March 22, 2007

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Membership, Definitions, and the Electronic Pool Notification Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), notice is hereby given that on December 13, 2006, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared substantially 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 purpose of this filing is to restructure FICC’s Government Securities Division’s (“GSD”) membership standards and membership requirements by conforming them to current practice and to harmonize them with similar rules of FICC’s clearing agency affiliate, the National Securities Clearing Corporation (“NSCC”). In addition, this rule filing would update various definitions and make technical changes to GSD and to FICC’s Mortgage-Backed Securities Division’s (“MBSD”) Electronic Pool Notification (“EPN”) rules.

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.

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FICC has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Membership Rules

FICC proposes to revise its rules concerning membership types, the membership application process, and the ongoing requirements of GSD members into a format that FICC believes will make such rules easier to locate and understand by applicants and members. To accomplish this, FICC would amend current Rule 2 (proposed to be titled “Members”), move much of the content of current Rule 2 into a new Rule 2A (“Initial Membership Requirements”), and revise Rule 3 (proposed to be titled “Ongoing Membership Requirements”). Other rules and provisions would be modified to make technical corrections where necessary and to be harmonized with analogous NSCC rules.

a. Membership Types

FICC’s current Rule 2 (“Comparison-Only and Netting Members”) sets forth the types of GSD members, eligibility requirements, application procedures, and member reporting requirements. FICC proposes to revise Rule 2 to establish each GSD membership type: Comparison-Only Members, Netting Members, Sponsoring Members, Sponsored Members, and Funds-Only Settling Bank Members. Substantially all other provisions contained in the current Rule 2 will be moved to either proposed Rule 2A or proposed Rule 3.

One exception to this is that FICC is proposing to delete current Rule 2, Section 4 (“Financial Reports by Netting Applicants). FICC states that the rationale for such proposed deletion is that FICC already advises during the application process applicants of the required financial reports depending on the category of membership applied for and the applicant entity
type. In addition, FICC would set forth in proposed Rule 3 the financial reports that must be submitted by members to FICC on an ongoing basis.

FICC is also proposing to delete Section 1(f) of Rule 2, which provides that applicants that have been approved for membership must execute and deliver to FICC a membership agreement. This provision is redundant with existing Rule 2, Section 3, which would appear in proposed Rule 2A, Section 7.

b. Consolidation of Membership Standards and Requirements

The membership qualifications, financial standards, and operational requirements for each member type are currently set forth in Rule 2 (“Comparison-Only and Netting Members”), Rule 3 (“Financial Responsibility, Operational Capability and Other Membership Standards of Comparison-Only and Netting Members”), and Rule 4 (“Clearing Fund, Watch List and Loss Allocation”). To consolidate this information, FICC proposes to create a new Rule 2A (“Initial Membership Requirements”) that would establish the initial membership eligibility requirements for all member types and would set forth the process of membership application and evaluation. In addition, FICC proposes to restructure Rule 3 (“Ongoing Membership Requirements”) to contain all current GSD rule provisions regarding the continuing requirements of members.

The restructuring would encompass three substantive changes:

(i) Immediate Placement on the Watch List

FICC proposes to delete current Rule 3, Section 1(d)(iii) that automatically disqualifies an applicant from becoming member if the applicant is subject to any action or condition, the existence of which would require the applicant to be placed on FICC’s Watch List if it were already a member. FICC believes that eliminating such provision will not diminish FICC’s ability to deny membership to an unworthy applicant because FICC would still retain under
other sections of its rules the discretion to deny membership based on the applicant’s underlying financial, operational, or character issues. Moreover, FICC’s credit risk matrix enables FICC to place such applicant directly on FICC’s watch list for closer monitoring.

(ii) **Additional Reporting Requirements**

FICC proposes to add new language to proposed Rule 3, Section 2 (“Reports by Netting Members”) that would require members to provide FICC with: (a) reports from their independent auditors on internal controls (proposed Rule 3, Section 2(b)(ii)) and (b) a copy of the letter granting an extension of time by a regulatory authority to a member with respect to the submission of a report (proposed Rule 3, Section 2(h), para. 2).

(iii) **Annual Audited Financial Statements**

FICC proposes to remove the current requirement in Rule 2, Section 4(a) that audited annual financial statements submitted by netting members be “without qualification.” FICC believes that a qualification in an annual audited financial statement should not warrant automatic denial of membership because a qualification may not always be material. In addition, the event that triggered a qualification may have been corrected by the applicant or member by the time the applicant or member submits its financial statement for review by FICC. Going forward, FICC would analyze qualifications in GSD netting member financial statements on a case-by-case basis.

Other conforming and non-substantive changes have been made within the rules to accommodate this restructuring and to update cross references where applicable.

2. **Non-Substantive Changes and Technical Corrections**

(i) **Definition of “Person”**
FICC proposes to amend the current definition of Person contained in GSD Rule 1 (“Definitions”) to indicate that the term will be used throughout the rules to mean a partnership, corporation, limited liability corporation, or other organization, entity, or individual.

(ii) Definition of “Eligible Security”

FICC proposes to amend the definition of Eligible Security to make clear that any security of an issuer that is on the Office of Foreign Assets and Control’s (“OFAC”) Specially Designated Nationals list or a security from a country that is subject to OFAC sanctions may not be an eligible security at GSD.

In addition, FICC is proposing to make the same change to the definition of Eligible Security in MBSD’s Clearing and EPN rules.

(iii) Definition of “Bond Market Association”

The Bond Market Association is now known as the Securities Industry and Financial Markets Association. GSD proposes to remove the definition of and references to The Bond Market Association from its rules and replace it with a definition for and references to The Securities Industry and Financial Markets Association.

(iv) Governing Law Provision

FICC is proposing to clarify the Governing Law provision contained in GSD’s and MBSD’s Clearing and EPN rules to state that the respective rules of GSD and MBSD Clearing and EPN are subject to New York law as applicable to contracts executed and performed in New York.

(v) Insurance Company Netting Member Eligibility Requirements

FICC proposes to remove from GSD’s rules the eligibility requirements for Insurance Company Netting Members because GSD does not currently have any such members. FICC
will, however, retain the definition of Insurance Company Netting Member in its rules in the event that such an entity applies for membership in the future. Appropriate eligibility requirements would be reviewed at that time and added to the rules.

FICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations promulgated thereunder applicable to FICC. FICC states that its rules are intended to protect FICC and its members from undue risk while providing access to FICC services and that the proposed rule change will assist FICC and its members in interpreting and understanding the rules with regard to applicant and ongoing membership standards and requirements. In addition, FICC believes that conforming the rules to actual practice will assist FICC in assuring the safeguarding of funds and securities in FICC’s control or for which FICC 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

FICC has not solicited or received written comments relating to the proposed rule change. FICC will notify the Commission of any written comments it receives.

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

Within thirty-five 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 ninety 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 such 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, as amended, 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 No. SR-FICC-2006-19 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 No. SR-FICC-2006-19. 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 FICC’s principal office and on FICC’s Web site at <http://ficc.com/gov/gov.docs.jsp?NS-query=#rf>. 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 submission should refer to File No. SR-FICC-2006-19 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.²

Florence E. Harmon
Deputy Secretary