

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56864; File No. SR-FICC-2007-06)

November 29, 2007

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Modify the Hearing Procedures Afforded to Members and Applicants for Membership and Harmonize Them with Similar Rules of its Affiliates

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 April 30, 2007, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) and on July 24, 2007, amended³ the proposed rule change 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

The proposed rule change seeks (1) to modify the rules of FICC’s Government Securities Division (“GSD”) and Mortgage-Backed Securities Division (“MBSD”) (GSD and MBSD are collectively referred to as the “Divisions”), including the EPN rules of MBSD, regarding hearing procedures afforded to members and applicants for membership and (2) where practicable or beneficial, to harmonize them with similar rules of FICC’s affiliates, The Depository Trust Company (“DTC”) and the National Securities Clearing Corporation (“NSCC”).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The amendment corrected a typographical error in the proposed rule text.

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.⁴

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

(1) Minor Rule Violation Plan

In 1984, the Commission adopted amendments to Rule 19d-1(c) under the Act⁵ that allow self-regulatory organizations to adopt with Commission approval plans for the disposition of minor violations of rules.⁶

Currently under each Division’s rules, a member or applicant subject to disciplinary action has a right to a hearing before a panel comprised of members of FICC’s Board of Directors regardless of the severity of the action for which the member or applicant is being disciplined.⁷ Because some rule violations are not sufficiently serious to merit Board review, FICC is proposing to adopt a Minor Rule Violation Plan within the meaning of Rule 19d-1(c)(2) of the Act for those rule violations FICC deems minor. Consistent with Rule 19d-1(c)(2) of the

⁴ The Commission has modified the text of the summaries prepared by FICC.

⁵ 17 CFR 240.19d-1(c).

⁶ Securities Exchange Act Release No. 21013 (June 1, 1984), 49 FR 23828 (June 8, 1984) [File No. S7-983A].

⁷ MBSD Article V, Rule 7 (“Appeals”); EPN Article X, Rule 7 (“Appeals”); and GSD Rule 37 (“Hearing Procedures”).

Act, FICC would designate those rule violations for which a fine may be assessed in an amount not to exceed \$5,000 as minor rule violations. If a member were to dispute a fine imposed by FICC by filing a written request for hearing and a written statement, FICC management would have the authority to waive the fine. FICC management would notify the Board of Directors (or a Committee authorized by the Board of Directors) of its determination to waive the fine and would provide the reasons for the waiver. The Board or Committee could in its discretion decide to reinstate any fine waived by FICC management. If FICC management were not to waive the fine, the member could appeal the decision to a panel comprised of FICC officers (“Minor Rule Violation Panel”).

(2) Hearings for All Other Violations and Minor Rule Violation Appeals

For matters involving (i) an alleged violation of a GSD or MBSD rule for which a fine in an amount of over \$5,000 is assessed, (ii) applicants for membership, or (iii) other disciplinary actions to which the Minor Rule Violation Plan would not apply or for appeals from a Minor Rule Violation Panel decision adverse to a member or applicant, the member or applicant would be entitled to a hearing before a panel comprised of three individuals of the FICC Board of Directors (or their designees) appointed by the Chairman of the FICC Board. Decisions of the panel would be final; however, the full Board of Directors would retain the right to modify any sanction or reverse any decision of the Board panel that was adverse to the member or applicant.

Currently with respect to hearings, a member or applicant is afforded the opportunity to be heard and may be represented by counsel if desired. A record is kept of the hearing, and at the discretion of the Board panel, the associated cost may be charged in whole or part to the member or applicant in the event that the decision is adverse to the member or applicant. The member or applicant is advised of the Board panel’s decision within ten business days after the

conclusion of the hearing. These procedures would also apply with respect to the Minor Rule Violation Plan.

(3) Administrative Changes: Uniformity of Time Frames

The proposed rule changes seek to implement uniform time periods for the Divisions governing actions a member or applicant would be required to take in order to request a hearing. The deadlines a member or applicant must adhere to in order to request a hearing currently vary between the Divisions. Under the proposed rule change, a member or applicant would have five business days, or two business days in the case of a summary action taken against the member or applicant pursuant to Rule 21 or 22,⁸ from the date on which FICC first informs it of a sanction or a denial of membership in which to request a hearing.

Within seven business days, or three business days in the case of a summary action taken against the member or applicant, after filing a request for a hearing with FICC, the member or applicant would be required to submit to FICC a clear and concise written statement setting forth the action or proposed action of FICC with respect to which the hearing is requested, the basis for objection to such action, whether the member or applicant intends to attend the hearing, and whether the member or applicant chooses to be represented by counsel at the hearing. These proposed time frames would be consistent with time frames being proposed by DTC and NSCC.

(4) Technical Changes

MBSD Article V, Rule 3 (“Fines and Other Sanctions”) would be amended in accordance with the proposed changes to the hearing procedures of MBSD.

⁸ Examples of a summary action are a suspension of a member or restriction of a member’s access to services as described in Rule 21, Section 1 (“Restrictions on Access to Services”).

In addition, minor technical changes would be made to the rules of both Divisions where necessary to implement the proposed changes set forth above.

(5) Implementation of the Proposed Changes

The proposed changes will be implemented upon approval of this proposed filing by the Commission. Members will be advised of the implementation through an FICC Important Notice.

FICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁹ and the rules and regulations thereunder because the adoption of a Minor Rule Violation Plan furthers the statutory objective of providing a fair procedure for disciplining members and will provide FICC with the ability to impose meaningful sanctions for those rule violations that do not necessarily rise to a level meriting a full disciplinary proceeding. Accordingly, the proposed rule change promotes the prompt and accurate clearance and settlement of securities transactions.

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

FICC does not believe that the proposed rule change will 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 relating to the proposed rule change have not been solicited or received. FICC will notify the Commission of any written comments received by FICC.

⁹ 15 U.S.C. 78q-1.

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 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-2007-06 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-2007-06. 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 filings also will be available for inspection and copying at the principal office of FICC and on FICC's Web site at

http://www.dtcc.com/downloads/legal/rule_filings/2007/ficc/2007-06.pdf. 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-2007-06 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).