

Bold and underlined text indicates proposed added language.

~~Bold and strikethrough text~~ indicates proposed deleted language.

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

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INTERPRETIVE GUIDANCE WITH RESPECT TO SETTLEMENT FINALITY

1. *Interpretive Guidance With Respect to Settlement Finality – Funds-Only Settlement.*

The point of finality for funds-only settlement by the Corporation is defined by the Federal Reserve Bank Operating Circular 12 (“Operating Circular 12”),¹ which governs NSS processing by the FRB. The Corporation and each Member’s Funds-Only Settling Bank is a “Settler” and together are in a “Settlement Arrangement” (each term as defined in Operating Circular 12) for purposes of funds-only settlement.² DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB.³ Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.⁴ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler’s Master Account is debited by the FRB,⁵ and, for credits, the time at which the Settler’s Master

¹ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 (“Operating Circular 12”), available at <https://www.frbservices.org>

² For purposes of Operating Circular 12, the following definitions apply:

“Balance” means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

“Master Account” means the Master Account (as that term is defined in the Reserve Banks’ Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

“Settler” means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

“Settlement Agent” means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

“Settlement File” means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frbservices.org>.

³ See id.

⁴ See id.

⁵ See Section 5.4 of Operating Circular 12.

Account is credited by the FRB.⁶

Therefore, the point of finality with respect to funds-only settlement by the Corporation is the point at which each of the Master Accounts for the Corporation and the Funds-Only Settling Banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations.*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of the Corporation's designated clearing bank for each Member whose designated clearing bank for such settlement is the same as the Corporation's designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as the Corporation's designated clearing bank.

(a) *Point of Finality on the Books of the Corporation's Clearing Bank.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of the Corporation's clearing bank is the point at which the Corporation's clearing bank has acted upon a settlement instruction from the Corporation.

Pursuant to the agreement between the Corporation and the Corporation's clearing bank, a settlement instruction is an instruction by the Corporation to the clearing bank in respect of settlement that: (1)(a) instructs the clearing bank to direct delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (2)(a) instructs the clearing bank to direct payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the Corporation's account.

The Corporation's clearing bank has acted upon such instructions when the clearing bank (i)(a) directs delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (ii)(a) directs payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each

⁶ See Section 5.6 of Operating Circular 12.

such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the Corporation's account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of the Corporation's clearing bank is when each of the accounts held by the Corporation and the Members at the clearing bank for purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by the Corporation.

(b) Point of Finality on the Fedwire System.

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7 ("Operating Circular 7"),⁷ which governs book entry security account maintenance and transfers. The Corporation's clearing bank and each Member's clearing bank is a "Participant" and maintains a "Securities Account" and a "Master Account" with the FRB (each term as defined in Operating Circular 7).⁸

⁷ Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 ("Operating Circular 7"), available at <https://www.frbervices.org>.

⁸ For purposes of Operating Circular 7, the following definitions apply:

"Book-Entry Security" means a marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

"Free Transfer" means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

"Master Account" means a "Master Account" (as defined in the Reserve Banks' Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

"Participant" means an entity that maintains a Securities Account with a Reserve Bank in the entity's name.

"Receiver" means the Participant receiving a Book-Entry Security as a result of a Transfer.

"Securities Account" means an account at a Reserve Bank containing Book-Entry Securities.

"Sender" means the Participant sending a Transfer Message.

"Transfer" means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

"Transfer Against Payment" means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

Operating Circular 7 states that “[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender’s and Receiver’s Securities Accounts and, in case of Transfer Against Payment, their corresponding Master Accounts.”⁹ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by the Corporation and each Member to deliver and receive securities and related funds on behalf of the Corporation and each Member, respectively, are the Senders and Receivers described in Operating Circular 7.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by the Corporation and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by the Corporation.¹⁰

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“Transfer Message” means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0.

