

trades from Omgeo's TradeSuite system in real-time as they are affirmed, participants will still have the ability to process authorizations and exemptions as they do today.

Participants will be able to authorize trades as they are received into IMS through the existing options (*i.e.*, globally or on a trade-for-trade basis). Omgeo will continue to produce the Cumulative Eligible Trade report/file at approximately 1 p.m. on T+2. This batch report/file notifies participants of affirmed Matched Institutional Trades ("MITS") sent to IMS for the following settlement date. However, IMS will continue the current practice of applying a participant's authorization profile for MITS after the midday cut-off on T+2 (at approximately 1 p.m.).

In addition, some new functionality is also being introduced through the enhanced Omgeo and DTC interface. Omgeo will send "late affirmed"<sup>3</sup> trades to IMS. Late affirmed trades will be stored and identified in IMS as a new transaction type, Late Matched Institutional Trades ("LMIT"). These trades are currently ineligible for automated settlement at DTC. This new functionality will allow participants to eliminate settling these transactions as DOs at DTC, which experience a higher reclaim rate than affirmed eligible trades, and will provide for the automated settlement of these transactions.

For the new LMITs, IMS will default to the "active" authorization mode (*i.e.*, deliveries would not be processed unless they are authorized). Unauthorized "late affirmed" trades will remain in IMS until settlement date + 21 days (the current IMS trade retention time frame). For authorized LMIT items, IMS will apply a participant's authorization profile as the items are received from Omgeo. LMITs will bypass DTC's Receiver Authorized Delivery ("RAD") processing as do all Omgeo deliveries.

Omgeo will continue to update IMS and notify DTC participants using a status message of any Change of Eligibility ("COE").<sup>4</sup> COE (*i.e.*, DTC-

eligible to DTC-ineligible) messages will be passed to IMS by TradeSuite up until midnight of T+1. IMS will process COE-related messages on a real-time basis for both authorized and yet to be authorized trades. IMS will "reauthorize" a previously authorized DTC-eligible trade in the event the trade becomes DTC-eligible, again. In addition, an appropriate audit trail will be provided by IMS for participants. Ineligible MITS transactions in IMS will be cancelled at end of day on settlement date.

DTC will charge the following delivery fees for LMITs:

- \$0.17 (current "night DO" fee) if authorized by the participant before the night cycle.
- \$0.45 (current "day DO" fee) if authorized by the participant after the night cycle.
- \$0.006 per delivery (current IMS delivery fee) for every trade that is processed through the IMS authorization profile.

Participants that currently submit machine-readable authorization/exemption instructions can choose to continue to process their Omgeo deliveries as they do today. The proposed change is scheduled to be implemented in November 2006.

### III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>5</sup> The Commission finds that DTC's proposed rule change is consistent with this requirement because it should promote the prompt and accurate clearance and settlement of securities transactions by enhancing the IMS interface with Omgeo to accept eligible affirmed trades from Omgeo's TradeSuite system in real-time and to accept late affirmed trades into IMS for automated settlement at DTC. In addition, the proposed rule change

resent to IMS by Omgeo with an indicator that it is now Ineligible (IMS status updated to ineligible). A trade may become ineligible for DTC settlement processing if prior to settlement date, the participant, security, or ID agent become ineligible for DTC processing.

(3) If a previously sent DTC eligible trade changed to ineligible becomes eligible for settling at DTC, again, the trade is re-sent to IMS by Omgeo with an indicator that it is now eligible (IMS status is updated to eligible from ineligible).

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

should provide for the equitable allocation of reasonable dues, fees, and other charges among DTC's members as required by Section 17A(b)(3)(D).<sup>6</sup>

### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-2006-11) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

Nancy M. Morris,  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54682; File No. SR-FICC-2006-15]

### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change To Modify its Rules To Diversify and Standardize Clearing Fund Collateral Requirements Across the Divisions To Improve Liquidity and Minimize Risk for its Members

November 1, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 4, 2006, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") 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 to modify the rules of both of the Government Securities Division ("GSD") and the Mortgage-Backed Securities Division ("MBS")

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(D).

<sup>7</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Late affirmed trades are defined as trades affirmed after the 12:00 p.m. cutoff on T+2 until 12:00 p.m. on settlement date.

