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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 003
Amendment No. (req. for Amendments *)

Filing by Fixed Income Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * [x] Amendment * [ ] Withdrawal [ ]

Section 19(b)(2) * [x] Section 19(b)(3)(A) * [ ] Section 19(b)(3)(B) * [ ]

Pilot [ ]

Extension of Time Period for Commission Action * [ ]

Date Expires *

Rule

19b-4(f)(1) 19b-4(f)(4)
19b-4(f)(2) 19b-4(f)(5)
19b-4(f)(3) 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * [ ] Section 806(e)(2) * [ ]

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * [ ]

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Amend the Fee Structure of the Government Securities Division Rulebook

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 * Rosa Last Name * Chang
Title * Executive Director and Associate General Counsel
E-mail * rchang1@dtcc.com
Telephone * (212) 855-4985 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.

Date 04/27/2018

By Nikki Poulos

(Name *)

(Title *)

Managing Director and Deputy General Counsel

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.

npoulos@dtcc.com

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	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 * Add Remove View	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 * Add Remove View	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 Add Remove View 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 Add Remove View 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 Add Remove View	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 Add Remove View	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 Add Remove View	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 Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation ("FICC") is attached hereto as Exhibit 5. The proposed rule change would amend the Fee Structure of the FICC Government Securities Division ("GSD") Rulebook ("GSD Rules")[1] with respect to the fees associated with the delivery-versus-payment ("DVP") service as well as make other changes, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Businesses, Technology and Operations Committee of FICC's Board of Directors on February 13, 2018 and FICC's Board of Directors on February 14, 2018.

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

(a) Purpose

The purpose of this proposed rule change is to amend the Fee Structure of the GSD Rules with respect to the fees associated with the DVP service and make other changes[2] in order to reduce complexity and to better align pricing with the costs of services provided by GSD. The proposed rule change would also make conforming, clarifying, and technical changes. Taken

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1 Capitalized terms not defined herein are defined in the GSD Rules, available at http://www.dtcc.com/~/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf.

2 FICC is not proposing changes to fees specifically associated with either the GCF Repo® Service or the CCIT Service at this time because those fees are more aligned with the costs of providing such services. However, as further discussed below in Section 3(a)(iii) (entitled "PROPOSED FEE CHANGES"), FICC is proposing a change to the minimum monthly fee. The minimum monthly fee is not specific to any service and would apply to each account of either a Comparison-Only Member or a Netting Member; such account of a Netting Member could include GCF Repo and/or CCIT activity. The minimum monthly fee for an account would not apply if the total monthly fees incurred by the account pursuant to proposed Sections I, II, and IV of the GSD Fee Structure exceed $2,500. CCIT Members are not subject to the minimum monthly fee.

For additional information on the GCF Repo Service and the CCIT Service, please refer to GSD Rule 20 and GSD Rule 3B, respectively. See GSD Rule 20 and GSD Rule 3B. GSD Rules, id.

collectively, the proposed rule changes are designed to be revenue neutral for GSD and may eliminate perceived pricing barriers to entry, as described below.

(i) BACKGROUND

GSD provides clearance and settlement services for trades executed by its Members in the U.S. government securities market. GSD supports and facilitates these services through transaction processing and position management.

Transaction processing for the DVP service includes the recording and comparison of transactions submitted to GSD for clearance and settlement through GSD's comparison system, the Real-Time Trade Matching system.

Position management for the DVP service includes trade netting, trade settlement, and the management of credit risks, market risks, and liquidity risks associated with transactions submitted to GSD for clearance and settlement.

(ii) CURRENT FEES

Members are assessed fees in accordance with the GSD Fee Structure. The current GSD Fee Structure covers a multitude of fees that are assessed on Members based upon their activities and the services utilized. The number of fees and the methods by which they are calculated makes the current GSD Fee Structure unnecessarily complex. In addition, due to changes in technology and regulatory environment, certain fees in the current GSD Fee Structure have become misaligned with the costs of services provided by GSD.

A. Pricing Overly Complex

The current GSD Fee Structure (as it relates to the DVP service) consists of trade submission fees, trade netting fees, Repo Transaction[3] processing fees, and settlement fees.[4]

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[3] The term "Repo Transaction" means: (1) an agreement of a party to transfer Eligible Securities to another party in exchange for the receipt of cash, and the simultaneous agreement of the former party to later take back the same Eligible Securities (or any subsequently substituted Eligible Securities) from the latter party in exchange for the payment of cash, or (2) an agreement of a party to take in Eligible Securities from another party in exchange for the payment of cash, and the simultaneous agreement of the former party to later transfer back the same Eligible Securities (or any subsequently substituted Eligible Securities) to the latter party in exchange for the receipt of cash, as the context may indicate, the data on which have been submitted to FICC pursuant to the GSD Rules. A "Repo Transaction" includes a GCF Repo Transaction, unless the context indicates otherwise. See GSD Rule 1. GSD Rules, supra note 1. For the purposes of describing the proposed rule changes, the term "Repo Transaction" will exclude GCF Repo Transactions.

Trade submission fees are based on a seven-tiered structure where the fees are charged based on the number of sides of buy/sell transactions and Repo Transactions submitted and matched in a given month. There are two (2) tiered structures for the trade submission fees, one for the Dealer Accounts and the other one for the Broker Accounts.

Trade netting fees consist of "into the net" fees and "out of the net" fees. The "into the net" fees are different for Broker Accounts and Dealer Accounts and are based on the number of sides of buy/sell transactions and Repo Transactions that are being netted (a seven-tiered structure based on the monthly number of sides of buy/sell transactions and Repo Transactions), and the par value of those sides.[5] The "out of the net" fee is a par value-based fee for each Deliver Obligation and Receive Obligation created as a result of the netting process.[6]

Repo Transaction processing fees are comprised of (1) two gross Repo Transaction processing fees, one for Broker Accounts and one for Dealer Accounts, and (2) a net Repo Transaction processing fee.[7]

With a combination of the tiered structure for trade submission fees and trade netting fees, an "into the net" par value-based fee, an "out of the net" par value-based fee, and gross and net Repo Transaction processing fees, the current GSD Fee Structure can be difficult for Members to understand and reconcile. In fact, Members and market participants have often indicated to FICC that the current GSD Fee Structure is too complex and difficult to understand.

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4 Settlement fees consist of obligation fees and pass-through fees for clearing bank services. These fees are not being changed under this proposal.

5 With respect to the DVP service, the "into the net" par value-based fee is currently \$0.015 per one million of par value for Broker Accounts and \$0.016 per one million of par value for Dealer Accounts for each Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation, and Fail Receive Obligation. See current Section III.A.1(ii) of the GSD Fee Structure. GSD Rules, supra note 1.

6 With respect to the DVP service, the "out of the net" par value-based fee is currently \$0.175 per one million of par value for each Deliver Obligation and Receive Obligation created as a result of the netting process. See current Section III.A.2 of the GSD Fee Structure. GSD Rules, supra note 1.

7 The gross Repo Transaction processing fees are currently a 0.0175 basis point charge and a 0.04 basis point charge applied to the gross dollar amount of each Term Repo Transaction for Broker Accounts and Dealer Accounts, respectively, that has been compared and netted but not yet settled. The net Repo Transaction processing fee is currently a 0.08 basis point charge applied to the net dollar amount of a Netting Member's Term Repo Transactions within a CUSIP that has been compared and netted but not yet settled. See current Section III.E. of the GSD Fee Structure. GSD Rules, supra note 1.

The complexity of the GSD Fee Structure is also noted in the U.S. Department of the Treasury October 2017 report to President Donald Trump on U.S. capital markets ("Treasury Report").[8]

B. Pricing Alignment with Costs of Services Provided by GSD

With respect to the fees associated with the DVP service, a portion of the current GSD Fee Structure is based on transaction processing, with a number of fees charged to Members being driven by the number of transactions that the Members submit to GSD for clearance and settlement (tiered structure for trade submission fees and tiered structure for trade netting fees, as described in Section A above). As a result, under the current GSD Fee Structure, fees are higher for a Member that submitted a larger number of transactions to GSD than a Member that submitted a smaller number of transactions, even when the total par value of the trades that each such Member submitted to GSD is the same.

With technological advancements, GSD's systems have become more scalable and efficient with respect to transaction processing, which has resulted in a reduction in GSD's costs associated with transaction processing. In contrast, GSD faces continued increasing risk management costs, such as costs of account monitoring, intraday margining, and end of day risk management. Therefore, GSD has had to shift its resource allocation so that a sizable portion of its resources is now dedicated to the management of Members' positions. Consequently, certain fees in the current GSD Fee Structure have become misaligned with the costs of services provided by GSD.

As an example, the costs for GSD to manage a single $50 million 30-day Term Repo Transaction[9] for Member A and twenty (20)[10] $50 million overnight Repo Transactions[11] for Member B are similar because the resulting daily positions are the same over the 30-day period, and similar resources are utilized to ensure the safety and soundness of the clearing agency to

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8 See U.S. Department of the Treasury, A Financial System That Creates Economic Opportunities: Capital Markets (October 2017), at 81, available at https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf.

9 The term "Term Repo Transaction" means, on any particular Business Day, a Repo Transaction for which settlement of the Close Leg is scheduled to occur two or more Business Days after the scheduled settlement of the Start Leg. See GSD Rule 1, Definitions. GSD Rules, supra note 1.

10 The example assumes there are twenty (20) Business Days in a month. Twenty (20) overnight Repo Transactions would span the same number of calendar days, i.e., 30 calendar days, as a single 30-day Term Repo Transaction. This is because each overnight Repo Transaction that starts on a Friday will settle on the following Monday.

11 Overnight Repo Transactions are Repo Transactions for which settlement of the Close Leg is scheduled to occur one Business Day after the scheduled settlement of the Start Leg.

these transaction types. However, even though these transactions require similar costs and resources to manage, under the current GSD Fee Structure, Member B will be assessed a fee[12] that is approximately 3.3 times the fee assessed on Member A. This is because under the current GSD Fee Structure, fees associated with Member B's overnight Repo Transactions are higher (e.g., on each Business Day, Member B will be assessed $0.17 per side of trade going into the net, $0.016 per million par value going into the net, and $0.175 per million par value out of the net) than fees associated with Member A's Term Repo Transaction (e.g., Member A will be assessed each of the following fees once: $0.17 per side of trade going into the net, $0.016 per million par value going into the net, and $0.175 per million par value out of the net; in addition, on each calendar day, Member A will be assessed a 0.04 basis point charge applied to the gross dollar amount of its Term Repo Transaction and a 0.08 basis point charge applied to the net dollar amount of its Term Repo Transaction).

C. Review of Current Fees and Rationale for Proposed Fee Amounts

Over the past two years, GSD performed an extensive review of the current GSD Fee Structure with the goals of reducing pricing complexity and aligning pricing with costs, while on an overall basis maintaining GSD's revenue at the current level.

GSD believes it is reasonable and appropriate to assess Members fees that are commensurate with the costs of services provided to Members. Accordingly, based on a review of the costs associated with position management vis-à-vis the overall cost structure as well as the current fees, GSD estimates that the transaction processing fees and the position management fees associated with the DVP service should account for approximately thirty percent (30%) and seventy percent (70%), respectively, of GSD's projected revenue associated with the DVP service. In particular, the position management fees would be comprised of an intraday position management fee and an end of day position management fee, each aimed to reflect the respective costs of services required in managing intraday positions and end of day positions. The proposed fee changes would better align GSD's revenue with the 30/70 split between transaction processing and position management costs. FICC expects GSD's net revenue to remain relatively unchanged as a result of this proposal.

(iii) PROPOSED FEE CHANGES

Based upon feedback from Members and market participants as well as a review of current fees conducted by FICC as described above, FICC is proposing to modify the GSD Fee Structure to (i) reduce pricing complexity and (ii) better align pricing with costs of services provided by GSD.

In that respect, the proposed GSD Fee Structure would establish four (4) new fees, modify three (3) existing fees, and eliminate twelve (12) fees, each as further described below.

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12 In addition, Member A and Member B would be assessed other fees, such as trade submission fees and clearance charges; however, these fees are excluded for the purposes of this example because they are not relevant to position management.

FICC is proposing to add the following fees –

- Transaction processing fee for Broker Accounts
- Transaction processing fee for Dealer Accounts
- Intraday position fee
- End of day position fee

FICC is proposing to modify the following fees –

- Minimum monthly fee
- Auction takedown fee
- Locked-in trade data fee

FICC is proposing to eliminate the following fees –

- Surcharge for submission method
- Seven-tiered transaction based DVP trade submission fee for Broker Accounts
- Seven-tiered transaction based DVP trade submission fee for Dealer Accounts
- Seven-tiered transaction based DVP netting fee for Broker Accounts
- Seven-tiered transaction based DVP netting fee for Dealer Accounts
- DVP par value based into the net fee for Broker Accounts
- DVP par value based into the net fee for Dealer Accounts
- DVP par value based obligation fee (the "out of the net" fee)
- Gross Repo Transaction processing fee for Broker Accounts for DVP transactions
- Gross Repo Transaction processing fee for Dealer Accounts for DVP transactions
- Net Repo Transaction processing fee for DVP transactions
- Fees applicable to additional accounts

The foregoing proposed fee changes would address pricing complexity, pricing alignment to costs, or both, as further described in the section-by-section discussion below. FICC believes the proposed fee changes that address pricing complexity would enhance pricing transparency, making it easier for Members (and prospective members) to understand the GSD Fee Structure. FICC also believes shifting the GSD Fee Structure regarding the DVP service away from a volume-driven approach may result in making central clearing more accessible to additional market participants. Taken collectively, the proposed rule changes are designed to be revenue neutral for GSD and may eliminate perceived pricing barriers to entry.

