

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72396; File No. SR-FICC-2014-04)

June 16, 2014

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Remove References to New York Portfolio Clearing, LLC in the Rules of the Government Securities Division and in the Cross-margining Agreement with the Chicago Mercantile Exchange

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> notice is hereby given that on June 9, 2014, 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 the clearing agency. FICC filed the proposal pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder<sup>4</sup> so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of amendments to the Government Securities Division (“GSD”) Rulebook (the “GSD Rules”) to remove references to New York Portfolio Clearing, LLC (“NYPC”) and the cross-margining arrangement between NYPC and FICC (the “NYPC Arrangement”) from the GSD Rules, as the NYPC Arrangement is no longer in effect.

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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> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4).

II. Clearing Agency'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) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(i) The purpose of this filing is to remove references to NYPC and the NYPC Arrangement from the GSD Rules, as the NYPC Arrangement is no longer in effect.

Background

On February 28, 2011, the Commission approved FICC's proposed rule change SR-FICC-2010-09 in order to allow FICC to offer cross-margining of certain cash positions cleared at GSD with certain interest rate futures positions cleared at NYPC and allow margin requirements with respect to such eligible cash and futures positions to be calculated as a single portfolio (the "NYPC Order").<sup>5</sup>

NYPC is jointly owned by NYSE Euronext ("NYSE") and The Depository Trust & Clearing Corporation ("DTCC"), the parent company of FICC. On November 13, 2013, Intercontinental Exchange Group ("ICE") completed its acquisition of NYSE.<sup>6</sup> On

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<sup>5</sup> See Securities Exchange Act Release No. 63986 (Feb. 28, 2011), 76 FR 12144 (Mar. 4, 2011) (SR-FICC-2010-09).

<sup>6</sup> See IntercontinentalExchange. (2013). "IntercontinentalExchange Completes Acquisition of NYSE Euronext" [Press release]. Retrieved from <http://www.nyse.com/press/1385726419589.html>.

November 29, 2013, ICE and DTCC announced plans to transition the clearing of interest rate futures contracts listed on NYSE Liffe U.S. to ICE Clear Europe and to wind down NYPC's operations.<sup>7</sup>

Now that the migration of open interest in NYSE Liffe U.S. interest rate futures contracts from NYPC to ICE Clear Europe has been completed, the cross-margining agreement between FICC and NYPC (the "NYPC Agreement") will be terminated and all references to NYPC and the NYPC Arrangement will be removed from the GSD Rules to reflect this change. In addition, FICC will no longer be providing the Commission with the reports enumerated in Section IV.D of the NYPC Order in light of the termination of the NYPC Arrangement.

#### Removal of References to NYPC and the NYPC Arrangement

FICC is proposing to amend the GSD Rules as follows:

In Rule 1 – "Definitions", the following definitions have been revised or deleted:

The term "Cross-Margining Agreement" is revised to remove the provision permitting an eligible GSD Member to elect to have its Required Fund Deposit in respect of Eligible Positions at FICC and its (or its Permitted Margin Affiliate's, if applicable) margin requirements in respect of Eligible Positions at an FCO calculated as if such positions were in a single portfolio, as such provision relates only to the NYPC Arrangement.

The term "FCO" is revised to remove the reference to NYPC.

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<sup>7</sup> See NYSE. (2013). "IntercontinentalExchange Group and DTCC Announce Plans for Interest Rate Futures Listed on NYSE Liffe U.S." [Press release]. Retrieved from <http://www.nyse.com/press/1385726419589.html>.

The term “Margin Portfolio” is revised to remove the reference to NYPC Accounts.

The term “Market Professional Agreement for Cross-Margining” is revised to replace the reference to NYPC with a reference to the relevant FCO with whom FICC may, in the future, enter into a cross-margining arrangement for Market Professional customers.

The term “NYPC” is removed.

The term “NYPC Account” is removed.

The term “NYPC Market Professional Account” is removed.

The term “NYPC Member” is removed.

The term “NYPC Original Margin” is removed.

The term “NYPC Proprietary Account” is removed.

The term “NYPC-Submitted Trade” is removed.

The term “Permitted Margin Affiliate” is revised to remove the provision allowing an affiliate of a GSD Member that is a member of an FCO, but not itself a GSD Member, to be considered a Permitted Margin Affiliate for purposing of margining positions between FICC and the FCO as if such positions were in a single portfolio, as such provision relates only to the NYPC Arrangement.

The term “VaR Charge” is revised to remove language relating to any positions in a GSD Member’s NYPC Accounts being grouped into a Margin Portfolio.

