

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="35"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="004"/>
		Amendment No. (req. for Amendments *) <input type="text"/>

Filing by Fixed Income Clearing Corporation
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input checked="" type="checkbox"/> 19b-4(f)(4)	<input type="checkbox"/> 19b-4(f)(6)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Last Name *
 Title *
 E-mail *
 Telephone * Fax

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.
(Title *)

Date By

(Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is annexed hereto as Exhibit 5. The proposed rule change would amend the Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules”)¹ to provide transparency in the MBSD Rules with respect to the existing intraday Mark-to-Market charge by codifying FICC’s current practices with respect to the assessment and collection of the intraday Mark-to-Market charge.² This charge is imposed on certain Clearing Members that experience an adverse intraday Mark-to-Market change that meets certain criteria described below. The charge is designed to mitigate FICC’s exposure resulting from large intraday Mark-to-Market fluctuations to Clearing Members’ portfolios that are not otherwise covered by Clearing Members’ Required Fund Deposits.

In order to provide transparency with respect to the existing intraday Mark-to-Market charge by codifying FICC’s existing practices with respect to the charge, FICC is proposing to amend MBSD Rule 1 (Definitions) to add the defined term “Intraday Mark-to-Market Charge” and to amend Section 2(c) of MBSD Rule 4 (Clearing Fund and Loss Allocation) to include the Intraday Mark-to-Market Charge.

In addition, the proposed rule change would delete the term “End of Day Charge” from the MBSD Rules because it is no longer used, as further discussed below. To effectuate this change, the proposed rule change would delete the definition of End of Day Charge from Rule 1 (Definitions) and would amend Section 2 of MBSD Rule 4 (Clearing Fund and Loss Allocation) to delete the reference to the End of Day Charge.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change to amend the MBSD Rules to include the Intraday Mark-to-Market Charge was approved by the Risk Committee of FICC’s Board of Directors (“Board”) on February 9, 2016. The proposed rule change to delete the End of Day Charge from the MBSD Rules was approved by FICC management on October 26, 2016 pursuant to delegated authority from the Board.

¹ The MBSD Rules are available at <http://www.dtcc.com/legal/rules-and-procedures>. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the MBSD Rules.

² The intraday Mark-to-Market charge is currently described in Section 2(a) of Rule 4 of the MBSD Rules.

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

(a) Purpose

The proposed rule change would provide transparency in the MBSD Rules with respect to the assessment and collection of the existing Intraday Mark-to-Market Charge, which FICC currently may impose on a Clearing Member on an intraday basis under certain circumstances described below. Once imposed, payment of this charge is due within one hour after notice from FICC to an affected Clearing Member.³ The proposed rule change would also eliminate references to the End of Day Charge from the MBSD Rules.

(i) *Background -- The Required Fund Deposit and Mark-to-Market*

The Required Fund Deposit serves as each Clearing Member's margin. The objective of the Required Fund Deposit is to mitigate potential losses to FICC associated with liquidation of the Clearing Member's portfolio in the event that FICC ceases to act for a Clearing Member (hereinafter referred to as a "default"). FICC determines Required Fund Deposit amounts using a number of component charges calculated and assessed daily, the largest of which is the VaR Charge that is a risk-based margin methodology intended to capture market price risk. The methodology uses historical market moves to project or forecast the potential gains or losses on the liquidation of a defaulting Clearing Member's portfolio, assuming that a portfolio would take three days to liquidate or hedge in normal market conditions. The projected liquidation gains or losses are used to determine the Clearing Member's VaR Charge, which is calculated to cover projected liquidation losses at a 99 percent confidence level. The aggregate of all Clearing Members' Required Fund Deposits constitutes the Clearing Fund of MBSD, which FICC would be able to access in the event a defaulting Clearing Member's own Required Fund Deposit is insufficient to satisfy losses to FICC caused by the liquidation of that Clearing Member's portfolio.

MBSD calculates the full suite of components that comprise the Required Fund Deposit and imposes the Required Fund Deposit once per day, at the start of the day, based on a Clearing Member's prior end-of-day positions. Generally, the second largest component of the daily Required Fund Deposit is a start-of-day Mark-to-Market amount, which is designed to mitigate the risk arising out of the value change between the contract/settlement value of a Clearing Member's open positions and the market value at the end of the prior day.

(ii) *Overview -- The Intraday Mark-to-Market Charge*

During each trading day, a Clearing Member's exposure may change due to the settlement of existing transactions and new trade activities. In addition, the value of the Clearing Member's portfolio may change due to market influences. Normally, the start-of-day Mark-to-Market component of the daily Required Fund Deposit covers FICC's exposure to a Clearing Member due to market moves and/or trading and settlement activity because it brings the

³ MBSD Rule 4, Section 2.

portfolio of outstanding positions up to the market value at the end of the prior day. However, because the start-of-day Mark-to-Market component of the Required Fund Deposit is calculated only once daily using the prior end-of-day positions and prices, it does not cover a Clearing Member's exposure arising out of intraday changes to position and market value in the Clearing Member's portfolio that result in an adverse change to the Clearing Member's Mark-to-Market ("MTM Exposure"). FICC manages this intraday risk exposure by observing snapshots of Clearing Members' portfolios and monitoring intraday changes to each Clearing Member's Mark-to-Market versus the Mark-to-Market that was part of the Required Fund Deposit at the start of the day or, if applicable, any subsequently collected Mark-to-Market amount. FICC then collects an Intraday Mark-to-Market Charge from Clearing Members to cover significant risk exposures that warrant the collection of intraday margin, as further described below.

(iii) The Parameter Breaks

FICC's current practice with respect to the assessment of the Intraday Mark-to-Market Charge entails tracking three criteria (each, a "Parameter Break") for each Clearing Member. The Parameter Breaks help FICC determine whether a Clearing Member's MTM Exposure poses a risk to FICC that is significant enough to warrant an Intraday Mark-to-Market Charge. The objective of the Parameter Breaks is to ensure that FICC is able to limit exposure to intraday Mark-to-Market fluctuations that (a) are of a large dollar amount (the "Dollar Threshold"), (b) exhaust a significant portion of a Clearing Member's VaR Charge (the "Percentage Threshold") and (c) are experienced by Clearing Members with backtesting deficiencies that bring backtesting results for that Clearing Member below the 99 percent confidence target (the "Coverage Target"), indicating that a Clearing Member's activity was not sufficiently covered by margin.

