

**FIXED INCOME CLEARING CORPORATION**

**GOVERNMENT SECURITIES DIVISION RULEBOOK**

TEXT OF PROPOSED RULE CHANGE

**bold and underlined text** indicates proposed added language

~~**bold and strikethrough text**~~ indicates proposed deleted language

***bold, double-underlined and italicized text*** indicates additional language proposed by this Amendment No. 1

~~***bold, strikethrough and dotted underlined text***~~ indicates deleted language proposed by this Amendment No. 1

## RULE 1 – DEFINITIONS

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### Actual Deposit

The term “Actual Deposit” shall have the meaning given that term in Section 4 of Rule 4.

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### Average RFD

The term “Average RFD” shall have the meaning given that term in Section 7 of Rule 4.

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### CCIT Member Termination Date

The term “CCIT Member Termination Date” shall have the meaning given that term in Section 6 of Rule 3B.

### CCIT Member Voluntary Termination Notice

The term “CCIT Member Voluntary Termination Notice” shall have the meaning given that term in Section 6 of Rule 3B.

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### Clearing Fund Cash

The term “Clearing Fund Cash” shall have the meaning given that term in Section 3a of Rule 4.

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### Corporate Contribution

The term “Corporate Contribution” shall have the meaning given that term in Section 7a of Rule 4.

### Corporation

The term “Corporation” means Fixed Income Clearing Corporation, the owner of the Government Securities Division. Where these Rules refer to action taken by

**“the Corporation,” the term should be understood to mean the management of Fixed Income Clearing Corporation, unless otherwise specified.**

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**Declared Non-Default Loss Event**

**The term “Declared Non-Default Loss Event” shall have the meaning given that term in Section 7 of Rule 4.**

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**Defaulting Member Event**

**The term “Defaulting Member Event” shall have the meaning given that term in Section 7 of Rule 4.**

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**Event Period**

**The term “Event Period” shall have the meaning given that term in Section 7 of Rule 4.**

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**Excess Clearing Fund Deposit**

**The term “Excess Clearing Fund Deposit” shall have the meaning given that term in Section 10 of Rule 4.**

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**Former Sponsored Members**

**The term “Former Sponsored Members” shall have the meaning given that term in Section 2 of Rule 3A.**

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**Legal Risk**

The term “Legal Risk” shall have the meaning given that term in Section 2~~(n)~~ of Rule 4.

**Lender**

**The term “Lender” shall have the meaning given that term in Section 11 of Rule 4.**

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**Loss Allocation Cap**

**The term “Loss Allocation Cap” shall have the meaning given that term in Section 7 of Rule 4.**

**Loss Allocation Notice**

**The term “Loss Allocation Notice” shall have the meaning given that term in Section 7 of Rule 4.**

**Loss Allocation Withdrawal Notice**

**The term “Loss Allocation Withdrawal Notice” shall have the meaning given that term in Section 7b of Rule 4.**

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**Sponsored Member Termination Date**

**The term “Sponsored Member Termination Date” shall have the meaning given that term in Section 3 of Rule 3A.**

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**Sponsored Member Voluntary Termination Notice**

**The term “Sponsored Member Voluntary Termination Notice” shall have the meaning given that term in Section 3 of Rule 3A.**

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**Sponsoring Member Termination Date**

**The term “Sponsoring Member Termination Date” shall have the meaning given that term in Section 2 of Rule 3A.**

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**Sponsoring Member Voluntary Termination Notice**

**The term “Sponsoring Member Voluntary Termination Notice” shall have the meaning given that term in Section 2 of Rule 3A.**

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**Termination Date**

**The term “Termination Date” shall have the meaning given that term in Section 13 of Rule 3.**

**The Corporation**

**~~The term “the Corporation” means the Fixed Income Clearing Corporation, the owner of the Government Securities Division. Where these Rules refer to action taken by “the Corporation,” the term should be understood to mean the management of the Fixed Income Clearing Corporation, unless otherwise specified.~~**

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**Voluntary Termination Notice**

**The term “Voluntary Termination Notice” shall have the meaning given that term in Section 13 of Rule 3.**

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### RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS

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#### Section 12 – Ongoing Monitoring

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(e) The Corporation may require a Netting Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with ~~Section 2~~ the provisions of Rule 4 (which additional deposit shall constitute a portion of the Netting Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member. The Corporation may also retain any Excess Clearing Fund Deposits of a Netting Member that has been placed on the Watch List as provided in Section ~~9~~ 10 of Rule 4. Moreover, as regards a Netting Member that has been placed on the Watch List by the Corporation, the Corporation may suspend, during all or a portion of the time period that such Member is on the Watch List, its right under these Rules to collect a Credit Forward Mark Adjustment Payment. Moreover, if a Netting Member on the Watch List has a Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity, the Corporation may, in its sole discretion, maintain possession of the securities and/or cash that comprise such Collateral Allocation Entitlement.

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#### Section 13 - Voluntary Termination

A Member that is a Comparison-Only Member may elect to terminate such membership, and a Netting Member may elect to terminate its membership in either the Corporation or in just the Netting System (and to become a Comparison-Only Member), by providing the Corporation with ~~a 10 days~~ written notice of such termination (“Voluntary Termination Notice”); however, the Corporation, in its discretion, may accept such termination within a shorter notice period. The Member shall specify in the Voluntary Termination Notice an effective *a desired* date for its withdrawal from membership (the “Termination Date”); provided, however, if the Member is terminating its membership in the Corporation, such Termination Date *date* shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Member to the Corporation as of the time such Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Voluntary Termination Notice ~~written notice~~ from such Member. The Corporation's acceptance shall be evidenced by a notice to Members announcing the Member's termination and the effective date of the termination of the Member (hereinafter the “Termination Date”). As of the Termination Date, a Netting Member that terminates its membership in the Netting System, or a Comparison-Only Member or Netting

