

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-92808; File No. SR-FICC-2021-003)

August 30, 2021

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Add the Sponsored GC Service and Make Other Changes

On May 12, 2021, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> proposed rule change SR-FICC-2021-003 to amend FICC’s Government Securities Division Rulebook<sup>3</sup> to add a new service that expands FICC’s existing Sponsored Service.<sup>4</sup> The proposed rule change was published for public comment in the Federal Register on June 1, 2021.<sup>5</sup> On June 8, 2021, FICC filed Amendment No. 1 to the proposed rule change, to correct an

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

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

<sup>3</sup> FICC’s Government Securities Division (“GSD”) Rulebook (“Rules”) is available at <http://www.dtcc.com/legal/rules-and-procedures>.

<sup>4</sup> FICC also filed the proposals contained in the proposed rule change as advance notice SR-FICC-2021-801 with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”), 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) of the Act, 17 CFR 240.19b-4(n)(1)(i). Notice of filing of the Advance Notice was published for comment in the Federal Register on June 3, 2021. Securities Exchange Act Release No. 92019 (May 27, 2021), 86 Fed. Reg. 29834 (June 3, 2021) (SR-FICC-2021-801).

<sup>5</sup> Securities Exchange Act Release No. 92014 (May 25, 2021), 86 Fed. Reg. 29334 (June 1, 2021) (SR-FICC-2020-003) (“Notice”).

erroneous cross reference in the original filing.<sup>6</sup> The proposed rule change, as modified by Amendment No. 1, is hereinafter referred to as the “Proposed Rule Change.” On June 24, 2021, the Commission published a notice designating a longer period of time for Commission action and a longer period for public comment on the Proposed Rule Change.<sup>7</sup> The Commission received one comment letter in support of the Proposed Rule Change.<sup>8</sup>

The Commission is publishing this notice to solicit comments on Amendment No. 1 from interested persons and, for the reasons discussed below, to approve the Proposed Rule Change on an accelerated basis.

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<sup>6</sup> Amendment No. 1 made a correction to Exhibit 5 of the filing. On June 8, 2021, FICC filed Amendment No. 1 to the advance notice to make the same correction as regarding the proposed rule change. The advance notice, as modified by Amendment No. 1, is hereinafter referred to as the “Advance Notice.” On June 11, 2021, the Commission, by the Division of Trading and Markets, pursuant to delegated authority, requested additional information from FICC pursuant to Section 806(e)(1)(D) of the Clearing Supervision Act. 17 CFR 200.30-3(a)(93); 12 U.S.C. 5465(e)(1)(D). The request for information tolled the Commission’s period of review of the Advance Notice until 60 days from the date of the Commission’s receipt of the information requested from FICC. See 12 U.S.C. 5465(e)(1)(E)(ii) and (G)(ii); see Memorandum from the Office of Clearance and Settlement, Division of Trading and Markets, titled “Commission’s Request for Additional Information,” available at <https://www.sec.gov/rules/sro/ficc-an/2021/34-92019-memo-ficc.pdf>. The Commission received the information requested from FICC on July 2, 2021.

<sup>7</sup> Securities Exchange Act Release No. 92185 (June 15, 2021), 86 Fed. Reg. 33420 (June 24, 2021) (SR-FICC-2021-003).

<sup>8</sup> The comment is available at <https://www.sec.gov/comments/sr-ficc-2021-003/srficc2021003.htm>. Because the proposals contained in the Advance Notice and the Proposed Rule Change are the same, the Commission considers any public comments received on the proposal as applicable to both filings, regardless of whether comments are submitted with respect to the Advance Notice or the Proposed Rule Change.

## I. DESCRIPTION OF THE PROPOSED RULE CHANGE

### A. Background

#### 1. FICC Services for Repurchase Agreement (“Repo”) Transactions

Repos involve a pair of securities transactions between two parties. The parties agree to the terms of the trade, including the securities, principal amount, interest rate, haircut, and tenor (i.e., date of maturity). The first transaction (the “Start Leg”) consists of the sale of securities, in which one party (the “cash borrower”) delivers securities, and in exchange, the other party (the “cash lender”) delivers cash. At the Start Leg, the cash borrower typically delivers an amount of securities equal in value to the amount of cash received from the cash lender, plus a haircut. Repo durations range from one day (“overnight”) to a year or more, but are usually less than three months (“term”). The second transaction (the “End Leg”) occurs on a date after that of the Start Leg and consists of the repurchase of securities, in which the obligations to deliver cash and securities are the reverse of the Start Leg. At the End Leg, the cash borrower typically delivers the amount of cash borrowed, plus interest, and the cash lender returns the securities.

FICC serves as CCP and provides clearance and settlement services to facilitate both bilateral and tri-party repo transactions. FICC facilitates bilateral repos<sup>9</sup> in which all securities delivery obligations are made against full payment (“delivery-versus-payment”

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<sup>9</sup> A bilateral repo is one in which the cash lender and cash borrower directly exchange cash and securities. In the bilateral repo market, the parties specify the securities used as collateral. Therefore, a cash lender seeking to obtain a particular security would utilize the bilateral repo market.

or “DVP”) (the “DVP Service”). FICC generally novates and guarantees settlement of a trade upon validation of the trade details, which results in the legally binding and enforceable contract between FICC and the parties to the trade.<sup>10</sup> On a daily basis, FICC aggregates and matches a member’s offsetting obligations resulting from the member’s trades, thereby netting the member’s total daily settlement obligations.<sup>11</sup>

FICC facilitates tri-party repos<sup>12</sup> through its General Collateral Finance (“GCF”) Repo® Service, which enables members to trade general collateral finance repos based on rate, term, and underlying product throughout the day on a blind basis.<sup>13</sup> The Bank of New York Mellon operates the tri-party platform that facilitates trades conducted through the GCF Repo Service. FICC has established standardized, generic CUSIP Numbers exclusively for GCF Repo processing and to specify the acceptable types of underlying

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<sup>10</sup> See Rule 5, supra note 3.

