ICAP

December 17, 2004

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Mr. Jonathan G. Katz
Secretary
Securities & Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 205 49

Re: File No. SR-FICC-2004-15 Proposed Rule Change Relating to Trade Submission Requirements and Pre-Netting

Garban LLC[1] ("Garban") appreciates the opportunity to comment on the proposal by the Government Securities Division ("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"). Garban 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.

Garban is of the opinion that, since its inception, the FICC has played an integral role in the orderly functioning of the government securities market. In particular, FICC's position as central counterparty, achieved through its netting and novation process, has facilitated overall marketplace integrity by substantially reducing transactional risk. Further, the FICC has instituted a rigorous set of credit risk control policies incorporating features such as deposit and collateral requirements, daily marks-to-market, and ongoing monitoring of members' financial reporting. These policies have proven to be effective for more than a decade. This encompasses a period in which the industry has experienced a number of market crises, increased market volatility, and tremendous growth in daily transactional volume.[2]

Garban is also aware that most FICC members conduct some form of credit risk control internally. We are of the belief, however, that the application of clear and consistent credit policies by a single industry utility is the best means to achieving a sound and secure marketplace where participants have a high degree of confidence in their counterparty's ability to fulfill a transaction. Further, we do not believe that individual members acting on their own are able to duplicate the effectiveness of the FICC's system of collateral and deposit collection.

[1] Garban LLC, and its affiliate BrokerTec USA, LLC (for which Garban LLC is the executing FICC member), collectively offer the only hybrid brokerage solution to the fixed income marketplace. Garban is a member of the ICAP group, a UK-based publicly traded company that is a leading broker of financial products worldwide. Garban and BrokerTec operate the leading electronic platform for the conduct of transactions in U.S. Treasury Bonds, Bills and Notes. Garban has been a netting member of the FICC since its origin as the Government Securities Clearing Corporation.

[2] For example, The Federal Reserve Bank of New York reported average daily trading volume of Treasury Bills, Bonds and Notes, conducted by reporting dealers, of $500 billion for the six-month period ended June 2004. In 1994, average daily trading volume of Treasury Bills, Bonds and Notes was $191 billion.

Garban also attaches tremendous importance to the FICC's efforts to introduce immediate transaction data collection through its Real-Time Trade Matching System. As stated in the FICC Rule Filing Proposal, 98% of FICC members' transaction data is now collected on a real-time basis. Considering that participation level, Garban fully supports FICC's contention that this program significantly reduces operational risk and that it offers substantial benefit to our industry in the event of another large-scale catastrophe, similar to that experienced on September 11th, 2001.

In sum, Garban regards the FICC as a critical industry component whose risk mitigation capabilities have helped to foster a marketplace characterized by extraordinary liquidity and safety. Our concern is that recent practices involving directed affiliate transactions and pre-netting pose a threat to the soundness of a system that has functioned so effectively. Garban agrees with the FICC that these practices ultimately will lead to an increase in systemic risk to the marketplace, specifically by compromising the FICC's ability to mitigate counterparty credit risk, operational risk and legal risk. In turn, an environment of increased systemic risk can only have a negative impact on liquidity in the marketplace for US government securities. This is cause for concern for our entire industry and for the general public.

Garban is generally acknowledged to be the leading broker participant in the FICC. Through our affiliation with BrokerTec we are widely recognized as operating the largest and most liquid electronic platform for the trading of US government securities. The broker segment of the US government securities industry is intensely competitive, characterized by razor-thin commissions and exacting attention to cost structure. In the event that the FICC Rule Filing Proposal is not adopted, consideration will have to be given to the impact on our competitive position resulting from the ongoing practice of directed affiliate transactions and pre-netting. We suspect that most of the FICC membership will perform the same business analysis, and reasonably foresee wide-scale adoption of the above-mentioned practice. In that event, the government securities industry will see fewer transactions submitted to a centralized risk-mitigation utility, fewer transactions captured by a robust Real-Time Trade Matching Program, and a corresponding increase in systemic risk.

Also of note, the FICC has taken steps recently to address perceived economic inequities that have come about due to structural changes in the marketplace. Effective January 2005 submission fees will be revised to reduce the cost associated with "lower par value" transactions. Garban applauds the FICC's efforts in this area, and encourages continuing attention to this important issue. We urge FICC members to work within the FICC committee structure to achieve a fair and balanced fee arrangement, rather than resorting to trading the benefits associated with comprehensive risk mitigation for cost savings.

Again, we recommend that the Commission approve the FICC Rule Filing Proposal as soon as possible. The current gaps in the FICC's trade submission requirements present the potential for the introduction of significant risk issues for the FICC members and the marketplace. The FICC Rule Filing Proposal addresses these issues in a reasoned manner.

Garban appreciates the opportunity to comment on this important issue, and we would willingly participate in any further conversations on the topic. Should you have any questions, please do not hesitate to contact me at (212) 815-9544.

Sincerely,

Ronald A. Purpora
Chief Executive Officer
ICAP North American Securities

cc: Jeff Ingber, Fixed Income Clearing Corporation
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