

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- 81002; File No. SR-FICC-2017-015)

June 22, 2017

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Make Clarifications and Corrections to the Government Securities Division Rulebook, the Mortgage-Backed Securities Division Clearing Rules and the Mortgage-Backed Securities Division EPN Rules.

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 June 16, 2017, 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 the clearing agency. FICC filed the proposal pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder<sup>4</sup> so that the proposal 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 would make clarifications and corrections (including the addition of certain new definitions, as described in more detail below) to FICC’s Government Securities Division (“GSD”) Rulebook (the “GSD Rules”), Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (the “MBSD Clearing Rules”) and

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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)(4).

MBSD EPN Rules (the “EPN Rules,” and collectively with the GSD Rules and the MBSD Clearing Rules, the “Rules”), as described in greater detail below.<sup>5</sup>

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency 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. The clearing agency 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  
Purpose

1. Purpose

The purpose of the proposed rule change is to make certain clarifications and corrections (including the addition of certain new definitions) to the Rules so that the Rules remain consistent and clear. The proposed changes consist only of clarifications and corrections (including the addition of certain new definitions) and do not change any of the rights or obligations of the GSD Members, MBSD Members or EPN Users.

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<sup>5</sup> Each capitalized term used herein and not otherwise defined shall have the meaning set forth in the GSD Rules, MBSD Clearing Rules or the EPN Rules, as applicable, available at <http://www.dtcc.com/legal/rules-and-procedures>.

(i) **Proposed Changes to the GSD Rules**

FICC is proposing to make the following changes to the GSD Rules:

**A. *Proposed Changes to GSD Rule 1 – Definitions***

(1) Delete the incorrect reference to “Section 1 of Rule 2” in the definition of “Bank Netting Member” and replace it with a reference to “Section 2 of Rule 2A.”

(2) Correct certain definitions relating to brokers and dealers and add certain defined terms in conjunction with such corrections, as described below (collectively, the changes referred to in this item (2) are referred to as the “Broker/Dealer Changes”):

- (i) FICC has identified that the existing terms “Registered Government Securities Brokers” and “Registered Government Securities Dealers” refer to brokers and dealers registered with the Commission under either Section 15 or Section 15C of the Act, when such terms should only refer to brokers and dealers registered under Section 15C of the Act. The proposed rule change would correct these definitions in this regard.
- (ii) Two new terms, “Registered Broker” and “Registered Dealer,” would be added to GSD Rule 1 to address brokers and dealers that are registered under Section 15 of the Act.
- (iii) The term “Broker,” which is defined in part as a “Registered Government Securities Broker,” would be

updated to add a reference to a “Registered Broker.” In addition, “or” is being added to reflect that a Broker would include a Registered Broker or a Registered Government Securities Broker. These corrections would make the definition consistent with the manner in which the term “Broker” is used throughout the GSD Rules and consistent with the corrections noted above in clauses (i) and (ii).

- (iv) The term “Dealer,” which is defined as a “Registered Government Securities Dealer,” would be updated to add a reference to a “Registered Dealer.” In addition, “or” is being added to reflect that a Dealer would include a Registered Dealer or a Registered Government Securities Dealer. These corrections would make the definition consistent with the manner in which the term “Dealer” is used throughout the GSD Rules and consistent with the corrections noted above in clauses (i) and (ii).

(3) Delete references to “Category 1 Inter-Dealer Broker” and “Category 2 Inter-Dealer Broker” in the definition of “Brokered Transaction” and replace them with “Inter-Dealer Broker,” make a grammatical change, and change the numbering in the definition to reflect the replacements. The concept of and all other references to Category 1 Inter-Dealer Brokers and Category 2 Inter-Dealer Brokers were intended to be removed from the GSD Rules in connection with the

Commission's approval of rule filing SR-FICC-2010-09,<sup>6</sup> however, a few references inadvertently remain in the current version of the GSD Rules

(4) Delete the references to "Registered Government Securities Broker" and "Registered Government Securities Dealer" in the definition of "Covered Affiliate" and replace each reference with "Broker" and "Dealer," respectively. Currently, "Covered Affiliate" is defined in part to include certain "Registered Government Securities Brokers" and "Registered Government Securities Dealers," however, this definition should also include certain "Registered Brokers" and "Registered Dealers," as such terms are proposed to be added in this filing. The revised terms "Broker" and "Dealer" as proposed by this filing would also include Registered Brokers and Registered Dealers. This correction would make the definition consistent with the manner in which the term "Covered Affiliate" is used throughout the GSD Rules and consistent with the Broker/Dealer Changes noted above.