In Rule 3 – “Ongoing Membership Requirements”, the reference to NYPC acting as a designated Locked-In Trade Source is removed from Section 11 and related conforming changes to the numbering of Section 11 are made.

In Rule 4 – “Clearing Fund and Loss Allocation”, Sections 1a and 1b are revised to remove language related to designated NYPC Accounts being considered part of a GSD Member’s Margin Portfolio. Sections 2, 3 and 3b are revised to remove language related to NYPC Original Margin in connection with provisions pertaining to the required form of a GSD Member’s Required Fund Deposit. The provision of Section 7(a) pertaining to loss allocation if a Margin Portfolio of a Defaulting Member contains NYPC Accounts is removed and related conforming changes to the numbering of Section 7(a) are made.

In Rule 6C – “Locked-In Comparison”, Sections 2, 2a, 4 and 8 are revised to remove references to NYPC acting as a designated Locked-In Trade Source, as well as references to NYPC-Submitted Trades.

In Rule 13 – “Funds-Only Settlement”, Section 5a pertaining to Funds-Only Settlement Bank arrangements for GSD Members that are also NYPC Members or that have Permitted Margin Affiliates that are NYPC Members is removed.

In Rule 22 – “Insolvency of a Member”, the reference in Section 2(d) to a Permitted Margin Affiliate defaulting on its obligations to an FCO with which FICC has a Cross-Margining Agreement is removed, as such provision of the Permitted Margin Affiliate definition relates only to the NYPC Arrangement as described above. Similarly, the reference in Section 2(e) to a Cross-Margining Affiliate defaulting on its obligations to FICC is removed.

In Rule 22A – “Procedures for When the Corporation Ceases to Act”, language in Section 2(b) is removed that relates to close-out procedures for a GSD Member that has NYPC Accounts included within a Margin Portfolio.

In Rule 43 – “Cross-Margining Arrangements”, the first paragraph of Section 1 is revised to remove the provision permitting an eligible GSD Member to elect to have its Required Fund Deposit in respect of Eligible Positions at FICC and its (or its Permitted Margin Affiliate’s, if applicable) margin requirements in respect of Eligible Positions at an FCO calculated as if such positions were in a single portfolio, as such provision relates only to the NYPC Arrangement. The third paragraph of Section 1 is removed, as it relates to the right of first offset between NYPC and FICC vis a vis Cross-Margining Arrangements with other FCOs. In Section 2(b), the provision permitting an affiliate of an eligible GSD Member to become a Permitted Margin Affiliate for purposes of participating in a Cross-Margining Arrangement is removed, as such language relates only to the NYPC Arrangement. Similarly, in Section 4, the provision permitting, in certain circumstances, an eligible GSD Member that is a Cross-Margining Participant in a Cross-Margining Arrangement between FICC and one or more FCOs to be treated as insolvent by FICC in the event that its Permitted Margin Affiliate is deemed insolvent by an FCO is removed, as such language relates only to the NYPC Arrangement.

In the “Schedule of Timeframes”, references to computation of NYPC margin and reports related to NYPC margin requirements are removed.

In the “Designated Locked-In Trade Sources” schedule, NYPC is removed as a designated Locked-In Trade Source.

In the “Cross-Margining Agreements” schedule, the NYPC Agreement is removed.

### Removal of the NYPC Agreement

FICC is proposing to remove the NYPC Agreement from the GSD Rules, as the NYPC Agreement is no longer in effect.

### Amendment of CME Agreement

Removal of the references to NYPC and the NYPC Arrangement from the GSD Rules will necessitate certain amendments to the agreement between the Chicago Mercantile Exchange (“CME”) and FICC (the “CME Agreement”) regarding the cross-margining arrangement currently conducted between CME and FICC (the “CME Arrangement”). Specifically, the CME Agreement will be amended to delete references to the NYPC Arrangement and the priority it held over the CME Arrangement when determining residual FICC positions that are available for cross-margining with the CME, as well as the right of first offset between NYPC and FICC when calculating and presenting liquidation results under the CME Agreement. The CME Agreement showing the proposed changes is attached hereto as part of Exhibit 5.

(ii) The proposed rule is consistent with Section 17A(b)(3)(F)<sup>8</sup> of the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder because it will make certain rule corrections that will support the prompt and accurate clearance and settlement of securities transactions in that such rule corrections will remove references in the GSD Rules to a cross-margining arrangement that is no longer in effect.

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<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

(B) Clearing Agency'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 because it relates to the removal of references in the GSD Rules to a cross-margining arrangement that is no longer in effect.

(C) Clearing Agency'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 yet 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2014-04 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2014-04. 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 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, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of FICC. 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-2014-04 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.<sup>9</sup>

Kevin M. O'Neill  
Deputy Secretary

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