Member that terminates its membership in the Corporation, shall no longer be eligible or required to submit to the Corporation data on trades and shall no longer be eligible to have its trade data submitted by an authorized submitter, notwithstanding any provision of Rule 5, Rules 6A through 6C, or Rule 11 to the contrary, unless the Board determines otherwise in order to ensure an orderly liquidation of the Member's Net Settlement Positions. **If any trade is submitted to the Corporation either by such Member or its authorized submitter that is scheduled to settle on or after the Termination Date, such Member's Voluntary Termination Notice will be deemed void, and the Member will remain subject to these Rules as if it had not given such Voluntary Termination Notice.**

A Member's voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to transactions submitted to the Corporation before the Termination Date. **The return of the Member's Clearing Fund deposit shall be governed by Section 8 of Rule 4. If a Member is a Tier One Netting Member and an Event Period were to occur after such Member has submitted its Voluntary Termination Notice but prior to the Termination Date, in order for such Member to benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4, the Member will need to comply with the provisions of Section 7b of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Voluntary Termination Notice previously submitted by the Member.**

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**RULE 3A—SPONSORING MEMBERS AND SPONSORED MEMBERS**

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Section 2 – Qualifications of Sponsoring Members, the Application Process and Continuance Standards

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(i) A Sponsoring Member may voluntarily elect to terminate its status as a Sponsoring Member, with respect to all Sponsored Members or with respect to one or more Sponsored Members from time to time, by providing the Corporation with ~~30 calendar days a~~ written notice of such termination (**“Sponsoring Member Voluntary Termination Notice”**). **The Sponsoring Member shall specify in the Sponsoring Member Voluntary Termination Notice an effective *a desired* date for the termination of the Sponsoring Member’s status as such (the “Sponsoring Member Termination Date”) with respect to the Sponsored Member(s) as to which the Sponsoring Member has terminated such status (the “Former Sponsored Members”), which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Sponsoring Member with respect to the Former Sponsored Members to the Corporation as of the time such Sponsoring Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.**

~~;~~ ~~however, the Corporation, in its discretion, may accept such termination within a shorter notice period.~~ Such termination will not be effective until accepted by the Corporation, **which shall be no later than 10 Business Days after the receipt of the Sponsoring Member Voluntary Termination Notice from such Sponsoring Member.** The Corporation’s acceptance shall be evidenced by a notice to all Members announcing the termination of the Sponsoring Member’s status as such with respect to the ~~Sponsored Member(s) as to which the Sponsoring Member has terminated such status (the “Former Sponsored Members”)~~ and the **effective date of such termination (hereinafter the “Sponsoring Member Termination Date”).** As of the Sponsoring Member Termination Date, the Sponsoring Member shall no longer be eligible to submit trades on behalf of its Former Sponsored Members and each of its Former Sponsored Members shall cease to be a Sponsored Member unless it is the Sponsored Member of another Sponsoring Member. **If any trade is submitted to the Corporation by the Sponsoring Member on behalf of its Former Sponsored Members that is scheduled to settle on or after the Sponsoring Member Termination Date, such Sponsoring Member’s Sponsoring Member Voluntary Termination Notice will be deemed void, and the Sponsoring Member will remain subject to this Rule as if it had not given such Sponsoring Member Voluntary Termination Notice.**

A Sponsoring Member’s voluntary termination of its status as such, in whole or in part, shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Trades submitted to the Corporation before the applicable Sponsoring Member Termination Date. Any Sponsored



Member Trades which have received the Corporation's guaranty of settlement and been novated to the Corporation shall continue to be processed and guaranteed by the Corporation.

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Section 3 - Qualifications of Sponsored Members, Approval Process and Continuance Standard

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(e) A Sponsored Member may voluntarily elect to terminate its membership by providing the Corporation with ~~10 calendar days~~ a written notice of such termination ("**Sponsored Member Voluntary Termination Notice**"). **The Sponsored Member shall specify in the Sponsored Member Voluntary Termination Notice an effective *a desired* date for the termination (the "Sponsored Member Termination Date"), which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Sponsored Member to the Corporation as of the time such Sponsored Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.**

~~;~~ ~~however, the Corporation, in its discretion, may accept such termination within a shorter notice period.~~ Such termination will not be effective until accepted by the Corporation, **which shall be no later than 10 Business Days after the receipt of the Sponsored Member Voluntary Termination Notice from such Sponsored Member.** The Corporation's acceptance shall be evidenced by a notice to all Members announcing the termination of the Sponsored Member and the effective date of such termination (hereinafter the "Sponsored Member Termination Date"). As of the Sponsored Member Termination Date, the relevant Sponsoring Member shall no longer be eligible to submit trades on behalf of the Sponsored Member. **If any trade is submitted to the Corporation by the relevant Sponsoring Member on behalf of the Sponsored Member that is scheduled to settle on or after the Sponsored Member Termination Date, such Sponsored Member's Sponsored Member Voluntary Termination Notice will be deemed void, and the Sponsored Member will remain subject to this Rule as if it had not given such Sponsored Member Voluntary Termination Notice.**

A Sponsored Member's voluntary termination shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Trades submitted to the Corporation before the Sponsored Member Termination Date, and the Sponsoring Member Guaranty shall remain in effect to cover all outstanding obligations of the Sponsored Member to the Corporation that are within the scope of such Sponsoring Member Guaranty.

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Section 10—Clearing Fund Obligations

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(d) The lesser of \$5,000,000 or 10 percent of the total amount arrived at in subsection (c) of this Section 10, with a minimum of \$100,000 must be made and maintained in cash, with

the remaining portion to be made and maintained in the form specified in, and subject to the requirements of, Section 3 of Rule 4, and subject to subsection (~~fe~~) of Section 2 of Rule 4.