1. The Dollar Threshold

The purpose of the Dollar Threshold is to identify those Clearing Members whose MTM Exposures represent a large portion of the Clearing Fund. FICC believes that such Clearing Members pose an increased risk of loss to FICC because the coverage provided by the Clearing Fund, which is designed to cover the aggregate losses of all Clearing Members' portfolios, would be substantially impacted by large MTM Exposures. More specifically, if a Clearing Member were to default and the Clearing Member's Required Fund Deposit was not sufficient to satisfy losses to FICC caused by the liquidation of the Clearing Member's portfolio, FICC would be able to access the funds held by it in the Clearing Fund to satisfy such losses. However, because the Clearing Fund must be available to satisfy potential losses to FICC that may arise from any Clearing Member defaults, FICC would be exposed to a significant risk of loss if Clearing Members' MTM Exposures accounted for a substantial portion of the Clearing Fund. The Dollar Threshold is set to an amount that would ensure that the aggregate MTM Exposures of all of its Clearing Members at such threshold would not exceed 5 percent of the Clearing Fund. FICC believes that the availability of 95 percent of the Clearing Fund to satisfy all other liquidation losses arising out of a Clearing Member's default is sufficient to mitigate the risks posed to FICC by such losses. FICC assesses the sufficiency of the Dollar Threshold on an annual basis and may adjust the Dollar Threshold if it determines that such an adjustment is necessary to provide reasonable coverage. Currently, the

Dollar Threshold is an adverse intraday Mark-to-Market change in a Clearing Member's portfolio that equals or exceeds \$1,000,000 when compared to the Clearing Member's start-of-day Mark-to-Market requirement including, if applicable, any subsequently collected Mark-to-Market amount.

2. The Percentage Threshold

The purpose of the Percentage Threshold is to identify those Clearing Members whose MTM Exposures deplete a significant portion of such Clearing Members' daily VaR Charge. FICC believes that Clearing Members that experience such MTM Exposures pose an increased risk of loss to FICC because the coverage provided by the VaR Charge, which is designed to cover estimated losses to a portfolio over a specified time period at least 99 percent of the time, would be depleted by a significant MTM Exposure that could cause the Clearing Member's Required Fund Deposit to be unable to absorb further intraday losses to the Clearing Member's portfolio. The Percentage Threshold is designed to provide FICC with a reasonable cushion to allow the VaR Charge collected at the start of day to function as expected. More specifically, the VaR Charge is designed to cover potential losses over a three-day time period for a Clearing Member at least 99 percent of the time, assuming normal market conditions. When a Clearing Member's MTM Exposure meets or exceeds a certain percentage as compared to its daily VaR Charge, the value of the Clearing Member's portfolio is trending towards a loss outside of the expected value as determined by such VaR Charge. The Percentage Threshold is calculated to equal a percentage of the daily VaR Charge that FICC has determined would leave it with a sufficient amount of a Clearing Member's remaining VaR Charge after accounting for potential losses arising from the Clearing Member's MTM Exposure. FICC assesses the sufficiency of the Percentage Threshold on an annual basis and may adjust the Percentage Threshold if it determines that such an adjustment is necessary to provide reasonable coverage.⁴ Currently, the Percentage Threshold is an adverse intraday Mark-to-Market change in a Clearing Member's portfolio that equals or exceeds 30 percent of the VaR Charge collected as part of the Clearing Member's daily Required Fund Deposit.

3. The Coverage Target

The purpose of the Coverage Target is to identify those Clearing Members that have experienced backtesting deficiencies that bring the results for that Clearing Member below the 99 percent confidence target (i.e., greater than two deficiency days in a rolling 12-month period) as reported in the most current month. FICC believes that such Clearing Members pose an increased risk of loss to FICC because such backtesting deficiencies demonstrate that FICC's risk-based margin model did not perform as expected for the Clearing Member. More specifically, FICC employs daily backtesting to

⁴ In 2014, FICC lowered the Percentage Threshold from 40 percent to 30 percent of the VaR Charge after conducting a study that determined that a Percentage Threshold of 40 percent did not provide a sufficient cushion against potential losses.

determine the adequacy of each Clearing Member's Required Fund Deposit. FICC compares the Required Fund Deposit for each Clearing Member with the simulated liquidation gains/losses using the actual positions in the Clearing Member's portfolio and the actual historical security returns. FICC investigates the cause(s) of any deficiencies. As a part of this process, FICC pays particular attention to deficiencies that cause a Clearing Member's backtesting coverage to fall below the Coverage Target. Such deficiencies are evidence that the model used to calculate the Clearing Member's Required Fund Deposit did not calculate an amount sufficient to cover the Clearing Member's risk to FICC, as would otherwise be expected of the Required Fund Deposit. The Coverage Target is designed to provide coverage to FICC for intraday Mark-to-Market fluctuations in the portfolio of a Clearing Member for whom the Required Fund Deposit model is not performing as expected. FICC believes that a MTM Exposure for Clearing Members that fall below the Coverage Target may expose FICC to heightened risk, requiring an Intraday Mark-to-Market Charge to cover that risk.

(iv) Assessment and Collection of the Intraday Mark-to-Market Charge

FICC's current practice is to review intraday snapshots of each Clearing Member's portfolios to determine whether the Clearing Member has experienced a MTM Exposure that warrants FICC assessing an Intraday Mark-to-Market Charge. More specifically, if a Clearing Member's MTM Exposure breaches all three Parameter Breaks, the Clearing Member will be subject to the Intraday Mark-to-Market Charge and FICC will collect the charge subject to waivers or changes to the amount of the calculated charge, as described below. However, where FICC determines that certain market conditions exist, including but not limited to (i) sudden swings in an equity index in either direction that exceed certain threshold amounts determined by FICC and (ii) moves in U.S. Treasury yields and mortgage-backed security spreads outside of historically observed market moves, FICC does not require that the Coverage Target be breached; rather, FICC imposes the Intraday Mark-to-Market Charge if only the Dollar Threshold and Percentage Threshold are breached,⁵ subject to waivers and changes to the amount of the calculated charge, as described below. Moreover, during such market conditions, the Dollar Threshold and Percentage Threshold may be reduced if FICC determines that such reduction is appropriate in order to accelerate collection of anticipated additional margin from Clearing Members whose portfolios may present relatively greater risks to FICC on an overnight basis. Any such reduction would not cause the Dollar Threshold to be less than \$250,000 and the Percentage Threshold to be less than 5 percent.

⁵ FICC has determined that, because a Clearing Member's backtesting coverage may not accurately reflect the risks posed by a Clearing Member under certain market conditions, Clearing Members with backtesting coverage that meets or exceeds the Coverage Target may nonetheless pose increased risk to FICC. Therefore, FICC imposes the Intraday Mark-to-Market Charge on Clearing Members that breach the Dollar Threshold and Percentage Threshold, despite the fact that such Members may not have breached the Coverage Target during certain market conditions.