Section I of GSD Fee Structure

In order to address the complexity of the GSD Fee Structure, FICC is proposing to replace the seven-tiered trade submission fees for both Dealer Accounts and Broker Accounts with a single transaction processing fee that would be charged to Members upon the comparison of a side of a buy/sell transaction or a Repo Transaction in the DVP service. As proposed, Dealer Accounts would be charged a fee of $0.04 per million par value for transaction processing, and Broker Accounts would be charged a fee of $0.02 per million par value for transaction processing.[13] This proposed change would also enable GSD to better align pricing with costs by assessing a fee that is more reflective of the costs that GSD is currently incurring for transaction processing, as described above in Section 3(a)(ii)C.

In order to further reduce the complexity of the current GSD Fee Structure, FICC is proposing to delete fees in Section I of the GSD Fee Structure that are no longer applicable. Specifically, FICC is proposing to delete Section I.B. of the GSD Fee Structure, which imposes surcharges on a Member based on the submission method used by the Member. Current Section I.B. of the GSD Fee Structure imposes certain surcharges on Members submitting trade data to GSD using submission methods other than the Interactive Submission Method, e.g., the Multiple Batch Submission Method or the Single Batch Submission Method. These surcharges are no longer required because all Members currently submit trade data to GSD using the Interactive Submission Method, and FICC does not expect that to change in the future because of technological advancements in real-time trade submission capability across the financial industry. This proposed change would necessitate the re-lettering of the subsequent provisions in Section I of the GSD Fee Structure.

Section II of GSD Fee Structure

In order to better align pricing with the costs of services provided by GSD, FICC is proposing to add two position management fees applicable to the DVP service in proposed Section II of the GSD Fee Structure. The first position management fee would be the intraday position fee of $0.04 per million par value that would be calculated for a Member each Business Day based on the largest gross position of the Member (including positions of any Non-Member that the Member is clearing for) that Business Day. FICC proposes to determine the gross position of a Member in 15-minute intervals between 9 a.m. and 4 p.m. each Business Day by netting the par value of all compared buy/sell transactions, Repo Transactions, and unsettled obligations of the Member (including any such activity submitted by the Member for a Non-Member that the Member is clearing for) by CUSIP Number and taking the sum of the absolute par value of each such CUSIP Number.

The second position management fee would be the end of day position fee of $0.115 per million par value that would be calculated for a Member each Business Day based on the end of day gross position of the Member (including positions of any Non-Member that the Member is clearing for) that Business Day. FICC proposes to determine the end of day gross position of a Member by netting the par value of all compared buy/sell transactions, Repo Transactions, and unsettled obligations of the Member (including any such activity submitted by the Member for a Non-Member that the Member is clearing for) at the end of the Business Day by CUSIP Number and taking the sum of the absolute par value of each such CUSIP Number.

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13 Broker Accounts submit two sides per transaction. As such, a Broker Account would be charged a total of $0.04 per million par value (i.e., $0.02 per million par value times two) for each transaction.

The two proposed position management fees would better align pricing with costs of services provided by GSD because they would be driven by position management and, as stated above, GSD's costs associated with position management have increased. The proposed intraday position fee of $0.04 per million par value is aimed to reflect the costs associated with monitoring and management of Members' intraday DVP positions. The proposed end of day position fee of $0.115 per million par value is aimed to reflect the costs associated with end of day processing, overnight position management, and various risk and operational activities required to assure the ability of FICC to continue to provide a dependable, stable and efficient clearing and settlement service for Members.

Section IV of GSD Fee Structure

In order to reduce pricing complexity further, FICC is proposing to eliminate all netting fees provided in renumbered Section IV of the GSD Fee Structure, i.e., (1) the two seven-tiered netting fees for both Broker Accounts and Dealer Accounts, (2) the "into the net" fees of $0.015 per one million of par value for Broker Accounts and $0.016 per one million of par value for Dealer Accounts for each Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation, and Fail Receive Obligation, and (3) the "out of the net" fees of $0.175 per one million of par value for each Deliver Obligation and Receive Obligation created as a result of the netting process. This would reduce pricing complexity and thereby enhance pricing transparency because the proposal would eliminate the necessity for Members to reconcile their fees to the multiple-tiered netting fees, the "into the net" fees, and the "out of the net" fees.

In addition, FICC is proposing to delete from renumbered Section IV.C. of the GSD Fee Structure the Repo Transaction processing fees and related language for Term Repo Transactions in the DVP service that have been compared and netted but not yet settled. This would reduce pricing complexity and thereby enhance pricing transparency because there would no longer be separate Repo Transaction processing fees for Term Repo Transactions. As proposed, Term Repo Transactions would be assessed the proposed position management fees, just like overnight Repo Transactions and buy/sell transactions.

Section V of GSD Fee Structure

In order to reduce pricing complexity, FICC is proposing to eliminate fees applicable to additional accounts from current Section V of the GSD Fee Structure. FICC believes this proposed change would reduce pricing complexity and thereby enhance pricing transparency because Members would no longer need to differentiate and keep track of their main accounts versus their additional accounts. As proposed, each account of every Comparison-Only Member and Netting Member would now be subject to the same fee, i.e., the minimum monthly fee.

In order to better align pricing with the costs of services provided by GSD, FICC is proposing changes to fees associated with accounts of Comparison-Only Members and Netting Members. Specifically, FICC is proposing to modify the minimum monthly fee in proposed Section V of the GSD Fee Structure. As proposed, the minimum monthly fee would be increased from $1,000 to $2,500 per account and would apply to all accounts of every Comparison-Only Member and Netting Member instead of just their sole or primary account.[14] FICC is proposing to increase the minimum monthly fee to $2,500 per account because FICC believes this change would better reflect GSD's costs of account monitoring, which have increased as described above in Section 3(a)(ii)B.

(iv) <u>EXPECTED MEMBER IMPACT</u>

In general, FICC anticipates that the proposal would result in fee increases for Members that currently have large directional term repurchase agreement positions. This is because under the current GSD Fee Structure, Members with Term Repo Transactions are charged less than Members with overnight Repo Transactions. In contrast, under the proposal the Members would be assessed the same position management fees for both their Term Repo Transactions as well as their overnight Repo Transactions.

Using the same example from Section 3(a)(ii)B (entitled "CURRENT FEES – Pricing Alignment with Costs of Services Provided by GSD"), under the proposal, both Member A and Member B would be assessed the same fee for position management of their respective Repo Transactions because the proposal would harmonize how fees are assessed for the management of positions related to overnight Repo Transactions and Term Repo Transactions.[15]

Meanwhile, FICC anticipates that Members with high volumes of buy/sell transactions that maintain minimal positions would see a decrease in their fees because the position management fee associated with their activities would be minimal.

FICC anticipates that the proposal would have a lesser impact on fees for Members with diversified portfolios of varying transaction types/terms.

(v) <u>ALTERNATIVES CONSIDERED</u>

During development of this proposal, FICC considered a range of alternatives to the proposal, including:

(i) A tiered, fixed monthly membership fee based on Members' historical activity level, which would provide certainty to Members regarding their monthly fee amounts. However, establishing an equitable baseline for such a fixed membership fee would be difficult because Members' volumes and positions vary (materially in some cases) over time due to market events, trading strategies or

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14 As proposed, the minimum monthly fee would apply to all accounts of a Netting Member, including any account the Netting Member may have as a Sponsoring Member.

15 When comparing with fees under the current GSD Fee Structure, excluding transaction processing fees and clearance charges, as proposed, Member A would see a fee increase of approximately 2.6 times and Member B would see a decrease of approximately twenty percent (20%).

corporate outlook, and, as such, Members' utilization of GSD services would change accordingly;

(ii) A single fee based on Members' end of day positions; however, under this alternative, Members with end of day positions would disproportionally subsidize intraday position holders who do not carry end of day positions as well as Members with large transaction volumes but minimal end of day positions;

(iii) A combination of two fees based on Members' end of day and intraday positions, respectively; however, under this alternative, Members with end of day and/or intraday positions would disproportionally subsidize Members with large transaction volumes but minimal intraday and/or end of day positions; and

(iv) A combination of two fees based on Members' end of day positions and transaction processing, respectively; however, under this alternative, Members with end of day positions would disproportionately subsidize intraday position holders with minimal end of day positions.

Given the shortcomings noted above, FICC did not choose the foregoing alternatives.

(vi) <u>CONFORMING, CLARIFYING, AND TECHNICAL CHANGES</u>

FICC is proposing a number of conforming, clarifying, and technical changes. The proposed rule changes to make conforming, clarifying, and technical changes are set forth in proposed Sections I, III, IV, V, VI, VII, VIII, and XII of the GSD Fee Structure, as further described below.

<u>*Section I of GSD Fee Structure*</u>

FICC is proposing to rename the heading of Section I of the GSD Fee Structure from "Trade Comparison Fees" to "Transaction Fees" to better reflect the proposed changes to that section, as described above.

FICC is proposing to rename the heading of Section I.A. of the GSD Fee Structure from "Trade Submission" to "Transaction Processing." In addition, FICC is proposing changes throughout Section I.A. of the GSD Fee Structure to clarify that references to a "trade" means a "buy/sell transaction." FICC is also proposing a number of conforming changes in Section I.A. of the GSD Fee Structure. Specifically, FICC is proposing to delete a reference to "submission fee" and replace it with "processing fee." FICC is also proposing to update the reference to "subsection D" to reflect the proposed re-lettering of that subsection.

Additionally, FICC is proposing to update the format of (i) the $.50 rejection fee to $0.50 in Section I.A. of the GSD Fee Structure, (ii) the 15 cents yield-to-price conversion charge to $0.15 in the proposed Section I.B. of the GSD Fee Structure, (iii) the 25 cents and 5 cents modification/cancellation fees to $0.25 and $0.05, respectively, in the proposed Section I.C. of the GSD Fee Structure, (iv) the 25 cents coupon pass-through fee to $0.25 in the proposed Section I.D. of the GSD Fee Structure, (v) the $.75 repurchase agreement collateral substitution fee to $0.75 in the proposed Section I.E. of the GSD Fee Structure, (vi) the $.07 and $.025

recording fees to $0.07 and $0.025 in the proposed Section I.G. of the GSD Fee Structure, and (vii) the $.07 recording fee to $0.07 in the proposed Section I.H. of the GSD Fee Restructure, in order to be consistent with the format of the other fees in the GSD Fee Structure.

For better organization of the GSD Fee Structure, FICC is proposing to relocate current Sections III.B. (Auction Takedown Process), III.F. (Coupon Pass-Through Fee), and III.G. (Repo Collateral Substitution Fees), which cover fees associated with the Auction Takedown Service, pass-through of coupon payments, and the processing of repurchase agreement collateral substitution requests, to proposed Sections I.F., I.D., and I.E., respectively, of the GSD Fee Structure because each of these fees is a type of transaction fee.

In addition, FICC is proposing to revise the section on Auction Takedown Process (proposed Section I.D. of the GSD Fee Structure) by replacing the words "locked-in trades" with "buy/sell transactions" because all trades associated with the Auction Takedown Service are locked-in. FICC is also proposing to change this section to reflect that, instead of the "Trade Submission" fees, fees for trades associated with the Auction Takedown Service would include the proposed "Transaction Processing" fees in Section I.A. of the GSD Fee Structure and the proposed "Position Management Fees" in Section II of the GSD Fee Structure.

FICC is proposing a conforming change in the proposed Section I.G. of the GSD Fee Structure by deleting the reference to "Trade Submission" fee schedule and replacing it with "Transaction Processing" fees.

Section III of GSD Fee Structure

FICC is proposing the renumbering of this section from current Section II of the GSD Fee Structure to proposed Section III of the GSD Fee Structure.

Section IV of GSD Fee Structure

FICC is proposing to rename the heading of renumbered Section IV of the GSD Fee Structure from "Netting Fee and Charges (in addition to the comparison fee)" to "Other Charges (in addition to the transaction fees)" to better reflect the proposed changes to this section, as described above.

As described above, for better organization of the GSD Fee Structure, FICC is also proposing to relocate current Sections III.B. (Auction Takedown Process), III.F. (Coupon Pass-Through Fee), and III.G. (Repo Collateral Substitution Fees) to proposed Sections I.F., I.D., and I.E., respectively, of the GSD Fee Structure. These proposed changes would necessitate a re-lettering of all subsequent provisions in renumbered Section IV of the GSD Fee Structure.

