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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80716; File No. SR-FICC-2017-012)

May 18, 2017

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to the Mortgage-Backed Securities Division Clearing Rules Regarding Fixed Income Clearing Corporation's (1) Time of Novation, (2) Treatment of Itself as the Settlement Counterparty for Certain Transaction Types, and (3) Proposal to Implement New Processes to Promote Operational Efficiencies for Its Clearing Members

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on May 15, 2017, 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, II and III below, which Items have been prepared by the clearing agency. 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 modifications to the Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules") of FICC.[3] In connection with this proposed rule change, FICC is proposing to (1) move the time that FICC treats

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Capitalized terms used and not otherwise defined shall have the meaning assigned to such terms in the MBSD Rules or the FICC MBSD EPN Rules, as applicable, available at http://www.dtcc.com/en/legal/rules-and-procedures.

itself as the settlement counterparty for SBO-Destined Trades[4] to the time of trade comparison, which is earlier in the lifecycle of the trade,[5] (2) move the time that FICC novates and treats itself as the settlement counterparty for Trade-for-Trade Transactions[6] to the time of trade comparison, which is earlier in the lifecycle of the trade, (3) novate and establish itself as the settlement counterparty at the time of trade comparison for Specified Pool Trades,[7] and (4) guarantee and novate trades with stipulations ("Stipulated Trades"), a proposed new trade type, at the time of trade comparison and treat FICC as the settlement counterparty at such time.[8]

In connection with these changes, FICC is also proposing new processes that would promote operational efficiencies for MBSD Clearing Members.[9] These processes

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4 Pursuant to the MBSD Rules, the term "SBO-Destined Trade" means a TBA transaction in the Clearing System intended for TBA Netting in accordance with the provisions of the MBSD Rules. See MBSD Rule 1, supra note 3.

5 FICC currently novates SBO-Destined Trades at trade comparison. No changes are being proposed to the time that novation occurs.

6 Pursuant to the MBSD Rules, the term "Trade-for-Trade Transaction" means a TBA Transaction submitted to the Corporation not intended for TBA Netting in accordance with the provisions of the MBSD Rules. See MBSD Rule 1, supra note 3.

7 Pursuant to the MBSD Rules, the term "Specified Pool Trade" means a trade in which all required pool data, including the pool number to be delivered on the Contractual Settlement Date, are agreed upon by Members at the time of execution. See MBSD Rule 1, supra note 3.

8 For the avoidance of doubt, no changes are being proposed to FICC's trade guarantee (other than with respect to adding Stipulated Trades, the proposed new trade type, to the trade types guaranteed by FICC). FICC will continue to guarantee SBO-Destined Trades, Specified Pool Trades and Trade-for-Trade Transactions at trade comparison.

9 Pursuant to the MBSD Rules, the term "Clearing Member" means any entity admitted into membership pursuant to Rule 2A. See MBSD Rule 1, supra note 3.

include the following: (1) eliminating the Notification of Settlement[10] process, (2) establishing a process (referred to as the "Do Not Allocate" ("DNA") process) that would permit offset among SBON Trades[11] and Trade-for-Trade Transactions, (3) establishing a secondary process for pool netting (referred to as the "Expanded Pool Netting" process), (4) eliminating the "give-up" process for Brokered Transactions,[12] and (5) amending the components of the Cash Settlement[13] calculation.

In addition, FICC would modify its Real-Time Trade Matching ("RTTM") system to permit the submission of SBO-Destined Trades in all trade size amounts. This change would occur systemically in the RTTM system. MBSD's trade size submission requirements are not reflected in the MBSD Rules. As a result, this change would not require changes to the MBSD Rules.

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10 Pursuant to the MBSD Rules, the term "Notification of Settlement" means an instruction submitted to the Corporation by a purchasing or selling Clearing Member pursuant to the MBSD Rules reflecting settlement of an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade. See MBSD Rule 1, supra note 3.

11 Pursuant to this proposed rule change, FICC is proposing to amend the term "SBON Trade" to refer to a trade that Clearing Members settle directly with FICC. This proposed term is further described in section II.(A)1.II.H.1. of this proposed rule change.

12 Pursuant to the MBSD Rules, the term "Brokered Transaction" means any "give-up" transaction calling for the delivery of an Eligible Security the data on which has been submitted to the Corporation by Members, to which transaction a Broker is a party. See MBSD Rule 1, supra note 3.

13 Pursuant to the MBSD Rules, the term "Cash Settlement" refers to the payment each Business Day by the Corporation to a Member or by a Member to the Corporation pursuant to Rule 11. See MBSD Rule 1, supra note 3.

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

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

FICC currently processes SBO-Destined Trades, Specified Pool Trades and Trade-for-Trade Transactions.[14] For each of these trade types, FICC guarantees the settlement of such transactions at the time of trade comparison regardless of whether such transactions are (1) novated and settled versus FICC or (2) settled bilaterally between Clearing Members.[15] In connection with this guarantee, the buying Clearing Member and the selling Clearing Member counterparties are contractually bound, with FICC acting as a third-party guarantor in the event that either Clearing Member fails to meet its settlement obligations.

In addition to its guarantee, FICC also currently novates certain transactions – meaning that, the legal obligations that exist between Clearing Member counterparties are

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14 FICC also processes Option Contracts, however, these transactions are not the subject of this filing and no changes are being proposed in connection with this trade type.

15 See MBSD Rule 5, supra note 3.

terminated and such obligations are replaced with new obligations to deliver securities to and receive securities from FICC. While FICC guarantees all SBO-Destined Trades, Specified Pool Trades and Trade-for-Trade Transactions at trade comparison,[16] currently, FICC novates and treats itself as the settlement counterparty for SBO-Destined Trades and Trade-for-Trade Transactions at different points during the lifecycle of each trade type.

More specifically, under the current MBSD Rules, FICC novates SBO-Destined Trades at the time of trade comparison, however, FICC does not treat itself as the settlement counterparty for purposes of processing and settlement until after the Pool Netting[17] process is complete and FICC has established Pool Receive Obligations[18] or Pool Deliver Obligations,[19] as applicable, for each Clearing Member that has entered into an SBO-Destined Trade.[20] With respect to Trade-for-Trade Transactions, FICC does not novate such transactions or treat itself as the settlement counterparty for purposes of

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16 Id.

17 Pursuant to the MBSD Rules, the term "Pool Netting" means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service in accordance with Rule 8. See MBSD Rule 1, supra note 3.

18 Pursuant to the MBSD Rules, the term "Pool Receive Obligation" means a Clearing Member's obligation to receive Eligible Securities from the Corporation at the appropriate Settlement Value either in satisfaction of all or part of a Pool Net Long Position. See MBSD Rule 1, supra note 3.

19 Pursuant to the MBSD Rules, the term "Pool Deliver Obligation" means a Clearing Member's obligation to deliver Eligible Securities to the Corporation at the appropriate Settlement Value either in satisfaction of all or part of a Pool Net Short Position. See MBSD Rule 1, supra note 3.

20 See MBSD Rule 1, supra note 3.

netting, processing, and settlement until the Pool Netting process is complete[21] and each Clearing Member that has entered into a Trade-for-Trade Transaction receives its Pool Receive Obligations or Pool Deliver Obligations, as applicable. For Specified Pool Transactions, FICC does not novate Specified Pool Trades or treat itself as the settlement counterparty during any point of the trade lifecycle.

In connection with this proposed rule change, FICC's overarching goal is to novate and treat itself as the settlement counterparty to all Transactions[22] (other than Option Contracts[23]) at the time of trade comparison. Specifically, FICC is proposing to (1) move the time that FICC treats itself as the settlement counterparty for SBO-Destined Trades to the time of trade comparison, which is earlier in the lifecycle of the trade, (2) move the time that FICC novates and treats itself as the settlement counterparty for Trade-for-Trade Transactions to the time of trade comparison, which is earlier in the lifecycle of the trade, (3) novate and establish itself as the settlement counterparty at the time of trade comparison for Specified Pool Trades, and (4) guarantee and novate Stipulated Trades at the time of trade comparison and treat FICC as the settlement

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21 Id. FICC does not novate and does not become the settlement counterparty to Trade-for-Trade Transactions that do not enter the Pool Netting system. Instead, these transactions are required to settle among the Clearing Member counterparties outside of FICC.

22 Pursuant to the MBSD Rules, the term "Transaction" means a trade that is eligible for processing by the Corporation in accordance with the MBSD Rules. See MBSD Rule 1, supra note 3.

