSCC does not serve as a securities depository, no securities are eligible for deposit, except those deposited at GSCC's custodial bank for margining and risk management purposes.

Essentially, all United States Treasury and Agency securities that are FedWire eligible, other than mortgage-backed securities, are eligible for "netting" and "settlement" at GSCC.

Eligible securities are not physically transferred. Such securities exist only in book-entry form.

GSCC does not provide safekeeping for physical certificates. As described in response to C)1)(c) above, physical certificates do not exist.

GSCC's clearing agent banks provide funds transfers in conjunction with securities transfers. All transfers are conducted in U.S. dollars.

GSCC operates a trade matching services as part of its "Comparison System". Delta Clearing Corp. ("Delta") provides a trade matching service for blind-brokered repurchase and reverse repurchase ("repo") agreement transactions.

GSCC operates a trade netting service and performs multilateral netting. Delta provides a trade netting service for blind-brokered repos.

GSCC does not offer a securities lending or borrowing program.

GSCC does not provide custodial and/or related services such as the collection of interest.

GSCC does, however, provide netting services for eligible repos. In conjunction with these repo services, GSCC provides automated coupon tracking. GSCC passes the coupon payment from the holder of securities (the reverse or short participant) to the funds borrower (the repo or long participant) when the repo term crosses a coupon payment date. GSCC also passes coupons, when appropriate, on buy/sell transactions.

GSCC acts as a central counterparty to, and guarantor of, all netted and novated trades. GSCC interposes itself between all receive and deliver obligations, so that all participants receive securities from, or deliver securities to, GSCC.

In conjunction with its guarantee of all netted and novated trades, GSCC employs a number of risk management procedures. These procedures are detailed below in response to Item VIII. (Risk control measures).

What type of organization is the SSS?

- GSCC is a private sector entity.
- GSCC is designed to operate on a not-for-profit basis.
- GSCC is legally established as a New York State corporation, under the New York State Business Corporation Law. GSCC is registered as a securities clearing agency with the Securities and Exchange Commission (SEC).

Please describe and provide a diagram outlining the organizational and ownership structure of the SSS.

GSCC is owned by approximately 41 shareholders that participate in the U.S. Government securities industry. These shareholders include member participants, and the National Securities Clearing Corporation (NSCC), the owner holding the highest percentage of shares.

GSCC is operated as an independent entity, and is an affiliate of the NSCC. (NSCC is a registered clearing agency, and is owned jointly by the New York and American Stock Exchanges and the National Association of Securities Dealers, Inc. NSCC is the leading U.S. provider of centralized clearance and settlement services for equities). Certain GSCC functions are performed by third parties. The Securities Industry Automation Corporation (SIAC) is GSCC's facilities manager for its computer data and communications processing. (SIAC, owned jointly by the New York Stock Exchange and the American Stock Exchange, is the technological arm of those exchanges, as well as of NSCC and GSCC.) In addition, since GSCC does not have its own FedWire access, designated clearing agent banks provide clearance services for GSCC for specified U.S. Government securities products. Separately, certain non-core functions, such as accounting and personnel services, are performed by the NSCC affiliate.

GSCC has a Board of Directors.

GSCC's Board is composed of shareholder representatives from member dealers, brokers, and clearing agent banks (together, the participant directors), the Presidents of NSCC and GSCC, and an NSCC-designated firm. The Chairman of GSCC is selected from among the participant directors, and the Vice-Chairman is designated by NSCC.

GSCC is governed by its Board of Directors. The Board oversees the general functioning of GSCC. Executive, Audit and Finance, Membership and Standards, and Operations Committees consist of groups of Directors that make appropriate recommendations to the full Board.

Please describe the financial resources of the SSS.

As of December 31, 1996, GSCC had capital in excess of par of \$12.3 million, and retained earnings of \$4.7 million.

2) GSCC does not have any financial guarantees. GSCC maintains insurance coverage for, among other things, loss from dishonest or fraudulent acts of employees or theft of property, loss of property including loss of money and securities from any cause, and loss from forgery, embezzlement, burglary, robbery, computer fraud, mysterious disappearance of property, etc.

3) GSCC does not have any committed lines of credit; however, GSCC does have the ability to re-hypothecate the collateral pledged to it by its members to obtain requisite financing.

4) GSCC, in a loss allocation scenario, has the power to assess participants to recover certain losses. These loss allocation procedures are detailed below in response to Item VIII. (Risk control measures).

