

recommendations are based will have been sent by the Chief Actuary to the Committee before the meeting.

The meeting will be open to the public. Persons wishing to submit written statements or make oral presentations should address their communications or notices to the RRB Actuarial Advisory Committee, c/o Chief Actuary, U.S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092.

Dated: December 29, 2005.

**Beatrice Ezerski,**

*Secretary to the Board.*

[FR Doc. 06-60 Filed 1-4-06; 8:45 am]

**BILLING CODE 7905-01-M**

## SECURITIES AND EXCHANGE COMMISSION

### Proposed Collection; Comment Request

Upon written request, copies available from: Securities and Exchange Commission, Office of Filings and Information Services, Washington, DC 20549.

Regulation AC; SEC File No. 270-517; OMB Control No. 3235-0575.

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission ("Commission") is soliciting comments on the collections of information summarized below. The Commission plans to submit a request for approval of the previously approved collection of information discussed below.

### Regulation Analyst Certification (Regulation AC)

Regulation Analyst Certification requires that any research report disseminated by broker, dealer, or person associated with a broker or dealer include certifications by the research analyst that the views expressed in the research report accurately reflect the analyst's personal views, and whether the analyst received compensation in connection with his or her specific recommendations or views. A research analyst would also be required to provide certifications and disclosures in connection with public appearances. Although research analysts are often viewed by investors as experts and as important sources of information about the securities and companies they cover, many factors can create pressure on their independence and objectivity. By requiring these certifications and disclosures, Regulation AC should promote the integrity of research reports

and investor confidence in the recommendations contained in those reports. Commission estimates that Regulation AC would result in a total annual time burden of approximately 11,296 hours (10,950 hours to comply with research report requirements + 346 hours to comply with public appearance requirements).

The collections of information under Regulation AC are necessary for covered persons to obtain certain benefits or to comply with certain requirements. The collections of information are necessary to provide investors with information with which to determine the value of the research available to them. The Commission may review this information during periodic examinations or with respect to investigations. Covered persons must also promptly provide copies of statements that the analyst is unable to provide the certifications in connection with public appearances to its examining authority, designated pursuant to Section 17(d) of the Exchange Act and Rule 17d-2 thereunder. Further, broker-dealers must keep and maintain these records pursuant to Rule 17a-4(b)(4).

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the agency displays a valid OMB control number.

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to R. Corey Booth, Director/Chief Information Officer, Office of Information Technology, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549.

Dated: December 28, 2005.

**Nancy M. Morris,**

*Secretary.*

[FR Doc. E5-8284 Filed 1-4-06; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53036; File No. SR-FICC-2005-18]

### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto To Enhance the Repo Collateral Substitution Process of FICC's Government Securities Division

December 29, 2005.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on September 30, 2005, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on December 20, 2005, amended 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 purpose of this proposed rule change is to enhance the repo collateral substitution process of FICC's Government Securities Division ("GSD").

#### 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>2</sup>

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

##### 1. Initial Substitution Notification Without Replacement Collateral Information

The GSD's repo collateral substitution process provides a mechanism for a repo dealer to process its right to substitute the original collateral it

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

<sup>2</sup> The Commission has modified the text of the summaries prepared by FICC.

provided as part of a repo transaction with replacement collateral. With respect to a brokered transaction,<sup>3</sup> typically the repo dealer notifies the relevant broker that it wishes to substitute the repo collateral before it specifically identifies what the replacement collateral will be. The broker then contacts the reverse repo dealer and informs it that a repo collateral substitution process is being initiated, at which time the reverse repo dealer sends the original repo collateral to FICC. However, since under FICC's current system the repo dealer's substitution notification sent to FICC must contain information about the replacement collateral, often the substitution notification is not delivered to FICC at the time FICC receives the returned original repo collateral from the reverse repo dealer. When the repo dealer does determine what securities will constitute the replacement collateral, it often delivers the replacement collateral to FICC before sending the repo collateral substitution notification. Thus the parties have delivered the respective collateral to FICC, but until FICC receives the substitution notification, it is not able to deliver the collateral to the appropriate parties. This leaves FICC in an overdraft position at the clearing bank(s), which can cause expense and risk to FICC and to its members and settlement processing delays.

The proposed rule change will permit the repo dealer or repo broker, as appropriate, to submit a substitution notification to FICC without information about the replacement collateral. FICC will deliver the original collateral to the repo party's account at its clearing bank(s) upon receipt of the substitution notification so the original collateral will no longer linger in FICC's account. FICC believes this will encourage repo dealers to allocate replacement collateral more timely since they will be financing the original collateral intraday.<sup>4</sup>

<sup>3</sup> With respect to a non-brokered repo transaction, the repo dealer would contact the reverse repo dealer directly about the repo collateral substitution.