In addition, FICC is proposing to rename the heading of renumbered Section IV.C. of the GSD Fee Structure from "Repo Transaction Processing Fee" to "GCF Repo Transaction and CCIT Transaction Processing Fee" to better reflect the proposed changes to this section. FICC is also proposing two conforming changes: (i) relocate and update the reference to "Repo Broker" definition to appear right after the first usage of "Repo Broker" in this section and (ii) reflect the remaining fee in renumbered Section IV.C. of the GSD Fee Structure in a singular form.

In addition, FICC is proposing a conforming change in renumbered Section IV.D. of the GSD Fee Structure to reflect the proposed renumbering of sections in the GSD Fee Structure by changing a reference from "Section III" to "Section IV."

Section V of GSD Fee Structure

Currently, the minimum monthly fee does not apply if the total monthly fees incurred by the sole or primary account of a Comparison-Only Member or a Netting Member pursuant to existing Sections I and III of the GSD Fee Structure exceed the minimum monthly fee; however, this is not expressly stated in the current GSD Fee Structure. FICC is proposing to add a sentence to proposed Section V of the GSD Fee Structure that would make it clear to Members that the minimum monthly fee would not apply to an account if the total monthly fees incurred by the account pursuant to Sections I, II (a proposed new section), and IV (renumbered from III) of the GSD Fee Structure exceed $2,500.

Section VI of GSD Fee Structure

FICC is proposing changes in Section VI of the GSD Fee Structure to clarify that references to "trades" means "buy/sell transactions and Repo Transactions."

Section VII of GSD Fee Structure

FICC is proposing two changes to Section VII of the GSD Fee Structure. The first change is being proposed in order to conform to the deletion of the fee for additional accounts in proposed Section V of the GSD Fee Structure, as described above in Section 3(a)(iii) (entitled "PROPOSED FEE CHANGES"). Specifically, FICC is proposing to delete the reference to the fee for additional accounts, which is being eliminated under the proposal.

The second change is being proposed in order to make it clear that a Sponsoring Member would be subject to the minimum monthly fee set forth in proposed Section V of the GSD Fee Structure, as described above in Section 3(a)(iii) (entitled "PROPOSED FEE CHANGES"). This is a clarifying change because, pursuant to the GSD Rules, Sponsoring Members are by definition also Netting Members,[16] and, as proposed, each account of every Netting Member would be subject to the minimum monthly fee, which would include any account the Netting Member may have as a Sponsoring Member. This proposed change would make it clear to a Sponsoring Member that its Sponsoring Member Omnibus Account would be subject to the minimum monthly fee.

Section VIII of GSD Fee Structure

In current Section VIII of the GSD Fee Structure, FICC is proposing (i) a technical change to reflect the reference to the GSD Fee Structure as "Fee Structure" instead of "fee

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16 The term "Sponsoring Member" means a Netting Member whose application to become a Sponsoring Member has been approved by the Board pursuant to GSD Rule 3A. See GSD Rule 1, Definitions. GSD Rules, supra note 1.

structure" and (ii) changes to clarify that references to a "trade" means a "buy/sell transaction." In addition, FICC is proposing a change to clarify that a CCIT Transaction, like a Term GCF Repo Transaction, would be considered to have one Start Leg and one Close Leg during its term. This clarification is being proposed because a CCIT Transaction is similar to a GCF Repo Transaction, and FICC believes this would be a helpful clarification for Members.

Section XII of GSD Fee Structure

FICC is proposing a conforming change in current Section XII of the GSD Fee Structure by deleting the reference to "comparison and netting fees" and replacing it with "transaction fees." In addition, FICC is proposing a technical change by deleting the outdated reference to "Operations and Planning Committee" and replacing it with Board, which is defined in GSD Rule 1 (Definitions) as "the Board of Directors of Fixed Income Clearing Corporation or a committee thereof acting under delegated authority."[17]

(vii) MEMBER OUTREACH

Beginning in December 2017, FICC conducted outreach to each Member in order to provide them with notice of the proposed changes and the anticipated impact for the Member. As of the date of this filing, no written comments relating to the proposed changes have been received in response to this outreach. The Commission will be notified of any written comments received.

(viii) IMPLEMENTATION TIMEFRAME

Pending Commission approval, FICC expects to implement this proposal on July 2, 2018. As proposed, a legend would be added to the GSD Fee Structure stating that there are changes that have been approved by the Commission but have not yet been implemented. The proposed legend also would include a date on which such changes would be implemented and the file number of this proposal, and state that, once this proposal is implemented, the legend would automatically be removed from the GSD Fee Structure.

(b) Statutory Basis

FICC believes this proposal is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes this proposal is consistent with Sections 17A(b)(3)(D)[18] and 17A(b)(3)(F)[19] of the Act and Rule 17Ad-22(e)(23)(ii),[20] as promulgated under the Act, for the reasons described below.

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17 See GSD Rule 1. GSD Rules, supra note 1.

18 15 U.S.C. 78q-1(b)(3)(D).

19 15 U.S.C. 78q-1(b)(3)(F).

20 17 CFR 240.17Ad-22(e)(23)(ii).

Section 17A(b)(3)(D) of the Act requires that the GSD Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants.[21] FICC believes the proposed rule changes to the GSD Fee Structure, described in detail in Section 3(a)(iii) (entitled "PROPOSED FEE CHANGES"), to better align pricing with costs of GSD services would provide for the equitable allocation of reasonable fees. As described above in Section 3(a)(ii)B (entitled "CURRENT FEES – Pricing Alignment with Costs of Services Provided by GSD"), GSD's costs have increased due to the continued increasing risk management costs and are no longer aligned with the current GSD Fee Structure. This proposal would better align GSD's pricing (e.g., fees associated with the DVP service as well as the minimum monthly fee) with costs attributed to GSD's management of Members' DVP positions and costs of account monitoring, respectively. With respect to proposed fees associated with the DVP service, a Member whose DVP positions result in higher position management costs to GSD would be charged a relatively higher fee as that would be reflective of the higher costs to GSD in managing those positions of the Member. On the other hand, a Member whose DVP positions require less management by GSD would be charged a lower fee that is reflective of the lower costs to GSD in managing those positions of the Member. Accordingly, FICC believes the proposed fees would be equitably allocated because Members with similar DVP positions would be treated alike under the proposal. With respect to proposed changes to the minimum monthly fee, each account of every Comparison-Only Member and Netting Member would be subject to a minimum monthly fee threshold that reflects the costs of account monitoring. To the extent applicable monthly fees for such an account fall below the proposed minimum monthly fee threshold, then the Comparison-Only Member or the Netting Member, as applicable, would be assessed the minimum monthly fee for that account. FICC believes the proposed changes to the minimum monthly fee would allow FICC to equitably allocate fees that are reflective of the costs of account monitoring among the accounts that are being monitored. FICC believes the proposed rule changes discussed in this paragraph would be reasonable because the proposed fees would be commensurate with the costs of resources allocated by GSD to manage Members' DVP positions and monitor accounts of Comparison-Only Members and Netting Members. In addition, taken collectively, the proposed fee changes are designed to maintain GSD's existing revenue derived from fees associated with the DVP service and the minimum monthly fee, in accordance with the current GSD Fee Structure, which fees have been in effect since January 1, 2016[22] and July 3, 2000,[23] respectively. Therefore, FICC believes the proposed rule changes to the GSD Fee Structure described in detail in Section 3(a)(iii) (entitled "PROPOSED FEE CHANGES") to better align pricing with costs of GSD services are consistent with Section 17A(b)(3)(D) of the Act.

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[21] 15 U.S.C. 78q-1(b)(3)(D).

[22] See Securities Exchange Act Release No. 76840 (January 6, 2016), 81 FR 1450 (January 12, 2016) (FR-FICC-2015-005).

[23] See Securities Exchange Act Release No. 43026 (July 12, 2000), 65 FR 44555 (July 18, 2000) (SR-GSCC-00-07).

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.[24] The proposed rule changes to make conforming, clarifying, and technical changes, as described in Section 3(a)(vi) (entitled "CONFORMING, CLARIFYING, AND TECHNICAL CHANGES"), would help ensure that the GSD Rules, including the GSD Fee Structure, remain accurate and clear to Members. Having accurate and clear GSD Rules would help Members to better understand their rights and obligations regarding GSD's clearance and settlement services. When Members better understand their rights and obligations regarding GSD's clearance and settlement services, they can act in accordance with the GSD Rules, which FICC believes would promote the prompt and accurate clearance and settlement of securities transactions by GSD. As such, FICC believes the proposed rule changes to make conforming, clarifying, and technical changes are consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(23)(ii) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency.[25] The proposed rule changes to reduce the complexity of the GSD Fee Structure, as described in Section 3(a)(iii) (entitled "PROPOSED FEE CHANGES"), and to make conforming, clarifying, and technical changes, as described in Section 3(a)(vi) (entitled "CONFORMING, CLARIFYING, AND TECHNICAL CHANGES") would help ensure that the GSD Fee Structure is transparent and clear to Members. Having a transparent and clear GSD Fee Structure would help Members to better understand GSD's fees and help provide Members with increased predictability and certainty regarding the fees they incur in participating in GSD. As such, FICC believes the proposed rule changes to reduce the complexity of the GSD Fee Structure and to make conforming, clarifying, and technical changes are consistent with Rule 17Ad-22(e)(23)(ii) under the Act.

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

FICC believes the proposed rule changes to fees associated with the DVP service to better align GSD's pricing with its costs of services could have an impact on competition because these changes would likely either increase or decrease Members' fees when compared to their fees under the current GSD Fee Structure. FICC believes these proposed rule changes could both burden competition and promote competition by altering Members' fees. When fees are decreased because of these proposed rule changes, the proposal could promote competition by positively impacting Members' operating costs. Conversely, when the proposed rule changes result in fee increases for Members, the proposal could burden competition by negatively affecting Members' operating costs. While some Members may experience large increases in their fees when compared to their fees under the current GSD Fee Structure, FICC does not believe such change in fees would in and of itself mean that the burden on competition is significant. This is because even though the amount of the fee increase may be significant, FICC

[24] 15 U.S.C. 78q-1(b)(3)(F).

[25] 17 CFR 240.17Ad-22(e)(23)(ii).

believes the increase in fees would similarly affect all Members that tend to maintain large directional term repurchase agreement positions[26] and therefore the burden on competition would not be significant. Regardless of whether the burden on competition is deemed significant, FICC believes any burden on competition that is created by the proposed rule changes to fees associated with the DVP service would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[27]

FICC believes the proposed rule changes to the minimum monthly fee to better align GSD's pricing with its costs of services could have an impact on competition but only to the extent that the minimum monthly fee applies to a Comparison-Only Member's or Netting Member's account(s) (because the minimum monthly fee only applies if the threshold amount is not reached as described above). There would be no impact on competition, however, if an account incurs applicable fees that exceed the proposed minimum monthly fee threshold because the minimum monthly fee would not apply to the account. When the minimum monthly fee would apply, FICC believes the proposed rule changes to the minimum monthly fee could burden competition by increasing Members' fees and thereby negatively affecting such Members' operating costs. FICC does not believe such burden on competition would be significant because the proposed minimum monthly fee would apply equally to all Comparison-Only Members and Netting Members that have minimal activity in their accounts. Regardless of whether the burden on competition is deemed significant, FICC believes any burden on competition that is created by the proposed rule changes to the minimum monthly fee would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[28]

The proposed rule changes to better align GSD's pricing (e.g., fees associated with the DVP service as well as the minimum monthly fee) with the costs of services would be necessary in furtherance of the purposes of the Act because the GSD Rules must provide for the equitable allocation of reasonable dues, fees, and other charges among its participants.[29] As described above, the proposed rule changes would result in fees that are equitably allocated (by better aligning pricing with costs so that (i) a Member whose positions result in higher costs to GSD for maintaining such positions would be charged a relatively higher fee, and a Member whose positions require less maintenance by GSD would be charged a lower fee and (ii) fees that are reflective of the costs of account monitoring would be allocated among the accounts that are being monitored) and would result in reasonable fees (by being designed to be revenue neutral and commensurate with costs). As such, FICC believes the proposed rule changes to better align

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26 Though admittedly a fee increase would be more impactful for Members that are smaller than for Members that are larger, FICC believes such difference in impact is due to the relative market positions of the respective Members and not as a result of these proposed rule changes.

27 15 U.S.C. 78q-1(b)(3)(I).

28 Id.

29 15 U.S.C. 78q-1(b)(3)(D).

