

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76840; File No. SR-FICC-2015-005)

January 6, 2016

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

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”) and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on December 30, 2015, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by FICC. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A)<sup>3</sup> of the Act and Rule 19b-4(f)(2)<sup>4</sup> thereunder. The proposed rule change 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 consists of amendments to the Fee Schedule in the Government Securities Division (“GSD”) Rulebook<sup>5</sup> (the “GSD Rules”). The fee changes will be effective as of January 1, 2016.

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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> 15 U.S.C. 78s(b)(3)(A).

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

<sup>5</sup> The GSD Rulebook is available at <http://www.dtcc.com/legal/rules-and-procedures>.

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

1. Purpose

FICC is modifying the GSD fee structure to (1) change the fees for the existing services that GSD provides to its Members<sup>6</sup> and (2) permit the pass-through of new and existing fees imposed on FICC by its clearing banks and the Federal Reserve's Fedwire Service ("Fedwire®") (collectively, "third party") with respect to the services that FICC provides to its Members.

*A. Describe the reasons for adopting the proposed rule change*

Based on the revenue that GSD generated in 2015, GSD requires fee modifications in order to meet the budgeted expenses associated with providing its services to Members. Thus, FICC is adopting the proposed rule changes in order to ensure that FICC can achieve and maintain GSD's operating margin.

*B. Describe any problems the proposed rule change is intended to address*

GSD's ability to achieve its operating margin has been negatively impacted by (i) a decline in the dollar values of transactions; (ii) increased infrastructure costs; (iii)

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<sup>6</sup> The term "Member" means a comparison-only member or a Netting Member. The term "Member" shall include a sponsoring member in its capacity as a sponsoring member and a sponsored member, each to the extent specified in Rule 3A. GSD Rule 1, Definitions.

increased risk management costs and (iv) increased third party fees, which GSD has historically absorbed. In addition, GSD also anticipates that the clearing banks will impose new fees for the services that FICC provides to its Members.

*C. Describe the manner in which the proposed rule change will operate to resolve those problems*

The proposed fee modifications to GSD's services and the pass through of existing and new third party fees are expected to aide FICC's ability to achieve and maintain its operating margin because all of the fees will be aligned to FICC's cost of delivering its services to Members.

*D. Describe the manner in which the proposed rule change will affect various persons (e.g., brokers, dealers, issuers, and investors)*

The proposed rule changes will establish different trade submission and netting fee structures for Broker Accounts and Dealer Accounts because Members who utilize each of these accounts represent two different types of functions that are performed in the market served by the GSD. The Broker Accounts provide the marketplace with the blind-brokered screens through which Dealer Accounts are matched as counterparties (on a blind basis) to the transactions that are submitted to GSD. The Broker Accounts submit two sets of transaction details for every one set that the Dealer Account submits; for example, if Broker A matches Dealer A and Dealer B in a transaction to be submitted to the GSD, each Dealer will submit one transaction as between the Dealer Account and the Broker Account. However, Broker A will submit two transactions, one between the Broker and Dealer A and one between the Broker and Dealer B. The Broker Account will net out for purposes of GSD's

processing of the transaction. However, as the trade submission and netting fees are currently structured, the Broker pays for the two sets of transactions (as opposed to the one set paid by the Dealer Account). FICC is proposing to recognize this difference between the Broker Accounts and the Dealer Accounts by charging the Broker Accounts less with respect to the trade submission and netting fees. This approach is consistent with the way in which GSD currently applies its Repo Transaction Processing Fee which is contained in Section III.E of the GSD Fee Structure; specifically, GSD charges Repo Brokers less than other Netting Members. FICC's pass-through of fees imposed on FICC by third parties will affect all Members based on their activity.

*E. Describe any significant problems known to the self-regulatory organization that persons affected are likely to have in complying with the proposed rule change*

FICC is not aware of any significant problems that the affected Members are likely to have in complying with the proposed rule changes.

*F. The proposed rule changes are described below*

*(1) Trade Submission*

Currently, the comparison fees for trade submissions are structured to reflect a uniform fee structure based on a Member's total monthly volume. FICC is proposing to change this approach to a structure whereby each incremental number of trades is charged a different price based on tiers with declining marginal rates. In addition, GSD is proposing to establish different fees for Dealer Accounts and Broker Accounts.

