

The Exchange is also revising CBOE Rule 6.9.04 to make that provision consistent with the first paragraph of proposed CBOE Rule 6.74(d).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act¹¹ in general and furthers the objectives of Section 6(b)(5) of the Act¹² in particular in that it is designed to promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange neither solicited nor received comments on the proposal.

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

Because the foregoing proposed rule change: (1) Does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A)¹³ of the Act and Rule 19b-4(f)(6) thereunder.¹⁴

CBOE requests that the Commission waive the 30-day operative delay, as specified in Rule 19b-4(f)(6)(iii),¹⁵ and

combination, or ratio order (or a stock-option order or security future-option order, as defined in CBOE Rules 1.1(ii)(b) and 1.1(zz)(b), respectively) or any other complex order defined in CBOE Rule 6.53C) must contain one leg alone which is for the eligible order size or greater. Telephone conversation of March 15, 2006.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6). The Exchange provided the Commission with written notice of its intention to file the proposed rule change on February 13, 2006. The Commission received the Exchange's submission, and asked the Exchange to file the instant proposed rule change, pursuant to Rule 19b-4(f)(6) under the Act.

¹⁵ 17 CFR 240.19b-4(f)(6)(iii).

designate the proposed rule change to become operative immediately. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the proposed rule change establishes a uniform set of rules with respect to facilitation and solicitation orders for all options based on principles already approved by the Commission, while setting forth parameters by which the appropriate Exchange Procedure Committee may apply these rules flexibly on a class-by-class basis.¹⁶ Waiving the 30-day pre-operative period will allow the Exchange to implement these changes without delay.

At any time within 60 days of the filing of the 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.

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 No. SR-CBOE-2006-21 on the subject line.

Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2006-21. 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

¹⁶ For purposes only of waiving the operative delay for this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 Room. Copies of such filing also will be available for inspection and copying at the principal office of CBOE. 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-CBOE-2006-21 and should be submitted on or before April 19, 2006.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Nancy M. Morris,
Secretary.

[FR Doc. E6-4539 Filed 3-28-06; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53534; File No. SR-FICC-2005-18]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change To Enhance the Repo Collateral Substitution Process of FICC's Government Securities Division

March 21, 2006.

I. Introduction

On September 30, 2005, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on December 20, 2005, amended proposed rule change SR-FICC-2005-18 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on January 5, 2006.² No comment letters were received. On March 20, 2006, FICC filed an amendment to the proposed rule

¹⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 53036 (December 29, 2005), 71 FR 629.

change.³ For the reasons discussed below, the Commission is approving the proposed rule change as amended.

II. Description

In general, FICC is enhancing the repo collateral substitution process of its Government Securities Division ("GSD"). The rule change: (i) Permits the repo dealer or repo broker, as appropriate, to submit a substitution notification to FICC without information about the replacement collateral, (ii) revises the repo collateral substitution process deadline and fee schedule, and (iii) implements certain risk management measures and technical changes.

A. Initial Substitution Notification Without Replacement Collateral Information

The GSD's repo collateral substitution process provides a mechanism for a repo dealer to process its right to substitute the original collateral it provided as part of a repo transaction with replacement collateral. With respect to a brokered transaction, typically the repo dealer notifies the broker that it wishes to substitute the repo collateral before it specifically identifies the replacement collateral.⁴ The repo broker then contacts the reverse repo dealer and informs it that a repo collateral substitution process is being initiated. The reverse repo dealer then sends the original repo collateral to FICC. However, since under FICC's current system the repo dealer's substitution notification that it must send to FICC must contain information about the replacement collateral, often the substitution notification is not delivered to FICC by the time FICC receives the returned original repo collateral from the reverse repo dealer. When the repo dealer does determine what securities will constitute the replacement collateral, it often delivers the replacement collateral to FICC before sending the repo collateral substitution notification. Thus the original and replacement collateral frequently are delivered to FICC before FICC is able to forward the collateral to the appropriate party. This leaves FICC in an overdraft position at the clearing bank, which can cause expense and risk to FICC and to its members and can cause settlement processing delays.

³ The amendment, as noted below, is not substantive and did not require republication of the notice.

⁴ With respect to a non-brokered repo transaction, the repo dealer would contact the reverse repo dealer directly about the repo collateral substitution.