GSD's pricing with the costs of services would be necessary in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[30]

FICC believes any burden on competition that is created by the proposed rule changes to better align GSD's pricing (e.g., fees associated with the DVP service as well as the minimum monthly fee) with the costs of services would also be appropriate in furtherance of the purposes of the Act. The proposed rule changes would provide GSD with the ability to assess fees that are not only reflective of the services utilized by Members but are also commensurate with FICC's increased risk management costs, such as costs of account monitoring, intraday margining, and end of day risk management. Having the ability to assess fees that are reflective of the services provided by GSD and that are commensurate with GSD's costs of providing such services would help GSD to continue providing dependable and stable clearance and settlement services to its Members. As such, FICC believes the proposed rule changes to better align GSD's pricing with the costs of services would be appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[31]

FICC does not believe the proposed rule changes to reduce the complexity of the GSD Fee Structure and to make conforming, clarifying, and technical changes, as discussed above in Sections 3(a)(iii) and (vi), respectively, would impact competition.[32] The proposed rule changes to address the complexity of the GSD Fee Structure would allow Members to better understand the GSD Fee Structure and allow them more ease in reconciling to it. Making conforming, clarifying, and technical changes to ensure the GSD Fee Structure remains clear and accurate would facilitate Members' understanding of the GSD Fee Structure and their obligations thereunder. Having transparent, accessible, clear, and accurate provisions in the GSD Fee Structure would improve the readability and clarity of the GSD Rules regarding the fees that Members would incur by participating in GSD. These changes would apply equally to all Members and would not affect Members' rights and obligations. As such, FICC believes the proposed rule changes to reduce the complexity of the GSD Fee Structure and to make conforming, clarifying, and technical changes would not have any impact on competition.

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

Written comments relating to this proposed rule change have not been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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[30] 15 U.S.C. 78q-1(b)(3)(I).

[31] Id.

[32] Id.

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[33] 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) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

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

The proposed rule changes are not based on the rules of another self-regulatory organization or the Commission.

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 of 2010

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 GSD Rules.

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[33] 15 U.S.C. 78s(b)(2).

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_________]; File No. SR-FICC-2018-003)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend the Fee Structure of the Government Securities Division Rulebook

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 April __, 2018, 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 would amend the Fee Structure of the FICC Government Securities Division ("GSD") Rulebook ("GSD Rules")[3] with respect to the fees associated with the delivery-versus-payment ("DVP") service as well as make other changes, as described in greater detail 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

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

2 17 CFR 240.19b-4.

3 Capitalized terms not defined herein are defined in the GSD Rules, available at http://www.dtcc.com/~/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf.

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 purpose of this proposed rule change is to amend the Fee Structure of the GSD Rules with respect to the fees associated with the DVP service and make other changes[4] in order to reduce complexity and to better align pricing with the costs of services provided by GSD. The proposed rule change would also make conforming, clarifying, and technical changes. Taken collectively, the proposed rule changes are designed to be revenue neutral for GSD and may eliminate perceived pricing barriers to entry, as described below.

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[4] FICC is not proposing changes to fees specifically associated with either the GCF Repo® Service or the CCIT Service at this time because those fees are more aligned with the costs of providing such services. However, as further discussed below in Item II.(A)1.(iii) (entitled "PROPOSED FEE CHANGES"), FICC is proposing a change to the minimum monthly fee. The minimum monthly fee is not specific to any service and would apply to each account of either a Comparison-Only Member or a Netting Member; such account of a Netting Member could include GCF Repo and/or CCIT activity. The minimum monthly fee for an account would not apply if the total monthly fees incurred by the account pursuant to proposed Sections I, II, and IV of the GSD Fee Structure exceed $2,500. CCIT Members are not subject to the minimum monthly fee.

For additional information on the GCF Repo Service and the CCIT Service, please refer to GSD Rule 20 and GSD Rule 3B, respectively. See GSD Rule 20 and GSD Rule 3B. GSD Rules, id.

(i) BACKGROUND

GSD provides clearance and settlement services for trades executed by its Members in the U.S. government securities market. GSD supports and facilitates these services through transaction processing and position management.

Transaction processing for the DVP service includes the recording and comparison of transactions submitted to GSD for clearance and settlement through GSD's comparison system, the Real-Time Trade Matching system.

Position management for the DVP service includes trade netting, trade settlement, and the management of credit risks, market risks, and liquidity risks associated with transactions submitted to GSD for clearance and settlement.

(ii) CURRENT FEES

Members are assessed fees in accordance with the GSD Fee Structure. The current GSD Fee Structure covers a multitude of fees that are assessed on Members based upon their activities and the services utilized. The number of fees and the methods by which they are calculated makes the current GSD Fee Structure unnecessarily complex. In addition, due to changes in technology and regulatory environment, certain fees in the current GSD Fee Structure have become misaligned with the costs of services provided by GSD.

A. Pricing Overly Complex

The current GSD Fee Structure (as it relates to the DVP service) consists of trade submission fees, trade netting fees, Repo Transaction[5] processing fees, and settlement fees.[6]

Trade submission fees are based on a seven-tiered structure where the fees are charged based on the number of sides of buy/sell transactions and Repo Transactions submitted and matched in a given month. There are two (2) tiered structures for the trade submission fees, one for the Dealer Accounts and the other one for the Broker Accounts.

Trade netting fees consist of "into the net" fees and "out of the net" fees. The "into the net" fees are different for Broker Accounts and Dealer Accounts and are based on the number of sides of buy/sell transactions and Repo Transactions that are being netted (a seven-tiered structure based on the monthly number of sides of buy/sell

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5 The term "Repo Transaction" means: (1) an agreement of a party to transfer Eligible Securities to another party in exchange for the receipt of cash, and the simultaneous agreement of the former party to later take back the same Eligible Securities (or any subsequently substituted Eligible Securities) from the latter party in exchange for the payment of cash, or (2) an agreement of a party to take in Eligible Securities from another party in exchange for the payment of cash, and the simultaneous agreement of the former party to later transfer back the same Eligible Securities (or any subsequently substituted Eligible Securities) to the latter party in exchange for the receipt of cash, as the context may indicate, the data on which have been submitted to FICC pursuant to the GSD Rules. A "Repo Transaction" includes a GCF Repo Transaction, unless the context indicates otherwise. See GSD Rule 1. GSD Rules, supra note 3. For the purposes of describing the proposed rule changes, the term "Repo Transaction" will exclude GCF Repo Transactions.

6 Settlement fees consist of obligation fees and pass-through fees for clearing bank services. These fees are not being changed under this proposal.

transactions and Repo Transactions), and the par value of those sides.[7] The "out of the net" fee is a par value-based fee for each Deliver Obligation and Receive Obligation created as a result of the netting process.[8]

Repo Transaction processing fees are comprised of (1) two gross Repo Transaction processing fees, one for Broker Accounts and one for Dealer Accounts, and (2) a net Repo Transaction processing fee.[9]

With a combination of the tiered structure for trade submission fees and trade netting fees, an "into the net" par value-based fee, an "out of the net" par value-based fee, and gross and net Repo Transaction processing fees, the current GSD Fee Structure can be difficult for Members to understand and reconcile. In fact, Members and market participants have often indicated to FICC that the current GSD Fee Structure is too complex and difficult to understand. The complexity of the GSD Fee Structure is also

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[7] With respect to the DVP service, the "into the net" par value-based fee is currently $0.015 per one million of par value for Broker Accounts and $0.016 per one million of par value for Dealer Accounts for each Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation, and Fail Receive Obligation. See current Section III.A.1(ii) of the GSD Fee Structure. GSD Rules, supra note 3.

[8] With respect to the DVP service, the "out of the net" par value-based fee is currently $0.175 per one million of par value for each Deliver Obligation and Receive Obligation created as a result of the netting process. See current Section III.A.2 of the GSD Fee Structure. GSD Rules, supra note 3.

[9] The gross Repo Transaction processing fees are currently a 0.0175 basis point charge and a 0.04 basis point charge applied to the gross dollar amount of each Term Repo Transaction for Broker Accounts and Dealer Accounts, respectively, that has been compared and netted but not yet settled. The net Repo Transaction processing fee is currently a 0.08 basis point charge applied to the net dollar amount of a Netting Member's Term Repo Transactions within a CUSIP that has been compared and netted but not yet settled. See current Section III.E. of the GSD Fee Structure. GSD Rules, supra note 3.

noted in the U.S. Department of the Treasury October 2017 report to President Donald Trump on U.S. capital markets (“Treasury Report”).[10]

B. Pricing Alignment with Costs of Services Provided by GSD

With respect to the fees associated with the DVP service, a portion of the current GSD Fee Structure is based on transaction processing, with a number of fees charged to Members being driven by the number of transactions that the Members submit to GSD for clearance and settlement (tiered structure for trade submission fees and tiered structure for trade netting fees, as described in Item II.(A)1.(ii)A. above). As a result, under the current GSD Fee Structure, fees are higher for a Member that submitted a larger number of transactions to GSD than a Member that submitted a smaller number of transactions, even when the total par value of the trades that each such Member submitted to GSD is the same.

With technological advancements, GSD’s systems have become more scalable and efficient with respect to transaction processing, which has resulted in a reduction in GSD’s costs associated with transaction processing. In contrast, GSD faces continued increasing risk management costs, such as costs of account monitoring, intraday margining, and end of day risk management. Therefore, GSD has had to shift its resource allocation so that a sizable portion of its resources is now dedicated to the management of Members’ positions. Consequently, certain fees in the current GSD Fee Structure have become misaligned with the costs of services provided by GSD.

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[10] See U.S. Department of the Treasury, A Financial System That Creates Economic Opportunities: Capital Markets (October 2017), at 81, available at https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf.

As an example, the costs for GSD to manage a single $50 million 30-day Term Repo Transaction[11] for Member A and twenty (20)[12] $50 million overnight Repo Transactions[13] for Member B are similar because the resulting daily positions are the same over the 30-day period, and similar resources are utilized to ensure the safety and soundness of the clearing agency to these transaction types. However, even though these transactions require similar costs and resources to manage, under the current GSD Fee Structure, Member B will be assessed a fee[14] that is approximately 3.3 times the fee assessed on Member A. This is because under the current GSD Fee Structure, fees associated with Member B's overnight Repo Transactions are higher (e.g., on each Business Day, Member B will be assessed $0.17 per side of trade going into the net, $0.016 per million par value going into the net, and $0.175 per million par value out of the net) than fees associated with Member A's Term Repo Transaction (e.g., Member A will be assessed each of the following fees once: $0.17 per side of trade going into the net, $0.016 per million par value going into the net, and $0.175 per million par value out

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11 The term "Term Repo Transaction" means, on any particular Business Day, a Repo Transaction for which settlement of the Close Leg is scheduled to occur two or more Business Days after the scheduled settlement of the Start Leg. See GSD Rule 1, Definitions. GSD Rules, supra note 3.

12 The example assumes there are twenty (20) Business Days in a month. Twenty (20) overnight Repo Transactions would span the same number of calendar days, i.e., 30 calendar days, as a single 30-day Term Repo Transaction. This is because each overnight Repo Transaction that starts on a Friday will settle on the following Monday.

13 Overnight Repo Transactions are Repo Transactions for which settlement of the Close Leg is scheduled to occur one Business Day after the scheduled settlement of the Start Leg.

14 In addition, Member A and Member B would be assessed other fees, such as trade submission fees and clearance charges; however, these fees are excluded for the purposes of this example because they are not relevant to position management.

of the net; in addition, on each calendar day, Member A will be assessed a 0.04 basis point charge applied to the gross dollar amount of its Term Repo Transaction and a 0.08 basis point charge applied to the net dollar amount of its Term Repo Transaction).

C. Review of Current Fees and Rationale for Proposed Fee Amounts

Over the past two years, GSD performed an extensive review of the current GSD Fee Structure with the goals of reducing pricing complexity and aligning pricing with costs, while on an overall basis maintaining GSD's revenue at the current level.

GSD believes it is reasonable and appropriate to assess Members fees that are commensurate with the costs of services provided to Members. Accordingly, based on a review of the costs associated with position management vis-à-vis the overall cost structure as well as the current fees, GSD estimates that the transaction processing fees and the position management fees associated with the DVP service should account for approximately thirty percent (30%) and seventy percent (70%), respectively, of GSD's projected revenue associated with the DVP service. In particular, the position management fees would be comprised of an intraday position management fee and an end of day position management fee, each aimed to reflect the respective costs of services required in managing intraday positions and end of day positions. The proposed fee changes would better align GSD's revenue with the 30/70 split between transaction processing and position management costs. FICC expects GSD's net revenue to remain relatively unchanged as a result of this proposal.

(iii) PROPOSED FEE CHANGES

Based upon feedback from Members and market participants as well as a review of current fees conducted by FICC as described above, FICC is proposing to modify the GSD Fee Structure to (i) reduce pricing complexity and (ii) better align pricing with costs of services provided by GSD.

In that respect, the proposed GSD Fee Structure would establish four (4) new fees, modify three (3) existing fees, and eliminate twelve (12) fees, each as further described below.