(5) Change the definition of the term "Designated Examining Authority" to replace the existing descriptions of brokers and dealers with "Broker or Dealer, as applicable." The use of the updated terms "Broker" and "Dealer" as proposed above and the addition of "as applicable" would refer to brokers and dealers registered under Section 15 of the Act and under Section 15C of the Act in a more succinct manner, would ensure consistency with the manner in which "Designated Examining Authority" is used throughout the GSD Rules and would be consistent with the Broker/Dealer Changes noted above.

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<sup>6</sup> Securities Exchange Act Release No. 63986 (February 28, 2011); 76 FR 12144 (March 4, 2011) (SR-FICC-2010-09).

(6) Delete the repeated definitions of the terms “Eligible Letter of Credit” and “Eligible Netting Security.”

(7) Delete the reference to “whole percentage” and replace it with “two decimal places” in the definition of the term “Excess Capital Ratio” to reflect that the quotient is rounded to the nearest two decimal places. The proposed change would make the GSD Rules consistent with the MBSD Clearing Rules, which would have an equivalent definition.

(8) Delete the reference to “GSCC” and replace it with “the Corporation” in the definition of the “Full-Sized Trade” because GSCC is not a defined term that is used in the GSD Rules. GSCC refers to GSD’s predecessor, the Government Securities Clearing Corporation.<sup>7</sup>

(9) Add a new defined term for “Inter-Dealer Broker” consistent with the manner in which the term is currently used in the GSD Rules and consistent with the MBSD Clearing Rules, which have the equivalent definition.

(10) Delete the following definitions because they are not used in the GSD Rules: “Member Brokered Transaction,” “Non-Member Brokered Transaction,” and “Offsetting Position.”

***B. Proposed Changes to GSD Rule 2A – Initial Membership Requirements***

(1) Delete the references to “Registered Government Securities Dealer” and replace them with “Dealer” in Section 2(a)(ii) to reflect the Broker/Dealer Changes noted above.

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<sup>7</sup> FICC resulted from a merger of GSCC and the Mortgage-Backed Securities Clearing Corporation on January 1, 2003.

(2) Correct two grammatical errors in Section 2(a)(iv).

(3) Delete the references to “Duff & Phelps (“D&P”)” and “D&P” and replace them with “Fitch Ratings (“Fitch”)” and “Fitch,” respectively, in Section 4 because Duff & Phelps Credit Rating Co. was acquired by Fitch IBCA.

(4) Delete the incorrect reference to “Rule 3” and replace it with “this Rule 2A” in Section 6.

**C. *Proposed Changes to GSD Rule 3 – Ongoing Membership Requirements***

Add “Ratio” after the reference to “Excess Capital” to read “Excess Capital Ratio” in Section 14. Section 14 requires a Netting Member to make a Clearing Fund deposit if its Excess Capital Ratio exceeds 1.0 because of the perceived risk posed by such Netting Member. Such deposit is calculated to bring the Clearing Fund to a desired level regarding the risk relating to such Netting Member. FICC currently calculates and has historically calculated this deposit using the Excess Capital Ratio as a multiple. Reference to Excess Capital as the multiple in the GSD Rules is incorrect – using Excess Capital as the multiple would result in a deposit requirement for a Netting Member that far exceeds the amount that FICC has determined is needed to increase the Clearing Fund to the desired level. The proposed change would make the GSD Rules consistent with the MBSD Clearing Rules, which have an equivalent formula in MBSD Clearing Rule 3 Section 12.

**D. *Proposed Changes to GSD Rule 4 – Clearing Fund and Loss Allocation***

(1) Delete the incorrect reference to “Section 8” in the first paragraph of Section 5 and replace it with “Section 7.”

(2) Delete the phrase “Category 1” before the words “Inter-Dealer Broker Netting Member” in Section 5 and make a grammatical change to reflect the deletion. The concept of and all other references to the term Category 1 were intended to be removed from the GSD Rules in connection with the Commission’s approval of rule filing SR-FICC-2010-09,<sup>8</sup> however, this reference inadvertently remains in the current version of the GSD Rules.

