

SECURITIES AND EXCHANGE COMMISSION
(Release No. 74033; File No. SR-FICC-2014-12)

January 12, 2015

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify the Fee Schedule in the Mortgage-Backed Securities Division Clearing Rules

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 December 30, 2014 the 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 FICC. FICC filed the proposal pursuant to Section 19(b)(3)(A)(ii) of the Act³ and Rule 19b-4(f)(2) thereunder⁴ so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change is filed by FICC and consists of modifications to the fee schedule in the Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (the “Clearing Rules”).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

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

In its filing with the Commission, FICC 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. FICC 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

(i) *Purpose*

FICC is proposing to add a fee (the "development fee") to the MBSD Clearing Rules to cover the development cost of the MBSD Novation Service. Clearing members will be assessed the development fee as of January 1, 2015 and it will remain in effect for three (3) consecutive years. FICC will collect this fee on a monthly basis through the cash settlement process and the fee will be identified as line item "NOV" on each clearing member's cash obligation settlement report.

The cumulative amount of the development fees collected over the three (3) year period is expected to cover FICC's estimated cost of developing the MBSD Novation Service. If the actual development cost is materially greater than estimated, then FICC may increase transaction fees in order to make up the difference,⁵ but will not increase the development fees. If the actual development cost is less than the estimated development cost, FICC will apportion the excess fees collected to other MBSD service enhancements and/or return excess fees to clearing members on a pro rata basis.

⁵ Any such fee increase will be subject to rule filing approval by the Commission.

The MBSD Novation Service will be the subject of a future FICC rule filing subject to the Commission's review and approval. If FICC does not receive the Commission's approval or materially modifies the proposed service for any reason, FICC will suspend monthly billing of the development fee and, following consultation with members, submit a new fee filing to the Commission that either terminates or modifies the fee structure to account for any changes in development costs associated with the change to the service.

FICC has discussed the development fee with each of the clearing members.

A. MBSD Novation Service - Overview of the Service for Which the Development Fee is Proposed to be Charged

Through the MBSD Novation Service, FICC will provide MBSD clearing members an enhancement to the current processing of their transactions from an operational perspective. Specifically, FICC will step in as the counterparty to all subsequent trades resulting from the to-be-announced ("TBA") netting process; and FICC will also step in as the counterparty to all pool allocations to complete each clearing member's TBA trades in preparation for the pool netting process. This will allow FICC to eliminate the Notification of Settlement⁶ ("NOS") process. Currently, FICC is unaware of each clearing member's allocation activities with respect to their settlement balance order trades, trade-for-trade transactions or specified pool trades. As a result of such activity settling away from FICC, FICC relies on each clearing member's

⁶ As defined in the MBSD Clearing Rules, the term "Notification of Settlement" means an instruction submitted to FICC by a purchasing or selling clearing member pursuant to the MBSD Clearing Rules reflecting settlement of a settlement balance order trade, trade-for-trade transaction or specified pool trade. The MBSD Clearing Rules are available on DTCC's website, <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

submission of NOS to inform FICC of when such member's trades have settled. With the MBSD Novation Service, all clearing members will submit all trade activity showing FICC as the counterparty which will allow for the elimination of the NOS process.

The MBSD Novation Service will provide further enhancements by allowing additional types of trades to settle with FICC as the counterparty, namely, trades carrying stipulations (referred to as "STIP trades") and specified pool trades. Additionally, the service will simplify the processing of specified pool trades by allowing clearing members to match specified pool trades based on pool number or pool CUSIP number without the need for inclusion of a reference to a TBA CUSIP.

B. MBSD Novation Service - Development

FICC will begin the development phase for this initiative during the second quarter of 2015. The overall development will include the following:

1. Technical Specifications & System Build

(Second Quarter 2015 – Third Quarter 2015)

The technical specifications for this service will include the design of new messaging specifications, the development of a new allocation engine, and the development of a new netting engine to process TBA transactions. Upon completion, FICC's Technology team and Product Management team will confirm that the technical specifications are consistent with FICC's internal business requirements for this service. Next, the Technology team will begin to build the components for the system. The technical specifications are expected to be completed during the second quarter of 2015 and the system build will commence shortly thereafter with completion by the end of the third quarter of 2015.

