

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="41"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2020"/> - * <input type="text" value="001"/>	Amendment No. (req. for Amendments *) <input type="text"/>
Filing by Fixed Income Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934			
Initial * <input checked="" type="checkbox"/>		Amendment * <input type="checkbox"/>	
Withdrawal <input type="checkbox"/>		Section 19(b)(2) * <input type="checkbox"/>	
		Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	
		Section 19(b)(3)(B) * <input type="checkbox"/>	
		Rule	
Pilot <input type="checkbox"/>		<input checked="" type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4)	
Extension of Time Period for Commission Action * <input type="checkbox"/>		<input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5)	
Date Expires * <input type="text"/>		<input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010		Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>		Section 3C(b)(2) * <input type="checkbox"/>	
Section 806(e)(2) * <input type="checkbox"/>			
Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>		Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>	
Description			
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).			
To Adopt the Interpretive Guidance With Respect to Settlement Finality			
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 * <input type="text" value="James"/>		Last Name * <input type="text" value="Nygard"/>	
Title * <input type="text" value="Director and Assistant General Counsel"/>			
E-mail * <input type="text" value="jnygard@dtcc.com"/>			
Telephone * <input type="text" value="(813) 470-1898"/>		Fax <input type="text"/>	
Signature			
Pursuant to the requirements of the Securities Exchange Act of 1934,			
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.			
(Title *)			
Date <input type="text" value="02/13/2020"/>		Managing Director and Deputy General Counsel	
By <input type="text" value="Nikki Poulos"/>			
(Name *)		<input type="text" value="npoulos@dtcc.com"/>	
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.			

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is annexed hereto as Exhibit 5. The proposed rule change would amend the FICC Government Securities Division (“GSD”) Rulebook (the “GSD Rules”) and the FICC Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules” and collectively with the GSD Rules, the “Rules”) in order to adopt the Interpretive Guidance With Respect to Settlement Finality (“Interpretive Guidance”), which would provide greater transparency to FICC Members regarding settlement finality in the Rules, as described in greater detail below.¹

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Deputy General Counsel of FICC on February 12, 2020 pursuant to delegated authority from FICC’s Board of Directors.

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

(a) Purpose

The proposed rule change would add the Interpretive Guidance into the Rules, which would provide greater transparency to FICC Members relating to settlement finality in the Rules.

(i) Background

FICC is a clearing agency registered with, and under the supervision of, the Securities and Exchange Commission (“Commission”) and it is a “covered clearing agency” under the Commission’s Standards for Covered Clearing Agencies.² Rule 17Ad-22(e)(8) of the Securities Exchange Act of 1934, as amended (“Act”) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to define the point at which settlement is final to be no later than the end of the day on which the payment or obligation is due and, where necessary or appropriate, intraday or in real time.³ It is FICC’s policy to ensure that the point of settlement finality is defined in the Rules in compliance with Rule 17Ad-22(e)(8) of the Act and that the point of settlement finality is transparent to FICC’s Members.

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

² See Standards for Covered Clearing Agencies, Securities Exchange Act Release No. 78961, 81 Fed. Reg. 70786 (Oct. 13, 2016).

³ 17 CFR 240.17Ad-22(e)(8).

The proposed rule change would add the Interpretive Guidance to the Rules to provide greater transparency regarding settlement finality in the Rules.

A. FICC Money and Securities Settlement

Through GSD, FICC processes two types of settlements: (1) the funds-only settlement process that consists of the transfer of cash for (a) changes in the value of securities when they are marked to market, (b) cash adjustments related to securities trades, (c) the pass-through of coupon payments for term repurchase agreements (“repos”) or trade obligations that cross a coupon date, and (d) other items, such as billing invoices and (2) the settlement process associated with securities deliveries and related payment obligations.

Through MBSD, FICC processes two types of settlements: (1) the cash settlement process that consists of the transfer of cash for (a) the TBA Transaction Adjustment Payment, (b) Net Pool Transaction Adjustment Payment, (c) principal and interest payments for failing net pool settlement obligations (to the extent that they are not handled by the Fedwire Securities Service Automated Claims Adjustment Process), and (d) other items, such as Factor Update Adjustments, CPR Claim payments and billing invoices and (2) the settlement associated with securities deliveries and related payment obligations.

B. Point of Settlement Finality for GSD Funds-Only Settlement and MBSD Cash Settlement

1. Funds-Only/Cash Settlement Processes

GSD funds-only settlement and MBSD cash settlement are governed by GSD Rule 13 and MBSD Rule 11, respectively,⁴ which require the settling banks to use the FRB’s⁵ National Settlement Service (“NSS”)⁶ to complete GSD funds-only settlement and MBSD cash settlement.⁷

GSD funds-only settlement and MBSD cash settlement are each a daily process of generating a net credit or debit cash amount for each Member and settling those cash amounts between Members and FICC. The GSD funds-only settlement and MBSD cash settlement

⁴ GSD Rule 13 and MBSD Rule 11, supra note 1.

⁵ FRB means the Board of Governors of the Federal Reserve System and each Federal Reserve Bank, as appropriate. GSD Rule 1 and MBSD Rule 1, supra note 1.

⁶ NSS is a multilateral settlement service owned and operated by the FRB. The service is offered to depository institutions that settle for participants in clearinghouses, financial exchanges and other clearing and settlement groups. Settlement agents, acting on behalf of those depository institutions in a settlement arrangement, electronically submit settlement files to the FRB. Files are processed on receipt, and entries are automatically posted to the depository institutions’ FRB accounts.

