

underwriting compensation permitted by section 17(e) or 57(k)) received in connection with any Co-Investment Transaction will be distributed to the participants on a pro rata basis based on the amounts they invested or committed, as the case may be, in such Co-Investment Transaction. If any transaction fee is to be held by an Adviser pending consummation of the transaction, the fee will be deposited into an account maintained by the Adviser at a bank or banks having the qualifications prescribed in section 26(a)(1), and the account will earn a competitive rate of interest that will also be divided pro rata among the participants. None of the Advisers, the Affiliated Funds, the other Regulated Funds or any affiliated person of the Affiliated Funds or the Regulated Funds will receive any additional compensation or remuneration of any kind as a result of or in connection with a Co-Investment Transaction other than (i) in the case of the Regulated Funds and the Affiliated Funds, the pro rata transaction fees described above and fees or other compensation described in Condition 2(c)(iii)(B)(z), (ii) brokerage or underwriting compensation permitted by section 17(e) or 57(k) or (iii) in the case of the Advisers, investment advisory compensation paid in accordance with investment advisory agreements between the applicable Regulated Fund(s) or Affiliated Fund(s) and its Adviser.

15. *Independence.* If the Holders own in the aggregate more than 25 percent of the Shares of a Regulated Fund, then the Holders will vote such Shares in the same percentages as the Regulated Fund's other shareholders (not including the Holders) when voting on (1) the election of directors; (2) the removal of one or more directors; or (3) any other matter under either the Act or applicable State law affecting the Board's composition, size or manner of election; provided however, that this Condition 15 will not apply to a Regulated Fund during any time which the Holders in the aggregate own 100% of the Shares of such Regulated Fund.

For the Commission, by the Division of Investment Management, under delegated authority.

J. Matthew DeLesDernier,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-92019; File No. SR-FICC-2021-801]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Advance Notice To Add the Sponsored GC Service and Make Other Changes

May 27, 2021.

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act")¹ and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 ("Act"),² notice is hereby given that on May 12, 2021, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the advance notice as described in Items I, II and III below, which Items have been prepared by the clearing agency.³ The Commission is publishing this notice to solicit comments on the advance notice from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

This advance notice consists of modifications to the FICC Government Securities Division ("GSD") Rulebook ("Rules")⁴ in order to (i) add a new service offering, which would allow a Sponsoring Member to submit for clearing Repo Transactions with its Sponsored Members on securities that are represented by Generic CUSIP Numbers and held under a triparty custodial arrangement (the "Sponsored GC Service"), (ii) add language to Rule 3A to allow FICC to recognize, for Capped Contingency Liquidity Facility ("CCLF") calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, (iii) remove the requirement

from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a "qualified institutional buyer" as defined in Rule 144A of the Securities Act of 1933, as amended ("Rule 144A"), or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph, and (iv) make a clarification, certain corrections, and certain technical changes, as described in greater detail below.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the Advance Notice and discussed any comments it received on the Advance Notice. 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 and B below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement on Comments on the Advance Notice Received From Members, Participants, or Others

FICC reviewed the proposed rule change with Sponsoring Members and Sponsored Members in order to benefit from their expertise. Written comments relating to this proposed rule change have not been received from the Sponsoring Members, Sponsored Members or any other person. FICC will notify the Commission of any written comments received by FICC.

(B) Advance Notice Filed Pursuant to Section 806(e) of the Clearing Supervision Act

Nature of the Proposed Change

The purpose of the proposed rule change is to amend the Rules to (i) add a new service offering, the Sponsored GC Service, (ii) add language to Rule 3A to allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, (iii) remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that

¹ 12 U.S.C. 5465(e)(1).

² 17 CFR 240.19b-4(n)(1)(i).

³ On May 12, 2021, FICC filed this advance notice as a proposed rule change (SR-FICC-2021-003) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4 thereunder, 17 CFR 240.19b-4. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

⁴ Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph, and (iv) make a clarification, certain corrections, and certain technical changes, as described in greater detail below.

(i) Background

Under Rule 3A (Sponsoring Members and Sponsored Members), certain Netting Members are permitted to sponsor, as Sponsoring Members, “qualified institutional buyers” as defined by Rule 144A, and certain legal entities that, although not organized as entities specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfy the financial requirements necessary to be “qualified institutional buyers” as specified in that paragraph into FICC/GSD membership.⁵ Under Rule 3A, a Sponsoring Member is permitted to submit to FICC for comparison, Novation, and netting certain types of eligible delivery versus payment (“DVP”) securities transactions (“Sponsored Member Trades”).⁶ A Sponsoring Member is required to establish an omnibus account at FICC for its Sponsored Members’ positions arising from such Sponsored Member Trades (“Sponsoring Member Omnibus Account”), which is separate from the Sponsoring Member’s regular netting accounts.⁷ For operational and administrative purposes, FICC interacts solely with the relevant Sponsoring Member as processing agent for purposes of the day-to-day satisfaction of its Sponsored Members’ obligations to or from FICC, including their

securities and funds-only settlement obligations.⁸

The current Sponsoring Member/Sponsored Member Service (the “Service”), which has been in existence since 2005, has seen a steady increase in the number of Sponsoring Members, in the number of Sponsored Members and in the volume of Sponsored Member Trades over the past three years.⁹ One of the main benefits of the Service is that it provides Sponsoring Members with the ability to offset on their balance sheets their obligations to FICC on Sponsored Member Trades with their Sponsored Members against their obligations to FICC on other eligible FICC-cleared activity, including trades with other Netting Members.

In addition, the Service allows Sponsoring Members to take lesser capital charges for Repo Transactions with Sponsored Members than would be required were such transactions uncleared.

By alleviating balance sheet and capital constraints on Sponsoring Members, the Service allows eligible institutional firms to engage in greater activity than may otherwise be feasible, which in turn increases the liquidity available in the repo market. Such greater liquidity provides stability in the market and additionally increases potential returns for investors in both cash provider institutions and collateral provider institutions. For example, the increased liquidity the Service provides allows investors in institutional firms that act as cash provider Sponsored Members to invest more of their cash than may otherwise be possible outside of clearing, which in turn allows such investors the ability to earn a greater return as a result of their institutional firms’ participation in the Service. Likewise, for investors in institutional firms that act as collateral provider Sponsored Members, the increased liquidity ensures more consistent financing opportunities than may otherwise be available outside of clearing. Such consistent access to financing may increase the amount of cash the collateral provider institutional

firms have to deploy into other investment strategies, which in turn allows their investors the opportunity to earn a greater return as a result of the institutional firms’ participation in the Service.

FICC believes that enabling more repo transactions to clear through FICC mitigates the risk of a large-scale exit by institutional firms from the U.S. financial market in a stress scenario.¹⁰ To that point, during the recent market volatility in the first quarter of 2020, the Service in fact saw its peak volume of approximately \$564 billion, rather than a decline, and no discernable impact to volumes notwithstanding the default of a Netting Member. In addition, no Sponsored Members defaulted during that volatile period.

In recent years, FICC has taken steps to enable Sponsoring Members to submit term (rather than overnight) repo transactions for clearing. Specifically, in 2019, the Commission approved rule changes that added a new close-out mechanism and adjusted the calculation of certain funds-only settlement amounts for Sponsored Member Trades that include haircuts.¹¹ FICC believes that having more centrally cleared term repo transactions would promote the prompt and accurate clearance and settlement of securities transactions because more securities transactions would benefit from FICC’s risk management and guaranty of settlement.

FICC also believes that enabling more term (rather than overnight) repo activity in the Service can serve to help reduce repo rate volatility in the market and, in turn, help to avoid events like those that occurred in September 2019, when a temporary reduction in overnight reverse repo activity by money market funds, including through the Service, contributed in part to the repo rate volatility on those days.¹²

Although the aforementioned rule changes have resulted in some Sponsoring Members transacting term Repo Transactions with certain of their

⁵ Rule 3A, Section 3(a), *supra* note 4.

⁶ Rule 3A, Section 5, *supra* note 4. The term “Sponsored Member Trade” means a transaction that satisfies the requirements of Section 5 of Rule 3A and that is (a) between a Sponsored Member and its Sponsoring Member or (b) between a Sponsored Member and a Netting Member. Rule 1, *supra* note 4.

