SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57586; File No. SR-FICC-2007-10)

March 31, 2008

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change, as Modified by Amendment No. 1, to Replace the Mortgage-Backed Securities Division Clearing Fund Calculation Methodology with a Yield-Driven Value-at-Risk Methodology

I. Introduction

On August 31, 2007, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on September 27, 2007, amended proposed rule change SR-FICC-2007-10 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 November 30, 2007.[2] The Commission received no comment letters in response to the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change, as amended.

II. Description

FICC is replacing the Mortgage-Backed Securities Division ("MBSD") margin calculation methodology with a value-at-risk ("VaR") methodology.

Clearing participants of MBSD are required to maintain participants fund deposits. Each participant's required deposit is calculated daily to ensure enough funds are available to cover the risks associated with that participant's activities.

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[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 56837 (November 26, 2007), 72 FR 67770 (SR-FICC-2007-10).

The purpose served by the participants fund is to have on deposit from each participant assets sufficient to satisfy any losses that may otherwise be incurred by MBSD participants as the result of the default by another participant and the resultant close out of the defaulting participant's settlement positions.

FICC is replacing the current participants fund methodology, which uses haircuts and offsets, with a VaR model. FICC expects the VaR model to better reflect market volatility and to more thoroughly distinguish levels of risk presented by individual securities.

Specifically, FICC will replace the existing MBSD margin calculation 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 MBSD, FICC will use a 99 percent three-day VaR.

The changes to the components that comprise the current participants fund calculation as compared to the VaR calculation in relation to the risks addressed by the components are summarized below:

Existing Methodology	Risk Addressed	VaR Methodology
Market Margin Differential, which is the greater of: (i) the P&L Requirement or (ii) the Market Volatility Requirement.	Adjusting contract price to market price and post mark-to-market fluctuations in security prices.	The sum of: (i) Mark-to-market and (ii) Interest rate or index-driven model, as appropriate.[3]
Final margin requirement generated for second processing cycle.[4]	Additional exposure due to portfolio variation.	Margin Requirement Differential ("MRD") to include intraday portfolio variations and protection regarding late margin deficit satisfaction.
Prefunding of certain debit cash obligation items through the participants fund (no offset for credits).	Uncertainty of whether a member will satisfy its cash settlement obligation.	Prefunding of certain debit cash obligation items through the participants fund (offset for credits).[5]
N/A	Potential loss in unlikely situations beyond the model's effective range.	Coverage Component (if necessary, applies additional charge to bring coverage to the applicable confidence level).

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3 FICC shall have the discretion to not apply the interest rate model to classes of securities whose volatility is less amenable to statistical analysis (e.g., a security that has a lack of pricing history). In lieu of such a calculation, the required charge with respect to such positions will be determined based on an historic index volatility model.

4 MBSD generates a preliminary margin report as part of a first processing cycle at the close of the business day and calculates a final margin requirement as part of a second processing cycle completed at approximately 11:30 am each business day. Upon the implementation of the new VaR methodology, the MBSD will no longer generate a margin requirement as part of the second cycle. Instead, a final margin requirement will be established after the running of the first cycle at approximately 9:00 pm.

5 Cash obligation item credits are retained by MBSD and are not passed through to the participant. As a result, MBSD has correspondingly less risk vis-à-vis a firm with cash obligation credits and therefore requires less collateral.

Minimum Market Margin Differential (currently $250,000).	Maintenance of a minimum amount of collateral to support potential counterparty liquidation losses.	A minimum charge of the greater of: (i) $100,000 or (ii) a defined percentage of gross portfolio.

In addition, FICC may include in a participant's participant fund calculation a "special charge" as determined by FICC from time to time in view of market conditions and the financial and operational capabilities of the participant. FICC will make any such determination based on such factors as it determines to be appropriate.

Because it will become obsolete upon the implementation of a VaR based participants fund calculation, FICC is also eliminating the provision in MBSD rules requiring participants to maintain a Basic Deposit and Minimum Market Margin Differential Deposit with MBSD pursuant to Article IV, Rule 1 (Participants Fund), Section 1(a) and (b).

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. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds in FICC's custody or control or for which it is responsible.[6] Because FICC's proposed rule change implements a VaR methodology that should better reflect market volatility and should more thoroughly distinguish the levels of risk presented by individual securities, FICC should be able to more accurately calculate the risk

[6] 15 U.S.C. 78q-1(b)(3)(F).

presented by each of its member's activity and to make participants fund collections to protect against that risk. As a result, FICC should be in a better position to assure the safeguarding of securities and funds in its custody or 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. In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation.[7]

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-FICC-2007-10), as amended, be and hereby is approved.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[8]

Florence E. Harmon
Deputy Secretary

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[7] 15 U.S.C. 78c(f).

[8] 17 CFR 200.30-3(a)(12).