23 Pursuant to the MBSD Rules, the term "Option Contract" means an option to sell or buy a specified amount of Eligible Securities by or on a specified date to or from the other party to the contract against payment of the Strike Price. Upon exercise, a "Call Option Contract" entitles the purchaser to buy, and obligates the seller (writer) to sell, Eligible Securities for the Strike Price, whereas a "Put Option Contract" entitles the purchaser to sell, and obligates the seller (writer) to buy, Eligible Securities for the Strike Price. See MBSD Rule 1, supra note 3.

counterparty at such time. These changes would not create any new material risk for FICC because FICC guarantees the settlement of all Transactions at trade comparison[24] and no changes (other than the proposed inclusion of Stipulated Trades) are being proposed in connection with the timing or substance of FICC's guarantee.

In order to achieve the above-referenced changes, FICC is also proposing to make certain operational changes that would create efficiencies for Clearing Members. These changes include: (1) eliminating the Notification of Settlement process, (2) establishing the DNA process, (3) establishing the Expanded Pool Netting process, (4) eliminating the "give-up" process for Brokered Transactions, and (5) amending the components of the Cash Settlement calculation. In addition, FICC would modify its RTTM system to permit the submission of SBO-Destined Trades in all trade size amounts. These changes would not create any new material risk for FICC because these changes would be designed to enhance operational efficiencies while not materially affecting risk management processes.

I. MBSD Processing – Overview

MBSD's Current Trade Comparison and Netting Processes

MBSD processes (1) to-be-announced ("TBA") transactions ("TBA Transactions"), which are trades for which the actual identities of and/or the number of pools underlying each trade are unknown at the time of trade execution and (2) Specified Pool Trades, which are trades for which all pool data is agreed upon by the Clearing Members at the time of execution. TBA Transactions are comprised of (i) SBO-Destined Trades, (ii) Trade-for-Trade Transactions and (iii) Option Contracts.

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[24] See MBSD Rule 5, supra note 3.

MBSD's Trade Comparison[25] system and TBA Netting[26] system form the basis of all of its other services. All Compared Trades[27] are risk managed by MBSD, but the remainder of their respective lifecycles differ according to their trade type.

The first step of MBSD's clearance and settlement process is trade comparison, which consists of the reporting, validating and matching by FICC of both sides of a Transaction to ensure that the details of the trades are in agreement between the parties.[28] Trade data is entered into the RTTM system by all parties and once the trade is deemed compared, FICC guarantees the settlement of the trade, provided that the trade meets the requirements of the MBSD Rules and was entered into in good faith.[29] With respect to SBO-Destined Trades, upon trade comparison such trades are also novated to FICC.[30] This novation consists of the termination of the deliver, receive and related payment obligations between Clearing Members and their replacement with identical obligations to and from

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25 Pursuant to the MBSD Rules, the term "Trade Comparison" means the service provided to Clearing Members and the operations carried out by the Corporation in the course of providing such service, in accordance with MBSD Rule 5. See MBSD Rule 1, supra note 3.

26 Pursuant to the MBSD Rules, the term "TBA Netting" means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service in accordance with MBSD Rule 6. See MBSD Rule 1, supra note 3.

27 Pursuant to the MBSD Rules, the term "Compared Trade" means a trade the data on which has been compared or deemed compared pursuant to Rule 5 or Rule 7, as applicable. See MBSD Rule 1, supra note 3.

28 See MBSD Rule 5, supra note 3.

29 See MBSD Rule 5 Section 8, supra note 3.

30 See MBSD Rule 5 Section 13, supra note 3.

FICC.[31] With respect to Trade-for-Trade Transactions, novation does not occur at the time of trade comparison; FICC only guarantees the settlement of such Transactions upon trade comparison.[32] Although FICC guarantees the obligations of Specified Pool Trade counterparties to deliver, receive and make payment for securities that satisfy the same generic criteria as the securities underlying Specified Pool Trades upon trade comparison, FICC does not novate such trades.[33]

Next, MBSD employs two netting processes to reduce settlement obligations as well as the number of securities and the amount of cash that must be exchanged to settle certain Transactions. The netting processes occur through the TBA Netting system and the Pool Netting system.[34]

The TBA Netting system is used to net SBO-Destined Trades that have compared and are eligible for the TBA Netting system.[35] Three days before the established contractual settlement day (referred to as "72-Hour Day"),[36] TBA Netting for the applicable class

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31 Id.

32 Id.

33 See MBSD Rule 5 Section 12, supra note 3.

34 See MBSD Rules 6, 7 and 8, supra note 3.

35 Trade-for-Trade Transactions are not netted through the TBA Netting system, however, like the SBO positions, do constitute TBA settlement obligations against which Pool Instructs may be submitted. Specified Pool Trades are also not netted through the TBA Netting system, nor do such trades enter the Pool Netting system. See MBSD Rules 6 and 8, supra note 3.

36 MBSD performs the TBA Netting process four times per month, corresponding to each of the four primary settlement classes and dates established by the Securities Industry Financial Markets Association ("SIFMA"). SIFMA publishes a calendar that specifies one settlement date per month for four different product classes (known as Classes A, B, C and D) that are used to categorize the various types of TBA securities. These product classes and the associated settlement dates are

occurs. On this date, all compared SBO-Destined Trades within the class that have been designated for the TBA Netting process are netted within and across counterparties. Even though FICC has become the legal counterparty for each SBO-Destined Trade upon trade comparison, TBA Netting occurs as though each SBO-Destined Trade is with the Original Contra-Side Member.[37] The net positions created by the TBA Netting process are referred to as the settlement balance order positions ("SBO positions"), which constitute settlement obligations against which Clearing Members will submit pool information ("Pool Instructs") for the Pool Netting process.[38]

Two business days prior to the established settlement date of the TBA settlement obligations (known as "48-Hour Day"), Clearing Members that have an obligation to deliver pools ("Pool Sellers") must notify their counterparties ("Pool Buyers") through MBSD's EPN Service[39] of the pools that such Pool Sellers intend to allocate in satisfaction of their

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recognized by the industry, and they provide the foundation for MBSD's TBA Netting process.

37 Pursuant to the MBSD Rules, the term "Original Contra-Side Member" means a Member with whom a Member has entered into a contract for the purchase or sale of an Eligible Security or an Option Contract. See MBSD Rule 1, supra note 3.

38 See MBSD Rule 6, supra note 3.

39 MBSD's electronic pool notification service (the "EPN Service") provides Clearing Members with the ability to electronically communicate pool information to MBSD, as described in the proposed rule changes. See MBSD Rule 1, supra note 3. FICC recognizes that the term "EPN" as used in connection with the "EPN Service" also reflects the acronym of "Expanded Pool Netting." With this is mind, FICC wishes to clarify that the EPN Service and the Expanded Pool Netting process are not associated with one another. As described above, the EPN Service is MBSD's electronic pool notification service, which is used by Clearing Members to electronically communicate pool information to MBSD as described in this proposed rule change. Expanded Pool Netting would be a secondary pool netting process that FICC is proposing to establish as described in this proposed rule change.

SBO positions and/or Trade-for-Trade Transactions.[40] With respect to Trade-for-Trade Transactions, the relevant counterparty is the Original Contra-Side Member. With respect to SBO-Destined Trades, although MBSD is the legal counterparty, Clearing Members are directed to treat a designated SBO Contra-Side Member[41] as their counterparty. In addition, Clearing Members are also required to submit Pool Instructs on the 48-Hour Day to MBSD through its RTTM system for Pool Comparison[42] (which is a prerequisite to Pool Netting).[43] The pools must be bilaterally matched by each counterparty to the trade. Any pool allocations deemed compared at this stage (provided that neither Clearing Member has cancelled the submitted allocation) are processed through the Pool Netting system.[44] On the business day before the contractual settlement date ("24-Hour Day"), pool netting takes

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40 Pool allocations occur for all TBA Obligations, whether established on 72-Hour Day through the TBA Netting process or established upon comparison when the Trade-for-Trade Transaction was submitted. Pool allocations are not performed for Specified Pool Trades because the pool that is to be delivered in connection with such trade is specified upon submission.

41 Pursuant to the MBSD Rules, the term "SBO Contra-Side Member" means the Member with whom a Member is directed by the Corporation to settle an SBO Trade. An "SBON Contra-Side Member" is an SBO Contra-Side Member that is not an Original Contra-Side Member with respect to such SBO Trade. An "SBOO Contra-Side Member" is an SBO Contra-Side Member that is also an Original Contra-Side Member with respect to such SBO Trade. See MBSD Rule, supra note 3

42 Pursuant to the MBSD Rules, the term "Pool Comparison" means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service, in accordance with Rule 7. See MBSD Rule 1, supra note 3.

43 As with the EPN Service allocation process described above, Clearing Members submit Pool Instructs against all of their TBA Obligations regardless of whether the TBA Obligation stems from the TBA Netting process or the TBA Obligation is established upon comparison when the Trade-for-Trade Transaction was submitted.