⁷ GSD Rule 13, Section 5(i) and MBSD Rule 11, Section 9(i), supra note 1.

processes are primarily cash pass-through processes; i.e., those Members that are in a net debit position are obligated to submit payments that are then used to pay Members in a net credit position.⁸ Net debits and credits of all Members using the same settling bank are further netted and reported⁹ to the settling bank which is required to acknowledge the net-net debits or credits.¹⁰ The settling banks then debit or credit the Members' accounts for which they settle.¹¹

FICC has a settlement interface with its affiliate, The Depository Trust Company ("DTC"). DTC acts as Settlement Agent for FICC and for the Members' settling banks with respect to GSD funds-only settlement and MBSD cash settlement.¹² In submitting the NSS file, DTC, as Settlement Agent, submits instructions to cause the FRB accounts of the settling banks to be charged for their net-net debit balances and credited with their net-net credit balances. Members are required to engage a settling bank that meets FICC's settling bank limited membership criteria to effect money settlement via NSS on behalf of the Members.¹³ Each settling bank is required to acknowledge the daily settlement balances and their intention to settle with FICC by the applicable deadlines or its refusal to settle by the applicable deadlines.¹⁴ Once a settling bank has acknowledged the balances and its intention to settle, it must settle such amounts pursuant to the process set forth in the Rules by the payment deadline established by FICC on FICC's posted time schedules.¹⁵

FICC processes GSD funds-only settlement debit and credit payments via the NSS twice daily at 10:00 a.m. and 3:15 p.m.¹⁶ FICC processes MBSD cash settlement debits via NSS in the

⁸ Certain amounts, such as billing amounts owed by Members to FICC, are credited and paid to FICC through the funds-only/cash settlement processes rather than passed on to other Members.

⁹ GSD Rule 13, Sections 2 and 5(a) and MBSD Rule 11, Section 9(a), supra note 1.

¹⁰ GSD Rule 13, Section 5(b) and MBSD Rule 11, Section 9(b), supra note 1.

¹¹ Each Member is required to enter into a settling bank agreement with the settling bank that settles its account. GSD Rule 13, Section 4 and MBSD Rule 3A, Section (a), supra note 1. In the settling bank agreement, the settling bank undertakes to perform settlement services on behalf of the Member which would include debiting or crediting the Member's account upon settlement.

¹² GSD Rule 13, Section 5(h) and MBSD Rule 11, Section 9(h), supra note 1.

¹³ GSD Rule 13, Section 4(a) and MBSD Rule 3A, Section (a), supra note 1.

¹⁴ GSD Rule 13, Section 5(b) and MBSD Rule 11, Section 9(b), supra note 1.

¹⁵ GSD Rule 13, Section 5(g) and MBSD Rule 11, Section 9(g), supra note 1.

¹⁶ Schedule of Timeframes in the GSD Rules, supra note 1.

morning at 10:00 a.m. daily and settlement credits via NSS in the afternoon at 2:45 p.m. daily.¹⁷

2. *Interpretive Guidance With Respect to Settlement Finality – Funds-Only/Cash Settlement*

The point of finality for GSD funds-only settlement and MBSD cash settlement is defined by the Federal Reserve Bank Operating Circular 12,¹⁸ which governs NSS processing by the FRB. FICC and each Member's settling bank is a "Settler" and together are in a "Settlement Arrangement" (each term as defined in Operating Circular 12) for purposes of GSD funds-only settlement and MBSD cash settlement.¹⁹ DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB. Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.²⁰ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler's Master Account is debited by the FRB,²¹ and, for credits, the time at which

¹⁷ The schedule of funds only settlement for MBSD is posted on its website at <http://www.dtcc.com>. See MBSD Rule 11, Section 9(g), *supra* note 1.

¹⁸ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 ("Operating Circular 12"), available at <https://www.frbservices.org>.

¹⁹ For purposes of Operating Circular 12, the following definitions apply:

"**Balance**" means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

"**Master Account**" means the Master Account (as that term is defined in the Reserve Banks' Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

"**Settler**" means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

"**Settlement Agent**" means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

"**Settlement File**" means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12, *supra* note 18. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frbservices.org>.

²⁰ See *id.*

²¹ See Section 5.4 of Operating Circular 12, *supra* note 18.

the Settler's Master Account is credited by the FRB.²²

Therefore, the point of finality with respect to settlement for GSD funds-only settlement and MBSD cash settlement is the point at which each of the Master Accounts for FICC and the settling banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

C. Point of Finality for GSD and MBSD Settlement of Securities Deliveries and Related Payment Obligations

1. Securities Settlement Processes

(a) GSD Securities Settlement/MBSD Securities Settlement

GSD and MBSD settlement for securities deliveries and related payment obligations (other than GCF Repo Transactions and CCIT Transactions) are governed by GSD Rule 12 and MBSD Rule 9, respectively.²³ Settlement for securities deliveries and related payment obligations occurs on a delivery-versus-payment basis on the books of FICC's clearing bank²⁴ or via Fedwire Securities Service ("Fedwire").²⁵

FICC designates a clearing bank to act on its behalf in the delivery and receipt of securities to or from the Members for securities settlement.²⁶ FICC shall notify each GSD Member and MBSD Member, as applicable, of the clearing bank or banks that FICC will use to deliver eligible securities to Members and to receive eligible securities from Members, and by product, the types of securities that each such clearing bank will so deliver and receive.²⁷ In turn, each Member (prior to activating its membership) must notify FICC of the clearing bank or banks that the Member has designated to act on its behalf in the delivery and receipt of securities to or from FICC.²⁸ Such designation is subject to FICC's determination that such clearing bank

²² See Section 5.6 of Operating Circular 12, supra note 18.

²³ GSD Rule 12 and MBSD Rule 9, supra note 1.

²⁴ FICC currently uses The Bank of New York Mellon ("BNY Mellon") as its clearing bank for this purpose.

²⁵ Fedwire Securities Service is an electronic securities service owned and operated by the FRB that provides issuance, maintenance, transfer and settlement services for all marketable U.S. Treasury securities, as well as certain securities issued by other federal government agencies, government-sponsored enterprises and international organizations. See <https://frbservices.org/financial-services/securities/index.html>.