(e) The Corporation shall have the right to increase the Sponsoring Member Omnibus Account Required Fund Deposit in the same way and for the same reasons as set forth in subsection (~~ed~~) of Section 2 of Rule 4.

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#### Section 12—Loss Allocation Obligations

(a) Sponsored Members shall not be obligated for allocations, pursuant to Rule 4, of loss or liability incurred by the Corporation. To the extent that a **Remaining Loss (as defined in Section 7 of Rule 4) loss or liability** is determined by the Corporation to arise in connection with Sponsored Member Trades (i.e., in connection with the insolvency or default of a Sponsoring Member), the Sponsored Members shall not be responsible for or considered in the loss allocation calculation, but rather such loss shall be allocated to Tier One Netting Members in accordance with the principles set forth in Section 7(~~d~~) of Rule 4.

(b) To the extent the Corporation incurs a **loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event Remaining Loss or an Other Loss (as defined in Section 7(f) of Rule 4)** and a loss allocation obligation arises that would be the responsibility of the Sponsoring Member Omnibus Account if the Sponsoring Member Omnibus Account were a Netting Member, the Corporation shall calculate such loss allocation obligation as if the affected Sponsored Members were subject to such allocations pursuant to Section 7 of Rule 4, but the Sponsoring Member shall be responsible for satisfying such obligations.

(c) The entire amount of the Required Fund Deposit associated with the Sponsoring Member's Netting System accounts and the entire amount of the Sponsoring Member's Omnibus Account Required Fund Deposit may be used to satisfy any amount allocated against a Sponsoring Member in its capacity as either a Netting Member or a Sponsoring Member. With respect to an obligation to make payment due to any loss allocation amounts assessed to a Sponsoring Member pursuant to subsection (b) above, the Sponsoring Member may instead **elect provide, by the Close of Business on the Business Day on which such payment is due, written notice to the Corporation of its election** to terminate its membership in the Corporation **pursuant to Section 7b of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4; however, for the purpose of determining the Loss Allocation Cap for such Sponsoring Member, its Required Fund Deposit shall be . If such Sponsoring Member elects to terminate its membership in the Corporation, its liability for an assessed allocation pursuant to subsection (b) shall be limited to** the sum of its Required Fund Deposit and its Sponsoring Member's Omnibus Account Required Fund Deposit **on the Business Day on which the notification of such allocation is provided to the Sponsoring Member.**

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**RULE 3B – CENTRALLY CLEARED INSTITUTIONAL  
TRIPARTY SERVICE**

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Section 6 – Voluntary Termination

A CCIT Member may voluntarily elect to terminate its membership in the Corporation by providing the Corporation with ~~10 Business Days~~<sup>2</sup> a written notice of such termination (“**CCIT Member Voluntary Termination Notice**”). The CCIT Member shall specify in the CCIT Member Voluntary Termination Notice an effective a desired date for the termination (the “CCIT Member Termination Date”), which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the CCIT Member to the Corporation as of the time such CCIT Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

~~;~~ ~~however, the Corporation, in its discretion, may accept such termination within a shorter notice period.~~ Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the ~~written notice~~ **CCIT Member Voluntary Termination Notice** from ~~the~~ such CCIT Member. The Corporation’s acceptance shall be evidenced by a notice to Members (including CCIT Members) announcing the CCIT Member’s termination and the effective date of the termination of the CCIT Member (hereinafter the “CCIT Member Termination Date”). As of the CCIT Member Termination Date, a CCIT Member that terminates its membership in the Corporation shall no longer be eligible or required to submit to the Corporation data on trades and shall no longer be eligible to have its trade data submitted by a Joint Account Submitter, unless the Board determines otherwise in order to ensure an orderly liquidation of the CCIT Member’s positions. If any trade is submitted to the Corporation either by such CCIT Member or a Joint Account Submitter that is scheduled to settle on or after the CCIT Member Termination Date, such CCIT Member’s CCIT Member Voluntary Termination Notice will be deemed void, and the CCIT Member will remain subject to this Rule as if it had not given such CCIT Member Voluntary Termination Notice.

A CCIT Member’s voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to transactions submitted to the Corporation before the CCIT Member Termination Date.

Section 7 – Loss Allocation Obligations of CCIT Members

Section 7 (~~Allocation of Loss or Liability Incurred by the Corporation~~ **Loss Allocation Waterfall**) of Rule 4 (Clearing Fund and Loss Allocation) shall apply to CCIT Members as Tier Two Members. CCIT Members shall be responsible for the total amount of loss allocated to them. With respect to CCIT Members with a Joint Account Submitter, loss allocation will be calculated at the Joint Account level and then applied pro rata to each CCIT Member in the Joint Account based on the trade settlement allocation instructions. If, at the time the Corporation calculates loss allocation, the trade settlement allocation instructions to the

individual CCIT Member level have not yet been received by the Corporation, the CCIT Members in the Joint Account shall be required to provide the allocation to the Corporation within the timeframes set by the Corporation in its discretion.

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## RULE 4 - CLEARING FUND AND LOSS ALLOCATION

### Section 1 – General Required Fund Deposits

Each Netting Member shall make, and maintain on an ongoing basis ~~so long as such Member is a Netting Member~~, a deposit to the Clearing Fund ~~at no less than the minimum required level set forth in this Rule (the "Required Fund Deposit")~~. ~~Deposits to the Clearing Fund shall be held by the Corporation or its designated agents, to be applied as provided in this Rule.~~ The amount of each Netting Member's required deposit shall be determined by the Corporation in accordance with this Rule and shall be referred to as the Required Fund Deposit. The timing of payment of the Required Fund Deposit shall be determined in accordance with the provisions of Section ~~8~~9 of this Rule.