⁷ The term “Sponsoring Member Omnibus Account” means an Account maintained by a Sponsoring Member that contains the activity of its Sponsored Members that is submitted to FICC. A Sponsoring Member may elect to establish one or more Sponsoring Member Omnibus Accounts. Each Sponsoring Member Omnibus Account may contain activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition. The Sponsoring Member Omnibus Account shall be separate from the Accounts associated with the Sponsoring Member’s activity as a Netting Member except as contemplated by Sections 10, 11 and 12 of Rule 3A and under the Sponsoring Member Guaranty. Rule 1, *supra* note 4.

⁸ Rule 3A, Sections 5, 6(b), 7(a), 8(a), 8(c), 9(a), and 9(c), *supra* note 4.

⁹ In March 2017, there was one Sponsoring Member and 1,422 Sponsored Members. See Securities Exchange Act Release No. 80236 (March 14, 2017), 82 FR 14265 (March 17, 2017) (SR-FICC-2017-003). The Service currently has approximately 27 Sponsoring Members and approximately 1,894 Sponsored Members. As of March 31, 2017, the aggregate Purchase Price of outstanding Sponsored Member Trades was approximately \$32.2 billion. As of March 31, 2021, the aggregate Purchase Price of outstanding Sponsored Member Trades was approximately \$286 billion.

¹⁰ The U.S. financial market experienced such a liquidity drain from the repo market in the 2007–2008 financial crisis when the bankruptcy of Lehman Brothers gave rise to concerns among cash provider institutional firms about the creditworthiness of their borrower counterparties. See Ben S. Bernanke, *The Courage to Act: A Memoir of a Crisis and its Aftermath* 397 (2017) (discussing “the paralyzing uncertainty [on the part of repo lenders] about banks’ financial health” in 2007 and 2008).

¹¹ See Securities Exchange Act Release No. 88262 (February 21, 2020), 85 FR 11401 (February 27, 2020) (SR-FICC-2019-007).

¹² Gara Afonso et al., Federal Reserve Bank of New York, *Staff Report No. 918: The Market Events of Mid-September 2019* (March 2020), available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr918.pdf.

Sponsored Member clients, FICC has received additional feedback from several market participants that the Service's current requirement that all Sponsored Member Trades be margined exclusively in cash through FICC's funds-only settlement process is not conducive to certain cash provider Sponsored Member clients, particularly money market funds and other mutual funds, being able to transact term Repo Transactions with their Sponsoring Members in central clearing. Specifically, money market funds and other mutual funds are not generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). These funds depend on transfers of securities to maintain required margin, and typically rely on a tri-party repo clearing bank to administer the collateral management on such trades. In particular, the tri-party repo clearing bank calculates the mark-to-market change in value of the securities underlying each repo transaction and facilitates the transfer of securities necessary to ensure the value of the securities equals a specified percentage of the outstanding principal amount of the repo transaction.

In light of this feedback and in order to support more repo activity (particularly term repo activity) to be able to be transacted in central clearing, FICC is proposing to add the Sponsored GC Service, which would allow Sponsoring Members and their Sponsored Member clients to execute Repo Transactions with each other on a general collateral basis in the same asset classes as are currently eligible for Netting Members to transact in through FICC/GSD's existing GCF Repo[®] Service. Such Repo Transactions would be allowed to settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank (as defined below) in a similar manner to the way Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing, thereby making it more operationally efficient for them to transact Repo Transactions (particularly term Repo Transactions) with each other through FICC.

(ii) Add a New Service Offering, the Sponsored GC Service

(A) Key Parameters of the Proposed Sponsored GC Service

As described above, a Sponsoring Member would be permitted to submit to FICC for Novation the End Leg of Repo Transactions with its Sponsored Member client that would be executed

in one of a series of new Generic CUSIP Numbers that would be registered with CUSIP Global Services by FICC in connection with the proposed Sponsored GC Service (each a "Sponsored GC Trade"). The proposed schedule of securities that would be eligible under each of the new Generic CUSIP Numbers that would be established for the proposed Sponsored GC Service would be identical to the current schedule of securities that are eligible under each of the existing Generic CUSIP Numbers that is currently established for the GCF Repo Service, including (i) U.S. Treasury Securities maturing in ten (10) years or less, (ii) U.S. Treasury Securities maturing in thirty (30) years or less, (iii) Non-Mortgage-Backed U.S. Agency Securities, (iv) Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") Fixed Rate Mortgage-Backed Securities, (v) Fannie Mae and Freddie Mac Adjustable Rate Mortgage-Backed Securities, (vi) Government National Mortgage Association ("Ginnie Mae") Fixed Rate Mortgage-Backed Securities, (vii) Ginnie Mae Adjustable Rate Mortgage-Backed Securities, (viii) U.S. Treasury Inflation-Protected Securities ("TIPS") and (ix) U.S. Treasury Separate Trading of Registered Interest and Principal of Securities ("STRIPS").¹³

Consistent with FICC's processing of Repo Transactions in its existing GCF Repo Service, each Sponsored GC Trade would be required to be fully collateralized with securities eligible under the applicable Generic CUSIP Number and/or cash. However, consistent with the existing Service, Sponsoring Members and Sponsored Members would be permitted to transfer a haircut on a Sponsored GC Trade so that the value of the securities at the Start Leg (the "GC Start Leg Market Value") exceeds 100% of the initial principal balance of the Sponsored GC Trade.

Consistent with the manner in which tri-party repo transactions are settled

¹³ FICC has decided to use a new series of Generic CUSIP Numbers in connection with the proposed Sponsored GC Service rather than utilizing the existing Generic CUSIP Numbers employed for GCF Repo Transactions in order to avoid any operational processing errors that could otherwise result if a trade intended for the proposed Sponsored GC Service was inadvertently processed as a GCF Repo Transaction or vice versa. To that end, a trade submitted for the proposed Sponsored GC Service would be automatically rejected by FICC if not submitted in one of the nine new Generic CUSIP Numbers earmarked for the proposed Sponsored GC Service, and a GCF Repo Transaction would be rejected by FICC if not submitted in one of the nine Generic CUSIP Numbers dedicated to the GCF Repo Service.

today outside of central clearing, the Start Leg of a Sponsored GC Trade would settle on a trade for trade basis on a Sponsored GC Clearing Agent Bank's tri-party repo platform between the Sponsoring Member and the Sponsored Member. Novation to FICC of the End Leg of a Sponsored GC Trade would occur at the time when all of the following requirements have been satisfied on a given Business Day: (i) The trade data on the Sponsored GC Trade has been submitted to FICC by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, (ii) the data on the Sponsored GC Trade has been compared in the Comparison System pursuant to Rule 6A, (iii) the Start Leg of the Sponsored GC Trade has fully settled at the Sponsored GC Clearing Agent Bank by the deadline set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, (iv) the Sponsored GC Clearing Agent Bank has, pursuant to communication links, formats, timeframes, and deadlines established by FICC for such purpose, provided to FICC a report containing such data as FICC may require from time to time, including information regarding the specific Eligible Securities that were delivered in the settlement of the Start Leg of the Sponsored GC Trade (the "Purchased GC Repo Securities"), and (v) FICC determines that the data contained in such report matches the data on the Sponsored GC Trade submitted by the Sponsoring Member to the Comparison System.

Accrued repo interest on Sponsored GC Trades would be paid and collected by FICC on a daily basis. If on any Business Day, the market value of the Purchased GC Repo Securities is less than the GC Start Leg Market Value, then the Sponsoring Member or Sponsored Member that transferred the securities in the Start Leg (the "GC Funds Borrower") would be required deliver to FICC (and FICC would be required to deliver to the GC Funds Borrower's pre-Novation counterparty) additional Eligible Securities that are represented by the same Generic CUSIP Number as the Purchased GC Repo Securities ("GC Comparable Securities") and/or cash, such that the market value of the Purchased GC Repo Securities (inclusive of the newly transferred securities and cash) is at least equal to the GC Start Leg Market Value. If on any Business Day, the market value of the Purchased GC Repo Securities is greater than the GC Start Leg Market Value, the Sponsoring Member or Sponsored Member that received the securities in

the start leg (the “GC Funds Lender”) would be required to return to FICC (and FICC would be required to return to the relevant GC Funds Borrower) Purchased GC Repo Securities such that the market value of the remaining Purchased GC Repo Securities remains at least equal to the GC Start Leg Market Value.