²⁶ GSD Rule 12, Section 2 and MBSD Rule 9, Section 2, supra note 1.

²⁷ Id.

²⁸ Id.

(a) has and will maintain access to Fedwire, (b) has and will maintain the operational capability to interact satisfactorily with the clearing banks that act on behalf of FICC, and (c) has agreed to act on behalf of such Member in accordance with the Rules.²⁹

If the Member's designated clearing bank for securities settlement is the same as FICC's clearing bank, obligations for securities deliveries and related payment obligations will be settled for a Member on the books of FICC's designated clearing bank. If the Member's designated clearing bank is not the same as FICC's clearing bank, obligations for securities deliveries and related payment obligations will be settled between the clearing banks using Fedwire. All deliveries are made against full payment.³⁰

(b) GCF Repo® Service and the CCIT Service Settlement

Settlement for securities deliveries and related payment obligations relating to the GCF Repo® Service and the CCIT Service are governed by GSD Rule 20 and GSD Rule 3B.³¹ FICC and each Member settling transactions through the GCF Repo Service and CCIT Service maintain accounts at FICC's designated clearing bank for settlement of securities deliveries and related payment obligations with respect to the GCF Repo Service and the CCIT Service.³² Settlement for securities deliveries and related payment obligations³³ for the GCF Repo Service

²⁹ Id.

³⁰ GSD Rule 12, Section 1 and MBSD Rule 9, Section 1, supra note 1.

³¹ The GCF Repo service is primarily governed by GSD Rule 20 and enables Netting Members to trade general collateral finance repurchase agreement transactions based on rate, term, and underlying product throughout the day with brokers on a blind basis. GSD Rule 20, supra note 1. The CCIT Service is governed by GSD Rule 3B and 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). GSD Rule 3B, supra note 1. Section 11 of GSD Rule 3B provides that GSD Rule 20 shall apply to the netting and settlement obligations of FICC and each party to a CCIT Transaction in the same way in which such provisions apply to GCF Repo Transactions. GSD Rule 3B, Section 11, supra note 1.

³² See GSD Rule 3B, Section 9(b), supra note 1 (requiring each CCIT Member to maintain two accounts at the GCF Clearing Agent Bank, one of which, the CCIT Account, is for the CCIT Member's activity in respect of CCIT Transactions).

³³ GSD Rule 3B, Section 13 provides that certain payment obligations relating to CCIT Transactions are processed pursuant to GSD funds-only settlement described in Item 3(a)(i)B. above. See GSD Rule 3B, Section 13, supra note 1.

and the CCIT Service occurs on the books of FICC's designated clearing bank.³⁴

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of FICC's designated clearing bank for each Member whose designated clearing bank for such settlement is the same as FICC's designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as FICC's designated clearing bank.

(a) Point of Finality on the Books of FICC's Clearing Bank

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of FICC's clearing bank is the point at which FICC's clearing bank has acted upon a settlement instruction from FICC.

Pursuant to the agreement between FICC and FICC's clearing bank, a settlement instruction is an instruction by FICC to the clearing bank in respect of settlement that: (1)(a) instructs the clearing bank to direct delivery, from the FICC account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the FICC account; or (2)(a) instructs the clearing bank to direct payment, from the FICC account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the FICC account.

FICC's clearing bank has acted upon such instructions when the clearing bank (i)(a) directs delivery, from the FICC account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the FICC account; or (ii)(a) directs payment, from the FICC account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the FICC account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of FICC's clearing bank is when each of the accounts held by FICC and the Members at the clearing bank for purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by FICC.

³⁴ The clearing bank for this purpose is defined as the GCF Clearing Agent Bank. See GSD Rule 3B and GSD Rule 20, supra note 1. FICC currently uses BNY Mellon as the GCF Clearing Agent Bank.

(b) Point of Finality on the Fedwire System

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7,³⁵ which governs book entry security account maintenance and transfers. FICC's clearing bank and each Member's clearing bank is a "Participant" and maintains a "Securities Account" and a "Master Account" with the FRB (each term as defined in Operating Circular 7).³⁶ Operating Circular 7 states that "[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at

³⁵ Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 ("Operating Circular 7"), available at <https://www.frbservices.org>.

³⁶ For purposes of Operating Circular 7, the following definitions apply:

"Book-Entry Security" means a marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

"Free Transfer" means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

"Master Account" means a "Master Account" (as defined in the Reserve Banks' Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

"Participant" means an entity that maintains a Securities Account with a Reserve Bank in the entity's name.

"Receiver" means the Participant receiving a Book-Entry Security as a result of a Transfer.

"Securities Account" means an account at a Reserve Bank containing Book-Entry Securities.

"Sender" means the Participant sending a Transfer Message.

"Transfer" means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

"Transfer Against Payment" means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

"Transfer Message" means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0, supra note 35.

the time the debits and credits are posted to the Sender's and Receiver's Securities Accounts and, in case of Transfer Against Payment, their corresponding Master Accounts."³⁷ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by FICC and each Member to deliver and receive securities and related funds on behalf of FICC and each Member, respectively, are the Senders and Receivers described in Operating Circular 7. Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by FICC and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by FICC.³⁸

(ii) Description of the Proposed Rule Change

In order to provide Members greater transparency regarding settlement finality, FICC is proposing to amend the Rules to include the Interpretive Guidance. The Interpretive Guidance would describe settlement finality as set forth above in Items 3(a)(i)B.2. and 3(a)(i)C.2. above.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act³⁹ requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. The proposed rule change would provide additional transparency to FICC Members regarding settlement finality with respect to securities transactions processed through FICC. Accordingly, the proposed rule change would ensure that the Rules are transparent and clear, which would enable all stakeholders to readily understand their respective rights and obligations in connection with FICC's clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁴⁰

Rule 17Ad-22(e)(8) under the Act⁴¹ requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to define the point at which settlement is final to be no later than the end of the day on which the payment or obligation is

³⁷ Operating Circular 7, Section 9.1.1, supra note 35. Capitalized terms are defined as set forth in Operating Circular 7. See supra note 36.

