

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-81255; File No. SR-FICC-2017-018)

July 28, 2017

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fees in the Mortgage-Backed Securities Division Clearing Rules and the 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 July 28, 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 proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder.<sup>4</sup> 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

On July 31, 2017, FICC will implement proposed rule change SR-FICC-2017-012 (“Rule Filing 2017-012”).<sup>5</sup> Rule Filing 2017-012 will amend the Mortgage-Backed Securities Division Clearing Rules (the “MBSD Rules”) to (1) move the time that FICC

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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)(2).

<sup>5</sup> Securities Exchange Act Release No. 81051 (June 29, 2017), 82 FR 31378 (July 6, 2017) (SR-FICC-2017-012) (“Approval Order”).

novates and treats itself as the settlement counterparty for certain transactions, (2) guarantee and novate trades with stipulations (“Stipulated Trades”), and (3) establish new processes that promote operational efficiencies for Clearing Members.<sup>6</sup> In connection with Rule Filing 2017-012, FICC is proposing with this filing to amend the fees in the MBSD Rules and the EPN Rules (the “EPN Rules”) as further described below.<sup>7</sup> The changes proposed in this filing would become effective on August 1, 2017, as described below.

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

In its filing with the Commission, 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

On July 31, 2017, FICC will amend the MBSD Rules to (1) move the time that FICC novates and treats itself as the settlement counterparty for certain transactions, (2)

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<sup>6</sup> Id. In connection with the changes in Rule Filing 2017-012, FICC will implement new processes that promote operational efficiencies for Clearing Members. The full text of Rule Filing 2017-012 may be obtained by visiting DTCC’s website at <http://www.dtcc.com/legal/sec-rule-filings>.

<sup>7</sup> Capitalized terms not defined herein are defined in the MBSD Rules and the EPN Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

guarantee and novate trades with stipulations (“Stipulated Trades”), and (3) establish new processes that promote operational efficiencies for Clearing Members.<sup>8</sup> In connection with Rule Filing 2017-012, FICC is proposing with this filing to amend the fees in the MBSD Rules and the EPN Rules as further described below. The changes proposed in this filing would become effective on August 1, 2017, as described below.

### **I. Proposed Changes to the MBSD Rules**

FICC is proposing to amend the fees in the MBSD Rules’ *Schedule of Charges Broker Account Group* as listed below.

1. The *Account Maintenance* section would be amended to eliminate the “Option Account” fee. This change is being proposed because FICC will eliminate the Broker “give-up” process from the MBSD Rules in connection with Rule Filing 2017-012.<sup>9</sup> Because the submission of Broker Give-Up Trades (which includes Option Contracts) will be eliminated, the associated account maintenance fee for Option Accounts will be eliminated.

2. The *Trade Processing* section would be amended to change the name of the “Give-Up Trade Creates” fee to the “Trade Creates” fee. This change is being proposed because FICC will eliminate the Broker “give-up” process from the MBSD Rules in connection with Rule Filing 2017-012.<sup>10</sup>

3. The *Processing Fees* section would be amended to increase the “Trade Input Non-Compliance” fee to \$1,000 a month per Account from \$500

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<sup>8</sup> See Approval Order, supra note 5.

<sup>9</sup> See Approval Order, 82 FR at 31382.

<sup>10</sup> Id.

a month per Account. This change is being proposed in order to encourage Clearing Members to submit transactions into FICC's Real-Time Trade Matching ("RTTM") system in a timely manner. The timely submission of transactions is especially important because FICC will novate and become the settlement counterparty to all transactions (other than Option Contracts) pursuant to Rule Filing 2017-012.<sup>11</sup>

FICC is proposing to amend the fees in the MBSD Rules' *Schedule of Charges Dealer Account Group* as listed below.

1. The *Trade Processing* section would be amended to modify the tiering levels and the associated fees assigned to each tier for SBO-Destined Trades.<sup>12</sup> In connection with Rule Filing 2017-012, MBSD's processing cost will not change; however, MBSD's operational cost will increase because of MBSD's new allocation department.<sup>13</sup> As a result, these proposed fee changes would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process.

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<sup>11</sup> See Approval Order, supra note 5.

