

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-77988; File No. SR-FICC-2016-001)

June 3, 2016

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change Relating to the GCF Repo<sup>®</sup> Service

On April 19, 2016, the Fixed Income Clearing Corporation (“FICC” or the “Corporation”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-FICC-2016-001 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> The proposed rule change was published for comment in the Federal Register on April 27, 2016.<sup>3</sup> The Commission received no comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description of the Proposed Rule Change

FICC seeks the Commission’s approval to amend the Government Securities Division (“GSD”) Rulebook<sup>4</sup> (“GSD Rules”) in order to: (1) permanently adopt the pilot program (the “2015 Pilot Program”)<sup>5</sup> that is currently in effect for the GCF Repo<sup>®6</sup> service and that is scheduled to expire on June 22, 2016; (2) add clarifying rule changes regarding a process that is

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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> Securities Exchange Act Release No. 34-77675 (April 21, 2016), 81 FR 24922 (April 27, 2016) (SR-FICC-2016-001).

<sup>4</sup> The GSD Rulebook is available at DTCC’s website, [www.dtcc.com/legal/rules-and-procedures.aspx](http://www.dtcc.com/legal/rules-and-procedures.aspx).

<sup>5</sup> Securities Exchange Act Release No. 34-75258 (June 22, 2015), 80 FR 36879 (June 26, 2015) (SR-FICC-2015-002).

<sup>6</sup> GCF Repo is a registered trademark of FICC/DTCC.

currently in effect with respect to the GCF Repo service and that FICC refers to as the “net-of-net” settlement process; and (3) make technical changes to the GSD Rules. The proposed rule changes consist of changes to GSD Rule 1, GSD Rule 20, and the *Schedule of GCF Timeframes*.

A. The GCF Repo Service

The GCF Repo service allows dealer members of FICC’s Government Services Division to trade general collateral finance repos (“GCF Repos”)<sup>7</sup> throughout the day without requiring intraday, trade-for-trade settlement on a delivery-versus-payment<sup>8</sup> basis. The service allows dealers to trade GCF Repos, based on rate and term, with inter-dealer broker netting members on a blind basis. Standardized, generic CUSIP numbers have been established exclusively for GCF Repo processing, and are used to specify the type of underlying security that is eligible to serve as collateral for GCF Repos. Only Fedwire eligible, book-entry securities may serve as collateral for GCF Repos. Acceptable collateral for GCF Repos include most U.S. Treasury securities, non-mortgage-backed federal agency securities, fixed and adjustable rate mortgage-backed securities, Treasury Inflation-Protected Securities and separate trading of registered interest and principal securities.<sup>9</sup>

B. Background of the Pilot Program

Because FICC’s GCF Repo service operates as a tri-party mechanism, FICC states that it was asked to alter the service to align it with the recommendations of the Tri-Party Repo

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<sup>7</sup> A GCF Repo is one in which the lender of funds is willing to accept any of a class of U.S. Treasuries, U.S. government agency securities, and certain mortgage-backed securities as collateral for the repurchase obligation. This is in contrast to a specific collateral repo.

<sup>8</sup> Delivery-versus-payment is a settlement procedure in which the buyer’s cash payment for the securities it has purchased is due at the time the securities are delivered.

<sup>9</sup> See Securities Exchange Act Release No. 34-58696 (September 30, 2008), 73 FR 58698, 58699 (October 7, 2008) (SR-FICC-2008-04).

Infrastructure Reform Task Force (“TPR”).<sup>10</sup> FICC consequently developed a pilot program (“2011 Pilot Program”) to address the TPR’s recommendations,<sup>11</sup> and sought Commission approval to institute that program.<sup>12</sup> The Commission approved the 2011 Pilot Program on August 29, 2011 for a period of one year.<sup>13</sup> When the expiration date for the 2011 Pilot Program approached, FICC sought Commission approval to implement the 2012 Pilot Program, which continued the 2011 Pilot Program in some aspects, and modified it in others.<sup>14</sup> The Commission approved the 2012 Pilot Program, as well as subsequent one-year extensions of the pilot program in 2013, 2014, and 2015 (respectively, the “2013 Pilot Program,” “2014 Pilot Program,” and

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<sup>10</sup> The TPR was an industry group formed and sponsored in 2009 by the Federal Reserve Bank of New York to address weaknesses that emerged in the tri-party repo market during the financial crisis. The TPR’s chief goal was to develop recommendations to address the risks presented by the reversal of tri-party repo transactions, and to develop procedures to ensure that tri-party repos would be collateralized throughout the day, rather than at the end of the day.

<sup>11</sup> The TPR issued preliminary and final reports setting forth its recommendations for the reform of the tri-party repo market. *See* Tri-Party Repo Infrastructure Reform Task Force Report of May 17, 2000, *available at* [http://www.newyorkfed.org/prc/files/report\\_100517.pdf](http://www.newyorkfed.org/prc/files/report_100517.pdf); *see also* Tri-Party Repo Infrastructure Reform Task Force Final Report (February 15, 2012), *available at* [http://www.newyorkfed.org/tripartyrepo/pdf/report\\_120215.pdf](http://www.newyorkfed.org/tripartyrepo/pdf/report_120215.pdf).

<sup>12</sup> Securities Exchange Act Release No. 34-64955 (July 25, 2011), 76 FR 45638 (July 29, 2011) (SR-FICC-2011-05).

<sup>13</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011), 76 FR 54824 (September 2, 2011) (SR-FICC-2011-05).