<sup>4</sup> The changes necessary to reflect this part of the rule change are contained in GSD Rule 18, Sections 3(a), (b), (c), and (d) and in the Schedule of Required and Accepted Data Submission Items for a Right of Substitution. A new schedule, titled Schedule of Required and Accepted Data Submission Items for New Securities Collateral, is being proposed to be added to the rules to reflect that information on the replacement collateral will be contained in a separate submission to FICC.

## 2. Revised Repo Collateral Substitution Process Deadline and Fee Schedule

The proposed change in repo processing requires a revision to GSD's schedule of timeframes. Also, in order to further encourage timely submission of collateral requests and the associated required information, FICC is proposing to add a new late fee to the repo substitution process. Currently, there is a two-tiered deadline and associated late fee for a repo party to submit a substitution notification.<sup>5</sup> The proposed rule change would establish: (i) An 11:00 a.m. Eastern Time deadline<sup>6</sup> for a repo party to submit a substitution notification and (ii) a late fee of \$100 for each substitution notification that is received after the deadline. The proposed rule change also would establish a two-tiered deadline and associated late fee schedule for a repo party to submit replacement collateral information. The proposed deadlines for submission of replacement collateral information are: (i) 12:00 p.m. Eastern Time and (ii) 12:30 p.m. Eastern Time. The proposed late fee assessments are: (i) \$100 for each submission of replacement collateral information that is received after the first deadline but before the second deadline and (ii) \$250 for each submission of replacement collateral information that is received after the second deadline.<sup>7</sup>

## 3. Risk Management Measures and Technical Changes

As part of the proposed rule change, FICC believes it is necessary to address the risk presented to FICC in the repo collateral substitution process by the failure of a party to timely submit information regarding the replacement collateral to FICC. The risk that arises in such a situation is that by the time FICC receives the information about the replacement collateral, the replacement collateral may have a different market value than the original collateral on

<sup>5</sup> The current deadlines are 12:00 p.m. Eastern Time and 12:30 p.m. Eastern Time. The deadlines are extended by one hour on days that: (i) FICC determines are high-volume days or (ii) The Bond Market Association announces in advance will be high-volume days. FICC assesses a late fee of: (i) \$100 for each substitution notification that is received after the first deadline but before the second deadline and (ii) \$250 for each substitution notification that is received after the second deadline.

<sup>6</sup> The proposed 11:00 a.m. Eastern Time deadline will not be extended on high-volume days.

<sup>7</sup> The proposed allocation of collateral deadlines will be extended by one hour on days that: (i) FICC determines are high-volume days or (ii) The Bond Market Association announces in advance will be high-volume days. The rule changes necessary to affect this part of the proposed rule are contained in the Schedule of Timeframes and in the Fee Structure under "Late Fees."

which FICC's margin calculations were based. To address this, FICC is proposing certain risk management measures. Specifically, FICC will: (i) increase the clearing fund calculation of the repo dealer and allow margining with respect to replacement collateral based on applicable generic CUSIP numbers only;<sup>8</sup> and (ii) impose mark-to-market consequences on both the repo dealer and the reverse dealer with respect to unknown replacement collateral.

*A. Clearing Fund Calculation and Permissible Margin Offsets.* With respect to the calculation of the repo dealer's clearing fund requirement, FICC will assign a value to a repo transaction where FICC has not received information regarding the replacement collateral, which value will be 150 percent of the contract value of the original securities collateral.<sup>9</sup> FICC will also apply the highest applicable margin factor in its rules in connection with the repo transaction. In GSD's rules, the highest margin factor is the factor for securities with a remaining maturity of fewer than 30 years. Therefore, if the generic CUSIP number that is assigned to the unknown replacement collateral is the generic CUSIP number for Treasury securities with a remaining maturity of under 30 years, FICC will use the existing margin factor of 1.450 (applicable to category 1 members with positions in non-zeros).<sup>10</sup>

The proposed risk management measures applicable to non-timely allocation of replacement collateral will further affect the clearing fund calculation of the repo dealer by limiting permissible offsets. A regular part of the GSD's margining system is to permit offsets between resulting margin amounts of long and short net settlement positions. The GSD's rules contain disallowance factor tables that set forth specific limits on these permissible offsets. For example, where a short net settlement position in Treasury Offset Class A is to be offset

<sup>8</sup> Generic CUSIP numbers represent the range of permissible securities that can constitute the replacement collateral. For example, there is a generic CUSIP number which represents Treasury securities with remaining maturity of fewer than thirty years.