2. *Internal Testing*

(Fourth Quarter 2015)

The system build for the MBSD Novation Service may connect with DTCC's other existing systems. As a result, each of the existing systems must be thoroughly tested to ensure that they continue to operate as expected.

The existing systems that will be tested include the following:

- a. Real-Time Trade Matching (RTTM®),
- b. Electronic Pool Notification,
- c. Pool Netting,
- d. Billing system, and
- e. Report Center.

Upon the completion of the system build, the internal testing of existing systems will commence. Internal testing is expected to begin during the fourth quarter of 2015 and continue for approximately 3 to 6 months.

3. *External Member Testing*

(Second Quarter 2016)

During the external member testing phase, all clearing members and service bureaus will test the new processing, including the messaging aspects. Clearing members will be expected to complete their testing with FICC prior to the implementation of the MBSD Novation Service. External member testing is expected to begin during the second quarter of 2016 and continue for approximately 9 to 12 months.

4. *Production Phase*

(Second Quarter 2017)

It is expected that the MBSD Novation Service will be placed into production over a 6 month period. This will provide MBSD and its clearing members with an opportunity to adjust to the new processing. Initially, TBA CUSIPs with limited trade volumes will be processed through the service and TBA CUSIPs with the highest trade volumes will be the last to be processed through the service.

C. *Development Fee Calculation*

The development fees that FICC is proposing to charge clearing members are based upon the cost estimates for the design, build, testing and production of the MBSD Novation Service as discussed above. FICC has calculated the development fee for each clearing member as summarized below.

FICC will assign each single entity clearing member and family of members⁷ to one of four tiers based on the fees paid by such member or family of members, as applicable, during the period of January 1st through August 31st of the previous year (the “calculation period”).⁸ FICC will then charge the tiered development fee to the single entity clearing member or calculate a portion of the tiered fee for each clearing member within the family of members. This portion will be based upon the fees generated by the

⁷ As used herein, “family of members” means collectively, each MBSD clearing member that controls or is controlled by another MBSD clearing member and each such member that is under the common control of any organization, entity or individual. “Control” for these purposes means the direct or indirect ownership of more than 50% of the voting securities or other voting interests of any organization, entity or person.

⁸ FICC selected January 1st through August 31st as the calculation period in order to give clearing members enough time to consider the fees as they assess their budget.

clearing member during the calculation period. As noted above, the development fee will be collected as part of MBSD's cash settlement process.

The tiered development fee for 2015, 2016 and 2017 will be set during October of the previous year for the calculation period. The 2015 development fee was determined in October 2014 by calculating the amount of fees paid by clearing members from January 1, 2014 through August 31, 2014; the 2016 development fee will be determined in October 2015 by calculating the amount of fees paid by clearing members from January 1, 2015 through August 31, 2015; and the 2017 development fee will be determined in October 2016 by calculating the amount of fees paid by clearing members from the period of January 1, 2016 through August 31, 2016.

Below is the tiered development fee for 2015, 2016 and 2017 which is applicable to single entity clearing members and each family of members, as applicable. Tier 1 represents single entity clearing members and families of members, as applicable, that have generated fees over \$1,000,000.00 during the calculation period; Tier 2 represents single entity clearing members and families of members, as applicable, that have generated fees in the amount of \$250,000.00 to \$999,999.99 during the calculation period; Tier 3 represents single entity clearing members and families of members, as applicable, that have generated fees in the amount of \$100,000.00 to \$249,999.99 during the calculation period; and Tier 4 represents single entity clearing members and families of members, as applicable, that have generated fees under \$100,000.00 during the calculation period. As noted above, once FICC has determined the appropriate tier development fee based on the single entity clearing members or families fees, FICC will charge as follows:

1. each single entity clearing member will be charged the entire amount of the tiered development fee; and
2. each clearing member within a family will be charged a portion of the tiered development fee based upon such clearing member's fees during the calculation period.

As noted above, all MBSD clearing members will be billed once a month through FICC's cash settlement process.