<sup>4</sup> COE-related messages can be sent for the following reasons:

(1) When a DTC eligible trade changes to CNS eligible, the trade is resent to IMS by Omgeo with an indicator that it is now ineligible (IMS status becomes ineligible). Omgeo will then send the trade to NSCC for settlement in CNS. A trade can become CNS eligible after being DTC eligible, if the security, ID agent (a prime broker), clearing agent, and clearing broker all are CNS eligible.

(2) When a DTC eligible trade subsequently becomes ineligible for settling at DTC, the trade is

(collectively, the "Divisions") of FICC to diversify and standardize Clearing Fund<sup>3</sup> collateral requirements across the Divisions in order to improve liquidity and minimize risk for FICC and its members.<sup>4</sup>

## 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.<sup>5</sup>

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

Presently, both GSD and MBSD members may satisfy their Clearing Fund requirement with cash deposits. Members may also satisfy a portion of their deposits with an open account indebtedness fully secured by certain types of securities and/or letters of credit. FICC proposes to modify its rules as detailed below to: (1) expand the types of securities which members may deposit to satisfy their Clearing Fund requirement ("Eligible Clearing Fund Securities") to secure their open account indebtedness; (2) establish concentration requirements with regard to members' use of Eligible Clearing Fund Securities; (3) create a correlating range of haircuts to be applied to the expanded types of Eligible Clearing Fund Securities; and (4) eliminate letters of credit as a generally acceptable form of collateral securing members' open account Clearing Fund indebtedness.

#### 1. Revised Clearing Fund Components

(a) *Cash*. Currently the rules of GSD require that the greater of \$100,000 or ten percent of a member's Clearing Fund requirement with a maximum of

\$500,000 be made in the form of cash.<sup>6</sup> The rules of MBSD currently do not contain a minimum cash requirement. For both Divisions, the proposed new cash collateral component will be the lesser of \$500,000 or ten percent of a member's Clearing Fund requirement with a minimum of \$100,000.

(b) *Securities*. Currently each Division of FICC accepts different types of securities as Clearing Fund collateral. For example, GSD accepts Agency securities but not mortgage-backed securities, and MBSD accepts mortgage-backed securities but not Agency securities. In addition, there are currently no concentration requirements placed on the securities deposited at either Division. In an effort to standardize the securities which are eligible as Clearing Fund collateral across the Divisions, FICC proposes to modify the rules of both Divisions by adding a definition to each Division's rules for "Eligible Clearing Fund Securities" (with respect to GSD) and "Eligible Participants Fund Securities" (with respect to MBSD). As defined, these securities will be unmaturing bonds which are either an "Eligible Clearing Fund Agency Security," an "Eligible Clearing Fund Mortgage-Backed Security" or an "Eligible Clearing Fund Treasury Security."<sup>7</sup> "Eligible Clearing Fund Agency Security" would be defined as a direct obligation of those U.S. agencies or government sponsored enterprises as FICC may designate from time to time that satisfies the criteria set forth in notices issued by FICC from time to time. "Eligible Clearing Fund Mortgage-Backed Security" would be defined as a mortgage-backed pass through obligation issued by those U.S. agencies or government sponsored enterprises as FICC may designate from time to time that satisfies the criteria set forth in notices issued by FICC from time to time. "Eligible Clearing Fund Treasury Security" would be defined as a direct obligation of the U.S. government that satisfies the criteria set forth in notices issued by FICC from time to time.

Initial eligibility criteria for each type of Eligible Clearing Fund/Participant Fund Security will be announced to members through an Important Notice prior to the effective date of this proposed rule change. Any future changes to the eligibility criteria will also be announced to members through

Important Notices in advance of such changes becoming effective.

(c) *Security Concentration Provisions*. FICC also proposes to establish security concentration provisions for Clearing Fund deposits. As proposed, a minimum of forty percent of a member's required Clearing Fund deposit would have to be made in cash and Eligible Clearing Fund Treasury Securities. The remainder of a member's deposit could be secured by cash and the pledge of Eligible Clearing Fund Securities in any combination of Eligible Clearing Fund Treasury Securities, Eligible Clearing Fund Agency Securities, and/or Eligible Clearing Fund Mortgage-Backed Securities. However (1) any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities, respectively, in excess of twenty-five percent of a member's required Clearing Fund deposit would be subject to an additional haircut equal to twice the percentage specified in the haircut schedule. Furthermore, no more than twenty percent of a member's required Clearing Fund deposit could be secured by pledged Eligible Clearing Fund Agency Securities of a single issuer. Lastly, no member would be permitted to post as Clearing Fund collateral Eligible Clearing Fund Agency Securities for which it is the issuer.<sup>8</sup>

(d) *Letters of Credit and Other Adequate Assurances*. The current provisions within FICC's Rules that pertain to Letter of Credit Issuers will be modified to reflect that letters of credit would no longer be accepted by FICC as a form of Clearing Fund collateral.<sup>9</sup> Effective April 1, 2007 (which is the regular expiration date of letters of credit), members that have letters of credit posted as collateral (other than members, if any, that have been required to post letters of credit for legal risk), would be required to replace the portion of the Clearing Fund collateralized by letters of credit with either cash or Eligible Clearing Fund Securities.

