

For the Commission, by the Division of Investment Management, by delegated authority.

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-37298; File Nos. SR-OCC-96-04 and SR-NSCC-96-11]

**Self-Regulatory Organizations; The Options Clearing Corporation; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Changes Relating to an Amended and Restated Options Exercise Settlement Agreement Between the Options Clearing Corporation and the National Securities Clearing Corporation**

June 10, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on February 6, 1996, and April 6, 1996, The Options Clearing Corporation ("OCC") and the National Securities Clearing Corporation ("NSCC"), respectively, filed with the Securities and Exchange Commission ("Commission") the proposed rule changes (File Nos. SR-OCC-96-04 and SR-NSCC-96-11) as described in Items I, II, and III below, which items have been prepared primarily by OCC and NSCC, respectively. The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Changes**

The purpose of the proposed rule changes is to put into effect the Third Amended and Restated Options Exercise Settlement Agreement ("Third Restated Agreement")<sup>2</sup> between OCC and NSCC providing for the settlement of exercises and assignments of equity options.<sup>3</sup> The proposal also seeks to

make related changes to OCC's Rules, primarily to Rule 601, which sets forth the calculation of margin requirements for equity options, and to make related changes in NSCC's clearing fund formula in order to exclude from the clearing fund calculation trades for which NSCC has protection under the terms of the Third Restated Agreement.

**II. Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes**

In their filings with the Commission, OCC and NSCC included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. OCC and NSCC have prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>4</sup>

**(A) Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes**

In 1977, OCC signed an Options Exercise Settlement Agreement with Stock Clearing Corporation (NSCC's predecessor), with MCC, and with SCCP. In 1991, OCC and NSCC, MCC, and SCCP each signed a Restated Options Exercise Agreement ("Restated Agreements"). The Restated Agreements never became effective because in 1993, prior to Commission approval of proposed rule changes pertaining to these Restated Agreements, OCC and NSCC, MCC, and SCCP each signed a Second Restated Options Exercise Agreement ("Second Restated Agreements").<sup>5</sup> The Commission approved the proposed rule changes pertaining to the Second Restated Agreements.<sup>6</sup> However, after the proposals were approved the parties to the Second Restated Agreements agreed to suspend the effectiveness of those agreements because OCC's proposed implementation of a two product group margin system would have caused increases in the margin requirements far in excess of the increases which had

been anticipated when the Second Restated Agreements were originally proposed. The Second Restated Agreements never became effective.

OCC and NSCC now propose to make effective the Third Restated Agreement executed by them. The Third Restated Agreement will become effective upon approval by the Commission of the proposed rule changes herein.

**Changes Made by the Third Restated Agreements**

The Third Restated Agreement alters the provisions of the Second Restated Agreement between OCC and NSCC principally to establish a two-way guarantee between OCC and NSCC and to change the guarantee formulas. In the Second Restated Agreement, OCC guaranteed compensation to NSCC for losses incurred by NSCC in closing out the exercise and assignment activity ("E&A activity") of a defaulting OCC clearing member, and NSCC agreed to guarantee settlement of pending stock trades arising from E&A activity commencing at the same time that it guarantees regular-way settlements of ordinary stock transactions (i.e., at midnight of T+1). However, the Second Restated Agreement did not require NSCC to return to OCC any net value remaining from the liquidation of the E&A activity of a defaulting clearing member. As a result, OCC provided for a two product group margin system for equity options to ensure that OCC gave no margin credit for net positive values of a clearing member's E&A activity that would be unavailable to OCC if NSCC were to liquidate the clearing member's positions at NSCC arising from its E&A activity.

The Third Restated Agreement provides for a two-way guarantee between OCC and NSCC. Thus, if NSCC suspends a common member<sup>7</sup> and

<sup>7</sup> In the Third Restated Agreement, the term common member refers to an OCC clearing member that also is an NSCC member and that has designated NSCC as its designated clearing corporation for purposes of effecting settlement of its E&A activity. Under the Third Restated Agreement, like the Second Restated Agreement, three alternatives are available to a clearing member that does not want to become a member of NSCC or SCCP but wants to settle its E&A activity through another entity which is a member of NSCC or SCCP. A clearing member may appoint (1) another OCC clearing member (an "appointed clearing member"), (2) a member of NSCC (a "nominated correspondent"), or (3) if the OCC clearing member is a Canadian clearing member, the Canadian Depository for Securities. These three alternative settlement arrangements are described in detail in Amendment No. 2 to File No. SR-OCC-92-5. This notice of filing describes the provisions of the Third Restated Agreement with respect to an OCC clearing member that is a common member, but the provisions of the Third Restated Agreement are designed to apply to each of the alternative settlement arrangements.