(2) *Locked-In Trade Data*

In connection with the charge to Members for data received by FICC from a Locked-In Trade Source,<sup>7</sup> FICC is proposing to eliminate the existing fee for the processing and reporting of this data and instead charge Members in accordance with the proposed trade submission schedule in the GSD Rules.

In connection with the charge to non-Inter-Dealer Broker Netting Members<sup>8</sup> for FICC's processing and reporting of GCF Repo® Transactions,<sup>9</sup> FICC is proposing to increase the amount of the onetime recording fee.

(3) *Netting Fee*

- (a) For each side of a Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation and Fail Receive Obligation, other than a GCF Repo Transaction, that is netted, the fee structure is currently based on a Member's total monthly number of sides.<sup>10</sup> FICC is proposing to change this approach to a

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<sup>7</sup> Pursuant to the GSD Rules, the term "Locked-In Trade Source" means a source of data on locked-in trades that the Corporation has so designated, subject to such terms and conditions as to which the Locked-In Trade Source and the Corporation may agree. GSD Rule 1, Definitions.

<sup>8</sup> Pursuant to the GSD Rules, the term "Inter-Dealer Broker Netting Member" has the meaning set forth in Section 2 of GSD Rule 2A. GSD Rule 1, Definitions.

<sup>9</sup> Pursuant to the GSD Rules, the term "GCF Repo Transaction" means a Repo Transaction involving Generic CUSIP Numbers the data on which are submitted to the Corporation on a locked-in-trade basis pursuant to the provisions of GSD Rule 6C, for netting and settlement by the Corporation pursuant to the provisions of GSD Rule 20. GSD Rule 1, Definitions.

<sup>10</sup> Pursuant to the GSD Rules, the terms used in the referenced clause are defined below. GSD Rule 1, Definitions.

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The term “Compared Trade” means a trade, including a Repo Transaction, the data on which has been compared or deemed compared in the Comparison System pursuant to the GSD Rules, as the result of any one of the following methods: (1) bilateral comparison, which requires the matching by the Corporation of data submitted by two Members, (2) demand comparison, which requires that data to be submitted to the Corporation by a demand trade source, or (3) locked-in comparison, which requires the data to be submitted to the Corporation by a locked-in trade source.

The term “Close Leg” means, as regards a Repo Transaction other than a GCF Repo Transaction, the concluding settlement aspects of the transaction, involving the retransfer of the underlying eligible netting securities by the Netting Member that is, or is submitting data on behalf of, the funds lender (if netting eligible, through satisfaction of the applicable Deliver Obligation generated by the Corporation) and the taking back of such eligible securities by the Netting Member that is, or is submitting data on behalf of, the funds borrower (if netting eligible, through satisfaction of the applicable Receive Obligation generated by the Corporation). The term “Close Leg” means, as regards a GCF Repo Transaction, the concluding settlement aspects of the transaction, involving the retransfer of the underlying eligible netting securities by the Netting Member that is in the GCF net funds lender position and the taking back of such eligible netting securities by the Netting Member that is in the GCF net funds borrower position.

The term “Fail Deliver Obligation” means a Deliver Obligation with respect to a fail net short position.

The term “Fail Receive Obligation” means a Receive Obligation with respect to a fail net long position.

The term “Repo Transaction” means: (1) an agreement of a party to transfer eligible securities to another party in exchange for the receipt of cash, and the simultaneous agreement of the former party to later take back the same eligible securities (or any subsequently substituted eligible securities) from the latter party in exchange for the payment of cash, or (2) an agreement of a party to take in eligible securities from another party in exchange for the payment of cash, and the simultaneous agreement of the former party to later transfer back the same eligible securities (or any subsequently substituted eligible securities) to the latter party in exchange for the receipt of cash, as the context may indicate, the data on which have been submitted to the Corporation pursuant to the GSD Rules. A "Repo Transaction" includes a GCF Repo Transaction, unless the context indicates otherwise.