⁹ **Operating Circular 7, Section 9.1.1. Capitalized terms are defined as set forth in Operating Circular 7. See id.**

¹⁰ **Each Business Day, the Corporation makes available to each Member a Report that provides settlement information that the Corporation deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. Rule 12, Section 3.**

FIXED INCOME CLEARING CORPORATION
MORTGAGE-BACKED SECURITIES DIVISION
CLEARING RULES

INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

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INTERPRETIVE GUIDANCE WITH RESPECT TO SETTLEMENT FINALITY

1. Interpretive Guidance With Respect to Settlement Finality – Cash Settlement.

The point of finality for Cash Settlement by the Corporation is defined by the Federal Reserve Bank Operating Circular 12 (“Operating Circular 12”),¹¹ which governs NSS processing by the FRB. The Corporation and each Member’s Cash Settling Bank is a “Settler” and together are in a “Settlement Arrangement” (each term as defined in Operating Circular 12) for purposes of Cash Settlement.¹² DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB.¹³ Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.¹⁴ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler’s Master Account is debited by the FRB,¹⁵ and, for credits, the time at which the Settler’s Master Account is credited by the FRB.¹⁶

¹¹ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 (“Operating Circular 12”), available at <https://www.frbservices.org>.

¹² For purposes of Operating Circular 12, the following definitions apply:

“Balance” means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

“Master Account” means the Master Account (as that term is defined in the Reserve Banks’ Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

“Settler” means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

“Settlement Agent” means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

“Settlement File” means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frbservices.org>.

¹³ See id.

¹⁴ See id.

¹⁵ See Section 5.4 of Operating Circular 12.

¹⁶ See Section 5.6 of Operating Circular 12.

Therefore, the point of finality with respect to Cash Settlement by the Corporation is the point at which each of the Master Accounts for the Corporation and the Cash Settling Banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations.*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of the Corporation’s designated clearing bank for each Member whose designated clearing bank for such settlement is the same as the Corporation’s designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as the Corporation’s designated clearing bank.

(a) *Point of Finality on the Books of the Corporation’s Clearing Bank.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of the Corporation’s clearing bank is the point at which the Corporation’s clearing bank has acted upon a settlement instruction from the Corporation.

Pursuant to the agreement between the Corporation and the Corporation’s clearing bank, a settlement instruction is an instruction by the Corporation to the clearing bank in respect of settlement that: (1)(a) instructs the clearing bank to direct delivery, from the Corporation’s account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the Corporation’s account; or (2)(a) instructs the clearing bank to direct payment, from the Corporation’s account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the Corporation’s account.

The Corporation’s clearing bank has acted upon such instructions when the clearing bank (i)(a) directs delivery, from the Corporation’s account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the Corporation’s account; or (ii)(a) directs payment, from the Corporation’s account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the Corporation’s account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of the Corporation’s clearing bank is when each of the accounts held by the Corporation and the Members at the clearing bank for

purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by the Corporation.

(b) Point of Finality on the Fedwire System.

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7 (“Operating Circular 7”),¹⁷ which governs book entry security account maintenance and transfers. The Corporation’s clearing bank and each Member’s clearing bank is a “Participant” and maintains a “Securities Account” and a “Master Account” with the FRB (each term as defined in Operating Circular 7).¹⁸ Operating Circular 7 states that “[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender’s and Receiver’s Securities Accounts and, in

¹⁷ **Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 (“Operating Circular 7”), available at <https://www.frbservices.org>.**

¹⁸ **For purposes of Operating Circular 7, the following definitions apply:**

“Book-Entry Security” means a marketable security issued in electronic form by the United States Government (the “Treasury”), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

“Free Transfer” means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

“Master Account” means a “Master Account” (as defined in the Reserve Banks’ Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

“Participant” means an entity that maintains a Securities Account with a Reserve Bank in the entity’s name.

“Receiver” means the Participant receiving a Book-Entry Security as a result of a Transfer.

“Securities Account” means an account at a Reserve Bank containing Book-Entry Securities.

“Sender” means the Participant sending a Transfer Message.

“Transfer” means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

“Transfer Against Payment” means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

“Transfer Message” means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0.

case of Transfer Against Payment, their corresponding Master Accounts.”¹⁹ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by the Corporation and each Member to deliver and receive securities and related funds on behalf of the Corporation and each Member, respectively, are the Senders and Receivers described in Operating Circular 7.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by the Corporation and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by the Corporation.²⁰

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¹⁹ **Operating Circular 7, Section 9.1.1. Capitalized terms are defined as set forth in Operating Circular 7. See id.**

²⁰ **Each Business Day, the Corporation makes available to each Member a Report that provides settlement information that the Corporation deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. Rule 9, Section 3.**