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> A copy of the executed Third Restated Agreement is attached as Exhibit A to OCC's and to NSCC's filings. A copy of each of the filings and all exhibits is available for copying and inspection in the Commission's Public Reference Room or through OCC or NSCC, respectively.

<sup>3</sup> OCC has provided Stock Clearing Corporation of Philadelphia ("SCCP") with a Third Restated Agreement which has terms substantially parallel to the terms of the Third Restated Agreement between OCC and NSCC. OCC has advised SCCP that it is prepared to execute a Third Restated Agreement with SCCP if and when SCCP wishes to do so. Because Midwest Clearing Corporation ("MCC") has withdrawn from the clearance and settlement business, OCC plans to propose entering into a termination agreement with MCC to formally terminate the Second Restated Agreement between OCC and MCC.

<sup>4</sup> The Commission has modified the text of the summaries prepared by OCC and NSCC.

<sup>5</sup> The three Second Restated Agreements were filed by OCC with the Commission in Amendment No. 2 to File No. SR-OCC-92-5, and also were filed by NSCC, SCCP, and MCC in amendments to File No. SR-NSCC-91-7, File No. SR-SCCP-92-01, and File No. SR-MCC-92-02, respectively.

<sup>6</sup> Securities Exchange Act Release No. 33543 (January 28, 1994), 59 FR 5639 [File Nos. SR-OCC-92-05, SR-NSCC-91-07, SR-SCCP-92-01, and SR-MCC-92-02].

incurs a loss, OCC would owe NSCC an amount determined in accordance with the formula described below, and if OCC suspends a common member and incurs a loss, NSCC would owe OCC an amount determined in accordance with the formula described below. The guarantee from NSCC to OCC entitles OCC to reimbursement from NSCC if OCC were to incur a loss in liquidating the positions of a suspended clearing member to whom OCC had been giving margin credit for its E&A activity which had been reported to NSCC for settlement. This entitlement permits OCC to give margin credit for long option positions in firm accounts and market-maker's and specialist's accounts that have been reported to NSCC for settlement and therefore allows OCC to calculate margin for equity options in one product group.

The guarantee of each clearing corporation to the other in the Third Restated Agreement is unconditional in that each clearing corporation's guarantee is not dependent on the ability of the clearing corporation to use assets of its suspended member to make a guarantee payment. Therefore, OCC and NSCC believe that the trustee for a bankrupt OCC clearing member or for a bankrupt NSCC member should not be able to successfully attack OCC's or NSCC's right to receive guarantee payments from each other or to make guarantee payments to each other in accordance with the provisions of the Third Restated Agreement. OCC or NSCC would seek recovery of the amount of any guarantee payment which either made to the other from the assets of the suspended clearing member whose failure necessitated the payment. OCC and NSCC believe that its authority to do so would be within the special provisions of the Bankruptcy Code that protect the close-out activities of securities clearing agencies.<sup>8</sup>

#### Guarantee Formulas

The Second Restated Agreement between NSCC and OCC provided that OCC would compensate NSCC for losses incurred by NSCC in closing out the E&A activity of a defaulting participating member<sup>9</sup> reported by OCC to NSCC. The amount that OCC guaranteed to NSCC would be the smallest of three quantities referred to in

the Second Restated Agreement as the net options loss, the net overall loss, and the maximum guarantee.<sup>10</sup> The Third Restated Agreement between OCC and NSCC sets forth a revised formula for the calculation of the amount which OCC would owe NSCC if NSCC were to suspend a common member. It also provides an analogous formula for the calculation of the amount which NSCC would owe OCC if OCC were to suspend a common member.

