

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53405; File No. SR-FICC-2005-22)

March 3, 2006

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Provide for the Payment of Interest on Cash Clearing Fund Collateral Posted by Members of the Government Securities Division and to Provide for the Payment of Interest on the Basic Deposit Portion of the Participants' Fund Posted by Members of the Mortgage-Backed Securities Division

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on December 23, 2005, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on February 17, 2006, and February 27, 2006, amended² the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by FICC. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(4) thereunder⁴ whereby the proposal became effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

FICC is amending (i) the rules of its Government Securities Division ("GSD") to provide for payment of interest on cash clearing fund collateral posted by members and (ii) the rules of its Mortgage-Backed Securities Division ("MBSD") to provide for the payment of interest on the Basic Deposit component of participants' fund collateral posted by members. FICC is also

¹ 15 U.S.C. 78s(b)(1).

² The amendments clarified the type of securities in which cash contained in the participants' fund may be invested.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(4).

proposing technical changes to the provisions in the GSD's and MBSD's rules regarding the payment of interest on members' cash deposits.

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

The proposed rule change provides for the payment of interest on cash clearing fund collateral posted by GSD members and payment of interest on the Basic Deposit component of participants' fund collateral posted by MBSD members.

The GSD requires that all netting members maintain a portion of their clearing fund deposit in cash.⁶ FICC currently retains the interest earned on those balances and effectively pays the interest income to GSD members through its rebate process.⁷ Among all the subsidiary

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

⁶ See GSD Rule 4, Section 4.

⁷ The GSD's rebate policy is detailed in the GSD Fee Schedule, Section XII ("Capital Base, Pricing, and Rebate Policy"). It reads, in pertinent part, that FICC "will rebate excess net income to members, pro rata, at periodic intervals deemed appropriate by, and at the discretion of, the Corporation based upon their gross fees paid to the Corporation within the applicable rebate period."

clearing agencies of The Depository Trust and Clearing Corporation (“DTCC”), only FICC’s GSD does not pay the interest earned on clearing fund cash balances directly to its members.⁸

In order to more fairly distribute interest earned on the GSD cash portion of the clearing fund and to implement a uniform policy across DTCC, FICC is proposing to begin crediting interest earned on clearing fund cash balances to GSD members on a periodic basis. FICC will begin accruing the interest in this regard on January 1, 2006.⁹

While the MBSD currently pays interest on participants’ fund cash directly to its participants, it retains the interest on a small portion of the participants’ fund called the Basic Deposit.¹⁰ FICC believes that to be consistent with the GSD rule change and the practice observed for all other cash deposits, the MBSD rule should be amended to also provide for the payment of interest earned on the Basic Deposits to be paid to participants. FICC is proposing to begin accruing the interest in this regard on January 1, 2006.¹¹

FICC is also proposing technical changes to the provision in the MBSD’s rules regarding the investment of participants’ fund cash and to the provision in the GSD’s rules regarding the investment of clearing fund cash to make the rules on investing cash deposits uniform with that of its affiliate, The Depository Trust Company. Specifically, FICC is clarifying that cash

⁸ While FICC’s MBSD pays interest on participants’ fund cash to its participants, it currently retains interest on a small portion of the participants’ fund. This is discussed further below.

⁹ FICC will announce by Important Notice the date of the first payment of interest to members and the frequency of the payments of interest going forward.

¹⁰ The Basic Deposit is a relatively small amount that is required to be paid in cash by each clearing participant and is meant to protect FICC against a participant’s failure to pay its MBSD fees.

¹¹ FICC will announce by Important Notice the date of the first payment of interest to members and the frequency of the payments of interest going forward.

contained in the clearing fund or participants' fund may be partially or wholly invested by FICC for its account in securities issued or guaranteed as to principal and interest by the United States or agencies or instrumentalities of the United States or repurchase agreements relating to securities issued or guaranteed as to principal and interest by the United States or agencies and instrumentalities of the United States.

FICC believes the proposed rule change is consistent with the requirements of Section 17A of the Act¹² and the rules and regulations thereunder applicable to FICC because it will enable FICC to more fairly distribute the payment of interest on cash collateral to its members. As such, the proposed rule change effects a change in an existing service that does not adversely affect the safeguarding of securities or funds in the custody or control of FICC and does not significantly affect the respective rights or obligations of FICC or persons using its service.

(B) Self-Regulatory Organization's Statement on Burden on Competition

FICC does not believe that the proposed rule change will have an 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

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)(iii) of the Act¹³ and Rule 19b-4(f)(4)¹⁴ thereunder because the rule effects a change

¹² 15 U.S.C. 78q-1.

¹³ 15 U.S.C. 78s(b)(3)(A)(iii).

in an existing service that: (i) does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible; and (ii) does not significantly affect the respective rights or obligations of the clearing agency or persons using the service. At any time within sixty days of the filing of the proposed rule change,¹⁵ 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2005-22 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 20549-9303.

¹⁴ 17 CFR 240.19b-4(f)(4).

¹⁵ For purposes of calculating the sixty day period within which the Commission may summarily abrogate the proposed rule change under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on the date on which the last amendment to the proposed rule change was filed with the Commission. 15 U.S.C. 78s(b)(3)(C).

All submissions should refer to File Number SR-FICC-2005-22. 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 www.ficc.com. 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-2005-22 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.¹⁶

Nancy M. Morris
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).