<sup>11</sup> See Rule 11, supra note 3.

<sup>12</sup> A tri-party repo is one in which a clearing bank, acting as tri-party agent, provides to both the cash lender and the cash borrower certain operational, custodial, collateral management, and other services. In tri-party repo trading, both parties maintain accounts at a clearing bank, which facilitates the payment and delivery of cash and securities between the parties’ accounts. In contrast to the bilateral repo market and its use of specific collateral, the tri-party repo market is exclusively for general collateral repos, meaning that the parties agree to use any securities from a pre-approved basket of acceptable securities as collateral. In a general collateral repo, the cash lender is indifferent to the particular securities it receives as collateral, provided that the securities come from the pre-approved basket of acceptable securities.

<sup>13</sup> See Rule 20, supra note 3.

Fedwire book-entry eligible collateral, which include U.S. Treasuries, U.S. government agency securities, and certain mortgage-backed securities.<sup>14</sup>

## **2. Sponsored Membership**

In 2005, FICC established the Sponsored Service, allowing eligible members to sponsor their clients into a limited form of membership.<sup>15</sup> A Sponsoring Member is permitted to submit to FICC, for comparison, novation, and netting, certain eligible securities transactions of its Sponsored Members. FICC requires each Sponsoring Member to establish an omnibus account at FICC (separate from its regular netting account) for Sponsored Member trading activity. Sponsored Members generally have to meet the definition of a qualified institutional buyer (“QIB”), as defined in Rule 144A<sup>16</sup> under the Securities Act of 1933.<sup>17</sup>

For operational and administrative purposes, FICC interacts solely with the Sponsoring Member as agent for purposes of the day-to-day satisfaction of its Sponsored Members’ obligations to and from FICC, including their securities and funds-only settlement obligations.<sup>18</sup> Sponsoring Members are also responsible for providing FICC

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<sup>14</sup> See Rule 3 (definitions of “GCF Repo Transaction” and “Generic CUSIP Number”) and Rule 20, Section 2, supra note 3; Notice, supra note 5 at 29336.

<sup>15</sup> Securities Exchange Act Release No. 51896 (June 21, 2005), 70 Fed. Reg. 36981 (June 27, 2005) (SR-FICC-2004-22). See Rule 3A, supra note 3.

<sup>16</sup> 17 CFR 230.144A.

<sup>17</sup> 15 U.S.C. 77a et seq.

<sup>18</sup> See Rule 3A, Section 8, supra note 3.

with a Sponsoring Member Guaranty, whereby the Sponsoring Member guarantees to FICC the payment and performance by its Sponsored Members of their obligations under the Rules.<sup>19</sup> Although Sponsored Members are principally liable to FICC for their own settlement obligations under the Rules, the Sponsoring Member Guaranty requires the Sponsoring Member to satisfy those settlement obligations on behalf of a Sponsored Member if the Sponsored Member defaults and fails to perform its settlement obligations.<sup>20</sup>

**B. Proposed Sponsored GC Service**

Currently, the Sponsored Service only facilitates trading in bilateral DVP repos, not tri-party repos. In the Proposed Rule Change, FICC proposes to expand the Sponsored Service to accommodate tri-party repo trading, which FICC believes would increase term repo activity within the Sponsored Service. FICC states that several market participants have indicated that they currently transact tri-party term repos outside of central clearing because they are not operationally equipped to perform the collateral management and other functions associated with term DVP repos.<sup>21</sup> In particular, money

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<sup>19</sup> See Rule 1 (definition of “Sponsoring Member Guaranty”) and Rule 3A, Section 2(c), supra note 3.

<sup>20</sup> Id.

<sup>21</sup> See Notice, supra note 5 at 29336. A key difference between the bilateral and tri-party repo markets deals with the operational aspects of managing term repos. In the tri-party repo market, a clearing bank typically automatically selects securities from the cash borrower’s account to serve as collateral that satisfies the credit and liquidity criteria agreed between the parties. The clearing bank delivers securities against the simultaneous delivery of cash between the parties’ accounts at the clearing bank. The clearing bank manages the regular revaluation of collateral, variation margining, income payments on the collateral, and collateral

market funds and other mutual funds generally prefer to use the tri-party repo market because a clearing bank administers collateral management and other functions, as described above.<sup>22</sup>

Therefore, FICC proposes to add the Sponsored GC Service, which would allow (but not require) Sponsoring Members and their Sponsored Members to trade general collateral repos with each other on the tri-party platform of a Sponsored GC Clearing Agent Bank<sup>23</sup> (each, a “Sponsored GC Trade”). Such general collateral repos would involve the same asset classes that are currently available for members using the GCF Repo Service.<sup>24</sup> Consistent with the GCF Repo Service, the Sponsored GC Service

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substitutions. In the bilateral repo market, the parties themselves perform such collateral management and other administrative functions.