<sup>14</sup> The 2012 Pilot Program implemented several changes which, although described in the rule filing that accompanied the 2011 Pilot Program, were not implemented during the 2011 Pilot Program’s period of effectiveness. They include: (i) moving the time for unwinding repos from 7:30 a.m. to 3:30 p.m.; (ii) moving the net-free-equity process from morning to the evening; and (iii) establishing rules for intraday GCF Repo collateral substitutions. *See* Securities Exchange Act Release No. 34-67227 (June 20, 2012), 77 FR 38108 (June 26, 2012) (SR-FICC-2012-05).

“2015 Pilot Program”).<sup>15</sup> The 2015 Pilot Program, as well its predecessors, the 2014, 2013, and 2012 Pilot Programs, have been the subject of a number of notices and approval orders published by the Commission.<sup>16</sup> These notices and orders provide extensive detail on both the GCF Repo service and the pilot program itself.

In proposed rule change SR-FICC-2016-001, FICC seeks the Commission’s approval to permanently adopt the GSD Rules associated with the 2015 Pilot Program, which expires on June 22, 2016. In addition, FICC also seeks to add a clarification to the GSD Rules to reflect the net-of-net settlement process in the GCF Repo service. According to FICC, the net-of-net settlement clarification is also a result of Tri-Party Reform and reflects current practice at the GSD. FICC seeks to permanently adopt these changes rather than continually file annual extensions of the pilot program. The rule changes associated with the pilot have been in place since 2011 with certain additional modifications made in 2012, and FICC’s members are accustomed to them. FICC states that this is also the case regarding the net-of-net settlement changes, which came into effect when the clearing banks implemented this process in 2014 and 2015. According to FICC, changes to the GSD Rules regarding the net-of-net settlement process

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<sup>15</sup> Securities Exchange Release No. 34-67621 (August 8, 2012), 77 FR 48572 (August 14, 2012) (SR-FICC-2012-05); Securities Exchange Release No. 34-70068 (July 30, 2013), 78 FR 47453 (August 5, 2013) (SR-FICC-2013-06); Securities Exchange Act Release No. 34-72457 (June 24, 2014), 79 FR 36856 (June 30, 2014) (SR-FICC-2014-02); and Securities Exchange Act Release No. 34-75258 (June 22, 2015), 80 FR 36879 (June 26, 2015) (SR-FICC-2015-002).

<sup>16</sup> *See* Securities Exchange Act Release Nos. 34-67227 (June 20, 2012), 77 FR 38108 (June 26, 2012) (SR-FICC-2012-05); 34-67621 (August 8, 2012), 77 FR 48572 (August 14, 2012) (SR-FICC-2012-05); 34-69774 (June 17, 2013), 78 FR 37631 (June 21, 2013) (SR-FICC-2013-06); 34-70068 (July 30, 2013), 78 FR 47453 (August 5, 2013) (SR-FICC-2013-06); 34-72184 (May 19, 2014), 79 FR 29828 (May 23, 2014) (SR-FICC-2014-02); 34-72457 (June 24, 2014), 79 FR 36856 (June 30, 2014) (SR-FICC-2014-02); 34-74973 (May 15, 2015), 80 FR 29352 (May 21, 2015) (SR-FICC-2015-002); and 34-75258 (June 22, 2015), 80 FR 36879 (June 26, 2015) (SR-FICC-2015-002).

require no operational changes on the part of FICC. However, FICC seeks to update the GSD Rules in an effort to ensure that the GSD Rules reflect the current net-of-net settlement process. According to FICC, any future changes that arise as a result of Tri-Party Reform will constitute stand-alone rule changes, and are not expected to affect the rule changes covered in this present filing. Finally, in addition to the above, FICC seeks to amend the GSD Rules to include non-substantive, technical changes for clarity.

## II. Discussion

Section 19(b)(2)(C) of the Act<sup>17</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 the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act<sup>18</sup> requires, among other things, that the rules of a clearing agency be designed to achieve several goals, including (i) promoting the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, (ii) assuring the safeguarding of securities and funds that are in the custody or control of the clearing agency or for which it is responsible, and (iii) protecting investors and the public interest.

The Commission finds that the proposed rule change is consistent with Section 17A of the Act<sup>19</sup> and the rules thereunder applicable to FICC. The proposal will permanently adopt the rules in the 2015 Pilot Program, which were intended to advance the TPR's Tri-Party Reform recommendations by moving the morning unwind process to the afternoon to ensure that such

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<sup>17</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>19</sup> 15 U.S.C. 78q-1.

transactions are collateralized all day and, therefore, limiting the amount of intraday credit that is extended by clearing banks during the day. Permanently adopting these rules will serve to minimize systemic risk and avoid the need for seeking future approvals of renewing the 2015 Pilot Program annually, thereby bringing certainty to market participants as to FICC's rules implementing the Tri-Party Reform recommendations. Accordingly, the permanent adoption of the 2015 Pilot Program rules should help to protect investors and promote the public interest, consistent with Section 17A(b)(3)(F) of the Act.

The proposal also eliminates obsolete language from the GSD Rules by codifying the net-of-net settlement process in the GSD Rules, and makes non-substantive clarifying corrections to the GSD Rules. Accordingly, the changes related to the net-of-net settlement process and the clarifying changes to the GSD Rules should provide for a more well-founded and transparent legal framework for FICC's activities, consistent with Act Rule 17Ad-22(d)(1).<sup>20</sup>

### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, particularly those set forth in Section 17A,<sup>21</sup> and the rules and regulations thereunder.

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<sup>20</sup> 17 CFR 240.17Ad-22(d)(1).

<sup>21</sup> 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>22</sup> that the proposed rule change (SR-FICC-2016-001) be, and hereby is, APPROVED.<sup>23</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>24</sup>

Brent J. Fields  
Secretary

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<sup>22</sup> 15 U.S.C. 78s(b)(2).

<sup>23</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

<sup>24</sup> 17 CFR 200.30-3(a)(12).