Irrespective of market conditions, FICC may impose the Intraday Mark-to-Market Charge on Clearing Members that (i) are approaching but have not yet breached the Percentage Threshold (but are at 20 percent or greater of the daily VaR Charge) and (ii) have a MTM Exposure that exceeds a certain dollar amount (“Surveillance Threshold”) that is set by FICC per Clearing Member based on the Clearing Member’s internal Credit Risk Rating Matrix (“CRRM”) rating and/or the Clearing Member’s Watch List status, if the Corporation determines that the size of such Clearing Member’s Mark-to-Market change exposes the Corporation to increased risk. FICC links the Surveillance Thresholds to a Clearing Member’s CRRM rating and Watch List status because a Clearing Member with a weaker internal rating is likely to pose a greater risk of default. Clearing Members with weaker internal credit ratings are assigned lower Surveillance Thresholds than Clearing Members with stronger internal credit ratings. The Surveillance Thresholds are intended as a tool to aid FICC in identifying Clearing Members whose MTM Exposures may necessitate the collection of an Intraday Mark-to-Market Charge. The current Surveillance Thresholds are: (a) \$50 million for Clearing Members with a CRRM rating of “1” or “2” and for non-rated Clearing Members that are not on the Watch List; (b) \$25 million for Clearing Members with a CRRM rating of “3”; (c) \$15 million for Clearing Members with a CRRM rating of “4”; (d) \$10 million for Clearing Members with a CRRM rating of “5” or “6” and for non-rated Clearing Members that are on the Watch List; and (e) \$5 million for Clearing Members with a CRRM rating of “7.”

Although FICC generally collects the Intraday Mark-to-Market Charge under the conditions described above, FICC retains the discretion to waive or alter such Intraday Mark-to-Market Charge in circumstances where it determines that the MTM Exposure and/or the breaches of the Parameter Breaks do not accurately reflect FICC’s risk exposure to the Clearing Member’s intraday Mark-to-Market fluctuation (e.g., a Clearing Member’s breach of the Coverage Target Parameter Break is based on a shortened backtesting look-back period and large Mark-to-Market fluctuations arising out of trade errors). Based on FICC’s assessment of the impact of these circumstances and FICC’s actual risk exposure to a Clearing Member, FICC may, in its discretion, waive or alter (decrease or increase) an Intraday Mark-to-Market Charge for a Clearing Member. Given the variability of the factors that result in breaches of the Parameter Breaks, FICC believes that it is important to maintain such discretion in order to limit the imposition of the Intraday Mark-to-Market Charge to those Clearing Members with MTM Exposures that pose a significant level of risk to FICC. Such Intraday Mark-to-Market Charge would not reduce a Clearing Member’s Required Fund Deposit below the amount reported at the start of day. Any increase to the Intraday Mark-to-Market Charge would not cause the Intraday Mark-to-Market Charge to be greater than two times its calculated amount.

(v) ***Communication with Clearing Members and Imposition of the Intraday Mark-to-Market Charge***

If FICC determines that FICC should collect an Intraday Mark-to-Market Charge from a Clearing Member, FICC notifies the Clearing Member during the trading day of its requirement to pay the Intraday Mark-to-Market Charge and the amount due. Affected Clearing Members are required to pay the amount due within one hour after FICC has provided the Clearing Member with notification that such payment is due (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York).

(vi) *Proposal to Delete the End of Day Charge*

Currently, MBSD Rule 4 states that the Required Fund Deposit is equal to the greater of: (i) the Minimum Charge, or (ii) the End of Day Charge,⁶ plus the VaR Charge, the Deterministic Risk Component,⁷ and the special charge, if applicable. The End of Day Charge is comprised of the VaR Charge plus components that are identical to the components in the Deterministic Risk Component and is therefore duplicative and unnecessary. Therefore, FICC is proposing to delete the term and the reference to the End of Day Charge in order to help ensure that the MBSD Rules are accurate and clear.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”), requires, in part, that the MBSD Rules promote the prompt and accurate clearance and settlement of securities transactions.⁸ The proposed rule changes with respect to the Intraday Mark-to-Market Charge would provide transparency in the MBSD Rules regarding the existing Intraday Mark-to-Market Charge by codifying FICC’s current practices with respect to the assessment and collection of the charge. In addition, the proposed rule change associated with the deletion of the End of Day Charge would delete provisions that are not used to ensure that the MBSD Rules remain accurate and clear. Collectively, the proposed changes would ensure that the MBSD Rules remain transparent, accurate and clear, which would enable all stakeholders to readily understand their rights and obligations in connection with MBSD’s clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(b)(1) under the Act requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to measure its credit exposures to its participants at least once a day and limit its exposures to potential losses from defaults by its participants under normal market conditions, so that the operations of the clearing agency would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.⁹ FICC’s Intraday Mark-to-Market Charge is calculated

⁶ The “End of Day Charge” means with respect to each Clearing Member, the calculation equaling: (i) the VaR Charge; plus (ii) the Mark-to-Market Debit; minus (iii) the Mark-to-Market Credit; plus (iv) a cash obligation item debit; minus (v) a cash obligation item credit; plus or minus (vi) accrued principal and interest. See MBSD Rule 1, supra note 1.

⁷ The “Deterministic Risk Component” means with respect to the margin portfolio of a Clearing Member, the calculation equaling: (i) the Mark-to-Market Debit; minus (ii) the Mark-to-Market Credit; plus (iii) a cash obligation item debit; minus (iv) a cash obligation item credit; plus or minus (v) accrued principal and interest. See MBSD Rule 1, supra note 1.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 17 CFR 240.17Ad-22(b)(1).

and imposed to cover credit exposures estimated by FICC based on significant intraday Mark-to-Market changes to a Clearing Member's portfolio, as well as the Clearing Member's trailing 12-month backtesting results, with the goal of ensuring that FICC is not exposed to increased risk from large intraday Mark-to-Market changes to the Clearing Member's portfolio. Therefore, FICC believes that management of its credit exposures to Clearing Members through this charge is consistent with Rule 17Ad-22(b)(1) under the Act.