<sup>22</sup> See Notice, supra note 5 at 29336.

<sup>23</sup> The Bank of New York Mellon operates the tri-party platform that would facilitate trades conducted through the Sponsored GC Service.

<sup>24</sup> FICC would register a new series of Generic CUSIP Numbers for the Sponsored GC Service as follows: (i) U.S. Treasury Securities maturing in ten (10) years or less, (ii) U.S. Treasury Securities maturing in thirty (30) years or less, (iii) Non-Mortgage-Backed U.S. Agency Securities, (iv) Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) Fixed Rate Mortgage-Backed Securities, (v) Fannie Mae and Freddie Mac Adjustable Rate Mortgage-Backed Securities, (vi) Government National Mortgage Association (“Ginnie Mae”) Fixed Rate Mortgage-Backed Securities, (vii) Ginnie Mae Adjustable Rate Mortgage-Backed Securities, (viii) U.S. Treasury Inflation-Protected Securities (“TIPS”) and (ix) U.S. Treasury Separate Trading of Registered Interest and Principal of Securities (“STRIPS”). The purpose of registering a new series of Generic CUSIP Numbers specific to the Sponsored GC Service is to avoid any operational processing errors that could otherwise result if a trade intended for the Sponsored GC Service was inadvertently processed as a GCF Repo transaction or vice versa. Notice, supra note 5 at 29336.

would also permit cash borrowers to make collateral substitutions. Sponsored GC Trades would settle in a manner similar to the way Sponsoring Members and Sponsored Members currently settle tri-party repos with each other outside of central clearing.

#### Sponsored GC Service Structure

Sponsored GC Trades would only be between a Sponsored Member and its Sponsoring Member. FICC would novate only the End Legs of Sponsored GC Trades. Consistent with the current settlement process of such tri-party repos outside of central clearing, the Start Legs of Sponsored GC Trades would continue to settle on a trade-for-trade basis on the tri-party platform of a Sponsored GC Clearing Agent Bank.<sup>25</sup>

Accrued repo interest on Sponsored GC Trades would be paid and collected by FICC on a daily basis. Additionally, if the market value of the securities collateral decreases from its market value at the Start Leg, the cash borrower would be required deliver to FICC additional securities (and/or cash) such that the market value of the total securities collateral remains at least equal to its market value at the Start Leg. Conversely, if the market value of the securities collateral increases from its market value at the Start Leg, the cash lender would be required to deliver to FICC securities (and/or cash) such that the market value of the remaining securities collateral remains at least

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<sup>25</sup> FICC does not believe it would be efficient or appropriate to novate the Start Legs of Sponsored GC Trades, as that novation would unnecessarily complicate an already efficient process by requiring the parties to make significant operational and business changes to include FICC in the transaction chain. Since Sponsored GC Trades would only be between a Sponsored Member and its Sponsoring Member on a known (i.e., not blind) basis, all Start Leg obligations would settle between a single set of counterparties, negating any efficiency or reduced settlement risk that FICC's novation would provide. See Notice, supra note 5 at 29337.



equal to its market value at the Start Leg. Such additional securities (and/or cash) must be delivered within the timeframe set forth in a proposed new schedule of Sponsored GC Trade timeframes set forth in the Rules.

In order to facilitate settlement of securities and cash obligations, FICC would direct each party to a Sponsored GC Trade to make any payment or delivery due to FICC in respect of a Sponsored GC Trade (except for certain funds-only settlement obligations, as discussed below) directly to the relevant pre-novation counterparty. As a result, each transfer of securities and daily repo interest would be made directly between the Sponsored Member and its Sponsoring Member via the tri-party repo platform of a Sponsored GC Clearing Agent Bank.<sup>26</sup>

#### Market Risk Management

FICC would manage its market risk with respect to Sponsored GC Trades similar to the manner in which FICC manages existing trades within the Sponsored Service. To mitigate market risk, FICC would calculate the Value at Risk (“VaR”) margin component

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<sup>26</sup> FICC similarly does not believe it would be appropriate for FICC to be in the transaction chain for each payment and delivery under a Sponsored GC Trade because inserting FICC in the middle of the payments and deliveries would require substantial changes in operational processes for both Sponsored Members and Sponsoring Members. FICC does not believe such operational changes are necessary since there can only be two pre-novation counterparties involved in the settlement of a Sponsored GC Trade (i.e., the Sponsoring Member and its Sponsored Member client). See Notice, supra note 5 at 29337-38.

(“VaR Charge”)<sup>27</sup> for each Sponsored Member based on its activity in the Sponsored Service, including its activity in the proposed Sponsored GC Service. The VaR Charge for the Sponsoring Member’s omnibus account for Sponsored Member trading activity would continue to be gross-margined as the sum of the individual VaR Charges for each Sponsored Member client.<sup>28</sup>

Additionally, FICC would assign a symbol to each Sponsored Member to facilitate FICC’s ability to surveil the Sponsored Member’s activity across its Sponsored GC Trades as well as its other Sponsored Member Trades within the existing Sponsored Service (both with the same Sponsoring Member and across Sponsoring Members, if applicable). In addition, FICC would apply certain heightened requirements that apply to certain Sponsoring Members within the Sponsored GC Service as well.<sup>29</sup> For example, FICC may impose heightened financial requirements on these Sponsoring Members

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<sup>27</sup> Each member’s margin consists of a number of applicable components. The VaR Charge is typically the largest component of a member’s margin requirement. The VaR Charge is designed to capture the potential market price risk associated with the securities in a member’s portfolio. The VaR Charge is designed to provide an estimate of FICC’s projected liquidation losses with respect to a defaulted member’s portfolio at a 99 percent confidence level. See Rule 1 (definition of “VaR Charge”), supra note 3; Securities Exchange Act Release No. 83362 (June 1, 2018), 83 Fed. Reg. 26514 (June 7, 2018) (SR-FICC-2018-001).

