

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54495; File No. SR-CHX-2006-27]

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving Proposed Rule Change Relating to Retroactive Application of Participant Fees and Credits

September 25, 2006.

On August 10, 2006, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to make retroactive to February 9, 2005, the trading permit fee due to the Exchange if a CHX participant's trading permit is cancelled intra-year. The proposed rule change was published for comment in the *Federal Register* on August 23, 2006.³ The Commission received no comments regarding the proposal.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁴ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(4) of the Act,⁵ which requires that the rules of an exchange provide for the equitable allocation or reasonable dues, fees and other charges among its members and other persons using its facilities.

The proposal to permit CHX participants to pay the Exchange the lesser of \$2,000 or the remaining balance of the annual trading permit fee if cancelled intra-year originally became effective on October 24, 2005.⁶ The Exchange intended but did not request retroactive application of this amended Fee Schedule when the rule change was originally filed with the Commission. The Exchange believes that CHX participants who terminated their permits intra-year are entitled to a refund. Further, the Exchange has been

reserving funds for such remuneration. The Commission therefore finds that it is appropriate to make retroactive to February 9, 2005, the Fee Schedule change as described above.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (SR-CHX-2006-27) be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Nancy M. Morris,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54487; File No. SR-FICC-2005-17]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change Relating to Assumption of Blind Brokered Fails by Its Government Securities Division

September 22, 2006.

I. Introduction

On September 30, 2005, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on November 28, 2005, amended proposed rule change SR-FICC-2005-17 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the *Federal Register* on March 8, 2006.² On August 15, 2006, FICC filed an amendment to the proposed rule change.³ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

The purpose of the proposed rule change is to clarify the practice of the Government Securities Division ("GSD") of FICC of assuming certain blind brokered repo fails and of obtaining financing as necessary in connection with such assumptions. The settlement of the start leg of a same-day starting repo has always been and continues to be processed outside of the

GSD. In the evening of the day of a same-day starting brokered repo, FICC will assume responsibility from the broker for the settlement of such start leg if the repo dealer has not delivered securities to the broker to start the repo (*i.e.*, the start leg has failed). This may involve FICC's receipt of securities from the repo dealer for redelivery to the reverse repo dealer or FICC's netting or pairing off of the settlement obligation arising from the start leg against the settlement obligation arising from the close leg of the same or another repo.

FICC will also assume a blind brokered repo fail that arises in the close leg of a blind brokered repo transaction. For example, if the start leg of the transaction settles outside of FICC in normal course but one side of the close leg does not compare (for any reason that would cause a trade to not compare such as the erroneous submission of trade data), the broker will have a net settlement position at FICC rather than netting flat. If that transaction fails to settle, FICC will assume the broker's fail.

FICC assumes the fails in these instances in order to decrease risk to itself and to its members.⁴ By assuming the fail, FICC removes the broker, which acts as an intermediary and which expects to net out of every transaction and not have a settlement position, from the settlement process.⁵ FICC is therefore adding a provision to its Rules to expressly provide for its practice of assuming blind broker repo fails and therefore to make its Rules consistent with its current and longstanding practice.⁶

In the assumption of such broker fails, the need for financing might arise, such as in the situation where the repo dealer delivers securities near the close of the securities Fedwire and the broker is unable to redeliver them to the reverse repo dealer. The GSD's Rules already contain a provision, Section 8 of Rule 12, that addresses the GSD's need to obtain financing in general. This provision contemplates the need for financing in order to allow the GSD to facilitate securities settlement generally. It is important to note that such financing is part of the GSD's normal course of business, and the GSD's ability to obtain such financing is necessary for

⁴ FICC has engaged in the practice of assuming broker fails since the inception of its blind brokered repo service.

⁵ FICC filed its August 15, 2006, amendment to the proposed rule change to make explicit its policy that in all cases where FICC assumes a fail from a broker, the counterparty remains responsible for its obligations with respect to the transaction.

⁶ Specifically, new Section 5, "Assumption of Blind Brokered Fails," is being added to GSD Rule 19.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 54323 (August 16, 2003), 71 FR 49495.

⁴ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁵ 15 U.S.C. 78f(b)(4).

⁶ See Securities Exchange Act Release No. 52815 (November 21, 2005), 70 FR 71572 (November 29, 2005) (SR-CHX-2005-31).

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 53396 (March 2, 2006), 71 FR 11694.

³ The August 15, 2006, amendment, as noted below, is not substantive and did not require republication of notice.