

the **Federal Register** on October 30, 2006.³ The Commission received no comments regarding the proposal.

II. Description of the Proposal

The proposal would allow the Exchange to follow a participant's instructions to route an order to a destination of the participant's choice instead of cancelling the order back to the participant when an execution could not take place in the Matching System because the execution would improperly trade through another market⁴ or the display of an order would improperly lock or cross another market.⁵ The Exchange proposes to provide these routing services pursuant to a separate agreement between the Exchange and each participant on whose behalf orders would be routed. The participant would be responsible for ensuring that it has a relationship with its chosen destination to permit the requested access. The Exchange would not be involved in the execution of the order nor would the Exchange take responsibility for handling of the order by the destination selected by the participant.⁶ The Exchange, however, would report any execution or cancellation of the order by the destination to the participant that submitted the order and would notify the destination of any cancellations or changes to the order submitted by the order-sending participant. The Exchange's routing service would be a facility of the Exchange subject to the Exchange's rules and fees. The destinations chosen by each participant would not constitute Exchange facilities.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and in particular, with Section 6(b)(5) of the Act,⁷ which requires, among other things, that the rules of a national securities exchange

be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.⁸

The Commission believes that the proposed rule change may increase the efficiency of CHX participants in seeking to execute their customers' orders that are ineligible for execution or display in the CHX Matching System. In particular, orders that otherwise would be cancelled back to a participant may be sent directly to a destination chosen by the participant for handling. The Commission notes that fees and charges for the Exchange's routing service must be consistent with the Act,⁹ and the Exchange must provide its routing service in compliance with, among other things, the provisions of the Act requiring the rules of a national securities exchange not to permit unfair discrimination between customers, issuers, brokers, or dealers.¹⁰

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-CHX-2006-30) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Florence E. Harmon,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54964; File No. SR-FICC-2006-16]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Replace the Government Securities Division Clearing Fund Calculation Methodology With a Yield-Driven Value-at-Risk Methodology

December 19, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on October 4, 2006, the Fixed Income

⁸ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. See 15 U.S.C. 78c(f).

⁹ See 15 U.S.C. 78f(b)(4).

¹⁰ See 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78S(b)(2).

¹² 17 CFR 200.30-3(a)(12).

¹³ 15 U.S.C. 78s(b)(1).

Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on November 14, 2006, amended the proposed rule change as described in Items I, II, and III below, which items have been prepared by FICC. 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 seeking to replace the Government Securities Division ("GSD") margin calculation methodology with a value-at-risk ("VaR") methodology.

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.²

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

Netting members of FICC's GSD are required to maintain clearing fund deposits. Each member's required clearing fund deposit is calculated daily to ensure that enough funds are available to cover the risks associated with that member's activities.

The purposes served by the clearing fund are to: (i) have on deposit from each member clearing fund sufficient to satisfy any losses that may be incurred by FICC or its members resulting from the default by a member and the resultant close out of that member's settlement positions and (ii) ensure that FICC has sufficient liquidity at all times to meet its payment and delivery obligations.

FICC proposes to replace the current clearing fund methodology, which uses haircuts and offsets, with a VaR methodology that is expected to better reflect market volatility and more thoroughly distinguish the levels of risk presented by individual securities. Specifically, FICC is proposing to

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

³ See Securities Exchange Act Release No. 54642 (October 23, 2006), 71 FR 63372.

⁴ The Exchange's rules currently provide that the Exchange's Matching System will not execute an order if its execution would cause an improper trade-through of another ITS market or, when Regulation NMS is implemented, if its execution would be improper under Rule 611 of Regulation NMS (together, an "improper trade-through"). See CHX Article 20, Rule 5; see also 17 CFR 242.611.

⁵ The Exchange's rules currently provide that the Matching System will not display an order if its display would improperly lock or cross other markets. See CHX Article 20, Rule 6.

⁶ See CHX Article 20, Rule 5, proposed Interpretation and Policy .03(b).

