

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73391; File No. SR-FICC-2014-07)

October 20, 2014

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend the Clearing Rules of the Mortgage-Backed Securities Division to Establish a Membership Category and Minimum Financial Requirements for Insured Credit Unions

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 October 15, 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 FICC. 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 purpose of this filing is to amend the Clearing Rules (the “Rules”) of the Mortgage-Backed Securities Division (“MBSD”) of FICC in order to establish a membership category and financial minimum requirements for insured credit unions.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-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

(1) Purpose

The purpose of this proposed rule change is to establish a membership category and minimum financial requirements for “insured credit unions” as such term is defined in the Federal Credit Union Act (“FCUA”).³ The FCUA defines “insured credit unions” to mean “any credit union the member accounts of which are insured in accordance with Title II of [FCUA]”.⁴ Because Title II of the FCUA requires all credit unions that are chartered by the National Credit Union Administration⁵ (“federal credit unions”) to have insured accounts, the term “insured credit union” includes all insured federal credit unions. Because Title II of the FCUA permits the NCUA Board to insure (i) State credit unions and (ii) credit unions operating under the jurisdiction of the Department of

³ Federal Credit Union Act, 12 U.S.C. 1752(7)(2013).

⁴ 12 U.S.C. 1752(7).

⁵ The National Credit Union Administration (NCUA) is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. Government, NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of more than 95 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. See www.ncua.gov

Defense (“Defense Credit Unions”), as long as such credit unions comply with FCUA and implementing NCUA regulations, the term “insured credit unions” also includes both federally-insured State credit unions and federally-insured Defense Credit Unions. It should be noted, however, that the proposed category for “insured credit unions” does not encompass credit unions whose accounts have private or other types of non-federal insurance. As a result, any such credit unions will not be permitted to join MBSD.

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 insured credit unions will benefit from the MBSD clearing service and the associated operational efficiencies of a central counterparty service.

Specifically, this filing proposes to revise MBSD Rule 2A (“Initial Membership Requirements”) to include a category for insured credit unions that are in good standing with their primary regulators and to establish minimum financial requirements for such category. Such applicants will be required to have a level of equity capital as of the end of the month prior to the effective date of their membership of at least \$100 million and achieve the “well capitalized” statutory net worth category classification defined by the NCUA under 12 CFR Part 702.

In addition to meeting the required financial resources and creditworthiness requirements (which are based on entity type, the types of services the applicant will use and the type of accounting principles used to prepare their audited financial statements), applicants in this new category will have to demonstrate that (1) they have an established

profitable business history of a minimum of 6 months or personnel with sufficient operational background and business experience for the firm to conduct its business and to be a member (as is required of all other membership categories) and (2) they are able to satisfactorily communicate with FICC, fulfill anticipated commitments to and meet the operational requirements of FICC with necessary promptness and accuracy, and conform to any condition and requirement that FICC reasonably deems necessary for its protection or that of its Members.⁶

The proposed changes to MBS Rule 2A provide that insured credit unions will be designated as “Tier One Clearing Members” for loss allocation purposes.⁷

(2) Statutory Basis

The present filing is consistent with the requirements of Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder applicable to FICC because the proposed rule change permits the participation of insured credit unions, thereby providing these firms with the benefits of the central counterparty service, which includes, among other things, trade comparison, to-be-announced netting, electronic pool notification allocation, pool comparison, pool netting, settlement, and risk management for eligible securities. In addition, this proposal 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. Under the proposed rule change, existing members will be able to submit their eligible trading activity with entities in the proposed membership category to MBS

⁶ MBS Rule 2A Section 2, Mortgage-Backed Securities Division Clearing Rules.

⁷ MBS Rule 4 Section 7, Mortgage-Backed Securities Division Clearing Rules.

and thereby obtain the benefits of the central counterparty service for such trading activity.

(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.

(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 changes 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

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 such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

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. Please include File Number SR-FICC-2014-07 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-2014-07. 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 20549-1090 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 and on FICC's website:

<http://www.dtcc.com/~media/Files/Downloads/legal/rule-filings/2014/ficc/SR-FICC-2014-07.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-2014-07 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.⁸

Kevin M. O'Neill
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).