Pursuant to the Third Restated Agreement, the formula for payment by OCC under its guarantee to NSCC provides that if NSCC were to suspend a common member, OCC would owe NSCC the lesser of the common member's (i) net member debit to NSCC or (ii) calculated margin requirement. The formula for payment by NSCC under its guarantee to OCC provides that if OCC were to suspend a common member, NSCC would owe OCC the lesser of the common member's (i) net member debit to OCC or (ii) calculated margin Credit.<sup>11</sup> The term net member debit to NSCC is defined to mean the actual net overall debit or loss, if any, realized by NSCC from its close-out of the common member (*i.e.*, the debit or loss after application of all assets available to NSCC including the common member's contribution to

NSCC's clearing fund).<sup>12</sup> The term net member debit to OCC is defined to mean the actual net overall debit or loss, if any, realized by OCC from its close-out of the common member (*i.e.*, the debit or loss after application of all assets available to OCC including the common member's margin deposits and contribution to OCC's clearing fund). The term calculated margin credit is defined to mean the algebraic sum of the mark-to-market amounts<sup>13</sup> calculated by OCC's margin system relating to settlements arising from E&A activity with respect to which NSCC has become unconditionally obligated to settle and the mark-to-market amounts calculated by NSCC's system for offsetting activity in NSCC's system in the same underlying stocks if the algebraic sum is positive (*i.e.*, if the sum represents a net positive value of the settlements). The term calculated margin requirement is defined to mean the same algebraic sum if the algebraic sum is negative (*i.e.*, if the sum represents a net negative value of the settlements).<sup>14</sup>

The calculation of the calculated margin requirement or calculated margin credit will take into account the value of offsetting deliver and receive obligations at NSCC including fails but including free deliver and receive obligations in the underlying stocks in which each common member has E&A activity. NSCC will give OCC a report of

<sup>10</sup> The net options loss was essentially the actual net loss incurred by NSCC in closing out the E&A activity with respect to which NSCC was unconditionally obligated at the time of the default. The net overall loss was essentially the actual net loss incurred by NSCC in closing out all transactions of the defaulting participating member with respect to which NSCC was unconditionally obligated at the time of the default. The maximum guarantee amount was essentially the sum of the mark-to-market amounts, positive and negative, for all E&A activity with respect to which NSCC was unconditionally obligated at the time of the default. The term mark-to-market amount was defined in the Second Restated Agreement to mean the difference between the exercise price of an option and the closing price of the underlying stock on the trading day immediately preceding the then most recently completed regular morning settlement with OCC of the participating member. As set forth in footnote 13 below, the term is defined somewhat differently in the Third Restated Agreement.

<sup>11</sup> Generally, if either NSCC or OCC suspended a common member, the other would also suspend the common member. OCC's Rule 1102(a) entitles OCC to suspend a clearing member which had been suspended by its designated clearing corporation (Securities Exchange Act Release No. 33543 (January 28, 1994) 59 FR 5639 [File No. SR-OCC-92-05]). However, the two formulas under the Third Restated Agreement would require at most a payment by one of the two clearing corporations to the other and not to a payment by each clearing corporation to the other. This is true because the suspended common member's E&A activity in settlement at NSCC would generate either a calculated margin requirement or a calculated margin credit but not both. Thus, the application of at least one of the two formulas would result in a guaranteed amount equal to zero.

<sup>12</sup> The net member Debit to NSCC concept is similar to the net overall loss concept under the Second Restated Agreement. However, the concepts differ in that the net overall loss was the net loss resulting from the close-out of all of a suspended member's settlement activity at NSCC whereas the net member debit to NSCC is the net debit remaining after application of all of a suspended member's assets that are available to NSCC. The difference in these concepts reflects a judgment on the part of the two clearing corporations that the guarantee of each of the other should not obligate either to make any payment to the other if the other in fact has sufficient assets of the suspended member to make itself whole without recourse to the clearing fund deposits of its other members.

<sup>13</sup> Under the Third Restated Agreement, the term mark-to-market amount is defined to mean: (i) with respect to any option exercise or assignment position, the difference between the value of the position calculated using its exercise price and its closing price on the preceding trading day and (ii) with respect to any other position at NSCC, the difference between the value of the position calculated using its trade price and its closing price on the preceding trading day.