The rule change permits the repo dealer or repo broker, as appropriate, to submit a substitution notification to FICC without information about the replacement collateral. FICC will deliver the original collateral to the repo party's account at its clearing bank upon receipt of the substitution notification so the original collateral will no longer linger in FICC's account.⁵

B. Revised Repo Collateral Substitution Process Deadline and Fee Schedule

The rule change in repo processing requires a revision to GSD's schedule of time frames. Currently, there is a two-tiered deadline for a repo party to submit a substitution notification and associated late-fee.⁶ The rule change establishes: (i) An 11 a.m. Eastern Time deadline⁷ for a repo party to submit a substitution notification and (ii) a late-fee of \$100 for each substitution notification that is received after the deadline. The rule change also establishes a two-tiered deadline for a repo party to submit replacement collateral information and an associated late-fee schedule. The deadlines for submission of replacement collateral information are: (i) 12 p.m. Eastern Time and (ii) 12:30 p.m. Eastern Time. The late-fee assessments are: (i) \$100 for each submission of replacement collateral information that is received after the first deadline but before the second deadline and (ii) \$250 for each submission of replacement collateral information that is received after the second deadline.⁸

In order to accommodate members' preparations to comply with the time frames contained herein, the proposed

⁵ The changes necessary to reflect this part of the rule change are contained in GSD Rule 18, sections 3(a), (b), (c), and (d) and in the Schedule of Required and Accepted Data Submission Items for a Right of Substitution. A new schedule, titled Schedule of Required and Accepted Data Submission Items for New Securities Collateral, is being added to the rules to reflect that information on the replacement collateral will be contained in a separate submission to FICC.

⁶ The current deadlines are 12 p.m. Eastern Time and 12:30 p.m. Eastern Time. The deadlines are extended by one hour on days that: (i) FICC determines are high-volume days or (ii) The Bond Market Association announces in advance will be high-volume days. FICC assesses a late-fee of: (i) \$100 for each substitution notification that is received after the first deadline but before the second deadline and (ii) \$250 for each substitution notification that is received after the second deadline.

⁷ The proposed 11 a.m. Eastern Time deadline will not be extended on high-volume days.

⁸ The allocation of collateral deadlines will be extended by one hour on days that: (i) FICC determines are high-volume days or (ii) The Bond Market Association announces in advance will be high-volume days. The rule changes necessary to affect this part of the proposed rule are contained in the Schedule of Timeframes and in the Fee Structure under "Late Fees."

changes to the schedule of time frames and applicable late-fees will be implemented at a later date than the other rule changes contained in this filing. FICC will announce the implementation of the proposed schedule of time frames by Important Notice at least thirty calendar days prior to implementation. Until such implementation, currently existing time frames and late-fees applied to repo collateral substitutions shall remain in effect.

C. Risk Management Measures and Technical Changes

Generally, FICC is implementing certain measures to address the risk presented to it by the failure of a party to submit in a timely manner information regarding the replacement collateral to FICC. Specifically, FICC is: (i) Increasing the clearing fund calculation of the repo dealer and allowing margining with respect to replacement collateral based on applicable generic CUSIP numbers only⁹ and (ii) imposing mark-to-market consequences on both the repo dealer and the reverse dealer with respect to unknown replacement collateral.

1. Clearing Fund Calculation and Permissible Margin Offsets

With respect to the calculation of the repo dealer's clearing fund requirement, FICC is assigning a value of 150 percent of the contract value of the original securities collateral to a repo transaction where FICC has not received information regarding the replacement collateral.¹⁰ FICC also is applying the highest applicable margin factor in its rules in connection with the repo transaction. In GSD's rules, the highest margin factor is the factor for securities with a remaining maturity of 15 years and 16 days or greater. Therefore, if the generic CUSIP number that is assigned to the unknown replacement collateral is the generic CUSIP number for Treasury securities with a remaining maturity of 15 years and 16 days or greater, FICC will use the existing margin factor of 1.450 (applicable to

⁹ Generic CUSIP numbers represent the range of permissible securities that can constitute the replacement collateral. For example, there is a generic CUSIP number which represents Treasury securities with remaining maturity of fewer than thirty years.

¹⁰ New subsection 3(f) is being added to Rule 18 in order to effect this change. It should be noted that the application of the 150 percent for clearing fund purposes applies to both the receive/deliver and repo volatility components of the clearing fund calculation.

category 1 members with positions in non-zeros).¹¹

The proposed risk management measures applicable to non-timely allocation of replacement collateral will further affect the clearing fund calculation of the repo dealer by limiting permissible offsets. A regular part of the GSD's margining system is to permit offsets between resulting margin amounts of long and short net settlement positions. The GSD's rules contain disallowance factor tables that set forth specific limits on these permissible offsets. For example, where a short net settlement position in Treasury Offset Class A is to be offset against a long net settlement position in Treasury Offset Class B, the applicable disallowance factor table provides that 30 percent of this offset will be disallowed.¹² For offset purposes under the proposed rule change, FICC is defining two new offset classes to capture the generic CUSIP numbers that can be assigned to unknown replacement collateral. These new offset classes are identified as "H" for Treasury securities and "h" for non-mortgage-backed Agency securities. Under the proposed rule change, as a further risk management measure, FICC will not permit offsets between Offset Classes H and h or between Offset Classes H or h and any other existing GSD Offset Class.

