

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="10"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2010"/> - * <input type="text" value="04"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Proposed Rule Change by Fixed Income Clearing Corporation  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input 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"/>	
			Rule			
Pilot <input type="checkbox"/>	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, required when Initial is checked \*).

The proposed rule provides clarity with respect to the close out netting of the Government Securities Division in the event of the default or insolvency of the clearing agency.

**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="Nikki"/>	Last Name * <input type="text" value="Poulos"/>
Title * <input type="text" value="Managing Director and General Counsel"/>	
E-mail * <input type="text" value="npoulos@dtcc.com"/>	
Telephone * <input type="text" value="(212) 855-7633"/>	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="08/12/2010"/>	
By <input type="text" value="Nikki Poulos"/>	<input type="text" value="Managing Director and General Counsel"/>
(Name *)	(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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information (required)**

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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 (required)**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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.

1. Text of Proposed Rule Change.

(a) The proposed rule is annexed as Exhibit 5 and consists of modifications to the rules of the Government Securities Division (the “GSD”) of the Fixed Income Clearing Corporation (“FICC”).

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The Credit and Market Risk Management Committee of the FICC Board of Directors approved the proposed rule change on October 21, 2009.

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

(a) FICC is proposing to add a provision to the rules of the GSD to make explicit the close out netting that would be applied to obligations between FICC and its members in the event that FICC becomes insolvent or defaults in its obligations to its members.

FICC has been approached by some of its dealer members who have requested that FICC add a provision to the rules of the GSD to make explicit the close-out netting of obligations running between FICC and its members in the unlikely event that FICC becomes insolvent or defaults in its obligations to its members. The firms have stated that the proposed rule changes will provide clarity in their application of balance sheet netting to their positions with FICC under U.S. GAAP in accordance with the criteria specified in the Financial Accounting Standards Board’s Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* (FIN 39). The firms have stated further that the provisions would allow them to comply with Basel Accord Standards relating to netting. Specifically, firms are able to calculate their capital requirements on the basis of their *net* credit exposure where they have legally enforceable netting arrangements with their counterparties, which includes a close-out netting provision in the event of the default of the counterparty (in this case, the division of the clearing corporation acting as a CCP).

(b) The proposed rule is consistent with the Securities and Exchange Act of 1934, as amended (the “Act”) and the rules and regulations promulgated thereunder because it provides members with clarity in the calculation of their capital requirements on the basis of their net credit exposure where members have legally enforceable netting arrangements with their counterparties. Moreover, other clearing corporations have similar provisions in their rules for the same purpose and the Commission has previously approved such a provision for another clearing agency for the same purpose of providing the clearing agency’s members with the needed clarity.

4. Self-Regulatory Organization's Statement on Burden on Competition.

FICC does not believe that the proposed rule will have any impact, or impose any burden, on competition.

5. 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 have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

6. Extension of Time Period for Commission Action.

FICC does not consent to an extension of the time period specified in Section 19(b) (2) of the Act for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.

Other clearing corporations, such as The Options Clearing Corporation, have adopted similar rules for the same purpose.

9. Exhibits

Exhibit 1 - Notice of proposed rule change for publication in the Federal Register.

Exhibit 5 - Text of the proposed rule.

**SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 34-\_\_\_\_\_ ; File No. SR-FICC-2010-04)**

**SELF-REGULATORY ORGANIZATIONS**

(a) Proposed Rule Change by FIXED INCOME CLEARING CORPORATION (“FICC”) relating to a close out netting rule for the Government Securities Division upon such Division’s default or insolvency.

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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 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 such statements.

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

(a) FICC is proposing to add a provision to the rules of the GSD to make explicit the close out netting that would be applied to obligations between FICC and its members in the event that FICC becomes insolvent or defaults in its obligations to its members.

FICC has been approached by some of its dealer members who have requested that FICC add a provision to the rules of the GSD to make explicit the close-out netting of obligations running between FICC and its members in the unlikely event that FICC becomes insolvent or defaults in its obligations to its members. The firms have stated that the proposed rule changes will provide clarity in their application of balance sheet netting to their positions with FICC under U.S. GAAP in accordance with the criteria specified in the Financial Accounting Standards Board's Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* (FIN 39). The firms have stated further that the provisions would allow them to comply with Basel Accord Standards relating to netting. Specifically, firms are able to calculate their capital requirements on the basis of their *net* credit exposure where they have legally enforceable netting arrangements with their counterparties, which includes a close-out netting provision in the event of the default of the counterparty (in this case, the division of the clearing corporation acting as a CCP).