44 See MBSD Rule 8, supra note 3.

place. The Pool Netting system reduces the number of pool settlements by netting Pool Instructs stemming from SBO Trades[45] and Trade-for-Trade Transactions to arrive at a single net position per counterparty in a particular pool number for next-day delivery date.[46]

On each business day, MBSD makes available to each Clearing Member a Report[47] to enable such Clearing Member to settle its Pool Net Settlement Positions[48] on that business day. At the time that the Report is made available, all deliver, receive and related payment obligations between Clearing Members that were created by compared pools that comprise a Pool Net Settlement Position or Positions are terminated and replaced by the Pool Deliver Obligations, Pool Receive Obligations, and related payment obligations to and from FICC.[49] Each Clearing Member then provides appropriate

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45 Pursuant to the MBSD Rules, the term "SBO Trade" means a settlement balance order that offsets an SBO Net Open Position pursuant to the MBSD Rules. A Member which has one or more "Long SBO Trades" in a particular CUSIP number is a net purchaser with respect to that CUSIP number, as the case may be; a Member which has one or more "Short SBO Trades" is a net seller. An SBO Trade may be either an SBON Trade or an SBOO Trade. See MBSD Rule 1, supra note 3.

46 A Clearing Member's "counterparty" for purposes of notifications, netting and processing as described in this paragraph is the SBO Contra-Side Member or the Original Contra-Side Member for SBO-Destined Trades and Trade-for-Trade Transactions, respectively. See MBSD Rule 6, supra note 3.

47 Pursuant to the MBSD Rules, the term "Report" means any document, record, or other output prepared by the Corporation and made available to a Member in any format (including, but not limited to, machine-readable and print-image formats) or medium (including, but not limited to, print copy, magnetic tape, video display terminal, and interactive message formats) that provides information to such Member with regard to the services provided by, or the operations of, the Corporation. See MBSD Rule 1, supra note 3.

48 Pursuant to the MBSD Rules, the term "Pool Net Settlement Position" means either a Pool Net Short Position or a Pool Net Long Position, as the context requires. See MBSD Rule 1, supra note 3.

49 Id.

instructions to its clearing bank to deliver to MBSD, and/or to receive from MBSD, Eligible Securities against payment or receipt at the appropriate settlement value.

Certain obligations among Clearing Members settle outside of FICC – meaning that, Clearing Members are required to settle such obligations directly with their applicable settlement counterparties.[50] These obligations include (1) Pool Instructs that are not included in Pool Netting (either because they are ineligible or because they do not meet selection criteria for inclusion) and (2) Specified Pool Trades, which are not eligible for Pool Netting. Clearing Members must report that an obligation has settled bilaterally with their applicable settlement counterparties to FICC by submitting a Notification of Settlement to MBSD for pool settlements relating to all trade types, with the exception of Option Contracts.[51] This is required because MBSD will not know which pools actually have settled directly between Clearing Members unless it receives a separate notification. Once the mandatory details on the Notification of Settlement instructions submitted by both Clearing Members are compared, the associated obligation is deemed to have settled and will therefore no longer be subject to MBSD's risk management.

II. MBSD Processing – Proposed Changes

A. FICC's proposed change to novate all Transactions (other than Option Contracts) and treat itself as the settlement counterparty for all such Transactions at trade comparison

MBSD is proposing to novate all Transactions (except Option Contracts) at the time of trade comparison. This means that, upon trade comparison, the deliver, receive and related payment obligations between the Clearing Members with respect to SBO-

50 See MBSD Rule 5 Section 12 and MBSD Rule 8 Section 2, supra note 3.

51 See MBSD Rule 10, supra note 3.

Destined Trades and Trade-for-Trade Transactions would terminate and be replaced by identical obligations to and from FICC (i.e., FICC would become the buyer to every seller and the seller to every buyer). A similar process would occur for Specified Pool Trades and Stipulated Trades, except that, for those trades, the existing deliver, receive and related payment obligations would be terminated and replaced with obligations to deliver, receive and make payment for securities that satisfy the same generic criteria (such as coupon rate, maturity, agency, and product) as the securities underlying the Specified Pool Trades or Stipulated Trades. FICC would not novate or guarantee the obligations to deliver the particular securities underlying Specified Pool Trades or securities that contain the particular stipulations set forth in Stipulated Trades. In addition, FICC is proposing to treat itself as the settlement counterparty throughout the lifecycle of the trade for netting, processing and settlement purposes.[52] These changes are described in detail below.

1. SBO-Destined Trades

Currently, MBSD novates SBO-Destined Trades at the time of trade comparison, however, FICC does not treat itself as the settlement counterparty for netting and processing purposes until after the Pool Netting process is complete and FICC has established Pool Receive Obligations or Pool Deliver Obligations, as applicable, for each Clearing Member that has entered into an SBO-Destined Trade. As a result, Clearing

[52] Upon trade comparison, Clearing Members would receive a notification through the RTTM system establishing FICC as each party's novated and settlement counterparty.

Members are directed to (1) allocate pools through the EPN Service to designated SBO Contra-Side Members and (2) submit Pool Instructs through the RTTM system.[53]

MBSD is proposing to treat itself as settlement counterparty for netting and processing purposes, at the time of trade comparison. SBO-Destined Trades would proceed to the TBA Netting process as they do today; however, the SBO positions that result from the TBA Netting process would reflect FICC as the settlement counterparty. Thus, Clearing Members would no longer be directed to settle with a designated SBO Contra-Side Member,[54] but with FICC. On 48-Hour Day, Clearing Members that are Pool Sellers would notify MBSD (rather than their designated SBO Contra-Side Member) through the EPN Service of the allocated pools. FICC would then submit corresponding notifications to Clearing Members that are Pool Buyers. Pool Instructs (as defined above) would continue to be submitted to MBSD on 48-Hour Day through FICC's RTTM system. In an effort to create operational efficiencies, FICC is proposing to amend its MBSD Rules to provide that, if a Clearing Member does not submit its Pool Instructs by the established deadline, FICC would determine and apply the Pool Instructs for that Clearing Member. Such determination would be based on the allocated pools that the Clearing Member has submitted through the EPN Service. As a result of this proposed change, all pools would be compared and FICC would no longer require Clearing Members to settle uncompared pools directly with their applicable settlement counterparties (i.e., outside of FICC).

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53 See MBSD Rule 7, supra note 3.

54 FICC would eliminate its calculation for determining the Settlement Value of SBON Trades and SBOO Trades. The MBSD Rules refer to the calculation as "CUSIP Average Price" or "CAP" for SBON Trades and "Firm CUSIP Average Price" or "FCAP" for SBOO Trades. See MBSD Rule 6, supra note 3.

In addition to the above, FICC is also proposing to eliminate the trade size restriction for SBO-Destined Trades. Currently, SBO-Destined Trades are only eligible for the TBA Netting process if such trades details are submitted through the RTTM system in multiple amounts of one million with the minimum set at one million. FICC is proposing to remove this restriction from the RTTM system. As a result, Clearing Members would be permitted to submit SBO-Destined Trades in any trade size. MBSD's trade size restrictions are not reflected in the MBSD Rules, thus the proposed change would not necessitate any changes to the MBSD Rules.

For the avoidance of doubt, FICC is not proposing to change the trade size restrictions for Trade-for-Trade Transactions and Specified Pool Trades.

2. Trade-for-Trade Transactions

Currently, FICC does not novate Trade-for-Trade Transactions or treat itself as settlement counterparty for purposes of netting, processing, and settlement until, in each case, the Pool Netting process is complete and each Clearing Member receives their Pool Receive Obligation or Pool Deliver Obligations, as applicable, from FICC.[55] As a result, Clearing Members are required to allocate pools to their original counterparty through the EPN Service and submit Pool Instructs through the RTTM system. Once Pool Netting is complete, the deliver, receive and related payment obligations between Clearing Members that were created by compared pools that comprise a Pool Net Settlement Position are terminated and replaced by Pool Deliver Obligations, Pool Receive Obligations, and related payment obligations to and from FICC.[56]

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55 See MBSD Rule 8 Section 4, supra note 3.

56 See MBSD Rule 8 Section 6, supra note 3.

FICC is proposing to novate Trade-for-Trade Transactions at trade comparison and treat itself as settlement counterparty, at that time, for purposes of processing and settlement. Similar to the process with SBO-Destined Trades, Clearing Members with an obligation to deliver pools would notify MBSD (rather than their original counterparty) through the EPN Service and FICC would submit corresponding notifications to Clearing Members that are Pool Buyers. Clearing Members would continue to be required to submit Pool Instructs. In the event that Pool Instructs are not submitted by the established deadline, FICC would determine Pool Instructs for that Clearing Member.