<sup>12</sup> Pursuant to the MBSD Rules, the term "SBO-Destined Trade" means a TBA transaction in the Clearing System intended for TBA Netting in accordance with the provisions of the MBSD Rules. See MBSD Rule 1, supra note 7.

<sup>13</sup> The MBSD allocations department will monitor the transmission of pool information that is used to satisfy to-be-announced transactions. The team will also handle any exception processing that occurs.

<b>Current Charge</b>	<b>Total par amount traded per month</b>	<b>Proposed Charge</b>	<b>Total par amount traded per month</b>
\$1.93/MM	1,000,000 – 2,500,000,000	\$2.00/MM	01 – 2,500,000,000
\$1.77/MM	2,501,000,000 – 5,000,000,000	\$1.58/MM	2,500,000,001 – 7,500,000,000
\$1.60/MM	5,001,000,000 – 7,500,000,000	\$1.39/MM	7,500,000,001 – 12,500,000,000
\$1.49/MM	7,501,000,000 – 10,000,000,000	\$1.19/MM	12,500,000,001 – 300,000,000,000
\$1.32/MM	10,001,000,000 – 12,500,000,000	\$1.16/MM	300,000,000,001 and over
\$1.14/MM	12,501 and over		

2. The *Trade Processing* section would be amended to increase the fee for “TBA Netting Balance Orders” to \$1.00/MM from \$0.75/MM. In connection with Rule Filing 2017-012, MBSD’s processing cost will not change; however, MBSD’s operational cost will increase because of MBSD’s new allocation department. As a result, this proposed fee change would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process. FICC is also proposing to amend this section to eliminate the applicability of this fee to SBOO Trades because this trade type will be eliminated in connection with Rule Filing 2017-012.<sup>14</sup>

3. The *Trade Processing* section would be amended to establish fees for Stipulated Trades, which will be a new trade type eligible for processing at MBSD pursuant to Rule Filing 2017-012.<sup>15</sup> The fees for Stipulated

<sup>14</sup> See Approval Order, 82 FR at 31380.

<sup>15</sup> See Approval Order, 82 FR at 31381.

Trades would be the same fees that are in place for the processing of Trade-for-Trade Transactions<sup>16</sup> and Specified Pool Trades.<sup>17</sup> FICC would amend the heading of this section to clarify that the fees would be applicable to Trade-for-Trade-Transactions, Specified Pool Trades and Stipulated Trades.

4. The *Trade Processing* section would be amended to increase the “Trade Creates” fee for Trade-for-Trade Transactions and Specified Pool Trades to \$1.16/MM from \$1.00/MM. This increased fee would also apply to Stipulated Trades. In connection with Rule Filing 2017-012, MBSD’s processing cost will not change; however, MBSD’s operational cost will increase because of MBSD’s new allocation department. As a result, this proposed fee change would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process.

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<sup>16</sup> Pursuant to the MBSD Rules, the term “Trade-for-Trade Transaction” means a TBA Transaction submitted to MBSD not intended for TBA Netting in accordance with the provisions of the MBSD Rules. See MBSD Rule 1, supra note 7.

<sup>17</sup> Pursuant to the MBSD Rules, the term “Specified Pool Trade” means a trade in which all required pool data, including the pool number to be delivered on the Contractual Settlement Date, are agreed upon by Members at the time of execution. See MBSD Rule 1, supra note 7.

5. FICC is proposing to include two new fees in connection with the proposed Do Not Allocate (“DNA”) process.<sup>18</sup> One fee would be in the amount of \$1.25/MM per transaction in connection with a Clearing Member’s request to include eligible trades in the DNA process (such request would be referred to as a “DNA Request”). The second fee would be in the amount of \$4.00 per transaction in connection with a Clearing Member’s request to cancel its DNA Request (such cancellation would be referred to as a “DNA Request Cancel”).

6. *The Pool Netting Fees* section would be amended to increase the fee for “Matched Pool Instructs” to \$1.00 per side from \$0.60 per side. In connection with Rule Filing 2017-012, MBSB’s processing cost will not change; however, MBSB’s operational cost will increase because of MBSB’s new allocation department. As a result, this proposed fee change would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process.

