

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71091; File No. SR-FICC-2013-09)

December 17, 2013

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Make the U.S. Department of the Treasury's Floating Rate Notes Eligible for Netting Service and GCF Repo® at FICC's Government Securities Division

I. Introduction

On October 28, 2013, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2013-09 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on November 14, 2013.³ The Commission received no comment letters. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

The purpose of this proposed rule change is to make the U.S. Department of the Treasury ("Treasury Department") floating rate notes eligible for the netting service and GCF Repo® service at the GSD. Last year, the Treasury Department announced its plan to issue Treasury notes with a floating rate coupon ("Floating Rate Notes"). The Floating Rate Notes will be the first new product issued by the U.S. Treasury since the Treasury Inflation-Protected Securities ("TIPS") were introduced in 1997. The Treasury Department anticipates that the first auction of

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 70831 (Nov. 7, 2013), 78 FR 68496 (Nov. 14, 2013) (SR-FICC-2013-09).

Floating Rate Notes will occur in January 2014.⁴ FICC's Government Securities Division ("GSD") is planning to make Floating Rate Notes eligible for its netting service starting with the January 2014 auction of the two-year Floating Rate Notes (other maturities will be issued later).

With respect to the GCF Repo® service, Floating Rate Notes will be included in GSD's existing Treasury Generic CUSIP Numbers.⁵ However, because of their adjustable coupon, Floating Rate Notes will not be eligible for collateral allocation obligations or substitutions with respect to the GCF Repo® Generic CUSIPs representing TIPS, separate trading of registered interest and principal securities ("STRIPS"), or fixed-rate mortgage-backed securities issued by Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and Government National Mortgage Association ("Ginnie Mae"). As a result, GSD Rule 20, Section 3, has been revised to reflect this change.

In order for GSD to process Floating Rate Notes, various enhancements to FICC's systems and member output have been made in the following areas:

- Creation and maintenance of a historical database of reference indices. This data is necessary for determining coupon, which is used in valuing positions for settlement purposes and for forward margin and clearing fund calculations.
- Modification of the security database in order for it to work in conjunction with the floating rate, reset date, reset rate basis, and spread.

⁴ See Press Release, U.S. Department of the Treasury *August 2013 Quarterly Refunding Statement of Assistant Secretary Rutherford* (Jul. 31, 2013), available at www.treasury.gov.

⁵ Pursuant to Rule 1 of the GSD Rulebook, ("Definitions"), the term "Generic CUSIP Number" means a Committee on Uniform Securities Identification Procedures identifying number established for a category of securities, as opposed to a specific security. Rule 1 also requires GSD to use separate Generic CUSIP Numbers for General Collateral Repo Transactions and GCF Repo Transactions.

- Modifications to member output formats for both messaging and end of day machine readable output in order to accommodate the additional fields.

GSD will test FICC's enhanced systems with its membership before the launch of the Floating Rate Notes. This will ensure that members can properly submit and receive transaction data in connection with the Floating Rate Notes. GSD has issued several Important Notices to members about GSD's proposed processing of the Floating Rate Notes and will continue to do so prior to making Floating Rate Notes eligible for processing.⁶

III. Discussion

Section 19(b)(2)(C) of the Act⁷ directs the Commission to approve a self-regulatory organization's proposed rule change if the Commission 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 Act⁸ requires, among other things, that the rules of a clearing agency registered with the Commission be designed to promote the prompt and accurate clearance and settlement of securities transactions and protect investors and the public interest.

The Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁹ because it allows FICC to provide clearance and settlement services for Floating Rate Notes, as newly issued government securities, which should in turn reduce the

⁶ GSD issued Important Notice GOV012.13 on February 23, 2013 and Important Notice GOV056.13 on August 19, 2013. Both Important Notices provide members with data output guidelines and trade messaging changes. The notices are available at www.dtcc.com.

⁷ 15 U.S.C. 78s(b)(2)(C).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ *Id.*

risks associated with the trading, clearing, and settling of such securities by FICC members. In so doing, FICC should facilitate the prompt and accurate clearance and settlement of securities transactions in Floating Rate Notes. Moreover, FICC's rule change should help protect investors and the public interest by allowing the market to benefit from the risk reducing measures provided by clearing and settling Floating Rate Notes at FICC.

IV. Conclusion

On the basis of the foregoing, the Commission concludes that the proposal is consistent with the requirements of the Act, particularly the requirements of Section 17A of the Act,¹⁰ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (File No. SR-FICC-2013-09) be and hereby is APPROVED.¹²

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹³

Kevin M. O'Neill
Deputy Secretary

¹⁰ 15 U.S.C. 78q-1.

¹¹ 15 U.S.C. 78s(b)(2).

¹² In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹³ 17 CFR 200.30-3(a)(12).