

July 20, 2005

Self Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to an Interpretation of a Rule Change Submission and Making Certain Technical Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ notice is hereby given that on May 20, 2005, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change and on July 13, 2005, amended the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily 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

FICC proposes to clarify the meaning of the narrative of a prior FICC rule change submission and to make technical rule changes to the rules of its Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”).

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 such statements.²

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified the text of the summaries prepared by FICC.

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

On March 16, 2005, the Commission approved an FICC rule filing that, among other things, established new minimum financial requirements for netting and clearing members in both Divisions.³ Specifically, members that use U.S. generally accepted accounting principles ("GAAP") to prepare their financial statements continue to be required to meet the minimum financial requirements that were in the rules prior to the rule change. Members that use a different kind of GAAP must meet minimum financial requirements that are 1½, 5, or 7 times greater than the financial requirements for users of U.S. GAAP, depending on the type of GAAP used by the member.

FICC is concerned that the narrative of FICC's rule filing submission was phrased in a way that might be confusing. For example, the rule filing narrative stated that a member that uses UK GAAP would have to meet a minimum financial requirement of "a premium of 1½ times the existing requirement." FICC is concerned that the use of the term "premium" could be misinterpreted to mean that the minimum financial requirement of such a members would be the total of the requirement for a user of U.S. GAAP plus 1½ times that requirement. FICC wishes to clarify that the new financial requirement for such members is 1½ times the U.S. GAAP requirement, as was correctly and accurately worded in the text of each Division's rules and the narrative of the Commission's order approving the rule change.

In addition, FICC believes that the fine schedule for failure to timely provide required information to FICC does not adequately reflect the fact that members will be fined by FICC for not meeting the information requirements contained in GSD Rule 2, Sections 5 and 6 and MBSD

³ Securities Exchange Act Release No. 51385, 70 FR 14736 (Mar. 23, 2005) [File No. SR-FICC-2004-14].

Rule 1, Article II, Sections 10 and 12. While the fine schedule refers to the correct rule sections, it only refers to financial and regulatory reports, whereas those sections contain requirements to submit other types of information such as certain notifications, legal opinions, and updates to legal opinions. Members have been notified both in the relevant rule filings and in important notices that they will be fined if they do not timely submit this other type of required information as well. FICC proposes to change the fine schedule of each division to clearly reflect this.

FICC is also deleting provisions in GSD's rules relating to DK functionality for bilateral comparison because this functionality was never implemented. Lastly, FICC is correcting certain alpha-numerical references within GSD's rules.

FICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder because it clarifies FICC's rules and makes necessary technical corrections.

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 if it receives any written comments.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act⁴ and Rule 19b-4(f)(1)⁵ thereunder because it constitutes a stated policy, practice, or

⁴ 15 U.S.C. 78s(b)(3)(A)(i).

⁵ 17 CFR 240.19b-4(f)(1).

interpretation with respect to the meaning, administration, or enforcement of an existing rule. At any time within sixty days of the filing of such 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.⁶

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 Number SR-FICC-2005-12 on the subject line.

Paper comments:

Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303. All submissions should refer to File Number SR-FICC-2005-12. 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

⁶ The date of the original proposed rule change is May 20, 2005, and the date of the amendment is July 13, 2005. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on July 13, 2005, the date on which FICC submitted Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

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://www.ficc.com/gov/gov.docs.jsp?NS-query=>](http://www.ficc.com/gov/gov.docs.jsp?NS-query=). 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-2005-12 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.⁷

Jonathan G. Katz
Secretary

⁷ 17 CFR 200.30-3(a)(12).