

Proposed Rule Change by Fixed Income Clearing Corporation  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input type="checkbox"/>	Amendment <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the proposed rule change (limit 250 characters).

**Contact Information**  
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="John"/>	Last Name	<input type="text" value="Petrofsky"/>
Title	<input type="text" value="Associate Counsel"/>		
E-mail	<input type="text" value="jpetrofsky@dtcc.com"/>		
Telephone	<input type="text" value="(212) 855-7634"/>	Fax	<input type="text" value="(212) 855-3215"/>

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date	<input type="text" value="09/27/2007"/>
By	<input type="text" value="Nikki Poulos"/> (Name)
	<input type="text" value="Managing Director and General Counsel"/> (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Nikki Poulos, npoulos@dtcc.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information**

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**Underlined, boldface Text** indicates language added by this Amendment 1 to SR-FICC-2007-10.

~~**Struck through, boldface text**~~ indicates language deleted by this Amendment 1 to SR-FICC-2007-10.

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Items 1 and 2 remain unchanged by this Amendment.

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3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

(a) Clearing participants of the Mortgage-Backed Securities Division (“MBSD”) of FICC 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 applicable 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 Value-at-Risk (“VaR”) model which is expected to better reflect market volatility and 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<sup>1</sup>:

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<sup>1</sup> In addition to the following, the provision in the MBSD rules requiring participants to maintain a Basic Deposit and Minimum Market Margin Differential Deposit with the MBSD pursuant to Article IV, Rule 1, Section 1(a) and (b), will be eliminated.

<b>Existing Methodology</b>	<b>Risk Addressed</b>	<b>Proposed Methodology</b>
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. <sup>2</sup>
Final margin requirement generated for second processing cycle. <sup>3</sup>	Additional exposure due to portfolio variation.	Margin Requirement Differential (“MRD”) includes intra-day 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) <sup>4</sup>
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)
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 Participants Fund requirement a “special charge” as determined by FICC **from time to time** in view of **price fluctuations in or volatility or lack of liquidity of any security market conditions and the**

<sup>2</sup> 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 shall instead be determined based on an historic index volatility model.

<sup>3</sup> The MBSD generates a preliminary margin report as part of a first processing cycle at the close the business day, and 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 will no longer generate a margin requirement as part of the second cycle, but rather a final margin requirement will be established after the running of the first cycle at approximately 9:00 p.m.

<sup>4</sup> 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.

**financial and operational capabilities of the participant.** FICC will make any such determination based on such factors as it determines to be appropriate from time to time.

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because it allows FICC to more effectively manage risk relating to member trading activity. As such, it supports the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.

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Items 4 through 8 remain unchanged by this Amendment.

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9. Exhibits

Exhibit 1 – **revised** Notice of proposed rule change for publication in the Federal Register (incorporating changes as marked in Item 3(a) above).

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**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 34-\_\_\_\_\_ ; File No. SR-FICC-2007-10)**

**SELF-REGULATORY ORGANIZATIONS**

Proposed Rule Change by FIXED INCOME CLEARING CORPORATION (“FICC”) relating to amending the rules of FICC’s Mortgage-Backed Securities Division (“MBSD”) to replace the existing MBSD Clearing Fund calculation methodology with a yield-driven Value-at-Risk (“VaR”) model.

Comments requested within \_\_\_\_ days after the date of this publication.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 15 U.S.C. 78s(b)(1), notice is hereby given that on \_\_\_\_\_, 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 by FICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The text of the proposed rule change is attached hereto as Exhibit 5.

**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. 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 such statements.

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

(i) Clearing participants of the Mortgage-Backed Securities Division (“MBSD”) of FICC 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 applicable 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 Value-at-Risk (“VaR”) model which is expected to better reflect market volatility and 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<sup>1</sup>:

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<sup>1</sup> In addition to the following, the provision in the MBSD rules requiring participants to maintain a Basic Deposit and Minimum Market Margin Differential Deposit with the MBSD pursuant to Article IV, Rule 1, Section 1(a) and (b), will be eliminated.

<b><u>Existing Methodology</u></b>	<b><u>Risk Addressed</u></b>	<b><u>Proposed Methodology</u></b>
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. <sup>2</sup>
Final margin requirement generated for second processing cycle. <sup>3</sup>	Additional exposure due to portfolio variation.	Margin Requirement Differential (“MRD”) includes intra-day portfolio variations and protection regarding late margin deficit satisfaction.
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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)
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 Participants Fund requirement a “special charge” as determined by FICC from time to time in view of market conditions

<sup>2</sup> 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 shall instead be determined based on an historic index volatility model.

<sup>3</sup> The MBSD generates a preliminary margin report as part of a first processing cycle at the close the business day, and 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 will no longer generate a margin requirement as part of the second cycle, but rather a final margin requirement will be established after the running of the first cycle at approximately 9:00 p.m.

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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 from time to time.

(ii) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because it allows FICC to more effectively manage risk relating to member trading activity. As such, it supports the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.

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.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 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 90 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 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 may be submitted by using the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or by sending an e-mail to [rule-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File No. SR-FICC-2007-10 on the subject line.

- Paper comments should be sent in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington D.C. 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 Room, 100 F Street, NE, Washington D.C. 20549-9303. Copies of such filing also will be available for inspection and copying at FICC's principal office and on FICC's Web site at [www.ficc.com](http://www.ficc.com). 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 the file number above and should be submitted within \_\_\_\_\_ days after the date of publication.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Nancy M. Morris