<sup>14</sup> The calculated margin requirement concept is similar to the maximum guarantee amount concept under the Second Restated Agreement. The concepts differ in that the maximum guarantee amount did not take into account offsetting activity in NSCC's system in the same underlying stocks. OCC and NSCC have concluded that the calculated margin requirement and calculated margin credit concepts render the net options loss concept under the Second Restated Agreement superfluous. Thus, there is no counterpart in the guarantee formula in the Third Restated Agreement to the net options loss concept in the Second Restated Agreement.

<sup>8</sup> 11 U.S.C. §§ 555 and 559.

<sup>9</sup> As defined in the Second Restated Agreement, the term participating member generally refers to an entity that is an OCC clearing member and also is a participant in a correspondent clearing corporation ("CCC") (*i.e.*, NSCC, MCC, or SCCP) or an entity that is a party to any of the three alternative arrangements for effecting settlement through a CCC as provided under the Second Restated Agreement.

offsetting deliver and receive obligations in its system on a daily basis prior to 8:00 P.M. Central Time.

The calculation of the calculated margin requirement or calculated margin credit is perhaps best illustrated with an example. Suppose that ABC is a common member of NSCC and OCC, that ABC is assigned the exercise of 100 XYZ June 85 call options, that the closing price of XYZ on the day after the exercise ("E+1") is 90, and that ABC has no other E&A activity at all. If ABC also has no non-E&A settlements in XYZ in settlement at NSCC, the calculated margin requirement for ABC would be \$50,000 (90 minus 85 equals \$5.00 per share for each of 10,000 shares). If ABC's non-E&A activity at NSCC in XYZ netted to a right to receive 5000 shares at a weighted average price of 87, and if NSCC gave OCC notice to that effect prior to 8:00 P.M. on E+1, then the \$15,000 in-the-money value of those shares would be taken into account as an offsetting obligation, and the calculated margin requirement for ABC would be \$35,000 commencing at the time on E+2 when OCC is scheduled to make regular daily money settlement with ABC.<sup>15</sup> If ABC's non-E&A activity at NSCC in XYZ instead netted to a right to receive 15,000 shares at a weighted average price of 87 and if NSCC gave OCC notice to that effect prior to 8:00 P.M. on E+1, the value of only 10,000 of those shares (*i.e.*, the amount on the opposite side of the market from the obligation to deliver created by the assigned call) would be taken into account in calculating the calculated margin requirement. Those 10,000 shares would have an in-the-money value of \$30,000, and the calculated margin requirement for ABC would be \$20,000 commencing at the time on E+2 when OCC is scheduled to make regular daily money settlement with ABC.

OCC reports E&A activity to NSCC each night. Offsetting positions information reported back to OCC by NSCC on the evening of E+1 would be

<sup>15</sup> OCC currently collects from clearing members who owe OCC a net dollar amount in regular daily settlement at 9:00 A.M. and pays clearing members who are entitled to receive a net dollar amount in regular daily settlement at 10:00 A.M. In the example in the text, OCC would be obligated to take the in-the-money value of ABC's non-E&A activity into account in calculating ABC's calculated margin requirement if NSCC suspended ABC after 10:00 A.M. (at the latest) even if ABC in fact failed to make money settlement with OCC on E+2. OCC staff has concluded after discussing with NSCC staff the question of when offsetting non-E&A activity should be taken into account that the time of regular daily money settlement is an appropriate time to incorporate the information in the preceding evening's report from NSCC into calculations of the calculated margin requirement or calculated margin credit.

taken into account in the calculation of the calculated margin requirement or calculated margin credit and would be reflected in OCC's regular morning settlement on the morning of E+2. Information reported back to OCC by NSCC on the evening of E+2 would be taken into account in any calculation of the calculated margin requirement or calculated margin credit and would be reflected in OCC's regular morning settlement on the morning of E+3.