2. Modified Mark-to-Market Calculation

FICC also is calculating a modified mark-to-market obligation with respect to the replacement collateral and imposing this on both the repo dealer and the reverse repo dealer in the case where a generic CUSIP number is used for underlying collateral. In a typical scenario where the replacement collateral is identified, FICC reverses any previous mark-to-market calculation for the old collateral and recalculates, collects, and passes through a mark-to-market associated with the actual replacement collateral. This computation is defined as the Forward Mark Adjustment Payment.¹³ In the

¹¹ The GSD's margin factor schedules apply different margin factors to category 1 and category 2 dealers. In this example, if the member were a category 2 member electing to receive credit forward mark adjustment payments, the applicable margin factor under the proposed rule change would be 2.0.

¹² As originally filed, FICC mistakenly stated that 20 percent of the offset would be disallowed. In its March 20, 2006, amendment, FICC changed this to 30 percent to accurately reflect the disallowance factor for such securities.

¹³ The Forward Mark Adjustment Payment is the sum of two components: the Collateral Mark and the Financing Mark. The Collateral Mark is the absolute value of the difference between the trade's contract value and market value. The Financing

scenario where the replacement collateral has not been identified, FICC will calculate a modified Forward Mark Adjustment Payment to protect FICC against market risk. Specifically, the definition of Forward Mark Adjustment Payment is amended by noting that with respect to a repo transaction for which a substitution request has been made but for which replacement collateral information has not been provided to FICC, a new Forward Unallocated Sub Mark will be applied. This new mark will take into account repo interest that has accrued with respect to the repo transaction to date, as well as changes in the repo rate (to reflect the difference between the contract rate and the market rate for the remaining term of the repo transaction).¹⁴

3. Technical Changes

Additionally, FICC is making certain technical changes to its GSD rules relating to repo collateral substitutions and repo transactions generally.

a. *Section 3(a) of Rule 18*: Delete the requirement that details regarding the rights of substitution match between counterparties. Details regarding rights of substitution are not a required trade reporting item and thus will not be a required match item in GSD's system. References in this respect are deleted to reflect actual operating practice.

b. *Sections 3(e) and 3(f) of Rule 18*: Delete the requirement that upon receipt of either the original or the replacement collateral, FICC will promptly redeliver the securities to the appropriate party. As stated in the narrative above, FICC may receive securities that are the subject of a repo collateral substitution request but may not yet have the requisite information for delivery of those securities. These provisions are deleted to reflect actual operating practice and also to make the rule consistent with the proposed changes.

c. *Section 3(h) of Rule 18*: Delete the provision regarding implications of repo collateral substitutions on margin and mark-to-market requirements. This provision is redundant because the effects of repo substitutions on such requirements are covered in the rules governing these items and the rules to be modified by the proposed rule change.

d. *Section 4 of Rule 18*: Make optional a requirement that for general collateral,

Mark reflects the financing cost that would be incurred by FICC if it replaced the reverse side of the repo by buying securities and putting them out on repo.

¹⁴ The following new definitions effect this change: Accrued Repo Interest-to-Date, Repo Interest Rate Differential, and Forward Unallocated Sub Mark.

forward-starting repos, the specific CUSIP and par value be submitted prior to the repo start date. FICC typically does not receive such allocations from its members prior to the repo start date and thus the proposed change aligns the rule with industry practice. The proposed change further reflects operating practice as well as industry expectations that a general collateral, forward-starting repo will be removed from the GSD's books if FICC does not receive the specific CUSIP by the time noted in the rule. Members typically submit new transactions with the specific CUSIPs and expect that the general collateral transaction will be removed from the GSD's books.

e. *Section 5 of Rule 18*: Amend the provision that addresses repo transactions with maturing collateral. The proposed rule change provides that the repo party in such a repo transaction must make the required substitution of collateral by the time noted in the rule or FICC will remove the transaction from its books. This is because the underlying contract terminates if the collateral is not replaced in time, and therefore, the proposed rule change reflects industry practice. The proposed rule change further reflects industry practice by deleting the requirement that the replacement collateral meet certain specific criteria and by replacing that requirement with a requirement that the replacement collateral be "in accordance with the terms of the transaction." This change also reflects industry practice.