<sup>28</sup> See Rule 3A, Section 10, supra note 3.

<sup>29</sup> Specifically, these restrictions apply to Category 2 Sponsoring Members, which are other members that meet certain financial requirements as compared to Category 1 Sponsoring Members, which are bank netting members that are well-capitalized with \$5 billion in equity capital. See Rule 3A, Section 2(a), supra note 3.

based on their anticipated activity and other factors,<sup>30</sup> and FICC may limit such a Sponsoring Member's activity if the sum of the VaR Charges of its omnibus and netting accounts exceeds its net capital.<sup>31</sup>

In addition, FICC would manage the mark-to-market risk associated with unaccrued repo interest on a Sponsored GC Trade through a proposed new interest rate mark component of funds-only settlement.<sup>32</sup> FICC would also apply an Interest Adjustment Payment to Sponsored GC Trades to account for overnight use of funds by the Sponsoring Member or Sponsored Member, as applicable, based on such party's receipt from FICC of a Forward Mark Adjustment Payment (reflecting a GC Interest Rate Mark) on the previous business day.<sup>33</sup>

#### Liquidity Risk Management

Currently, trades between a Sponsoring Member and its Sponsored Member do not independently create liquidity risk for FICC. Under its Rules, if a Sponsoring

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<sup>30</sup> See Rule 3A, Section 2(b), supra note 3.

<sup>31</sup> See Rule 3A, Section 2(h), supra note 3.

<sup>32</sup> This GC Interest Rate Mark would be calculated in the same manner as the GCF Interest Rate Mark is for GCF Repo transactions. For a detailed description of the calculation, see Notice, supra note 5 at 29337-38.

<sup>33</sup> No other components of funds-only settlement would be necessary to apply to Sponsored GC Trades because, as described above, (i) all Sponsored GC Trades would novate after the settlement of the Start Legs of such trades (i.e., not during the Forward-Starting Period), (ii) mark-to-market changes in the value of the securities transferred under Sponsored GC Trades would be managed by the Sponsored GC Clearing Agent Bank on FICC's behalf (consistent with the manner in which GCF Repo transactions are currently processed), and (iii) the accrued repo interest on Sponsored GC Trades would be passed on a daily basis, as described above.

Member defaults, FICC may close out (that is, cash settle) the Sponsored Member trades of the defaulting Sponsoring Member.<sup>34</sup> Similarly, if a Sponsored Member defaults, FICC may offset its settlement obligations to the Sponsoring Member against the Sponsoring Member's obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulting Sponsored Member.<sup>35</sup> Thus, in both default scenarios, FICC bears no liquidity risk.

As a result, to the extent a Sponsoring Member either (1) runs a matched book of Sponsored Member trades (i.e., enters into offsetting trades with its own Sponsored Members), or (2) simply enters into trades with its Sponsored Member (i.e., without entering into offsetting trades), such activities do not increase FICC's liquidity risk. FICC bears liquidity risk only when a Sponsoring Member enters into an offsetting trade in which a third-party member is the pre-novation counterparty. In that scenario, FICC is required to settle the obligations of a defaulting Sponsoring Member.

Since Sponsored GC Trades would not involve third-party members, such trades would impact FICC's liquidity risk in a similar manner to trades between a Sponsoring Member and its Sponsored Member in the current Sponsored Service. As a result, FICC proposes to manage the liquidity risk associated with Sponsored GC Trades in the same

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<sup>34</sup> See Rule 3A, Section 14(c), supra note 3. See also Rule 22A, Section 2, supra note 3.

<sup>35</sup> See Rule 3A, Section 11, supra note 3.

manner that it currently manages such risk for other trades between a Sponsoring Member and its Sponsored Member.

**C. Proposed Changes to Allocations within the Capped Contingency Liquidity Facility (“CCLF”)**

**1. CCLF Background**

On April 25, 2017, the Commission approved FICC’s adoption of the Clearing Agency Liquidity Risk Management Framework (“Framework”), which broadly describes FICC’s liquidity risk management strategy and objective to maintain sufficient liquid resources in order to meet the potential amount of funding required to settle outstanding transactions of a defaulting member (including affiliates) in a timely manner.<sup>36</sup> The Framework identifies, among other things, each of the qualifying liquid resources available to FICC, including the CCLF.<sup>37</sup> The CCLF is a rules-based, committed liquidity resource, designed to enable FICC to meet its cash settlement obligations in the event of a default of the member (including the member’s family of affiliated members) to which FICC has the largest exposure in extreme but plausible market conditions.<sup>38</sup> FICC would activate the CCLF if, upon a member default, FICC

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<sup>36</sup> See Securities Exchange Act Release No. 80489 (April 19, 2017), 82 Fed. Reg. 19120 (April 25, 2017) (SR-FICC-2017-008).

<sup>37</sup> See id.