Please describe whether the SSS or its operator is subject to authorization, supervision or oversight by an external authority.

GSCC is a securities clearing agency registered with and regulated by the SEC.

Rules and procedures of the SSS

A) Does the SSS maintain a complete list of the rules and procedures governing the rights and obligations of participants and duties of the SSS?

Participants can obtain a copy of GSCC's rules by contacting Marie Sullivan, Membership Coordinator, at (212) 412-8552 or msullivan@gsc.com.

No other documentation provided to participants has the same status as the rules.

Process for changing rules:

GSCC's rule changes must first be approved by its Board of Directors, and if approved, filed with, and approved by, the SEC.

Participants are notified of both proposed and approved rule changes via Important Notices. Such Important Notices are faxed and mailed to several contacts (chief operations officer, chief compliance officer, chief financial officer, etc.) at each participant, and accessible via GSCC's web site at www.gsc.com.

All participants may present comments to GSCC and the SEC during an official comment period designated by the SEC. Other interested parties may also comment during the SEC's designated period.

Are the rules and procedures binding on the SSS as well as its participants? Under what conditions and on whose authority can written rules and procedures be waived or suspended by the SSS?

In accordance with GSCC Rule 22 - Suspension of Rules, the time fixed by GSCC's rules, the procedures or any regulations issued by GSCC for the doing of any act or acts may be extended or the doing of any act or acts required by GSCC's rules, the procedures or any regulations issued by GSCC may be waived or any provision of GSCC's rules, the procedures or any regulations issued by GSCC may be suspended by the Board of

Directors or by any Officer of the Corporation having a rank of Managing Director or higher whenever, in its or his judgment, such extension, waiver or suspension is necessary or expedient.

A written report of any such extension, waiver or suspension (other than an extension of time of less than eight hours), stating the pertinent facts, the identity of the person or persons who authorized such extension, waiver or suspension and the reason such extension, waiver or suspension was deemed necessary or expedient, shall be promptly made and filed with the GSCC's records and shall be available for inspection by any participant during regular business hours on business days. Any such extension or waiver may continue in effect after the event or events giving rise thereto but shall not continue in effect for more than 60 calendar days after the date thereof unless it shall be approved by the Board of Directors within such period of 60 calendar days.

III. Relationships with participants

Please describe the types of membership offered by the SSS.

GSCC has two types of membership: Comparison-Only and Netting. Comparison-Only members do not have their trades netted and settled through GSCC; they benefit from its automated, binding comparison of trades. Netting members have their trades netted and settled through GSCC, and, therefore, have securities and funds obligations versus GSCC.

Can participants establish accounts for their customers' assets that are segregated from their own asset accounts at the SSS?

Since GSCC does not perform any custodial services, as described in response to question I. C) above, asset segregation is not relevant.

GSCC provides a non-member, "executing firm" facility as an enhancement to its Comparison service. This feature assists members that clear on behalf of others in comparing trades, by identifying the true executing party to the trade. A single GSCC member may submit trades on behalf of multiple non-member (executing) firms. Segregation is not applicable since GSCC does not perform any custodial services. Third parties (non-member firms) do not have any rights as participants under GSCC's rules.

Please describe participant requirements for each type of membership.

Any type of entity that can benefit from GSCC's comparison services is eligible to join the Comparison system, so long as it meets certain limited requirements (including sufficient operational capability and wherewithal to make anticipated fee payments).

Eligibility requirements for Netting System membership are more stringent. To begin with, only SEC-registered dealers (two categories), SEC-registered inter-dealer brokers (two categories), banks or trust companies, futures commission merchants (two

categories) insurance companies, registered investment companies, issuers of “government securities”, registered clearing agencies and foreign entities are eligible to join as Netting members.