FICC is proposing to add the following fees –

- Transaction processing fee for Broker Accounts
- Transaction processing fee for Dealer Accounts
- Intraday position fee
- End of day position fee

FICC is proposing to modify the following fees –

- Minimum monthly fee
- Auction takedown fee
- Locked-in trade data fee

FICC is proposing to eliminate the following fees –

- Surcharge for submission method
- Seven-tiered transaction based DVP trade submission fee for Broker Accounts
- Seven-tiered transaction based DVP trade submission fee for Dealer Accounts

- Seven-tiered transaction based DVP netting fee for Broker Accounts
- Seven-tiered transaction based DVP netting fee for Dealer Accounts
- DVP par value based into the net fee for Broker Accounts
- DVP par value based into the net fee for Dealer Accounts
- DVP par value based obligation fee (the “out of the net” fee)
- Gross Repo Transaction processing fee for Broker Accounts for DVP transactions
- Gross Repo Transaction processing fee for Dealer Accounts for DVP transactions
- Net Repo Transaction processing fee for DVP transactions
- Fees applicable to additional accounts

The foregoing proposed fee changes would address pricing complexity, pricing alignment to costs, or both, as further described in the section-by-section discussion below. FICC believes the proposed fee changes that address pricing complexity would enhance pricing transparency, making it easier for Members (and prospective members) to understand the GSD Fee Structure. FICC also believes shifting the GSD Fee Structure regarding the DVP service away from a volume-driven approach may result in making central clearing more accessible to additional market participants. Taken collectively, the proposed rule changes are designed to be revenue neutral for GSD and may eliminate perceived pricing barriers to entry.

Section I of GSD Fee Structure

In order to address the complexity of the GSD Fee Structure, FICC is proposing to replace the seven-tiered trade submission fees for both Dealer Accounts and Broker

Accounts with a single transaction processing fee that would be charged to Members upon the comparison of a side of a buy/sell transaction or a Repo Transaction in the DVP service. As proposed, Dealer Accounts would be charged a fee of $0.04 per million par value for transaction processing, and Broker Accounts would be charged a fee of $0.02 per million par value for transaction processing.[15] This proposed change would also enable GSD to better align pricing with costs by assessing a fee that is more reflective of the costs that GSD is currently incurring for transaction processing, as described above in Item II.(A)1.(ii)C.

In order to further reduce the complexity of the current GSD Fee Structure, FICC is proposing to delete fees in Section I of the GSD Fee Structure that are no longer applicable. Specifically, FICC is proposing to delete Section I.B. of the GSD Fee Structure, which imposes surcharges on a Member based on the submission method used by the Member. Current Section I.B. of the GSD Fee Structure imposes certain surcharges on Members submitting trade data to GSD using submission methods other than the Interactive Submission Method, e.g., the Multiple Batch Submission Method or the Single Batch Submission Method. These surcharges are no longer required because all Members currently submit trade data to GSD using the Interactive Submission Method, and FICC does not expect that to change in the future because of technological advancements in real-time trade submission capability across the financial industry. This proposed change would necessitate the re-lettering of the subsequent provisions in Section I of the GSD Fee Structure.

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15 Broker Accounts submit two sides per transaction. As such, a Broker Account would be charged a total of $0.04 per million par value (i.e., $0.02 per million par value times two) for each transaction.

Section II of GSD Fee Structure

In order to better align pricing with the costs of services provided by GSD, FICC is proposing to add two position management fees applicable to the DVP service in proposed Section II of the GSD Fee Structure. The first position management fee would be the intraday position fee of $0.04 per million par value that would be calculated for a Member each Business Day based on the largest gross position of the Member (including positions of any Non-Member that the Member is clearing for) that Business Day. FICC proposes to determine the gross position of a Member in 15-minute intervals between 9 a.m. and 4 p.m. each Business Day by netting the par value of all compared buy/sell transactions, Repo Transactions, and unsettled obligations of the Member (including any such activity submitted by the Member for a Non-Member that the Member is clearing for) by CUSIP Number and taking the sum of the absolute par value of each such CUSIP Number.

The second position management fee would be the end of day position fee of $0.115 per million par value that would be calculated for a Member each Business Day based on the end of day gross position of the Member (including positions of any Non-Member that the Member is clearing for) that Business Day. FICC proposes to determine the end of day gross position of a Member by netting the par value of all compared buy/sell transactions, Repo Transactions, and unsettled obligations of the Member (including any such activity submitted by the Member for a Non-Member that the Member is clearing for) at the end of the Business Day by CUSIP Number and taking the sum of the absolute par value of each such CUSIP Number.

The two proposed position management fees would better align pricing with costs of services provided by GSD because they would be driven by position management and, as stated above, GSD's costs associated with position management have increased. The proposed intraday position fee of $0.04 per million par value is aimed to reflect the costs associated with monitoring and management of Members' intraday DVP positions. The proposed end of day position fee of $0.115 per million par value is aimed to reflect the costs associated with end of day processing, overnight position management, and various risk and operational activities required to assure the ability of FICC to continue to provide a dependable, stable and efficient clearing and settlement service for Members.

Section IV of GSD Fee Structure

In order to reduce pricing complexity further, FICC is proposing to eliminate all netting fees provided in renumbered Section IV of the GSD Fee Structure, i.e., (1) the two seven-tiered netting fees for both Broker Accounts and Dealer Accounts, (2) the "into the net" fees of $0.015 per one million of par value for Broker Accounts and $0.016 per one million of par value for Dealer Accounts for each Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation, and Fail Receive Obligation, and (3) the "out of the net" fees of $0.175 per one million of par value for each Deliver Obligation and Receive Obligation created as a result of the netting process. This would reduce pricing complexity and thereby enhance pricing transparency because the proposal would eliminate the necessity for Members to reconcile their fees to the multiple-tiered netting fees, the "into the net" fees, and the "out of the net" fees.

In addition, FICC is proposing to delete from renumbered Section IV.C. of the GSD Fee Structure the Repo Transaction processing fees and related language for Term Repo Transactions in the DVP service that have been compared and netted but not yet settled. This would reduce pricing complexity and thereby enhance pricing transparency because there would no longer be separate Repo Transaction processing fees for Term Repo Transactions. As proposed, Term Repo Transactions would be assessed the proposed position management fees, just like overnight Repo Transactions and buy/sell transactions.

Section V of GSD Fee Structure

In order to reduce pricing complexity, FICC is proposing to eliminate fees applicable to additional accounts from current Section V of the GSD Fee Structure. FICC believes this proposed change would reduce pricing complexity and thereby enhance pricing transparency because Members would no longer need to differentiate and keep track of their main accounts versus their additional accounts. As proposed, each account of every Comparison-Only Member and Netting Member would now be subject to the same fee, i.e., the minimum monthly fee.

In order to better align pricing with the costs of services provided by GSD, FICC is proposing changes to fees associated with accounts of Comparison-Only Members and Netting Members. Specifically, FICC is proposing to modify the minimum monthly fee in proposed Section V of the GSD Fee Structure. As proposed, the minimum monthly fee would be increased from $1,000 to $2,500 per account and would apply to all accounts of every Comparison-Only Member and Netting Member instead of just their sole or primary account.[16] FICC is proposing to increase the minimum monthly fee to $2,500 per account because FICC believes this change would better reflect GSD's costs of account monitoring, which have increased as described above in Item II.(A)1.(ii)B.

(iv) <u>EXPECTED MEMBER IMPACT</u>

In general, FICC anticipates that the proposal would result in fee increases for Members that currently have large directional term repurchase agreement positions. This is because under the current GSD Fee Structure, Members with Term Repo Transactions are charged less than Members with overnight Repo Transactions. In contrast, under the proposal the Members would be assessed the same position management fees for both their Term Repo Transactions as well as their overnight Repo Transactions.

Using the same example from Item II.(A)1.(ii)B (entitled "CURRENT FEES – Pricing Alignment with Costs of Services Provided by GSD"), under the proposal, both Member A and Member B would be assessed the same fee for position management of their respective Repo Transactions because the proposal would harmonize how fees are assessed for the management of positions related to overnight Repo Transactions and Term Repo Transactions.[17]

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16 As proposed, the minimum monthly fee would apply to all accounts of a Netting Member, including any account the Netting Member may have as a Sponsoring Member.

17 When comparing with fees under the current GSD Fee Structure, excluding transaction processing fees and clearance charges, as proposed, Member A would see a fee increase of approximately 2.6 times and Member B would see a decrease of approximately twenty percent (20%).

Meanwhile, FICC anticipates that Members with high volumes of buy/sell transactions that maintain minimal positions would see a decrease in their fees because the position management fee associated with their activities would be minimal.

FICC anticipates that the proposal would have a lesser impact on fees for Members with diversified portfolios of varying transaction types/terms.

(v) ALTERNATIVES CONSIDERED

During development of this proposal, FICC considered a range of alternatives to the proposal, including:

(i) A tiered, fixed monthly membership fee based on Members' historical activity level, which would provide certainty to Members regarding their monthly fee amounts. However, establishing an equitable baseline for such a fixed membership fee would be difficult because Members' volumes and positions vary (materially in some cases) over time due to market events, trading strategies or corporate outlook, and, as such, Members' utilization of GSD services would change accordingly;

(ii) A single fee based on Members' end of day positions; however, under this alternative, Members with end of day positions would disproportionally subsidize intraday position holders who do not carry end of day positions as well as Members with large transaction volumes but minimal end of day positions;

(iii) A combination of two fees based on Members' end of day and intraday positions, respectively; however, under this alternative, Members with end of day and/or intraday positions would disproportionally subsidize

Members with large transaction volumes but minimal intraday and/or end of day positions; and

(iv) A combination of two fees based on Members' end of day positions and transaction processing, respectively; however, under this alternative, Members with end of day positions would disproportionately subsidize intraday position holders with minimal end of day positions.

Given the shortcomings noted above, FICC did not choose the foregoing alternatives.

(vi) CONFORMING, CLARIFYING, AND TECHNICAL CHANGES

FICC is proposing a number of conforming, clarifying, and technical changes. The proposed rule changes to make conforming, clarifying, and technical changes are set forth in proposed Sections I, III, IV, V, VI, VII, VIII, and XII of the GSD Fee Structure, as further described below.

Section I of GSD Fee Structure

FICC is proposing to rename the heading of Section I of the GSD Fee Structure from "Trade Comparison Fees" to "Transaction Fees" to better reflect the proposed changes to that section, as described above.

FICC is proposing to rename the heading of Section I.A. of the GSD Fee Structure from "Trade Submission" to "Transaction Processing." In addition, FICC is proposing changes throughout Section I.A. of the GSD Fee Structure to clarify that references to a "trade" means a "buy/sell transaction." FICC is also proposing a number of conforming changes in Section I.A. of the GSD Fee Structure. Specifically, FICC is proposing to delete a reference to "submission fee" and replace it with "processing fee." FICC is also proposing to update the reference to "subsection D" to reflect the proposed re-lettering of that subsection.

Additionally, FICC is proposing to update the format of (i) the $.50 rejection fee to $0.50 in Section I.A. of the GSD Fee Structure, (ii) the 15 cents yield-to-price conversion charge to $0.15 in the proposed Section I.B. of the GSD Fee Structure, (iii) the 25 cents and 5 cents modification/cancellation fees to $0.25 and $0.05, respectively, in the proposed Section I.C. of the GSD Fee Structure, (iv) the 25 cents coupon pass-through fee to $0.25 in the proposed Section I.D. of the GSD Fee Structure, (v) the $.75 repurchase agreement collateral substitution fee to $0.75 in the proposed Section I.E. of the GSD Fee Structure, (vi) the $.07 and $.025 recording fees to $0.07 and $0.025 in the proposed Section I.G. of the GSD Fee Structure, and (vii) the $.07 recording fee to $0.07 in the proposed Section I.H. of the GSD Fee Restructure, in order to be consistent with the format of the other fees in the GSD Fee Structure.

For better organization of the GSD Fee Structure, FICC is proposing to relocate current Sections III.B. (Auction Takedown Process), III.F. (Coupon Pass-Through Fee), and III.G. (Repo Collateral Substitution Fees), which cover fees associated with the Auction Takedown Service, pass-through of coupon payments, and the processing of repurchase agreement collateral substitution requests, to proposed Sections I.F., I.D., and I.E., respectively, of the GSD Fee Structure because each of these fees is a type of transaction fee.

In addition, FICC is proposing to revise the section on Auction Takedown Process (proposed Section I.D. of the GSD Fee Structure) by replacing the words "locked-in trades" with "buy/sell transactions" because all trades associated with the Auction Takedown Service are locked-in. FICC is also proposing to change this section to reflect that, instead of the "Trade Submission" fees, fees for trades associated with the Auction Takedown Service would include the proposed "Transaction Processing" fees in Section I.A. of the GSD Fee Structure and the proposed "Position Management Fees" in Section II of the GSD Fee Structure.

FICC is proposing a conforming change in the proposed Section I.G. of the GSD Fee Structure by deleting the reference to "Trade Submission" fee schedule and replacing it with "Transaction Processing" fees.

Section III of GSD Fee Structure

FICC is proposing the renumbering of this section from current Section II of the GSD Fee Structure to proposed Section III of the GSD Fee Structure.

