Nasdaq

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Via Electronic Delivery
Mr. Eduardo A. Aleman
Assistant Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Proposed Rule Change, File Number SR-FICC-2018-003

Dear Mr. Aleman:

Nasdaq, Inc. ("Nasdaq") respectfully submits this comment letter in response to the Fixed Income Clearing Corporation ("FICC") Notice of Filing of Proposed Rule Change to Amend the Fee Structure of the Government Securities Division Rulebook (File No. SR-FICC-2018-003. Nasdaq supports FICC's Proposal because it: (1) simplifies and adds transparency to FICC's fee schedule; (2) introduces a sensible risk-based fee model; and (3) permits and incentivizes more market participants to utilize central clearing for U.S. Treasury Securities ("USTs"). Each of these enhancements and all three combined will likely result in increased voluntary use of FICC services, moving the industry closer to comprehensive central clearing and an accompanying reduction in systemic risk.

Nasdaq believes that FICC's Proposal represents an important step towards accomplishing two critical goals announced in the October 2017 report U.S. Department of the Treasury on the U.S. Capital Markets ("Treasury Report").[1] First and foremost, the Treasury Report recommended further study of potential reforms by regulators and market participants of the fees and other standards that FICC imposes on its members, and how those fees compare to fees for similar services in other markets because they are not widely

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

understood by many market participants. Nasdaq believes FICC's Proposal responds to the Treasury Report recommendation by simplifying and clarifying the FICC fee schedule, making the fees more transparent and understandable to market participants. For example, FICC has eliminated entirely seven separate fee tiers. As a result, participants considering the option of central clearing will be better able to understand the potential ramifications of that decision. Regulators also will be better able to study the potential reforms that might exist beyond the FICC Proposal.

Nasdaq also agrees with FICC's observations that shifting the fee structure away from a volume-driven approach and towards a risk-based model may make central clearing more accessible and attractive to additional market participants. Volume-based clearing fees fail to recognize the realities of automated trading that has grown dramatically. The high relative cost of clearing large volumes of trades with small net positioning has caused a substantial amount of trading in USTs to occur without utilizing a centralized clearing counterparty, such as FICC. Nasdaq commends FICC for taking this first step in providing a more transparent and accessible fee structure for high-volume proprietary trading firms ("PTFs").

Simultaneously, FICC's Proposal incrementally advances the Treasury Department's stated goal of increasing overall transparency of trade reporting data in USTs. Based on its global experience as the world's largest exchange operating company and the operator of the Nasdaq Fixed Income market (NFI), the first electronic trading platform for "On-the-Run" USTs, Nasdaq has consistently argued that regulators and market participants would benefit from greater transparency in the market for USTs.[2] Although FICC's Proposal does not directly increase transparency, it does so indirectly by reducing an obstacle to transparency, namely, high clearing fees for PTFs. Some PTFs have said they are reluctant to become FINRA members due to the requirement that FINRA members establish central clearing arrangements. Reducing the cost of clearing and easing the path of PTFs towards FINRA membership could result in both greater use of central clearing and greater use of TRACE reporting.

Finally, to Nasdaq, FICC's Proposal represents an incremental step towards a universal clearing mandate for trading in USTs. It is difficult to advocate for a clearing mandate while FICC's fees remain opaque and complex, and also impose disproportionate volume-based costs on automated trading. If FICC and FINRA continue taking steps to make central clearing and FINRA membership more attractive to market participants, regulators and market participants themselves will become more comfortable advocating for and accepting a universal clearing mandate. Accomplishing this long term goal will substantially reduce system risk, increase transparency, enhance market regulation, and

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[2] See Nasdaq, Inc.'s response to the Notice Seeking Public Comment on the Evolution of the U.S. Treasury Market Structure, Docket ID: TREAS-DO-2015-0013 at https://www.regulations.gov/document?D=TREAS-DO-2015-0013-0029

better protect investors in the market that is widely regarded as the most consequential in the world.

Respectfully submitted,

Ted Bragg

cc: Commissioner Robert J. Jackson, Jr.
Commissioner Hester M. Peirce
Commissioner Michael S. Piwowar
Commissioner Kara M. Stein
Brett Redfearn, Director of the Division of Trading and Markets