Such additional securities and/or cash must be delivered within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Any securities or cash transferred by the GC Funds Borrower pursuant to these requirements would constitute Purchased GC Repo Securities, and any Purchased GC Repo Securities transferred by the GC Funds Lender pursuant to these requirements would, following such transfer, no longer constitute Purchased GC Repo Securities.

In addition, consistent with the processing of Repo Transactions in FICC’s existing GCF Repo Service, a GC Funds Borrower would be permitted to substitute for Purchased GC Repo Securities, GC Comparable Securities and/or cash within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes.

In order to facilitate settlement, FICC would direct each GC Funds Borrower and GC Funds Lender to make any payment or delivery due to FICC in respect of a Sponsored GC Trade (except for certain funds-only settlement obligations, as discussed below) directly to the relevant Member’s pre-Novation counterparty. As a result, each transfer of Purchased GC Repo Securities and daily repo interest would be made directly between the relevant GC Funds Borrower and GC Funds Lender through the tri-party repo platform of a Sponsored GC Clearing Agent Bank.¹⁴

To that end, each GC Funds Borrower and GC Funds Lender would agree that

any such direct payment or delivery discharges FICC’s obligation to make the same payment or delivery. Otherwise, all legal rights and obligations as between FICC and Sponsoring Members, and as between FICC and Sponsored Members, would be the same with respect to Sponsored GC Trades as with respect to Sponsored Member Trades in the existing Service, which is governed by Rule 3A.¹⁵

(B) Risk Management of Sponsored GC Trades

Sponsored GC Trades would be risk managed in a similar fashion to Sponsored Member Trades in the existing Service.

To mitigate market risk, the VaR Charge would be calculated for each Sponsored Member client individually based on such Sponsored Member client’s activity in the existing Service, as well as such Sponsored Member client’s activity in the proposed Sponsored GC Service. The VaR Charge for the Sponsoring Member Omnibus Account would continue to be the sum of the individual VaR Charges for each Sponsored Member client, *i.e.*, the Sponsoring Member Omnibus Account would continue to be gross margined.¹⁶ To facilitate FICC’s ability to surveil a given Sponsored Member’s FICC-cleared activity across its Sponsored GC Trades as well as its other Sponsored Member Trades within the existing Service, both with the same Sponsoring Member and across Sponsoring Members (if applicable), the same symbol would be used to identify the Sponsored Member for purposes of trade submission and risk management under the proposal.

In addition, FICC would risk manage the mark-to-market risk associated with unaccrued repo interest on a Sponsored GC Trade in the same way it manages such risk in the GCF Repo Service, namely through a proposed new GC Interest Rate Mark component of funds-only settlement. This proposed new mark would be calculated in the same manner as the GCF Interest Rate Mark is for GCF Repo Transactions.¹⁷ In light

of the application of the proposed new GC Interest Rate Mark to Sponsored GC Trades, an Interest Adjustment Payment would also be applied to account for overnight use of funds by the Sponsoring Member or Sponsored Member, as applicable, based on such party’s receipt from FICC of a Forward Mark Adjustment Payment (reflecting a GC Interest Rate Mark) on the previous Business Day.¹⁸

For liquidity risk management, Sponsored Member Trades between a Sponsoring Member and its Sponsored Member in the existing Service do not independently create liquidity risk for FICC. This is because FICC is not required to complete settlement of such Sponsored Member Trades in the event that either the Sponsoring Member or Sponsored Member defaults. In the event that the Sponsoring Member defaults, Section 14(c) of Rule 3A permits FICC to close out (rather than settle) the Sponsored Member Trades of the defaulter’s Sponsored Members.¹⁹ Likewise, if the Sponsored Member defaults, FICC is also not required to complete settlement. Rather, under Section 11 of Rule 3A, FICC may offset its settlement obligations to the Sponsoring Member against the Sponsoring Member’s obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulted Sponsored Member.²⁰

As a result, to the extent a Sponsoring Member either (1) runs a matched book of Sponsored Members (*i.e.*, enters into offsetting Sponsored Member Trades with its own Sponsored Members) or (2) simply enters into Sponsored Member Trades without entering into offsetting transactions, it does not increase FICC’s liquidity risk. By contrast, if a Sponsoring Member enters into an

Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The term “GCF Interest Rate Mark” means, as regards a GCF Net Settlement Position, the sum of all the GCF Interest Rate Mark Payments on each of the GCF Repo Transactions that compose such position. Rule 1, *supra* note 4.

¹⁸ No other components of funds-only settlement would be necessary to apply to Sponsored GC Trades because, as described above, (i) all Sponsored GC Trades would novate after the settlement of the Start Legs of such trades (*i.e.*, not during the Forward-Starting Period), (ii) mark-to-market changes in the value of the securities transferred under Sponsored GC Trades would be managed by the Sponsored GC Clearing Agent Bank on FICC’s behalf (consistent with the manner in which GCF Repo Transactions are processed today), and (iii) the accrued repo interest on Sponsored GC Trades would be passed on a daily basis, as described above.

¹⁹ Rule 3A, Section 14(c), *supra* note 4.

²⁰ Rule 3A, Section 11, *supra* note 4.

¹⁴ FICC does not believe it is appropriate to require that each payment and delivery under a Sponsored GC Trade be made from (or to) the Sponsoring Member to (or from) FICC and separately from (or to) FICC to (or from) the Sponsored Member because inserting FICC in the middle of the payments and deliveries in this fashion would require substantial changes in operational processes for both Sponsored Members and Sponsoring Members. FICC does not believe such operational changes to be necessary in light of the fact that there can only be two pre-Novation counterparties involved in the settlement of a Sponsored GC Trade (*i.e.*, the Sponsoring Member and its Sponsored Member client), as opposed to the multitude of Netting Members that may be involved in the settlement of GCF Repo Transactions the payment and delivery obligations under which are aggregated and netted in FICC’s Netting System. For such GCF Repo Transactions, insertion of FICC in the middle of the payments and deliveries can streamline the settlement process and create significant operational efficiencies for Netting Members.

¹⁵ Rule 3A, *supra* note 4.

¹⁶ See Rule 3A, Section 10, *supra* note 4.

¹⁷ The term “GCF Interest Rate Mark” means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the product of the principal value of the GCF Repo Transaction on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the GCF

offsetting Repo Transaction with a third-party Netting Member that is novated to FICC, then that will increase FICC's liquidity risk. This is because, unlike in the context of Sponsored Member Trades, in the event of the Sponsoring Member's default, FICC is required to settle with such third-party Netting Member.

Sponsored GC Trades would impact FICC's liquidity risk similarly to Sponsored Member Trades in the existing Service in this regard, in that liquidity risk to FICC would only be increased to the extent the Sponsoring Member enters into a Repo Transaction with a third-party Netting Member (which it may choose to do in order to offset the Sponsored GC Trade that it executed with its Sponsored Member). Accordingly, FICC proposes to manage the liquidity risk associated with Sponsored GC Trades in the same manner that it manages such risk for other Sponsored Member Trades. As discussed below in Item II(B)(iii), FICC is proposing to add language to Rule 3A to revise the manner in which it calculates a Sponsoring Member's Individual Total Amount for purposes of its CCLF obligation, with respect to all Sponsored Member Trades, including Sponsored GC Trades, in order to reflect the fact that Sponsored Member Trades do not create liquidity risk.

(C) Proposed Rule Changes

To effectuate the proposed changes described above, FICC would revise Rule 1 to add the following new defined terms: (1) GC Collateral Return Entitlement, (2) GC Collateral Return Obligation, (3) GC Comparable Securities, (4) GC Daily Repo Interest, (5) GC Funds Borrower, (6) GC Funds Lender, (7) GC Interest Rate Mark, (8) GC Repo Security, (9) GC Start Leg Market Value, (10) Purchased GC Repo Securities, (11) Sponsored GC Clearing Agent Bank, and (12) Sponsored GC Trade.

GC Collateral Return Entitlement would mean the entitlement of a Sponsoring Member or Sponsored Member, as applicable, to receive the Purchased GC Repo Securities (as defined below) in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Collateral Return Obligation would mean the obligation of a Sponsoring Member or Sponsored Member, as applicable, to deliver the Purchased GC Repo Securities in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Comparable Securities would mean, in relation to a Sponsored GC Trade, any GC Repo Securities that are

represented by the same Generic CUSIP Number as the GC Repo Securities that were transferred in the Start Leg of the Sponsored GC Trade, as set forth in the proposed new Schedule of GC Comparable Securities.

GC Daily Repo Interest would mean the daily interest amount that is payable under a Sponsored GC Trade.