Rule 17Ad-22(b)(2) under the Act requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to use margin requirements to limit its credit exposures to participants under normal market conditions.¹⁰ When applicable, the Intraday Mark-to-Market Charge is a component of a Clearing Member's Required Fund Deposit, or margin, and is intended to maintain coverage of FICC's credit exposures to such Clearing Member at a confidence level of at least 99 percent. The Intraday Mark-to-Market Charge therefore limits FICC's exposures to Clearing Members under normal market conditions. Moreover, by incorporating the Intraday Mark-to-Market Charge into the MBSD Rules more clearly, the proposed change demonstrates that FICC has rule provisions that are reasonably designed to use margin requirements to limit its credit exposures to its Clearing Members under normal market conditions. Therefore, FICC believes that the proposed rule change is also consistent with Rule 17Ad-22(b)(2) under the Act.

The proposed rule changes with respect to the Intraday Mark-to-Market Charge have also been designed to be consistent with Rules 17Ad-22(e)(4) and (e)(6) under the Act, which were recently adopted by the U.S. Securities and Exchange Commission ("Commission").¹¹ Rule 17Ad-22(e)(4) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes.¹² The proposed rule change codifies MBSD's practices associated with the Intraday Mark-to-Market Charge, which address the identification, measurement, monitoring and management of credit exposures that may arise from intraday changes that occur to a Clearing Member's portfolio because of settlement of existing transactions and new trade activities. Moreover, by incorporating the Intraday Mark-to-Market Charge into the MBSD Rules more clearly, the proposed change would enable FICC to have rule provisions that are reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to Clearing Members and those exposures arising from its payment, clearing, and settlement processes, which FICC believes is consistent with Rule 17Ad-22(e)(4).

¹⁰ 17 CFR 240.17Ad-22(b)(2).

¹¹ 17 CFR 240.17Ad-22(e)(4) and (6). The Commission adopted amendments to Rule 17Ad-22, including the addition of new section 17Ad-22(e), on September 28, 2016. See Exchange Act Release No. 34-78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). FICC is a "covered clearing agency" as defined in Rule 17Ad-22(a)(5) and must comply with new section (e) of Rule 17Ad-22 by April 11, 2017. Id.

¹² 17 CFR 240.17Ad-22(e)(4).

Rule 17Ad-22(e)(6) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that is monitored by management on an ongoing basis and regularly reviewed, tested, and verified.¹³ The Intraday Mark-to-Market Charge is a risk-based margining system with parameters that are regularly reviewed by FICC. Therefore, FICC believes the proposed rule change is consistent with Rule 17Ad-22(e)(6).

4. Self-Regulatory Organization's Statement on Burden on Competition

FICC does not believe that the proposed rule change associated with the Intraday Mark-to-Market Charge would impact competition.¹⁴ The proposed rule change would increase the transparency of the MBSD Rules with respect to this existing charge by codifying FICC's current practices with respect to the assessment and imposition of the charge. As such, FICC believes that the proposed rule change will not impact Clearing Members or have any impact on competition.

FICC does not believe that the proposed rule change to delete the End of Day Charge would impact competition. Changes to the applicable provisions would not impact Clearing Members because the End of Day Charge is not used by MBSD in the calculation of a Clearing Member's Required Fund Deposit. As such, FICC believes that the deletion of these provisions will not impact competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

FICC has not received any written comments relating to this proposal. FICC will notify the Commission of any written comments received.

6. Extension of Time Period for Commission Action

FICC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

(a) The proposed rule change has become effective pursuant to paragraph A of Section 19(b)(3) of the Act.¹⁵

¹³ 17 CFR 240.17Ad-22(e)(6).

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

¹⁵ 15 U.S.C. 78s(b)(3)(A).

(b) The proposed rule change affects a change in an existing service of MBSD that does not adversely affect the safeguarding of securities or funds in the custody or control of FICC or for which it is responsible and does not significantly affect the respective rights or obligations of FICC or its MBSD Clearing Members.¹⁶

(c) Not applicable.

(d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

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

Not applicable.

11. Exhibits

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the MBSD Rules.

¹⁶ 17 CFR 240.19b-4(f)(4).

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-FICC-2017-004)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Describe the Intraday Mark-to-Market Charge

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March [], 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. 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 the Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules”)³ in order to provide transparency in the MBSD Rules with respect to the existing intraday Mark-to-Market charge by codifying FICC’s current practices with respect to the assessment and collection of the intraday Mark-to-Market charge.⁴ This charge is imposed on certain

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The MBSD Rules are available at <http://www.dtcc.com/legal/rules-and-procedures>. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the MBSD Rules.

⁴ The intraday Mark-to-Market charge is currently described in Section 2(a) of Rule 4 of the MBSD Rules.

Clearing Members that experience an adverse intraday Mark-to-Market change that meets certain criteria described below. The charge is designed to mitigate FICC's exposure resulting from large intraday Mark-to-Market fluctuations to Clearing Members' portfolios that are not otherwise covered by Clearing Members' Required Fund Deposits.

In order to provide transparency with respect to the existing intraday Mark-to-Market charge by codifying FICC's existing practices with respect to the charge, FICC is proposing to amend MBS Rule 1 (Definitions) to add the defined term "Intraday Mark-to-Market Charge" and to amend Section 2(c) of MBS Rule 4 (Clearing Fund and Loss Allocation) to include the Intraday Mark-to-Market Charge.

In addition, the proposed rule change would delete the term "End of Day Charge" from the MBS Rules because it is no longer used, as further discussed below. To effectuate this change, the proposed rule change would delete the definition of End of Day Charge from Rule 1 (Definitions) and would amend Section 2 of MBS Rule 4 (Clearing Fund and Loss Allocation) to delete the reference to the End of Day Charge.

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

1. Purpose

The proposed rule change would provide transparency in the MBS Rules with respect to the assessment and collection of the existing Intraday Mark-to-Market Charge, which FICC currently may impose on a Clearing Member on an intraday basis under certain circumstances described below. Once imposed, payment of this charge is due within one hour after notice from FICC to an affected Clearing Member.⁵ The proposed rule change would also eliminate references to the End of Day Charge from the MBS Rules.

(i) ***Background -- The Required Fund Deposit and Mark-to-Market***

The Required Fund Deposit serves as each Clearing Member's margin. The objective of the Required Fund Deposit is to mitigate potential losses to FICC associated with liquidation of the Clearing Member's portfolio in the event that FICC ceases to act for a Clearing Member (hereinafter referred to as a "default"). FICC determines Required Fund Deposit amounts using a number of component charges calculated and assessed daily, the largest of which is the VaR Charge that is a risk-based margin methodology intended to capture market price risk. The methodology uses historical market moves to project or forecast the potential gains or losses on the liquidation of a defaulting Clearing Member's portfolio, assuming that a portfolio would take three days to liquidate or hedge in normal market conditions. The projected liquidation gains or losses are used to determine the Clearing Member's VaR Charge, which is calculated to

⁵ MBS Rule 4, Section 2.

cover projected liquidation losses at a 99 percent confidence level. The aggregate of all Clearing Members' Required Fund Deposits constitutes the Clearing Fund of MBSD, which FICC would be able to access in the event a defaulting Clearing Member's own Required Fund Deposit is insufficient to satisfy losses to FICC caused by the liquidation of that Clearing Member's portfolio.

