

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54879); File No. SR-FICC-2006-12

December 6, 2006

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving a Proposed Rule Change Relating to Financial Responsibility, Operational Capability, Insolvency, and Ceasing to Act

On June 15, 2006 the Fixed Income Clearing Corporation (“FICC”) filed a proposed rule change with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and on September 22, 2006, amended the proposed rule change. Notice of the proposal was published in the Federal Register on October 4, 2006.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

## **I. Description**

The rule change will amend FICC’s Government Securities Division’s (“GSD”) and Mortgage Backed Securities Division’s (“MBSD”) rules relating to members’ or applicants’ financial responsibility, operational capability, and insolvency and to FICC ceasing to act for members.

### **A. Cease to Act and Insolvency Rules**

FICC will amend GSD’s rules governing when FICC will cease to act for a member in a noninsolvency situation, GSD Rule 21, and in an insolvency situation, GSD Rule 22. Such changes will conform GSD’s rules to the rules of FICC’s clearing agency affiliate, the National Securities Clearing Corporation (“NSCC”).

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

<sup>2</sup> Securities Exchange Act Release No. 54570 (Oct. 4, 2006), 71 FR 60591.

GSD Rule 21, which addressed noninsolvency situations, will be renamed “Restriction on Access to Services” and will be similar to NSCC Rule 46. While revised Rule 21 is triggered by essentially the same criteria that are contained in the old GSD rule,<sup>3</sup> the revised rule expands the remedies that FICC could exercise beyond only “ceasing to act” or “ceasing to accept data” on behalf of the member. Specifically, FICC, after notifying and providing an opportunity to request a hearing to the member, will be able to suspend, prohibit, or limit a member’s access to one or more of FICC’s services.

GSD Rule 22, which addresses insolvency situations, remains essentially in its old form except that its close-out provisions are amended and are being moved to new Rule 22A.

New Rule 22A sets forth the procedures that FICC will follow when it ceases to act for a member pursuant to either Rule 21 or Rule 22. Under new Rule 22A, FICC will initiate the close-out process with respect to a member for which it has ceased to act for any reason permitted by its rules.<sup>4</sup> In addition, the term Cut-Off Time for noninsolvency situations will be added to Rule 22A.<sup>5</sup> Although this term is similar to the Time of Insolvency term used in old Rule 22, a key difference between the terms is that members will be notified in advance of the Cut-Off Time.

The rule change also makes technical changes to conform existing references to Rules 21 and 22 throughout GSD’s rules to these revisions.<sup>6</sup>

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<sup>3</sup> Such triggers include the member failing to perform its obligations to FICC and FICC’s determination that the member is in or is approaching financial difficulty.

<sup>4</sup> Currently, the close-out process applies only when FICC deems a member insolvent.

<sup>5</sup> As used in Rule 22A, the term Cut Off Time means the time that is specified in advance by FICC in a notice to members to be the time when FICC is deemed to have ceased to act for a member.

<sup>6</sup> Technical, conforming changes are being made to Rules 1, 3A, 4, 6A, 14 and new Rule 22A.

### B. General Continuance Standards

FICC will add new language to Section 5 of GSD Rule 3 and a new Section 18, Article III, Rule 1 to MBSD's rules, which will be similar to NSCC Rule 15, that enables FICC when it deems necessary or advisable to assure itself of a member's or an applicant's financial responsibility and operational capability. To assure itself, FICC may, but is not be limited to: restrict or modify the member's use of any or all of FICC's services; require additional reporting by the member of its financial or operational condition; increase the member's clearing fund collateral; alter the proportions of cash, eligible netting securities, and letters of credit contributing to the member's required clearing fund deposits; and prohibit the member from withdrawing excess clearing fund deposits.<sup>7</sup>

Because the proposed rule change gives FICC the general authority to require additional clearing fund collateral when FICC is seeking additional assurances from a member or applicant, the provisions in GSD's Rule 4 that require the posting of additional collateral for specific circumstances are being deleted.

### C. Technical Amendments

FICC will make several technical amendments to GSD's and MBSD's rules. The terms "Board" and "Board of Directors" will be redefined to include a committee of FICC's Board of Directors that is acting under delegated authority of the Board. Accordingly, references to specific board committees throughout both divisions' rules will be replaced simply by the term "Board," which will include any such board committees.

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<sup>7</sup> These proposed actions are similar to those that FICC has proposed to undertake with respect to a member undergoing a wind-down in a rule filing pending with the Commission. SR-FICC-2006-05.

## II. Discussion

Section 17A(b)(3)(F) of the Act<sup>8</sup> requires that the rules of a clearing agency assure the safeguarding of securities and funds that are in the custody or control of the clearing agency or for which it is responsible. The Commission finds that the proposed rule change is consistent with this obligation because it should enhance FICC's ability to identify members that present greater financial and operational risk and expands the remedies available to FICC to protect itself when dealing with such members. As a result, the proposed rule change should improve FICC's capacity to safeguard securities and funds in its custody or control or for which it is responsible.

## III. 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 Act<sup>9</sup> 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-2006-12) be, and hereby is, approved.<sup>10</sup>

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>9</sup> 15 U.S.C. 78q-1.

<sup>10</sup> 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).

<sup>11</sup> 17 CFR 200.30-3(a)(12).