

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53852; File No. SR-FICC-2006-04)

May 23, 2006

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Clarify Provisions in the Rules of the Government Securities Division Relating to the GCF Forward Mark Component of the Funds-Only Settlement Process

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ notice is hereby given that on March 24, 2006, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by FICC. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act² and Rule 19b-4(f)(4) thereunder³ so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

The proposed rule change clarifies provisions in the rules of the Government Securities Division (“GSD”) of FICC relating to the GCF forward mark component of the funds-only settlement process.

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78s(b)(3)(A)(iii).

³ 17 CFR 240.19b-4(f)(4).

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 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 these statements.⁴

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

FICC's GCF Repo Service enables dealer members of the GSD to freely and actively trade general collateral repos throughout the day without requiring intraday, trade-for-trade settlement on a delivery-versus payment basis. The GSD's funds-only settlement process is the mechanism by which cash adjustments are passed through from one member to another. One component of GSD's funds-only settlement process is the GCF forward mark. The GCF forward mark is a cash mark-to-market adjustment that brings members' GCF net settlement positions from contract value to current market value.⁵

As the novation of forward-settling trades occurs one or more days prior to the settlement of such trades, FICC incurs multiday settlement exposure on such trades. To mitigate this risk, FICC collects and passes through on a daily basis, as a part of the morning funds-only settlement process, a mark-to-market amount equivalent to its ongoing exposure on each forward net settlement position. This mark-to-market on forward-settling trades is determined in FICC's forward mark calculation.

⁴ The Commission has modified the text of the summaries prepared by FICC.

⁵ A mark-to-market is essentially a repricing of forward settling activity on a daily basis.

Rule 13 of the GSD rules governs its funds-only settlement process. A review of this rule has revealed the need for clarification in the rule's language that describes the GSD's forward mark calculation. Two defined terms in the current GSD rules that were intended to represent the entire mark-to-market attributable to forward-settling GCF Repo activity, namely Credit GCF Interest Rate Mark and Debit GCF Interest Rate Mark, are defined in a way that causes them to reflect only tentative or interim amounts.

As currently defined in the Rules, the determination of a Credit GCF Interest Rate Mark or a Debit GCF Interest Rate Mark is based solely on the calculation of an amount defined in the GSD rules as the GCF Interest Rate Mark; however, the definition of GCF Interest Rate Mark omits a required reference to the calculation of interest accrued on the financing aspect of the applicable transaction.⁶ A definition that would better reflect the actual mark-to-market for a particular forward-settling GCF Repo transaction should also take into account both the GCF Interest Rate Mark and the interest accrued on the financing component of the transaction. Therefore, as currently defined these terms do not fully reflect the actual calculations that are both required and currently used by FICC to mitigate risk exposure on forward settling GCF Repo trades.

In order to conform the GSD Rules to actual and correct practice in this regard, FICC is proposing to revise the rules to: (i) add a new term called GCF Forward Mark, (ii) replace the above-mentioned terms Credit GCF Interest Rate Mark and Debit GCF Interest Rate Mark with

⁶ The definition of "GCF Interest Rate Mark" is included for reference purposes in Exhibit 5 to the proposed rule filing.

newly defined terms to be called Credit GCF Forward Mark and Debit GCF Forward Mark,⁷ and (iii) utilize the term Accrued Repo Interest-to-Date contained in a recently approved rule filing by the Commission.⁸

The term GCF Forward Mark will properly reflect the calculation of the outstanding GCF Repo transaction as the sum of the Accrued Repo-Interest-to-Date and the GCF Interest Rate Mark. To the extent that the mark-to-market for a particular member is positive, it shall be deemed a Credit GCF Forward Mark and to the extent that the mark-to-market for a particular member is negative, it shall be deemed to be a Debit GCF Forward Mark. Whether reflecting a credit or a debit, the newly-defined GCF Forward Mark will represent a calculation which accurately describes the portion of a member's forward mark adjustment payment attributable to a particular GCF Repo transaction.

In addition to the above, a technical adjustment has been made to correct a typographical error in subsections (f) and (g) of Section 1 of Rule 13 which transposed the usage of terms involving debits and credits in connection with a description of certain situations where a member would be required to make a payment to or could collect a payment from FICC as part of the funds-only settlement process.

⁷ The deletion of the terms Credit GCF Interest Rate Mark and Debit GCF Interest Rate Mark and the addition of the terms Credit GCF Forward Mark and Debit GCF Forward Mark necessitates a conforming change to provisions of Section 1 of Rule 13 of the GSD rules.

⁸ Securities Exchange Act Release No. 53534 (March 21, 2006), 71 FR 15781 (March 28, 2006) [File No. SR-FICC-2005-18].

The proposed change is consistent with Section 17A of the Act⁹ and the rules and regulations thereunder applicable to FICC because it makes technical changes that clarify FICC's rules in a manner consistent with the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.

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

FICC does not believe that the proposed rule change will 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

The foregoing rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁰ and Rule 19b-4(f)(4)¹¹ thereunder because it effects a change in an existing service of FICC that (i) does not adversely affect the safeguarding of securities or funds in the custody or control of FICC or for which it is responsible and (ii) does not significantly affect the respective rights or obligations of FICC or persons using the service. At any time within sixty days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or

⁹ 15 U.S.C. 78q-1.

¹⁰ 15 U.S.C. 78s(b)(3)(A)(iii).

¹¹ 17 CFR 240.19b-4(f)(4).

appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2006-04 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-2006-04. 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 <http://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-2006-04 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.¹²

Nancy M. Morris
Secretary

¹² 17 CFR 200.30-3(a)(12).