Although NSCC will provide OCC with reports of offsetting deliver and receive obligations in its system on a daily basis and although OCC will monitor these reports for unusual position concentrations, OCC will not actually use the information in the reports in its margin calculations for its members.<sup>16</sup>

OCC's guarantee in the Third Restated Agreement is similar to its guarantee in the Second Restated Agreement in that the guarantee does not cover the exposure of NSCC to loss from exercise settlements that would result if a participating member<sup>17</sup> transfers settlements from its account at NSCC to the account of any other member of NSCC (even another participating member or another member that is an affiliate of the participating member) and that second member defaults on its obligations to NSCC with respect to those settlements.

#### Delivery of Stock Held in Escrow

The Second Restated Agreement between NSCC and OCC contemplated that OCC would, if necessary, deliver to NSCC stock held in lieu of margin to cover a suspended clearing member's short call positions against payment by

<sup>16</sup> Unlike NSCC, OCC employs three types of accounts for its members: customer accounts, market-maker accounts, and firm accounts. Separate margin calculations are made with respect to each type of member account. Therefore, in order to use the information in NSCC's reports in OCC's margin calculations, OCC would have to disaggregate the information received from NSCC on an account-by-account basis. This disaggregation, even if possible, could not be done without major changes in both OCC's and NSCC's systems.

<sup>17</sup> Under the Third Restated Agreement the term participating member specifically refers to (1) a common member, (2) an NSCC clearing member that (i) has been appointed as an appointed clearing member by an OCC clearing member that is an appointing clearing member and (ii) has designated NSCC as its designated clearing corporation for the settlement of its E&A activity, (3) an OCC clearing member that (i) is a nominating clearing member, (ii) has appointed a nominated correspondent that is an NSCC member, and (iii) has designated NSCC as its designated clearing corporation for the settlement of its E&A activity, and (4) an OCC clearing member that is a Canadian clearing member. The terms appointing clearing member, appointed clearing member, nominating clearing member, and nominated correspondent are defined in Article I of OCC's By-Laws.

NSCC of the exercise price for the positions and that the value of any such covered short position would not be taken into account in determining the amount guaranteed by OCC to NSCC. In contrast, the Third Restated Agreement does not contemplate that OCC will deliver stock held to cover short call positions because, as described above, the Third Restated Agreement provides for taking the value of offsetting deliver and receive obligations at NSCC into account in the calculation of the calculated margin requirement or calculated margin credit.

#### Amendments to OCC Rule 601

Because of the guarantee extended by NSCC to OCC, OCC proposes to amend Rule 601 to enable OCC to give margin credit for long option positions in firm, market-makers', and specialists' accounts that have been reported to NSCC for settlement. As a result, OCC will be able to calculate margin for equity options in one product group. The amendments to Rule 601 essentially reverse changes which were proposed in File No. SR-OCC-92-5.<sup>18</sup>

#### Amendment to OCC Rule 1107

OCC proposes to amend Rule 1107 to provide that OCC will liquidate securities deposited to cover assigned short call positions and use the proceeds to reimburse itself for the incremental amount, if any, which OCC is obligated to pay to the designated clearing corporation by reason of the covered short positions as well as for the exercise price of the covered options and for any costs associated with the liquidation.

#### Amendment to NSCC's Clearing Fund Formula

NSCC proposes to amend its clearing fund formula in order to exclude from the calculation trades for which NSCC has protection under the terms of the Third Restated Agreement.<sup>19</sup>

OCC and NSCC believe the proposed rule changes are consistent with the purposes and requirements of Section 17A of the Act because the proposals (i) will enhance the system used by OCC to effect settlement of exercises and assignments of equity options by providing for a two-way guarantee between OCC and NSCC thereby permitting OCC to return to a one product group margin system and (ii)

<sup>18</sup> *Supra* note 6.

<sup>19</sup> The complete text of the amendments to NSCC's clearing fund formula is set forth in Exhibit A to NSCC's filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room or through NSCC.

will enhance NSCC's ability to protect itself and its members against loss.

*(B) Self-Regulatory Organizations' Statement on Burden on Competition*

OCC and NSCC do not believe the proposed rule changes will impose any material burden on competition.

*(C) Self-Regulatory Organizations' Statement on Comments on the Proposed Rule Changes Received From Members, Participants or Others*

Written comments were not and are not intended to be solicited by OCC or NSCC with respect to the proposed rule changes, and none have been received by OCC or NSCC.