7. *The Processing Fees* section would be amended to increase the “Trade Input Non-Compliance” fee to \$1,000 a month per Account from \$500 a month per Account. This change is being proposed in order to encourage Clearing Members to submit transactions into FICC’s RTTM system in a timely manner. The timely submission of transactions is especially important because

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<sup>18</sup> As described in Rule Filing 2017-012, the DNA process will permit offsets among SBON Trades and Trade-for-Trade Transactions. See Approval Order, 82 FR at 31381.

FICC will novate and become the settlement counterparty to all transactions (other than Option Contracts) pursuant to Rule Filing 2017-012.<sup>19</sup>

8. The *Notification of Settlement* fees would be eliminated because FICC will eliminate the Notification of Settlement process from the MBSD Rules in connection with Rule Filing 2017-012.<sup>20</sup>

## **II. Proposed Changes to the EPN Rules**

FICC is proposing to amend the “Message Processing Fees” in the *EPN Schedule of Charges* as listed below. In connection with Rule Filing 2017-012, MBSD’s processing cost will not change; however, MBSD’s operational cost will increase because of MBSD’s new allocation department. As a result, these proposed fee changes would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process.

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<sup>19</sup> See Approval Order, *supra* note 5.

<sup>20</sup> See Approval Order, 82 FR at 31381.

<b>EPN FEE SCHEDULE</b>				
<b>Fee Descriptions</b>	<b>Current Charge</b>	<b>Message submission times</b>	<b>New Charge</b>	<b>Message submission times</b>
Messaging Processing Fees				
ON Send				
	\$0.17	Per MM Current Face (opening of business to 1:00 PM)	\$0.19	Per MM Current Face (opening of business to 1:00 PM)
	\$0.86	Per MM Current Face (1:00 PM to 2:00 PM)	\$0.95	Per MM Current Face (1:00 PM to 2:00 PM)
	\$1.73	Per MM Current Face (2:00 PM to 3:00 PM)	\$1.90	Per MM Current Face (2:00 PM to 3:00 PM)
	\$1.44	Per MM Current Face (3:00 PM to close of business)	\$1.58	Per MM Current Face (3:00 PM to close of business)
ON Receive				
	\$0.46	Per MM Current Face (opening of business to 1:00 PM)	\$0.51	Per MM Current Face (opening of business to 1:00 PM)
	\$0.23	Per MM Current Face (1:00 PM to 2:00 PM)	\$0.26	Per MM Current Face (1:00 PM to 2:00 PM)
	\$0.23	Per MM Current Face (2:00 PM to 3:00 PM)	\$0.26	Per MM Current Face (2:00 PM to 3:00 PM)
Cancel/Correct Send				
	\$0.17	Per MM Current Face (opening of business to 11:00 AM)	\$0.19	Per MM Current Face (opening of business to 11:00 AM)
	\$0.86	Per MM Current Face (11:00 AM to 12:00 PM)	\$0.95	Per MM Current Face (11:00 AM to 12:00 PM)
	\$1.73	Per MM Current Face (12:00 PM to 12:15 PM)	\$1.90	Per MM Current Face (12:00 PM to 12:15 PM)
	\$0.17	Per MM Current Face (12:15 PM to end of day)	\$0.19	Per MM Current Face (12:15 PM to end of day)

### **III. Delayed implementation of the proposed rule change**

The proposed changes would become effective on August 1, 2017.<sup>21</sup> Upon FICC's submission of this proposed rule change to the Commission, FICC would add a legend to the MBSD Rules and the EPN Rules, as applicable, to state that the specified changes have been filed with the Commission for immediate effectiveness, however, such changes are not yet implemented and to provide the date such changes would become implemented. The legend would also include the file number of the proposed rule change and would state that once implemented, the legend would automatically be removed from the MBSD Rules and EPN Rules as applicable.

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<sup>21</sup> FICC will implement Rule Filing 2017-012 on July 31, 2017, however, the proposed fee changes would be implemented on August 1, 2017 because the billing cycle begins on the first day of each month.