³⁸ Each Business Day, FICC makes available to each Member a Report that provides settlement information that FICC deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. GSD Rule 12, Section 3 and MBSD Rule 9, Section 3, supra note 1.

³⁹ 15 U.S.C. 78q-1(b)(3)(F).

⁴⁰ Id.

⁴¹ 17 CFR 240.17Ad-22(e)(8).

due and, where necessary or appropriate, intraday or in real time. The proposed rule change to add the Interpretive Guidance would enhance the transparency with respect to the point at which settlement is final with respect to transactions processed through FICC. Having clear provisions in this regard would enable FICC Members to better identify the point at which settlement is final with respect to their cash and securities transactions. As such, FICC believes the proposed rule change is consistent with Rule 17Ad-22(e)(8) of the Act.⁴²

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

FICC does not believe that the proposed rule change would impact competition.⁴³ The proposed rule change would provide interpretive guidance with respect to settlement finality relating to transactions processed through FICC. The proposed rule change would not change current practices of FICC and would not affect FICC Members' rights or obligations. As such, FICC believes that the proposed rule change would not impact FICC Members or have any impact on competition.

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

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

6. Extension of Time Period for Commission Action

Not applicable.

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

(a) The proposed rule change has become effective pursuant to paragraph A of Section 19(b)(3) of the Act.⁴⁴

(b) The proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.⁴⁵

(c) Not applicable.

(d) Not applicable.

⁴² Id.

⁴³ 15 U.S.C. 78q-1(b)(3)(I).

⁴⁴ 15 U.S.C. 78s(b)(3)(A).

⁴⁵ 17 CFR 240.19b-4(f)(1).

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

Not applicable.

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

Not applicable.

10. Advance Notice 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 Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[____]; File No. SR-FICC-2020-001)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt the Interpretive Guidance With Respect to Settlement Finality

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 February __, 2020, 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)³ of the Act and subparagraph (f)(1)⁴ of Rule 19b-4 thereunder. 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 of Fixed Income Clearing Corporation (“FICC”) is annexed hereto as Exhibit 5. The proposed rule change would amend the FICC Government Securities Division (“GSD”) Rulebook (the “GSD Rules”) and the FICC Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules” and

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(1).

collectively with the GSD Rules, the “Rules”) in order to adopt the Interpretive Guidance with respect to Settlement Finality (“Interpretive Guidance”), which would provide greater transparency to FICC Members regarding settlement finality in the Rules, as described in greater detail below.⁵

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

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

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

(1) Purpose

The proposed rule change would add the Interpretive Guidance into the Rules, which would provide greater transparency to FICC Members relating to settlement finality in the Rules.

(i) Background

FICC is a clearing agency registered with, and under the supervision of, the Commission and it is a “covered clearing agency” under the Commission’s Standards for

⁵ Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the GSD Rules or the MBSD Rules, as applicable, available at <http://www.dtcc.com/legal/rules-and-procedures>.

Covered Clearing Agencies.⁶ Rule 17Ad-22(e)(8) of the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to define the point at which settlement is final to be no later than the end of the day on which the payment or obligation is due and, where necessary or appropriate, intraday or in real time.⁷ It is FICC's policy to ensure that the point of settlement finality is defined in the Rules in compliance with Rule 17Ad-22(e)(8) of the Act and that the point of settlement finality is transparent to FICC's Members. The proposed rule change would add the Interpretive Guidance to the Rules to provide greater transparency regarding settlement finality in the Rules.

A. *FICC Money and Securities Settlement*

Through GSD, FICC processes two types of settlements: (1) the funds-only settlement process that consists of the transfer of cash for (a) changes in the value of securities when they are marked to market, (b) cash adjustments related to securities trades, (c) the pass-through of coupon payments for term repurchase agreements ("repos") or trade obligations that cross a coupon date, and (d) other items, such as billing invoices and (2) the settlement process associated with securities deliveries and related payment obligations.

Through MBSD, FICC processes two types of settlements: (1) the cash settlement process that that consists of the transfer of cash for (a) the TBA Transaction Adjustment Payment, (b) Net Pool Transaction Adjustment Payment, (c) principal and interest

⁶ See Standards for Covered Clearing Agencies, Securities Exchange Act Release No. 78961, 81 Fed. Reg. 70786 (Oct. 13, 2016).

⁷ 17 CFR 240.17Ad-22(e)(8).

payments for failing net pool settlement obligations (to the extent that they are not handled by the Fedwire Securities Service Automated Claims Adjustment Process), and (d) other items, such as Factor Update Adjustments, CPR Claim payments and billing invoices and (2) the settlement associated with securities deliveries and related payment obligations.

B. *Point of Settlement Finality for GSD Funds-Only Settlement and MBSD Cash Settlement*

1. *Funds-Only/Cash Settlement Processes*

GSD funds-only settlement and MBSD cash settlement are governed by GSD Rule 13 and MBSD Rule 11, respectively,⁸ which require the settling banks to use the FRB's⁹ National Settlement Service ("NSS")¹⁰ to complete GSD funds-only settlement and MBSD cash settlement.¹¹

GSD funds-only settlement and MBSD cash settlement are each a daily process of generating a net credit or debit cash amount for each Member and settling those cash amounts between Members and FICC. The GSD funds-only settlement and MBSD cash

⁸ GSD Rule 13 and MBSD Rule 11, supra note 5.

