



8011-01p  
SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70232; File No. SR-FICC-2013-08)

August 19, 2013

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change in Connection with the Notification of Settlement Process Used by the Mortgage-Backed Securities Division (“MBSD”)

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 August 9, 2013, the 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. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The purpose of this rule filing is to change the grace period and the processing fee for late reconciliations in connection with the notification of settlement (“NOS”) process.

**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 IV below. FICC has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of such statements.

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

<sup>2</sup> 17 CFR 240.19b-4.

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

*(1) Purpose of the Proposed Rule Change*

The purpose of this rule filing is to change the grace period and the processing fee for late reconciliations in connection with the notification of settlement (“NOS”) process.

MBSD processes settlement-balance order (“SBO”) destined to-be announced (“TBA”) transactions, trade-for-trade (“TFTD”) TBA transactions, TBA option transactions and Specified Pool Trades (“SPTs”). MBSD’s processing of these eligible transactions consists of the trade matching, TBA netting, electronic pool notification allocation, pool comparison, pool netting, settlement versus FICC (in its capacity as central counterparty) or the original settlement counterparty, as applicable, and NOS for those trades that settle outside of FICC.

SPTs and Option trades<sup>3</sup> are only eligible for trade matching and risk management services. With respect to SPTs and other trades that settle outside of FICC<sup>4</sup>, members must settle such obligations and report such settlement by submitting a NOS to FICC.

Currently, the NOS process requires MBSD members to submit such notification on the clearance day.<sup>5</sup> The reconciliation of uncomparing NOS submission must be done

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<sup>3</sup> With respect to option trades, members are required to submit bilateral trade cancellation instructions to RTTM®, even after the underlying options have expired. Failure to receive such instructions from either party to an Option trade will, therefore, result in both counterparties being subject to mark and margin requirements based on non-existing positions.

<sup>4</sup> Other trades that settle outside of MBSD include (1) transactions for which clearing members chose not to submit allocation information into pool netting and (2) certain transactions with an incomplete master file on a pool record or number.

<sup>5</sup> With respect to NOS, the clearance day is the day that the seller delivers the pools to the buyer. The clearance day is generally on or after the contractual settlement day.

within two (2) days of the uncomparing NOS submission. Reconciliation occurs when any of the following actions occur: (a) the counterparty submits corresponding NOS to match the initiator's submission, (b) the counterparty submits a DK<sup>6</sup> notice to the initiator's submission or (c) the initiator deletes its previously submitted NOS that remains uncomparing. Currently, if the initiator or the contrasider, as applicable, elects any of these actions beyond the two (2) day grace period, such member will be subject to a late fee in the amount of \$25.00 per day.

A successful bilateral comparison of NOS by the respective contrasiders ensures that the positions on a member's Open Commitment Report<sup>7</sup> are accurate and up-to-date. Timely submission and matching of NOS to FICC is crucial in order to minimize the risk that MBS over or under margins members as a result of calculating Clearing Fund requirements and mark-to-market values that are based on positions which - unbeknownst to FICC - have actually settled between members. As a result, it is important that members submit the NOS as soon as possible after settlement, and it is equally important that members monitor their counterparties' NOS submissions. In case of a member's insolvency, the timely submission and processing of NOS is also important, given that FICC must quickly and accurately determine which positions are true fails - and therefore need to be liquidated. In an effort to encourage members to submit NOS timely and address uncomparing NOS quickly, FICC is proposing to (1) change the late fee from

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<sup>6</sup> Pursuant to the MBS Rules, "DK" means a statement submitted to the Corporation by a member that the member "does not know" (i.e., denies the existence of) a Transaction reported to the member by the Corporation. See Clearing Rules, *Mortgage-Backed Securities Division, Definitions*.

<sup>7</sup> Pursuant to the MBS Rules, "Open Commitment Report" is defined as the report furnished by FICC to Members reflecting Members' open commitments in the Clearing System. See Clearing Rules, *Mortgage-Backed Securities Division, Definitions*.

\$25.00 per day to \$150.00 per day and (2) reduce the grace period from two (2) days to one (1) day.

The proposed change with respect to the late fee is attached as Exhibit 5. The proposed change with respect to the grace period does not require revisions to the Clearing Rules because the grace period is not referenced in the rules.

(2) *Statutory Basis for the Proposed Rule Change*

FICC believes the proposed rule change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder because (1) it facilitates the prompt and accurate clearance and settlement of securities and (2) assures the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible by encouraging members to comply with a necessary risk management tool that facilitates FICC's receipt of accurate and timely settlement information.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

FICC does not believe that the proposed rule change will have any negative 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 changes have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

**D. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

(a) Not applicable.

- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.
- (e) Not applicable.

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

**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-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File Number SR-FICC-2013-08 on the subject line.

### Paper Comments

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

All submissions should refer to File Number SR-FICC- 2013-08. 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 of submission. 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 Section located at 100 F Street, NE, Washington DC 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FICC and on FICC's website at [http://www.dtcc.com/downloads/legal/rule\\_filings/2013/ficc/SR\\_FICC\\_2013\\_08.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2013/ficc/SR_FICC_2013_08.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-2013-08 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>8</sup>

Kevin M. O'Neill  
Deputy Secretary

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