

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55136; File No. SR-FICC-2006-17)

January 19, 2007

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change Relating to Clearing Fund Deficiency Calls

I. Introduction

October 16, 2006, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ to adjust the deadline for satisfying a clearing fund deficiency call from 10:30 a.m. to 9:30 a.m. in the Schedule of Timeframes in FICC’s Government Securities Division (“GSD”) rulebook. The proposed rule change was published for comment in the Federal Register on December 6, 2006.² No comment letters were received on the proposal.

This order approves the proposal.

II. Description of the Proposal

FICC is amending GSD’s rules to change the time when payment of clearing fund deficiency calls is due from netting members. In 2005, the Commission approved a FICC rule filing that established the Federal Reserve’s National Settlement System (“NSS”) as the method by which GSD netting members would satisfy their funds-only settlement amounts.³ FICC believes that that rule filing improved GSD’s funds-only settlement process because it created a more automated and centralized payment system for the satisfaction of funds-only settlement debits and credits. In NSS, the GSD funds-only settlement debit and credit process is completed

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 54819 (Nov. 27, 2006), 71 FR 70817.

³ Securities Exchange Act Release No. 52853 (Nov. 29, 2005), 70 FR 72682 (Dec. 6, 2005) [SR-FICC-2005-14].

by 10:00 a.m.⁴ each business day.

Currently, clearing fund deficiency call payments are due from GSD netting members at 10:30 a.m. Clearing fund deficiencies due to FICC from netting members have to be satisfied prior to the release of funds-only settlement credits. When a netting member has not satisfied its clearing fund deficiency payment by approximately 9:50 a.m., GSD removes that member from the automated NSS process and settles with them manually outside the NSS system. Such manual processing results in administrative burdens for FICC staff and undermines the efficiencies FICC sought to achieve by using the NSS system.

For this reason, FICC is changing the time when GSD clearing fund deficiency calls must be satisfied to 9:30 a.m. from 10:30 a.m.⁵ Doing so should enable GSD to resolve any unsatisfied deficiencies with netting members well in advance of the 10:00 a.m. completion of the funds-only settlement process that takes place through NSS and should allow GSD to better utilize the automated NSS process.

As is currently the case in its rules, FICC will reserve the right to extend this deadline on days that there are operational or systems difficulties that would reasonably prevent members from satisfying a deficiency call by 9:30 a.m.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Commission believes the proposal is consistent with the requirements of Section

⁴ All times referenced herein are New York times.

⁵ This rule filing does not affect a netting member's obligation to make its funds-only settlement payment to FICC on time.

17A(b)(3)(F),⁶ which, among other things, requires that FICC's rules are designed to assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible. Adjusting the time when clearing fund deficiency calls must be satisfied by members from 10:30 a.m. to 9:30 a.m. will require FICC members to satisfy their clearing fund deficiency calls before the completion of FICC's fund-only settlement process through NSS. This will enable FICC to eliminate much of the burdensome manual processing in this area and will allow FICC to benefit from the efficiencies provided by a more complete use of NSS. With members satisfying their clearing fund deficiencies earlier and with more use of the automated and centralized NSS, FICC will be better able to reduce settlement risks to itself and to its members.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁷ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁸ that the

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78s(b)(2).

proposed rule change (File No. SR-FICC-2006-17) be, and hereby is, approved.⁹

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Florence E. Harmon
Deputy Secretary

⁹ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹⁰ 17 CFR 200.30-3(a)(12).