<sup>38</sup> FICC designed the CCLF to meet the regulatory requirement for a covered clearing agency to measure, monitor, and manage its liquidity risk by maintaining sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the clearing agency in extreme but plausible market conditions. 17 CFR 240.17Ad-22(e)(7)(i); see Securities Exchange Act Release No. 82090 (November 15, 2017), 82 Fed. Reg. 55427, 55430 (November 21, 2017) (SR-FICC-2017-002); Rule 22A, Section 2a, supra note 3.

determines that its non-CCLF liquidity resources would not generate sufficient cash to satisfy FICC's payment obligations to its non-defaulting members. In simple terms, a CCLF repo is equivalent to a non-defaulting member financing FICC's payment obligation under the original trade, thereby providing FICC with time to liquidate the securities underlying the original trade. More specifically, upon activating the CCLF, members would be called upon to enter into repo transactions (as cash lenders) with FICC (as cash borrower) up to a pre-determined capped dollar amount, thereby providing FICC with sufficient liquidity to meet its payment obligations. For a non-defaulting member to whom FICC has a payment obligation disrupted by a member default, a CCLF repo would extinguish and replace the original trade that gave rise to FICC's payment obligation.

FICC determines the total size of the CCLF based on FICC's potential cash settlement obligations that would result from the default of the member (including affiliates) presenting the largest liquidity need to FICC over a specified look-back period, plus an additional liquidity buffer. In the Proposed Rule Change, FICC does not propose to change the method by which it determines the total size of the CCLF.

FICC uses a tiered approach to allocate the total size of the CCLF among its members to arrive at the amount of each member's CCLF obligation. FICC allocates \$15 billion of the total size of the CCLF among all members.<sup>39</sup> FICC allocates the remainder

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<sup>39</sup> FICC has determined that \$15 billion is an appropriate amount for allocation to all members because the average member's liquidity need from 2015-2016 was approximately \$7 billion, with a majority of members (approximately 85 percent) having liquidity needs less than \$15 billion. See Securities Exchange Act Release No. 82090 (November 15, 2017), 82 Fed. Reg. 55427, 55430 (November 21, 2017) (SR-FICC-2017-002).

of the total size of the CCLF among members that generate liquidity needs above the \$15 billion threshold based on the frequency that such members generate daily liquidity needs over \$15 billion across supplemental liquidity tiers in \$5 billion increments. Specifically, FICC calculates a dollar amount for the CCLF obligation applicable to each supplemental liquidity tier. FICC allocates the CCLF obligation for each supplemental liquidity tier to members on a pro-rata basis corresponding to the number of times each member generates liquidity needs within each supplemental liquidity tier.<sup>40</sup>

## **2. Current CCLF Allocation Methodology for the Sponsored Service**

Currently, FICC does not impose a CCLF obligation on a Sponsoring Member to the extent the Sponsoring Member runs a matched book of Sponsored Member trades. This is because to determine a Sponsoring Member's CCLF obligation, FICC nets all of the positions recorded in the Sponsoring Member's omnibus account (regardless of whether they relate to the same Sponsored Member) and separately nets all of the positions in the Sponsoring Member's netting account.<sup>41</sup> As a result, to the extent a Sponsoring Member enters into perfectly offsetting Sponsored Member trades (i.e., the

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<sup>40</sup> For example, a member that generates daily liquidity needs in the \$15-\$20 billion supplemental liquidity tier would incur a pro-rata share for the \$15-\$20 billion supplemental liquidity tier only. Another member that generates daily liquidity needs in the \$20-\$25 billion supplemental liquidity tier would incur a pro-rata share for both the \$15-\$20 and \$20-\$25 billion supplemental liquidity tiers. A third member that generates daily liquidity needs in the \$65-\$70 billion supplemental liquidity tier would incur a pro-rata share for every supplemental liquidity tier. Each member's pro-rata share is based on the frequency with which the member generates daily liquidity needs in each supplemental liquidity tier. See Securities Exchange Act Release No. 80234 (March 14, 2017), 82 Fed. Reg. 14401, 14404-05 (March 20, 2017) (SR-FICC-2017-002).

<sup>41</sup> See Rule 3A, Section 8(b) and Rule 22A, Section 2a(b), supra note 3.

matched book scenario), the settlement obligations of those trades net out in the omnibus account and the netting account, with no resulting CCLF obligation for the Sponsoring Member.

However, if a Sponsoring Member enters into a Sponsored Member trade without entering into an offsetting transaction, the Sponsoring Member is subject to CCLF obligations for the position of its Sponsored Member recorded in its omnibus account as well as its own position arising from the Sponsored Member trade recorded in its netting account. Although the positions in the Sponsoring Member's omnibus account and netting account offset each other, FICC does not currently net such positions for CCLF purposes because CCLF allocations are determined at the participant account level.<sup>42</sup> FICC believes the foregoing scenario should not contribute to the Sponsoring Member's CCLF obligation because, as described above in Section I.B, such offsetting obligations do not present liquidity risk to FICC.

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<sup>42</sup> This limitation on offset is consistent with FICC's approach of not offsetting the positions of two accounts of the same member for CCLF purposes. However, FICC notes an important difference between Sponsored Member trades and other FICC repo activity. See Notice, supra note 5 at 29343. Specifically, as mentioned above in Section I.A.2., the Sponsored Service requires a Sponsoring Member to maintain an omnibus account that is separate from its netting account. In contrast, for all other repo activity, members have the option to collapse all of their activity into a single participant account in order to achieve a similar netting benefit. Sponsoring Members do not have that option with respect to their Sponsored Member trades. Therefore, FICC believes this proposed change is necessary to ensure that a Sponsoring Member's CCLF obligations are calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member trades. Id.