The Netting membership categories differ in terms of their level of regulatory oversight, financial reporting requirements, admission and continuance standards, and required collateral postings. Category 1 dealers must have at least \$50 million in net worth (NW) and \$10 in excess net capital (ENC) or excess liquid capital (ELC). Category 2 dealers must have at least \$25 million in NW and \$10 in ENC or ELC. Category 1 inter-dealer brokers (IDBs) must have at least \$10 in ENC or ELC. Category 2 IDBs must have at least \$25 million in NW and \$10 in ENC or ELC. Banks or trust companies must have at least \$100 million in equity capital and meet applicable risk-based capital standards. Category 1 futures commission merchants (FCMs) must have \$50 million in NW and \$10 million in adjusted ENC; Category 2 FCMs must have \$25 million in NW and \$10 million in adjusted ENC. Insurance companies are subject to certain ratings standards. Participants are not required to be domiciled or resident in a particular jurisdiction. Participants are required to be regulated entities. Brokers, dealers, clearing agencies, and registered investment companies must be registered with the SEC; FCMs must be registered with the Commodities Futures Trading Commission; insurance companies must be registered with their respective state insurance commissions. Participants are not required to hold an equity stake in GSCC. Financial requirements - consisting of minimum capital standards - are described in response to III. C) above. In addition, netting system members must make all required margin deposits and demonstrate continued operational proficiency. Netting members must also pay GSCC's fees.

D) Does the SSS engage in oversight of its participants to ensure that their actions are in accordance with its rules and procedures?

With the assistance of the NSCC Compliance Department, GSCC continuously ensures that members meet their minimum financial continuance standards. In addition, GSCC continuously monitors the margin requirements, trading activity, and operational proficiency of its members.

Under what conditions can participants terminate their membership in the SSS? Does this mark the end of all liabilities of the participant? If not, please describe what liabilities could remain.

In accordance with GSCC Rule 2, Section 10 (Voluntary Termination), a member that is a clearing agent bank may elect to terminate such membership by providing written notice of such termination to the GSCC. A member that is a Comparison-only member may elect to terminate such membership, and a Netting member may elect to terminate its membership in either the Corporation or in just the Netting system (and to become a Comparison-only member), by providing written notice of such termination that is received by the Corporation no later than ten business days prior to the effective date of such termination. As of the date and time that GSCC receives a member's written notice of termination (hereinafter, the "Receipt Date"), a Netting member that terminates its

membership in the Netting system, or a Comparison-only member or Netting member that terminates its membership in GSCC, shall no longer be eligible or required to submit to GSCC data on trades, unless the Board determines otherwise in order to ensure an orderly liquidation of the member's net settlement positions. A member's voluntary termination of membership will not affect its obligations to GSCC, or the rights of GSCC, with respect to transactions submitted to GSCC before, on or after the Receipt Date; however, such member's liability following the Receipt Date shall be limited to liability as a result of trades submitted to GSCC, and it shall not otherwise be liable for any additional assessment levied unless such terminated member is re-admitted.

Under what conditions can the SSS terminate a participant's membership in the SSS?

In the event that a Member fails to maintain the relevant requirements of any of GSCC's Rules, GSCC may, pursuant to its rules, either cease to act for the Member or terminate its membership in the Comparison System or in both the Comparison System and the Netting System, unless the Member requests that such action not be taken and GSCC determines that, depending upon the specific circumstances and the record of the Member, it is appropriate instead to establish for such Member a time period (the "Noncompliance Time Period"), which will be determined either by the Board or by the Membership and Standards Committee of the Board and which will be no longer than 30 calendar days unless otherwise determined by the Board or by the Membership and Standards Committee of the Board, during which the Member must resume compliance with such requirements. In the event that the Member is unable to satisfy such requirements within the Noncompliance Time Period, the Corporation will, pursuant to its rules, either cease to act for the Member or terminate its membership in the Comparison System or in both the Comparison System and the Netting System.

Please describe the scope of the SSS's liability to participants, including the standard of liability (negligence, gross negligence, willful misconduct, strict liability or other), the force majeure standard, and any limitation to the scope of liability of the SSS (e.g. indirect or consequential damages). Where are these liabilities and their limitations set out (e.g. in statute or contract)?

GSCC's standard of care with respect to its Participants is a gross negligence standard of care. It is set forth in various SEC orders approving GSCC's businesses. In certain agreements with participants, GSCC disclaims liability for indirect and consequential damages and for force majeure situations. In other agreements, GSCC's liability for such events is silent and will be governed by statute and/or case law

Relationships with other SSSs and commercial intermediaries

A) Does the SSS maintain linkages (including sub-custodian or cash correspondent relationships) with other SSSs?

GSCC accesses the FedWire settlement system through the Federal Reserve Bank of New York.

All Treasury and Agency securities, other than mortgage-backed securities, are netting-eligible, and, therefore, eligible for transfer via the FedWire linkage.

All deliveries and receipts of securities are made against simultaneous payment or receipt in fed funds.