GC Funds Borrower would mean a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Entitlement and associated cash payment obligation.

GC Funds Lender would mean a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Obligation and associated cash payment entitlement.

GC Interest Rate Mark would mean, on a particular Business Day as regards any Sponsored GC Trade where the End Leg is not scheduled to settle on that day, the product of the principal value of the Sponsored GC Trade on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by FICC for such Sponsored GC Trade and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Sponsored GC Trade and the denominator of which is 360. If the Sponsored GC Trade's Contract Repo Rate is greater than its System Repo Rate, then the GC Interest Rate Mark would be a positive value for the GC Funds Lender, and a negative value for the GC Funds Borrower. If the Sponsored GC Trade's Contract Repo Rate is less than its System Repo Rate, then the GC Interest Rate Mark would be a positive value for the GC Funds Borrower, and a negative value for the GC Funds Lender.

GC Repo Security would mean an Eligible Security that is only eligible for submission to FICC in connection with the comparison and Novation of Sponsored GC Trades.

GC Start Leg Market Value would mean, in relation to a Sponsored GC Trade, the market value of the GC Repo Securities transferred in the Start Leg of the Sponsored GC Trade, measured as of the date of the settlement of the Start Leg of such Sponsored GC Trade.

Purchased GC Repo Securities would mean the GC Repo Securities transferred by the Sponsoring Member or Sponsored Member, as applicable, in settlement of the Start Leg of a Sponsored GC Trade, plus all cash and other GC Repo Securities transferred by such Sponsoring Member or Sponsored

Member pursuant to proposed Sections 8(b)(ii) and 8(b)(v) of Rule 3A, less any GC Repo Securities or cash received by the Sponsoring Member or Sponsored Member pursuant to proposed Sections 8(b)(iii) and 8(b)(v) of Rule 3A.

Sponsored GC Clearing Agent Bank would mean a Clearing Agent Bank that has agreed to provide FICC, upon request, under mutually agreeable terms, with clearing services for Sponsored GC Trades.

Sponsored GC Trade would mean, in connection with the Sponsored GC Service, a Sponsored Member Trade that is a Repo Transaction between a Sponsored Member and its Sponsoring Member involving securities represented by a Generic CUSIP Number the data on which are submitted to FICC by the Sponsoring Member pursuant to the provisions of Rule 6A, for Novation to FICC pursuant to proposed Section 7(b)(ii) of Rule 3A.

FICC also proposes to revise the following defined terms in Rule 1: (1) Eligible Security, (2) End Leg, (3) General Collateral Repo Transaction, (4) Generic CUSIP Number, (5) Initial Haircut, (4) Interest Adjustment Payment, (5) Sponsored Member Trade, (6) Start Leg, (7) Forward Mark Adjustment Payment, and (8) Sponsoring Member Omnibus Account, each as described in greater detail below.

FICC proposes to revise the definition of Eligible Security to state that a GC Repo Security would be deemed to be an Eligible Security only in connection with a Sponsored GC Trade.

FICC also proposes to revise the definition of End Leg to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, End Leg would mean the concluding settlement aspects of the transaction, involving the retransfer of the Purchased GC Repo Securities by the GC Funds Lender and the taking back of such Purchased GC Repo Securities by the GC Funds Borrower. Because FICC is revising the definition of End Leg to add a definition applicable to Sponsored GC Trades, FICC would also revise the first sentence of the current definition to state that it does not apply to Sponsored GC Trades by adding the phrase "or a Sponsored GC Trade" after "as regards a Repo Transaction other than a GCF Repo Transaction (or CCIT Transaction as applicable)."

FICC proposes to revise the definition of General Collateral Repo Transaction to state that General Collateral Repo Transaction would mean a Repo Transaction, other than a GCF Repo Transaction or Sponsored GC Trade

(unless the context indicates otherwise), with a Generic CUSIP Number.

FICC also proposes to revise the definition of Generic CUSIP Number to state that FICC would use separate Generic CUSIP Numbers for General Collateral Repo Transactions, GCF Repo Transactions and Sponsored GC Trades.

FICC also proposes to revise the definition of Initial Haircut to include a definition applicable to Sponsored GC Trades. As regards any Sponsored GC Trade, Initial Haircut would mean any difference between (x) the Contract Value of the Start Leg of the Sponsored GC Trade and (y) the GC Start Leg Market Value. Because FICC is revising the definition of Initial Haircut to include a definition applicable to Sponsored GC Trades, FICC would revise proposed section (i) in the definition to state that proposed section (i) would apply to any Sponsored Member Trade that is not a Sponsored GC Trade by adding the phrase “that is not a Sponsored GC Trade” after “as regards any Sponsored Member Trade.”

FICC also proposes to revise the definition Interest Adjustment Payment to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, Interest Adjustment Payment would mean the product of the GC Interest Rate Mark multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360.

FICC proposes to revise the definition of Sponsored Member Trade to include Sponsored GC Trades.

FICC also proposes to revise the definition of Start Leg to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, Start Leg would mean the initial settlement aspects of the Transaction, involving the transfer of GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Borrower and the taking in of such GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Lender. Because FICC is proposing to revise the definition of Start Leg to add a definition applicable to Sponsored GC Trades, FICC would revise that the first sentence of the current definition to state that it does not apply to Sponsored GC Trades by adding the phrase “or a Sponsored GC Trade” after “as regards a Repo Transaction other than a GCF Repo Transaction.”

FICC also proposes to revise the definition of Forward Mark Adjustment Payment in Rule 1 to state that it would refer to the GC Interest Rate Mark with respect to Sponsored GC Trades.

FICC also proposes to make conforming changes to the definition of Sponsoring Member Omnibus Account to state that it may contain all types of Sponsored Member Trades. The current definition of Sponsoring Member Omnibus Account states that each Sponsoring Member Omnibus Account may contain activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition.

In addition, FICC proposes to revise the definition of Sponsored GC Service in Rule 1 and to revise Section VII (Sponsoring Members) of the Fee Structure, as described below.

FICC proposes to revise the definition of Sponsored GC Service in Rule 1 to state that it would mean the service offered by FICC to clear tri-party repurchase agreement transactions between Sponsoring Members and Sponsored Members, as described in Rule 3A. Currently, the definition of Sponsored GC Service states that it means a service to be offered by FICC, which has not yet been proposed for and would be subject to regulatory approval, to clear tri-party repurchase agreement transactions between the Sponsoring Members and Sponsored Members, as shall be described in Rule 3A. FICC also proposes to remove the footnote in the definition of Sponsored GC Service, which states that the Sponsored GC Service shall be the subject of a subsequent rule filing with the Commission and that the definition of Sponsored GC Service shall be revised upon approval of the subsequent rule filing, and at that time the footnote shall sunset.

FICC also proposes to revise Section VII (Sponsoring Members) of the Fee Structure to remove language that states that to the extent FICC, in consultation with its Board of Directors, does not implement the Sponsored GC Service, all previously collected Sponsored GC Pre-Payment Assessments shall be returned to the contributing Sponsoring Members in full. FICC also proposes to remove the footnote in this section which states that the Sponsored GC Service shall be the subject of a subsequent rule filing with the Commission and that Section VII of the Fee Structure shall be revised to remove the referenced sentence upon approval of the subsequent rule filing, and at that time the footnote shall sunset.

In addition, FICC proposes to revise Rule 3A, Section 5 (Sponsored Member

Trades) to state that this section does not apply to Sponsored GC Trades. Section 5 concerns the types of trades that may be submitted as Sponsored Member Trades and discusses the application of Rule 14 (Forward Trades) and Rule 18 (Special Provisions for Repo Transactions) to Sponsored Member Trades. The requirements that Sponsored GC Trades must meet would be separately enumerated in Section 7, and the provisions of Rules 14 and 18, which only apply to transactions eligible for FICC’s general netting system, would not apply to such Sponsored GC Trades.

FICC also proposes to revise Rule 3A, Section 6 (Trade Submission and the Comparison System) to state that the current Schedule of Timeframes would apply to Sponsored Member Trades other than Sponsored GC Trades. The proposed new Schedule of Sponsored GC Trade Timeframes would apply to Sponsored GC Trades.