A Netting Member may in its discretion maintain additional deposits at the Corporation, subject to any requirements the Corporation may establish for such excess amounts pursuant to Section 10 of this Rule. For purposes of these Rules, such additional deposits shall be deemed to be part of the Clearing Fund and the Netting Member's Actual Deposit but shall not be deemed to be part of the Netting Member's Required Fund Deposit. The Corporation shall not be required to segregate each Netting Member's Actual Deposit, but shall maintain books and records concerning the assets that constitute each Netting Member's Actual Deposit.

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### Section 2- Required Fund Deposit Requirements

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~~(b) — The lesser of \$5,000,000 or 10 percent of the Total Amount arrived at above, with a minimum of \$100,000, must, be made and maintained in cash, with the remaining portion of the Total Amount to be made and maintained in the form specified in Section 4 of this Rule. The previous sentence shall also apply to a Sponsoring Member Omnibus Account, but shall not apply to the individual Sponsored Members whose activity is presented by such Account.~~

~~(e)~~(b) The Corporation shall calculate the Sponsoring Member Omnibus Account Required Fund Deposit in the manner set forth in Section 10 of Rule 3A.

~~(d)~~(c) The initial Required-Fund Deposit of each Netting Member, other than an Inter-Dealer Broker Netting Member, shall be set by the Corporation based upon the expected nature and level of such Member's activity.

~~(e)~~(d) Notwithstanding anything to the contrary in this Rule, the Corporation may require a Netting Member to make and maintain a higher Required Fund Deposit than the amount as noted above, if the Corporation determines that such higher Required-Fund Deposit is necessary to protect the Corporation and its Members from the risk (the "Legal Risk") that the

Corporation, as a result of a law, **rule or regulation** applicable to a Netting **Member, including a Netting** Member's insolvency or bankruptcy, may be delayed or prohibited from: (i) accessing any portion of the Netting Member's Required Fund Deposit, (ii) netting, closing out or liquidating transactions, or setting off obligations, or taking any other action contemplated by Rule 4 (Clearing Fund and Loss Allocation), Rule 21 (Restrictions on Access to Services), Rule 22 (insolvency of a Member) or Rule 22A (Procedures for When the Corporation Ceases to Act), or (iii) otherwise exercising its rights pursuant to these Rules.

~~(f)~~**(e)** Notwithstanding anything to the contrary in this Rule, the Corporation may require a Netting Member's Required Fund Deposit to be in proportions of cash, Eligible Clearing Fund Securities and Eligible Letters of Credit that the Corporation determines to be necessary to protect itself and its Members from Legal Risk.

~~(g)~~**(f)** Notwithstanding anything to the contrary above, the Corporation, in its sole discretion, may secure a loan made to a Repo Broker for purposes of satisfying that Repo Broker's Funds-Only Settlement Amount obligation with that Repo Broker's Clearing Fund deposit made to the Corporation.

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### Section 3 - Form of Deposit

Subject to the provisions of Section 2 of this Rule governing the computation of **deposits a Netting Member's Required Fund Deposit**, and the limitations of this Section 3, Section 3a and Section 3b, a Netting Member's deposits to the Clearing Fund may be in the form of:

- (a) cash, or
- (b) an open account indebtedness fully secured by Eligible Clearing Fund Securities.

A minimum of 40 percent of the Netting Member's Required Fund Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.

**The lesser of \$5,000,000 or 10 percent of the Required Fund Deposit, with a minimum of \$100,000, must be made and maintained in cash, with the remaining portion of the Required Fund Deposit to be made and maintained in the form specified in this Section 3. The previous sentence shall also apply to a Sponsoring Member Omnibus Account, but shall not apply to the individual Sponsored Members whose activity is presented by such Account.**

~~Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Netting Member may substitute and/or withdraw securities from pledge and deposit, provided that the Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour or less prior to the close of the securities FedWire on such~~

~~Day. Any interest on securities deposited by a Netting Member to secure a Clearing Fund open account indebtedness that is received by the Corporation shall be credited to the Member's cash deposits to the Clearing Fund, except in the event of a default by a Member in payment of any of its obligations to the Corporation, in which case the Corporation may first liquidate such securities and apply all or a portion thereof, including any interest thereon, as provided in Section 7 of this Rule.~~

Section 3a– Special Provisions Related to Deposits of Cash

Cash deposits to the Clearing Fund shall be made in immediately-available funds. The Corporation may invest any Cash contained cash in the Clearing Fund, including (i) cash deposited by a Netting Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, “Clearing Fund Cash”) may be partially or wholly invested by the Corporation in its sole discretion, for its account in securities issued or guaranteed as to principal and interest by the United States or agencies and instrumentalities of the United States, or repurchase agreements related to securities issued or guaranteed as to principal and interest by the United States or agencies and instrumentalities of the United States, and to the extent not so invested shall be deposited by the Corporation in its name in a depository or depositories selected by the Corporation. Investment income, if any, on cash deposits shall be paid to Members at such intervals, in such manner and in such amounts as the Corporation from time to time may determine in accordance with the Clearing Agency Investment Policy adopted by the Corporation.

Each Netting Member shall be entitled to any interest earned or paid on Clearing Fund cash deposits.

Section 3b – Special Provisions Related to Eligible Clearing Fund Securities

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(c) A Member may post as eligible collateral Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such collateral will be subject to a premium haircut as specified in the haircut schedule.

Eligible Clearing Fund Securities that are used to secure an open account indebtedness must be pledged to the Corporation on such terms and conditions as it may require, and be delivered to ~~either~~ the Corporation or to the Corporation's account at to a depository financial institution approved/designated by the Corporation ~~that shall hold the securities on the Corporation's behalf~~. The valuation of such Eligible Clearing Fund Securities shall be at current market value, which shall be determined by the Corporation not less frequently than on a daily basis. All Eligible Clearing Fund Securities shall be subject to a haircut set forth in these

Rules; ~~the~~ The Corporation has the right, in its discretion, to refuse to accept a particular type ~~or types~~ of Eligible Clearing Fund Security as a permissible form of Clearing Fund deposit.

Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Netting Member may substitute and/or withdraw Eligible Clearing Fund Securities from pledge and deposit, provided that the Netting Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour prior to the close of the securities FedWire on such day. Any interest on Eligible Clearing Fund Securities deposited by a Netting Member to secure a Clearing Fund open account indebtedness that is received by the Corporation shall be credited to the Netting Member's cash deposits to the Clearing Fund, except in the event of a default by such Netting Member on any obligations to the Corporation under these Rules, in which case the Corporation may exercise its rights under Section 6 of this Rule.

#### Section 4 - Lien

As security for any and all obligations and liabilities of a Netting Member to the Corporation, including, without limitation, the obligations of the Netting Member's Permitted Margin Affiliate to the Corporation, any obligation or liability of a Netting Member pursuant to a Cross-Margining Agreement, any Reimbursement Obligation of a Cross-Margining Participant to the Corporation pursuant to Section 3 of Rule 43, any obligation of a Cross-Margining Beneficiary Participant to reimburse the Corporation pursuant to Section 7 of Rule 43, any obligation of a Cross-Guaranty Defaulting Member to reimburse the Corporation pursuant to Section 2 of Rule 41 or any obligation of a Cross-Guaranty Beneficiary Member to reimburse the Corporation pursuant to Section 5 of Rule 41, each such Netting Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Netting Member's open account indebtedness or all assets and property placed by a Netting Member in the possession of the Corporation (or its agents acting on its behalf), including all securities and cash on deposit with the Corporation or its agents pursuant to this Rule and Rule 13 (collectively with any Eligible Letters of Credit issued on behalf of a Netting Member in favor of the Corporation, the Netting Member's "Actual Deposit"). The Corporation shall be entitled to exercise the its-rights ~~as of~~ a pledgee under common law and ~~as~~ a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such ~~collateral~~-assets.

#### Section 5 - Use of ~~Deposits and Payments~~ Clearing Fund

~~The use of the Clearing Fund deposits shall be limited to satisfaction of losses or liabilities of the Corporation, losses and liabilities incurred by the Corporation under a Cross-Margining Agreement, including Cross-Guaranty Payments and Cross-Guaranty Repayments made by the Corporation pursuant to Cross-Guaranty Agreements, Cross-Margining Payments and Cross-Margining Repayments made by the Corporation~~



~~pursuant to Cross-Margining Agreements, arising from the failure of a Defaulting Member or the Member's Permitted Margin Affiliate to satisfy an obligation to the Corporation, the failure of a Cross-Guaranty Defaulting Member to satisfy an obligation to a Cross-Guaranty Counterparty, the failure of a Cross-Margining Participant or its Cross-Margining Affiliate to satisfy an obligation to an FCO that has been guaranteed by the Corporation, the failure of a Cross-Margining Participant to satisfy a Reimbursement Obligation under Rule 43, or the failure of an FCO to make payment under a Cross-Margining Guaranty or otherwise incident to the clearance and settlement business of the Corporation including losses and liabilities arising other than from such failure of such Member, and to providing the Corporation with a source of collateral both to meet its temporary financing needs, including, without limitation, any financing that is obtained by the Corporation to hold securities pending settlement, and to ensure the satisfaction of Netting Members' settlement obligations. If the Corporation pledges, hypothecates, encumbers, borrows, or applies any part of the Clearing Fund deposits, or other collateral that it has received from Members to satisfy, in whole or in part, any liability, obligation, or liquidity requirement, for more than 30 days, the Corporation, at the Close of Business on the thirtieth day (or on the first Business Day thereafter), shall consider the amount used to meet such financing as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with Section 7 of this Rule.~~

The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including, without limitation, each Member's obligations with respect to any loss allocations as set forth in Section 7 of this Rule and any obligations arising from a Cross-Guaranty Agreement pursuant to Rule 41 or a Cross-Margining Agreement pursuant to Rule 43, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in Section 3a of this Rule.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the Close of Business on the 30th calendar day (or on the first Business Day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 7 of this Rule.

~~If a loss or liability incurred by the Corporation is allocated to a Member pursuant to Section 7 of this Rule, a Member that is a Cross-Margining Participant incurs a Reimbursement Obligation to the Corporation pursuant to Section 3 of Rule 43, under a Cross-Margining Agreement, a Member that is a Cross-Margining Beneficiary Participant incurs an obligation to reimburse the Corporation pursuant to Section 7 of Rule 43, a Member that is a Cross-Guaranty Defaulting Member incurs an obligation to reimburse the Corporation pursuant to Section 2 of Rule 41 or a Member that is a Cross-Guaranty Beneficiary Member incurs an obligation to reimburse the Corporation pursuant to Section 5 of Rule 41, the Corporation may apply the portion of the: (a) Member's deposit to the Clearing Fund, or (b) in the case of a Netting Member that is an Inter-Dealer Broker~~

~~Netting Member, the deposit required pursuant to Section 7 of this Rule, necessary to satisfy such allocation or obligation. In this regard, the Corporation may apply any cash, draw against any letters of credit, and liquidate any securities deposited by the Member, and may do any or all of the foregoing whether or not the Member is treated as insolvent under Rule 22.~~

Section 6 - ~~RESERVED FOR FUTURE USE~~Application of Clearing Fund Deposits and Other Amounts to Defaulting Members' Obligations

Any loss or liability incurred by the Corporation as the result of the failure of a Defaulting Member to fulfill its obligations to the Corporation shall be satisfied as set forth in this Section 6.

