

1. Text of the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) as provided in Exhibit 5 consists of modifications to FICC’s Government Securities Division (“GSD”) Rulebook (the “GSD Rules”) to revise the provisions concerning Funds-Only Settlement Amount (“FOS”) payments, to clarify (a) the designation of FOS payments as settlement and therefore not a collateral payment pursuant to the GSD Rule 4, (b) the point of finality for such payments, and (c) the discharge of obligations upon the payment or collection of a FOS payment. FICC is also proposing to remove FICC’s right to offset a FOS payment due to a Netting Member against any increased amount to Required Fund Deposit¹ requested by FICC from such Netting Member.²

(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 19, 2025, 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 amend the GSD Rules concerning FOS payments to clarify the designation of FOS payments as settlement and other clarifying changes.

FOS is FICC’s twice daily process of generating a net credit or debit cash amount for each Member and settling those cash amounts between Members and FICC. FOS is a cash-pass-through process, meaning that those Members that are in a net debit position are obligated to submit payments that are then used to pay Members that are in a net credit position. FOS also includes certain payments that are not pass-through payments, such as Invoice Amounts and Miscellaneous Adjustment Amounts.³

GSD FOS payments are set forth in Rule 13, Section 1. The FOS payments consist of (A) transaction adjustment payments for settlement purposes, (B) risk management-related amounts (such as various mark-to-market amounts), (C) security coupon and similar amounts, and (D) other amounts (such as the invoice amounts). GSD Rule 13 requires settling banks to

¹ Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the GSD Rules, available at www.dtcc.com/legal/rules-and-procedures.

² Id.

³ Id.

use the FRB's⁴ National Settlement Service ("NSS")⁵ to complete GSD funds-only settlement.⁶ Net debits and credits of all Members using the same settling bank are further netted and reported⁷ to the settling bank which is required to acknowledge the net-net debits or credits.⁸ The settling banks then debit or credit the Members' accounts for which they settle.⁹

The objective of the proposed rule change is to provide FICC Members with greater clarity regarding the status of FOS payments as settlement payments rather than collateral payments pursuant to Rule 4, as well as designate the point of finality for such payments, and the discharge of obligations upon the payment or collection of a FOS payment.

FOS as Settlement

FICC calculates FOS amounts based on the mark-to-market movement of each position as well as certain other factors (e.g., invoices), thereby, FOS payments constitute a settlement payment. Specifically, FOS payments made or collected pursuant to the process described below, constitute a settlement of the paying party's obligation to pay such amount. Unlike collateral collected pursuant to GSD Rule 4,¹⁰ the recipient of a FOS payment is not required to return such settled FOS amount.

⁴ FRB means the Board of Governors of the Federal Reserve System and each Federal Reserve Bank, as appropriate. GSD Rule 1, supra note 1.

⁵ 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.

⁶ GSD Rule 13, Section 5(j), supra note 1.

⁷ GSD Rule 13, Section 2, supra note 1.

⁸ GSD Rule 13, Section 5(b), supra note 1.

⁹ Each Member is required to enter into a settling bank agreement with the settling bank that settles its account. GSD Rule 13, Section 4, 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.

¹⁰ GSD Rule 4, Section 8, supra note 1.

FOS Settlement Finality and Discharge of Obligations

The point of finality for GSD funds-only settlement is defined by the Federal Reserve Bank Operating Circular 12,¹¹ which governs NSS processing by the FRB. 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,¹² and, for credits, the time at which the Settler's Master Account is credited by the FRB.¹³ Therefore, the point of finality with respect to settlement for GSD funds-only 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.¹⁴

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.¹⁵ 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.¹⁶ 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.¹⁷ 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 GSD Rules by the payment deadline established by FICC on FICC's posted time schedules.¹⁸

¹¹ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective Mar. 8, 2021 ("Operating Circular 12"), available at Operating Circulars | Federal Reserve Financial Services.

¹² See Section 5.4 of Operating Circular 12, supra note 11.

¹³ See Section 5.6 of Operating Circular 12, supra note 11.

¹⁴ See Section 1.2 of Operating Circular 12, Interpretive Guidance with Respect to Settlement Finality, Section 1, in the GSD Rules, supra note 1.

¹⁵ GSD Rule 13, Section 5(g), supra note 1.

¹⁶ GSD Rule 13, Section 4(a), supra note 1.

¹⁷ GSD Rule 13, Section 5(b), supra note 1.

¹⁸ GSD Rule 13, Section 5(f), supra note 1.

FICC processes GSD funds-only settlement debit and credit payments via the NSS twice daily by 10:00 a.m. and 4:30 p.m.¹⁹ Upon payment or collection of a FOS payment pursuant to this process, the paying party's payment obligations described in GSD Rule 13 shall be discharged and satisfied in full.

FOS Payment Offset Against Required Fund Deposit

GSD Rule 13, Section 6 provides FICC the ability to retain and apply all or a portion of a FOS payment due from FICC to a Netting Member against any required increase to its Required Fund Deposit.²⁰ FICC proposes removal of this provision to prevent any ambiguity between FOS payments as settlement payments and margin deposited with FICC as collateral payments pursuant to GSD Rule 4.

(ii) Proposed Rule Changes

FICC is proposing to amend GSD Rule 13, Section 6 to clarify (a) the designation of FOS payments as settlement and therefore not a collateral payment pursuant to the GSD Rule 4, (b) the point of finality for such payments, and (c) the discharge of obligations upon the payment or collection of a FOS payment. FICC is also proposing to remove FICC's right to offset a FOS payment due to a Netting Member against any increased amount to Required Fund Deposit²¹ requested by FICC from such Netting Member.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities and Exchange Act of 1934 ("Act")²² requires, in part, that the GSD 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 the status of FOS payments as settlement payments rather than collateral payments pursuant to GSD Rule 4, as well as designate the point of finality for such payments, and the discharge of obligations upon the payment or collection of a FOS payment. The proposed rule change would also remove potential ambiguity in the GSD Rules related to FOS and margin requirements. Accordingly, the proposed rule change would ensure that the GSD 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

¹⁹ Schedule of Timeframes in the GSD Rules, supra note 1.

²⁰ GSD Rule 13, Section 6, supra note 1.

²¹ GSD Rule 4, supra note 1.

²² 15 U.S.C. 78q-1(b)(3)(F).

would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.²³

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

FICC does not believe that the proposed rule change would impact competition.²⁴ The proposed rule change would provide greater transparency with respect to FOS payments 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. If any additional written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Securities and Exchange Commission ("Commission") does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at www.sec.gov/regulatory-actions/how-to-submit-comments. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right not to respond to any comments received.

6. Extension of Time Period for Commission Action

Not applicable.

²³ Id.

²⁴ 15 U.S.C. 78q-1(b)(3)(I).

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.²⁵

(b) The proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.²⁶

(c) Not applicable.

(d) Not applicable.

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 GSD Rules.

²⁵ 15 U.S.C. 78s(b)(3)(A).

²⁶ 17 CFR 240.19b-4(f)(1).