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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75258; File No. SR-FICC-2015-002)

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to the Government Securities Division Rules in Connection with the Extension of the GCF Repo Service Pilot Program

June 22, 2015

On May 7, 2015, the Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-FICC-2015-002 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 May 21, 2015.<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 extend the pilot program that is currently in effect for the GCF Repo® service (“2014 Pilot Program”).<sup>4</sup> FICC requests that the 2014 Pilot Program be extended for one year following the Commission’s approval of this filing. FICC

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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. 34-74973 (May 15, 2015), 80 FR 29352 (May 21, 2015) (SR-FICC-2015-002).

<sup>4</sup> See Securities Exchange Act Release No. 34-72457 (June 24, 2014), 79 FR 36856 (June 30, 2014) (SR-FICC-2014-02) (order approving the 2014 Pilot Program).

represents that, during this extension period, the final phase of tri-party reform will be implemented.<sup>5</sup>

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<sup>5</sup> The final phase of tri-party reform includes the development of an interactive messaging system to facilitate the substitution of collateral between settlement banks. FICC has represented that, if it determines to change the parameters of the GCF Repo® service during the one-year extension period, it will file a proposed rule change with the Commission. FICC has further warranted that, if it seeks to extend the 2014 Pilot Program beyond the one-year extension period or proposes to make the program permanent, it will also file a proposed rule change with the Commission.

#### 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>6</sup> throughout the day without requiring intraday, trade-for-trade settlement on a delivery-versus-payment<sup>7</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 ("TIPS") and separate trading of registered interest and principal securities ("STRIPS").<sup>8</sup>

#### B. Background of the Pilot Program

Because FICC's GCF Repo® service operates as a tri-party mechanism, FICC was asked to alter the service to align it with the recommendations of the Tri-Party Repo Infrastructure Reform Task Force ("TPR").<sup>9</sup> FICC consequently developed a pilot program ("2011 Pilot

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<sup>6</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>7</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>8</sup> See Securities Exchange Act Release No. 34-58696 (September 30, 2008), 73 FR 58698, 58699 (October 7, 2008) (SR-FICC-2008-04).

<sup>9</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

Program”) to address the TPR’s recommendations,<sup>10</sup> and sought Commission approval to institute that program.<sup>11</sup> The Commission approved the 2011 Pilot Program on August 29, 2011 for a period of one year.<sup>12</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>13</sup> On August 8, 2012, the Commission approved the 2012 Pilot Program for a period of one year.<sup>14</sup>

### C. The 2014 Pilot Program

The 2014 Pilot Program, as well its predecessors, the 2013 and 2012 Pilot Programs, have been the subject of a number of notices and approval orders published by the

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procedures to ensure that tri-party repos would be collateralized throughout the day, rather than at the end of the day.

<sup>10</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>11</sup> Securities Exchange Act Release No. 34-64955 (July 25, 2011), 76 FR 45638 (July 29, 2011) (SR-FICC-2011-05).

<sup>12</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011), 76 FR 54824 (September 2, 2011) (SR-FICC-2011-05).

<sup>13</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).

<sup>14</sup> Securities Exchange Release No. 34-67621 (August 8, 2012), 77 FR 48572 (August 14, 2012) (SR-FICC-2012-05).

Commission.<sup>15</sup> These notices and orders provide extensive detail on both the GCF Repo® service and the pilot program itself. Under this proposed rule change, FICC is not proposing to alter the current pilot program in any way; rather, it proposes only to extend that program, as approved in 2012, 2013, and 2014 for one additional year.<sup>16</sup>

## 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.

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<sup>15</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); and 34-72457 (June 24, 2014), 79 FR 36856 (June 30, 2014) (SR-FICC-2014-02).

<sup>16</sup> FICC would be required to file a proposed rule change with the Commission pursuant to section 19(b) of the Act if were to do any of the following: (i) change the parameters of the GCF Repo® service during the one-year extension period, (ii) extend the Pilot Program beyond the one-year period extension period, or (iii) establish the Pilot Program as a permanent program.

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

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

The Commission concludes that extending the 2014 Pilot Program for one additional year is consistent with the requirements of the Act and the rules and regulations thereunder. The 2014 Pilot Program furthers the Act's goals because it helps attenuate the substantial risks confronting the tri-party repo market, particularly those risks associated with the provision of intraday credit to market participants.<sup>19</sup> The Commission believes that extending the 2014 Pilot Program will ensure that these risks remain subject to more stringent controls and that this, in turn, will help promote the prompt and accurate clearance and settlement of securities transactions. The Commission further believes that, by requiring tri-party repos to remain collateralized for a longer period each day, the 2014 Pilot Program helps to assure the safety of the securities and funds within FICC's control, or for which it is responsible.<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>19</sup> The TPR characterized the "practical elimination" of this intraday credit as its "first and most significant . . . recommendation." Tri-Party Repo Infrastructure Reform Task Force Final Report, 4 (February 15, 2012), *available at* [http://www.newyorkfed.org/tripartyrepo/pdf/report\\_120215.pdf](http://www.newyorkfed.org/tripartyrepo/pdf/report_120215.pdf).

<sup>20</sup> *See* 15 U.S.C. 78q-1(b)(3)(F).

<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-2015-002) 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>

Robert W. Errett,  
Deputy 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).