SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56837; File No. SR-FICC-2007-10)

November 26, 2007

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] notice is hereby given that on August 31, 2007, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on September 27, 2007, amended the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily 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 Mortgage-Backed Securities Division ("MBSD") 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]

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

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

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

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.

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 the participant and the resultant close out of that participant's settlement positions.

FICC proposes to replace 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 is proposing to 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 the MBSD, FICC is proposing a 99 percent three-day VaR.

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

Existing Methodology	Risk Addressed	Proposed 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., the security has a lack of pricing history). In lieu of such a calculation, the required charge with respect to such positions would be determined based on an historic index volatility model.

4 The 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 a.m. each business day. Upon the implementation of the new VaR methodology, the MBSD would no longer generate a margin requirement as part of the second cycle. Instead, a final margin requirement would be established after the running of the first cycle at approximately 9:00 pm.

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

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 would become obsolete upon approval of the proposed rule change, FICC also proposes to eliminate the provision in the 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).

FICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act[6] 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 participants' activities.

(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.

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6 15 U.S.C. 78q-1.

(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-2007-10 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-2007-10. 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, on official business days between the hours of 10:00 am and 3:00 pm. 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-2007-10 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[7]

Nancy M. Morris
Secretary

[7] 17 CFR 200.30-3(a)(12).