The Corporation shall apply (a) any Clearing Fund deposits, Funds-Only Settlement Amounts, and any other collateral or assets held by the Corporation securing such Defaulting Member's obligations to the Corporation, (b) any Clearing Fund deposits, Funds-Only Settlement Amounts, and other collateral held by the Corporation with respect to a Permitted Margin Affiliate of the Defaulting Member, (c) any proceeds of any of the foregoing, and (d) the following additional resources set forth in paragraphs (i) and (ii) below as are applicable to the Defaulting Member:

- (i) If the Defaulting Member is a Cross-Margining Participant, the Corporation shall apply any amounts available from an FCO under a Cross-Margining Guaranty either upon receipt or at the time described in Section 5(b) of Rule 43.
- (ii) If the Defaulting Member is a Cross-Guaranty Defaulting Member, the Corporation shall apply any amounts available under a Cross-Guaranty Agreement (subject to an applicable Cross-Margining Agreement) either upon receipt or at the time described in Section 3(b) of Rule 41.

If the Corporation applies a Defaulting Member's Clearing Fund deposits as permitted by this Rule, the Corporation may take any and all actions with respect to the Defaulting Member's Actual Deposit, including the assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate.

In the event that the Corporation makes a payment to an FCO under a Cross-Margining Guaranty and the Cross-Margining Participant that incurs a Reimbursement Obligation representing the amount of such payment fails to promptly satisfy the Reimbursement Obligation, the Corporation may in its discretion, and without treating such Cross-Margining Participant as a Defaulting Member, treat such payment as a loss to be allocated in accordance with this Section and Section 7 of this Rule.

Section 7 - Loss Allocation ~~of Loss or Liability Incurred by the Corporation~~ Waterfall, Off-the-Market Transactions

For the purposes of this Rule, the following terms shall have the following meanings:

“Defaulting Member” shall mean a Member for which the Corporation has ceased to act pursuant to Rule 21 or Rule 22.

“Defaulting Member Event” shall mean the determination by the Corporation to cease to act for a Member pursuant to Rule 21 or Rule 22.

“Declared Non-Default Loss Event” shall mean the determination by the Board of Directors that a loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner.

Each Member shall be obligated to the Corporation for the entire amount of any loss or liability incurred by the Corporation arising out of or relating to any Defaulting Member Event with respect to such Member. To the extent that such loss or liability is not satisfied pursuant to Section 6 of this Rule 4, the Corporation shall apply a Corporate Contribution thereto and charge the remaining amount of such loss or liability ratably to other Members, as further provided below.

~~If the Corporation incurs a~~Any loss or liability ~~(i) relating to or arising out of or relating to~~ incurred by the Corporation as the result of the failure of the default of a ~~Defaulting Member that is not satisfied pursuant to Section 6 of this Rule (a “Defaulting Member Event”)~~ or (ii) otherwise incident to the clearance and settlement business of the Corporation, as determined below ~~(a “Declared Non-Default Loss Event”)~~, the Corporation shall address the loss or liability as follows: ~~to fulfill its obligations to the Corporation shall be satisfied as set forth in this Section 7 of this Rule 4.~~

~~(a) The corporation shall apply any Clearing Fund deposits, Funds-Only Settlement Amounts, other collateral held by the Corporation securing such Member's obligations to the Corporation, and any Clearing Fund deposits, Funds-Only Settlement Amounts, and other collateral held by the Corporation with respect to a Permitted Margin Affiliate of the Member, and the following additional resources set forth in paragraphs (i) and (ii) below as are applicable to the Defaulting Member:~~

~~(i) If the Defaulting Member is a Cross-Margining Participant, the Corporation shall apply any amounts available from an FCO under a Cross-Margining Guaranty either upon receipt or at the time described in Section 5(b) of Rule 43.~~

~~(ii) If the Defaulting Member is a Cross-Guaranty Defaulting Member, the Corporation shall apply any amounts available under a Cross-Guaranty Agreement (subject to an applicable Cross-Margining~~

~~Agreement) either upon receipt or the time described in Section 3(b) of Rule 41.~~

~~(b) — In the event there is any loss or liability incurred by the Corporation in respect of the Government Securities Division remaining after application of paragraph (a) above (any such loss or liability, a “Remaining Loss”), the The Corporation shall apply an amount of up to 25% of the existing retained earnings of the Corporation, or such higher amount as the Board of Directors shall determine the Corporate Contribution to losses and liabilities that arise out of or relate to one or more Defaulting Member Events and/or Declared Non-Default Loss Events that occur within an Event Period. Notwithstanding the foregoing, to the extent that a loss or liability is determined by the Corporation to arise in connection with an Off-the-Market Transaction, it shall be allocated directly and entirely to the Member that submitted the data on the Off-the-Market Transaction to the Corporation; If losses and liabilities with respect to such Event Period remain unsatisfied following application of the Corporate Contribution, the Corporation shall allocate such losses and liabilities to Members, subject to the requirements and limitations below.~~

~~(c) — If there is any Remaining Loss after application of paragraph (b) above, If the loss or liability with respect to an Event Period results from one or more Defaulting Member Events, the Corporation shall determine the amount of such loss or liability that is attributable to Tier One Netting Members and the amount of such loss or liability that is attributable to Tier Two Members. If the loss or liability with respect to an Event Period results from one or more Declared Non-Default Loss Events, the amount of such loss or liability shall be attributable to Tier One Netting Members. Tier Two Members shall not be subject to loss allocation with respect to Declared Non-Default Loss Events.~~

~~To the extent that a loss or liability of the Corporation is determined by the Corporation to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction.~~

~~No loss allocation under this Rule shall constitute a waiver of any claim the Corporation may have against a Member for any losses or liabilities, including, without limitation, any loss or liability to which the Member is subject under these Rules. If the Corporation allocates losses or liabilities pursuant to this Rule and subsequently recovers amounts against such allocated losses or liabilities, in whole or in part, the net amount of the recovery shall be credited to the Persons, including the Corporation, against whom the losses were charged in proportion to the amounts charged against them.~~

~~To the extent there is a Remaining Loss attributable to Tier One Netting Members, the Corporation shall assess the Required Fund Deposit maintained by the Member an amount of up to \$50,000, in an equal basis per Tier One Netting Member, provided, however, that, in the event that the Corporation makes a payment to an FCO under a Cross-Margining Guaranty and the Cross-Margining Participant that incurs a Reimbursement Obligation representing the amount of such payment fails to promptly satisfy the Reimbursement Obligation, the Corporation may in its discretion, and without~~

~~treating such Cross-Margining Participant as a Defaulting Member, treat such payment as a Remaining Loss to be allocated in accordance with this subsection (c).~~

### Tier One Netting Members

Defaulting Member Events and/or Declared Non-Default Loss Events that occur within a period of ten (10) Business Days (an “Event Period”) shall be grouped together for purposes of applying the limits on loss allocation set forth in this Rule.