3. Specified Pool Trades

Currently, FICC does not novate Specified Pool Trades during any point of the trade lifecycle (though, upon Trade Comparison of Specified Pool Trades, FICC guarantees the obligation to deliver, receive and pay for securities that satisfy the same generic criteria as the securities underlying the Specified Pool Trades).[57] Specified Pool Trades are eligible for neither the TBA Netting process nor the Pool Netting process. In addition, Specified Pool Trades are directly settled between the original counterparties.

FICC is proposing to novate Specified Pool Trades upon Trade Comparison. Such novation would be limited to the obligations to deliver, receive and make payment for securities satisfying the same generic criteria as the securities underlying the Specified Pool Trades. As a result, upon Trade Comparison, the existing deliver, receive and related payment obligations between Clearing Members under Specified Pool Trades would be terminated and replaced with obligations to or from FICC to deliver, receive and make payment for securities satisfying the same generic criteria as the securities

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[57] See MBSD Rule 5, supra note 3.

underlying the Specified Pool Trades. FICC would not novate the obligation to deliver the securities for the particular specified pool.

Additionally, FICC is proposing to settle Specified Pool Trades directly with the Clearing Member party thereto (rather than require that counterparties to such trades settle directly with one another). No other changes are being proposed with respect to the processing of Specified Pool Trades. Such trades would continue to be ineligible for the TBA Netting and Pool Netting systems.

4. Stipulated Trades

FICC is proposing to introduce Stipulated Trades as a new trade type that would be eligible for processing by MBSD. A Stipulated Trade is a trade in which pools allocated and delivered against the trade must satisfy certain conditions (i.e., stipulations) that are agreed upon by the parties at the time that the trade was executed.[58] FICC would guarantee and novate Stipulated Trades at Trade Comparison provided that such trade meets the requirements of the MBSD Rules and was entered into in good faith. Such guarantee and novation would be limited to the obligations to deliver, receive and make payment for securities satisfying the same generic criteria as the securities underlying the Stipulated Trade, but not the obligation to deliver securities that contain the particular stipulations contained in the Stipulated Trades. At Trade Comparison, the deliver, receive and related payment obligations between Clearing Members would be terminated and replaced with obligations to deliver, receive and make payment for securities satisfying the same generic criteria as the securities underlying the Stipulated Trades.

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[58] Trades carrying stipulations may reflect terms that include but are not limited to the following: issuance year, issuance month, weighted average coupon, weighted average maturity and/or weighted average loan age, etc.

Because of the narrow nature of FICC's guarantee and novation, in the event of a Clearing Member's default, FICC would only be required to deliver, receive or make payment for securities that have the same generic terms, such as coupon rate, maturity, agency, and product, as the securities that underlay the Stipulated Transaction.

Clearing Members would be required to allocate Stipulated Trades to FICC through the EPN Service. Such allocation would result in the creation of pool obligations, which would settle with FICC based on the settlement date agreed to as part of the terms of the trade. Similar to Specified Pool Trades, Stipulated Trades would be eligible for neither the TBA Netting process nor the Pool Netting process.

B. Proposed change to eliminate the Notification of Settlement process

As described above, the Notification of Settlement process requires Clearing Members to notify FICC of obligations that have settled directly between Clearing Members and their applicable settlement counterparties.[59] Once both parties to a Transaction submit a Notification of Settlement to MBSD through the RTTM system, the obligations are no longer subject to MBSD's margin calculation process.[60] Because FICC is proposing to novate and directly settle all SBO-Destined Transactions, Trade-for-Trade Transactions and Specified Pool Trades, the Notification of Settlement process would be eliminated from the MBSD Rules.

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59 See MBSD Rule 10, supra note 3.

60 See MBSD Rule 4, supra note 3.

C. Proposed change to establish the DNA process

FICC is proposing to establish a process that would give Clearing Members the ability to offset Trade-for-Trade Transactions[61] and/or SBON Trades.[62] This process would be referred to as the "DNA" process. The purpose of this process is to exclude SBON Trades and Trade-for-Trade Transactions from the pool allocation process[63] and securities settlement.

The Do Not Allocate process would be available to Clearing Members at the start of business day on 48-Hour Day through 4:30 p.m. on 24-Hour Day. During this time, Clearing Members with two or more open TBA Obligations[64] with the same Par Amount,[65] CUSIP Number[66] and SIFMA designated settlement date would be permitted

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61 Specified Pool Trades and Stipulated Trades would not be eligible for the proposed Do Not Allocate process because such trades are not eligible for the Pool Netting process. See MBSD Rule 8, supra note 3.

62 The proposed MBSD Rules would use the term "SBON Trades" to signify obligations that result from the TBA Netting process. Such obligations would reflect FICC as the settlement counterparty.

63 As noted above, the pool allocation process requires Clearing Members to allocate pools on 48-Hour Day through the EPN Service. Pursuant to this proposed change, Clearing Members would not be required to allocate pools for obligations that have been offset through the Do Not Allocate process.

64 Pursuant to the MBSD Rules, the term "TBA Obligations" means SBO-Destined obligations and, with respect to Trade-for-Trade Transactions, settlement obligations generated by the Trade Comparison system. See MBSD Rule 1, supra note 3.

65 Pursuant to the MBSD Rules, the term "Par Amount" means for Trade-for-Trade and SBO Transactions, Option Contracts and Pool Deliver and Pool Receive Obligations, the current face value of a Security to be delivered on the Contractual Settlement Date. With respect to Specified Pool Trades, "Par Amount" shall mean the original face value of a Security to be delivered on the Contractual Settlement Date. See MBSD Rule 1, supra note 3. Pursuant to this proposed rule change, FICC is proposing to amend this defined term as described in section H. 1.

to offset (i.e., "pair-off") such obligations. In order to initiate the offset, Clearing Members would be required to submit a request ("DNA Request") to MBSD through the RTTM system. Upon FICC's validation of this request, the obligations would be reduced and the Clearing Member would not be required to allocate pools against such obligations. As a result, a Clearing Member's overall number of open obligations would be reduced.

The proposed Do Not Allocate process would generate Cash Settlement credits and debits from the price differential of the resulting offsetting obligations. The proposed Cash Settlement obligations are described below in section F.

1. *Cancellations*

Clearing Members would be permitted to cancel a DNA Request, however, such cancellation must be submitted through the RTTM system prior to the time that the designated offsetting TBA Obligations have settled. Upon FICC's timely receipt of a cancellation request, the trades that were previously marked for the Do Not Allocate process would reopen and the Clearing Member would be expected to notify MBSD through the EPN Service of the pools that such Clearing Member intends to allocate to the open obligations.

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66 Pursuant to the MBSD Rules, the term "CUSIP Number" means the Committee on Uniform Securities Identification Procedures identifying number for an Eligible Security. See MBSD Rule 1, supra note 3.

2. *Example of the Do Not Allocate process*

Assume that the TBA Netting process results in the following:

Dealer A as seller has a TBA Obligation to FICC in a Fannie Mae ("FNMA") 30-year 3% coupon for a July 2017 settlement (CUSIP Number 01F030678) with a Par Amount of 100mm.

Assume that the following Trade-for-Trade Transaction has been novated to FICC:

Dealer A as buyer has a TBA Obligation to FICC in FNMA 30-year 3% coupon for a July 2017 settlement (CUSIP Number 01F030678) with a Par Amount of 100mm.

In connection with the above, Dealer A would have the option of submitting a DNA Request at anytime between the start of business day on 48-Hour Day through 4:30 p.m. on 24-Hour Day. Upon FICC's receipt and validation of the DNA Request, FICC would reduce each of Dealer A's TBA Obligations in accordance with the DNA Request and reduce the overall number of Dealer A's open TBA Obligations.

In addition, FICC would calculate a Cash Settlement obligation for Dealer A (the "Do Not Allocate Transaction Adjustment Payment") difference between the Settlement Price of the buy and sell TBA Obligation transactions multiplied by the contractual quantity.

In the event that Dealer A cancels its DNA Request, the marked TBA Obligations would reopen and Dealer A would be required to allocate pools for such obligations.

D. Proposed change to establish a secondary Pool Netting process – Expanded Pool Netting

As described above, the Pool Netting system reduces the number of pool settlements by netting Pool Instructs stemming from SBON Trades and Trade-for-Trade Transactions to arrive at a single net position per counterparty in a particular pool number for next-day delivery date.[67] Prior to the Pool Netting process, Pool Sellers must notify their Pool Buyers through MBSD's EPN Service of the pools that will be allocated in satisfaction of a TBA Obligation. In accordance with the SIFMA Guidelines,[68] such notifications must occur before 3:00 p.m.[69] on 48-Hour Day. Notifications that take place after this time are considered late and the delivery of such pools to the related Pool Buyers will be delayed for one additional business day.