Not applicable.

Does the SSS use securities custodians (other than the other SSSs addressed in the previous question) and/or commercial cash correspondents?

The Bank of New York provides clearing services for netting-eligible Treasury Notes, and custodial services for Clearing Fund margin collateral collected by GSCC. The Chase Manhattan Bank provides clearing services for all other netting-eligible securities.

Please describe the standards used in approving or reviewing relationships with other SSSs, custodians or cash correspondents, including any financial or operational requirements or the presence of insurance or public supervision.

A clearing agent bank must be a member of the Federal Reserve System that is regularly engaged in the business of providing clearing services in eligible securities for members and that has agreed to provide GSCC, upon request and under mutually agreeable terms, with clearing services.

Does the SSS advance funds or securities to or on behalf of other intermediaries such as issuing or paying agents?

No.

Please describe measures in place to protect the SSS and its members against the failure of other SSSs or commercial intermediaries to the SSS, including risk controls, collateral or alternative sources of funds and securities.

GSCC employs the services of two clearing agent banks (as described in IV. B. above) that are regulated by various banking authorities.

Securities transfers, funds transfers and linkages between transfers

Please discuss whether and how settlement instructions are matched between participants prior to processing by the SSS.

Matching is currently required of all transactions, except for netting members' proprietary Treasury auction purchases. Such auction awards are compared on a pre-matched, or "locked-in" basis.

When instructions do not match based on independent member data submission, GSCC will attempt to compare the trade if the non-matched item(s) fits within certain pre-defined parameters. If GSCC can not perform this “presumed match of data”, the trade will be uncomparated and ineligible for further processing.

Matched settlement instructions are binding on participants.

If a participant fails to meet its securities and/or funds settlement obligations, GSCC may cease to act for the member, terminate its membership (as described in response to Item III F. above), and potentially liquidate the unsettled positions and collateral posted by such member.

This is a feature of GSCC’s rules and procedures.

Throughout the day comparisons may be made as counterparties may submit trade data on a real-time basis.

10:00 p.m. deadline for final input by members to GSCC of trade data.

2:00 a.m. time by which GSCC’s netting output normally is available to members, which also is the time that novation occurs for eligible trades.

Are securities transfers within the SSS registered? No

Not applicable; there is no registrar.

Not applicable.

GSCC does not offer custodial services.

GSCC does not initiate registration of securities in the buyer’s name.

Not applicable.

Not applicable.

Please describe how securities transfers are processed within the SSS.

Transfers are processed as debits and credits to members’ accounts with clearing agent banks.

Transfers are processed on a real-time basis. Deliveries that come into GSCC over the FedWire ordinarily are instantaneously redelivered to another netting member.

Securities originations occur between 8:30 a.m. (at the opening of the securities FedWire) and 3:15 p.m. Securities reversals may continue until 3:30 p.m. (the closing of the securities FedWire).

Securities settlements occur daily.

Please describe whether final funds transfers in conjunction with the SSS are made as debits and credits to balances held at the SSS, at one or more commercial banks, at the central bank, or via some other method.

Final funds transfers are made as debits and credits to accounts at GSCC’s clearing agent banks.

GSCC does not maintain cash accounts for its participants.

There is no cash deposit risk.

Under no circumstances does GSCC provide credit extensions or advances of funds to its participants and thereby expose itself to credit risk.

Not applicable; GSCC does not provide credit extensions.

Is the SSS a DVP system?

GSCC utilizes the FedWire DVP system.

KEY GSCC TIMEFRAMES

(Eastern time)

10:00 p.m. - deadline for final input by members to GSCC of trade data

2:00 a.m. - time by which GSCC's comparison and netting output normally is made available to members, which also is the time that novation occurs for eligible trades that have been compared - GSCC's clearing agent banks are "loaded" at this time with information on members' securities and funds settlement obligations

8:30 a.m. - Fedwire opens, and securities settlements begin

9:15 a.m. - netting-eligible auction purchases are received by GSCC from the Federal Reserve Banks (and are immediately redelivered to members in a long position)

10:00 a.m. - funds-only settlement payments are due to GSCC from members in a net funds-only debit position

10:30 a.m. - normally, the deadline for satisfaction of a Clearing Fund deficiency call

11:00 a.m. - funds-only settlement payments are due from GSCC to members in a net funds-only credit position

3:15 p.m. (subject to extension) - Fedwire closes for transfer originations; no further securities movements for that business day (except for reversals, which go on until 3:30 p.m.)

