



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77840; File No. SR- FICC-2016-002]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing to Suspend the Interbank Service of the GCF Repo® Service

May 16, 2016

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 5, 2016, the Fixed Income Clearing Corporation (“FICC” or the “Corporation”) 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. 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 purpose of this filing is to suspend the interbank service of the GCF Repo® service, as described more fully below. The proposed suspension does not require changes to the text of the Government Securities Division (“GSD”) Rulebook (the “GSD Rules”),³ however, changes will occur within FICC’s Real-Time Trade Matching (“RTTM®”) system to effectuate this change.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The GSD Rulebook is available at DTCC’s website, www.dtcc.com/legal/rules-and-procedures.aspx.

In its filing with the Commission, the clearing agency 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. The clearing agency 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

i. Reasons for Adopting the Proposed Rule Change

The GCF Repo service allows GSD dealer members (hereinafter “GCF Repo Participants”) who choose to participate in the service to trade general collateral repos throughout the day without requiring intra-day, trade-for-trade settlement on a delivery-versus-payment basis.⁴ The service allows the GCF Repo Participants to trade such general collateral repos, based on rate and term, throughout the day with inter-dealer brokers on a blind basis. Standardized, generic CUSIP numbers have been established exclusively for GCF Repo processing and are used to specify the acceptable type of underlying Fedwire book-entry eligible collateral, which includes Treasuries, Agencies and certain mortgage-backed securities.

The GCF Repo service currently operates on an interbank basis and on an intrabank basis. “Interbank” means that the two GCF Repo Participants which have been matched in a GCF Repo transaction each clear at a different clearing bank. “Intrabank” means that the two

⁴ Securities Exchange Act Release No. 34-57652 (April 11, 2008), 73 FR 20999 (April 17, 2008) (SR-FICC-2007-08).

GCF Repo Participants which have been matched in a GCF Repo transaction clear at the same clearing bank.

Since 2011, FICC has been committed to working with its clearing banks, JP Morgan Chase and The Bank of New York Mellon (together hereinafter referred to as the “Clearing Banks”), to make changes to its GCF Repo service in order to comply with the recommendations that had been made by the Tri-Party Repo Infrastructure Reform Task Force (“TPR”),⁵ an industry group formed and sponsored by the Federal Reserve Bank of New York.⁶ Because the GCF Repo service operates as a triparty mechanism, FICC was requested to incorporate changes to the GCF Repo service to align the service with other TPR recommended changes for the overall triparty market.

The main purpose of the TPR was to develop recommendations to address the risk presented by triparty repo transactions due to the morning reversal (commonly referred to as the “unwind”) process and to move to a process by which transactions are collateralized all day. By way of background, the GCF Repo service was originally designed to have transactions “unwind” every morning in order to mirror the transactions in the triparty repo market. Prior to Triparty Reform, transactions submitted on “Day 1” unwound on the morning of “Day 2.” To “unwind” means that the securities are returned to the lender of securities in the transaction and the cash is returned to the borrower of securities.

Because of certain changes to the way in which the Triparty Reform effort was to proceed and the impact of such changes on the interbank service of the GCF Repo service as

⁵ Information about the Federal Reserve’s Tri-Party Repo Infrastructure Reform is available via http://www.newyorkfed.org/banking/tpr_infr_reform.html.

⁶ The TPR’s effort shall hereinafter be referred to as “Triparty Reform.”

further described below, FICC is proposing to suspend the interbank service of the GCF Repo service. The intrabank service will continue to operate as it does today.

ii. *The Situation that the Proposed Rule Change is Intended to Address and the Manner in which the Proposed Rule Change will Operate to Resolve It*

By way of background, all collateral that is settled via the interbank service is unwound the next morning to FICC's account at the pledging Clearing Bank in order to make the collateral available for collateral substitutions. In order to facilitate this intraday collateral substitution process, the Clearing Banks currently extend credit each business day to FICC at no charge. This uncapped and uncommitted credit extension to FICC facilitates the GCF Repo settlement process for both the intra-day and end of day settlement. The final changes related to the Triparty Reform effort would have eliminated the need for uncapped and uncommitted credit (a TPR goal) by including the development of interactive messages for the collateral substitution process (this was referred to as the "Sub Hub"), which would have eliminated the need for the current morning unwind of interbank GCF Repo and would have allowed for substitution of collateral across the Clearing Banks with minimal intra-day credit required. The last change was also going to include a streamlined end of day GCF Repo settlement process to reduce the amount of cash and collateral needed in order to complete settlement. This change would have incorporated the concept of a "cap" on FICC credit from the Clearing Banks and an automated solution would have been developed to process the interbank GCF Repo settlement without breaching the defined and agreed to caps. This means that the amount of credit that FICC would have required from the Clearing Banks would have been managed to a minimal amount.

FICC was advised by one of the Clearing Banks that the Sub Hub has been determined not to be feasible and that FICC would instead require a capped line of credit which would be applicable to the current interbank service (without the benefits of any re-design to manage the

amounts of needed credit). In other words, this new proposed capped line of credit would be applied to the interbank service as the service currently operates and not in the re-designed fashion that was contemplated by the Triparty Reform effort, which would have allowed for smaller settlement amounts.

FICC and several GCF Repo Participants considered the feasibility of a cap on the current structure of the interbank service of the GCF Repo service without the Sub Hub functionality and without the re-design of the interbank service to allow for manageable caps. FICC and such GCF Repo Participants determined that there would be significant operational constraints in attempting to trade and settle GCF Repo while attempting to implement a cap on interbank GCF Repo trading and settlement. Specifically, the inter-dealer brokers would need to be integrated as a group from a technological perspective in order to be able to track the GCF Repo Participants' real-time netted positions, from an intrabank and interbank perspective, to ensure that the cap is not breached; this would require an integrated pre-trade check across each inter-dealer broker's platform and FICC to ensure conformity to the cap.