Section 7 (The Netting System, Novation and Guaranty of Settlement) of Rule 3A would be revised to create a proposed new paragraph (a). The proposed new paragraph (a) would provide that the current provisions of Section 7, which would be reorganized as proposed new subparagraphs (i) through (iv) of proposed new paragraph (a), apply to Sponsored Member Trades other than Sponsored GC Trades. These provisions concern the netting and Novation of Sponsored Member Trades. As discussed below, different provisions would apply to Sponsored GC Trades.

Proposed new paragraph (b) of Section 7 would only apply to Sponsored GC Trades. Proposed new subparagraph (i) of proposed new paragraph (b) of Section 7 would provide that only the End Legs of a Sponsored GC Trade may be novated to FICC and that a Sponsored GC Trade is permitted (but not required) to have an Initial Haircut. Proposed new subparagraph (ii) of proposed new paragraph (b) of Section 7 would provide requirements that would have to be satisfied in order for a Sponsored GC Trade to be novated on a given Business Day. The following requirements would be included: (A) The trade data on the Sponsored GC Trade must have been submitted to FICC by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in FICC’s proposed new Schedule of Sponsored GC Trade Timeframes, (B) the data on the Sponsored GC Trade must have been compared in the Comparison System pursuant to Rule 6A, (C) the Start Leg of the Sponsored GC Trade must have fully settled at the Sponsored GC Clearing Agent Bank by

the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, (D) the Sponsored GC Clearing Agent Bank must have, pursuant to communication links, formats, timeframes, and deadlines established by FICC for such purpose, provided to FICC a report containing such data as FICC may require from time to time, including information regarding the specific GC Repo Securities that were delivered in settlement of the Start Leg of the Sponsored GC Trade, and (E) FICC must determine that the data contained in such report matches the data on the Sponsored GC Trade submitted by the Sponsoring Member pursuant to Rule 6A. Proposed new subparagraph (iii) of proposed new paragraph (b) of Section 7 would state that, on each Business Day, FICC would provide each Sponsoring Member with one or more Reports setting forth (A) each Sponsored GC Trade, the data on which has been compared in the Comparison System and (B) each Sponsored GC Trade, the End Leg of which has been novated to FICC. Proposed new subparagraph (iv) of proposed new paragraph (b) of Section 7 would require that each Sponsoring Member and Sponsored Member acknowledges and agrees that it has authorized each relevant Sponsored GC Clearing Agent Bank to provide FICC with all information and data as FICC may require or request from time to time in order to novate and process Sponsored GC Trades.

Section 8 (Securities Settlement) of Rule 3A would be revised to create a new paragraph (a). The proposed new paragraph (a) would provide that the bulk of the current provisions of Section 8, which would be reorganized as subparagraphs (i) through (vii) of proposed new paragraph (a), apply to Sponsored Member Trades other than Sponsored GC Trades. Those provisions concern the process for settling Sponsored Member Trades. As discussed below, different settlement requirements would apply to Sponsored GC Trades.

Proposed new paragraph (b) of Section 8 would apply only to Sponsored GC Trades. Proposed new subparagraph (i) of proposed new paragraph (b) of Section 8 would state that GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements must be satisfied by a GC Funds Lender and GC Funds Borrower, respectively, within the timeframes established for such by FICC in the proposed new Schedule of Sponsored GC Trade Timeframes. In addition, any failure by the GC Funds Borrower to satisfy its

cash payment obligations associated with GC Collateral Return Entitlements within the timeframe established for such by FICC in the proposed new Schedule of Sponsored GC Trade Timeframes would subject the GC Funds Borrower to a late fee as if such GC Funds Borrower were a Net Funds Payor within the meaning of Section IX of the Fee Structure (Late Fee Related to GCF Repo Transactions). Proposed new subparagraph (ii) of proposed new paragraph (b) of Section 8 would state that if on any Business Day, the market value of a GC Funds Borrower's GC Collateral Return Entitlement from the previous Business Day (or the current Business Day) is less than the GC Start Leg Market Value, then such GC Funds Borrower would deliver to FICC (and FICC would deliver to the relevant GC Funds Lender) additional GC Comparable Securities and/or cash, such that the market value of the GC Funds Borrower's GC Collateral Return Entitlement (and the market value of the relevant GC Funds Lender's GC Collateral Return Obligation) is at least equal to the GC Start Leg Market Value. Such additional securities and/or cash must be delivered by the GC Funds Borrower within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (iii) of proposed new paragraph (b) of Section 8 would state that if on any Business Day, the market value of a GC Funds Lender's GC Collateral Return Obligation from the previous Business Day (or the current Business Day) is greater than the GC Start Leg Market Value, then such GC Funds Lender would deliver to FICC (and FICC would deliver to the relevant GC Funds Borrower) some of the Purchased GC Repo Securities, such that the market value of the GC Funds Lender's GC Collateral Return Obligation (and the market value of the relevant GC Funds Borrower's Collateral Return Entitlement) is at least equal to the GC Start Leg Market Value. Such Purchased GC Repo Securities must be delivered within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (iv) of proposed new paragraph (b) of Section 8 would state that each GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) would, within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, pay the daily accrued GC Daily Repo Interest to FICC (and FICC would pay such GC Daily Repo Interest to the GC Funds

Lender or GC Funds Borrower, as applicable). Proposed new subparagraph (v) of proposed new paragraph (b) of Section 8 would state that a GC Funds Borrower may substitute cash and/or GC Comparable Securities for any Purchased GC Repo Securities in accordance with the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (vi) of proposed new paragraph (b) of Section 8 would state that FICC directs each Sponsored Member and Sponsoring Member to satisfy any payment or delivery obligation due to FICC, except for any obligation to pay a Funds-Only Settlement Amount, by making the relevant payment or delivery to an account at the relevant Sponsored GC Clearing Agent Bank specified by the pre-Novation counterparty to the Sponsored Member or Sponsoring Member, as applicable, in accordance with such procedures as the Sponsored GC Clearing Agent Bank may specify from time to time. Each Sponsored Member and Sponsoring Member that is owed any such payment or delivery from FICC would acknowledge and agree that, if the pre-Novation counterparty to such Sponsored GC Trade makes the relevant payment or delivery as described in the prior sentence, FICC's obligation to make such payment or delivery would be discharged and satisfied in full. Proposed new subparagraph (vii) of proposed new paragraph (b) of Section 8 would state that the market value of all GC Repo Securities would be determined by the relevant Sponsored GC Clearing Agent Bank each Business Day.

In addition, FICC proposes to move language from current Section 8(a) to proposed new Section 8(c). Proposed new Section 8(c) would state that notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member would be principally obligated to FICC with respect to all securities settlement obligations under the Rules, and the Sponsoring Member would not be a principal under the Rules with respect to the settlement obligations of its Sponsored Members. This provision would apply to both Sponsored GC Trades as well as other kinds of Sponsored Member Trades.

FICC also proposes to revise Section 9 of Rule 3A to state which provisions would apply to Sponsored Member Trades other than Sponsored GC Trades, which provisions would apply only to Sponsored GC Trades, and which provisions would apply to all

Sponsored Member Trades. Specifically, FICC proposes to add language to state that Section 9(a) applies to Sponsored Member Trades other than Sponsored GC Trades and current Sections 9(b), (c), (d), and (e), which would be reorganized as proposed new Sections 9(c)(i), (c)(ii), (c)(iii), and (c)(iv), respectively, applies to all Sponsored Member Trades. In addition, FICC proposes to add a new Section 9(b) to Rule 3A, which would only apply to Sponsored GC Trades and would state that each Sponsoring Member and Sponsored Member would be obligated to pay to FICC, and/or would be entitled to receive from FICC, the following amounts: Forward Mark Adjustment Payment and Interest Adjustment Payment. It would also state that such amounts would be payable and receivable as though they were amounts described in Rule 13.

FICC proposes to add Section 10(i) to Rule 3A that would state that for purposes of applying Rule 4 to a Sponsoring Member Omnibus Account, each Sponsored GC Trade would be treated as a GCF Repo Transaction, each GC Funds Lender and GC Funds Borrower would be treated as a GCF Counterparty, and each Sponsored GC Clearing Agent Bank would be treated as a GCF Clearing Agent Bank.

FICC would also revise Section 4 of Rule 5 (Comparison System) to add Sponsored GC Trades. Specifically, Section 4 of Rule 5 would be revised to state that GCF Repo Transactions and Sponsored GC Trades must be submitted exactly as executed.