Funds and securities transfers are processed within the same system, using DVPs over the FedWire.

Not applicable.

Not applicable.

(a) Securities transfers become final at the time of the securities' movements per Federal Reserve regulations regarding the FedWire.

Funds transfers become final at the time of the funds' movements per Federal Reserve regulations regarding the FedWire. This timing does allow for same-day retransfer of funds received in exchange for securities.

Final delivery of securities does not precede the final transfer of funds. The transfers occur simultaneously.

Final delivery of funds does not precede the final transfer of securities. The transfers occur simultaneously.

The timing of finality does not differ depending on the type of security transferred or the currency in which payment is to be made.

Does the SSS itself “guarantee” funds or securities transfers?

All receive and deliver obligations are fixed at the time that the report of such obligations is made available by GSCC to members (normally, before 2:00 a.m.). At that time, all deliver, receive, and related payment obligations between members that were created by the trades that comprise the net settlement positions are terminated and replaced by the settlement obligations issued by GSCC, with settlement of all such obligations being guaranteed by GSCC.

The guarantee obligates GSCC to settle members' trades in accordance with the trade terms submitted to GSCC by the members pursuant to GSCC's rules.

This guarantee is a feature of GSCC's rules.

Default procedures

A. Please discuss the events or circumstances that would constitute default of a participant under the rules and procedures of the SSS or that would lead the SSS to make use of exceptional settlement arrangements or unwind procedures.

The failure by a participant to meet a test of its solvency under the applicable laws of its jurisdiction would constitute a default under GSCC's rules.

The failure by a participant to make payments would constitute a default under GSCC's rules. A participant can, however, fail to deliver securities to GSCC on the scheduled settlement date. Fails to deliver securities do not constitute a default.

In accordance with its rules, GSCC may cease to act for a member and/or terminate its membership based on various standards set out in its rules for making that determination. GSCC's Board reserves the authority to make the determination regarding the insolvency of a participant.

What procedures are followed by the SSS once it has determined that a default event has occurred or that exceptional settlement arrangements are to be employed?

When GSCC ceases to act for a participant with respect to a particular transaction or transactions, it will promptly notify such participant and all other participants that it has so ceased to act, and such notice will identify the transaction or transactions with respect to which GSCC has ceased to act and will state, so far as appropriate, how the transaction

or transactions involving the participant in respect of which GSCC has ceased to act will be affected and what steps will be taken by GSCC in view of its so ceasing to act. When GSCC terminates a participant, it will notify all participants that it has so acted, and such notice will state, so far as appropriate, how pending matters and transactions will be affected. GSCC will promptly furnish any participant for which it ceases to act pursuant to its rules with a written statement of the grounds for the decision and of its right to request a hearing. Any such hearing requested, may be held as promptly as possible after such statement is furnished. If GSCC takes any action described above, it will notify the SEC of such by the close of business on the business day on which such action is taken. GSCC would be expected to continue to meet all its obligations under these circumstances. The following resources are in place to ensure that GSCC would continue to meet its obligations: daily calculation and collection of marks-to-market (taking all transactions from contract value to current market value), daily calculation of Clearing Fund (estimating potential market exposure that could occur between the current date and the liquidation date of a defaulted member's obligations), and a loss allocation procedure designed to spread any remaining loss in an equitable manner that preserves incentives to assess counterparty risk.

A time line indicating the order in which these resources would be used is attached.

There are no conditions under which provisional transfers of securities or funds could be unwound by GSCC.

Not applicable.

Not applicable.

Not applicable.

Not applicable.

Not applicable.

Not applicable.

Not applicable; the finality of movements of securities is ultimately determined by FedWire regulations.

Has a participant in the SSS ever been declared in default or become insolvent?

GSCC has never declared a participant to be in default or insolvent.

Loss-sharing procedures have never been invoked.

Not applicable; loss-sharing procedures have never been invoked.

Securities overdrafts, securities lending and back-to-back transactions

Is it possible for debit positions (overdrafts) in securities accounts at the SSS to arise?

GSCC does not "build a box" during the day; rather, deliveries that come into GSCC ordinarily are instantaneously redelivered to another netting member (i.e., all movements are in a pre-matched, "bound" status). Debit positions, however, occasionally arise as the result of GSCC's inability to turn around securities that it has been "stuck" with (and is unable to redeliver) at the close of the FedWire.

a) Such debit positions could occasionally occur, as described above.

b) Yes.