**III. Date of Effectiveness of the Proposed Rule Changes and Timing for Commission Action**

Within thirty-five days of the date of publication of 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 OCC and NSCC consent, the Commission will:

(A) By order approve the proposed rule changes or

(B) Institute proceedings to determine whether the proposed rule changes 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, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule changes that are filed with the Commission, and all written communications relating to the proposed rule changes between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC and NSCC. All submission should refer to the File Nos. SR-OCC-96-04 and SR-NSCC-96-11 and should be submitted by July 8, 1996.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>20</sup>

Margaret H. McFarland,  
Deputy Secretary.

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**SOCIAL SECURITY ADMINISTRATION**

**Privacy Act of 1974; Report of New Routine Use**

**AGENCY:** Social Security Administration.

**ACTION:** New routine use.

**SUMMARY:** In accordance with the Privacy Act (5 U.S.C. 552a(e) (4) and (11)), we are issuing public notice of our intent to establish a new routine use of information maintained in the Privacy Act system of records entitled Master Files of Social Security Number (SSN) Holders and SSN Applications, SSA/OSR, 09-60-0058. (For convenience, we will refer to the system as the Enumeration System.) The proposed routine use provides for disclosure of SSN and citizenship information to employers in connection with a pilot program to verify the employment authorization of newly-hired employees.

We invite public comments on this publication.

**DATES:** We filed a report of an altered systems of records—new routine use with the Chairman, Committee on Government Reform and Oversight of the House of Representatives, the Chairman, Committee on Governmental Affairs of the Senate, and the Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget on June 4, 1996. The routine use will become effective as proposed, without further notice on July 29, 1996, unless we receive comments on or before that date that would result in a contrary determination.

**ADDRESSES:** Interested individuals may comment on this publication by writing to the SSA Privacy Officer, Social Security Administration, Room 3-A-6 Operations Building, 6401 Security Boulevard, Baltimore, Maryland 21235. Comments may be faxed to (410) 966-0869 or sent to internet address willie.j.polk@ssa.gov. All comments received will be available for public inspection at that address.

**FOR FURTHER INFORMATION CONTACT:** Mr. Willie J. Polk, Chief, Confidentiality and Disclosure Branch, Office of Disclosure Policy, Social Security Administration, 3-D-1 Operations Building, 6401

Security Boulevard, Baltimore, Maryland 21235, telephone 410-965-1753.

**SUPPLEMENTARY INFORMATION:**

**A. Discussion of Proposed Routine Use**

On February 7, 1995, President Clinton announced that SSA, in partnership with the Immigration and Naturalization Service (INS), will conduct a pilot project to verify SSNs and employment authorization for newly-hired employees.

To work in the United States (U.S.), a person must be a U.S. citizen or an alien lawfully admitted to the country and authorized to work. Employers are currently required to view documents from all newly-hired employees to verify their identities and their authorization to work in the U.S. That process has been cumbersome for employers and is generally viewed as ineffective at identifying unauthorized workers. It has also been found to provide an opportunity for discrimination against people who look or sound foreign.

The Commission on Immigration Reform (also known as the Jordan Commission) released an interim report to the Congress in September 1994 that proposed a computer registry based on SSA and INS data that employers could check to determine if a newly-hired employee is authorized to work. The Commission recommended that the President immediately pilot the registry in the five States with the highest levels of illegal immigration and several less affected States. SSA and INS estimate it would take at least 5 years after the enactment of legislation to set up the joint computer registry proposed by the Jordan Commission. The President has authorized SSA and INS to develop pilot projects to test the effectiveness of some of the concepts embodied in the computer registry proposal, and to test the technical feasibility of matching data from the two agencies' databases.

The focus of the current pilot project would involve a two-step process using existing SSA and INS data bases. Current plans call for selected volunteer employers to provide SSA with a newly-hired employee's SSN, name and date of birth. SSA would match that information against the Enumeration System data base. If the identifying information furnished by the employer does not match the data in the Enumeration System, SSA would so inform the employer. If there is a match, SSA would also check for citizenship/alien status coding. If the Enumeration System indicates that the employee is a U.S. citizen, SSA's response would

<sup>20</sup> 17 CFR 200.30-3(a)(12) (1995).