Section IV of GSD Fee Structure

FICC is proposing to rename the heading of renumbered Section IV of the GSD Fee Structure from "Netting Fee and Charges (in addition to the comparison fee)" to "Other Charges (in addition to the transaction fees)" to better reflect the proposed changes to this section, as described above.

As described above, for better organization of the GSD Fee Structure, FICC is also proposing to relocate current Sections III.B. (Auction Takedown Process), III.F. (Coupon Pass-Through Fee), and III.G. (Repo Collateral Substitution Fees) to proposed Sections I.F., I.D., and I.E., respectively, of the GSD Fee Structure. These proposed changes would necessitate a re-lettering of all subsequent provisions in renumbered Section IV of the GSD Fee Structure.

In addition, FICC is proposing to rename the heading of renumbered Section IV.C. of the GSD Fee Structure from “Repo Transaction Processing Fee” to “GCF Repo Transaction and CCIT Transaction Processing Fee” to better reflect the proposed changes to this section. FICC is also proposing two conforming changes: (i) relocate and update the reference to “Repo Broker” definition to appear right after the first usage of “Repo Broker” in this section and (ii) reflect the remaining fee in renumbered Section IV.C. of the GSD Fee Structure in a singular form.

In addition, FICC is proposing a conforming change in renumbered Section IV.D. of the GSD Fee Structure to reflect the proposed renumbering of sections in the GSD Fee Structure by changing a reference from “Section III” to “Section IV.”

Section V of GSD Fee Structure

Currently, the minimum monthly fee does not apply if the total monthly fees incurred by the sole or primary account of a Comparison-Only Member or a Netting Member pursuant to existing Sections I and III of the GSD Fee Structure exceed the minimum monthly fee; however, this is not expressly stated in the current GSD Fee Structure. FICC is proposing to add a sentence to proposed Section V of the GSD Fee Structure that would make it clear to Members that the minimum monthly fee would not apply to an account if the total monthly fees incurred by the account pursuant to Sections I, II (a proposed new section), and IV (renumbered from III) of the GSD Fee Structure exceed $2,500.

Section VI of GSD Fee Structure

FICC is proposing changes in Section VI of the GSD Fee Structure to clarify that references to "trades" means "buy/sell transactions and Repo Transactions."

Section VII of GSD Fee Structure

FICC is proposing two changes to Section VII of the GSD Fee Structure. The first change is being proposed in order to conform to the deletion of the fee for additional accounts in proposed Section V of the GSD Fee Structure, as described above in Item II.(A)1.(iii) (entitled "PROPOSED FEE CHANGES"). Specifically, FICC is proposing to delete the reference to the fee for additional accounts, which is being eliminated under the proposal.

The second change is being proposed in order to make it clear that a Sponsoring Member would be subject to the minimum monthly fee set forth in proposed Section V of the GSD Fee Structure, as described above in Item II.(A)1.(iii) (entitled "PROPOSED FEE CHANGES"). This is a clarifying change because, pursuant to the GSD Rules, Sponsoring Members are by definition also Netting Members,[18] and, as proposed, each account of every Netting Member would be subject to the minimum monthly fee, which would include any account the Netting Member may have as a Sponsoring Member. This proposed change would make it clear to a Sponsoring Member that its Sponsoring Member Omnibus Account would be subject to the minimum monthly fee.

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18 The term "Sponsoring Member" means a Netting Member whose application to become a Sponsoring Member has been approved by the Board pursuant to GSD Rule 3A. See GSD Rule 1, Definitions. GSD Rules, supra note 3.

Section VIII of GSD Fee Structure

In current Section VIII of the GSD Fee Structure, FICC is proposing (i) a technical change to reflect the reference to the GSD Fee Structure as "Fee Structure" instead of "fee structure" and (ii) changes to clarify that references to a "trade" means a "buy/sell transaction." In addition, FICC is proposing a change to clarify that a CCIT Transaction, like a Term GCF Repo Transaction, would be considered to have one Start Leg and one Close Leg during its term. This clarification is being proposed because a CCIT Transaction is similar to a GCF Repo Transaction, and FICC believes this would be a helpful clarification for Members.

Section XII of GSD Fee Structure

FICC is proposing a conforming change in current Section XII of the GSD Fee Structure by deleting the reference to "comparison and netting fees" and replacing it with "transaction fees." In addition, FICC is proposing a technical change by deleting the outdated reference to "Operations and Planning Committee" and replacing it with Board, which is defined in GSD Rule 1 (Definitions) as "the Board of Directors of Fixed Income Clearing Corporation or a committee thereof acting under delegated authority."[19]

(vii) MEMBER OUTREACH

Beginning in December 2017, FICC conducted outreach to each Member in order to provide them with notice of the proposed changes and the anticipated impact for the Member. As of the date of this filing, no written comments relating to the proposed

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[19] See GSD Rule 1. GSD Rules, supra note 3.

changes have been received in response to this outreach. The Commission will be notified of any written comments received.

(viii) <u>IMPLEMENTATION TIMEFRAME</u>

Pending Commission approval, FICC expects to implement this proposal on July 2, 2018. As proposed, a legend would be added to the GSD Fee Structure stating that there are changes that have been approved by the Commission but have not yet been implemented. The proposed legend also would include a date on which such changes would be implemented and the file number of this proposal, and state that, once this proposal is implemented, the legend would automatically be removed from the GSD Fee Structure.

2. <u>Statutory Basis</u>

FICC believes this proposal is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes this proposal is consistent with Sections 17A(b)(3)(D)[20] and 17A(b)(3)(F)[21] of the Act and Rule 17Ad-22(e)(23)(ii),[22] as promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(D) of the Act requires that the GSD Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants.[23]

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20 15 U.S.C. 78q-1(b)(3)(D).

21 15 U.S.C. 78q-1(b)(3)(F).

22 17 CFR 240.17Ad-22(e)(23)(ii).

23 15 U.S.C. 78q-1(b)(3)(D).

FICC believes the proposed rule changes to the GSD Fee Structure, described in detail in Item II.(A)1.(iii) (entitled "PROPOSED FEE CHANGES"), to better align pricing with costs of GSD services would provide for the equitable allocation of reasonable fees. As described above in Item II.(A)1.(ii)B (entitled "CURRENT FEES – Pricing Alignment with Costs of Services Provided by GSD"), GSD's costs have increased due to the continued increasing risk management costs and are no longer aligned with the current GSD Fee Structure. This proposal would better align GSD's pricing (e.g., fees associated with the DVP service as well as the minimum monthly fee) with costs attributed to GSD's management of Members' DVP positions and costs of account monitoring, respectively. With respect to proposed fees associated with the DVP service, a Member whose DVP positions result in higher position management costs to GSD would be charged a relatively higher fee as that would be reflective of the higher costs to GSD in managing those positions of the Member. On the other hand, a Member whose DVP positions require less management by GSD would be charged a lower fee that is reflective of the lower costs to GSD in managing those positions of the Member. Accordingly, FICC believes the proposed fees would be equitably allocated because Members with similar DVP positions would be treated alike under the proposal. With respect to proposed changes to the minimum monthly fee, each account of every Comparison-Only Member and Netting Member would be subject to a minimum monthly fee threshold that reflects the costs of account monitoring. To the extent applicable monthly fees for such an account fall below the proposed minimum monthly fee threshold, then the Comparison-Only Member or the Netting Member, as applicable, would be assessed the minimum monthly fee for that account. FICC believes the proposed changes to the minimum monthly fee would allow FICC to equitably allocate fees that are reflective of the costs of account monitoring among the accounts that are being monitored. FICC believes the proposed rule changes discussed in this paragraph would be reasonable because the proposed fees would be commensurate with the costs of resources allocated by GSD to manage Members' DVP positions and monitor accounts of Comparison-Only Members and Netting Members. In addition, taken collectively, the proposed fee changes are designed to maintain GSD's existing revenue derived from fees associated with the DVP service and the minimum monthly fee, in accordance with the current GSD Fee Structure, which fees have been in effect since January 1, 2016[24] and July 3, 2000,[25] respectively. Therefore, FICC believes the proposed rule changes to the GSD Fee Structure described in detail in Item II.(A)1.(iii) (entitled "PROPOSED FEE CHANGES") to better align pricing with costs of GSD services are consistent with Section 17A(b)(3)(D) of the Act.

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.[26] The proposed rule changes to make conforming, clarifying, and technical changes, as described in Item II.(A)1.(vi) (entitled "CONFORMING, CLARIFYING, AND TECHNICAL CHANGES"), would help ensure that the GSD Rules, including the GSD Fee Structure, remain accurate and clear to Members. Having accurate and clear GSD

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[24] See Securities Exchange Act Release No. 76840 (January 6, 2016), 81 FR 1450 (January 12, 2016) (FR-FICC-2015-005).

[25] See Securities Exchange Act Release No. 43026 (July 12, 2000), 65 FR 44555 (July 18, 2000) (SR-GSCC-00-07).

[26] 15 U.S.C. 78q-1(b)(3)(F).

Rules would help Members to better understand their rights and obligations regarding GSD's clearance and settlement services. When Members better understand their rights and obligations regarding GSD's clearance and settlement services, they can act in accordance with the GSD Rules, which FICC believes would promote the prompt and accurate clearance and settlement of securities transactions by GSD. As such, FICC believes the proposed rule changes to make conforming, clarifying, and technical changes are consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(23)(ii) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency.[27] The proposed rule changes to reduce the complexity of the GSD Fee Structure, as described in Item II.(A)1.(iii) (entitled "PROPOSED FEE CHANGES"), and to make conforming, clarifying, and technical changes, as described in Item II.(A)1.(vi) (entitled "CONFORMING, CLARIFYING, AND TECHNICAL CHANGES") would help ensure that the GSD Fee Structure is transparent and clear to Members. Having a transparent and clear GSD Fee Structure would help Members to better understand GSD's fees and help provide Members with increased predictability and certainty regarding the fees they incur in participating in GSD. As such, FICC believes the proposed rule changes to reduce the complexity of the GSD Fee Structure and to make conforming, clarifying, and technical changes are consistent with Rule 17Ad-22(e)(23)(ii) under the Act.

[27] 17 CFR 240.17Ad-22(e)(23)(ii).

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

FICC believes the proposed rule changes to fees associated with the DVP service to better align GSD's pricing with its costs of services could have an impact on competition because these changes would likely either increase or decrease Members' fees when compared to their fees under the current GSD Fee Structure. FICC believes these proposed rule changes could both burden competition and promote competition by altering Members' fees. When fees are decreased because of these proposed rule changes, the proposal could promote competition by positively impacting Members' operating costs. Conversely, when the proposed rule changes result in fee increases for Members, the proposal could burden competition by negatively affecting Members' operating costs. While some Members may experience large increases in their fees when compared to their fees under the current GSD Fee Structure, FICC does not believe such change in fees would in and of itself mean that the burden on competition is significant. This is because even though the amount of the fee increase may be significant, FICC believes the increase in fees would similarly affect all Members that tend to maintain large directional term repurchase agreement positions[28] and therefore the burden on competition would not be significant. Regardless of whether the burden on competition is deemed significant, FICC believes any burden on competition that is created by the proposed rule changes to fees associated with the DVP service would be necessary and

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28 Though admittedly a fee increase would be more impactful for Members that are smaller than for Members that are larger, FICC believes such difference in impact is due to the relative market positions of the respective Members and not as a result of these proposed rule changes.

appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[29]

FICC believes the proposed rule changes to the minimum monthly fee to better align GSD's pricing with its costs of services could have an impact on competition but only to the extent that the minimum monthly fee applies to a Comparison-Only Member's or Netting Member's account(s) (because the minimum monthly fee only applies if the threshold amount is not reached as described above). There would be no impact on competition, however, if an account incurs applicable fees that exceed the proposed minimum monthly fee threshold because the minimum monthly fee would not apply to the account. When the minimum monthly fee would apply, FICC believes the proposed rule changes to the minimum monthly fee could burden competition by increasing Members' fees and thereby negatively affecting such Members' operating costs. FICC does not believe such burden on competition would be significant because the proposed minimum monthly fee would apply equally to all Comparison-Only Members and Netting Members that have minimal activity in their accounts. Regardless of whether the burden on competition is deemed significant, FICC believes any burden on competition that is created by the proposed rule changes to the minimum monthly fee would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[30]

The proposed rule changes to better align GSD's pricing (e.g., fees associated with the DVP service as well as the minimum monthly fee) with the costs of services would be

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[29] 15 U.S.C. 78q-1(b)(3)(I).