***E. Proposed Changes to GSD Rule 5 – Comparison System***

Capitalize the word “trades” in the phrase “Full-Sized trades” in Section 4 so that it reflects the defined term “Full-Sized Trade,” which is currently included in GSD Rule 1.<sup>9</sup>

***F. Proposed Changes to GSD Rule 15 – Special Provisions for Certain Netting Members***

(1) Remove a reserved section heading and renumber section headings that currently follow that heading to reflect its removal.

(2) Delete the phrase “or an Inter-Dealer Broker Netting Member” in the third sentence in proposed renumbered Section 2 because the term Inter-Dealer Broker Netting Member is inadvertently referenced twice.

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<sup>8</sup> See supra note 6.

<sup>9</sup> “Full-Sized Trade” means a trade that is submitted to FICC in the full-size dollar amount in which it was executed as opposed to being submitted in an equivalent amount of \$50 million pieces and a single tail. See GSD Rule 1, supra note 5.



**G. *Proposed Changes to GSD Rule 17 – Netting and Settlement of Netting-Eligible Auction Purchases***

Remove a reserved section heading and renumber section headings that currently follow that heading to reflect its removal.

**(ii) *Proposed Changes to the MBSD Clearing Rules***

FICC is proposing to make the following changes to the MBSD Clearing Rules:

**A. *Proposed Changes to MBSD Clearing Rule 1 – Definitions***

(1) Add a new defined term for “Close of Business” consistent with the manner in which the term is currently used in the MBSD Clearing Rules and consistent with the GSD Rules which have the equivalent definition.

(2) Delete the word “whole” from the phrase “whole two decimal places” in the definition of “Excess Capital Ratio” to reflect the standard convention for referencing decimals.

**B. *Proposed Changes to MBSD Clearing Rule 3 – Ongoing Membership Requirements***

Delete the phrase “close of business” and replace it with “Close of Business” in Section 2 so that it reflects the proposed new defined term “Close of Business,” which would be added in MBSD Clearing Rule 1.

**C. *Proposed Changes to MBSD Clearing Rule 4 – Clearing Fund and Loss Allocation***

(1) Delete the references to “Total Amount” and replace them with “Required Fund Deposit” in Section 2(d) because Total Amount is not a defined term and the correct reference in that section should be to the amount a Clearing

Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4, which is the “Required Fund Deposit.”<sup>10</sup>

(2) Delete the reference to “deposit” and replace it with “Required Fund Deposit” in Section 3 because the correct reference in that section should be to the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4, which is the “Required Fund Deposit.”

(3) Clarify that the minimum amount of cash a Clearing Member must deposit into its Required Fund Deposit is \$100,000 in Section 3. Section 2(d) refers to the same minimum Required Fund Deposit amount and the proposed change would make Section 3 consistent with Section 2(d).

(4) Delete the references to “close of business” and replace them with “Close of Business” in Section 5 and Section 8 so that they reflect the proposed new defined term “Close of Business,” which would be added in MBSD Clearing Rule 1.

**(iii) Proposed Changes to the EPN Rules**

FICC is proposing to make the following changes to the EPN Rules:

**A. Proposed Changes to Article 1 EPN Rule 1 – Definitions**

(1) Add a period after “Rule 1” to conform the punctuation in EPN Rule 1 with other EPN Rules.

(2) Delete the incorrect cross-reference to “Article VII” and replace it with “Article II” in the definition of “Account.”

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<sup>10</sup> “Required Fund Deposit” means the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4. See MBSD Clearing Rule 1, supra note 5.

(3) Delete the incorrect cross-reference to “Article VI” and replace it with “Article I” in the definition of “EPN Eligible Security.”

(4) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” in the definition of “EPN Procedures.”

(5) Delete the incorrect cross-references to “Articles VI, VII, VIII, IX and X of the Rules,” in the definition of “EPN Rules.” Such references to the Articles are unnecessary.

(6) Move the definition of “EPN Service” so that it is in correct alphabetical order.

(7) Delete the incorrect cross-reference to “Article VIII” and replace it with “Article III” in the definition of “EPN User Agreement.”

(8) Delete the definition of “Membership and Risk Management Committee” because this term is not used in the EPN Rules.

(9) Move the definition of “Messages” so that it is in correct alphabetical order.

(10) Delete the incorrect cross-reference to “Article VII” and replace it with “Article II” in the definition of “Message Detail Report.”

