

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63611; File No. SR-FICC-2010-08)

December 28, 2010

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Eliminate Certain Cash Adjustments Currently Processed by the MBSD

I. Introduction

On October 28, 2010, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-FICC-2010-08 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ The proposed rule change was published for comment in the Federal Register on November 17, 2010.² No comment letters were received on the proposal. This order approves the proposal.

II. Description

FICC is eliminating the cash adjustments that are currently processed by the Mortgage-Backed Securities Division (“MBSD”) of FICC because they have low monetary impact and the clearance event (“significant variance”) they were originally designed to address no longer applies.³ Variance was originally established when mortgage-backed securities were physically settled and it was difficult to organize physical pools into \$1 million par amounts for delivery.

As a result of the netting of To Be Announced (“TBA”) transactions, a participant may have a settlement obligation to another participant with which it did not trade (“SBON Obligations”). SBON Obligations are created in multiples of \$1 million par amounts and are assigned a uniform delivery price. Since the delivery price will differ from the participant’s

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 63301 (November 17, 2010), 75 FR 70328.

³ The specific language of the proposed provision can be found at http://www.dtcc.com/downloads/legal/rule_filings/2010/ficc/2010-08.pdf.

original trade price, an adjustment is calculated for the difference between the delivery price and the trade price. This adjustment is referred to as the Settlement Balance Order Market Differential (“SBOMD”).

Participants notify the MBSD when they have settled their SBON Obligations with their assigned counterparties through the Notification of Settlement (“NOS”) process. From the information supplied by both the delivering and receiving participants in their respective NOS, the MBSD determines whether the securities delivered were in \$1 million par amounts or in a par amount within acceptable variance (plus or minus \$100 per million). In instances where the delivery was completed in \$1 million par amounts, the MBSD takes no additional steps.

Currently, if the delivery was cleared for a par amount within acceptable variance, the MBSD will calculate a cash adjustment to reconcile the difference between the original SBOMD (based on a \$1 million par amount) and what the SBOMD should have been (based on the par amount delivered). As mortgage-backed securities migrated from physical to electronic settlement, acceptable variance has been reduced from an initial \$50,000 per million to the current amount of \$100 per million. MBSD is eliminating this cash adjustment process.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act⁴ and the rules and regulations thereunder applicable to FICC.⁵ In particular, the Commission believes that by deleting a rule that covers a process that is no longer needed, FICC is providing its members with certainty and clarity of the clearance process to its members. The

⁴ 15 U.S.C. 78q-1.

⁵ In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

proposal is therefore consistent with the requirements of Section 17A(b)(3)(F),⁶ which requires, among other things, that the rules of a clearing agency are designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

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 Act⁷ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (File No. SR-FICC-2010-08) be, and hereby is, approved.

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

Florence E. Harmon
Deputy Secretary

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).