<sup>9</sup> New subsection 3(f) has been proposed to be added to Rule 18 in order to effect this change. It should be noted that the application of the 150 percent for clearing fund purposes applies to both the receive/deliver and repo volatility components of the clearing fund calculation.

<sup>10</sup> The GSD's margin factor schedules apply different margin factors to category 1 and category 2 dealers. In this example, if the member were a category 2 member electing not to receive credit forward mark adjustment payments, the applicable margin factor under the proposed rule change would be 1.5.

against a long net settlement position in Treasury Offset Class B, the applicable disallowance factor table rules provides that 20 percent of this offset will be disallowed. For offset purposes under the proposed rule change, FICC will define two new offset classes to capture the generic CUSIP numbers that can be assigned to unknown replacement collateral. These new offset classes will be identified as "H" for Treasury securities and "h" for non-mortgage-backed Agency securities. Under the proposed rule change, as a further risk management measure, FICC will not permit offsets: (i) Between Offset Classes H and h or (ii) between Offset Classes H or h on the one hand and other existing GSD Offset Classes on the other.

**B. Modified Mark-to-Market Calculation.** FICC also believes that a prudent risk management measure in the case where a generic CUSIP number is used for underlying collateral will be to calculate a modified mark-to-market obligation with respect to the replacement collateral and to impose this on both the repo dealer and the reverse repo dealer. In a typical scenario where the replacement collateral is identified, FICC reverses any previous mark-to-market calculation for the old collateral and recalculates, collects, and passes through a mark-to-market associated with the actual replacement collateral. This computation is defined as the Forward Mark Adjustment Payment.<sup>11</sup> In the scenario where the replacement collateral has not been identified, FICC will calculate a modified Forward Mark Adjustment Payment to protect FICC against market risk. Specifically, the definition of Forward Mark Adjustment Payment will be amended by noting that, with respect to a repo transaction for which a substitution request has been made but for which replacement collateral information has not been provided to FICC, a new Forward Unallocated Sub Mark will be applied. This new mark will take into account repo interest that has accrued with respect to the repo transaction to date, as well as changes in the repo rate (to reflect the difference between the contract rate and the market rate for the remaining term of the repo transaction).<sup>12</sup>

<sup>11</sup> The Forward Mark Adjustment Payment is the sum of two components: the Collateral Mark and the Financing Mark. The Collateral Mark is the absolute value of the difference between the trade's contract value and market value. The Financing Mark reflects the financing cost that would be incurred by FICC if it replaced the reverse side of the repo by buying securities and putting them out on repo.

<sup>12</sup> The following new definitions have been proposed to effect this change: Accrued Repo

**C. Technical Changes.** Additionally, FICC proposes changes to its GSD rules relating to repo collateral substitutions and repo transactions generally to make certain technical changes and/or to align the applicable provisions with standard internal or industry practice. These are:

1. Section 3(a) of Rule 18: Delete the requirement that details regarding the rights of substitution match between counterparties. Details regarding rights of substitution are not a required trade reporting item and thus will not be a required match item in GSD's system. References in this respect will be deleted to reflect actual operating practice;

2. Sections 3(e) and 3(f) of Rule 18: Delete the requirement that upon receipt of either the original or the replacement collateral, FICC will promptly redeliver the securities to the appropriate party. As stated in the narrative above, FICC may receive securities that are the subject of a repo collateral substitution request but may not yet have the requisite information for delivery of those securities. These provisions should be deleted to reflect actual operating practice and also to make the rule consistent with the proposed changes;

3. Section 3(h) of Rule 18: Delete the provision regarding implications of repo collateral substitutions on margin and mark-to-market requirements. This provision is redundant because the effects of repo substitutions on such requirements are covered in the rules governing these items and the rules to be modified by the proposed rule change;

4. Section 4 of Rule 18: Make optional a requirement that for general collateral, forward-starting repos, the specific CUSIP and par value be submitted prior to the repo start date. FICC typically does not receive such allocations from its members prior to the repo start date and thus the proposed change will align the rule with industry practice. The proposed change further reflects operating practice as well as industry expectations that a general collateral, forward-starting repo will be removed from the GSD's books if FICC does not receive the specific CUSIP by the time noted in the rule. Members typically submit new transactions with the specific CUSIPs and expect that the general collateral transaction will be removed from the GSD's books.

5. Section 5 of Rule 18: Amend the provision that addresses repo transactions with maturing collateral. The proposed rule change provides that

Interest-to-Date, Repo Interest Rate Differential, and Forward Unallocated Sub Mark.

the repo party in such a repo transaction must make the required substitution of collateral by the time noted in the rule or FICC will remove the transaction from its books. This is because the underlying contract terminates if the collateral is not replaced in time, and therefore, the proposed rule change reflects industry practice. The proposed rule change further reflects industry practice by deleting the requirement that the replacement collateral meet certain specific criteria and replacing that requirement with a requirement that the replacement collateral be "in accordance with the terms of the transaction." This change also reflects industry practice.