MBSD calculates the full suite of components that comprise the Required Fund Deposit and imposes the Required Fund Deposit once per day, at the start of the day, based on a Clearing Member's prior end-of-day positions. Generally, the second largest component of the daily Required Fund Deposit is a start-of-day Mark-to-Market amount, which is designed to mitigate the risk arising out of the value change between the contract/settlement value of a Clearing Member's open positions and the market value at the end of the prior day.

(ii) *Overview -- The Intraday Mark-to-Market Charge*

During each trading day, a Clearing Member's exposure may change due to the settlement of existing transactions and new trade activities. In addition, the value of the Clearing Member's portfolio may change due to market influences. Normally, the start-of-day Mark-to-Market component of the daily Required Fund Deposit covers FICC's exposure to a Clearing Member due to market moves and/or trading and settlement activity because it brings the portfolio of outstanding positions up to the market value at the end of the prior day. However, because the start-of-day Mark-to-Market component of the Required Fund Deposit is calculated only once daily using the prior end-of-day positions and prices, it does not cover a Clearing Member's exposure arising out of intraday changes to position and market value in the Clearing Member's portfolio that

result in an adverse change to the Clearing Member's Mark-to-Market ("MTM Exposure"). FICC manages this intraday risk exposure by observing snapshots of Clearing Members' portfolios and monitoring intraday changes to each Clearing Member's Mark-to-Market versus the Mark-to-Market that was part of the Required Fund Deposit at the start of the day or, if applicable, any subsequently collected Mark-to-Market amount. FICC then collects an Intraday Mark-to-Market Charge from Clearing Members to cover significant risk exposures that warrant the collection of intraday margin, as further described below.

(iii) The Parameter Breaks

FICC's current practice with respect to the assessment of the Intraday Mark-to-Market Charge entails tracking three criteria (each, a "Parameter Break") for each Clearing Member. The Parameter Breaks help FICC determine whether a Clearing Member's MTM Exposure poses a risk to FICC that is significant enough to warrant an Intraday Mark-to-Market Charge. The objective of the Parameter Breaks is to ensure that FICC is able to limit exposure to intraday Mark-to-Market fluctuations that (a) are of a large dollar amount (the "Dollar Threshold"), (b) exhaust a significant portion of a Clearing Member's VaR Charge (the "Percentage Threshold") and (c) are experienced by Clearing Members with backtesting deficiencies that bring backtesting results for that Clearing Member below the 99 percent confidence target (the "Coverage Target"), indicating that a Clearing Member's activity was not sufficiently covered by margin.

1. The Dollar Threshold

The purpose of the Dollar Threshold is to identify those Clearing Members whose MTM Exposures represent a large portion of the Clearing Fund.

FICC believes that such Clearing Members pose an increased risk of loss to FICC because the coverage provided by the Clearing Fund, which is designed to cover the aggregate losses of all Clearing Members' portfolios, would be substantially impacted by large MTM Exposures. More specifically, if a Clearing Member were to default and the Clearing Member's Required Fund Deposit was not sufficient to satisfy losses to FICC caused by the liquidation of the Clearing Member's portfolio, FICC would be able to access the funds held by it in the Clearing Fund to satisfy such losses. However, because the Clearing Fund must be available to satisfy potential losses to FICC that may arise from any Clearing Member defaults, FICC would be exposed to a significant risk of loss if Clearing Members' MTM Exposures accounted for a substantial portion of the Clearing Fund. The Dollar Threshold is set to an amount that would ensure that the aggregate MTM Exposures of all of its Clearing Members at such threshold would not exceed 5 percent of the Clearing Fund. FICC believes that the availability of 95 percent of the Clearing Fund to satisfy all other liquidation losses arising out of a Clearing Member's default is sufficient to mitigate the risks posed to FICC by such losses. FICC assesses the sufficiency of the Dollar Threshold on an annual basis and may adjust the Dollar Threshold if it determines that such an adjustment is necessary to provide reasonable coverage. Currently, the Dollar Threshold is an adverse intraday Mark-to-Market change in a Clearing Member's portfolio that equals or exceeds \$1,000,000 when compared to the Clearing Member's start-of-day Mark-to-Market requirement including, if applicable, any subsequently collected Mark-to-Market amount.

2. The Percentage Threshold

The purpose of the Percentage Threshold is to identify those Clearing Members whose MTM Exposures deplete a significant portion of such Clearing Members' daily VaR Charge. FICC believes that Clearing Members that experience such MTM Exposures pose an increased risk of loss to FICC because the coverage provided by the VaR Charge, which is designed to cover estimated losses to a portfolio over a specified time period at least 99 percent of the time, would be depleted by a significant MTM Exposure that could cause the Clearing Member's Required Fund Deposit to be unable to absorb further intraday losses to the Clearing Member's portfolio. The Percentage Threshold is designed to provide FICC with a reasonable cushion to allow the VaR Charge collected at the start of day to function as expected. More specifically, the VaR Charge is designed to cover potential losses over a three-day time period for a Clearing Member at least 99 percent of the time, assuming normal market conditions. When a Clearing Member's MTM Exposure meets or exceeds a certain percentage as compared to its daily VaR Charge, the value of the Clearing Member's portfolio is trending towards a loss outside of the expected value as determined by such VaR Charge. The Percentage Threshold is calculated to equal a percentage of the daily VaR Charge that FICC has determined would leave it with a sufficient amount of a Clearing Member's remaining VaR Charge after accounting for potential losses arising from the Clearing Member's MTM Exposure. FICC assesses the sufficiency of the Percentage Threshold on an annual basis and may adjust the Percentage Threshold if it determines that such an

adjustment is necessary to provide reasonable coverage.⁶ Currently, the Percentage Threshold is an adverse intraday Mark-to-Market change in a Clearing Member's portfolio that equals or exceeds 30 percent of the VaR Charge collected as part of the Clearing Member's daily Required Fund Deposit.

