SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51673; File No. SR-FICC-2005-06)

May 9, 2005

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Change the Minimum Margin Deficiency Call Amount for Participants in its Mortgage-Backed Securities Division

I. Introduction

On March 11, 2005, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2005-06 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").[1] Notice of the proposal was published in the Federal Register on April 4, 2005.[2] No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

FICC is amending the minimum margin deficiency call amount for participants in its Mortgage-Backed Securities Division ("MBSD") to the lesser of $250,000 or 25 percent of the value of a participant's margin deposit. Currently, the MBSD's procedures establish a minimum margin deficiency call amount of $1,000. Upon review, FICC has determined that the minimum margin deficiency call amount creates unnecessary operational burdens and allocation of resources for a collection of margin calls that FICC believes is insubstantial from a risk perspective. On average, the MBSD makes 17 margin calls per day of which approximately five are for amounts under $250,000.

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1 15 U.S.C. 78s(b)(1).

2 Securities Exchange Act Release No. 51441 (March 28, 2005), 70 FR 17133 (April 4, 2005).

FICC seeks to harmonize the rules of its two divisions, the Government Securities Division ("GSD") and MSBD, wherever prudent and possible. The rules of the GSD provide for a minimum Clearing Fund deficiency call amount for margin requirement increases of the lesser of $250,000 or 25 percent of the value of the member's collateral deposits.[3] Under the proposed rule, the minimum margin deficiency call amount for MBSD participants will be the lesser of $250,000 or 25 percent of the value of a participant's margin deposit. FICC believes this will eliminate the operational burdens associated with the collection of de minimis margin amounts and will harmonize the rules of FICC's two divisions.[4]

III. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[5] The Commission finds that FICC's proposed rule change is consistent with this requirement because it will allow for a less burdensome application of its margin call process without presenting material risk to FICC or its participants. This should allow FICC to reallocate resources formerly associated with the collection of de minimis margin amounts, which will better enable FICC to safeguard the securities and funds in its custody or control or for which it is responsible.

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[3] There is no minimum amount for deficiency calls where the subject member is subject to enhanced monitoring on what is known as the "watch list."

[4] As proposed and consistent with the applicable GSD rule, a minimum amount will not apply to deficiency calls where the subject participant is on the "watch list."

[5] 15 U.S.C. 78q-1(b)(3)(F).

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-FICC-2005-06) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[6]

Jill M. Peterson
Assistant Secretary

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6 17 CFR 200.30-3(a)(12).