

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57802; File No. SR-FICC-2008-02)

May 8, 2008

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Require Demand Processing for Blind-Brokered Repo Trades

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ notice is hereby given that on April 9, 2008, the Fixed Income Clearing Corporation (“FICC”) 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 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 amend the rules of the Government Securities Division (“GSD”) to mandate Demand Comparison submission and processing for blind-brokered repo trades that are submitted by a specified cut-off time.

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

¹ 15 U.S.C. 78s(b)(1).

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

1. Background

In 2001, the Government Securities Clearing Corporation (“GSCC”), the GSD’s predecessor, redesigned its comparison rules and procedures soon after the introduction of the real-time trade matching system. At that time, GSCC also moved the timing of its settlement guaranty from the point of netting to the point of comparison, which was much earlier in the day. In designing these changes, GSCC’s goal was to provide straight through processing by providing for easy identification and resolution of uncompleted trades intraday in order to achieve 100 percent comparison. These changes reduced risk by ensuring that more transactions were compared and guaranteed by the clearing corporation earlier in the day so that intraday credit exposure to counterparties was minimized.

As part of the redesign of the GSCC comparison rules, GSCC introduced Demand Comparison, which was a new type of comparison that was created to provide members with flexibility and control over the comparison process for trades executed via intermediaries.³ Demand Comparison strikes a balance between “bilateral comparison” (the traditional form of comparison), where each member is required to submit trade data to the clearing agency in order

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

³ Securities Exchange Act Release No. 44946 (October 17, 2001), 66 FR 53816 [File No. SR-GSCC-2001-01].

for the clearing agency to compare the trade, and “locked-in comparison,” where the trade is submitted as a compared trade to the clearing agency by one side or by one intermediary.⁴

Demand Comparison entails submission of trade data by approved intermediaries (e.g., brokers) called “Demand Trade Sources.” FICC deems a trade submitted for Demand Comparison to be compared upon FICC’s receipt of the trade data from the Demand Trade Source. However, if a dealer “does not know” a trade submitted on its behalf by a Demand Trade Source, the dealer is able to submit a DK (i.e., “don’t know”) to the GSD. The receipt of a DK by FICC causes the demand comparison trade to no longer be deemed compared. In order to effect comparison for a demand comparison trade that has been DKed, the DK must be removed. If the member that sent the DK determines that it did so erroneously, the member is able to remove the DK so that the trade is compared.⁵ Modification of a DKed trade by the Demand Trade Source also removes the DK so that the trade is compared.⁶ The removal of the DK and modification of a DKed trade are subject to the prescribed time frames for Demand DK processing.

⁴ A Treasury auction take-down trade is a typical example of a trade submitted for Locked-In Comparison.

⁵ Under this proposal to require Demand Comparison processing of blind-brokered repo trades, the cut-off time for removing DKs will be 8:00 pm New York time.

⁶ Under this proposal to require Demand Comparison processing of blind-brokered repo trades, the cut-off time for modifications by Demand Trade Sources will be 8:00 pm New York time.

2. Proposal

FICC's current proposal is to mandate Demand Comparison for all blind-brokered repo trades that are submitted by 4:00 pm New York time. The GSD's members acting as inter-dealer brokers for repos will be designated as approved Demand Trade Sources. Members on whose behalf the brokers submit trades will not need to separately authorize the brokers as their Demand Trade Sources for GSD's purposes because GSD's rules will do so. After approval of the rule change, counterparties to blind-brokered repo trades will still need to submit their trade data as they do currently. Dealers will need to monitor the broker submissions against them in order to submit DKs where necessary to block any further processing of the submission. In order to provide the dealer counterparties with adequate time by which to submit their DKs, especially for trades submitted close to the 4:00 pm deadline, GSD will create a 30 minute DK window following the 4:00 pm Demand Comparison submission deadline (until 4:30 pm) during which time the dealer counterparties can DK previously received demand trades; however, dealer counterparties will be able to submit DKs at any time during the Demand Comparison submission processing time frame. Under Demand Comparison processing, a dealer counterparty that does not submit a DK with respect to a blind-brokered repo trade submitted against it will be responsible for that trade. Blind-brokered repo trades submitted after the 4:00 pm deadline will be treated as trades submitted for "bilateral comparison" requiring two-sided submission and matching for comparison to occur.

FICC believes that requiring Demand Comparison for blind- brokered repo trades as described above will reduce risk by promoting earlier comparison and a higher rate of

comparison. Demand Comparison trade entry will also encourage members to reconcile differences on a timely basis.

FICC plans to implement the proposed changes four months after submission of this filing to the Commission (i.e., early August), subject to approval by the Commission, in order to provide members with the opportunity to make any necessary system changes.

3. Statutory Basis

FICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁷ and the rules and regulations thereunder applicable to FICC because it should support the prompt and accurate clearance and settlement of securities transactions by enabling earlier comparison and a higher rate of comparison of blind-brokered repo transactions.

(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

⁷ 15 U.S.C. 78q-1.

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-2008-02 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-2008-02. 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.dtcc.com/downloads/legal/rule_filings/2008/ficc/2008-02.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-2008-02 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.⁸

Florence E. Harmon
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).