In the case of a Defaulting Member Event, an Event Period begins on the day the Corporation notifies Members that it has ceased to act for a *the* Defaulting Member (or the next Business Day, if such day is not a Business Day).

In the case of a Declared Non-Default Loss Event, an Event Period begins on the day that the Corporation notifies Members of the ~~determination by the Board of Directors that the applicable loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Tier One Netting Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner~~ *Declared Non-Default Loss Event* (or the next Business Day, if such day is not a Business Day), which notification shall be issued promptly following any such determination. If a subsequent Defaulting Member Event or Declared Non-Default Loss Event occurs during an Event Period, any losses or liabilities arising out of or relating to any such subsequent event shall be resolved as losses or liabilities that are part of the same Event Period, without extending the duration of such Event Period.

~~In the case of losses and liabilities relating to or arising out of a Declared Non-Default Loss Event, all Tier One Netting Members shall be subject to loss allocation. In the case of losses and liabilities relating to or arising out of a Defaulting Member Event, only non-defaulting Tier One Netting Members shall be subject to loss allocation. After a first round of loss allocations with respect to an Event Period, only Tier One Netting Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule shall be subject to further loss allocation with respect to that Event Period. The Corporation shall notify Tier One Netting Members subject to loss allocation of the amounts being allocated to them (“Loss Allocation Notice”) in successive rounds of loss allocations.~~

*Each Tier One Netting Member that is a Tier One Netting Member on the first day of an Event Period shall be obligated to pay its pro rata share of losses and liabilities arising out of or relating to each Defaulting Member Event (other than a Defaulting Member Event with respect to which it is the Defaulting Member) and each Declared Non-Default Loss Event occurring during the Event Period. Any Tier One Netting Member for which the Corporation ceases to act on a non-Business Day, triggering an Event Period that commences on the next Business Day, shall be deemed to be a Tier One Netting Member on the first day of that Event Period.*

A loss allocation “round” means a series of loss allocations relating to an Event Period, the aggregate amount of which is limited by the sum of the Loss Allocation Caps of affected Tier One Netting Members (a “round cap”). When the aggregate amount of losses allocated in a round equals the round cap, any additional losses relating to the applicable Event Period would be allocated in one or more subsequent rounds, in each case subject to a round cap for that round. The Corporation may continue the loss allocation process in successive rounds until all losses from the Event Period are allocated among Tier One Netting Members who have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule.

Each loss allocation shall be communicated to Tier One Netting Members by the issuance of a notice that advises the Tier One Netting Members of the amount being allocated to them (“of a Loss Allocation Notice”). Each Tier One Netting Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) Business Days preceding the first day of the applicable Event Period or such shorter period of time that the Tier One Netting Member has been a Tier One Netting Member (each Tier One Netting Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Tier One Netting Members subject to loss allocation in such round.

Each Loss Allocation Notice shall specify the relevant Event Period and the round to which it relates. The first Loss Allocation Notice in any first, second, or subsequent round shall expressly state that such Loss Allocation Notice reflects the beginning of the first, second, or subsequent round, as the case may be, and that each Tier One Netting Member in that round has five (5) Business Days from the issuance of such first Loss Allocation Notice for the round to notify the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, and thereby benefit from its Loss Allocation Cap. The “Loss Allocation Cap” of a Tier One Netting Member shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period and (y) its Average RFD.

After a first round of loss allocations with respect to an Event Period, only Tier One Netting Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule shall be subject to further loss allocation with respect to that Event Period.

Each Tier One Netting Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) Business Days preceding the first day of the applicable Event Period or such shorter period of time that the Tier One Netting Member has been a Tier One Netting Member (each Tier One Netting Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Tier One Netting Members subject to loss allocation in such round. Each Tier One Netting Member’s maximum payment obligation with respect to any loss allocation round shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period or (y) its Average RFD (such amount shall be each Tier One Netting Member’s “Loss Allocation Cap”). Notwithstanding the foregoing, however, an Inter-Dealer Broker Netting Member, or a Non-IDB Repo Broker with respect

to activity in its Segregated Repo Account, shall not be subject to an aggregate loss allocation in an amount greater than \$5 million pursuant to this Section 7 for losses and liabilities resulting from an Event Period.

For purposes of calculating the pro rata share of losses and liabilities and the Loss Allocation Cap pursuant to the previous paragraph, the Corporation shall not count toward a Tier One Netting Member's Required Fund Deposit any increased Clearing Fund deposit that the Tier One Netting Member may be subject to pursuant to Section 2(d) of this Rule.

Tier One Netting Members shall pay to the Corporation the amount specified in any first round Loss Allocation Notice on the second Business Day after the Corporation issues any such notice. Tier One Netting Members shall pay to the Corporation the amount specified in any subsequent round Loss Allocation Notice on the second Business Day after the Corporation issues such notice, unless the Tier One Netting Member has timely notified (or will timely notify) the Corporation of its election to withdraw from membership with respect to a prior loss allocation round, pursuant to Section 7b of this Rule.