2015 Monthly Development Fee		2016 Monthly Development Fee		2017 Monthly Development Fee	
Tier 1	\$ 20,000/mo.	Tier 1	\$ 18,000/mo.	Tier 1	\$ 18,000/mo.
Tier 2	\$ 10,000/mo.	Tier 2	\$ 8,000/mo.	Tier 2	\$ 8,000/mo.
Tier 3	\$ 6,000/mo.	Tier 3	\$ 4,000/mo.	Tier 3	\$ 4,000/mo.
Tier 4	\$ 1,000/mo.	Tier 4	\$ 1,000/mo.	Tier 4	\$ 1,000/mo.

The cumulative amount of the development fees collected over the three (3) year period is expected to cover the cost of developing the MBSD Novation Service. FICC believes that the development fees are reasonable because they are based on FICC's estimates of the cost of the project which involves the stages referred to above (design, testing and moving into production). FICC believes that the development fees are proposed to be applied fairly because each clearing member will be charged an amount that is consistent with the previous year's fees that such member has paid, which is directly correlated to the member's (or its overall family's) usage of MBSD's clearing and settlement service.

(ii) *Statutory Basis*

FICC believes that the proposed rule changes are consistent with the requirements of Section 17A of the Securities Exchange Act of 1934, as amended (the “Act”).

The proposed development fee will facilitate the establishment of a service that will promote the prompt and accurate clearance and settlement of securities transactions; the MBSD Novation Service will result in more transactions settled with FICC as central counterparty and will provide operational efficiencies for MBSD securities transaction processing.

In connection with Section 17A(b)(3)(F) of the Act⁹ the Commission has stated that “continued and improved understanding of . . . costs associated with using a covered clearing agency’s services should promote confidence generally in the covered clearing agency’s ability to set and manage appropriately . . . costs.”¹⁰ The proposed development fee improves the membership’s understanding of the associated costs and helps FICC manage the costs by (1) disclosing the specific amount that clearing members will be charged for the development of this service, (2) providing a discrete time period for the allocation of such charges and (3) providing members with the opportunity to budget in advance for the associated costs.

The proposed prefunding fee enables FICC to maintain a certain level of financial resources in accordance with Rule 17Ad-22(c)(1) of the Clearing Agency Standards¹¹

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ Release No. 34-71699 (March 12, 2014), 79 FR 16865 (March 26, 2014).

¹¹ Release No. 34-68080 (October 22, 2012), 77 FR 66219 (November 2, 2012).

while balancing the request of clearing members for services that are operationally beneficial for them.

The development fee is also consistent with Section 17A(b)(3)(D) of the Act,¹² which requires that the MBSD Rules provide for the equitable allocation of reasonable fees among its participants. As noted above, the development fee will be applied fairly among the clearing members because the charges are based upon the previous year's activity, which is directly correlated to the member's usage of MBSD's clearing and settlement service.

The proposed fee is reasonable as required by Section 17A (b)(3)(D) of the Act because FICC intends to collect only the approximate cost of developing the service that clearing members have requested. Collecting this amount in advance is reasonable because it allows FICC to use amounts collected in a targeted manner to develop this specific service, rather than raising overall fees, where the amount collected over any given period may vary based on transaction volumes and clearing members will have less certainty as to the amounts they will pay.

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

FICC does not believe that the proposed rule change will have any impact, or impose any burden, on competition. As noted above, the development fees will be applied fairly among the clearing members because each clearing member or family of members, as applicable, will be charged an amount that is consistent with the previous year's fees, which is directly correlated to the member's or family's usage of MBSD's clearing and settlement service. FICC does not believe that calculating the proposed

¹² 5 U.S.C. 78q-1(b)(3)(D).

development fee with respect to a family of members, where applicable, imposes a burden on competition. If FICC assessed the proposed development fee on an individual entity without regard to the activity of its family members, it is possible that the family of members would be charged a significantly higher fee for the same amount of activity conducted by a single firm with no family members in MBSD (which would result in the fee being cost prohibitive for the family). This aspect of the development fee has been discussed with the MBSD members and no member raised an issue in this regard.

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

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

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

The forgoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act¹³ and Rule 19b-4(f)(2)¹⁴ 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.

¹³ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁴ 17 CFR 240.19b-4(f)(2).

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2014-12 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2014-12. 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 am and

3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on its website (<http://www.dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2014-12 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.¹⁵

Brent J. Fields
Secretary

¹⁵ 17 CFR 200.30-3(a)(12).