⁹ FRB means the Board of Governors of the Federal Reserve System and each Federal Reserve Bank, as appropriate. GSD Rule 1 and MBSD Rule 1, supra note 5.

¹⁰ NSS is a multilateral settlement service owned and operated by the FRB. The service is offered to depository institutions that settle for participants in clearinghouses, financial exchanges and other clearing and settlement groups. Settlement agents, acting on behalf of those depository institutions in a settlement arrangement, electronically submit settlement files to the FRB. Files are processed on receipt, and entries are automatically posted to the depository institutions' FRB accounts.

¹¹ GSD Rule 13, Section 5(i) and MBSD Rule 11, Section 9(i), supra note 5.

settlement processes are primarily cash pass-through processes; i.e., those Members that are in a net debit position are obligated to submit payments that are then used to pay Members in a net credit position.¹² Net debits and credits of all Members using the same settling bank are further netted and reported¹³ to the settling bank which is required to acknowledge the net-net debits or credits.¹⁴ The settling banks then debit or credit the Members' accounts for which they settle.¹⁵

FICC has a settlement interface with its affiliate, The Depository Trust Company ("DTC"). DTC acts as Settlement Agent for FICC and for the Members' settling banks with respect to GSD funds-only settlement and MBSD cash settlement.¹⁶ In submitting the NSS file, DTC, as Settlement Agent, submits instructions to cause the FRB accounts of the settling banks to be charged for their net-net debit balances and credited with their net-net credit balances. Members are required to engage a settling bank that meets FICC's settling bank limited membership criteria to effect money settlement via NSS on

¹² Certain amounts, such as billing amounts owed by Members to FICC, are credited and paid to FICC through the funds-only/cash settlement processes rather than passed on to other Members.

¹³ GSD Rule 13, Sections 2 and 5(a) and MBSD Rule 11, Section 9(a), supra note 5.

¹⁴ GSD Rule 13, Section 5(b) and MBSD Rule 11, Section 9(b), supra note 5.

¹⁵ Each Member is required to enter into a settling bank agreement with the settling bank that settles its account. GSD Rule 13, Section 4 and MBSD Rule 3A, Section (a), supra note 5. In the settling bank agreement, the settling bank undertakes to perform settlement services on behalf of the Member which would include debiting or crediting the Member's account upon settlement.

¹⁶ GSD Rule 13, Section 5(h) and MBSD Rule 11, Section 9(h), supra note 5.

behalf of the Members.¹⁷ Each settling bank is required to acknowledge the daily settlement balances and their intention to settle with FICC by the applicable deadlines or its refusal to settle by the applicable deadlines.¹⁸ Once a settling bank has acknowledged the balances and its intention to settle, it must settle such amounts pursuant to the process set forth in the Rules by the payment deadline established by FICC on FICC's posted time schedules.¹⁹

FICC processes GSD funds-only settlement debit and credit payments via the NSS twice daily at 10:00 a.m. and 3:15 p.m.²⁰ FICC processes MBSD cash settlement debits via NSS in the morning at 10:00 a.m. daily and settlement credits via NSS in the afternoon at 2:45 p.m. daily.²¹

2. *Interpretive Guidance With Respect to Settlement Finality – Funds-Only/Cash Settlement*

The point of finality for GSD funds-only settlement and MBSD cash settlement is defined by the Federal Reserve Bank Operating Circular 12,²² which governs NSS processing by the FRB. FICC and each Member's settling bank is a "Settler" and together are in a "Settlement Arrangement" (each term as defined in Operating Circular

¹⁷ GSD Rule 13, Section 4(a) and MBSD Rule 3A, Section (a), supra note 5.

¹⁸ GSD Rule 13, Section 5(b) and MBSD Rule 11, Section 9(b), supra note 5.

¹⁹ GSD Rule 13, Section 5(g) and MBSD Rule 11, Section 9(g), supra note 5.

²⁰ Schedule of Timeframes in the GSD Rules, supra note 5.

²¹ The schedule of funds only settlement for MBSD is posted on its website at <http://www.dtcc.com>. See MBSD Rule 11, Section 9(g), supra note 5.

²² Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 ("Operating Circular 12"), available at <https://www.frbservices.org>.

12) for purposes of GSD funds-only settlement and MBSD cash settlement.²³ DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB. Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.²⁴ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler's Master Account is debited by the FRB,²⁵ and, for credits, the time at which the Settler's Master Account is credited by the FRB.²⁶

Therefore, the point of finality with respect to settlement for GSD funds-only settlement and MBSD cash settlement is the point at which each of the Master Accounts for FICC and the settling banks designated by each of the Members have been debited

²³ For purposes of Operating Circular 12, the following definitions apply:

“**Balance**” means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

“**Master Account**” means the Master Account (as that term is defined in the Reserve Banks' Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

“**Settler**” means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

“**Settlement Agent**” means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

“**Settlement File**” means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12, supra note 22. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frbservices.org>.

²⁴ See id.

²⁵ See Section 5.4 of Operating Circular 12, supra note 22.

²⁶ See Section 5.6 of Operating Circular 12, supra note 22.

and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

C. *Point of Finality for GSD and MBSD Settlement of Securities Deliveries and Related Payment Obligations*

1. *Securities Settlement Processes*

(a) *GSD Securities Settlement/MBSD Securities Settlement*

GSD and MBSD settlement for securities deliveries and related payment obligations (other than GCF Repo Transactions and CCIT Transactions) are governed by GSD Rule 12 and MBSD Rule 9, respectively.²⁷ Settlement for securities deliveries and related payment obligations occurs on a delivery-versus-payment basis on the books of FICC's clearing bank²⁸ or via Fedwire Securities Service ("Fedwire").²⁹

FICC designates a clearing bank to act on its behalf in the delivery and receipt of securities to or from the Members for securities settlement.³⁰ FICC shall notify each GSD Member and MBSD Member, as applicable, of the clearing bank or banks that FICC will use to deliver eligible securities to Members and to receive eligible securities from Members, and by product, the types of securities that each such clearing bank will

²⁷ GSD Rule 12 and MBSD Rule 9, *supra* note 5.

