

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84435; File No. SR-FICC-2018-011)

October 16, 2018

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow CCIT Members to Elect to Pay Their Funds-Only Settlement Amount Debits Using a Different Process

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 15, 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. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder<sup>4</sup> so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of proposed modifications to the FICC Government Securities Division (“GSD”) Rulebook (“Rules”)<sup>5</sup> that would to allow CCIT Members to elect to pay their Funds-Only Settlement Amount debits using a process for debit payments that is different than the current required process described in Section 5 of

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

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

<sup>5</sup> Capitalized terms not defined herein are defined in the Rules, available at <http://dtcc.com/legal/rules-and-procedures>.

Rule 13. Under this proposal, CCIT Members' Funds-Only Settlement Amount credits would continue to be processed pursuant to Section 5 of Rule 13.

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

(i) **Background on the CCIT Service**

FICC received approval from the Commission to implement its CCIT Service in May 2017.<sup>6</sup> The CCIT Service enables tri-party repurchase agreement transactions in GCF Repo Securities between Netting Members that participate in the GCF Repo Service and institutional cash lenders (other than investment companies registered under the Investment Company Act of 1940, as amended) (called "CCIT Members").<sup>7</sup> The CCIT Service is governed by Rule 3B, which includes provisions on the processing of Funds-Only Settlement Amount obligations of CCIT Members, which are the subject of the

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<sup>6</sup> See Securities Exchange Act Release No. 80574 (May 2, 2017), 82 FR 21439 (May 8, 2017) (SR-FICC-2017-005) ("CCIT Approval Order"). See Rule 3B, Section 13(a), supra note 5.

<sup>7</sup> See CCIT Approval Order, supra note 2. See Rule 3B, Section 13(a), supra note 5.

present filing.<sup>8</sup> Under Section 13 of Rule 3B, CCIT Members are subject to the Invoice Amount,<sup>9</sup> the Miscellaneous Adjustment Amount,<sup>10</sup> and CCIT Repo Daily Interest.<sup>11</sup>

(ii) **Proposed Change to Rule 3B, Section 13 (Funds-Only Settlement)**

Currently, CCIT Members are required to satisfy their Funds-Only Settlement Amount obligations (both debits and credits) using the same process that Netting Members are required to use for the same purpose.<sup>12</sup> This process is described in Rule 13.<sup>13</sup> CCIT Members are required to appoint a Funds-Only Settling Bank to process their Funds-Only Settlement Amount obligations.

FICC understands that some prospective CCIT Members do not have business relationships established with Funds-Only Settling Banks that would permit the Funds-Only Settling Banks to settle such prospective CCIT Members' Funds-Only Settlement Amount debits. Therefore, such prospective CCIT Members are currently unable to participate in the CCIT Service unless an alternative mechanism for them to satisfy their

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<sup>8</sup> See Rule 3B, supra note 5.

<sup>9</sup> See id. "Invoice Amount" means all fee amounts due and owing from a Netting Member or CCIT Member, as applicable, to FICC on a particular Business Day. See Rule 1, supra note 5.

<sup>10</sup> See Rule 3B, supra note 5. "Miscellaneous Adjustment Amount" means the net total of all miscellaneous funds-only amounts that, on a particular Business Day, are required to be paid by a Netting Member or CCIT Member, as applicable, to FICC and/or are entitled to be collected by a Member (including a CCIT Member, as applicable) from FICC. See Rule 1, supra note 5.

<sup>11</sup> See Rule 3B, supra note 5. The term "CCIT Daily Repo Interest" means the interest amount that is collected from or paid to a Netting Member, as applicable, and collected from or paid to a CCIT Member, as applicable, on a daily basis resulting from a CCIT Transaction. See Rule 1, supra note 5.

<sup>12</sup> See Rule 3B, Section 13, supra note 5.

<sup>13</sup> See Rule 13, supra note 5.

Funds-Only Settlement Amount debits directly with FICC, rather than through a Funds-Only Settling Bank, is permitted by FICC. Specifically, FICC is proposing to allow prospective CCIT Members to satisfy their Funds-Only Settlement Amount debits with FICC through the invoicing process applicable to Comparison-Only Members under Rule 25 (the “invoicing process”).<sup>14</sup> Prospective CCIT Members would elect, as part of their onboarding process, to settle their Funds-Only Settlement Amount debits through the Funds-Only Settling Banks or the invoicing process. Furthermore, CCIT Members would also be permitted to change their initial election with respect to Funds-Only Settlement Amount debits after the onboarding process is completed. The proposal would not affect the calculation of the Funds-Only Settlement Amount obligations of CCIT Members, and all other requirements set forth in Rule 13 would remain. In addition, Funds-Only Settlement Amount credits would continue to be processed through Funds-Only Settling Banks and the current process described in Rule 13.<sup>15</sup>

In order to effectuate the proposed rule change, FICC proposes to revise Rule 3B, Section 13 to describe that a CCIT Member may elect to pay its Funds-Only Settlement Amount debits using the invoicing process applicable to Comparison-Only Members under Rule 25 in lieu of the process described in Section 5 of Rule 13. In addition, Rule 3B, Section 13 would be revised to state that, if the CCIT Member elects the invoicing process, the CCIT Member’s Funds-Only Settling Bank shall no longer be responsible for processing Funds-Only Settlement Amounts that are debits for such CCIT Member.

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<sup>14</sup> See Rule 25, supra note 5.

<sup>15</sup> See Rules 3B and 13, supra note 5.

## 2. Statutory Basis

FICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, FICC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.<sup>16</sup> Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.<sup>17</sup> FICC believes that the proposed rule change described above to allow CCIT Members to elect to use the invoicing process to pay their Funds-Only Settlement Amount debits would remove an impediment for prospective CCIT Members to join the CCIT Service. Specifically, some prospective CCIT Members cannot join because they are unable to settle Funds-Only Settlement Amount debits under the current process because they do not have business relationships established with Funds-Only Settling Banks that would permit the Funds-Only Settling Banks to settle such prospective CCIT Members' Funds-Only Settlement Amount debits. The proposed rule change would remove this impediment by allowing CCIT Members to elect the invoicing process for settling their Funds-Only Settlement Amount debits and thereby would enable more entities to become CCIT Members and use the CCIT Service. As such, the proposed rule change would remove impediments to and perfect the mechanism of a national system for the prompt

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<sup>16</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>17</sup> Id.

and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>18</sup>

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

FICC believes this proposed rule change to enable CCIT Members to elect the invoicing process to pay their Funds-Only Settlement Amount debits in connection with their CCIT Transactions could have an impact on competition. FICC believes that the proposed rule change could promote competition. At this time, there are entities that have expressed an interest in becoming CCIT Members but cannot do so, as discussed above. The proposed rule change would allow such entities to join the CCIT Service. By enabling more entities to join the CCIT Service, the proposed rule change would promote competition by having more entities in central clearing.

FICC does not believe that not providing the alternative mechanism to Netting Members would create a burden on competition. Netting Members, as full-service Members, are able to avail themselves of the existing Funds-Only Settling Bank process for Funds-Only Settlement Amount debits and credits. This existing process is automated and efficient, and FICC does not believe that Netting Members would desire to switch to an invoicing process nor would FICC allow them do so given their ability to participate in the current Funds-Only Settling Bank process.

(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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<sup>18</sup> Id.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>19</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>20</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### IV. Solicitation of Comments

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

#### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2018-011 on the subject line.

#### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FICC-2018-011. This file number should be included on the subject line if e-mail is used. To help the Commission

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<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4(f).

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 FICC'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-2018-011 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).