(b) The proposed rule is consistent with the Securities and Exchange Act of 1934, as amended (the "Act") and the rules and regulations promulgated thereunder because it provides members with clarity in the calculation of their capital requirements on the basis of their net credit exposure where members have legally enforceable netting arrangements with their counterparties. Moreover, other clearing corporations have similar provisions in their rules for the same purpose and the Commission has previously approved such a provision for another clearing agency for the same purpose of providing the clearing agency's members with the needed clarity.

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 yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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 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 may be submitted by using the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or send an e-mail to [rule-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File No. SR-FICC 2010-04 on the subject line.
- Paper comments should be sent in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington D.C. 20549-1090

All submissions should refer to File Number SR-FICC 2010-04. 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 DC 20549-9303. Copies of such filing also will be available for inspection and copying at the principal office of FICC. 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 submission 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 Trading and Markets, pursuant to delegated authority.

Elizabeth M. Murphy  
Secretary

**Bold underlined text** indicates proposed additions

FIXED INCOME CLEARING CORPORATION  
GOVERNMENT SECURITIES DIVISION RULEBOOK

\* \* \*

RULE 22B – CORPORATION DEFAULT

\* \* \*

**Corporation Default**

**(a) If a "Corporation Default" occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated and the Board shall determine a single net amount owed by or to each Member with respect to such Transactions by applying the close out and application procedures of Sections 2(a) and (b) of Rule 22A and Sections 7(a) through (c) of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member) taking into account the other provisions in these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. For the avoidance of doubt, nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Mortgage-Backed Securities Division or any other Cross-Guaranty Counterparty.**

**(b) The following events shall constitute a Corporation Default:**

**(i) Failure by the Corporation to make, when due, any undisputed payment or delivery to a Member required to be made by it under these Rules and such failure is not remedied within 90 days after notice of such failure is given to the Corporation by the affected Member; provided that this clause (i) shall not apply to (A) obligations of the Corporation to Wind-Down Members, Defaulting Members or Members for whom the Corporation has otherwise ceased to act pursuant to Rule 22A; (B) any payment or delivery which the Corporation satisfies by alternate means as provided in these Rules; (C) any obligation of the Corporation that is not a payment or delivery obligation of the Government Securities Division to a Member under these Rules; (D) any payment or delivery the deadline of which has been suspended pursuant to Rule 42, until such time as the**

suspension is no longer in effect and failure of the Corporation with respect thereto remains unremedied for 90 days following notice of failure to pay or deliver on the later due date determined pursuant to the suspension; or (E) any payment or delivery required to be made to a Member where such payment or delivery is not made solely as a result of an operational technological or administrative error or impediment and the Corporation possesses sufficient funds or assets to satisfy such payment or delivery obligation; or

(ii) The Corporation (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (B) institutes a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or presents a petition for its winding-up or liquidation; (C) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation and, in each case, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation and the judgment or order with respect thereto remains unstayed for a period of at least 90 days from the issue thereof; or (D) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets, provided that in the case that such appointment is not sought by the Corporation, such appointment remains unstayed for a period of at least 90 days from the issue thereof.

(c) Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991

The Corporation and the Netting Members intend that these Rules be interpreted in relation to certain terms (identified below) that are defined in the Federal Deposit Insurance Corporation Act of 1991 ("FDICIA"), as amended, as follows:

The Government Securities Division of the Corporation is a "clearing organization";

Any obligation of a Netting Member or the Corporation to make any payments to the other is a "covered clearing obligation" and a "covered contractual payment obligation";

An entitlement of a Netting Member or the Corporation to receive a payment from the other is a "covered contractual payment entitlement";

The Corporation and each Member is a "member" of the "clearing organization";

The amount by which the covered contractual payment entitlements of a Netting Member or the Corporation exceed the covered contractual payment obligations of such Member or the Corporation after netting pursuant to Rule 22A or this Rule 22B is its "net entitlement";

The amount by which the covered contractual payment obligations of a Netting Member or the Corporation exceed the covered contractual payment entitlements of such Member or the Corporation after netting under a netting pursuant to Rule 22A or this Rule 22B is its "net obligation"; and

These Rules, together with all other agreements between the Corporation and a Netting Member, are a "netting contract", the margin, Clearing Fund and other provisions of these Rules granting an interest in any funds or property of a member to the Corporation constitute a "security agreement or arrangement or other credit enhancement" relating to such netting contract and the

**close-out process in Rule 22A or this Rule 22B constitutes the “terminat[ion], liquidat[ion], accelerat[ion], and nett[ing]” of obligations.**