3. The Coverage Target

The purpose of the Coverage Target is to identify those Clearing Members that have experienced backtesting deficiencies that bring the results for that Clearing Member below the 99 percent confidence target (i.e., greater than two deficiency days in a rolling 12-month period) as reported in the most current month. FICC believes that such Clearing Members pose an increased risk of loss to FICC because such backtesting deficiencies demonstrate that FICC's risk-based margin model did not perform as expected for the Clearing Member. More specifically, FICC employs daily backtesting to determine the adequacy of each Clearing Member's Required Fund Deposit. FICC compares the Required Fund Deposit for each Clearing Member with the simulated liquidation gains/losses using the actual positions in the Clearing Member's portfolio and the actual historical security returns. FICC investigates the cause(s) of any deficiencies. As a part of this process, FICC pays particular attention to deficiencies that cause a Clearing Member's backtesting coverage to fall below the Coverage Target. Such deficiencies are evidence that the model used to calculate the Clearing Member's Required Fund Deposit did not calculate an amount sufficient to cover the

⁶ In 2014, FICC lowered the Percentage Threshold from 40 percent to 30 percent of the VaR Charge after conducting a study that determined that a Percentage Threshold of 40 percent did not provide a sufficient cushion against potential losses.

Clearing Member's risk to FICC, as would otherwise be expected of the Required Fund Deposit. The Coverage Target is designed to provide coverage to FICC for intraday Mark-to-Market fluctuations in the portfolio of a Clearing Member for whom the Required Fund Deposit model is not performing as expected. FICC believes that a MTM Exposure for Clearing Members that fall below the Coverage Target may expose FICC to heightened risk, requiring an Intraday Mark-to-Market Charge to cover that risk.

(iv) Assessment and Collection of the Intraday Mark-to-Market Charge

FICC's current practice is to review intraday snapshots of each Clearing Member's portfolios to determine whether the Clearing Member has experienced a MTM Exposure that warrants FICC assessing an Intraday Mark-to-Market Charge. More specifically, if a Clearing Member's MTM Exposure breaches all three Parameter Breaks, the Clearing Member will be subject to the Intraday Mark-to-Market Charge and FICC will collect the charge subject to waivers or changes to the amount of the calculated charge, as described below. However, where FICC determines that certain market conditions exist, including but not limited to (i) sudden swings in an equity index in either direction that exceed certain threshold amounts determined by FICC and (ii) moves in U.S. Treasury yields and mortgage-backed security spreads outside of historically observed market moves, FICC does not require that the Coverage Target be breached; rather, FICC imposes the Intraday Mark-to-Market Charge if only the Dollar Threshold and Percentage Threshold are breached,⁷ subject to waivers and changes to the amount

⁷ FICC has determined that, because a Clearing Member's backtesting coverage may not accurately reflect the risks posed by a Clearing Member under certain

of the calculated charge, as described below. Moreover, during such market conditions, the Dollar Threshold and Percentage Threshold may be reduced if FICC determines that such reduction is appropriate in order to accelerate collection of anticipated additional margin from Clearing Members whose portfolios may present relatively greater risks to FICC on an overnight basis. Any such reduction would not cause the Dollar Threshold to be less than \$250,000 and the Percentage Threshold to be less than 5 percent.

Irrespective of market conditions, FICC may impose the Intraday Mark-to-Market Charge on Clearing Members that (i) are approaching but have not yet breached the Percentage Threshold (but are at 20 percent or greater of the daily VaR Charge) and (ii) have a MTM Exposure that exceeds a certain dollar amount (“Surveillance Threshold”) that is set by FICC per Clearing Member based on the Clearing Member’s internal Credit Risk Rating Matrix (“CRRM”) rating and/or the Clearing Member’s Watch List status, if the Corporation determines that the size of such Clearing Member’s Mark-to-Market change exposes the Corporation to increased risk. FICC links the Surveillance Thresholds to a Clearing Member’s CRRM rating and Watch List status because a Clearing Member with a weaker internal rating is likely to pose a greater risk of default. Clearing Members with weaker internal credit ratings are assigned lower Surveillance Thresholds than Clearing Members with stronger internal credit ratings. The Surveillance Thresholds are intended as a tool to aid FICC in identifying Clearing Members whose MTM Exposures may necessitate the collection of an Intraday Mark-to-

market conditions, Clearing Members with backtesting coverage that meets or exceeds the Coverage Target may nonetheless pose increased risk to FICC. Therefore, FICC imposes the Intraday Mark-to-Market Charge on Clearing Members that breach the Dollar Threshold and Percentage Threshold, despite the fact that such Members may not have breached the Coverage Target during certain market conditions.

Market Charge. The current Surveillance Thresholds are: (a) \$50 million for Clearing Members with a CRRM rating of “1” or “2” and for non-rated Clearing Members that are not on the Watch List; (b) \$25 million for Clearing Members with a CRRM rating of “3”; (c) \$15 million for Clearing Members with a CRRM rating of “4”; (d) \$10 million for Clearing Members with a CRRM rating of “5” or “6” and for non-rated Clearing Members that are on the Watch List; and (e) \$5 million for Clearing Members with a CRRM rating of “7.”

Although FICC generally collects the Intraday Mark-to-Market Charge under the conditions described above, FICC retains the discretion to waive or alter such Intraday Mark-to-Market Charge in circumstances where it determines that the MTM Exposure and/or the breaches of the Parameter Breaks do not accurately reflect FICC’s risk exposure to the Clearing Member’s intraday Mark-to-Market fluctuation (e.g., a Clearing Member’s breach of the Coverage Target Parameter Break is based on a shortened backtesting look-back period and large Mark-to-Market fluctuations arising out of trade errors). Based on FICC’s assessment of the impact of these circumstances and FICC’s actual risk exposure to a Clearing Member, FICC may, in its discretion, waive or alter (decrease or increase) an Intraday Mark-to-Market Charge for a Clearing Member. Given the variability of the factors that result in breaches of the Parameter Breaks, FICC believes that it is important to maintain such discretion in order to limit the imposition of the Intraday Mark-to-Market Charge to those Clearing Members with MTM Exposures that pose a significant level of risk to FICC. Such Intraday Mark-to-Market Charge would not reduce a Clearing Member’s Required Fund Deposit below the amount reported at the start of day. Any increase to the Intraday Mark-to-Market Charge would

not cause the Intraday Mark-to-Market Charge to be greater than two times its calculated amount.

(v) *Communication with Clearing Members and Imposition of the Intraday Mark-to-Market Charge*

If FICC determines that FICC should collect an Intraday Mark-to-Market Charge from a Clearing Member, FICC notifies the Clearing Member during the trading day of its requirement to pay the Intraday Mark-to-Market Charge and the amount due.

Affected Clearing Members are required to pay the amount due within one hour after FICC has provided the Clearing Member with notification that such payment is due (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York).