Such debit positions are settled on the next business day.

Such debit positions are self-financing; GSCC uses the securities themselves as collateral to finance any required borrowings.

In case the debit cannot be rectified,

(a) GSCC's loss allocation process would remain unchanged (see response to VI. B. 3 above.)

GSCC's non-IDB netting members would share the resultant financing costs, on a pro rata basis. If, however, GSCC's Board determined that a member had "stuck" GSCC on a frequent basis and without good cause, such member would be directly charged.

Not applicable.

Under what circumstances does the SSS provide for the lending of securities to ensure settlements?

GSCC does not perform any securities lending functions.

Not applicable.

Not applicable.

Not applicable.

Not applicable.

How does the SSS settle back-to-back transactions?

GSCC routinely settles back-to-back transactions for same-day value.

(a) GSCC settles brokered and matched book transactions. Ordinarily, brokers submit equal and offsetting trades to GSCC. Such brokers net "flat" and have no receive or deliver obligations versus GSCC.

All securities movements through GSCC are in a pre-matched, "bound" status. GSCC must receive securities from a "bound" delivering participant prior to delivering them to a "bound" receiving participant.

All deliveries and receipts of identical securities are made at the same settlement value.

All deliveries and receipts of identical securities are made at the same settlement value.

Not applicable.

Not applicable; GSCC does not impose such limitations.

Every securities delivery, whether to or from GSCC, is made against full payment, at same-day (settlement) value. GSCC never extends credit.

Risk control measures

Please describe the roles and responsibilities of those areas of the SSS responsible for risk management and control.

Risk management policies and procedures are reviewed by the Membership and Standards Committee of the Board of Directors, and a Risk Management Committee,

composed of senior industry credit and risk management experts. The Risk Management Committee serves an advisory committee to management. GSCC's senior management and Director of Credit oversee day-to-day risk management, and continuously review risk management policies and procedures. A periodic risk assessment of GSCC is conducted by an outside risk manager.

The full Board must review and approve new products and services, following the review and formal recommendation of the Membership and Standards Committee. GSCC also solicits comment from its Risk Management Committee and other interested parties.

The credit and risk management functions report to the General Counsel.

As described in response to item VII. A) 1) above, the Board of Directors does review risk management policies and procedures. The Board has established Membership and Standards, and Audit and Finance Committees. In addition, input is actively solicited from the Risk Management Committee.

Please describe any internal or external audits or supervisory/regulatory examinations that are performed with respect to the SSS. For each such audit or examination, please address the following questions.

The international accounting firm, Price Waterhouse, LLP, performs an audit of GSCC and an examination of its internal controls. In addition, the Internal Audit Department of the NSCC affiliate performs regular audits, and NSCC's Risk Management Department conducts periodic risk assessments in accordance with SEC requirements.

(a) Price Waterhouse, LLP performs a full-scale annual audit of GSCC, and reviews its internal controls. In addition, NSCC's Internal Audit Department performs periodic audits of GSCC's internal controls.

The periodic audits performed by NSCC's Internal Audit Department address GSCC's compliance with its own rules and procedures.

The external audit is conducted annually by Price Waterhouse. NSCC's Internal Audit Department performs periodic audits, and its Risk Management Department conducts periodic risk assessments.

The results of the Price Waterhouse audit and examination of internal controls are published annually and available for review by participants and other interested parties.

Please discuss whether the SSS has the capacity to value (i.e. mark to market) the securities that it holds.

Marks-to-market are used to revalue securities held as collateral in GSCC's Clearing Fund. Such marks enable GSCC to measure the sufficiency of members' Clearing Fund deposits.

Securities are revalued daily.

(a) The custodian of GSCC's Clearing Fund, the Bank of New York, prices the securities in the Fund using generally recognized pricing services.

(b) Pricing models are not used.

Please discuss whether the SSS has a lien on the securities held in or transferred through it.

In accordance with GSCC Rule 4, Section 5 - Lien, as security for any and all obligations and liabilities of a Netting member to GSCC, each such member grants to GSCC a first priority perfected security interest in all assets and property placed by a member in the possession of GSCC (or its agents acting on its behalf), including all securities and cash on deposit with GSCC or its agents pursuant to GSCC's rules. GSCC shall be entitled to its rights as a pledgee under common law and as a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such collateral.

