

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73735; File No. SR-FICC-2014-07)

December 4, 2014

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving 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

I. Introduction

On October 15, 2014, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-FICC-2014-07 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 October 24, 2014.³ The Commission received no comment letters in response to the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

Pursuant to this filing, FICC proposed to amend the clearing rules of the Mortgage-Backed Securities Division (“MBSD”) of FICC in order 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”).⁴ Specifically, FICC

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 73391 (October 20, 2014), 79 FR 63657 (October 24, 2014) (SR-FICC-2014-07).

⁴ The FCUA defines “Insured credit unions” as “any credit union the member accounts of which are insured in accordance with the provisions of Title II of [FCUA]...” According to FICC, the term “insured credit union” includes all

proposed to revise MBSD Rule 2A, Section 1, to create a membership category for insured credit unions that are in good standing with their primary regulators (“Insured Credit Union Clearing Member”). For loss allocation purposes, Insured Credit Union Clearing Members would be designated as “Tier One Clearing Members” in accordance with MBSD Rule 4, Section 7. In addition, FICC has proposed to add a provision to MBSD Rule 2A, Section 2, which would require an applicant applying to become an Insured Credit Union Clearing Member 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 National Credit Union Administration (“NCUA”) under 12 CFR Part 702.

Insured credit unions applying for membership under this new category would be required to meet all other applicable financial, credit, and operational membership qualifications and standards for clearing members that are contained in MBSD Rule 2A, Section 2. In particular, such applicants would have to demonstrate 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). Insured credit unions seeking membership would have to demonstrate an ability to communicate with FICC,

credit unions chartered by the National Credit Union Administration (“NCUA”), the independent federal agency that regulates charters and supervises federal credit unions, because Title II of the FCUA requires all credit unions that are chartered by the NCUA to have insured accounts. Furthermore, FICC has stated that the term “insured credit unions” also includes both federally-insured state credit unions and federally-insured credit unions operating under the jurisdiction of the Department of Defense because Title II of the FCUA permits the NCUA Board to insure those types of credit unions.

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.

FICC believes the participation of insured credit unions 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.

III. Discussion

Section 19(b)(2)(C) of the Act⁵ 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 Act⁶ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions.

The Commission finds that, as proposed, FICC's rule change to establish a membership category and minimum financial, credit, and operational requirements and standards for insured credit unions, as defined in FICC's proposal, is consistent with

⁵ 15 U.S.C. 78s(b)(2)(C).

⁶ 15 U.S.C. 78q-1(b)(3)(F).

Section 17A(b)(3)(F) of the Act.⁷ The Commission believes that the proposed rule change should promote the prompt and accurate clearance and settlement of securities transactions, because by allowing insured credit unions to participate as MBSB members, these firms will be able to avail themselves of the benefits of central counterparty service including, among other things, trade comparison, to-be-announced netting, electronic pool notification allocation, pool comparison, pool netting, settlement, and risk management for eligible securities. Furthermore, the rule change will also allow existing FICC members to submit eligible trading activity with qualified insured credit unions directly to the MBSB of FICC, thereby also extending the benefits of the central counterparty services to such trading activity.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

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,⁸ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-FICC-2014-07) be and hereby is APPROVED.¹⁰

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Kevin M. O'Neill
Deputy Secretary

⁸ 15 U.S.C. 78q-1.

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 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).

¹¹ 17 CFR 200.30-3(a)(12).