The term “Start Leg” means, as regards a Repo Transaction other than a GCF Repo Transaction, the initial settlement aspects of the Transaction, involving the transfer of the underlying eligible netting securities by the Netting Member that is, or is

structure whereby each incremental number of sides is charged a different price based on tiers with declining marginal rates. In addition, GSD is proposing to establish different fees for Dealer Accounts and Broker Accounts.

- (b) For each one million par of a Compared Trade, Start Leg of a Repo Transaction, Close Leg of a Repo Transaction, Fail Deliver Obligation and Fail Receive Obligation, other than a GCF Repo Transaction, the existing fee will be applicable to Broker Accounts and a new fee will be established for Dealer Accounts.
- (c) For each one million par of Deliver Obligation<sup>11</sup> and Receive Obligation<sup>12</sup> created as a result of the netting process, fees will be increased.

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submitting data on behalf of, the funds borrower (through satisfaction of the applicable Deliver Obligation generated by the Corporation) and the taking in of such eligible securities by the Netting Member that is, or is submitting data on behalf of, the funds lender (if netting eligible, through satisfaction of the applicable Receive Obligation generated by the Corporation). The term "Start Leg" means, as regards a GCF Repo Transaction, the initial settlement aspects of the Transaction, involving the transfer of the underlying eligible netting securities by the Netting Member that is in the GCF net funds borrower position and the taking in of such eligible netting securities by the Netting Member that is in the GCF net funds lender position.

<sup>11</sup> The term "Deliver Obligation" means a Netting Member's obligation to deliver eligible netting securities to the Corporation at the appropriate settlement value either in satisfaction of all or a part of a Net Short Position or to implement a collateral substitution in connection with a Repo Transaction with a right of substitution. GSD Rule 1, Definitions.

<sup>12</sup> The term "Receive Obligation" means a Netting Member's obligation to receive eligible netting securities from the Corporation at the appropriate settlement value either in satisfaction of all or a part of a Net Long Position or to implement a collateral substitution in connection with a Repo Transaction with a right of substitution. GSD Rule 1, Definitions.

(4) *Auction Takedown Process*

In connection with the auction takedown Service, FICC is proposing to eliminate the existing fee for locked-in trades and charge Members in accordance with the proposed trade submission schedule in the GSD Rules.

(5) *Clearance Charges*

Currently, FICC charges a flat standard charge of \$2.35, a portion of which is used to cover the settlement fees of its Deliver Obligations and Receive Obligations. These fees consist of the clearing banks' fees and the Federal Reserve's Fedwire® fees that are incurred by FICC for the services that it provides to Members related to settling obligations at the clearing banks. At the time of this rule filing, the fees are as follows:

1. Fees for the settlement of each Receive Obligation and each Deliver Obligation in the actual amount charged by the applicable clearing bank.
2. Fedwire® fee for the settlement of each treasury security in an amount of \$0.92 and for the settlement of each agency security in an amount of \$0.65.

FICC is proposing to reduce the amount of this flat charge, which is currently \$2.35 and bill Netting Members as a separate item on their billing statement for the applicable clearing bank fees and Fedwire® fees listed above. In addition, FICC will pass-through to Netting Members, new fees that will be imposed by the clearing banks on FICC as well as other existing fees that the clearing banks have imposed on



FICC but which FICC has not historically passed through to its Netting Members. These fees are as follows:

1. The Bank of New York Mellon (“BNY”) fee of 1 basis point (1bp) per annum on each GCF Repo Deliver Obligation that FICC creates from its BNY account, inclusive of inter-bank.<sup>13</sup>

This fee will be allocated to Dealer Accounts at BNY and to Dealer Accounts at JPMorgan Chase (“JPM”), as follows:

- a. For Dealer Accounts at BNY, a pass-through fee is calculated as 1bp per annum on a dollar amount of such Netting Member’s<sup>14</sup> GCF Repo Receive Obligation from FICC in each Generic CUSIP Number.<sup>15</sup>
- b. For Dealer Accounts at JPM, a pass-through charge is calculated as 1bp per annum on a prorated dollar amount of FICC’s interbank GCF Repo Deliver Obligation from BNY to JPM in each Generic CUSIP Number.