[30] Id.

necessary in furtherance of the purposes of the Act because the GSD Rules must provide for the equitable allocation of reasonable dues, fees, and other charges among its participants.[31] As described above, the proposed rule changes would result in fees that are equitably allocated (by better aligning pricing with costs so that (i) a Member whose positions result in higher costs to GSD for maintaining such positions would be charged a relatively higher fee, and a Member whose positions require less maintenance by GSD would be charged a lower fee and (ii) fees that are reflective of the costs of account monitoring would be allocated among the accounts that are being monitored) and would result in reasonable fees (by being designed to be revenue neutral and commensurate with costs). As such, FICC believes the proposed rule changes to better align GSD's pricing with the costs of services would be necessary in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[32]

FICC believes any burden on competition that is created by the proposed rule changes to better align GSD's pricing (e.g., fees associated with the DVP service as well as the minimum monthly fee) with the costs of services would also be appropriate in furtherance of the purposes of the Act. The proposed rule changes would provide GSD with the ability to assess fees that are not only reflective of the services utilized by Members but are also commensurate with FICC's increased risk management costs, such as costs of account monitoring, intraday margining, and end of day risk management. Having the ability to assess fees that are reflective of the services provided by GSD and that are commensurate with GSD's costs of providing such services would help GSD to

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31 15 U.S.C. 78q-1(b)(3)(D).

32 15 U.S.C. 78q-1(b)(3)(I).

continue providing dependable and stable clearance and settlement services to its Members. As such, FICC believes the proposed rule changes to better align GSD's pricing with the costs of services would be appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.[33]

FICC does not believe the proposed rule changes to reduce the complexity of the GSD Fee Structure and to make conforming, clarifying, and technical changes, as discussed above in Items II.(A)1.(iii) and (vi), respectively, would impact competition.[34] The proposed rule changes to address the complexity of the GSD Fee Structure would allow Members to better understand the GSD Fee Structure and allow them more ease in reconciling to it. Making conforming, clarifying, and technical changes to ensure the GSD Fee Structure remains clear and accurate would facilitate Members' understanding of the GSD Fee Structure and their obligations thereunder. Having transparent, accessible, clear, and accurate provisions in the GSD Fee Structure would improve the readability and clarity of the GSD Rules regarding the fees that Members would incur by participating in GSD. These changes would apply equally to all Members and would not affect Members' rights and obligations. As such, FICC believes the proposed rule changes to reduce the complexity of the GSD Fee Structure and to make conforming, clarifying, and technical changes would not have any impact on competition.

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

Written comments relating to this proposed rule change have not been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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33 Id.

34 Id.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2018-003 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-2018-003. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2018-003 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.[35]

Secretary

[35] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language

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

Changes to this Fee Structure, as amended by File No. SR-FICC-2018-003, are set forth below. These changes have been approved by the SEC but have not yet been implemented. Bold and underlined text indicates added language. Bold and strikethrough text indicates deleted language. These changes will be implemented on July 2, 2018. Once implemented, this legend will automatically be removed from this Fee Structure and the formatting of the text of the changes in this Fee Structure will automatically be revised to reflect that these changes are implemented.

FEE STRUCTURE*

(effective ~~**May 16, 2017**~~**July 2, 2018**)

I. ~~**TRADE COMPARISON**~~ **TRANSACTION** FEES

A. ~~**Trade Submission**~~ **Transaction Processing**

~~**A trade submission is a submission of a side of a trade, submission of a Repo Transaction, bilateral or demand.**~~

Upon submission of a side of a buy/sell transaction or a Repo Transaction, other than a GCF Repo Transaction or a CCIT Transaction, Dealer Accounts will be charged **a fee of $0.04 per million par value** for ~~**trade submission**~~ **transaction processing, and Broker Accounts will be charged a fee of $0.02 per million par value for transaction processing.** ~~**in accordance with the following schedule:**~~

~~**Fee**~~	~~**Applied to all submissions within referenced tier**~~
~~**$0.270**~~	~~**Per submission for up to 49,999 submissions per month**~~
~~**$0.190**~~	~~**Per submission for 50,000 to 99,999 submissions per month**~~
~~**$0.140**~~	~~**Per submission for 100,000 to 249,999 submissions per month**~~
~~**$0.100**~~	~~**Per submission for 250,000 to 399,999 submissions per month**~~
~~**$0.080**~~	~~**Per submission for 400,000 to 499,999 submissions per month**~~
~~**$0.010**~~	~~**Per submission for 500,000 to 999,999 submissions per month**~~
~~**$0.010**~~	~~**Per submission for 1M or greater submissions per month**~~

* Fees stated to apply to CCIT Members shall be applied at the Joint Account level for CCIT Members participating through a Joint Account.

~~**Broker Accounts will be charged for trade submission in accordance with the following schedule:**~~

~~**Fee**~~	~~**Applied to all submissions within referenced tier**~~
~~**$0.250**~~	~~**Per submission for up to 49,999 submissions per month**~~
~~**$0.150**~~	~~**Per submission for 50,000 to 99,999 submissions per month**~~
~~**$0.100**~~	~~**Per submission for 100,000 to 249,999 submissions per month**~~
~~**$0.075**~~	~~**Per submission for 250,000 to 399,999 submissions per month**~~
~~**$0.035**~~	~~**Per submission for 400,000 to 499,999 submissions per month**~~
~~**$0.025**~~	~~**Per submission for 500,000 to 999,999 submissions per month**~~
~~**$0.010**~~	~~**Per submission for 1M or greater submissions per month**~~

A submission that is rejected by the Corporation because it failed to pass the necessary edit checks other than valid contra side will not be charged the ~~**submission**~~ **processing** fee, but will be charged a fee of $**0**.50 for the rejection.

The Corporation will charge an additional fee for modifications and cancellations as set forth below in subsection **C**~~D~~.

~~**B. Surcharge for Submission Method**~~

~~**At the end of a month, and with respect to each Member account, a Member that did not submit trade data to the Corporation during that month using the Interactive Submission Method shall be charged: (a) an additional comparison fee of $.10 per side or Repo Transaction if it used the Multiple Batch Submission Method or (b) an additional comparison fee of $.25 per side or per Repo Transaction if it used the Single Batch Submission Method.**~~

~~**Notwithstanding the foregoing, (1) the Corporation may reduce a Member's additional comparison fees for a month from $.10 or $.25 per side or Repo Transaction, as applicable, to $.00 or $.10 per side or Repo Transaction, as applicable, if the Corporation determines, in its sole discretion, that during such month, the Member has in good faith switched to (i) the Interactive Trade Submission Method from the Multiple Batch Submission Method or the Single Batch Submission Method, or (ii) the Multiple Batch Submission Method from the Single Batch Submission Method.**~~

B~~C~~. Yield-to-Price Conversion

The charge for the conversion by the Corporation of a side of a **buy/sell transaction** ~~**trade**~~ from a yield basis to a price basis is **$0.15** ~~15 cents~~ per such side.

<u>C</u>~~D~~. <u>Modifications and Cancellations</u>

The charge to a Member for the entry of a request to modify or cancel either a side of a **<u>buy/sell transaction</u>** ~~**trade**~~ or a Repo Transaction, other than a GCF Repo Transaction or a CCIT Transaction, is **<u>$0.25</u>** ~~**25 cents**~~ per such request. The charge to a Member for the entry of a request by such Member to modify or cancel a side of a GCF Repo Transaction or a CCIT Transaction is **<u>$0.05</u>** ~~**5 cents**~~ per 50 million of par value.

<u>D. Coupon Pass-Through Fee</u>

<u>For each pass-through of a coupon payment, pursuant to these Rules, from a Member with a Net Short Settlement Position to a Member with a Net Long Settlement Position, a fee of $0.25 per such coupon movement per each member.</u>

<u>E. Repo Collateral Substitution Fees</u>

<u>For Repo Transactions other than GCF Repo Transactions or CCIT Transactions, the charge for the processing of a repo collateral substitution request is $0.75.</u>

<u>F. Auction Takedown Process</u>

<u>The fees for buy/sell transactions associated with the Auction Takedown Service will be charged in accordance with the "Transaction Processing" fees in Section I.A. and the "Position Management Fees" in Section II.</u>

<u>G</u>~~E~~. <u>Locked-In Trade Data</u>

Data received by the Corporation on a locked-in basis from a Locked-in Trade Source related to a side of a ~~**trade**~~ **<u>buy/sell transaction</u>** entered into by a Member, or entered into by a Non-Member that the Member is clearing for, shall result in the charges established by the "~~**Trade Submission**~~ **<u>Transaction Processing</u>**" fee**<u>s</u>** ~~**schedule**~~ in Section I.A. above. These fees are for the processing and reporting of locked-in trade data by the Corporation to the Member. This charge shall not apply to GCF Repo Transactions or CCIT Transactions.

The charge to the non-Inter-Dealer Broker Member for the processing and reporting by the Corporation of a GCF Repo® Transaction or a CCIT Transaction entered into by the Member, or entered into by a Non-Member that the Member is clearing for, is a onetime recording fee of $**<u>0</u>**.07 per million gross dollar amount of such GCF Repo Transaction or CCIT Transaction (with a minimum charge of $2.50). The charge to the Inter-Dealer Broker Member for the processing and reporting by the Corporation of a GCF Repo® Transaction is a onetime recording fee of $**<u>0</u>**.025 per million gross dollar amount of such GCF Repo® Transaction (with a minimum charge of $1.25).

<u>H</u>~~F~~. <u>CCIT Transactions Submitted for Bilateral Comparison</u>

The charge to Netting Members and CCIT Members submitting CCIT Transactions on a bilateral basis (and not on a Locked-In Trade basis) for the processing and reporting by the

Corporation of a CCIT Transaction is a onetime recording fee of $**0**.07 per million gross dollar amount of such CCIT Transaction (with a minimum charge of $2.50).

II. POSITION MANAGEMENT FEES

A. Intraday Position Fee

An intraday position fee of $0.04 per million par value will be charged to a Member each Business Day based on the largest gross position of the Member (including positions of any Non-Member that the Member is clearing for) that Business Day. The gross position of a Member on a Business Day is determined in 15-minute intervals between 9 a.m. and 4 p.m. on that Business Day by netting par value of all compared buy/sell transactions, Repo Transactions, and unsettled obligations of the Member (and any Non-Members that the Member is clearing for) by CUSIP Number and taking the sum of the absolute par value of each such CUSIP Number. This fee shall not apply to GCF Repo Transactions or CCIT Transactions.

B. End of Day Position Fee

An end of day position fee of $0.115 per million par value will be charged to a Member each Business Day based on the end of day gross position of the Member (including positions of any Non-Member that the Member is clearing for) that Business Day. The end of day gross position of a Member on a Business Day is determined by netting par value of all compared buy/sell transactions, Repo Transactions, and unsettled obligations of the Member (and any Non-Member that the Member is clearing for) at the end of the Business Day by CUSIP Number and taking the sum of the absolute par value of each such CUSIP Number. This fee shall not apply to GCF Repo Transactions or CCIT Transactions.

III~~II~~. COMMUNICATION FEES

Failure to migrate from legacy networks to SMART and/or SFTI. Cost*

* The entire cost of supporting the legacy network connections will be allocated among remaining users pro rata.

IV~~III~~. ~~**NETTING FEE AND**~~ **OTHER** CHARGES (in addition to the ~~**comparison**~~ **transaction** fee)

~~**A. Netting Fee**~~

~~**1. For each side of a Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation and Fail Receive Obligation, other than a GCF Repo Transaction or a CCIT Transaction, that is netted, a fee equaling the sum (in addition to the comparison fee) of::**~~

~~**(i) Dealer Accounts will be charged in accordance with the following schedule:**~~

~~**Fee**~~	~~**Applied to all sides within referenced tier**~~
~~**$0.170**~~	~~**Per side for up to 49,999 sides per month**~~
~~**$0.120**~~	~~**Per side for 50,000 to 99,999 sides per month**~~
~~**$0.100**~~	~~**Per side for 100,000 to 249,999 sides per month**~~
~~**$0.070**~~	~~**Per side for 250,000 to 399,999 sides per month**~~
~~**$0.040**~~	~~**Per side for 400,000 to 499,999 sides per month**~~
~~**$0.030**~~	~~**Per side for 500,000 to 999,999 sides per month**~~
~~**$0.010**~~	~~**Per side for 1M or greater sides per month**~~

~~**Broker Accounts will be charged in accordance with the following schedule:**~~

~~**Fee**~~	~~**Applied to all sides within referenced tier**~~
~~**$0.150**~~	~~**Per side for up to 49,999 sides per month**~~
~~**$0.110**~~	~~**Per side for 50,000 to 99,999 sides per month**~~
~~**$0.090**~~	~~**Per side for 100,000 to 249,999 sides per month**~~
~~**$0.040**~~	~~**Per side for 250,000 to 399,999 sides per month**~~
~~**$0.025**~~	~~**Per side for 400,000 to 499,999 sides per month**~~
~~**$0.010**~~	~~**Per side for 500,000 to 999,999 sides per month**~~
~~**$0.010**~~	~~**Per side for 1M or greater sides per month**~~

~~**and**~~

~~**(ii) For each one million of par value of a Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation and Fail Receive Obligation, other than a GCF Repo Transaction or a CCIT Transaction, and that is netted, a fee of $0.015 per 1 million of par value for Broker Accounts and a fee of $0.016 per 1 million of par value for Dealer Accounts.**~~

~~**2. In addition to the above, for each Deliver Obligation and Receive Obligation created as a result of the netting process, a fee of $0.175 per 1 million of par value.**~~

~~**B. Auction Takedown Process**~~

~~**The fees for locked-in trades associated with the Auction Takedown Service will be charged in accordance with the "Trade Submission" fee schedule as reflected in Section I.A. above.**~~

A~~C~~. Financing Charges[ॐ/]

1. No charges for Inter-Dealer Broker Netting Members acting in a Broker capacity.

2. For each other Netting Member, a pass-through charge calculated on a percentage of the total of all such costs incurred by the Corporation, (including any reimbursements made pursuant to subsection (4) below), allocated by product, which percentage is calculated as follows:

$$\frac{\text{Total dollar value of deliver and receive obligations of such Netting Member in such product}}{\text{Total dollar value of deliver and receive obligations of all Netting Members (other than Inter-Dealer Broker Netting Members acting in a Broker capacity) in such product}}$$

3. Notwithstanding the above, if, after providing to a Netting Member appropriate notice and opportunity to be heard, the Corporation determines that such Netting Member has, on a recurring basis and without good cause, caused the Corporation to incur financing costs, such Member will be obligated to pay for the entire amount of any financing costs incurred by the Corporation as the result of deliveries by such Member to the Corporation.

