

IMPORTANT NOTICE

Fixed Income Clearing Corporation



#: GOV080.07
Date: July 16, 2007
To: Government Securities Division Participants
Subject: Rule Filing FICC-2007-08—GCF REPO® SERVICE

The Fixed Income Clearing Corporation (“FICC”) has submitted a rule filing (SR-FICC-2007-08) with the Securities and Exchange Commission (“SEC”) to return the GCF Repo service of the Government Securities Division to inter-clearing bank status. Upon regulatory approval, this change will enable GCF participants to enter into GCF Repo transactions with GCF participants who clear at a different clearing bank.

In order to address certain payments systems risk issues that arose from the inter-bank funds settlements related to the service when the service was first introduced on an inter-clearing bank basis, FICC is proposing to modify the morning GCF “unwind” process. Specifically, the interbank funds payment will not move in the morning. In lieu of making funds payments, the interbank dealers at the GCF net funds borrower bank will grant to FICC a security interest in each securities and deposit account maintained by such dealer with its GCF clearing bank. The security interest in this collateral will be equal to the dealer’s prorated share of the total interbank funds amount. FICC will, in turn, grant to the other clearing bank (that was due to receive the funds) a security interest in the collateral to support the debit in the FICC account, which is created when the dealers who were due their funds back in the morning receive them.

Under the proposal, the debit in the FICC account at the clearing bank referred to in the previous paragraph will get satisfied during the end of day GCF settlement process. Specifically, that day’s new activity will yield a new interbank funds amount that will move at end of day—however, this amount will now get netted with the amount that would have been due in the morning, thus further reducing the interbank funds movement. The holds on the dealers’ collateral at the clearing banks will be released when the interbank funds movement is made at end of day.

FICC is also proposing to impose a collateral premium on the GCF portion of the Clearing Fund deposits of all GCF participants to further protect FICC in the event of an intra-day default of a GCF participant. FICC will require GCF participants to submit a quarterly “snapshot” of their holdings by asset type at the bank to enable Risk Management staff to determine the appropriate Clearing Fund premium. Members who do not submit this required information by the deadlines established by FICC will be subject to fine and an increased Clearing Fund premium, as with all other instances of late submission of required information.

Finally, because the collateral that will be pledged to FICC in lieu of the funds movement is held at the clearing banks and because the clearing banks monitor the activity of their dealer customers, FICC believes it is prudent to have the right, in its sole discretion, to cease to act for a member that is a GCF Repo participant in the event that a clearing bank ceases to extend credit to such member.

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Copies of the proposed rule filing are available upon request from FICC. Written comments on the changes may be addressed to the undersigned at 55 Water Street, 22nd Floor, New York, N.Y. 10041; any such comments will be forwarded to the SEC. Written comments may also be addressed to the SEC at 100 F Street, N.E., Washington, D.C. 20549. We request that you provide any such comments to FICC.

Questions regarding the GCF Repo service should be directed to Murray Pozmanter, Managing Director, at (212) 855-7522. Questions regarding the rule filing should be directed to the undersigned at (212) 855-7633.

Nikki Poulos
Managing Director
and General Counsel