In order to capture notifications submitted after 3:00 p.m. on 48-Hour Day through 4:30 p.m. on 24-Hour Day, FICC is proposing to establish an additional netting cycle (referred to as Expanded Pool Netting). Similar to the initial Pool Netting process, Expanded Pool Netting would result in a reduction in the number of Pool Delivery Obligations. As with the existing Pool Netting process, the proposed Expanded Pool Netting process would (1) calculate Pool Net Settlement Positions in a manner that is consistent with Section 3 of MBSD Rule 8 and (2) allocate Pool Deliver Obligations and

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67 A Clearing Member's "counterparty" for purposes of notifications, netting and processing as described in this paragraph is the SBO Contra-Side Member or the Original Contra-Side Member for SBO-Destined Trades and Trade-for-Trade Transactions, respectively. See MBSD Rule 6, supra note 3.

68 Pursuant to the MBSD Rules, the term "SIFMA Guidelines" means the guidelines for good delivery of Mortgage-Backed Securities as promulgated from time to time by SIFMA. See MBSD Rule 1, supra note 3.

69 All times referenced herein are Eastern Time.

Pool Receive Obligations in a manner that is consistent with Section 4 of MBSD Rule 8. The Expanded Pool Netting process would occur four times per month in accordance with the SIFMA designated settlement date. Pool Net Settlement Positions and the resultant Pool Deliver Obligations and Pool Receive Obligations would only be provided to Clearing Members during such times.

The proposed Expanded Pool Netting process would generate Cash Settlement credits and debits. The proposed Cash Settlement obligations are described below in section F.

E. Proposed change to eliminate the "give-up" process for Brokered Transactions

Currently, FICC operates its brokered business on a "give-up" basis. This means that MBSD discloses (or "gives-up") the identity of each Dealer[70] (to a Brokered Transaction) after a period of time.[71] Under the proposed rule change, FICC would eliminate the need to disclose Dealers' identities because FICC would novate all Brokered Transactions and treat itself as the settlement counterparty once such transactions have been Fully Compared.[72] Thus, the Report that FICC issues once a Brokered Transaction has been Fully Compared would refer to FICC as settlement counterparty.

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70 Pursuant to the MBSD Rules, the term "Dealer" means a Member that is in the business of buying and selling Securities as principal, either directly or through a Broker. See MBSD Rule 1, supra note 3.

71 See MBSD Rule 5 Section 7, supra note 3.

72 Pursuant to the MBSD Rules, the term "Fully Compared" means that trade input submitted by a Broker matches trade input submitted by each Dealer on whose behalf the Broker is acting in accordance with the Net Position Match Mode. See MBSD Rule 1, supra note 3.

F. Proposed change to the Cash Settlement process

Cash Settlement is a daily process of generating a single net credit or debit cash amount at the Aggregated Account[73] level and settling those cash amounts between Clearing Members and MBSD.[74] FICC's proposal to become the settlement counterparty upon trade comparison and the proposed Do Not Allocate process would necessitate the following changes to the Cash Settlement calculation.

1. FICC is proposing to eliminate the *SBO Market Differential*[75] because this amount calculates the price difference for SBO positions settled among Clearing Members. This amount would no longer be required because Clearing Members would settle all SBO-Destined Trades directly with FICC.

2. FICC is proposing to add the following components to the Cash Settlement calculation:

a. The proposed *TBA Transaction Adjustment Payment* would reflect the cash differential that would result when calculating the net proceeds of the contractual quantity of an SBO-

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73 Pursuant to the MBSD Rules, the term "Aggregated Account" means either a single Account linked to an aggregate ID or a set of Accounts linked to an aggregate ID for the processing of Transactions in the Clearing System. Pursuant to the MBSD Rules, Members' Cash Settlement obligations and Mark-to-Market requirements are calculated on a net basis at the aggregate ID level. See MBSD Rule 1, supra note 3.

74 See MBSD Rule 11, supra note 3.

75 Pursuant to the MBSD Rules, the term "SBO Market Differential" means the amount computed pursuant to the MBSD Rules, reflecting the difference between Firm CUSIP Average Prices (in the case of an SBO Netted or SBO Net-Out Position) or between the CUSIP Average Price and the Firm CUSIP Average Price (in the case of an SBON Trade). See MBSD Rule 1, supra note 3.

Destined Trade when comparing such trade's Settlement Price and the System Price.[76]

The proposed TBA Transaction Adjustment Payment would be an amount equal to the difference between the SBO-Destined Trade's Settlement Price and the System Price, multiplied by the contractual quantity of such trade, and then divided by 100. To differentiate between the buyer and seller of the transaction, an indicator of -1 for the buy trade and +1 for the sell trade is multiplied by the contractual quantity of such trade.

For example, the TBA Transaction Adjustment Payment for an SBO-Destined Trade having a contractual quantity of 5,000,000 would be calculated as follows:

Contractual quantity (sell): 5,000,000

SBO-Destined Trade - Settlement Price: 100.25

System Price: 100

Calculation: 1 x 5,000,000 (100.25 – 100)/100

TBA Transaction Adjustment Payment: $12,500 (credit)

b. The proposed *Expanded Pool Net Transaction Adjustment Payment* would be included in the event that a Clearing Member misses the deadline established by FICC for the Pool Netting process. Unlike the Pool Netting process, which runs daily, the

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76 Pursuant to the MBSD Rules, the term "System Price" means the price for any trade or any Pool Deliver Obligations or Pool Receive Obligation not including accrued interest, established by the Corporation on each Business Day, based on current market information, for each Eligible Security. See MBSD Rule 1, supra note 3.

Expanded Pool Netting process would only run four times per month in accordance with the SIFMA designated settlement date. As a result, an Expanded Pool Net Transaction Adjustment Payment would only occur four times per month. The calculation for the Expanded Pool Net Transaction Adjustment Payment is the same as the Pool Net Transaction Adjustment Payment.

The Expanded Pool Net Transaction Adjustment Payment would reflect an amount equal to the difference between the System Price and the SBON Trade's Settlement Price or Trade-for-Trade Transaction's Settlement Price, as applicable, multiplied by the total current face value of the pools used to satisfy such obligation, then divided by 100. To differentiate between a buy and sell transaction, an indicator of +1 for a buy trade and -1 for a sell trade would be multiplied by the total current face value of the pools used to satisfy the obligation.

c. The proposed *Do Not Allocate Transaction Adjustment Payment* would reflect the cash differential among TBA Obligations that have been offset through the Do Not Allocate process. The proposed Do Not Allocate Transaction Adjustment Payment would be an amount equal to the difference between the Settlement Price of the buy and sell TBA Obligation transactions multiplied by the contractual quantity. To differentiate between a buy and sell transaction, an indicator of -1 for a buy trade and +1 for a sell trade is multiplied by the contractual quantity of such trade.

For example, the Do Not Allocate Transaction Adjustment Payment for a 2,000,000 DNA Request would be calculated as follows:

Contractual quantity: 2,000,000

Trade price of buy transaction: 99

Trade price of sell transaction: 100

Buy calculation: -1 x 2,000,000 x 99 = -$1,980,000

Sell calculation: 1 x 2,000,000 x 100 = $2,000,000

Do Not Allocate Transaction Adjustment Payment: $20,000 (credit)

d. The proposed *TBA Reprice Transaction Adjustment Payment* would reflect the cash differential between the price of a TBA Obligation that was not allocated by a Clearing Member by the deadline established by FICC and the price of the replacement TBA Obligation that was calculated at the System Price.

The TBA Reprice Transaction Adjustment Payment would be an amount equal to the difference between the TBA Obligation's Settlement Price and the System Price, multiplied by the unallocated contractual quantity, then divided by 100. To differentiate between a buy and sell transaction, an indicator of -1 for a sell trade and +1 for a buy trade is multiplied by the unallocated pool's contractual quantity.

For example, the TBA Reprice Transaction Adjustment Payment for a TBA Obligation with a contractual quantity of 5,000,000 that was not allocated by a Clearing Member by the deadline established by FICC would be calculated as follows:

Contractual quantity (buy): 5,000,000

SBON Trade - Settlement Price: 100

System Price: 101

Calculation: 1 x 5,000,000 (101 – 100)/100

TBA Reprice Transaction Adjustment Payment: $50,000 (credit)

e. The proposed *Variance Transaction Adjustment Payment* would capture the variance (i.e., difference)[77] between a TBA Obligation and the current face value of the pools allocated in satisfaction of such obligation. Specifically, this payment would reflect the cash differential calculated between the SBON Trade's Settlement Price or the Trade-for-Trade Transaction's Settlement Price, as applicable, and the System Price using the variance of the Pool Netting process or the Expanded Pool Netting process, as applicable, based on the current face value of the pools used in satisfaction of the trade.