⁷ 15 U.S.C. 78f(b)(5).

replace the existing GSD margin calculation methodology with a yield-driven VaR model. VaR is defined to be the maximum amount of money that may be lost on a portfolio over a given period of time within a given level of

confidence. With respect to the GSD, FICC is proposing a 99 percent three-day VaR.³

The changes to the components that comprise the current clearing fund calculation compared to the proposed

VaR methodology in relation to the risks addressed by the components are summarized below.

Existing methodology	Risk addressed	Proposed methodology ⁴
Receive/Deliver component using margin factors.	Fluctuation in security prices	Interest rate or index-driven model, as appropriate ⁵
Repo Volatility component	Fluctuation in repo interest rates	Repo index-driven model ⁶
Funds Adjustment Deposit component (based on the average size of the member's 20 highest funds-only settlement amounts over the most recent 75 business days).	Uncertainty of whether a member will satisfy its funds-only settlement obligation.	Margin Requirement Differential ("MRD") (a portion of which is based on the historical size of a member's funds-only settlement obligation)
Average Post Offset Margin Amount component (based on the 20 highest margin amounts derived from all outstanding net settlement positions over the most recent 75 business days).	Uncertainty of whether a member will satisfy its next clearing fund call.	MRD (a portion of which is based on the historical variability a member's clearing fund requirement)
Not specifically covered	Intraday risk and additional exposure due to portfolio variation and potential loss in unlikely situations beyond the model's effective range.	Coverage Component (if necessary, applies additional minimum charge to bring coverage to the applicable confidence level)

⁴ Under the current GSD rules, Category 1 Inter-Dealer Brokers are subject to a \$5 million clearing fund requirement. This proposed rule change does not alter that requirement.

⁵ FICC would have the discretion to not apply the interest rate model to classes of securities whose volatility is less amenable to statistical analysis, which is usually due to a lack of pricing history. In lieu of such a calculation, the required charge with respect to such positions would be determined based on a historic index volatility model.

⁶ FICC is proposing a new definition for "Term Repo Transaction" to clarify the types of transactions covered by this component. As proposed, Term Repo Transaction would mean, on any particular Business Day, a Repo Transaction for which settlement of the Close Leg "is scheduled to occur two or more Business Days after the scheduled settlement of the Start Leg." In addition, the existing definition for "Term GCF Repo Transaction" is being revised to conform to the proposed language for "Term Repo Transaction" as the new definition provides greater clarity as to transactions covered.

In addition, FICC may include in a member's clearing fund requirement a "special charge" as determined by FICC based on such factors as it determines to be appropriate from time to time such as price fluctuations, volatility, or lack of liquidity of any security.

The proposed VaR methodology, if approved, would necessitate a change to the risk management consequences of the late allocation of repo substitution collateral.⁷ Because offset classes and margin rates will no longer be present in the GSD's rules as proposed, FICC would base the margining for such a generic CUSIP on the same calculation as that used for securities whose volatility is less amenable to statistical analysis.

The VaR methodology will not include calculations that are incorporated in the GSD's current cross-margining programs with The Clearing Corporation ("TCC") and the Chicago Mercantile Exchange ("CME"). In order to provide for continuity of cross-margining following the implementation of the VaR methodology and because certain key calculations required for cross-margining are unique to cross-

margining, the GSD will continue to perform the applicable cross-margining calculations outside of the VaR model. The GSD would then adjust the cross-margining clearing fund calculation using a scaling ratio of the VaR clearing fund calculation to the cross-margining clearing fund calculation so that the clearing fund amount available for cross-margining is appropriately aligned with the VaR model. The proposed changes described herein would necessitate amendments to FICC's cross-margining agreements with TCC and CME as follows:

1. The definition of FICC's "Margin Rate" in each of the agreements would be amended to reflect that the margin rate will no longer be based on margin factors published in the current rules (as these would no longer be applied under the VaR methodology). Instead, they would be determined based on a percentage that would be determined using the same parameters and data (e.g., confidence level and historic indices) as those used to generate margin factors in the current rules.
2. Section 5(a) of each cross-margining agreement would be

amended to state that FICC's residual margin amount would be calculated as specified in the agreement and would be adjusted, if necessary, to correct for differences between the methodology of calculating the residual margin amount as described in the agreement and the VaR methodology. This change is necessary to account for the deletion of relevant margin factor and disallowance schedules (which, like the margin factors, are incorporated into the agreements by reference) from the GSD rules and to adjust for the possibility that the new VaR methodology could generate a charge that would otherwise allow for a cross-margining reduction that is greater than the margin requirement.

FICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁸ and the rules and regulations thereunder applicable to FICC because it should assure the safeguarding of securities and funds in FICC's custody or control or for which it is responsible by enabling FICC to more effectively manage risk presented by members' activity.

³ Category 2 Dealers and Category 2 Futures Commission Merchants will be subject to higher confidence levels than other Netting Members.

⁷ Securities Exchange Act Release No. 53534 (March 21, 2006), 71 FR 15781 [File No. SR-FICC-2005-18]. This rule change created a generic CUSIP offset and applicable margin rate for determining

clearing fund consequences for such late allocations.

⁸ 15 U.S.C. 78q-1.

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

FICC does not believe that the proposed rule change would 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

Written comments have not been solicited with respect to the proposed rule change, and none have been received. FICC will notify the Commission of any written comments it receives.

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

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2006-16 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 20549-1090.

All submissions should refer to File Number SR-FICC-2006-16. 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 filing also will be available for inspection and copying at the principal office of FICC and on FICC's Web site at <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-2006-16 and should be submitted on or before January 17, 2007.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Florence E. Harmon,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54969; File No. SR-FICC-2006-15]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change To Modify its Rules To Diversify and Standardize Clearing Fund Collateral Requirements Across the Divisions To Improve Liquidity and Minimize Risk for Its Members

December 19, 2006.

I. Introduction

On October 4, 2006, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2006-15 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the

⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

Federal Register on November 9, 2006.² A correction and extension of the comment period was published in the **Federal Register** on November 22, 2006.³ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change as amended.

II. Description

FICC seeks to modify the rules of both of the Government Securities Division ("GSD") and the Mortgage-Backed Securities Division ("MBSD") (collectively, "Divisions") to diversify and standardize Clearing Fund⁴ collateral requirements across the Divisions in order to improve liquidity and minimize risk for FICC and its members.

Presently, both GSD and MBSD members may satisfy their Clearing Fund requirements with cash deposits. Members may also satisfy a portion of their Clearing Fund requirements with an open account indebtedness fully secured by certain types of securities and/or letters of credit. FICC is modifying its rules to: (1) Expand the types of securities members may deposit to satisfy their Clearing Fund requirements ("Eligible Clearing Fund Securities"); (2) establish concentration limits with regard to members' use of Eligible Clearing Fund Securities; (3) create a correlating range of haircuts to be applied to the expanded types of Eligible Clearing Fund Securities; and (4) eliminate letters of credit as a generally acceptable form of collateral securing members' open account Clearing Fund indebtedness.

A. Revised Clearing Fund Components

(1) Cash

Currently the rules of GSD require that the greater of \$100,000 or ten percent of a member's Clearing Fund requirement with a maximum of \$500,000 be made in the form of cash.⁵ The rules of MBSD currently do not contain a minimum cash requirement. For both Divisions, the proposed new cash collateral component will be the lesser of \$5,000,000 or ten percent of a

² Securities Exchange Act Release No. 54682 (November 1, 2006), 71 FR 65855.

³ Securities Exchange Act Release No. 54682A (November 17, 2006), 71 FR 67667. The correction addressed a typographical error in the original release.

⁴ The GSD Rules refer to member collateral deposits as the "Clearing Fund" while the MBSD rules refer to these deposits as the "Participants Fund." The term "Clearing Fund" in this order will refer to both.

⁵ GSD Rule 4, Section 2(b)(ii).