²⁸ FICC currently uses The Bank of New York Mellon ("BNY Mellon") as its clearing bank for this purpose.

²⁹ Fedwire Securities Service is an electronic securities service owned and operated by the FRB that provides issuance, maintenance, transfer and settlement services for all marketable U.S. Treasury securities, as well as certain securities issued by other federal government agencies, government-sponsored enterprises and international organizations. See <https://frbsecurities.org/financial-services/securities/index.html>.

³⁰ GSD Rule 12, Section 2 and MBSD Rule 9, Section 2, *supra* note 5.

so deliver and receive.³¹ In turn, each Member (prior to activating its membership) must notify FICC of the clearing bank or banks that the Member has designated to act on its behalf in the delivery and receipt of securities to or from FICC.³² Such designation is subject to FICC's determination that such clearing bank (a) has and will maintain access to Fedwire, (b) has and will maintain the operational capability to interact satisfactorily with the clearing banks that act on behalf of FICC, and (c) has agreed to act on behalf of such Member in accordance with the Rules.³³

If the Member's designated clearing bank for securities settlement is the same as FICC's clearing bank, obligations for securities deliveries and related payment obligations will be settled for a Member on the books of FICC's designated clearing bank. If the Member's designated clearing bank is not the same as FICC's clearing bank, obligations for securities deliveries and related payment obligations will be settled between the clearing banks using Fedwire. All deliveries are made against full payment.³⁴

(b) *GCF Repo® Service and the CCIT Service Settlement*

Settlement for securities deliveries and related payment obligations relating to the GCF Repo® Service and the CCIT Service are governed by GSD Rule 20 and GSD Rule

³¹ Id.

³² Id.

³³ Id.

³⁴ GSD Rule 12, Section 1 and MBSD Rule 9, Section 1, supra note 5.

3B.³⁵ FICC and each Member settling transactions through the GCF Repo Service and CCIT Service maintain accounts at FICC's designated clearing bank for settlement of securities deliveries and related payment obligations with respect to the GCF Repo Service and the CCIT Service.³⁶ Settlement for securities deliveries and related payment obligations³⁷ for the GCF Repo Service and the CCIT Service occurs on the books of FICC's designated clearing bank.³⁸

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of FICC's designated clearing bank for each Member whose designated

³⁵ The GCF Repo service is primarily governed by GSD Rule 20 and enables Netting Members to trade general collateral finance repurchase agreement transactions based on rate, term, and underlying product throughout the day with brokers on a blind basis. GSD Rule 20, supra note 5. The CCIT Service is governed by GSD Rule 3B and 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). GSD Rule 3B, supra note 5. Section 11 of GSD Rule 3B provides that GSD Rule 20 shall apply to the netting and settlement obligations of FICC and each party to a CCIT Transaction in the same way in which such provisions apply to GCF Repo Transactions. GSD Rule 3B, Section 11, supra note 5.

³⁶ See GSD Rule 3B, Section 9(b), supra note 5 (requiring each CCIT Member to maintain two accounts at the GCF Clearing Agent Bank, one of which, the CCIT Account, is for the CCIT Member's activity in respect of CCIT Transactions).

³⁷ GSD Rule 3B, Section 13 provides that certain payment obligations relating to CCIT Transactions are processed pursuant to GSD funds-only settlement described in Item II.(A)(1)(i)B. above. See GSD Rule 3B, Section 13, supra note 5.

³⁸ The clearing bank for this purpose is defined as the GCF Clearing Agent Bank. See GSD Rule 3B and GSD Rule 20, supra note 5. FICC currently uses BNY Mellon as the GCF Clearing Agent Bank.

clearing bank for such settlement is the same as FICC's designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as FICC's designated clearing bank.

(a) Point of Finality on the Books of FICC's Clearing Bank

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of FICC's clearing bank is the point at which FICC's clearing bank has acted upon a settlement instruction from FICC.

Pursuant to the agreement between FICC and FICC's clearing bank, a settlement instruction is an instruction by FICC to the clearing bank in respect of settlement that:

(1)(a) instructs the clearing bank to direct delivery, from the FICC account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the FICC account; or (2)(a) instructs the clearing bank to direct payment, from the FICC account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the FICC account.

FICC's clearing bank has acted upon such instructions when the clearing bank (i)(a) directs delivery, from the FICC account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts

designated in the settlement instruction for the FICC account; or (ii)(a) directs payment, from the FICC account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the FICC account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of FICC's clearing bank is when each of the accounts held by FICC and the Members at the clearing bank for purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by FICC.

(b) Point of Finality on the Fedwire System

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7,³⁹ which governs book entry security account maintenance and transfers. FICC's clearing bank and each Member's clearing bank is a "Participant" and maintains a "Securities Account" and a "Master Account" with the FRB (each term as defined in Operating Circular 7).⁴⁰ Operating Circular 7 states that

³⁹ Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 ("Operating Circular 7"), available at <https://www.frbservices.org>.

⁴⁰ For purposes of Operating Circular 7, the following definitions apply:

"Book-Entry Security" means a marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

"Free Transfer" means a Transfer that does not involve any credit or debit to a

“[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender’s and Receiver’s Securities Accounts and, in case of Transfer Against Payment, their corresponding Master Accounts.”⁴¹ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by FICC and each Member to deliver and receive securities and related funds on behalf of

Master Account other than a transaction fee.

“**Master Account**” means a “Master Account” (as defined in the Reserve Banks’ Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

“**Participant**” means an entity that maintains a Securities Account with a Reserve Bank in the entity’s name.