The Variance Transaction Adjustment Payment would be an amount equal to the difference between the SBON Trade's Settlement Price or the

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77 Pursuant to the SIFMA Guidelines, TBA trades are allowed to have a variance equal to plus or minus 0.01% of the dollar amount of the transaction agreed to by the parties. As a result of this guideline, FICC would capture the variance of TBA Obligations and the current face value of the pools allocated in satisfaction of such obligations.

Trade-for-Trade Transaction's Settlement Price, as applicable, and the System Price, multiplied by the difference between the TBA Obligation and the allocated pools used in satisfaction of such trade and then divided by 100. To differentiate between a buy and sell transaction, an indicator of -1 for a buy trade and +1 for a sell trade would be multiplied by the total variance amount.

For example, the Variance Transaction Adjustment Payment for a sell transaction that has one million under allocated and one million over allocated[78] would be calculated as follows:

Sell trade price: 100.125

Good delivery million #1 allocation: 999,895.77

Good delivery million #2 allocation: 1,000,007.13

System Price: 99

Calculation: 1 x (104.23 – 7.13) x (99 – 100.125)/100

= 1 x (97.10) x (-1.125)/100

Variance Transaction Adjustment Payment: $1.09 (debit)

f. The proposed *Factor Update Adjustment Payment* would be calculated in the event that updated pool factor information is released after the clearing bank's settlement of a pool. This update would create a cash differential that would require a debit to the seller and a credit to the buyer.

Example:

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78 Id.

Seller A sells Pool 1 FNMA 30yr 3% coupon to Buyer B with a contractual settlement date of April 3, 2017, at a price of 100. Because the April 2017 factor is unavailable on the contractual settlement date, the pool would settle at the clearing bank with a settlement amount based on the factor that was released in March 2017.

Principle - current face value x price

Interest - current face value x coupon/360 x settlement date -1

Original Face	Current Face Value	Principal	Interest	Net Money	Factor
1,000,000	1,000,000.00	1,000,000.00	166.67	1,000,166.67	1.00 (March)
1,000,000	990,000.00	990,000.00	165.00	990,165.00	0.99 (April)
				10,001.65	

Factor Update Adjustment amount: $10,001.65 (i.e., the difference between the March 2017 and April 2017 settlement amounts)

Since Seller A was overpaid for the original settlement, they will be debited to reflect the lower factor and Buyer B will be credited.

G. Delayed implementation of the proposed rule change

The proposed changes would become effective within 45 Business Days after the date of the Commission's approval of this proposed rule change. Prior to the effective date, FICC would add a legend to the MBSD Rules to state that the specified changes to the MBSD Rules are approved but not yet operative and to provide the date such approved changes would become operative. The legend would also include the file number of the approved proposed rule change and would state that once operative, the legend would automatically be removed from the MBSD Rules.

H. Detailed description of the proposed changes to the MBSD Rules

1. *Proposed Changes to MBSD Rule 1 (Definitions)*

FICC is proposing to delete the terms "Broker Give-Up Date" and "Broker Give-Up Trade" because FICC would no longer disclose a Dealer's identity on the Report that FICC issues in connection with Brokered Transactions.

FICC is proposing to amend the term "Brokered Transaction" to delete the reference to "give-up" because FICC would no longer disclose a Dealer's identity on the Report that FICC issues in connection with Brokered Transactions.

FICC is proposing to amend the term "Contractual Settlement Date" to add a reference to "Stipulated Trade," which would be a new eligible trade type. FICC is also proposing to replace the term "SBO Trade" with "SBON Trade." The distinction between these two trade types would no longer be required because all obligations that result from the TBA Netting process would settle with FICC.

FICC is proposing to delete the term "CUSIP Average Price" and "CAP" because this calculation would be replaced by the System Price for SBON Trades.

FICC is proposing to add the new defined term "Do Not Allocate" to define the process that would allow Clearing Members to offset Trade-for-Trade Transactions and/or SBON Trades with the same Par Amount, CUSIP Number and established date in the settlement cycle.

FICC is proposing to add the new defined term "Do Not Allocate Adjustment Payment" to define the cash differential that would result when Trade-for-Trade Transactions and/or SBON Trades are offset through the Do Not Allocate process.

FICC is proposing to amend the term "EPN Service" to clarify that this service would be used by Clearing Members to electronically communicate pool information to FICC in accordance with the MBSD Rules.

FICC is proposing to add the new defined term "Expanded Pool Net Transaction Adjustment Payment" to define the cash differential that would result from SBON Trades and Trade-for-Trade Transactions, as applicable, that would be included in the Expanded Pool Netting process.

FICC is proposing to add the new defined term "Expanded Pool Netting" to define the netting process that would occur for SBON Trades and Trade-for-Trade Transactions that have missed the cut-off time for the Pool Netting process.

FICC is proposing to add the new defined term "Factor Update Adjustment Payment" to define the cash differential that would result when an updated factor is released after Pool Deliver Obligations and Pool Receive Obligations have settled.

FICC is proposing to delete the term "Firm CUSIP Average Price" and "FCAP" because this calculation would be replaced by the System Price for SBON Trades.

FICC is proposing to add the new defined term "Guaranteed/Novated Obligations" to define FICC's obligation to deliver or receive a Security satisfying TBA criteria and the payment related thereto.

FICC is proposing to delete the term "Notification of Settlement" because all SBO-Destined Trades, Trade-for-Trade Transactions and Specified Pool Trades would settle with FICC, thus the Notification of Settlement process would no longer be required.

FICC is proposing to amend the term "Novation" to mean the termination of deliver, receive and related payment obligations between Clearing Members and the replacement of such with obligations to deliver or receive a Security satisfying certain TBA criteria as determined by FICC and the payment obligations related thereto.

FICC is proposing to amend the term "Par Amount" to include a reference to "Stipulated Trades," which would be a new trade type, and replace the term "SBO Transaction" with the term "SBON Trade."

FICC is proposing to add the new defined term "Pool Settlement Position" to define either a Pool Receive Obligation or a Pool Deliver Obligation.

FICC is proposing to add the new defined term "SBO" to define the settlement balance orders that constitute the net positions of a Clearing Member as a result of the TBA Netting process. The resulting transactions from this TBA Netting process are identified as SBON Trades.

FICC is proposing to delete the term "SBO Contra-Side Member" because FICC would no longer direct Clearing Members to settle trades with other Clearing Members.

FICC is proposing to delete the term "SBO Market Differential" because this term defines the price for SBO-Destined Trades that are settled between other Clearing Members. As described above, FICC would no longer direct a Clearing Member to settle its SBO obligation with another Clearing Member. As a result, the calculation for determining the price would no longer be required.

FICC is proposing to delete the term "SBO Net-Out Position" because FICC would no longer offset a Clearing Member's purchase and sale transactions with another Clearing Member.

FICC is proposing to delete the term "SBO Netted Position" because FICC would no longer offset a Clearing Member's purchase and sale transactions with another Clearing Member.

FICC is proposing to amend the term "SBO Trade" to refer to SBON Trade. This would be defined as a trade that is settled directly with FICC.

FICC is proposing to delete the existing definition of "SBON Trade" because FICC would no longer direct a Clearing Member to settle with another Clearing Member. FICC has redefined this definition as referenced above.

FICC is proposing to delete the term "SBOO Trade" because this term refers to a trade that FICC directs a Clearing Member to settle with another Clearing Member.

FICC is proposing to amend the term "Settlement Price" to (1) include a reference to "Stipulated Trade," which would be a new trade type, (2) define the System Price as the Settlement Price for SBON Trades and (3) remove the reference to SBOO Trades and the related calculation for such trades.

FICC is proposing to amend the term "Settlement Value" to include a reference to "Stipulated Trade," which would be a new trade type. FICC is also proposing to amend this definition to eliminate the reference to SBOO Trade, which is a term that FICC is also proposing to delete from the MBSD Rules.

FICC is proposing to add the new defined term "Stipulated Trade" because it would be a new trade type that Clearing Members would be permitted to submit to MBSD.

FICC is proposing to add the new defined term "TBA" or "To-Be-Announced" to define a contract for the purchase or sale of a mortgage-backed security to be delivered at

an agreed-upon future date because as of the transaction date, the seller has not yet identified certain terms of the contract, such as the pool number and number of pools, to the buyer.

FICC is proposing to add the new defined term "TBA Reprice Transaction Adjustment Payment." This term would provide FICC's cash settlement calculation for the repricing of TBA Obligations that have not been allocated by the time established by FICC.

