SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54622; File No. SR-FICC-2006-13)

October 18, 2006

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to the Federal Reserve's National Settlement Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] notice is hereby given that on July 11, 2006, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on August 4, 2006, amended, the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by FICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change would amend the rules of FICC's Mortgage-Backed Securities Division ("MBSD") to require clearing participants to satisfy their cash settlement amounts ultimately through the Federal Reserve's National Settlement Service ("NSS").[2]

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FICC included statements concerning the purpose of

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

2 The Commission previously approved a proposed rule change filed by FICC to make a similar amendment to the rules of its Government Securities Division ("GSD"). Securities Exchange Act No. 52853 (November 29, 2005), 70 FR 72682 (December 6, 2005) [File No. SR-FICC-2005-14]. FICC's affiliates, The Depository Trust Company ("DTC") and the National Securities Clearing Corporation ("NSCC") also use NSS in their funds settlement processes. However, DTC and NSCC do not currently use NSS for the payment of credit. FICC is proposing to have the MBSD process both the debits and credits of its cash settlement process through the NSS, as is the case for the GSD.

For a description of NSS, refer to www.frbservices.org/Wholesale/natsettle.html.

and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FICC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[3]

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Currently, the MBSD cash settlement process, which is contained in Rule 8 of Article II of the MBSD's rules, works as follows. On a daily basis, FICC computes a cash balance, which is either a debit amount or a credit amount, per participant account and nets the cash balances across aggregated accounts. Unlike at GSD where cash settlement occurs on a daily basis, at MBSD there are specific dates on which debits and credits are required to be made. Settlement dates at MBSD are based upon the settlement dates of the different classes of MBSD-eligible securities. There is a time deadline for the payment of debits to FICC as announced by the MBSD from time to time. All payments of cash settlement amounts by a clearing participant to FICC and all collections of cash settlement amounts by a clearing participant from FICC are done through depository institutions that are designated by MBSD participant and by FICC to act on their behalf with regard to such payments and collections. All payments are made by fund wires from one depository institution to the other.

Under the proposal, the required payment mechanism for the satisfaction of cash settlement amounts would be the NSS. FICC would appoint The Depository Trust Company ("DTC") as its settlement agent for purposes of interfacing with the NSS.[4]

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[3] The Commission has modified parts of these statements.

[4] DTC currently performs this service for the GSD and NSCC.

In order to satisfy their cash settlement obligations through the NSS process, each MBSD clearing participant would have to appoint a "cash settling bank." An MBSD clearing participant that qualifies may act as its own cash settling bank.

The MBSD would establish a limited membership category for the cash settling banks. Banks or trust companies that are DTC settling banks (as defined in DTC's rules and procedures), GSD funds-only settling bank members (as defined in the GSD's rules), or clearing participants with direct access to a Federal Reserve Bank and NSS would be eligible to become MBSD cash settling bank participants by executing the requisite membership agreements for this purpose. Banks or trust companies that do not fall into these categories and that desire to become MBSD cash settling bank participants would need to apply to FICC. Such banks or trust companies would also need to have direct access to a Federal Reserve Bank and the NSS as well as satisfy the financial responsibility standards and operational capability imposed by FICC from time to time. Initially, these applicants would be required to meet and to maintain a Tier 1 capital ratio of 6 percent.[5]

In addition to the membership agreement, each MBSD participant and the cash settling bank it has selected would be required to execute an agreement whereby the participant would appoint the bank to act on its behalf for cash settlement purposes. The bank would also be required to execute any agreements that may be required by the Federal Reserve Bank for participation in the NSS for FICC's cash settlement process.

The cash settling banks would be required to follow the procedures for cash settlement payment processing set forth in the proposed rule changes. This would include, for example,

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[5] This is the same financial requirement for GSD funds-only settling banks that fall into a similar category. As with the GSD, FICC would retain the authority and discretion to change this financial criterion by providing advanced notice to the settling banks and the netting members through an important notice.

providing FICC or its settlement agent with the requisite acknowledgement of the bank's intention to settle the cash settlement amounts of the clearing participant(s) it represents on a timely basis and to participate in the NSS process. Cash settling banks would have the right to refuse to settle for a particular participant and would also be able to opt out of NSS for one business day if they were experiencing extenuating circumstances.[6] In such a situation, the clearing participant would be responsible for ensuring that its cash settlement debit was wired to the depository institution designated by FICC to receive such payments by the payment deadline. The proposed rule change makes clear that the obligation of a clearing participant to fulfill its cash settlement would remain at all times with the clearing participant.

As FICC's settlement agent, DTC would submit instructions to have the Federal Reserve Bank accounts of the cash settlement banks charged for the debit amounts and credited for the credit amounts. Utilization of NSS would eliminate the need for the initiation of wire transfers in satisfaction of MBSD settlement amounts, and FICC believes that it would therefore reduce the risk that the clearing participant that designated the bank would incur a late payment fine due to delay in wiring funds. The proposal would also reduce operational burden for the operations staff of FICC and of the participants.

The NSS is governed by the Federal Reserve's Operating Circular No. 12 ("Circular"). Under the Circular, DTC, as FICC's settlement agent, has certain responsibilities with respect to an indemnity claim made by a relevant Federal Reserve Bank as a result of the NSS process. FICC would apportion the entirety of any such liability to the clearing participant or clearing participants for whom the cash settling bank to which the indemnity claim relates is acting. This allocation would be done in proportion to the amount of each participants' cash settlement

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[6] These procedures are consistent with the GSD, NSCC, and DTC procedures in this respect.

amounts on the business day in question. If for any reason such allocation would not be sufficient to fully satisfy the Federal Reserve Bank's indemnity claim, then the remaining loss would be allocated among all clearing participants in proportion to their relative usage of the facilities of the MBSD based on fees for services during the period in which loss is incurred.

The proposed rule change also amends the GSD's rules regarding the use of the NSS. An additional category for eligible funds-only settling banks would be added to include MBSD cash settling banks. This means that an MBSD cash settling bank would be able to become a GSD funds-only settling bank by signing the requisite agreements.

FICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder because the proposed rule change would enhance the current operation of the MBSD's cash settlement payment process by promoting the timely processing of funds payments and credits. As such, the proposed rule change would support the prompt and accurate clearance and settlement of securities transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

FICC does not believe that the proposed rule change would have any impact or impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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

Within 35 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 90 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 the self-regulatory organization consents, the Commission will:

(A) by order approve the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2006-13 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FICC-2006-13. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change 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 Section, 100 F

Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of FICC and on FICC's Web site at www.ficc.com. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2006-13 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[7]

Nancy M. Morris
Secretary

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7 17 CFR 200.30-3(a)(12).