

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73642; File No. SR-FICC-2014-08)

November 19, 2014

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Clarify that Federal Reserve Banks, Central Counterparties, and Central Securities Depositories Shall Not Be Considered Either “Mandatory Purchaser Participants” or “Voluntary Purchaser Participants” and Registered Investment Companies Shall Be Considered “Voluntary Purchaser Participants”

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 November 12, 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. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder.<sup>4</sup> The proposed rule change was effective upon filing with the Commission. 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 proposed rule change consists of amendments to Rule 49 of the Rulebook of the Government Securities Division (“GSD” and its Rulebook, “GSD Rules”) of FICC, and Rule 39 of the Clearing Rules of the Mortgage-Backed Securities Division (“MBSD” and its Clearing Rules, “MBSD Rules”) of FICC in order to clarify that Federal Reserve

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

Banks, central counterparties, and central securities depositories shall not be considered either “Mandatory Purchaser Participants” or “Voluntary Purchaser Participants,” and further to clarify that Registered Investment Companies shall be considered “Voluntary Purchaser Participants,” as more fully described below.

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

Pursuant to the Third Amended and Restated Shareholders Agreement, dated as of December 7, 2005 (“Shareholders Agreement”), by and among The Depository Trust & Clearing Corporation (“DTCC”), The Depository Trust Company (“DTC”), National Securities Clearing Corporation (“NSCC”), FICC, and the other parties thereto, and MBSD Rule 39, Clearing Members (as such term is defined in the MBSD Rules<sup>5</sup>) other than non-U.S. based central securities depositories are required to be “Mandatory Purchaser Participants” (as such term is defined in MBSD Rule 39) and be parties to the Shareholders Agreement, and all other users are not permitted to purchase and own shares of DTCC common stock (“Common Shares”) or be parties to the Shareholders

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<sup>5</sup> MBSD Rules are available at <http://dtcc.com/legal/rules-and-procedures.aspx>.

Agreement. Further, pursuant to the Shareholders Agreement and GSD Rule 49: (1) Netting Members (as such term is defined in the GSD Rules<sup>6</sup>) other than non-U.S. based central securities depositories are required to be “Mandatory Purchaser Participants” (as such term is defined in the GSD Rules) and be parties to the Shareholders Agreement; (2) Comparison-Only Members (as such term is defined in the GSD Rules) are permitted, but not required to purchase and own Common Shares and be parties to the Shareholders Agreement; and (3) Sponsored Members (as such term is defined in the GSD Rules) are not permitted to purchase and own Common Shares or be parties to the Shareholders Agreement.

FICC is proposing to amend MBSD Rule 39 and GSD Rule 49, as marked on Exhibit 5 hereto, in order to make clear Federal Reserve Banks, central counterparties, and central securities depositories shall not be considered either Mandatory Purchaser Participants or Voluntary Purchaser Participants. FICC has interpreted MBSD Rule 39 and GSD Rule 49 to exclude from their provisions: (1) Federal Reserve Banks, because it was never intended that such governmental authorities should be required to own shares in DTCC, notwithstanding that they may use certain services of FICC; and (2) central counterparties and central securities depositories, because link arrangements between FICC and these entities are for the purpose of extending clearing agency services across borders or among closely related activities and products, but not for ownership purposes.

FICC is also proposing to amend MBSD Rule 39 and GSD Rule 49 in order to make clear Registered Investment Companies (as such term is defined in the MBSD Rules and the GSD Rules) (“RICs”) in any membership category shall be considered

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<sup>6</sup> GSD Rules are available at <http://dtcc.com/legal/rules-and-procedures.aspx>.

Voluntary Purchaser Participants. As Voluntary Purchaser Participants, RICs would be permitted, but not required, to purchase and own Common Shares and be parties to the Shareholders Agreement. Regulatory requirements applicable to RICs, including limitations on the amount of illiquid securities these entities are permitted to hold on an on-going basis and requirements that stock purchases receive shareholder approval, significantly restrict the ability of RICs to participate in a mandatory stock purchase. These restrictions are unique to RICs. FICC would consider the applicability of the requirements in MBSD Rule 39 and GSD Rule 49 to any new members, as necessary.

## 2. Statutory Basis

The proposed rule change is consistent with the Act, and the rules and regulations thereunder, in particular Section 17A(b)(3)(C) which requires that the rules of FICC “assure a fair representation of its shareholders (or members) and participants in the selection of its directors and administration of its affairs . . . [and the Commission] may determine that the representation of participants is fair if they are afforded a reasonable opportunity to acquire voting stock of the clearing agency, directly or indirectly, in reasonable proportion to their use of such clearing agency.”<sup>7</sup> FICC implements and meets this requirement through MBSD Rule 39 and GSD Rule 49, which afford MBSD and GSD users a reasonable opportunity to acquire voting stock indirectly in the clearing agency in reasonable proportion to their use of the clearing agency.<sup>8</sup> The proposed rule

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<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(C).

<sup>8</sup> See Commission orders approving NSCC and DTC’s rule filings which implemented the current stock ownership structure that satisfies the fair representation requirements. Securities Exchange Act Release No. 41800 (August 27, 1999), 64 FR 48694 (September 7, 1999) (SR-NSCC-1999-10); and Securities Exchange Act Release No. 41786 (August 24, 1999), 64 FR 47882 (September 1, 1999) (SR-DTC-1999-17).

change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of these existing rules.

(B) Clearing Agency's Statement on Burden on Competition

The proposed rule change will not 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 change 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>9</sup> of the Act and paragraph (f) of Rule 19b-4<sup>10</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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:

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f).

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 Number SR-FICC-2014-08 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-2014-08. 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. 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, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on FICC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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-2014-08 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>11</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).