The proration is calculated as follows:

(Dollar amount of such Netting Member’s GCF Repo Receive Obligation  
in a given Generic CUSIP Number at JPM)

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<sup>13</sup> This is a new fee that BNY intends to charge as of January 1, 2016.

<sup>14</sup> The term “Netting Member” means a Member that is a Member of the Comparison System and the Netting System. GSD Rule 1, Definitions.

<sup>15</sup> The term “Generic CUSIP Number” means a Committee on Uniform Securities Identification Procedures identifying number established for a category of securities, as opposed to a specific security. The Corporation shall use separate Generic CUSIP Numbers for general collateral Repo Transactions and GCF Repo Transactions. GSD Rule 1, Definitions.

(Aggregate dollar amount of all GCF Repo Receive Obligations in a given  
Generic CUSIP Number for all Netting Members at JPM)

2. BNY fees for daylight over drafts for FICC's interbank GCF Repo Deliver Obligations.

This pass-through fee will be charged to Dealer Accounts at BNY and will be calculated on a percentage of the total of all such costs incurred by FICC. This percentage is calculated on a monthly basis as follows:

(Total dollar value of GCF Repo Deliver Obligations of such Dealer Account at  
BNY)

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(Total dollar value of GCF Repo Deliver Obligations of all Dealer Accounts at  
BNY)

3. BNY fees for daylight over drafts on securities settlement obligations.

This pass-through fee will be charged to Dealer Accounts at BNY and will be calculated on a percentage of the total of all such costs incurred by FICC. This percentage is calculated on a monthly basis as follows:

(Total dollar value of Deliver and Receive Obligations of each Netting Member at  
BNY)

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(Total dollar value of Deliver and Receive Obligations in all Dealer Accounts at  
BNY)

FICC will inform Members via Important Notice if there are any changes to the referenced fees and charges imposed by the clearing banks and/or Fedwire.

(6) *Repo Transaction Processing Fee*

FICC is proposing to increase certain fees for its processing of Repo Transactions.

The above-referenced modifications to GSD's fees are noted below.

<b>TRADE SUBMISSION SCHEDULE</b>				
Current Breakpoint Schedule	Current Charge per Submission	Proposed Tiered Schedule	Proposed Fee per Submission	
(Charge is applied to all submissions if breakpoint is reached)	For all Netting Members	(Charge is applied to all submissions within tier)	Dealer Account	Broker Account
Per submission for total monthly submissions up to 49,999	\$0.250	Per submission for the initial 49,999 submissions per month	\$0.270	\$0.250
Per submission for total monthly submissions between 50,000 to 99,999	\$0.200	Per submission for those submissions between 50,000 to 99,999 submissions per month	\$0.190	\$0.150
Per submission for total monthly submissions between 100,000 to 249,999	\$0.150	Per submission for those submissions between 100,000 to 249,999 submissions per month	\$0.140	\$0.100
Per submission for total monthly submissions between 250,000 to 399,999	\$0.125	Per submission for those submissions between 250,000 to 399,999 submissions per month	\$0.100	\$0.075
Per submission for total monthly submissions between 400,000 to 499,999	\$0.100	Per submission for those submissions between 400,000 to 499,999 submissions per month	\$0.080	\$0.035
Per submission for total monthly submissions between 500,000 and 999,999	\$0.085	Per submission for those submissions between 500,000 to 999,999 submissions per month	\$0.010	\$0.025
Per submission for total monthly submissions 1M and greater	\$0.085	Per submission for those submissions at 1M or greater submissions per month	\$0.010	\$0.010

<b>LOCKED-IN TRADE DATA</b>		
<b>Fee Description</b>	<b>Current Fee</b>	<b>Proposed Fee</b>
Non-GCF Repo trade processing from Locked-In Trade Data Source	\$0.16/M	In accordance with the trade submission fee schedule
GCF Repo trade comparison for non-Inter Dealer Broker Netting Members	\$0.05/M	\$0.07/M