FICC is proposing to add the new defined term "TBA Transaction Adjustment Payment." This term would provide FICC's cash settlement calculation for SBO-Destined Trades.

FICC is proposing to amend the term "Trade-for-Trade Transaction" to state that this transaction type would be eligible for the Pool Netting system and the Expanded Pool Netting system.

FICC is proposing to add the new defined term "Variance Transaction Adjustment Payment." This term would provide FICC's cash settlement calculation for SIFMA's permitted variances with respect to TBA Obligations.

2. *Proposed Changes to MBSD Rule 2 (Members)*

FICC is proposing to amend MBSD Rule 2 to delete the reference to "Broker Give-Up Trades" and replace it with "Brokered Transactions" because a Dealer's identity would no longer be disclosed in the Reports that FICC makes available in connection with Brokered Transactions.

3. *Proposed Changes to MBSD Rule 4 (Clearing Fund and Loss Allocation) Section 1 (General)*

FICC is proposing to amend this section to reflect that the term "Transactions" as used in MBSD Rule 4 would apply to Stipulated Trades.

4. *Proposed Changes to MBSD Rule 5 (Trade Comparison)*

Proposed Changes to MBSD Rule 5, Section 1 (General)

FICC is proposing to amend this section to specify the obligations that would be guaranteed and novated at Trade Comparison.

Proposed Changes to MBSD Rule 5, Section 2 (General Responsibilities of Members in the Trade Comparison System)

FICC is proposing to delete a paragraph that requires Clearing Members to settle certain Transactions directly with their applicable settlement counterparties.

Proposed Changes to MBSD Rule 5, Section 7 (Broker Give-Up Trades)

FICC is proposing to delete this section in its entirety because the identities of Dealers to a Brokered Transaction would no longer be disclosed in the Reports issued by FICC.

Proposed Changes to MBSD Rule 5, Section 8 (Binding Nature of Comparisons)

FICC is proposing to include a reference to the "Open Commitment Report," which is currently a report provided to Clearing Members.

Proposed Changes to MBSD Rule 5, Section 9 (Cancellation and Modification of Trade Data by Members)

FICC is proposing to amend this section to state that trade data would be submitted to FICC.

Proposed Changes to MBSD Rule 5, Section 12 (Obligations)

FICC is proposing to amend this section to state that settlement obligations between each buyer and seller, respectively, would be established with FICC in connection with SBO-Destined Trades, Trade-for-Trade Transactions, Specified Pool Trades and Stipulated Trades.

Proposed Changes to MBSD Rule 5, Section 13 (Novation)

FICC is proposing to amend this section to state the following: (1) FICC will guarantee and novate Specified Pool Trades, Stipulated Trades and Trade-for-Trade Transactions that meet the requirements of the MBSD Rules and have been entered into in good faith; (2) FICC will not novate Specified Pool Trades, Stipulated Trades or Trade-for-Trade Transactions that are partially compared; (3) To the extent a partially compared Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction becomes Fully Compared, FICC will novate such trade; (4) At the time that a Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction is novated to FICC, such trade shall cease to be bound by any bilateral agreement between the parties to the trade with respect to the deliver, receive and related payment obligations; however, if the trade becomes uncompared or is cancelled, such trade shall be governed by the bilateral agreement that governs such trade prior to the novation.

5. *Proposed Changes to MBSD Rule 6 (TBA Netting) Section 1 (Netting)*

FICC is proposing to amend this section to delete the provisions that state that FICC would direct Clearing Members to settle SBO Trades with their original counterparties or other Clearing Members. FICC is also deleting its calculation of the Settlement Price of such trades. FICC is proposing amend this section to state that (1)

TBA Netting would result in SBON Trades, (2) FICC would assign one or more SBON Trades to offset SBO Net Open Positions[79] and (3) the Settlement Price for SBON Trades would be the System Price.

6. *Proposed Changes to MBSD Rule 7 (Pool Comparison)*

Proposed Changes to MBSD Rule 7, Section 1 (Pool Comparison)

FICC is proposing to amend this section to state that Clearing Members with Stipulated Trades would be required to allocate and submit Pool Instructs for Pool Comparison. FICC is also proposing to amend this section to state that Clearing Members would be required to notify FICC of their pool allocations to satisfy open TBA Obligations and Stipulated Trade obligations, and that FICC would submit pool details on behalf of Clearing Members that do not submit such pool details by the time established by FICC. Because FICC would submit such details on behalf of Clearing Members, FICC is proposing to eliminate the provision that provides that pool details not submitted by Clearing Members would be identified as uncompared. FICC is also proposing to clarify that the data submitted by each contra-party would be submitted to the Corporation.

Proposed Changes to MBSD Rule 7, Section 2 (Cancellation and Modification of Data by Clearing Members)

In connection with a Clearing Member's request to cancel data, FICC is proposing to amend this section to state that data that has been submitted by a Clearing Member and affirmed by FICC would be deemed compared.

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[79] Pursuant to the MBSD Rules, the term "SBO Net Open Position" means any SBO-Destined Trade that cannot be offset pursuant to the MBSD Rules. See MBSD Rule 1, supra note 3.

Proposed Changes to MBSD Rule 7, Section 3 (Do Not Allocate Process for TBA Obligations)

FICC is proposing to include this new section to describe the Do Not Allocate process. This process would allow Clearing Members that have two or more Trade-for-Trade Transactions and/or SBON Trades with the same Par Amount, CUSIP Number and established date in the settlement cycle to offset such obligations against one another. This section would provide the process for initiating a Do Not Allocate request and the process for cancelling such request.

Proposed Changes to MBSD Rule 7, Section 4 (Pool Settlement Positions for Stipulated Trades)

FICC is proposing to include this new section to describe Pool Settlement Positions, allocation of Pool Deliver Obligations and Pool Receive Obligations, and the process for substitutions regarding Stipulated Trades

Proposed Changes to MBSD Rule 7, Section 5 (Pool Deliver Obligations and Pool Receive Obligations for Specified Pool Trades)

FICC is proposing to include this new section to describe the Pool Deliver Obligations and Pool Receive Obligations for Specified Pool Trades.

7. *Proposed Changes to MBSD Rule 8 (Pool Netting System)*

Proposed Changes to MBSD Rule 8, Section 2 (Eligibility for Pool Netting)

FICC is proposing to refer to this section as "Section 2A" rather than "Section 2." In addition, FICC is proposing to delete the provision that requires pools that are ineligible for the Pool Netting process to be settled bilaterally with their settlement counterparties.

Proposed Changes to MBSD Rule 8, Section 2B (Eligibility for Expanded Pool Netting)

FICC is proposing to amend Rule 8 to include new "Section 2B." This section would establish a secondary pool netting process formally referred to as the Expanded Pool Netting process.

Proposed Changes to MBSD Rule 8, Section 3 (Calculation of Pool Net Settlement Positions)

FICC is proposing to amend this section to apply the calculation of Pool Net Settlement Positions to Eligible Securities processed by the Expanded Pool Netting process.

Proposed Changes to MBSD Rule 8, Section 4 (Allocation of Pool Deliver and Pool Receive Obligations)

FICC is proposing to amend this section to establish that Pool Deliver Obligations and Pool Receive Obligations would apply to Eligible Securities processed by the Expanded Pool Netting process.

Proposed Changes to MBSD Rule 8, Section 6 (Novation of Obligations)

FICC is proposing to amend this paragraph to state that novation would occur with respect to the Pool Deliver Obligations and Pool Receive Obligations.

Proposed Changes to MBSD Rule 8, Section 7 (Obligation to Submit SBOO and SBON Trades to Pool Netting)

FICC is proposing to delete the reference to "SBOO." This term refers to SBO-Destined Trades that are settled between Clearing Members that are not original counterparties to such trades. This term would no longer be required because FICC is proposing to treat itself as the settlement counterparty to all SBO-Destined Trades. FICC is also proposing to amend this section to reflect that Trade-for-Trade Transactions would have to be submitted into the Pool Netting system.

8. *Proposed Changes to MBSD Rule 10 (Notification of Settlement)*

FICC is proposing to delete this rule because all SBO-Destined Trades, Trade-for-Trade Transactions and Specified Pool Trades would settle with FICC. As a result, the Notification of Settlement process would no longer be required.

9. *Proposed Changes to MBSD Rule 11 (Cash Settlement)*

FICC is proposing to delete the "SBO Market Differential" component and replace it with the term "TBA Transaction Adjustment Payment." The term "SBO-Market Differential" calculates the price for SBO Trades originally among different counterparties as well as SBO Trades originally among the same counterparties. This calculation would be no longer required because all SBO Trades (referred to in proposed rules as "SBON Trades") would settle with FICC as the settlement counterparty. As a result, FICC is proposing to replace the "SBO Market Differential" component and replace it with the term "Transaction Adjustment Payment." This component would calculate an SBO-Destined Trade in an amount equal to the difference between such trade's Settlement Price and System Price.