“**Receiver**” means the Participant receiving a Book-Entry Security as a result of a Transfer.

“**Securities Account**” means an account at a Reserve Bank containing Book-Entry Securities.

“**Sender**” means the Participant sending a Transfer Message.

“**Transfer**” means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

“**Transfer Against Payment**” means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

“**Transfer Message**” means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0, supra note 39.

⁴¹ Operating Circular 7, Section 9.1.1, supra note 39. Capitalized terms are defined as set forth in Operating Circular 7. See supra note 40.

FICC and each Member, respectively, are the Senders and Receivers described in Operating Circular 7. Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by FICC and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by FICC.⁴²

(ii) Description of the Proposed Rule Change

In order to provide Members greater transparency regarding settlement finality, FICC is proposing to amend the Rules to include the Interpretive Guidance. The Interpretive Guidance would describe settlement finality as set forth above in Items II.(A)(1)(i)B.2. and II.(A)(1)(i)C.2. above.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act⁴³ requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. The proposed rule change would provide additional transparency to FICC Members regarding settlement finality with respect to securities transactions processed through FICC. Accordingly, the proposed rule change would ensure that the Rules are transparent and clear, which would enable all stakeholders to readily understand their respective rights

⁴² Each Business Day, FICC makes available to each Member a Report that provides settlement information that FICC deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. GSD Rule 12, Section 3 and MBSD Rule 9, Section 3, supra note 5.

⁴³ 15 U.S.C. 78q-1(b)(3)(F).

and obligations in connection with FICC's clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁴⁴

Rule 17Ad-22(e)(8) under the Act⁴⁵ requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to define the point at which settlement is final to be no later than the end of the day on which the payment or obligation is due and, where necessary or appropriate, intraday or in real time. The proposed rule change to add the Interpretive Guidance would enhance the transparency with respect to the point at which settlement is final with respect to transactions processed through FICC. Having clear provisions in this regard would enable FICC Members to better identify the point at which settlement is final with respect to their cash and securities transactions. As such, FICC believes the proposed rule change is consistent with Rule 17Ad-22(e)(8) of the Act.⁴⁶

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

FICC does not believe that the proposed rule change would impact competition.⁴⁷ The proposed rule change would provide interpretive guidance with respect to settlement finality relating to transactions processed through FICC. The proposed rule change would not change current practices of FICC and would not affect FICC Members' rights

⁴⁴ Id.

⁴⁵ 17 CFR 240.17Ad-22(e)(8).

⁴⁶ Id.

⁴⁷ 15 U.S.C. 78q-1(b)(3)(I).

or obligations. As such, FICC believes that the proposed rule change would not impact FICC Members or have any impact on competition.

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

FICC has not received or solicited any written comments relating to this proposal.

FICC will notify the Commission of any written comments received by FICC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)⁴⁸ of the Act and paragraph (f)⁴⁹ of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

⁴⁸ 15 U.S.C 78s(b)(3)(A).

⁴⁹ 17 CFR 240.19b-4(f).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2020-001 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-2020-001. 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-2020-001 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.⁵⁰

Secretary

⁵⁰ 17 CFR 200.30-3(a)(12).

Bold and underlined text indicates proposed added language.

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

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

* * *

INTERPRETIVE GUIDANCE WITH RESPECT TO SETTLEMENT FINALITY

1. *Interpretive Guidance With Respect to Settlement Finality – Funds-Only Settlement.*

The point of finality for funds-only settlement by the Corporation is defined by the Federal Reserve Bank Operating Circular 12 (“Operating Circular 12”),¹ which governs NSS processing by the FRB. The Corporation and each Member’s Funds-Only Settling Bank is a “Settler” and together are in a “Settlement Arrangement” (each term as defined in Operating Circular 12) for purposes of funds-only settlement.² DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB.³ Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.⁴ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler’s Master Account is debited by the FRB,⁵ and, for credits, the time at which the Settler’s Master

¹ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 (“Operating Circular 12”), available at <https://www.frbservices.org>

² For purposes of Operating Circular 12, the following definitions apply:

“Balance” means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

“Master Account” means the Master Account (as that term is defined in the Reserve Banks’ Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

“Settler” means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

“Settlement Agent” means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

“Settlement File” means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frbservices.org>.

³ See id.

⁴ See id.

⁵ See Section 5.4 of Operating Circular 12.

Account is credited by the FRB.⁶

Therefore, the point of finality with respect to funds-only settlement by the Corporation is the point at which each of the Master Accounts for the Corporation and the Funds-Only Settling Banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations.*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of the Corporation's designated clearing bank for each Member whose designated clearing bank for such settlement is the same as the Corporation's designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as the Corporation's designated clearing bank.

(a) *Point of Finality on the Books of the Corporation's Clearing Bank.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of the Corporation's clearing bank is the point at which the Corporation's clearing bank has acted upon a settlement instruction from the Corporation.

Pursuant to the agreement between the Corporation and the Corporation's clearing bank, a settlement instruction is an instruction by the Corporation to the clearing bank in respect of settlement that: (1)(a) instructs the clearing bank to direct delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (2)(a) instructs the clearing bank to direct payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the Corporation's account.

The Corporation's clearing bank has acted upon such instructions when the clearing bank (i)(a) directs delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (ii)(a) directs payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each

⁶ See Section 5.6 of Operating Circular 12.

such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the Corporation's account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of the Corporation's clearing bank is when each of the accounts held by the Corporation and the Members at the clearing bank for purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by the Corporation.

(b) Point of Finality on the Fedwire System.

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7 ("Operating Circular 7"),⁷ which governs book entry security account maintenance and transfers. The Corporation's clearing bank and each Member's clearing bank is a "Participant" and maintains a "Securities Account" and a "Master Account" with the FRB (each term as defined in Operating Circular 7).⁸

⁷ Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 ("Operating Circular 7"), available at <https://www.frbservices.org>.

