February 9, 2005

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving a Proposed Rule Change Relating to Changes to Eliminate or Amend Rules that Are Inconsistent With Current Practice, Have Expired, Are Outdated, Are Unnecessary, or Require Technical Correction

On October 7, 2004, 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”) \(^1\) (File No. SR-FICC-2004-19). Notice of the proposal was published in the Federal Register on December 29, 2004. \(^2\) No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

The proposed rule change will eliminate or amend FICC’s Government Securities Division (“GSD”) and Mortgage-Backed Securities Division (“MBSD”) rules in the following manner:

1. **Delete provisions in GSD’s rules regarding the Automated Customer Account Transfer Service (“ACATS”).**

The ACATS provisions were added to GSD’s rules in 1998, when the National Securities Clearing Corporation requested that the Government Securities Clearing Corporation (“GSCC”), the GSD’s predecessor, establish with it an interface that would enable account transfers involving netting-eligible government securities to be processed using GSCC’s existing netting


and settlement processes. This service was never implemented, and its continued reference in the rules is inconsistent with current practice.

2. **Delete provisions from GSD’s rules that designate participation in the repo comparison and netting processes.**

   GSD’s rules used to refer to FICC as designating a member to be eligible to participate in the repo comparison and repo netting processes. When these repo services commenced in 1995, GSCC required testing prior to participation and subsequently designated members as eligible to participate in the services. Participation in these services has now become commonplace and special testing and designation for participation in the repo services is no longer necessary. As such, the provisions in question are outdated and are being deleted.

3. **Make technical corrections to GSD rules by:**
   
   i. changing the definitions of “Interest Adjustment Payment” and “Interest Rate Mark Adjustment Payment” in GSD Rule 1 (Definitions) to correct an erroneous reference in both definitions to the “Federal Funds Rate” and replacing them with references to a newly defined term, “Overnight Investment Rate;”

   ii. changing the term in Rule 1 “Multilateral Clearing Organization” to “Multilateral Clearing Agency;”

   iii. changing the language of the definition in Rule 1 of “Member” to reflect the fact that certain members (i.e., comparison-only members) are approved for membership by senior management and not by the Membership and Risk Management Committee;

   iv. correcting Section 1(d) of Rule 2, where GSD is erroneously referred to as its predecessors name, GSCC;

   v. deleting subsection (b) of Rule 11B, which has expired;

   vi. changing an incorrect reference to “Rule 7” to “Rule 6C” in Rule 17, Section 4; and

   vii. changing a reference to the “Membership and Standards Committee” to the “Membership and Risk Management Committee” in Rule 48, Section 2.
4. **Technical corrections in the MBSD rules.**

FICC will renumber MBSD Rule 15 (Notices) of Article X to Rule 16 as it is in fact the 16th rule in that article.

## II. Discussion

Section 17A(b)(3)(A) of the Act requires, among other things, that a clearing agency be organized to facilitate the prompt and accurate clearance and settlement of securities transactions. FICC’s proposed rule change will eliminate unnecessary or outdated provisions, and make technical changes. This should promote greater transparency and understanding of FICC’s actual practices and policies, which should enhance FICC’s organizational capacity to facilitate the prompt and accurate clearance and settlement of securities transactions.

## 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 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-2004-19) be, and hereby is, approved.

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

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