

HILLIARD FARBER & Co., INC.

BROKERS IN U.S. GOVERNMENT SECURITIES

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December 15, 2004

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OFFICE OF THE SECRETARY

Mr. Jonathan G. Katz  
Secretary  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

**Re: File No. SR-FICC-2004-15**

Hilliard Farber & Co., Inc.<sup>1</sup> appreciates the opportunity to comment on the proposal by the Government Securities Division ("the GSD") of the Fixed Income Clearing Corporation ("FICC") to require the submission to FICC of eligible transactions conducted by certain affiliates of FICC members and to prohibit pre-netting practices (the "FICC Rule Filing Proposal"). Hilliard Farber & Co., Inc. **strongly supports** the FICC Rule Filing Proposal and urges the Securities and Exchange Commission (the "Commission") to approve the FICC Rule Filing Proposal as soon as possible.

The FICC Rule Filing Proposal is necessary to preserve the integrity of FICC's netting and risk management processes. We joined FICC to gain the benefits of these important processes, in order to protect ourselves when engaging in U.S. Government securities activity and to ensure the safety and soundness of the Government securities marketplace generally. In submitting the FICC Rule Filing Proposal, FICC has taken the next logical step in its mission to reduce systemic risk in the U.S. Government securities marketplace by focusing on two key issues: (i) the need for FICC to receive and risk manage eligible activity of as many active market participants as possible, and (ii) the dangers of pre-netting.

Any gap in FICC's trade submission requirements results in the introduction of significant risk issues for its members and the marketplace. The FICC Rule Filing Proposal addresses these issues in this regard in a reasoned manner, by focusing on members' affiliates that are U.S. banks, broker-dealers or futures commission merchants and by providing for reasonable exceptions to the reach of the proposed submission requirement. These types of entities comprise the large majority of GSD netting members, and their trades should be submitted to FICC on a trade-by-trade basis for the protection of the entire marketplace. Otherwise, an opportunity is left open for members to seek to allocate to FICC only certain covered affiliate trades that are regarded as riskier.

Not only is our institution very concerned about the dangers of pre-netting practices but, also, we believe that the member firms that are engaging in these practices

<sup>1</sup> Hilliard Farber & Co., Inc. has been a netting member of FICC since 1990.

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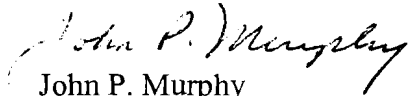
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are "not playing by the rules" and are improperly trading risk mitigation for cost savings. In this regard, I note that the GSD recently amended its netting fees in a manner that fairly and appropriately provides cost savings to those firms most interested in pre-netting.

Again, we urge the Commission to approve the FICC Rule Filing Proposal as soon as possible.

Respectfully submitted,



John P. Murphy  
Managing Director-Operations

cc: Thomas Quaranta, FICC