Because FICC cannot operate the current interbank service within a capped credit amount as proposed by the one of the Clearing Banks with the current settlement process at the Clearing Banks and because it is not feasible to institute a pre-trade validation system as discussed above, FICC will no longer operate the interbank service of the GCF Repo service after July 15, 2016 (the "Suspension Date"), which is approximately six (6) weeks prior to the date that the Clearing Bank has stated it will begin to impose the capped line of credit (September 1, 2016 or the "Capped Charges Date"). Subsequent to the Suspension Date, inter-dealer brokers will only be permitted to execute transactions among GCF Repo Participants within the same Clearing Bank. Inter-dealer brokers will establish two markets for GCF Repo trading - one for each Clearing

Bank. This is the same approach that was utilized when the interbank service was previously suspended between 2003 and 2008.⁷ In addition, GSD will only accept and process transactions among GCF Repo Participants that settle within the same Clearing Bank. As a result, the RTTM® system will not accept and process transactions among GCF Repo Participants who settle at different Clearing Banks. FICC will continue to explore whether there are other ways in which the interbank service might be re-introduced in the future.

iii. The Manner in Which the Proposed Rule Change Will Affect GSD Netting Members

GCF Repo Participants will be affected by the suspension of the interbank service in that, after the Suspension Date, these Members will only be matched with GCF Repo Participants who clear at their Clearing Bank. This may limit the potential number of counterparties available to GCF Repo Participants and for some GCF Repo Participants this limitation may significantly reduce the benefits of the GCF Repo service.

Currently, one Clearing Bank has more GCF Repo Participants than the other Clearing Bank. Thus, GCF Repo Participants who clear at the Clearing Bank with the least number of GCF Repo Participants will have a limited number of GCF Repo counterparties with which they are able to transact. This limitation may result in a less liquid market for GCF Repo Participants within that particular Clearing Bank. The GCF Repo Participants at the other Clearing Bank may not experience this limitation since they will have more GCF Repo counterparties available to them.

The fact that interbank settlement currently occurs on a daily basis suggests that GCF Repo Participants benefit from their ability to borrow money from GCF Repo counterparties on

⁷ Securities Exchange Act Release No. 48006 (June 10, 2003), 68 FR 35745 (June 16, 2003) (SR-FICC-2003-04).

an interbank basis. Once this option no longer exists, financing needs may be absorbed within the intrabank GCF Repo market or, it may shift to the delivery-versus-payment (“DVP”) or triparty repo markets. It is also possible that the number of GCF Repo Participants may decrease depending upon each Participant’s ability to access alternative funding sources and the assets that such Participants are looking to finance. For example, U.S. Treasuries and Agencies may be more easily financed in the DVP repo market, however, Agency mortgage-backed securities (“MBS”) are not as easily financed via the DVP repo market. Thus, GCF Repo Participants with portfolios comprised of Agency mortgage-backed securities may have fewer financing options due to the suspension of the interbank service.

iv. Any Significant Problems Known to FICC that Netting Members are Likely to Have in Complying with the Proposed Rule Change

FICC does not believe that GCF Repo Participants will have problems in complying with the suspension of the interbank service because of the nature of the GCF Repo Service. Specifically, because the service is conducted through the inter-dealer brokers on a blind basis, the brokers will not match dealers from different Clearing Banks after the Suspension Date.

v. Detailed Description of the Proposed Rule Changes in Exhibit 5

No changes to the text of the GSD Rules are required to implement the suspension of the interbank service.

2. Statutory Basis

Pursuant to Section 17A(b)(3)(F) of the Act, GSD’s Rules must be designed to promote the prompt and accurate clearance and settlement of securities transactions.⁸ FICC is proposing to suspend the interbank service of the GCF Repo service because FICC cannot operate the

⁸ 5 U.S.C. 78q-1(b)(3)(F).

current interbank service within a capped credit amount as described above. Because the Clearing Bank has stated that it will not provide credit to FICC to complete interbank settlement above the capped amount after the Capped Charges Date, FICC will not be able to complete settlement of the interbank service. Therefore, in order to continue to promote the prompt and accurate clearance and settlement of securities transactions, FICC is proposing to suspend the interbank service.

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

The suspension of the interbank service could have an impact on competition based on the fact that GCF Repo Participants will only be matched in GCF Repo transactions with other Members that clear at the same Clearing Bank. This may limit the number of potential counterparties for the Members. Currently, one Clearing Bank has more GCF Repo Participants than the other Clearing Bank. Thus, GCF Repo Participants who clear at the Clearing Bank with the least number of GCF Repo Participants will have a limited number of GCF Repo counterparties. This limitation may result in a less liquid market for GCF Repo Participants within that particular Clearing Bank. However, FICC believes that any burden on competition would be necessary and appropriate in furtherance of the purposes of the Act. By suspending the interbank service of the GCF Repo service, FICC is avoiding a situation where it would not be able to complete settlement as described above.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments on the suspension of the interbank service have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change; or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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. Please include File Number SR-FICC-2016-002 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-2016-002. 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, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings also will be available for inspection and copying at the principal office of FICC and on DTCC's website at <http://www.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-2016-002 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

Robert W. Errett,
Deputy Secretary.

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⁹ 17 CFR 200.30-3(a)(12).