FICC is also proposing to add the following new components to the Cash Settlement calculation: (a) TBA Transaction Adjustment Payment, (b) Expanded Pool Net Transaction Adjustment Payment, (c) Do Not Allocate Transaction Adjustment Payment, (d) TBA Reprice Transaction Adjustment Payment, (e) Variance Transaction Adjustment Payment, and (f) Factor Update Adjustment Payment.

10. *Proposed Changes to MBSD Rule 12 (Fails Charge)*

FICC is proposing to amend this section to state that Clearing Members would be responsible for a fails charge if FICC receives an allocation of TBA Obligations prior to the established deadline and is unable to transmit the notification until after such time.

11. *Proposed Changes to MBSD Rule 17 (Procedures for When the Corporation Ceases to Act) Section 2 (Action by the Corporation – Close-Out Procedure)*

FICC is proposing to delete a provision that relates to the Notification of Settlement process. FICC is also proposing to amend certain provisions that are no longer necessary because FICC has specified the obligations that it novates in the proposed definition for the term "Guaranteed/Novated Obligations."

12. *Proposed Changes to MBSD Rule 17A (Corporation Default)*

FICC is proposing to delete the provision that establishes Novation for all Compared Trades. This provision is no longer necessary because SBO-Destined Trades, Specified Pool Trades, Stipulated Trades and Trade-for-Trade Transactions would occur at trade comparison.

2. Statutory Basis

Section 17A(b)(3)(F) of the Exchange Act requires, in part, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.[80]

FICC believes that the proposed change to novate Specified Pool Trades, Stipulated Trades, and Trade-for-Trade Transactions at trade comparison would promote

[80] 15 U.S.C. 78q-1(b)(3)(F).

the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act, because this change would provide Clearing Members with legal certainty early in the trading cycle that FICC would become the legal counterparty to each Clearing Member (i.e., FICC would become the buyer to every seller and the seller to every buyer) as set forth in the proposed rule change. The legal certainty would enable Clearing Members that submit such transactions to FICC to know early in the trade processing cycle that they have only one party (that is, FICC) with which to interact following trade comparison. FICC believes that this would, in turn, simplify processing for Clearing Members and thereby promote the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act.[81]

FICC also believes that the proposed change to establish itself as the settlement counterparty to SBO-Destined Trades, Specified Pool Trades, Stipulated Trades, and Trade-for-Trade Transactions at trade comparison would promote the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act because all such trades would settle directly with FICC. As such, the settlement of all such trades would be governed by the MBSD Rules (as opposed to potentially being subject to settlement mechanisms outside of FICC). FICC believes that this would streamline settlement processing because the MBSD Rules would govern all such processing and thereby promote the prompt and accurate clearance

81 Id.

and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act.[82]

FICC believes that the proposed rule changes associated with providing the operational efficiencies to Clearing Members noted in this filing would also promote the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act. These proposed rule changes are as follows: (a) the submission of Pool Instructs by Clearing Members would become optional because FICC would be permitted to submit on behalf Clearing Members, (b) Clearing Members would no longer to be required to fulfill Notification of Settlement obligations because all of the above-referenced transactions would settle with FICC, (c) Clearing Members would have the ability to exclude TBA Obligations from the pool allocation process, netting and securities settlement through the DNA process, (d) Clearing Members would have the ability to have their pools netted by the Expanded Pool Netting process in the event that such Clearing Members miss the established deadline for the initial Pool Netting process, (e) Dealer Netting Members would remain anonymous with the elimination of the "give-up" process for Brokered Transactions, (f) Clearing Members would be allowed to submit SBO-Destined Trades in all trade sizes, and (g) Clearing Members would be allowed to submit Stipulated Trades as a new trade type. All of these proposed changes would either eliminate operational steps on the part of Clearing Members (such as, for example, the elimination of the Notification of Settlement process where Clearing Members currently have required processing obligations) or would enable Clearing Members to take advantage of MBSD's processing efficiencies (such as

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82 Id.

enabling Clearing Members to submit SBO-Destined Trades in all trade sizes). FICC believes that the elimination of operational steps on the part of Clearing Members and the provision of further opportunities for Clearing Members to take advantage of MBSD's processing would streamline MBSD processing as a whole for Clearing Members and further extend the benefits of MBSD's clearance and settlement services to Clearing Members, and would thereby promote the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act.[83]

FICC believes that the proposed changes to the cash settlement components, which are necessitated from many of the proposed operational efficiencies discussed in this filing, would also promote the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act. These changes would allow FICC to continue to remain in a cash neutral position – neither owing Clearing Members funds nor having a surplus of funds on FICC's books and records. By allowing FICC to remain flat with respect to cash settlement items, the proposed rule changes would maintain the efficiency of MBSD's cash settlement process, which is an automated system for the settlement of funds. As such, FICC believes that adding the proposed changes to its automated system for funds settlement would promote the prompt and accurate clearance and settlement of securities transactions as required by Section 17A(b)(3)(F) of the Exchange Act.[84]

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83 Id.

84 Id.

For these reasons, FICC believes that the proposed changes are consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to FICC, in particular Section 17A(b)(3)(F).[85]

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

FICC does not believe that the proposed rule changes as described in this filing would impose any burden on competition that is not necessary or appropriate in furtherance of the Exchange Act.[86]

While the proposed rule changes would require Clearing Members to make technological changes and thereby incur costs in doing so and this could burden the Members competitively, the proposed rules changes have been structured to better meet the needs of Clearing Members. Specifically, the proposed rule changes would meet Clearing Members' needs by:

- novating Specified Pool Trades, Stipulated Trades, and Trade-for-Trade Transactions at trade comparison and thereby providing Clearing Members with legal certainty early in the trading cycle that FICC would become the legal counterparty to each Clearing Member (i.e., FICC would become the buyer to every seller and the seller to every buyer) for such trades,
- eliminating operational steps on the part of Clearing Members (such as making the submission of Pool Instructs by Clearing Members optional, eliminating the "give-up" process for Brokered Transactions, and

85 Id.

86 15 U.S.C. 78q-1(b)(3)(I).

eliminating the Notification of Settlement process and Clearing Member obligations related thereto) and thereby streamlining MBSD processing as a whole for Clearing Members,

- enabling Clearing Members to take advantage of MBSD's processing efficiencies (such as, providing Clearing Members with the ability to exclude TBA Obligations from the pool allocation process, netting and securities settlement through the DNA process, allowing Clearing Members to submit SBO-Destined Trades in all trade sizes, and allowing Clearing Members to submit Stipulated Trades as a new trade type) and thereby further extending the benefits of MBSD's clearance and settlement services to Clearing Members,
- structuring the proposed changes to the cash settlement process, which are necessitated from many of the proposed operational efficiencies discussed in this filing, in a manner that would maintain the efficiency of the automated nature of the MBSD cash settlement process by calculating debits and credits to Clearing Members as applicable (and as has been described in detail in this filing) and allowing FICC to remain flat with respect to applicable cash settlement items.

Moreover, FICC believes that the proposed rule changes are appropriate in that such changes reflect Clearing Members' feedback. Consequently, FICC believes that any burden on competition derived from the proposed rule changes would be necessary and appropriate in support of the beneficial objectives of the proposed rule changes, which would be made in furtherance of the Exchange Act, as described above.

Additionally, FICC believes that any such burden on competition derived from the proposed rule changes would not be significant because Clearing Members have requested these changes and were involved in developing the business requirements.

The proposed rule changes would result in the removal of the option for Clearing Members to settle trades bilaterally amongst themselves because, as has been described in detail in this filing, FICC would treat itself as the settlement counterparty to all eligible transactions (except Option Contracts). FICC does not believe that this would impose a burden on competition. Specifically, FICC believes that trades, whether they settle with FICC or another counterparty, must settle; FICC does not believe that settling with FICC imposes greater costs on Clearing Members than settling outside of FICC. Therefore, FICC does not believe that the proposal imposes a burden on competition that is not appropriate in furtherance of the Exchange Act because all Clearing Members need to settle their trades, and FICC believes that there is an absence of any significant costs associated with its proposal that Clearing Members settle all Transactions (other than Option Contracts) with FICC.

(C) Clearing Agency'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. 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 such 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 Exchange 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-2017-012 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2017-012. 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 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-2017-012 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.[87]

Eduardo A. Aleman
Assistant Secretary

[87] 17 CFR 200.30-3(a)(12).

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