2. Statutory Basis

Section 17A(b)(3)(D) of the Act requires that the MBSD Rules and the EPN Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants.<sup>22</sup> FICC believes that the proposed (1) changes to the MBSD Trade Processing fees, MBSD Pool Netting fees and the EPN Message Processing fees (collectively, the “Processing Fees”), and (2) new fees for Stipulated Trades submissions and the DNA process (collectively, the “New Fees”) are equitably allocated among Clearing Members and EPN Users, as applicable, because the fees would continue to be based on each Clearing Member’s utilization of MBSD’s services. Specifically, each Clearing Member or EPN User would be charged based on the volume of transactions and/or messages submitted to MBSD.

FICC believes that the proposed changes to the Processing Fees and the New Fees are reasonable because the proposed fee changes would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process. Additionally, MBSD’s new allocation department will increase MBSD’s operational cost. FICC believes that the proposed fee changes are reasonable because the fees would align with the cost of providing the benefits associated with the implementation of Rule Filing 2017-012.<sup>23</sup>

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<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(D).

<sup>23</sup> These benefits include the following: (1) the submission of Pool Instructs by Clearing Members will become optional because FICC would be permitted to submit on behalf Clearing Members; (2) Clearing Members will no longer be required to fulfill Notification of Settlement obligations because transactions (except Option Contracts) would settle with FICC; (3) Clearing Members will

FICC believes that its proposal to increase the *Trade Input Non-Compliance* fee for Brokers and Dealers are reasonable because doubling the existing fee would be sufficient to encourage Clearing Members to submit transactions in a timely manner. This is especially important because FICC will novate and become the settlement counterparty to all transactions (except Option Contracts) at trade comparison pursuant to Rule Filing 2017-012.

FICC believes that the proposal to increase the *Trade Input Non-Compliance* fee for Brokers and Dealers are equitably allocated because the same fee would be applicable to the Accounts of all Clearing Members who do not submit transactions on a timely basis.

Therefore, FICC believes the proposed fees are consistent with the requirements of Section 17A(b)(3)(D) of the Act.

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

FICC believes that the proposed (1) changes to the Processing Fees and (2) new fee for Stipulated Trades may impose a burden on competition. However, FICC believes any burden on competition that may result from the proposed fees increases would be

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have the ability to exclude TBA Obligations from the pool allocation process, netting, and securities settlement through the DNA process; (4) Clearing Members will have the ability to net their pools via the Expanded Pool Netting process in the event that such Clearing Members miss the established deadline for the initial Pool Netting process; (5) Dealer Netting Members will remain anonymous with the elimination of the “give-up” process for Brokered Transactions; (6) Clearing Members will be allowed to submit SBO-Destined Trades in all trade sizes; and (7) Clearing Members will be allowed to submit Stipulated Trades as a new trade type. See Approval Order, 82 FR at 31378.

necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>24</sup>

Specifically, FICC believes that the proposed (1) changes to the Processing Fees and (2) new fee for Stipulated Trades are necessary because the fees would provide FICC with the ability to achieve and maintain its operating margin. FICC believes that the proposed fee increases and the new fee for Stipulated Trades are appropriate because the fees would provide FICC with the ability to recover the cost of providing the services described in Rule Filing 2017-012. As discussed above, in connection with Rule Filing 2017-012, MBSD's processing cost will not change; however, MBSD's operational cost will increase because of MBSD's new allocation department. As a result, these proposed fee changes would offset the loss of revenue attributed to the decrease in transaction volumes processed through the Pool Netting System and the EPN Service due to the introduction of the DNA process and the removal of the Notification of Settlement process.

FICC believes that the proposed changes to increase the Trade Input Non-Compliance fee for Brokers and Dealers will not impact competition because Clearing Members could avoid these fees by submitting their transactions on a timely basis in accordance with the MBSD Rules.

FICC believes that the proposed change to eliminate the Option Account fees for Brokers and the Notification of Settlement fees will not impact competition because these fees are associated with processes that will be eliminated pursuant to Rule Filing 2017-012.

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<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(I).

FICC believes that the proposed new fee for the DNA process will not impact competition because the DNA process is voluntary and Clearing Members could elect not to submit their transactions through the DNA process.

(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) of the Act<sup>25</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>26</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

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<sup>25</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>26</sup> 17 CFR 240.19b-4(f).

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2017-018 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-2017-018. 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-2017-018 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>27</sup>

Brent J. Fields  
Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).