### 3. Proposed CCLF Allocation Methodology for the Sponsored Service

As described above, trades between a Sponsoring Member and its Sponsored Member do not independently create liquidity risk for FICC, and therefore, FICC believes that such trades should not affect the Sponsoring Member's CCLF obligation. To ensure that a Sponsoring Member's CCLF obligation is calculated to reflect the lack of liquidity risk to FICC associated with Sponsored Member trades, FICC proposes to take into account, for CCLF calculation purposes, any offsetting settlement obligations between a Sponsoring Member's netting account and its omnibus account. This proposed change would ensure that all Sponsored Member trades, whether perfectly offset by other Sponsored Member trades (i.e., the matched book scenario) or not, would be recognized for CCLF purposes as not affecting FICC's liquidity risk. This proposed change would also apply to trades in the new Sponsored GC Service.<sup>43</sup>

Although, as noted above, the Proposed Rule Change would not affect the method by which FICC determines the total CCLF amount, FICC's proposal to net offsetting

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<sup>43</sup> For Sponsored GC Trades, this proposed change would ensure that FICC applies an appropriate CCLF obligation to a Sponsoring Member in the event a Sponsored GC Clearing Agent Bank allocates to a Sponsored GC Trade a different security than the security that underlies an offsetting Sponsored Member Trade. For example, a Sponsoring Member may enter into a Sponsored GC Trade on a Generic CUSIP Number and a separate offsetting Sponsored Member trade in a specific CUSIP Number. Although the specific CUSIP Number might also be an eligible security under the Generic CUSIP Number underlying the Sponsored GC Trade, the Sponsored GC Clearing Agent Bank could allocate to the Sponsored GC Trade a different eligible CUSIP Number from the list of eligible securities. FICC's proposed change would offset these positions across the Sponsoring Member's netting account and omnibus account to ensure that the CCLF obligation applicable to the Sponsoring Member accurately reflects the liquidity risk associated with those positions.

trades between a Sponsoring Member and its Sponsored Member for CCLF calculation purposes would affect the allocation of CCLF obligations over \$15 billion to other members. Specifically, as described above, under the current Rules, if a Sponsoring Member enters into a Sponsored Member trade without entering into an offsetting transaction, the Sponsoring Member is subject to CCLF obligations for the position of its Sponsored Member recorded in its omnibus account as well as its own position arising from the Sponsored Member trade recorded in its netting account. Under the Proposed Rule Change, the Sponsoring Member would not incur CCLF obligations for such transactions. Therefore, a Sponsoring Member's peak daily liquidity is currently higher than it would be under the Proposed Rule Change. This, in turn, may decrease the frequency with which a Sponsoring Member's daily peak liquidity reaches into higher supplemental liquidity tiers. As a result, the pro-rata allocation of CCLF obligations among members with daily peak liquidity in those supplemental liquidity tiers would increase.<sup>44</sup> When fewer members generate peak liquidity needs in a supplemental liquidity tier, the remaining members that generate peak liquidity in that tier bear a larger pro-rata share of the CCLF allocations for that tier.

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<sup>44</sup> However, as stated above, the proposals in the Proposed Rule Change would not change FICC's current methodology for calculating the total amount of the CCLF.

**D. Other Proposed Changes**

FICC proposes to remove a provision from the Rules requiring a Sponsoring Member to provide FICC with a quarterly representation that each of its Sponsored Members is either a QIB or satisfies the financial requirements necessary to be a QIB.<sup>45</sup> FICC proposes to remove this requirement because an existing Rule provision requires a Sponsoring Member to attest that a Sponsored Member satisfies the QIB requirement at the time of the Sponsored Member's initial application,<sup>46</sup> and another existing Rule provision requires a Sponsoring Member to notify FICC if its Sponsored Member no longer satisfies the QIB requirement.<sup>47</sup> Therefore, FICC believes the quarterly representation to be an overlapping and redundant requirement that creates unnecessary administrative burdens for FICC and for its Sponsoring Members.<sup>48</sup>

FICC also proposes to make certain corrections to the Rules regarding the Sponsored Service. First, FICC proposes to change an erroneous reference to the "Close Leg" in the Rule 1 definition of Initial Haircut to "Start Leg." Second, FICC proposes to clarify the citation to paragraph (a)(1)(i)(H) of Rule 144A in Rule 3A, Section 3(a)(ii)(B). Additionally, FICC proposes to make several technical and grammatical changes to section numbers and cross-references throughout the Rules to conform with the new

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<sup>45</sup> See Rule 3A, Section 2(d), supra note 3.

<sup>46</sup> See Rule 3A, Section 3(b), supra note 3.

<sup>47</sup> See Rule 3A, Section 3(d), supra note 3.

<sup>48</sup> See Notice, supra note 5 at 29343.

proposed Rule provisions regarding Sponsored GC Service.

**E. Description of Amendment No. 1**

In Amendment No. 1, FICC updated Exhibit 5 to the Proposed Rule Change to correct an erroneous cross reference in the original filing. Specifically, Exhibit 5 to the original filing erroneously showed the proposed change to Rule 3A, Section 18, subsection (a) to include a cross reference to subsections (a)(i) and (a)(ii) of the Sponsored Trade definition. Amendment No. 1 corrected Exhibit 5 so that the cross reference is to subsections (a)(i) and (b) of the Sponsored Trade definition.

