SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-58025; File No. SR-FICC-2008-02)

June 25, 2008

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Require Demand Processing for Blind-Brokered Repo Trades

I. Introduction

On April 9, 2008, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2008-02 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] On May 14, 2008, the Commission published notice of the proposed rule change to solicit comments from interested parties.[2] The Commission received no comment letters in response to the proposed rule change as filed. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

1. Background

In 2001, the Government Securities Clearing Corporation ("GSCC"), the GSD's predecessor, redesigned its comparison rules and procedures soon after the introduction of the real-time trade matching system. At that time, GSCC also moved the timing of its settlement guaranty from the point of netting to the point of comparison, which was much earlier in the day. In designing these changes, GSCC's goal was to provide straight through processing by providing for easy identification and resolution of uncompared trades intraday in order to achieve 100 percent comparison. These changes reduced risk by ensuring that more transactions

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1 15 U.S.C. 78s(b)(1).

2 Securities Exchange Act Release No. 57802 (May 8, 2008), 73 FR 27873.

were compared and guaranteed by the clearing corporation earlier in the day so that intraday credit exposure to counterparties was minimized.

As part of the redesign of the GSCC comparison rules, GSCC introduced Demand Comparison, which was a new type of comparison that was created to provide members with flexibility and control over the comparison process for trades executed via intermediaries.[3] Demand Comparison strikes a balance between "bilateral comparison" (the traditional form of comparison), where each member is required to submit trade data to the clearing agency in order for the clearing agency to compare the trade, and "locked-in comparison," where the trade is submitted as a compared trade to the clearing agency by one side or by one intermediary.[4]

Demand Comparison entails submission of trade data by approved intermediaries (e.g., brokers) called "Demand Trade Sources." FICC deems a trade submitted for Demand Comparison to be compared upon FICC's receipt of the trade data from the Demand Trade Source. However, if a dealer "does not know" a trade submitted on its behalf by a Demand Trade Source, the dealer is able to submit a DK (i.e., "don't know") to the GSD. The receipt of a DK by FICC causes the demand comparison trade to no longer be deemed compared. In order to effect comparison for a demand comparison trade that has been DKed, the DK must be removed. If the member that sent the DK determines that it did so erroneously, the member is able to remove the DK so that the trade is compared.[5] Modification of a DKed trade by the Demand

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3 Securities Exchange Act Release No. 44946 (October 17, 2001), 66 FR 53816 [File No. SR-GSCC-2001-01].

4 A Treasury auction take-down trade is a typical example of a trade submitted for Locked-In Comparison.

5 Under this proposal to require Demand Comparison processing of blind-brokered repo trades, the cut-off time for removing DKs will be 8:00 pm New York time.

Trade Source also removes the DK so that the trade is compared.[6] The removal of the DK and modification of a DKed trade are subject to the prescribed time frames for Demand DK processing.

2. Proposal

FICC's current proposal is to mandate Demand Comparison for all blind-brokered repo trades that are submitted by 4:00 pm New York time. The GSD's members acting as inter-dealer brokers for repos will be designated as approved Demand Trade Sources. Members on whose behalf the brokers submit trades will not need to separately authorize the brokers as their Demand Trade Sources for GSD's purposes because GSD's rules will do so. After approval of the rule change, counterparties to blind-brokered repo trades will still need to submit their trade data as they do currently. Dealers will need to monitor the broker submissions against them in order to submit DKs where necessary to block any further processing of the submission. In order to provide the dealer counterparties with adequate time by which to submit their DKs, especially for trades submitted close to the 4:00 pm deadline, GSD will create a 30 minute DK window following the 4:00 pm Demand Comparison submission deadline (until 4:30 pm) during which time the dealer counterparties can DK previously received demand trades; however, dealer counterparties will be able to submit DKs at any time during the Demand Comparison submission processing time frame. Under Demand Comparison processing, a dealer counterparty that does not submit a DK with respect to a blind-brokered repo trade submitted against it will be responsible for that trade. Blind-brokered repo trades submitted after the 4:00

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6 Under this proposal to require Demand Comparison processing of blind-brokered repo trades, the cut-off time for modifications by Demand Trade Sources will be 8:00 pm New York time.

pm deadline will be treated as trades submitted for "bilateral comparison" requiring two-sided submission and matching for comparison to occur.

FICC believes that requiring Demand Comparison for blind- brokered repo trades as described above will reduce risk by promoting earlier comparison and a higher rate of comparison. Demand Comparison trade entry will also encourage members to reconcile differences on a timely basis.

FICC plans to implement the proposed changes four months after submission of this filing to the Commission (i.e., early August), subject to approval by the Commission, in order to provide members with the opportunity to make any necessary system changes.

III. Discussion

Section 19(b) of the Act 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. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.[7] The

[7] 15 U.S.C. 78q-1(b)(3)(F).

Commission believes that FICC's proposed rule change is consistent with this Section because it should facilitate the prompt and accurate clearance and settlement of securities by enabling earlier comparison and a higher rate of comparison of blind-brokered repo transactions.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder. In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation.[8]

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-FICC-2008-02) be and hereby is approved.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[9]

Florence E. Harmon
Acting Secretary

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8 15 U.S.C. 78c(f).

9 17 CFR 200.30-3(a)(12).