(e) *Implementation Timeframes*. The foregoing rule changes would become

<sup>3</sup> The GSD Rules refer to member collateral deposits as the "Clearing Fund" while the MBSD rules refer to these deposits as the "Participants Fund." The term "Clearing Fund" in this rule filing will refer to both.

<sup>4</sup> This rule filing also proposes to make a minor technical change to Rule 4 of the GSD rules. Section 2 of Rule 4 has been relettered to accommodate changes made in an earlier FICC rule filing, SR-FICC-2006-12.

<sup>5</sup> The Commission has modified the text of the summaries prepared by FICC.

<sup>6</sup> GSD Rule 4, Section 2(b)(ii).

<sup>7</sup> In the MBSD Rules, these terms would be as follows: "Eligible Participants Fund Agency Security," "Eligible Participants Fund Mortgage-Backed Security," and "Eligible Participants Fund Treasury Security."

<sup>8</sup> However, a member would be permitted to pledge Eligible Clearing Fund Mortgage-Backed Securities for which it is the issuer subject to a haircut. The haircut would be fourteen percent as an initial matter. If the member exceeded the twenty-five percent concentration limit, the haircut would be twenty-one percent.

<sup>9</sup> FICC has found that in practice letters of credit are not as liquid as cash and securities and therefore pose more risk to FICC and its members when pledged as Clearing Fund collateral. FICC will, however, reserve the right to require letters of credit from members in those instances where a particular member has been found, by FICC in its discretion, to present legal risk.

effective thirty days after an Important Notice is issued to members informing them that FICC's systems are ready to accommodate such changes. The corresponding changes to FICC's rules would be made at that time.

(f) *Alternative Proportions of Eligible Collateral.* As is currently the case under FICC's rules, FICC will continue to reserve the right to require different proportions of the Clearing Fund collateral components as necessary to address any heightened legal or insolvency risks presented by a member.<sup>10</sup>

FICC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>11</sup> and the rules and regulations thereunder because it will enable FICC to standardize acceptable forms of collateral across both of its Divisions, which should lead to an increase of liquidity and a decrease of risk to FICC and its members. As such, FICC believes it will better enable FICC to safeguard the securities or funds in its possession or control 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 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 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.

<sup>10</sup> GSD Rule 4, Section 2(o), MBSD Rule 2, Section 4 of Article IV.

<sup>11</sup> 15 U.S.C. 78q-1.

### **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](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2006-15 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-2006-15. 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. 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.ficc.com/gov/notices/GOV115.06.htm?NS-query>. 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-2006-15 and should be submitted on or before November 30, 2006.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

Nancy M. Morris,  
Secretary.

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### **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-54697; File No. SR-ISE-2006-61]

#### **Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Fee Changes**

November 2, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 5, 2006, the International Securities Exchange, LLC ("ISE" or "Exchange") 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 the ISE. On October 17, 2006, ISE filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The ISE has designated this proposal as one establishing or changing a due, fee, or other charge imposed by the ISE under Section 19(b)(3)(A)(ii) of the Act,<sup>4</sup> and Rule 19b-4(f)(2) thereunder,<sup>5</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The ISE is proposing to amend its Schedule of Fees to establish fees for transactions in options on eight Premium Products.<sup>6</sup> The text of the

<sup>12</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> In Amendment No. 1, the Exchange revised footnote 10, *infra*, to clarify that six of the Premium Products that are the subject of this filing constitute Fund Shares under ISE Rule 502(h), while the other two Premium Products are narrow-based index options listed pursuant to the Exchange's generic listing standards. The Exchange also represented that Amendment No. 1 did not affect the proposed fees covered by this filing.

<sup>4</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>5</sup> 17 CFR 240.19b-4(f)(2).

<sup>6</sup> "Premium Products" is defined in the Schedule of Fees as the products enumerated therein.