

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55370; File No. SR-FICC-2007-01)

February 28, 2007

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule To Interpret Rule 5 Section 6 of the Government Securities Division Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ notice is hereby given that on January 22, 2007, 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 proposal pursuant to Section 19(b)(3)(A)(i) of the Act² and Rule 19b-4(f)(1)³ thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the rule change from interested parties.

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

The purpose of the rule change is to interpret Rule 5, Section 6 of the Government Securities Division (“GSD”) rules.⁴

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78s(b)(3)(A)(i).

³ 17 CFR 240.19b-4(f)(1).

⁴ Rule 5, Section 6 of the GSD rules states in pertinent part, “Each comparison generated by the Corporation . . . shall evidence a valid, binding, and enforceable contract in respect of such Compared Trade.”

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.⁵

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

Rule 5, Section 6 of the GSD rules states in pertinent part that each comparison generated by GSD evidences a valid, binding, and enforceable contract with respect to such compared trade. This provision confirms the terms and conditions of the trade and the parties' agreement thereto and authorizes FICC to take further action with respect to the compared trade if required.

GSD members are always subject to all of the rights and obligations that arise under GSD's rules with respect to trades they submit to GSD. For example, if a trade is submitted for comparison-only processing, the submitting members, whether or not they executed the trade, are subject to the obligation to pay applicable fees and to other obligations that arise under the rules.⁶ If a trade is submitted for netting, the submitting members, whether or not they executed the trade, are subject to the obligation to pay applicable fees, to post clearing fund collateral, and to satisfy funds-only, securities settlement, and other obligations that arise under the rules. The

⁵ The Commission has modified the text of the summaries prepared by FICC.

⁶ Members that submit trades for comparison-only processing are not subject to clearing fund, funds-only settlement, and securities settlement obligations under FICC's rules with respect to such comparison-only trades.

submitting members, and not the entity for which they are submitting trades, also have all the rights against FICC for novated settlement obligations. However, GSD's rules do not alter rights and obligations between a member and its customer outside of the clearing process.

For example, a hedge fund that is not a member of GSD executes a trade with a dealer ("Dealer A") that is a GSD netting member. The hedge fund then notifies its prime broker ("Prime Broker") that is also a GSD netting member about the trade that the Prime Broker is to settle on the hedge fund's behalf. Both Dealer A and the Prime Broker submit the trade to GSD. While Dealer A and Prime Broker are subject to all of the rights and obligations that arise under GSD's rules with respect to that trade, GSD's rules do not eliminate any rights and obligations that arise between Prime Broker and the hedge fund or Dealer A and the hedge fund outside of the clearing process.

The proposed rule change is consistent with Section 17A of the Act,⁷ as amended, because it constitutes an interpretation with respect to the meaning of an existing rule.

(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.

⁷ 15 U.S.C. 78q-1.

(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 proposed rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act⁸ and Rule 19b-4(f)(1)⁹ thereunder because the rule constitutes an interpretation with respect to the meaning of an existing rule. 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 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

⁸ 15 U.S.C. 78s(b)(3)(A)(i).

⁹ 17 CFR 240.19b-4(f)(1).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2007-01 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-2007-01. 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 filings 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/commondocs/rule.filings/rule.filing.07-01.pdf>. 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-2007-01 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.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).