4. As stated in Rule 12, if the Corporation, as the result of a violation of the Rules by a Netting Member, incurs financing costs, the Netting Member shall be obligated to pay for, or reimburse the Corporation for, the entire amount of any such costs.

5. Notwithstanding anything to the contrary above, the Corporation may pay for directly, or reimburse, a Repo Broker for overnight financing costs that the Repo Broker has incurred related to the settlement of a Start Leg outside of the Netting System, up to a dollar amount deemed reasonable by the Corporation, if the Corporation determines, in its sole discretion, that such financing costs were incurred by the Repo Broker unavoidably and not through its own fault.

[ॐ/] Financing costs include the costs of both carrying positions overnight and borrowing to cover Inter-Dealer Broker Netting Member (acting in a Broker capacity) mark and TAP payments.

6. Notwithstanding anything to the contrary above, the Corporation may pay for directly, or reimburse, a Repo Broker that incurs financing costs for a Net Settlement Position, up to a dollar amount deemed reasonable by the Corporation, if the Corporation determines, in its sole discretion, that such financing costs were incurred by the Repo Broker: (i) unavoidably and not through its own fault and (ii) if the Repo Broker is an Inter-Dealer Broker Netting Member, through overnight repurchase transactions with Netting Members or a Clearing Agent Bank.

B~~D~~. Clearance Charges

1. No charges for Inter-Dealer Broker Netting Members acting in a Broker capacity.

2. For each other Netting Member, a standard charge of $0.25 per deliver and receive obligation on Scheduled Settlement Date.

3. Notwithstanding anything to the contrary above, the Corporation may pay for directly, or reimburse, the clearance costs incurred by a Repo Broker for Repo Transactions related to the settlement of a Start Leg outside of the Netting System, up to a dollar amount deemed reasonable by the Corporation.

4. The Corporation will pass-through to Netting Members the following clearing banks' fees and charges that are incurred by the Corporation for the services that the Corporation performs in connection with such Members' activity.

(a) Actual fees charged by The Bank of New York Mellon ("BNY") and J.P. Morgan Chase ("JPM"), as applicable, for the settlement of each Deliver Obligation and each Receive Obligation.

(b) Actual fees charged by the Fedwire® Securities Service fees for the settlement of treasury securities and agency securities, as applicable.

(c) BNY fee on each GCF Repo Deliver Obligation that FICC creates from its BNY account, inclusive of inter-bank.

When this fee is assessed on FICC's GCF Repo Deliver Obligations that are created versus Netting Members, this fee will be allocated to Dealer Accounts at BNY and to Dealer Accounts at JPM, as follows:

(i) For Dealer Accounts at BNY, a pass-through fee is calculated as 1bp per annum on a dollar amount of such Netting Member's GCF Repo Receive Obligation from FICC in each Generic CUSIP Number.

(ii) For Dealer Accounts at JPM, a pass-through charge is calculated as 1bp per annum on a prorated dollar amount of

FICC's interbank GCF Repo Deliver Obligation from BNY to JPM in each Generic CUSIP Number. The proration is calculated as follows:

$$\frac{\text{(Dollar amount of such Netting Member's GCF Repo Receive Obligation in a given Generic CUSIP Number at JPM)}}{\text{(Aggregate dollar amount of all GCF Repo Receive Obligations in a given Generic CUSIP Number for all Netting Members at JPM)}}$$

When this fee is assessed on FICC's GCF Repo Deliver Obligations at BNY that are created versus a CCIT Member at BNY, the fee is calculated as 1bp per annum on a dollar amount of the underlying CCIT Transactions and the fee will be passed through to the Dealer Account at BNY of the Netting Member that is the Repo Party to such CCIT Transactions.

(d) BNY fees for daylight over drafts for FICC's interbank GCF Repo Deliver Obligations.

This pass-through fee will be charged to Dealer Accounts at BNY and will be calculated on a percentage of the total of all such costs incurred by FICC. This percentage is calculated on a monthly basis as follows:

$$\frac{\text{(Total dollar value of GCF Repo Deliver Obligations of such Dealer Account at BNY)}}{\text{(Total dollar value of GCF Repo Deliver Obligations of all Dealer Accounts at BNY)}}$$

(e) BNY fees for daylight over drafts on securities settlement obligations.

This pass-through fee will be charged to Dealer Accounts at BNY and will be calculated on a percentage of the total of all such costs incurred by FICC. This percentage is calculated on a monthly basis as follows:

(Total dollar value of Deliver and Receive Obligations
of each Netting Member at BNY)

(Total dollar value of Deliver and Receive Obligations
in all Dealer Accounts at BNY)

All fees and charges will be reflected on each Member's billing statement.

C~~E~~. **GCF** Repo Transaction **and CCIT Transaction** Processing Fee

~~**For a term Repo Transaction other than a GCF Repo Transaction or a CCIT Transaction that has been compared and netted, but which has not yet settled, a fee calculated as follows:**~~

~~**(1) (a) for Repo Brokers (as defined in subsection III.H below) with respect to their brokered Repo Transaction activity, a .0175 basis point charge (i.e., one and three quarter hundredth of a basis point) applied to the gross dollar amount of each such Repo Transaction; and**~~

~~**(b) for all other Netting Members, as well as Repo Brokers with respect to their non-brokered Repo Transaction activity, a .04 basis point charge (i.e., four hundredth of a basis point) applied to the gross dollar amount of each such Repo Transaction.**~~

~~**and**~~

~~**(2) a .08 basis point charge (i.e., 8 hundredths of a basis point) applied to the net dollar amount of a Netting Member's Repo Transactions within a CUSIP.**~~

For a GCF Repo Transaction or a CCIT Transaction that has been compared and netted, but which has not yet settled, a fee calculated as follows:

(1) (a) for Repo Brokers **(as defined in subsection IV.D below)** acting as GCF-Authorized-Inter-Dealer Brokers, a .0175 basis point charge (i.e., one and three quarter hundredths of a basis point) applied to the gross dollar amount of such GCF Repo Transaction; and

(b) for all other Netting Members and CCIT Members, a .04 basis point charge (i.e., four hundredth of a basis point) applied to the gross dollar amount of such GCF Repo Transaction or CCIT Transaction;

and

(2) (a) .08 basis point charge (i.e., 8 hundredths of a basis point) applied to the net dollar amount of a Netting Member's or CCIT Member's Collateral Allocation Entitlements and Collateral Allocation Obligations.

~~These fees~~ **This fee** will be applied each calendar day, but calculated on an annualized basis.

~~**For Repo Transactions other than GCF Repo Transactions or CCIT Transactions, these fees do not apply if the Close Leg is scheduled to settle one Business Day after the Start Leg.**~~

~~**F. Coupon Pass-Through Fee**~~

~~**For each pass-through of a coupon payment, pursuant to these Rules, from a Member with a Net Short Settlement Position to a Member with a Net Long Settlement Position, a fee of 25 cents per such coupon movement per each member.**~~

~~**G. Repo Collateral Substitution Fees**~~

~~**For Repo Transactions other than GCF Repo Transactions or CCIT Transactions, the charge for the processing of a repo collateral substitution request is $.75.**~~

D~~**H**~~. Definition

For purposes of this Section **IV** ~~**III**~~, a "Repo Broker" includes (1) an Inter-Dealer Broker Netting Member, and (2) a division or other separate operating unit within a Dealer Netting Member that the Corporation has determined: (a) operates in the same manner as a Broker, and (b) has agreed to, and does, participate in the Repo netting service pursuant to the same requirements imposed on Inter-Dealer Broker Netting Members under these Rules that participate in that service.

~~I~~V. MINIMUM MONTHLY FEE

Each Comparison-Only Member and each Netting Member shall, regardless of the level of its activity, pay a minimum monthly fee **of $2,500** on **each of** its ~~**sole or primary**~~ account**s** ~~**of $1,000**~~, which shall not apply to CCIT Members. **The minimum monthly fee for an account will not apply if the total monthly fees incurred by the account pursuant to Sections I, II, and IV of this Fee Structure exceed $2,500.**

~~**V. FEES APPLICABLE TO ADDITIONAL ACCOUNTS**~~

~~**If a Comparison-Only Member or Netting Member maintains more than one account at the Government Securities Division, each such additional account shall be subject to the following fees, which shall not apply to CCIT Members:**~~

~~**A. Additional Account Opened at the Request of Member**~~

~~**(i) Maintenance fee of $1,000;**~~

~~**(ii) Fees based on transaction activity (no minimum monthly fee); and**~~

~~**(iii) Applicable non-transaction-based fees.**~~

~~**B. Additional Account Opened at the Direction of the Corporation**~~

~~**(i) Fees based on transaction activity subject to a $1,000 minimum monthly fee; and**~~

~~**(ii) Applicable non-transaction-based fees.**~~

~~**For purposes of this Fee Structure, the Corporation will consider a Member's primary account to be the account with the most activity in the applicable month. All other accounts maintained by the Member shall be considered additional accounts.**~~

VI. SUBMITTING MEMBERS

A Submitting Member shall be liable for fees and charges arising from ~~**trades**~~ **buy/sell transactions and Repo Transactions** the data on which it has submitted to the Corporation on behalf of an Executing Firm to the same extent as if such Member had executed the ~~**trades**~~ **buy/sell transactions and Repo Transactions**.

VII. SPONSORING MEMBERS

A Sponsoring Member shall be liable for fees and charges arising from Sponsored Member Trades the data on which it, or its Sponsored Member(s), has submitted to the Corporation. A Sponsoring Member shall also be subject to the **minimum monthly** fee ~~**for additional accounts**~~ set forth in Section V ~~**(A)**~~ of this Fee Structure; provided, that a Sponsoring Member Omnibus Account shall be considered a single account for purposes of calculating such fee, regardless of the number of Sponsored Members whose trading activity is conducted through such account.

VIII. DEFINITION

For purposes of this ~~**f**~~**F**ee ~~**s**~~**S**tructure, a "side" of a ~~**trade or a**~~ **buy/sell** transaction, and a Start Leg or a Close Leg of a Repo Transaction other than a GCF Repo Transaction or a CCIT Transaction, shall be limited to $50 million increments. Thus, if the aggregate amount of a side of a **buy/sell transaction** ~~**trade**~~, or of a Start Leg or Close Leg of a Repo Transaction other than a GCF Repo Transaction or a CCIT Transaction, is greater than $50 million, each $50 million portion of that aggregate amount (including the final, residual portion if that is less than $50 million) shall be considered as a separate "side" or Leg for purposes of this Fee Structure. A Term GCF Repo Transaction **and a CCIT Transaction** shall **each** be considered to have only one Start Leg and one Close Leg during its term.

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XII. CAPITAL BASE, PRICING AND REBATE POLICY

The Corporation's policy is to retain only that amount of revenue which, in the view of the Board, is appropriate to ensure that the Corporation maintains a sufficient capital base and sound financial structure. Consistent with this policy, the Corporation may, for activity submitted during a given month, in its sole discretion, adjust downward (discount) its **~~comparison and netting~~** **transaction** fees. Any such discount shall be reflected directly in fee collections from Members for that month.

This policy is not intended to apply to a service newly-provided by the Corporation, until it is deemed by the **Board** **~~Operations and Planning Committee~~** to be sufficiently established.

The Corporation will rebate excess net income to members, pro rata, at periodic intervals deemed appropriate by, and at the discretion of, the Corporation based upon their gross fees paid to the Corporation within the applicable rebate period (adjusted for miscellaneous charges and rebates). Rebates will be distributed only to those Members maintaining membership during all or a portion of the applicable rebate period, as announced by the Corporation from time to time.

For purposes of this paragraph, "excess net income" shall mean income after expenses and capitalization costs not needed in the opinion of the Corporation in its sole discretion taking into account, among other things, anticipated expenses, losses, liabilities, revenues, and maintenance of an appropriate minimum level of shareholders' equity.

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