

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70925; File No. SR-FICC-2013-10)

November 22, 2013

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Establish the Minimum Financial Requirements for the Existing Membership Category of Registered Investment Company Netting Members in the Government Securities Division

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that, on November 12, 2013, the Fixed Income Clearing Corporation (“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 purpose of this rule filing is to amend the Rulebook (the “Rules”) of the Government Securities Division (the “GSD”) of FICC to establish the minimum financial requirements for the existing membership category of Registered Investment Company Netting Members (“RICs”)³.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Pursuant to the GSD Rules, the term "Registered Investment Company Netting Member" is an Investment Company (1) that is registered with the Commission, (2) admitted to membership in GSD's Netting System pursuant to the GSD Rules, and (3) whose membership in the Netting System has not been terminated.

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

(i) The purpose of this proposed rule change is to establish financial minimum requirements for RICs. Historically, the GSD has served the “sell-side” community (which primarily consists of entities such as banks and broker-dealers) and excluded RICs, which are key participants in the market served by the GSD. FICC believes the participation of this category as guaranteed service members will contribute to the safety, efficiency, and transparency of the market by allowing FICC to capture a greater part of the activity of its existing members and by introducing activity of current non-members to FICC. FICC also believes that RICs will benefit from the GSD netting service and the associated operational efficiencies of a central counterparty service. Currently, RICs are already a permitted category in the GSD Rules, however, the proposed rule change establishes their minimum financial requirements.⁴ Specifically, Rule 2A (“Initial Membership Requirements”) of the GSD Rules will provide that the minimum financial requirement for RICs will be \$100 million in net asset value. The rules have also been revised to state that the GSD will make its services available to

⁴ The membership requirements for RICs will be the same as those proposed for the central counterparty service of the Mortgage-Backed Securities Division.

Persons⁵ in other categories as FICC may determine, subject to the approval of the Commission. This disclosure is also reflected in the Clearing Rules of the Mortgage-Backed Securities Division (“MBSD”).

Currently, GSD Rule 3, “Ongoing Membership Requirements,” permits GSD to assess a premium against a netting member whose Clearing Fund requirement exceeds its specified regulatory capital figure.⁶ This premium will now include RICs because they will be netting members.

The concept of a “Tier One Netting Member” and a “Tier Two Netting Member” was introduced to the GSD Rules by rule filing SR-FICC-2010-09.⁷ Tier One Netting Members will be subject to potential loss mutualization, whereas Tier Two Netting Members will not be subject to loss mutualization due to a legal prohibition. Under the present rule filing, the registered investment company members will be Tier Two Netting Members because they are not permitted by law to mutualize loss.

⁵ Pursuant to the GSD Rules, the term "Person" means a partnership, Corporation, limited liability corporation or other organization, entity, or individual.

⁶ By way of example, under the current GSD Rules, if a member has a Clearing Fund requirement of \$11.4 million and excess net capital of \$10 million, its “ratio” is 1.14 (or 114 percent), and the applicable collateral premium would be 114 percent of \$1.4 million (which is equal to the amount by which the member’s Clearing Fund requirement exceeds its excess net capital), or \$1,596,000. The current GSD Rules provide that FICC has the right to: (i) apply a lesser collateral premium (including no premium) based on specific circumstances (such as a member being subject to an unexpected haircut or capital charge that does not fundamentally change its risk profile), and (ii) return all or a portion of the collateral premium amount if it believes that the member’s risk profile does not require the maintenance of that amount.

⁷ Tier One Members include banks, dealers, futures commission merchants, government securities issuers and registered clearing agencies and Tier Two Members include RICs. See Securities Exchange Act Release No. 34-63986 (Feb. 28, 2011), 76 FR 12144 (Mar. 4, 2011).

In rule filing SR-FICC-2010-09, FICC also introduced an amended loss allocation methodology whereby any loss allocation is first made against the retained earnings of FICC attributable to the GSD (after application of the defaulting member's Clearing Fund, funds-only settlement amounts and any other collateral on deposit with the GSD and any funds from any cross-margining or cross-guaranty agreements), in an amount up to 25 percent of FICC's retained earnings or such higher amount as may be approved by the Board of Directors of FICC. If a loss still remains, the GSD will divide the loss between the Tier One Netting Members and the Tier Two Netting Members. Tier One Netting Members will be allocated the loss applicable to them first by assessing the Clearing Fund deposit of each such member in the amount of up to \$50,000, equally. If a loss remains, Tier One Netting Members will be assessed ratably, in accordance with the respective amounts of their Required Fund Deposits, based on the average daily amount of the member's Required Fund Deposit over the prior twelve months. Applicable Tier Two Netting Members will be assigned the Tier Two loss amount using a loss allocation methodology which does not provide for loss mutualization and is based on the activity that the Tier Two Netting Member conducted with the defaulting member.⁸ As stated above, the RICs will be treated as Tier Two Netting Members under the present proposal.⁹

It should be noted that RICs will not be permitted to utilize the GCF Repo® service.

(ii) Statutory Basis

The present filing is consistent with the requirements of the Section 17A(b)(3)(F) of the Act, as amended, and the rules and regulations thereunder applicable to FICC because the proposed rule change (1) establishes a statutory category which is consistent with Rule

⁸ Please refer to Rule 4 Section 7 for the rules which pertain to the satisfaction of any loss incurred by FICC as a result of the failure of a defaulting member to fulfill its obligations to FICC.

⁹ The MBSB has the same loss allocation methodology.

17A(b)(3)(B) of the Securities Exchange Act of 1934 and thus prohibits the unfair discrimination in the admission of RICs, (2) permits the participation of RICs, thereby providing these firms with the benefits of central counterparty service, and (3) allows FICC to capture a greater market share of the activity of its existing members and non-members thus promoting the prompt and accurate clearance and settlement of securities transactions.

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

Establishing minimum financial requirements for RICs and giving such entities the opportunity to join GSD is consistent with the Rule 17A(b)(3)(B) of the Securities Exchange Act of 1934. This Rule requires clearing agencies to provide access to its services for certain enumerated statutory categories and RICs are reflected as one of the statutory categories. Furthermore, subject to the Commission's approval of this rule filing, RICs will be subject to the same initial membership requirements and ongoing membership requirements as other GSD members. As a result, 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 changes have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

D. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

- (e) Not applicable.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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 or disapprove the 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

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or
- Send an e-mail to rule-comment@sec.gov. Please include File Number SR-FICC-2013-10 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File Number SR-FICC- 2013-10. 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 of submission. The Commission will post all comments on the Commission's Internet website (<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 website viewing and printing in the Commission's Public Reference Room Section located at 100 F Street, NE, Washington DC 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FICC and on FICC's website at

http://www.dtcc.com/downloads/legal/rule_filings/2013/ficc/SR_FICC_2013_10.pdf.

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-2013-10 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Kevin M. O'Neill
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).