**II. DISCUSSION AND COMMISSION FINDINGS**

Section 19(b)(2)(C) of the Act<sup>49</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the Proposed Rule Change is consistent with Sections 17A(b)(3)(F)<sup>50</sup> of the Act and Rules 17Ad-22(e)(7), (e)(18), and (e)(23) thereunder.<sup>51</sup>

**A. Consistency with Section 17A(b)(3)(F) of the Act**

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<sup>49</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>50</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>51</sup> 17 CFR 240.17Ad-22(e)(7), (e)(18), and (e)(23).

Section 17A(b)(3)(F) of the Act<sup>52</sup> requires the rules of a clearing agency to, among other things, (i) promote the prompt and accurate clearance and settlement of securities transactions, (ii) assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and (iii) protect investors and the public interest.

As described above in Section I.B., FICC's current Sponsored Service only facilitates trading in DVP repos, not tri-party repos. Certain market participants (e.g., money market funds and other mutual funds) have stated that their participation in the Sponsored Service is inhibited because they are not operationally equipped to perform the collateral management and other functions associated with term DVP repos.<sup>53</sup> FICC proposes to expand the Sponsored Service via the Sponsored GC Service to accommodate tri-party repo trading, in which a clearing bank administers such collateral management and other functions. As a result, FICC expects the proposed Sponsored GC Service to increase term repo activity within the Sponsored Service.<sup>54</sup> By enabling Sponsoring Members and their Sponsored Members to engage in tri-party term repo

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<sup>52</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>53</sup> See Notice, supra note 5 at 29336.

<sup>54</sup> See id. FICC conducted two surveys of its Sponsoring Members, the data from which supports FICC's expectation that the proposed Sponsored GC Service would increase term repo activity within the Sponsored Service. FICC provided the survey data to the Commission as part of FICC's response to the Commission's request for additional information in connection with the Advance Notice. See supra note 6. Pursuant to 17 CFR 240.24b-2, FICC requested confidential treatment of its response to the Commission's request for additional information.

transactions with each other, the proposed Sponsored GC Service would encourage more term repo trades centrally cleared by FICC within the Sponsored Service. Increasing the number of trades centrally cleared by FICC would promote the prompt and accurate clearance and settlement of securities transactions because securities transactions that might otherwise be conducted outside of central clearing would benefit from FICC's risk management and guarantee of settlement.<sup>55</sup> Accordingly, FICC's proposal to add the Sponsored GC Service is consistent with promoting the prompt and accurate clearance and settlement of securities transactions.

Additionally, as described above in Section I.C., the CCLF is designed to provide FICC with sufficient qualifying liquid resources to cover the default of the family of affiliated members that would generate the largest liquidity need for FICC. The Proposed Rule Change would change the allocation of CCLF obligations among FICC's members. Specifically, with respect to trades between a Sponsoring Member and Sponsored Member, FICC proposes to take into account, for CCLF calculation purposes, any offsetting settlement obligations between a Sponsoring Member's netting account and its omnibus account. Such trades do not independently create liquidity risk for FICC, and therefore, should not affect the Sponsoring Member's CCLF obligation. Therefore, the Proposed Rule Change would result in the allocation of CCLF obligations to FICC's members that more accurately reflect the liquidity needs presented to FICC by each member. However, the proposed change in CCLF allocation methodology would not

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<sup>55</sup> See Letter from Robert Toomey, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association (June 18, 2021) at 2 (commenting on the benefits to market participants resulting from the expected increase in greater central clearing of tri-party repos via the Sponsored GC Service).

change the current total overall size of the CCLF. By maintaining the total size of the CCLF, FICC should be able to continue to perform its clearance and settlement functions with sufficient qualifying liquidity resources for FICC to mitigate the losses that the default of the largest affiliated family of members could cause, not only to FICC and its non-defaulting members, but also to the financial markets more broadly. As such, the Proposed Rule Change is consistent with promoting the safeguarding of securities and funds in FICC's custody and control, and thereby protecting investors and the public interest.

Finally, as described above in Section I.D., FICC also proposes to make certain corrections to the Rules regarding the Sponsored Service, as well as several technical and grammatical changes throughout the Rules to conform with the new provisions regarding Sponsored GC Service. Making corrections and other improvements to clarify the Rules helps to ensure that the Rules are accurate and clear to members. Members that better understand their rights and obligations regarding the Rules are more likely to act in accordance with the Rules, which generally promotes the prompt and accurate clearance and settlement of securities transactions.

For the foregoing reasons, the Commission believes that the Proposed Rule Change is designed to promote the prompt and accurate clearance and settlement of securities transactions, safeguard securities and funds that are in the custody or control of FICC, and protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Exchange Act.<sup>56</sup>

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<sup>56</sup> 15 U.S.C. 78q-1(b)(3)(F).

**B. Consistency with Rule 17Ad-22(e)(7)**

Rule 17Ad-22(e)(7) under the Act requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency.<sup>57</sup> As described above in Section I.C., FICC proposes to change the Rules to allow netting, for CCLF allocation purposes, of offsetting positions in a Sponsoring Member's omnibus account and netting account.