FICC is also proposing to add a new Schedule of Sponsored GC Trade Timeframes that would only be applicable to Sponsored GC Trades. The proposed new Schedule of Sponsored GC Trade Timeframes would state that the time during which reports would be made available with respect to end of day Clearing Fund requirements and funds-only settlement requirements would be from 10:30 p.m. to 2:00 a.m. In addition, it would state that 2:00 p.m. would be the time during which reports would be made available with respect to intraday Clearing Fund requirements, and intraday funds-only settlement requirements. The proposed new Schedule of Sponsored GC Trade Timeframes would also state that at 10:00 a.m., funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service and at 4:30 p.m., the intraday funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that 9:00 a.m. would be the

deadline for the GC Funds Borrower to satisfy the obligation described in proposed Section 8(b)(ii) of Rule 3A in accordance with the provisions of proposed Section 8(b)(vi) of Rule 3A. It would also state that FICC reserves the right to also require a GC Funds Borrower to satisfy the obligation described in proposed Section 8(b)(ii) on an intraday basis based on the market value of the applicable GC Repo Securities as determined by the GC Clearing Agent Bank in accordance with proposed Section 8(b)(vii) of Rule 3A. It would also state that 12:00 p.m. would be the deadline for the GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) to pay to FICC the accrued GC Daily Repo Interest as described in proposed Section 8(b)(iv) in accordance with the provisions of proposed Section 8(b)(vi) of Rule 3A (unless the End Leg of the related Sponsored GC Trade is due to settle on the same day). The proposed new Schedule of Sponsored GC Timeframes would state that any accrued GC Daily Repo Interest that is due on the settlement day of the End Leg of the related Sponsored GC Trade would be paid in connection with the settlement of the End Leg.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that 5:00 p.m. would be the deadline for final input by the Sponsoring Members to FICC of Sponsored GC Trade data. Furthermore, 5:30 p.m. would be the deadline for (i) full settlement of the Start Leg of the Sponsored GC Trade in accordance with proposed Section 7(b)(ii)(C) of Rule 3A, (ii) substitutions of Purchased GC Repo Securities in accordance with proposed Section 8(b)(v) of Rule 3A, and (iii) satisfaction of GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements by GC Funds Lenders and GC Funds Borrowers, respectively, in accordance with proposed Section 8(b)(i) of Rule 3A.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that the time by which a GC Funds Lender would be required to deliver any securities to a GC Funds Borrower in connection with proposed Section 8(b)(iii) of Rule 3A would be determined by the relevant Sponsored GC Clearing Agent Bank. Furthermore, it would state that all times may be extended as needed by FICC to (i) address operational or other delays that would reasonably prevent members or FICC from meeting the deadline or timeframe, as applicable, or (ii) allow

the FICC time to operationally exercise its existing rights under the Rules. In addition, it would state that times applicable to FICC are standards and not deadlines and that actual processing times may vary slightly, as necessary.

FICC also proposes to revise the Schedule for the Deletion of Trade Data to state which provisions would not apply to Sponsored GC Trades. In addition, FICC would also add language to state that trade data on Sponsored GC Trades that remain uncompleted on a given Business Day would pend in the Comparison System until FICC's deadline for final input by Sponsoring Members of Sponsored GC Trade data (as provided in the Schedule of Sponsored GC Trade Timeframes) on such Business Day. FICC would also add language to state that trade data on Sponsored GC Trades, which have been compared in the Comparison System pursuant to Rule 6A but the Start Legs of which have not fully settled at a Sponsored GC Clearing Agent Bank by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, would be deleted from the Comparison System during the same processing cycle as the Repo Start Date for such Sponsored GC Trades.

FICC also proposes to revise the Schedule of Required Data Submission Items to state that items (1) and (2) in this schedule would not be required for Sponsored Member Trades.

FICC also proposes to revise the following schedules to exclude Sponsored GC Trades: (i) Schedule of Required and Accepted Data Submission Items for a Substitution and (ii) Schedule of Required and Accepted Data Submission Items for New Securities Collateral.

In addition, as described above, FICC would add a proposed new Schedule of GC Comparable Securities.

(iii) Add Language to Rule 3A To Allow FICC To Recognize, for CCLF Calculation Purposes, Any Offsetting Settlement Obligations as Between a Sponsoring Member's Netting Account and Its Sponsoring Member Omnibus Account To Ensure That a Sponsoring Member's CCLF Obligation is Calculated in a Manner That More Closely Aligns With the Liquidity Risk Associated With Sponsored Member Trades

As described above, Sponsored Member Trades between a Sponsoring Member and its Sponsored Member in the existing Service do not independently create liquidity risk for FICC. This is because FICC is not required to complete settlement of such Sponsored Member Trades in the event that either the Sponsoring Member or

Sponsored Member defaults. In the event that the Sponsoring Member defaults, Section 14(c) of Rule 3A permits FICC to close out (rather than settle) the Sponsored Member Trades of the defaulter's Sponsored Members.²¹ Likewise, if the Sponsored Member defaults, FICC is also not required to complete settlement. Rather, under Section 11 of Rule 3A, FICC may offset its settlement obligations to the Sponsoring Member against the Sponsoring Member's obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulted Sponsored Member.²²

Accordingly, liquidity risk to FICC is only increased to the extent the Sponsoring Member enters into a Repo Transaction with a third-party Netting Member that is novated to FICC. Such a Repo Transaction creates liquidity risk to FICC because, in the event of the Sponsoring Member's default, FICC is required to settle with such third-party Netting Member.²³

In light of this, FICC believes that a Sponsored Member Trade should only increase the obligation of a Sponsoring Member with respect to FICC's CCLF to the extent the Sponsoring Member offsets that trade with a Repo Transaction entered into with a third-party Netting Member that is novated to FICC. To the extent a Sponsoring Member either (1) enters into an offsetting Sponsored Member Trade with another Sponsored Member (*i.e.*, it runs a matched book of Sponsored Member Trades) or (2) simply does not enter into an offsetting transaction at all, then the Sponsored Member Trade has no effect on FICC's liquidity risk, and so should not affect the Sponsoring Member's CCLF obligation.

Currently, FICC does not impose a CCLF obligation on a Sponsoring Member to the extent the Sponsoring Member runs a matched book of Sponsored Member Trades. This is because FICC calculates a Sponsoring Member's CCLF obligation based on the net settlement obligations of its Sponsoring Member Omnibus Account and the net settlement obligations of the Sponsoring Member's netting account.²⁴ In other words, FICC nets all of the positions recorded in the Sponsoring

Member's Sponsoring Member Omnibus Account, regardless of whether they relate to the same Sponsored Member, and separately nets all of the positions in Sponsoring Member's netting account. As a result, to the extent a Sponsoring Member enters into perfectly offsetting Sponsored Member Trades, the settlement obligations of those trades will net out in the Sponsoring Member Omnibus Account and in the netting account and thereby create no CCLF obligation for the Sponsoring Member.

However, currently, if a Sponsoring Member enters into a Sponsored Member Trade without entering into an offsetting transaction, it is subject to CCLF obligations for the position of its Sponsored Member recorded in its Sponsoring Member Omnibus Account as well as its own position arising from the Sponsored Member Trade recorded in its netting account. This is because, although the positions in the Sponsoring Member Omnibus Account and netting account arising from such Sponsored Member Trade are perfectly offsetting, FICC does not currently net them against each other for CCLF purposes due to the current CCLF allocation being calculated at the participant account level.²⁵

In order to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, FICC proposes to add language to Rule 3A to allow it to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a

Sponsoring Member's netting account and its Sponsoring Member Omnibus Account. This proposed change would ensure that all Sponsored Member Trades, whether perfectly offset by other Sponsored Member Trades or not, would be recognized for CCLF purposes as not affecting FICC's liquidity risk. With respect to Sponsored GC Trades in particular, this proposed change would ensure that FICC applies an appropriate CCLF obligation to a Sponsoring Member in the event a Sponsored GC Clearing Agent Bank allocates to a Sponsored GC Trade a different security than the security that underlies an offsetting Sponsored Member Trade.²⁶

Specifically, FICC proposes to add new Section 8(d) to Rule 3A, which would state that FICC, when calculating Individual Total Amounts²⁷ for a Sponsoring Member, may net any offsetting settlement obligations across the Sponsoring Member's proprietary positions and the positions of its Sponsored Members in its Sponsoring Member Omnibus Account(s).

