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**Government Securities Clearing Corporation**

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COMMODITY FUTURES  
TRADING COMMISSION  
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APR 9 1 20 PM '98

April 8, 1998

Ms. Jean A. Webb  
Secretary  
Commodities Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, D.C. 20581

COMMENT

COMMODITY FUTURES  
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RE: Federal Register, February 3,  
1998, V. 63, N. 22: Application of Cantor  
Financial Futures Exchange as a  
Contract Market

Dear Ms. Webb:

GSCC is pleased to have the opportunity to comment on the above-referenced application.

At the outset, we wish to emphasize that GSCC is not seeking to express an opinion regarding the merits of the Cantor Financial Futures Exchange (CFFE) or its products from a trading or general marketplace perspective. Rather, we would like to provide background information in support of the view that the clearance and settlement aspects of the CFFE's proposal are being planned in a manner that has positive implications for the overall risk management process in the Government securities marketplace.

Since last Fall, GSCC management has been discussing with the Commodity Clearing Corporation (the clearing organization for the CFFE's anticipated products) how best to establish cross-settlement and cross-margining arrangements between GSCC and CCC in connection with the CFFE's new Treasury futures products. The cross-settlement program would permit physical deliveries in settlement of maturing CFFE futures contracts, along with a participating firm's Treasury buy-sell and repo activity, to be settled through GSCC's Netting System, thus enabling CFFE participants to benefit from the Government securities industry's established risk management protocol and allowing for reduced payment system burden through multilateral netting.

The concomitant cross-margining effort is being designed so as to reduce the collateral burden of firms that participate actively in the Treasury cash and futures markets, as well as to enhance the risk management functions of both

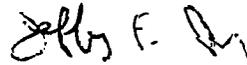
GSCC and CCC. Other markets (such as the futures and options markets) have demonstrated that certain intermarket positions with offsetting risk characteristics are appropriately margined together as a single portfolio, because these offsetting risk characteristics offer protection equal to that of collateral. The planned cross-margining arrangement would include risk management measures such as the sharing of information regarding participant exposures across markets, coordinated liquidation procedures, and the potential for sharing of losses and collateral between clearing corporations. These measures would increase the overall clearing mechanism's ability to effect orderly settlement under stressed market conditions.

I note that GSCC currently is engaged in similar discussions regarding potential cross-margining and cross-settlement arrangements with other futures clearing organizations. The progress that we have made with the CCC in resolving issues related to cross-margining and cross-settlement will help us to address similar issues in these other contexts.

In sum, GSCC believes that the planned clearance and settlement aspects of the CFFE proposal offer the potential for significant benefit to the Government securities marketplace as the result of increased systemic risk management capabilities.

We appreciate the opportunity to comment on this application. Should you have any questions, please do not hesitate to contact Ms. Tracy Penwell, Vice President of Risk Management, at 212-412-8744; or me, at 212-412-8637.

Sincerely,



Jeffrey Ingber  
General Counsel and  
Secretary

TLP:tip



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