

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-65479; File No. SR-FICC-2011-06)

October 4, 2011

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Eliminate Two Rules of the Mortgage-Backed Securities Division That FICC Believes Are No Longer Utilized or Necessary

I. Introduction

On August 17, 2011, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-FICC-2011-06 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> The proposed rule change was published for comment in the Federal Register on August 31, 2011.<sup>3</sup> The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

This rule change will eliminate two Mortgage-Backed Securities Division (“MBSD”) rules which FICC believes are no longer utilized or necessary. The first rule that will be eliminated is Article II, Rule 1, Section 3, which was put in place to stem certain abuses of cash adjustments taking place in the mid to late 1990s (specifically, traders were manipulating pricing on their submission of trades in order to maximize their cash adjustments). Because cash

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

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

<sup>3</sup> Securities Exchange Act Release No. 34-65198 (August 25, 2011), 76 FR 54268 (August 31, 2011).

adjustments were deleted from the rules via the approved rule filing FICC 2010-08,<sup>4</sup> FICC believes the rule imposing trade restrictions between accounts is no longer necessary.

The second rule that will be eliminated relates to the “match modes” currently referenced in the MBSD rules. Currently, the rules provide that dealers may elect to have the comparison of their transactions governed in either “Exact Match Mode” or “Net Position Match Mode.” In Exact Match Mode, trade input that matches in all other respects will be compared only if the par amount of the eligible securities reported to have been sold or purchased by the dealer for a particular transaction is identical to the par amount for a particular transaction reported by the broker. In a Net Position Match Mode, trade input that matches in all other respects will be compared only if the aggregate par amount for one or more transactions in eligible securities reported to have been sold or purchased by the dealer equals the aggregate par amount for one or more transactions reported by the broker. Currently, no participants have elected to have their transactions governed in Exact Match Mode. FICC believes there is no need to provide participants with a choice of match mode because MBSD’s system already attempts to find an exact match for trade input and, only if an exact match is not found, will the system revert to Net Position Match Mode. This change will require the deletion of subpart (a) of Article II, Rule 3, Section 4 and conforming changes to the definitions (in Article I) and in Article II, Rule 3, Sections 3 and 4 to reflect that Net Position Match Mode will be the only available match mode.

Given that FICC believes these rules have no utility for MBSD’s participants, MBSD proposed to eliminate these rules. FICC believes elimination of these rules will also promote efficiency. MBSD is currently undertaking a rewrite of its internal software applications and operating systems to promote efficiency and streamline its operations. Approval of the

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<sup>4</sup> See Securities Exchange Act Release No. 34-63611 (December 28, 2010), 76 FR 408 (January 4, 2011) (SR-FICC-2010-08).

elimination of these rules will allow MBSD to avoid writing unnecessary coding during the rewrite process.

### III. Discussion

Section 17A(b)(3)(F) of the Act<sup>5</sup> requires, among other things, that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. The Commission believes that because the proposed rule change removes outdated rules that no longer have utility for participants and conserves resources by avoiding the writing of unnecessary code during MBSD's software rewrite process, it is consistent with the requirements of Section 17A(b)(3)(F) of the Act.

### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>6</sup> and the rules and regulations thereunder.

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

<sup>6</sup> 15 U.S.C. 78q-1

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>7</sup> that the proposed rule change (File No. SR-FICC-2011-06) be, and hereby is, approved.<sup>8</sup>

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

Elizabeth M. Murphy  
Secretary

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<sup>7</sup> 15 U.S.C. 78s(b)(2).

<sup>8</sup> 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).

<sup>9</sup> 17 CFR 200.30-3(a)(12).