FICC's proposal would not impact FICC's current methodology for determining the total amount of the CCLF as a liquidity resource. As discussed above in Section II.A., FICC proposes to change the Rules regarding CCLF allocation to ensure that a Sponsoring Member's CCLF obligation aligns more closely with the actual liquidity risk its trading activity presents to FICC. As a result, FICC's proposed CCLF allocation methodology represents more efficient liquidity risk management than the current methodology. Accordingly, the Commission believes that FICC's proposed CCLF allocation methodology is consistent with Rule 17Ad-22(e)(7).<sup>58</sup>

**C. Consistency with Rule 17Ad-22(e)(18)**

Rule 17Ad-22(e)(18) under the Act requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation in the clearing agency.<sup>59</sup> As described above in Section I.D., FICC proposes

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<sup>57</sup> 17 CFR 240.17Ad-22(e)(7).

<sup>58</sup> Id.

<sup>59</sup> 17 CFR 240.17Ad-22(e)(18).



to remove a provision from the Rules requiring a Sponsoring Member to provide FICC with a quarterly representation that each of its Sponsored Members is either a QIB or satisfies the financial requirements necessary to be a QIB. FICC proposes to remove the quarterly representation requirement because existing Rule provisions require Sponsoring Members to attest to its Sponsored Member's QIB status<sup>60</sup> and to notify FICC if a Sponsored Member no longer satisfies the QIB requirement.<sup>61</sup> Therefore, the quarterly representation requirement is redundant and creates unnecessary administrative burdens for FICC and its Sponsoring Members. A redundant requirement that creates unnecessary administrative burdens is not an objective, risk-based criterion for participation in FICC. Accordingly, the Division believes that FICC's proposal to remove the requirement for Sponsoring Members to provide FICC with a quarterly representation verifying the QIB status of its Sponsored Members is consistent with Rule 17Ad-22(e)(18).<sup>62</sup>

**D. Consistency with Rule 17Ad-22(e)(21)**

Rule 17Ad-22(e)(21) under the Act requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, including the clearing agency's clearing and settlement arrangements and the scope of products cleared or settled.<sup>63</sup> As described above in

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<sup>60</sup> See Rule 3A, Section 3(b), supra note 3.

<sup>61</sup> See Rule 3A, Section 3(d), supra note 3.

<sup>62</sup> Id.

<sup>63</sup> 17 CFR 240.17Ad-22(e)(21).

Section I.B., FICC’s current Sponsored Service does not accommodate the trading of tri-party repos. FICC proposes to expand the Sponsored Service to allow tri-party repo trading to meet the needs of market participants that currently transact tri-party term repos outside of central clearing because they are not operationally equipped to perform the collateral management and other functions associated with term DVP repos. By expanding the Sponsored Service to facilitate tri-party repo trading, FICC seeks to provide a viable option for its members to transact term tri-party repos in central clearing. Sponsored GC Trades would settle in a manner similar to the way Sponsoring Members and Sponsored Members currently settle tri-party repos with each other outside of central clearing, thereby making it more operationally efficient for the parties to transact term repos with each other using FICC as the CCP. The Commission believes that the proposed Sponsored GC Service is consistent with Rule 17Ad-22(e)(21)<sup>64</sup> because it is responsive to the requests from FICC’s members for the ability to trade centrally cleared term tri-party repos in a manner that is efficient and effective in meeting the operational requirements of FICC’s members.

### **III. SOLICITATION OF COMMENTS**

Interested persons are invited to submit written data, views, and arguments concerning whether Amendment No. 1 is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

Use the Commission’s Internet comment form

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<sup>64</sup> Id.

<http://www.sec.gov/rules/sro.shtml>); or

Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2021-003 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549.

All submissions should refer to File Number SR-FICC-2021-003. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the Proposed Rule Change that are filed with the Commission, and all written communications relating to the Proposed Rule Change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of FICC and FICC's website at <https://www.dtcc.com/legal>.

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-2021-003 and

should be submitted on or before [insert date 21 days from publication in the Federal Register].

#### **IV. ACCELERATED APPROVAL OF THE PROPOSED RULE CHANGE, AS MODIFIED BY AMENDMENT NO. 1**

The Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,<sup>65</sup> to approve the Proposed Rule Change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of Amendment No. 1 in the Federal Register. As noted above, in Amendment No. 1, FICC updated Exhibit 5 to the Proposed Rule Change to correct an erroneous cross reference in the original filing. Amendment No. 1 neither modifies the Proposed Rule Change as originally published in any substantive manner, nor does Amendment No. 1 affect any rights or obligations of FICC or its members. Instead, Amendment No. 1 corrects a typographical error in the original filing. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,<sup>66</sup> to approve the Proposed Rule Change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of notice of Amendment No. 1 in the Federal Register.

#### **V. CONCLUSION**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change, as modified by Amendment No. 1, is consistent with the requirements of the Act

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<sup>65</sup> 15 U.S.C. 78s(b)(2)(C)(iii).

<sup>66</sup> Id.

and in particular with the requirements of Section 17A of the Act<sup>67</sup> and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act<sup>68</sup> that proposed rule change SR-FICC-2021-003, be, and hereby is, APPROVED.<sup>69</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>70</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>67</sup> 15 U.S.C. 78q-1.

<sup>68</sup> 15 U.S.C. 78s(b)(2).

<sup>69</sup> In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>70</sup> 17 CFR 200.30-3(a)(12).