

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-64488; File No. SR-FICC-2011-03]

### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Updating the Range of Haircuts To Be Applied to Eligible Clearing Fund Securities and Eligible Participants Fund Securities

May 13, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on May 10, 2011, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared primarily by FICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The purpose of this filing is to modify the range of haircuts currently applied to Eligible Clearing Fund Securities by FICC's Government Securities Division ("GSD") and Eligible Participants Fund Securities by FICC's Mortgage-Backed Securities Division ("MBSD").

#### II. Self-Regulatory Organization'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 III below. FICC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Under GSD's Rulebook and MBSD's Clearing Rules ("Rules"), GSD Members and MBSD Participants are required to make deposits to the GSD Clearing Fund and MBSD Participants Fund,

respectively, with the amount of each Member's and Participant's required deposit being fixed by FICC in accordance with formulas as specified in the Rules ("Required Deposit").

A GSD Member or MBSD Participant may satisfy its Required Deposit with a cash deposit, and FICC may permit a portion of the Member's or Participant's deposit to be evidenced by an open account indebtedness secured by Eligible Clearing Fund Securities (for the GSD) and Eligible Participants Fund Securities (for the MBSD). Eligible Clearing Fund Securities and Eligible Participants Fund Securities consist of certain Treasury, agency, and mortgage-backed securities. Eligible Clearing Fund Securities and Eligible Participants Fund Securities pledged as Clearing Fund collateral are subject to haircuts.

For reasons set forth in a companion rule filing, FICC's affiliate, the National Securities Clearing Corporation ("NSCC"), has increased haircuts on Clearing Fund collateral.<sup>2</sup> Given that the haircuts are applied to NSCC and FICC systemically and on a harmonized basis, these changes are also proposed to be applied to FICC. Moreover, FICC believes that adjusting FICC's haircuts on Clearing Fund and Participants Fund collateral will ensure that adequate collateral levels are maintained to facilitate settlement in the event of a member or participant default.

Accordingly, FICC proposes to increase the haircut applied to (i) agency notes and bonds from the current range of 2 to 7 percent based on term to a proposed range of 7 to 10 percent based on term, (ii) zero coupon obligations of Agency Securities from the current range of 5 to 12 percent based on term to a proposed 7 to 18 percent based on term, and (iii) mortgage-backed pass-through securities issued by Ginnie Mae from the current 6 percent to a proposed 7 percent.

A complete listing of the haircut schedule and the proposed changes is attached to FICC's proposed rule filing as Exhibit 5 and can be viewed online at [http://www.dtcc.com/legal/rule\\_filings/ficc/2011.php](http://www.dtcc.com/legal/rule_filings/ficc/2011.php).

Subject to approval by the Commission, the proposed haircut changes on Clearing Fund and Participants Fund collateral will become effective on May 16, 2011.

FICC states that the proposed rule change is consistent with the requirements of the Act<sup>3</sup> and the rules and regulations thereunder applicable to

FICC because it facilitates the prompt and accurate clearance and settlement of securities transactions by adjusting FICC's haircuts on Clearing Fund and Participants Fund collateral to ensure adequate collateral levels are maintained to facilitate settlement in the event of a member or participant default.

##### B. Self-Regulatory Organization'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. Self-Regulatory Organization'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 been solicited or received by FICC. FICC will notify the Commission of any written comments it receives.

### III. 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 No. SR-FICC-2011-03 on the subject line.

#### Paper Comments

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

All submissions should refer to File No. SR-FICC-2011-03. 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 Web site (<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

<sup>2</sup> Securities Exchange Act Release No. 64487 (May 13, 2011) (SR-NSCC-2011-02).

<sup>3</sup> 15 U.S.C. 78q-1.

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

those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site 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 a.m. and 3 p.m. Copies of such filings also will be available for inspection and copying at FICC's principal office and on FICC's Web site at [http://www.dtcc.com/legal/rule\\_filings/ficc/2011.php](http://www.dtcc.com/legal/rule_filings/ficc/2011.php). 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 submission should refer to File No. SR-FICC-2011-03 and should be submitted on or before June 9, 2011.

#### IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

Section 19(b) of the Act<sup>4</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. The Commission finds that the proposed rule change is consistent with the requirements of the Act, in particular the requirements of Section 17A of the Act,<sup>5</sup> and the rules and regulations thereunder applicable to FICC. Specifically, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>6</sup> which requires, among other things, that the rules of a registered clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission finds that FICC's rule change is consistent with this requirement because increasing the haircuts that are applied to the securities that FICC's members and participants deposit as Clearing Fund or Participants Fund collateral should help ensure that FICC maintains adequate collateral levels to facilitate settlement in the event of a member or participant default, which should therefore help minimize risk to FICC and its members and participants. Accordingly, the proposed rule change should improve

FICC's ability to assure the safeguarding of securities and funds in its custody or control or for which it is responsible.

FICC has requested that the Commission approve the proposed rule change on an accelerated basis such that it would become effective on May 16, 2011. By granting accelerated approval to the proposed change so that FICC will be able to adjust its haircuts for securities pledged as Clearing Fund or Participants Fund collateral by May 16, 2011, so that it haircuts remain harmonious with those of NSCC. As a result, FICC should be better able to maintain adequate collateral levels to protect itself and its members and participants in the event of a member or participant default. Accordingly, the Commission finds good cause to approve the proposed rule change prior to the 30th day after the date of publication of notice of the proposed rule change in the **Federal Register**.

#### V. Conclusion

It is therefore ordered pursuant to Section 19(b)(2) of the Act<sup>7</sup> that the proposed rule change (SR-FICC-2011-03) be, and it hereby is, approved on an accelerated basis.

For the Commission by the Division of Trading and Markets pursuant to delegated authority.<sup>8</sup>

Cathy H. Ahn,

Deputy Secretary.

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#### SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-64487; File No. SR-NSCC-2011-02)

#### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Updating the Range of Haircuts To Be Applied to Eligible Clearing Fund Securities

May 13, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on May 10, 2011, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared primarily by NSCC. The

Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The purpose of this filing is to modify certain haircuts currently applied to Eligible Clearing Fund Securities.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Under NSCC's Rules and Procedures ("Rules"), Members are required to make deposits to the Clearing Fund with the amount of each Member's required deposit being fixed by NSCC in accordance with one or more formulas ("Required Deposit").<sup>2</sup> A Member may satisfy its Required Deposit with a cash deposit, and NSCC may permit a portion of the Member's deposit (with the exception of the deposit of a Mutual Fund/Insurance Services Member) to be evidenced by an open account indebtedness secured by Eligible Clearing Fund Securities. Eligible Clearing Fund Securities consist of certain Treasury, agency, and mortgage-backed securities.<sup>3</sup> Eligible Clearing Fund Securities pledged as Clearing Fund collateral are subject to haircuts.

The Rules permit NSCC to fund settlement by pledging Clearing Fund deposits as collateral for loans, and NSCC maintains a committed borrowing facility for this purpose. Haircuts imposed on collateral pledged by NSCC under the borrowing facility are being increased by the lending syndicate, and

<sup>2</sup> Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters).

<sup>3</sup> See Rule 1 (Definitions and Descriptions) for applicable definitions including Eligible Clearing Fund Securities, which are Eligible Clearing Fund Treasury Securities, Eligible Clearing Fund Agency Securities, and Eligible Clearing Fund Mortgage-Backed Securities.

<sup>4</sup> 15 U.S.C. 78s(b).

<sup>5</sup> 15 U.S.C. 78q-1. In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> *Id.*

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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