Such lien would allow GSCC to use the securities upon GSCC's determination of a member's insolvency or upon a member's failure to perform its obligations to the corporation.

Please discuss the circumstances in which the SSS requires collateral to limit or mitigate risks.

GSCC does manage its own collateral system.

GSCC does not share a collateral system with another SSS or payment system.

Collateral at GSCC can be posted and returned on the same day. (At all times, however, participants must meet their minimum collateral requirements.)

All transactions that are netted and novated by GSCC may impact the use of collateral.

5) Clearing Fund collateral is limited to cash, securities that are GSCC netting-eligible, and eligible letters of credit. GSCC applies the following haircuts to Clearing Fund collateral:

Issue	Non-Zeros	Zeros
Treasury Bills and equivalent Agencies	0%	0%
Treasury Bonds and Notes, and equivalent Agencies:		
Remaining maturities of one day up to one year	0%	0%
Remaining maturities of one year and one day up to ten years	3%	5%
Remaining maturities of ten years and one day up to thirty years	5%	10%

In addition, GSCC applies a 1% haircut to eligible letters of credit.

Collateral valuation methodologies are developed in conjunction with the policies of the custodian, and are reviewed by the Board.

Collateral policies are documented in GSCC's rules and identified in Important Notices.

Please describe the SSS's use of limits on exposures to monitor or control risks.

GSCC does not limit participants' trading per se. Exposure is effectively limited, however, by GSCC's Clearing Fund and mark-to-market requirements. These Clearing Fund requirements are a direct function of the exposure presented to GSCC by its participants.

All Netting members must post Clearing Fund and mark collateral commensurate with the level of their exposure.

Not applicable; GSCC does not limit participants' trading per se.

Not applicable.

Not applicable.

Not applicable.

Not applicable.

Please describe other controls to mitigate or reduce risks at the SSS.

Currently, GSCC has the capacity to continuously monitor the activity of its repo IDBs during processing. All other participants essentially operate in a "batch" environment, and generally submit activity to GSCC after the close of business.

Participants known to be experiencing financial difficulties would be placed on surveillance status by GSCC, which facilitates the taking by GSCC of extraordinary measures to protect GSCC and its members. A participant placed on the most severe levels of surveillance may be required to maintain a Clearing Fund deposit significantly in excess of the amount otherwise required. In addition, such participant would be monitored much more closely.

The only loss-sharing arrangement is documented in Section VI above.

Operational risks

Please provide assessments of the operational reliability of the computer and other systems used by the SSS, including any criteria that the SSS uses internally for this purpose.

1.(a) GSCC's whole system overall is up essentially 100% of the time.

(b) The major components are also up essentially 100% of the time.

During critical processing periods, the system is up 100% of the time.

2. (a) GSCC has experienced no major operational problems during the past two years.

(b) Not applicable; GSCC has experienced no major operational problems during the past two years.

Please describe contingency or disaster recovery planning at the SSS.

GSCC does have a formal plan for business continuity in place.

GSCC's contingency plan is available for review by participants.

GSCC's contingency plan is tested quarterly. Participants are not involved in the contingency testing.

The major elements of the business continuity plan include an offsite backup data processing facility that utilizes a different power supplier, alternative office space with appropriate communications devices (telephone, facsimile machine, etc.) and an established contact listing to notify both participants and employees about the situation. Since GSCC's offsite backup is maintained on a synchronized update basis (separate production databases are maintained at GSCC's two sites simultaneously), if the primary system becomes unusable, GSCC would be able to resume operations without interruption.

What are the key features of the internal controls covering operations and security at the SSS?

- 1) GSCC ensures that it acts only on authentic settlement instructions from valid participants by restricting access to its systems and processing screens with security passwords.
- 2) Internal operational and security controls are included in the internal and external audits of GSCC.
- 3) Internal operational and security controls are covered by regulatory requirements applicable to GSCC.

Does the SSS impose minimum operational or performance standards on third parties (e.g. communications providers)?

GSCC does not impose minimum operational or performance standards on communications providers (service bureaus). It is the responsibility of GSCC's participants to select their communications providers, or to use in-house systems, and monitor their performance.

Since GSCC does not impose minimum operational or performance standards on third parties, it is the responsibility of GSCC's individual participants to manage any problems caused by third parties.