⁸ For purposes of Operating Circular 7, the following definitions apply:

"Book-Entry Security" means a marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

"Free Transfer" means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

"Master Account" means a "Master Account" (as defined in the Reserve Banks' Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

"Participant" means an entity that maintains a Securities Account with a Reserve Bank in the entity's name.

"Receiver" means the Participant receiving a Book-Entry Security as a result of a Transfer.

"Securities Account" means an account at a Reserve Bank containing Book-Entry Securities.

"Sender" means the Participant sending a Transfer Message.

"Transfer" means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

"Transfer Against Payment" means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

Operating Circular 7 states that “[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender’s and Receiver’s Securities Accounts and, in case of Transfer Against Payment, their corresponding Master Accounts.”⁹ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by the Corporation and each Member to deliver and receive securities and related funds on behalf of the Corporation and each Member, respectively, are the Senders and Receivers described in Operating Circular 7.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by the Corporation and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by the Corporation.¹⁰

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“Transfer Message” means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0.

⁹ **Operating Circular 7, Section 9.1.1. Capitalized terms are defined as set forth in Operating Circular 7. See id.**

¹⁰ **Each Business Day, the Corporation makes available to each Member a Report that provides settlement information that the Corporation deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. Rule 12, Section 3.**

FIXED INCOME CLEARING CORPORATION
MORTGAGE-BACKED SECURITIES DIVISION
CLEARING RULES

INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

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INTERPRETIVE GUIDANCE WITH RESPECT TO SETTLEMENT FINALITY

1. *Interpretive Guidance With Respect to Settlement Finality – Cash Settlement.*

The point of finality for Cash Settlement by the Corporation is defined by the Federal Reserve Bank Operating Circular 12 (“Operating Circular 12”),¹¹ which governs NSS processing by the FRB. The Corporation and each Member’s Cash Settling Bank is a “Settler” and together are in a “Settlement Arrangement” (each term as defined in Operating Circular 12) for purposes of Cash Settlement.¹² DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB.¹³ Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.¹⁴ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler’s Master Account is debited by the FRB,¹⁵ and, for credits, the time at which the Settler’s Master Account is credited by the FRB.¹⁶

¹¹ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 (“Operating Circular 12”), available at <https://www.frbservices.org>.

¹² For purposes of Operating Circular 12, the following definitions apply:

“Balance” means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

“Master Account” means the Master Account (as that term is defined in the Reserve Banks’ Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

“Settler” means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

“Settlement Agent” means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

“Settlement File” means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frbservices.org>.

¹³ See id.

¹⁴ See id.

¹⁵ See Section 5.4 of Operating Circular 12.

¹⁶ See Section 5.6 of Operating Circular 12.

Therefore, the point of finality with respect to Cash Settlement by the Corporation is the point at which each of the Master Accounts for the Corporation and the Cash Settling Banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations.*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of the Corporation’s designated clearing bank for each Member whose designated clearing bank for such settlement is the same as the Corporation’s designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as the Corporation’s designated clearing bank.

(a) *Point of Finality on the Books of the Corporation’s Clearing Bank.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of the Corporation’s clearing bank is the point at which the Corporation’s clearing bank has acted upon a settlement instruction from the Corporation.

Pursuant to the agreement between the Corporation and the Corporation’s clearing bank, a settlement instruction is an instruction by the Corporation to the clearing bank in respect of settlement that: (1)(a) instructs the clearing bank to direct delivery, from the Corporation’s account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the Corporation’s account; or (2)(a) instructs the clearing bank to direct payment, from the Corporation’s account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the Corporation’s account.

The Corporation’s clearing bank has acted upon such instructions when the clearing bank (i)(a) directs delivery, from the Corporation’s account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the Corporation’s account; or (ii)(a) directs payment, from the Corporation’s account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the Corporation’s account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of the Corporation’s clearing bank is when each of the accounts held by the Corporation and the Members at the clearing bank for

purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by the Corporation.

(b) Point of Finality on the Fedwire System.

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7 (“Operating Circular 7”),¹⁷ which governs book entry security account maintenance and transfers. The Corporation’s clearing bank and each Member’s clearing bank is a “Participant” and maintains a “Securities Account” and a “Master Account” with the FRB (each term as defined in Operating Circular 7).¹⁸ Operating Circular 7 states that “[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender’s and Receiver’s Securities Accounts and, in

¹⁷ **Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 (“Operating Circular 7”), available at <https://www.frbservices.org>.**

¹⁸ **For purposes of Operating Circular 7, the following definitions apply:**

“Book-Entry Security” means a marketable security issued in electronic form by the United States Government (the “Treasury”), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

“Free Transfer” means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

“Master Account” means a “Master Account” (as defined in the Reserve Banks’ Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

“Participant” means an entity that maintains a Securities Account with a Reserve Bank in the entity’s name.

“Receiver” means the Participant receiving a Book-Entry Security as a result of a Transfer.

“Securities Account” means an account at a Reserve Bank containing Book-Entry Securities.

“Sender” means the Participant sending a Transfer Message.

“Transfer” means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

“Transfer Against Payment” means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

“Transfer Message” means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0.

case of Transfer Against Payment, their corresponding Master Accounts.”¹⁹ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by the Corporation and each Member to deliver and receive securities and related funds on behalf of the Corporation and each Member, respectively, are the Senders and Receivers described in Operating Circular 7.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by the Corporation and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by the Corporation.²⁰

February 13, 2020

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¹⁹ **Operating Circular 7, Section 9.1.1. Capitalized terms are defined as set forth in Operating Circular 7. See id.**

²⁰ **Each Business Day, the Corporation makes available to each Member a Report that provides settlement information that the Corporation deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. Rule 9, Section 3.**