FICC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>13</sup> and the rules and regulations thereunder applicable to FICC because it promotes timely processing of participant transactions. As such, FICC believes the proposed rule facilitates the prompt settlement of transactions and assures the safeguarding of securities and funds that are in the custody and 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. 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>13</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-2005-18 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 20549-9303.

All submissions should refer to File Number SR-FICC-2005-18. 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>. 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-2005-18 and should be submitted on or before January 20, 2005.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

Nancy M. Morris,

Secretary.

[FR Doc. E5-8299 Filed 1-4-06; 8:45 am]

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53030; File No. SR-NASD-2005-066]

#### Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Approving Proposed Rule Change and Amendment No. 1 Thereto Relating to Amendments to NASD Rule 3011 and the Adoption of New Related Interpretive Material

December 28, 2005.

#### I. Introduction

On May 23, 2005, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("SEC" or "Commission"), 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> a proposed rule change relating to amendments to NASD Rule 3011 and the adoption of new related interpretive material. The Commission published the proposed rule change for comment in the **Federal Register** on July 6, 2005.<sup>3</sup> The Commission received three comments on the proposal.<sup>4</sup> On December 15, 2005, NASD filed a response to the comment letters,<sup>5</sup> as well as Amendment No. 1 to the proposed rule change.<sup>6</sup> This order

<sup>14</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 51935 (June 29, 2005), 70 FR 38990 (July 6, 2005) (the "Notice").

<sup>4</sup> See letters from Marianne Czernin, Senior VP, Director, Broker/Dealer Client Services, National Regulatory Services to Jonathan G. Katz, Secretary, SEC, dated June 9, 2005 (the "NRS Letter"), from John J. Lynch, Jr., Executive Vice President, Hartfield, Titus & Donnelly, LLC, to Barbara Z. Sweeney, Senior Vice President and Corporate Secretary, NASD, dated July 20, 2005 (the "HTD Letter") and from Alan E. Sorcher, Vice President and Associate General Counsel, Securities Industry Association ("SIA"), to Jonathan B. Katz, Secretary, SEC, dated July 27, 2005 (the "SIA Letter").

<sup>5</sup> See letter from Brant K. Brown, Counsel, NASD, to Lourdes Gonzalez, Assistant Chief Counsel, Division of Market Regulation, dated December 15, 2005 (the "NASD Response").

<sup>6</sup> Amendment No. 1 clarified the conditions set forth in proposed IM-3011-1(c)(3). See footnote 9 and accompanying text.

approves the proposed rule change, as amended.

#### II. Description of the Proposed Rule Change

Financial institutions, including broker-dealers, must develop and implement anti-money laundering ("AML") programs pursuant to the Bank Secrecy Act,<sup>7</sup> as amended by Section 352 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001 ("PATRIOT Act").<sup>8</sup> Consistent with Treasury regulation 31 CFR 103.120 under the Bank Secrecy Act, NASD Rule 3011 requires that each member develop and implement a written AML program and specifies the minimum requirements for those programs.

##### *Independent Testing*

One of the AML program requirements is that firms independently test their AML programs. Testing allows a member to review and assess the adequacy of the firm's AML program and the firm's degree of compliance with its written procedures. Test results alert members to any deficiencies in their AML programs, thereby allowing them to take appropriate corrective action or disciplinary action as the situation may warrant. The independent test report also is an important tool for regulators during their examinations of firms for AML compliance to, among other things, ensure that the firms are following up with corrective action when such tests discover AML program deficiencies.

##### *Frequency of Testing*

Neither the Bank Secrecy Act nor NASD Rule 3011 currently specifies the frequency of independent testing, and members have asked NASD for guidance on this issue. Given the important role that testing plays in a firm ensuring that its AML program is effective in preventing money laundering activities from occurring at or through the firm and, in order to assure that member AML programs are serving their regulatory purposes, the proposed rule change would require in most instances that firms test their AML programs at least annually (on a calendar-year basis). Certain firms, however, because of their business models and activities may be able to test on a less frequent basis.

<sup>7</sup> Currency and Foreign Transactions Reporting Act of 1970 (commonly referred to as the Bank Secrecy Act), 12 U.S.C. 1829b, 12 U.S.C. 1951-1959, and 31 U.S.C. 5311-5330.

<sup>8</sup> Pub. L. 107-56, 115 Stat. 272 (2001).