III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.¹⁵ Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.¹⁶ The Commission finds that FICC's rule change is consistent with these requirements. By revising its repo substitution rules to more accurately reflect industry practice, FICC's proposed rule change should result in repo substitution transactions being completed in a more timely

¹⁵ 15 U.S.C. 78s(b).

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

manner. FICC's proposed rule change also includes revised risk management measures (e.g., revised clearing fund calculation and margin offsets) to address potential risk resulting from the revised repo substitution rules. As such, FICC's proposed rule change also should result in FICC being able to safeguard securities and funds which are in its possession and control or for which it is responsible.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,¹⁷ that the proposed rule change (File No. SR-FICC-2005-18) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Nancy M. Morris,
Secretary.

[FR Doc. E6-4527 Filed 3-28-06; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53536; File No. SR-NASD-2006-026]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Establishing CTCl Station-Based Pricing for Members

March 21, 2006.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 22, 2006, the National Association of Securities Dealers, Inc. ("NASD"), through its subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by Nasdaq. Nasdaq filed Amendment No. 1 to the proposed rule change on March 10, 2006.³ Nasdaq

has designated this proposal as establishing or changing a due, fee, or other charge of a self-regulatory organization, pursuant to section 19(b)(3)(A)(ii) of the Act,⁴ and Rule 19b-4(f)(2) thereunder,⁵ which renders the proposed rule change effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

Nasdaq proposes to modify fees for Nasdaq access through the Computer to Computer Interface ("CTCI") protocol.⁶ The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are in brackets.⁷

Rule 7010. System Services

- (a)-(e) No Change
- (f)(1)-(2) No Change
- (3) [Computer to computer interface (CTCI) and] Financial Information Exchange (FIX)

Options	Price
[Option 1: Dual 56kb lines (one for redundancy) single hub and router, and optional single FIX port.]	[\$1275/month].
[Option 2: Dual 56kb lines (one for redundancy), dual hubs (one for redundancy), and dual routers (one for redundancy), and optional single FIX port.]	[\$1600/month].

period to have commenced on March 10, 2006, the date Nasdaq filed Amendment No. 1.

⁴ 15 U.S.C. 78s(b)(3)(A)(ii).

⁵ 17 CFR 240.19b-4(f)(2).

⁶ The instant proposed rule change establishes fees for NASD members. The identical fees for non-members were established in SR-NASD-2006-027. See Securities Exchange Act Release No. 53535 (March 21, 2006).

⁷ Changes are marked to the rule text that appears in the electronic NASD Manual found at <http://www.nasdaq.com>. Prior to the date when The NASDAQ Stock Market LLC ("NASDAQ LLC") commences operations, NASDAQ LLC will file a confirming change to the rules of NASDAQ LLC approved in Securities Exchange Act Release No. 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131).

Options	Price
[Option 3: Dual T1 lines (one for redundancy), dual hubs (one for redundancy), dual routers (one for redundancy), and optional single FIX port. Includes base bandwidth of 128kb.]	[\$8000/month (CTCI or CTCl/FIX lines) \$4000/month (FIX-only lines)].
FIX Trading Port (NMC and Brut).	\$400/port/month.
FIX Port for Services Other than Trading.	\$500/port/month.
Dedicated FIX server	\$1,000/server/month.
Dedicated FIX server (Brut).	\$3,000/server/month; initial term of not less than 12 months is required.
[Option 1, 2, or 3 with Message Queue software enhancement].	[Fee for Option 1, 2, or 3 (including any Bandwidth Enhancement Fee) plus 20%].
[Disaster Recovery Option: Single 56kb line with single hub and router and optional single FIX port. (For remote disaster recovery sites only)].	[\$975/month].
[Bandwidth Enhancement Fee (for T1 subscribers only)].	[\$600/month per 64kb increase above 128kb T1 base].
[Installation Fee]	[\$2000 per site for dual hubs and routers \$1000 per site for single hub and router].
[Relocation Fee (for the movement of TCP/IP-capable lines within a single location)].	[\$1700 per relocation].

[FIX connectivity through Options 1, 2, or 3 or the Disaster Recovery Option will not be available to new subscribers that are (i) NASD members after January 1, 2004, or (ii) not NASD members after the effective date of SR-NASD-2003-196.]

(4) Computer to Computer Interface (CTCI).

The fees in the table below are applicable to NASD members that have transitioned off of Nasdaq-supported circuits, and as of July 1, 2006, also apply to NASD members that have not transitioned.

Stations

Fee component	Fee
1st Station	\$200/Station/month
Each Additional Station.	\$600/Station/month

¹ 15 U.S.C. 78s(b)(2).

¹⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ For purposes of calculating the 60-day abrogation period, the Commission considers the