(vi) *Proposal to Delete the End of Day Charge*

Currently, MBSD Rule 4 states that the Required Fund Deposit is equal to the greater of: (i) the Minimum Charge, or (ii) the End of Day Charge,⁸ plus the VaR Charge, the Deterministic Risk Component,⁹ and the special charge, if applicable. The End of Day Charge is comprised of the VaR Charge plus components that are identical to the components in the Deterministic Risk Component and is therefore duplicative and

⁸ The “End of Day Charge” means with respect to each Clearing Member, the calculation equaling: (i) the VaR Charge; plus (ii) the Mark-to-Market Debit; minus (iii) the Mark-to-Market Credit; plus (iv) a cash obligation item debit; minus (v) a cash obligation item credit; plus or minus (vi) accrued principal and interest. See MBSD Rule 1, supra note 3.

⁹ The “Deterministic Risk Component” means with respect to the margin portfolio of a Clearing Member, the calculation equaling: (i) the Mark-to-Market Debit; minus (ii) the Mark-to-Market Credit; plus (iii) a cash obligation item debit; minus (iv) a cash obligation item credit; plus or minus (v) accrued principal and interest. See MBSD Rule 1, supra note 3.

unnecessary. Therefore, FICC is proposing to delete the term and the reference to the End of Day Charge in order to help ensure that the MBSD Rules are accurate and clear.

2. Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”), requires, in part, that the MBSD Rules promote the prompt and accurate clearance and settlement of securities transactions.¹⁰ The proposed rule changes with respect to the Intraday Mark-to-Market Charge would provide transparency in the MBSD Rules regarding the existing Intraday Mark-to-Market Charge by codifying FICC’s current practices with respect to the assessment and collection of the charge. In addition, the proposed rule change associated with the deletion of the End of Day Charge would delete provisions that are not used to ensure that the MBSD Rules remain accurate and clear. Collectively, the proposed changes would ensure that the MBSD Rules remain transparent, accurate and clear, which would enable all stakeholders to readily understand their rights and obligations in connection with MBSD’s clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(b)(1) under the Act requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to measure its credit exposures to its participants at least once a day and limit its exposures to potential losses from defaults by its participants under normal market conditions, so that the operations of the clearing agency would not be disrupted and non-defaulting

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

participants would not be exposed to losses that they cannot anticipate or control.¹¹

FICC's Intraday Mark-to-Market Charge is calculated and imposed to cover credit exposures estimated by FICC based on significant intraday Mark-to-Market changes to a Clearing Member's portfolio, as well as the Clearing Member's trailing 12-month backtesting results, with the goal of ensuring that FICC is not exposed to increased risk from large intraday Mark-to-Market changes to the Clearing Member's portfolio. Therefore, FICC believes that management of its credit exposures to Clearing Members through this charge is consistent with Rule 17Ad-22(b)(1) under the Act.

Rule 17Ad-22(b)(2) under the Act requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to use margin requirements to limit its credit exposures to participants under normal market conditions.¹² When applicable, the Intraday Mark-to-Market Charge is a component of a Clearing Member's Required Fund Deposit, or margin, and is intended to maintain coverage of FICC's credit exposures to such Clearing Member at a confidence level of at least 99 percent. The Intraday Mark-to-Market Charge therefore limits FICC's exposures to Clearing Members under normal market conditions. Moreover, by incorporating the Intraday Mark-to-Market Charge into the MBSD Rules more clearly, the proposed change demonstrates that FICC has rule provisions that are reasonably designed to use margin requirements to limit its credit exposures to its Clearing Members under normal market conditions. Therefore, FICC believes that the proposed rule change is also consistent with Rule 17Ad-22(b)(2) under the Act.

¹¹ 17 CFR 240.17Ad-22(b)(1).

¹² 17 CFR 240.17Ad-22(b)(2).

The proposed rule changes with respect to the Intraday Mark-to-Market Charge have also been designed to be consistent with Rules 17Ad-22(e)(4) and (e)(6) under the Act, which were recently adopted by the U.S. Securities and Exchange Commission (“Commission”).¹³ Rule 17Ad-22(e)(4) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes.¹⁴ The proposed rule change codifies MBSD’s practices associated with the Intraday Mark-to-Market Charge, which address the identification, measurement, monitoring and management of credit exposures that may arise from intraday changes that occur to a Clearing Member’s portfolio because of settlement of existing transactions and new trade activities. Moreover, by incorporating the Intraday Mark-to-Market Charge into the MBSD Rules more clearly, the proposed change would enable FICC to have rule provisions that are reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to Clearing Members and those exposures arising from its payment, clearing, and settlement processes, which FICC believes is consistent with Rule 17Ad-22(e)(4).

Rule 17Ad-22(e)(6) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that is monitored by

¹³ 17 CFR 240.17Ad-22(e)(4) and (6). The Commission adopted amendments to Rule 17Ad-22, including the addition of new section 17Ad-22(e), on September 28, 2016. See Exchange Act Release No. 34-78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). FICC is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5) and must comply with new section (e) of Rule 17Ad-22 by April 11, 2017. Id.

¹⁴ 17 CFR 240.17Ad-22(e)(4).

management on an ongoing basis and regularly reviewed, tested, and verified.¹⁵ The Intraday Mark-to-Market Charge is a risk-based margining system with parameters that are regularly reviewed by FICC. Therefore, FICC believes the proposed rule change is consistent with Rule 17Ad-22(e)(6).

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

FICC does not believe that the proposed rule change associated with the Intraday Mark-to-Market Charge would impact competition.¹⁶ The proposed rule change would increase the transparency of the MBSD Rules with respect to this existing charge by codifying FICC's current practices with respect to the assessment and imposition of the charge. As such, FICC believes that the proposed rule change will not impact Clearing Members or have any impact on competition.

FICC does not believe that the proposed rule change to delete the End of Day Charge would impact competition. Changes to the applicable provisions would not impact Clearing Members because the End of Day Charge is not used by MBSD in the calculation of a Clearing Member's Required Fund Deposit. As such, FICC believes that the deletion of these provisions will not impact competition.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received any written comments relating to this proposal. FICC will notify the Commission of any written comments received.

¹⁵ 17 CFR 240.17Ad-22(e)(6).

¹⁶ 15 U.S.C. 78q-1(b)(3)(I).

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) of the Act and paragraph (f) of Rule 19b-4 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2017-004 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2017-004. 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-2017-004 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.¹⁷

Secretary

¹⁷ 17 CFR 200.30-3(a)(12).

Bold and underlined text indicates proposed added language

~~Bold and strikethrough text~~ indicates proposed deleted language

FIXED INCOME CLEARING CORPORATION

MORTGAGE-BACKED SECURITIES DIVISION

CLEARING RULES

RULE 1 – DEFINITIONS

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified.