Expected Member Impact

FICC has conducted a study for the period from January 1, 2021 to March 30, 2021 as to the impact on FICC/GSD Netting Members' CCLF allocations as a result of recognizing offset between positions in a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account. The impact of recognition of the offsetting positions as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account relates strictly to the allocation of the total CCLF facility amongst the FICC/GSD netting membership, with certain Sponsoring Members receiving less allocation of CCLF once the offsets between the Sponsoring Member's

²⁵ Consider the following example: A Sponsoring Member sells 100 shares of CUSIP 123 to a Sponsored Member in a Repo Transaction. That transaction will result in the Sponsoring Member's netting account being long 100 shares of CUSIP 123 and the Sponsoring Member's Sponsoring Member Omnibus Account being short 100 shares of CUSIP 123. Under the existing Rules, the Sponsoring Member will have a CCLF obligation for both the long position in the netting account as well as the short position in the Sponsoring Member Omnibus Account even though, as described above, the Sponsored Member Trade does not independently create liquidity risk for FICC.

Although this limitation on offset is consistent with FICC's approach of not offsetting the positions of two accounts of the same Member for CCLF purposes, there is an important difference between Sponsored Member Trades and other FICC repo activity. As discussed above, the Service requires that a Sponsoring Member have a Sponsoring Member Omnibus Account that is separate from its netting account. For all other repo activity, the Member has the option to collapse all of its activity into a single participant account in order to achieve a similar netting benefit. Sponsoring Members do not have that option with respect to their Sponsored Member Trades, so FICC believes this proposed change is necessary to ensure that a Sponsoring Member's CCLF obligations are calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades.

²⁶ For example, a Sponsoring Member may enter into a Sponsored GC Trade on a Generic CUSIP Number and an offsetting Sponsored Member Trade in a specific CUSIP Number (*e.g.*, CUSIP 123). Although CUSIP 123 may be an eligible security under the Generic CUSIP Number underlying the Sponsored GC Trade, the Sponsored GC Clearing Agent Bank may allocate to the Sponsored GC Trade a different eligible CUSIP Number (*e.g.*, CUSIP 456) from the securities eligibility schedule. In that situation, the CUSIP 123 and CUSIP 456 positions in the Sponsoring Member's netting account and the Sponsoring Member Omnibus Account would not offset within the respective account, but the proposed change to Section 8(d) of Rule 3A would allow FICC to offset the CUSIP 123 and CUSIP 456 positions across the Sponsoring Member's netting account and Sponsoring Member Omnibus Account to ensure that the CCLF obligation applicable to the Sponsoring Member accurately reflects the liquidity risk that its positions create.

²⁷ The Individual Total Amount dictates the maximum amount of liquidity a Member must provide under FICC's CCLF. See Rule 22A, Section 2a(b), *supra* note 4.

²¹ Rule 3A, Section 14(c), *supra* note 4.

²² Rule 3A, Section 11, *supra* note 4.

²³ As described above, a Sponsored GC Trade would impact FICC's liquidity risk similarly to a Sponsored Member Trade in the existing Service in this regard, in that liquidity risk to FICC would only be increased to the extent the Sponsoring Member enters into an offsetting Repo Transaction with a third-party Netting Member that is novated to FICC.

²⁴ See Rule 3A, Section 8(b) and Rule 22A, Section 2a(b), *supra* note 4.

netting account and the Sponsoring Member Omnibus Account are recognized.

(iv) Remove the Requirement From Section 2 of Rule 3A That a Sponsoring Member Provide a Quarterly Representation to FICC That Each of Its Sponsored Members is a “Qualified Institutional Buyer” as Defined in Rule 144A, or is a Legal Entity That, Although Not Organized as an Entity Specifically Listed in Paragraph (a)(1)(i) of Rule 144A, Satisfies the Financial Requirements Necessary To Be a “Qualified Institutional Buyer” as Specified in That Paragraph

FICC also proposes to remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide to FICC a quarterly representation that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.²⁸ FICC proposes to remove this requirement because Section 3(d) of Rule 3A separately requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.²⁹ As such, FICC views the quarterly representation requirement in Section 2 of Rule 3A to be an overlapping and redundant requirement that creates administrative burdens for FICC and for its Sponsoring Members that are, in FICC’s view, unnecessary.

To effectuate the proposed changes described above, FICC would revise Rule 3A to remove Section 2(d).

(v) A Clarification, Certain Corrections, and Certain Technical Changes

FICC proposes to make a clarification to the Rules. Specifically, in the definition of Initial Haircut, FICC proposes to add the phrase “, if any,” after “absolute value of the dollar difference.”

FICC also proposes to make certain corrections to the Rules.

First, FICC proposes to correct the definition of Initial Haircut in Rule 1 so that it would be defined, with respect to

Sponsored Member Trades that are not Sponsored GC Trades, as the absolute dollar difference between the Market Value of the Sponsored Member Trade, as of the settlement date of the Start Leg, and the Contract Value of the Start Leg of the Sponsored Member Trade, instead of the Contract Value of the Close Leg (as is currently provided).

Second, FICC proposes to correct the reference in Rule 3A, Section 3(a)(ii)(B) to paragraph (a)(1)(i)(H) of Rule 144A instead of paragraph (a)(1)(i) of Rule 144A (as is currently provided).

Third, FICC also proposes to correct a typographical error in Section VII (Fee Structure) by revising from the reference to Additional Sponsored GC Credit instead of Additional Sponsored GC Assessment (as is currently provided).

FICC also proposes to make certain technical changes, such as numbering and renumbering sections and making conforming grammatical changes.

For example, because FICC is removing Section 2(d) of Rule 3A, FICC proposes to renumber the subsequent subsections in Rule 3A, Section 2. Specifically, FICC proposes to renumber current Sections 2(e), 2(f), 2(g), 2(h), 2(i), and 2(j) as Sections 2(d), 2(e), 2(f), 2(g), 2(h), and 2(i), respectively.

In addition, Section 7 of Rule 3A, in connection with FICC’s creation of a proposed new paragraph (a) as described above, FICC proposes to renumber current Sections 7(a), 7(b), 7(c) and 7(d) as new Sections 7(a)(i), 7(a)(ii), 7(a)(iii) and 7(a)(iv), respectively. In addition, in current Sections 8(b) and 8(c), FICC proposes to revise the references from Section 7 to Section 7(a) to reflect the proposed renumbering of Section 7 described above.

Likewise, in Section 8 of Rule 3A, in connection with FICC’s creation of a proposed new paragraph (a) as described above, FICC proposes to renumber current Sections 8(a), 8(b), 8(c), 8(d), 8(e), 8(f) and 8(g) as new Sections 8(a)(i), 8(a)(ii), 8(a)(iii), 8(a)(iv), 8(a)(v), 8(a)(vi), and 8(a)(vii), respectively. In addition, in current Section 8(a), FICC proposes to revise the reference from Section 8(c) to Section 8(a)(iii) to reflect the proposed renumbering of Section 8 described above. In current Section 8(f), FICC also proposes to revise the reference from subsection (b) to subsection (a)(ii) to reflect the proposed renumbering of Section 8 described above.

In addition, in current Section 9 of Rule 3A, in connection with FICC’s addition of proposed new paragraph (b) as described above, FICC proposes to renumber current Sections 9(b), 9(c), 9(d) and 9(e) as new Sections 9(c)(i),

9(c)(ii), 9(c)(iii) and 9(c)(iv), respectively.

Because FICC is adding Sponsored GC Trades to the definition of Sponsored Member Trade as described above, FICC would create new sections (a) and (b) and renumber current sections (a) and (b) as subsections (i) and (ii) of new section (a). FICC would also revise the definition of Same-Day Settling Trade and current Section 8(c) and Section 18(a) of Rule 3A to reflect the proposed changes to the Sponsored Member Trade definition.

In addition, in the definition of Initial Haircut, FICC is proposing to add section numbers (i) and (ii) to make it clear that proposed section (i) of the definition would apply to any Sponsored Member Trade that is not a Sponsored GC Trade and proposed section (ii) would apply to any Sponsored Member Trade.

In addition, FICC would also make certain conforming grammatical changes. For example, FICC would add a comma and move the word “and” in the definition of Generic CUSIP Number to reflect the addition of Sponsored GC Trades. Similarly, in each of the (i) Schedule of Required and Accepted Data Submission Items for a Substitution and (ii) Schedule of Required and Accepted Data Submission Items for New Securities Collateral, FICC would also add a comma and move the word “and” as conforming grammatical changes. As another example, FICC would also add the word “or” in the definition of Sponsored Member Trade to reflect the addition of Sponsored GC Trades. In the definition of Initial Haircut, FICC would also add the word “and” to reflect the addition of proposed section (ii). As another example, in Section 18(a) of Rule 3A, FICC would revise the reference from subsection to subsections to reflect the proposed changes to the definition of Sponsored Member Trades described above.