(11) Delete the incorrect reference to “Article VII” and replace it with “Article II” in the definition of “Message Summary Report.”

(12) Delete the definition of “Operations and Planning Committee” because this term is not used in the EPN Rules.

**B. *Proposed Changes to Article I EPN Rule 2 – EPN Eligible Securities***

Correct a grammatical error and delete the incorrect cross-reference to “Article X” and replace it with “Article V.”

**C. *Proposed Changes to Article II – Messages Processed by the Corporation***

(1) Add the following language to EPN Rule 1 Section 1: “The Corporation shall maintain one or more Accounts for each EPN User” because this language appears to have been inadvertently deleted from previous versions of the EPN Rules.

(2) Delete the term “Reports” and replace it with lowercased “reports” in EPN Rule 2 Section 1 because Reports is not a defined term in the EPN Rules.

**D. *Proposed Changes to Article III – EPN Users***

(1) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” and correct a grammatical error in EPN Rule 1 Section 5.

(2) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” in EPN Rule 1 Section 7.

(3) Correct two grammatical errors in EPN Rule 2 Section 1.

(4) Delete the incorrect cross-reference to “Article VIII” and replace it with “Article III” in EPN Rule 3 Section 1.

**E. *Proposed Changes to Article V – Miscellaneous***

(1) Add “EPN” before each reference to “Rules” because “EPN Rules” is the correct defined term.

(2) Remove extra spaces between “Interested” and “Person” in the first paragraph of Rule 7 Section 1 and replace “a” with “an” before the proposed addition of “EPN” in the second paragraph of Rule 7 Section 1 for grammatical correctness.

(3) Add “EPN” before each reference to “Procedures” because “EPN Procedures” is the correct defined term.

(4) Add a tab space before certain paragraphs throughout Article V to conform the spacing in Article V to the other Articles in the EPN Rules.

(5) Delete the reference to “minor rule violation” and replace it with “Minor Rule Violation” in EPN Rule 7 Section 3 so that it reflects the defined term, “Minor Rule Violation,” which is currently included in EPN Rule 7 Section 2, and correct the cross-reference in that Section to reflect that the term “Minor Rule Violation” is defined in Section 2 of EPN Rule 7 rather than Section 3.<sup>11</sup>

(6) Delete the heading “SEC. 6. FINALITY OF CORPORATION ACTION” because it is misplaced, and reorder the numbering for each EPN Rule that currently follows that heading so that each such EPN Rule continues as part of Article V.

(7) Correct a grammatical error in proposed renumbered EPN Rule 14(b)(ii).

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<sup>11</sup> “Minor Rule Violation” means a violation of the EPN Rules for which a fine may be assessed against the Interested Person in an amount not to exceed \$5,000. See Article V, EPN Rule 7, Section 2, supra note 5.

(8) Correct a grammatical error, and delete the incorrect cross-reference to “Article X” and replace it with “Article V” in proposed renumbered EPN Rule 14(c).

2. Statutory Basis

Section 17A(b)(3)(F)<sup>12</sup> of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. FICC believes that the proposed rule change has been designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F).<sup>13</sup> Specifically, the proposed rule change would clarify the meaning of certain provisions of the Rules, correct grammatical errors, correct cross-references and similar technical changes, which ensure that the Rules are consistent and clear. As such, FICC believes the proposed rule change would allow GSD Members, MBSD Members and EPN Users governed by the applicable Rules to have a better understanding of the Rules and thereby assist in promoting the prompt and accurate clearance and settlement of securities transactions.

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

FICC does not believe that the proposed rule change will have any impact on competition because the proposed changes to the Rules are clarifications and corrections (including the addition of certain new definitions), which would not change FICC’s current practices or the rights or obligations of the GSD Members, MBSD Members or EPN Users bound by the applicable Rules. Therefore, the proposed changes should have

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<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>13</sup> Id.

no effect on the GSD Members, MBSD Members or EPN Users that are bound by the applicable Rules other than to foster a better understanding of the applicable Rules by such GSD Members, MBSD Members and EPN Users.

(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 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>14</sup> of the Act and subparagraph (f)(4) of Rule 19b-4<sup>15</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:

Electronic Comments:

- Use the Commission's Internet comment form

(<http://www.sec.gov/rules/sro.shtml>); or

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<sup>14</sup> 15 U.S.C 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(4).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2017-015 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-2017-015. 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 DTCC'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-2017-015 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>16</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).