* * * *

End of Day Charge

~~The term “End of Day Charge” means with respect to each Clearing Member, the calculation equaling: (i) the VaR Charge; plus (ii) the Mark-to-Market Debit; minus (iii) the Mark-to-Market Credit; plus (iv) a cash obligation item debit; minus (v) a cash obligation item credit; plus or minus (vi) accrued principal and interest.~~

* * * *

Intraday Mark-to-Market Charge

The term “Intraday Mark-to-Market Charge” means an additional charge that is collected from a Clearing Member (unless waived or altered by the Corporation per subsection (d) below) to mitigate the Corporation’s exposures that may arise due to intraday changes in the size, composition and constituent security prices of such Member’s portfolio. The Intraday Mark-to-Market Charge equals the difference between Mark-to-Market amounts already included in the Clearing Member’s Required Fund Deposit (including any Intraday Mark-to-Market Charge) and such Clearing Member’s current portfolio marked to the most recently observed System Price for such positions. The following apply with respect to the Intraday Mark-to-Market Charge:

- (a) The Intraday Mark-to-Market Charge applies to Clearing Members that (i) experience an adverse intraday Mark-to-Market change that equals or exceeds (x) a threshold dollar amount of \$1,000,000, as compared to the Clearing Member’s start-of-day Mark-to-Market requirement including, if applicable, any subsequently collected Mark-to-Market amount, and (y) a threshold percentage of 30 percent as compared to the daily VaR Charge, and (ii) have 12-month backtesting coverage below 99 percent (each of (i)(x), (i)(y) and (ii), a “Parameter” for purposes of this definition).
- (b) If certain market conditions occur, the Corporation may reduce the threshold dollar amount in Parameter (i)(x) above (but not to less than \$250,000) and the threshold percentage in Parameter (i)(y) above (but not to less than 5 percent), and not consider the Parameter in (ii) above in applying the Intraday Mark-to-Market Charge to Clearing Members whose portfolios may present relatively greater risks to the Corporation on an overnight basis due to such market conditions. Examples of market conditions that the Corporation may consider with respect to applying this subsection (b) may include, but shall not be limited to, the occurrence of sudden large swings in an equity index in either direction and moves in U.S. Treasury yields

and mortgage-backed security spreads outside of historically observed market moves.

- (c) The Corporation may, in its discretion, collect the Intraday Mark-to-Market Charge from a Clearing Member that experiences an adverse Intraday Mark-to-Market change that (1) has not yet breached the percentage threshold in Parameter (i)(y) above but is greater than or equal to 20 percent as compared to the daily VaR Charge and (2) exceeds a certain dollar threshold (“Surveillance Threshold”), if the Corporation determines that the size of such Clearing Member’s Mark-to-Market change exposes the Corporation to increased risk. The Surveillance Threshold is an amount between \$1,000,000 and \$50,000,000 that is set by the Corporation per Clearing Member based on a Clearing Member’s rating as determined by the Credit Risk Rating Matrix and/or a Clearing Member’s Watch List status.
- (d) The Corporation may waive the imposition of the Intraday Mark-to-Market Charge, or may decrease or increase the amount of the Intraday Mark-to-Market Charge, in circumstances where the Corporation determines that the adverse change to the Clearing Member’s Mark-to-Market and/or the breaches of the Parameters referred to in subsection (a) or as adjusted pursuant to subsection (b) or (c) do not accurately reflect the Corporation’s risk exposure to the Clearing Member’s intraday Mark-to-Market fluctuation. Examples of circumstances that the Corporation may consider with respect to the determination in the previous sentence, may include, but shall not be limited to, large Mark-to-Market fluctuations arising out of trade errors. Any decrease to such Intraday Mark-to-Market Charge shall not reduce the Clearing Member’s Required Fund Deposit below the amount reported to the Clearing Member at the start of day. Any increase to the Intraday Mark-to-Market Charge shall not cause the Intraday Mark-to-Market Charge to be greater than two times its calculated amount.

* * * *

RULE 4—CLEARING FUND AND LOSS ALLOCATION

* * * *

Section 2 —Required Fund Deposit

- (a) Mark-to-Market -- Computation of profit or loss.

The Corporation shall separately compute profit or loss for each Transaction in each Account maintained by a Clearing Member as follows:

- (i) A Transaction other than an Option Contract shall be deemed to produce a profit or loss based on:
- (aa) the direction of the Transaction (i.e., based on whether the Transaction results in a Long Position or a Short Position for the Member); and

- (bb) the difference between the Transaction's Settlement Value and its System Value.
- (ii) An Option Contract shall be deemed to produce a profit or loss based on:
 - (aa) the direction of the Option Contract (i.e., based on whether the Member bought or sold the Option Contract, resulting in a Long Position or a Short Position for the Member);
 - (bb) the nature of the Option Contract (which can be either a Call Option Contract or a Put Option Contract);
 - (cc) the difference between the Option Contract's Strike Price and the System Value of the underlying Eligible Security; and
 - (dd) the expiration date of the Option Contract.

The net amount of profits and/or losses computed for each Clearing Member pursuant to this Section 2(a) of Rule 4 shall be reported in the Member's daily Open Commitment Report.

Notwithstanding anything to the contrary above, on any Business Day, **a Clearing Member may become subject to an Intraday** ~~any~~ **Mark-to-Market Charge, which, if applicable, amount** may be collected **by the Corporation** on an intra-day basis, with payment having to be made by the affected Member within one hour after the Corporation has provided such Member with notification that payment of such amount is due that same day (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York). ~~Such intra-day Mark-to-Market amount shall be based upon certain parameter breaks defined by the Corporation from time to time, including changes to a Member's position size and composition and price changes on the constituent securities. Qualitative factors including, but not limited to, Watch List status and internal rating will also be considered in the application of intraday Mark-to-Market charges.~~ Such intra-day payment(s) shall be made as instructed by the Corporation.

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(c) Each Business Day, each Clearing Member shall be required to make a Required Fund Deposit to the Clearing Fund equal to the greater of: (i) the Minimum Charge, or (ii) ~~the End of Day Charge;~~ **plus** the sum of the following:

- (i) the VaR Charge
- plus
- (ii) the amount of the Deterministic Risk Component
- plus

(iii) an additional payment (“special charge”) from such Member as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time

plus

(iv) in the case of Clearing Member with backtesting deficiencies, the Backtesting Charge, if applicable

plus

(v) the Holiday Charge, if applicable, on the Business Day prior to a Holiday.

plus

(vi) an Intraday Mark-to-Market Charge, if applicable.

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