Expected Effect on Risks to the Clearing Agency, Its Participants and the Market

FICC believes that the proposed changes in Item II(B)(ii) above, specifically adding a new way to settle in the Service for Sponsored GC Trades, could affect the performance of essential clearing and settlement functions.³⁰ As described above, consistent with the manner in which tri-party repo transactions are settled today outside of central clearing, as opposed to settling through FICC’s tri-party account in the manner that GCF Repo activity settles, Sponsored GC Trades would settle on a

²⁸ Rule 3A, Section 2(d), *supra* note 4.

²⁹ Rule 3A, Section 3(d), *supra* note 4.

³⁰ 17 CFR 240.19b–4(n)(2)(i).

trade for trade basis between the Sponsoring Member and Sponsored Member on a Sponsored GC Clearing Agent Bank's tri-party repo platform. FICC would direct each GC Funds Borrower and GC Funds Lender to make any payment or delivery due to FICC in respect of a Sponsored GC Trade (except for certain funds-only settlement obligations, as discussed above) directly to the relevant Member's pre-Novation counterparty. As a result, each transfer of Purchased GC Repo Securities and daily repo interest would be made directly between the relevant GC Funds Borrower and GC Funds Lender through the tri-party repo platform of a Sponsored GC Clearing Agent Bank. To that end, each GC Funds Borrower and GC Funds Lender would agree that any such direct payment or delivery discharges FICC's obligation to make the same payment or delivery.

Otherwise, all legal rights and obligations as between FICC and Sponsoring Members, and as between FICC and Sponsored Members, would be the same with respect to Sponsored GC Trades as with respect to Sponsored Member Trades in the existing Service, which is governed by Rule 3A.

Management of Identified Risks

While Sponsored GC Trades would settle between the Sponsoring Member and Sponsored Member on a trade for trade basis on a Sponsored Member's tri-party repo platform (consistent with the manner those firms settle repo with each other outside of central clearing), as opposed to settling through FICC's tri-party account in the manner that GCF Repo activity settles, FICC would nonetheless monitor the settlement status of Sponsored GC Trades through hourly (or more frequent) reporting to be provided by the Sponsored GC Clearing Agent Bank to FICC as the Sponsored GC Clearing Agent Bank, and the administration of collateralization to address mark-to-market changes in the value of the securities collateral associated with Sponsored GC activity would be monitored by FICC in a manner consistent with the way that it monitors GCF Repo activity.

Consistency With the Clearing Supervision Act

FICC believes that the proposed rule change would be consistent with Section 805(b) of the Clearing Supervision Act.³¹ The objectives and principles of Section 805(b) of the Clearing Supervision Act are to promote robust risk management, promote safety and soundness, reduce systemic risks,

and support the stability of the broader financial system.³²

FICC believes that the proposed changes described in Items II(B)(ii) and II(B)(iii) above are consistent with the objectives of and principles of Section 805(b) of the Clearing Supervision Act cited above because FICC believes that these proposed changes would enable and may encourage Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. FICC believes that having more securities transactions clear and settle through FICC would also help to promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system by mitigating the risk of a large-scale exit by institutional firms from the U.S. financial market in a stress scenario through FICC's guaranty of completion of settlement for a greater number of eligible securities transactions. By mitigating the risk of a large-scale exit by institutional firms from the U.S. financial market in a stress scenario and having more securities transactions that clear and settle through FICC in the context of its risk management processes, FICC believes the proposed rule changes described in Items II(B)(ii) and II(B)(iii) above would promote robust risk management, promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system. Therefore, FICC believes that the proposed rule changes described in Items II(B)(ii) and II(B)(iii) above are consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

FICC also believes that the proposed changes described in Items II(B)(iv) and II(B)(v) above are designed to provide clear and coherent Rules regarding Sponsoring Members. FICC believes that clear and coherent Rules should enhance the ability of FICC and Sponsoring Members to more effectively plan for, manage, and address the risks and financial requirements related to Sponsoring Members. As such, FICC believes that the proposed changes described in Items II(B)(iv) and II(B)(v) above are designed to promote robust risk management, consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

FICC also believes that the proposed changes are consistent with Rule 17Ad-22(e)(7),³³ Rule 17Ad-22(e)(18),³⁴ and

Rule 17Ad-22(e)(21)(i),³⁵ as promulgated under the Act, for the reasons stated below.

Rule 17Ad-22(e)(7) under the Act requires FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.³⁶ FICC believes that the proposed changes described in Item II(B)(iii) above are consistent with Rule 17Ad-22(e)(7) because, as described above, all Sponsored Member Trades (including Sponsored Member Trades in the existing Service and Sponsored GC Trades in the proposed Sponsored GC Service) do not independently create a liquidity risk. FICC believes the proposed changes described in Item II(B)(iii) above would allow FICC to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades. As such, FICC believes that the proposed changes described in Item II(B)(iii) above are reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity, consistent with Rule 17Ad-22(e)(7).³⁷

Rule 17Ad-22(e)(18) under the Act requires FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access by direct, and where relevant, indirect participants and other financial market utilities, require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency, and monitor compliance with such participation requirements on an ongoing basis.³⁸ FICC believes that the proposed changes described in Item II(B)(iv) above would enhance clarity and therefore, may enhance compliance by the Sponsoring Members with the requirement to notify FICC if a

³² *Id.*

³³ 17 CFR 240.17Ad-22(e)(7).

³⁴ 17 CFR 240.17Ad-22(e)(18).

³⁵ 17 CFR 240.17Ad-22(e)(21)(i).

³⁶ 17 CFR 240.17Ad-22(e)(7).

³⁷ *Id.*

³⁸ 17 CFR 240.17Ad-22(e)(18).

³¹ 12 U.S.C. 5464(b).

Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph. As described above, this requirement is set forth in Section 3(d) of Rule 3A.³⁹ With these proposed changes, there would be a clear and singular mechanism for Sponsoring Members to notify FICC of a Sponsored Member’s failure to satisfy the above-described requirement (as opposed to having overlapping and redundant requirements that could cause confusion). Therefore, FICC believes the proposed changes described in Item II(B)(iv) above are consistent with Rule 17Ad–22(e)(18).⁴⁰

Rule 17Ad–22(e)(21)(i) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, and have the covered clearing agency’s management regularly review the efficiency and effectiveness of its clearing and settlement arrangements.⁴¹ FICC believes that the proposed changes described in Item II(B)(ii) above would improve the efficiency and effectiveness of FICC’s clearing and settlement arrangements by making it more operationally efficient for Sponsoring Members and their Sponsored Members that are money market funds and other mutual funds to transact Repo Transactions (particularly term Repo Transactions) through FICC by allowing them to settle such Repo Transactions on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a similar manner to the way such Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing. FICC also believes that the proposed rule changes described in Item II(B)(iv) above would improve the efficiency and effectiveness of FICC’s clearing and settlement arrangements by removing the quarterly representation requirement of Sponsoring Members under Section 2 of Rule 3A, which, as described above, overlaps and is redundant with the separate requirement under Section 3(d) of Rule

3A that requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A.⁴² Therefore, FICC believes that the proposed changes described in Items II(B)(ii) and II(B)(iv) above are consistent with Rule 17Ad–22(e)(21)(i).⁴³

III. Date of Effectiveness of the Advance Notice, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its website of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notice is consistent with the Clearing Supervision 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 email to rule-comments@sec.gov. Please include File Number SR–FICC–2021–801 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–2021–801. This file number should be included on the subject line if email 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 Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–FICC–2021–801 and should be submitted on or before June 18, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁴

J. Matthew DeLesDernier,
Assistant Secretary.

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³⁹ Rule 3A, Section 3(d), *supra* note 4.

⁴⁰ 17 CFR 240.17Ad–22(e)(18).

⁴¹ 17 CFR 240.17Ad–22(e)(21)(i).

⁴² Rule 3A, Section 3(d), *supra* note 4.

⁴³ 17 CFR 240.17Ad–22(e)(21)(i).

⁴⁴ 17 CFR 200.30–3(a)(91).