<b>NETTING FEES SCHEDULE</b>					
Current Schedule	Breakpoint	Current Charge per Side	Proposed Tiered Schedule	Proposed Fee per Side	
(Charge is applied to all sides if breakpoint is reached)		For all Netting Members	(Charge is applied to all sides within tier)	Dealer Account	Broker Account
Per side for total monthly sides up to 49,999		\$0.150	Per side for the initial 49,999 sides per month	\$0.170	\$0.150
Per side for total monthly sides between 50,000 to 99,999		\$0.125	Per side for those sides between 50,000 to 99,999 sides per month	\$0.120	\$0.110
Per side for total monthly sides between 100,000 to 249,999		\$0.125	Per side for those sides between 100,000 to 249,999 sides per month	\$0.100	\$0.090
Per side for total monthly sides between 250,000 to 399,999		\$0.100	Per side for those sides between 250,000 to 399,999 sides per month	\$0.070	\$0.040
Per side for total monthly sides between 400,000 to 499,999		\$0.050	Per side for those sides between 400,000 to 499,999 sides per month	\$0.040	\$0.025
Per side for total monthly sides between 500,000 and 999,999		\$0.050	Per side for those sides between 500,000 to 999,999 sides per month	\$0.030	\$0.010
Per side for total monthly sides 1M and greater		\$0.035	Per side for those sides at 1M or greater sides per month	\$0.010	\$0.010

<b>Fee Description</b>	<b>Current Fee</b>	<b>Proposed Fee</b>
Into-the-net par per month – Dealer Account	\$0.015/M	\$0.016/M
Clearance (out-of-the-net) par per month	\$0.17/M	\$0.175/M
Auction takedown processing	\$0.50/50M	In accordance with the trade submission fee schedule.
Clearance (out-of-the-net) items per month	\$2.35/obligation	\$0.25/obligation
Clearance (non-GSD) items per month	\$2.35/obligation	\$0.25/obligation
<b>DVP Repo Transaction Processing Fees (cost of carry)</b>		
Fee for gross dollar amount		
Other Netting Members and Repo Brokers with respect to their non-brokered transactions	0.025bps	0.04bps
Fee for net dollar amount	0.060bps	0.08bps
<b>GCF Repo Processing Fees (cost of carry)</b>		
Fee for gross dollar amount		
Netting Members that are not Repo Brokers	0.025bps	0.04bps
Fee for net dollar amount	0.060bps	0.08bps

## 2. Statutory Basis

FICC believes that the proposed fees are reasonable because the fees are correlated to each Member’s use of GSD’s services and will allow FICC to recover the cost of providing its services to Members. In addition, the proposed change will allow FICC to further recover the cost of providing its services to its Members by passing through certain third-party fees that FICC is incurring and/or will be incurring to provide

its services to its Members. Therefore, FICC believes the proposed rule change is consistent with the requirements of the Act, as amended and the rules and regulations thereunder applicable to FICC, in particular Section 17A(b)(3)(D) of the Act,<sup>16</sup> which requires that the GSD Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Members that use those services.

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

The proposed filing could have an impact on competition based on the fact that fees will increase for certain services, but because of the following reasons, FICC believes that any burden on competition would be necessary and appropriate in furtherance of the purposes of the Act. These reasons are as follows: The proposed change modifies the fees for existing services provided by GSD in order to meet GSD's budgeted expenses and allow GSD to achieve and maintain its operating margin and recover the cost of providing its services. The proposed change also allows FICC to recover the cost of providing its services to Members by passing through certain third-party fees that FICC is incurring and/or will be incurring to provide its services to its Members. Finally, the proposed change also establishes different comparison and netting fee structures for Brokers Accounts and Dealer Accounts for the reasons more fully described above.

(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.

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<sup>16</sup> 5 U.S.C. 78q-1(b)(3)(D).

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii)<sup>17</sup> of the Act and Rule 19b-4(f)(2)<sup>18</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2015-005 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-2015-005. This file number should be included on the subject line if e-mail is used. To help the Commission process

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<sup>17</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>18</sup> 17 CFR 240.19b-4(f)(2).



and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; 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-2015-005 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.<sup>19</sup>

Robert W. Errett  
Deputy Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).