~~Notwithstanding Section 10 of this Rule, to~~ ~~To~~ the extent that a Tier One Netting Member's Loss Allocation Cap exceeds the Tier One Netting Member's Required Fund Deposit on the first day of the applicable Event Period, the Corporation may, in its discretion, retain any excess amounts on deposit from the Tier One Netting Member, up to the Tier One Netting Member's Loss Allocation Cap.

If a Tier One Netting Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Tier One Netting Member as a Defaulting Member that has failed to satisfy an obligation in accordance with Section 6 of this Rule.

If a Tier One Netting Member notifies the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, the Tier One Netting Member shall comply with the provisions of Section 7b of this Rule. If, after notifying the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, the Tier One Netting Member fails to comply with the provisions of Section 7b of this Rule, its notice of withdrawal shall be deemed void and any further losses resulting from the applicable Event Period may be allocated against it as if it had not given such notice.

A Tier One Netting Member that elects to withdraw pursuant to Section 7b of this Rule shall not be eligible to re-apply to become a Comparison-Only Member or a Netting Member unless, prior to submitting such application, it makes the payment(s) to the Corporation that would have been due pursuant to Section 7 of this Rule as if the Tier One Netting Member had not withdrawn, together with interest on that amount at the average of the Federal Funds Rate plus one percent, calculated from the date on which the Event Period began.

## **Tier Two Members**

To the extent there is a **Remaining Loss-loss or liability** payable by Tier Two Members, such loss **or liability** shall be allocated to Tier Two Members.

If the Tier Two Members are not CCIT Members (“Tier Two Non-CCIT Members”), the allocation will be based upon their trading activity with the Defaulting Member that resulted in a loss **or liability**. The Corporation shall assess such loss **or liability** against the Tier Two Non-CCIT Members ratably based upon their loss **or liability** as a percentage of the entire amount of the **Remaining Loss-loss or liability** attributable to such Tier Two Non-CCIT Members. Such Tier Two Non-CCIT Members with a bilateral liquidation profit will not be allocated any portion of the **Remaining Loss-loss or liability** otherwise attributable to Tier Two Members.

If the Tier Two Members are CCIT Members (“Tier Two CCIT Members”), the allocation will be based upon their open trading activity with the Defaulting Member that resulted in a loss **or liability**. The Corporation shall assess such loss **or liability** against the Tier Two CCIT Members ratably based upon a percentage of the loss **or liability** attributable to each Tier Two CCIT Member’s specific Generic CUSIP that it had open with the Defaulting Member. Such Tier Two CCIT Members with a bilateral liquidation profit will not be allocated any portion of the **Remaining Loss-loss or liability** otherwise attributable to Tier Two Members.

**If a Tier Two Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Tier Two Member as a Defaulting Member that has failed to satisfy an obligation in accordance with Section 6 of this Rule.**

~~(d) If there is any Remaining Loss attributable to Tier One Netting Members after application of paragraph (c) above, it shall be allocated among Tier One FICC Members, ratably, in accordance with the amount of each Tier One Netting Member’s respective Required Fund Deposit and based on the average daily level of such deposit over the prior twelve months (or such shorter period as may be available in the case of a Member which has not maintained a deposit over such time period) (such amount, the Member’s “Average Required FICC Clearing Fund Deposit”).~~

~~(e) Notwithstanding anything to the contrary in this Section 7, however, an Inter-Dealer Broker Netting Member, or a Non-IDB Broker with respect to activity in its Segregated Broker Account, shall not be subject to an aggregate allocation of loss pursuant to this Section 7 for any single loss-allocation event, in an amount greater than \$5 million.~~

~~(f) Any loss or liability incurred by the Corporation incident to its clearance and settlement business arising from the failure of a Netting Member to pay to the Corporation an allocation made pursuant to the preceding subsections of this Section, or arising other than from a Remaining Loss (hereinafter, an “Other Loss”) shall be allocated among Tier One Netting Members, ratably, in accordance with the respective amounts of their Average Required FICC Clearing Fund Deposits.~~

~~(g) The entire amount of the Required Fund Deposit of any Netting Member at the time that the Corporation incurred Remaining Loss or Other Loss may be used to~~



~~satisfy any amount allocated against a Member as a result of such Remaining Loss or Other Loss. If notification is provided to a Member that an allocation has been made against a Member pursuant to this Rule and that application of the Member's Required Fund Deposit is not sufficient to satisfy such obligation to make payment to the Corporation, the Member shall (i) deliver to the Corporation by the Close of Business on the next Business Day, or by the Close of Business on the Business Day of issuance of the notification if so determined by the Corporation, that amount which is necessary to eliminate any such deficiency, except that (ii) with regard to an allocation arising from any Remaining Loss allocated by the Corporation pursuant to subsection (d) of this Section 7 and any Other Loss, such Member may instead provide by the Close of Business on the Business Day on which such payment is due the Corporation written notice to the Corporation, pursuant to Section 13 of Rule 3, of its election to terminate its membership in the Corporation. If such Member elects to terminate its membership in the Corporation, its liability for an allocation arising from such Remaining Loss and Other Loss shall be limited to the amount of its Required Fund Deposit for the Business Day on which the notification of such allocation is provided to the Member. If such Member does not elect to terminate its membership in the Corporation as provided for above, it shall make such deposits to the Clearing Fund, by the Close of Business on the Business Day on which the Member is obligated to make the payment provided for above, as are necessary to satisfy its Required Fund Deposit as of such Business Day. If the Member shall fail to take the action stated in either (i) or (ii) above, the Corporation shall cease to act generally with regard to such Member pursuant to Rules 21 and 22A, and may take disciplinary action against the Member pursuant to Rule 48.~~

~~——— A Member that elects to terminate its membership pursuant to alternative (ii) of the above paragraph in lieu of being liable to pay an additional assessment amount above its Required Fund Deposit shall not be eligible to re-apply to become a Comparison-Only Member or a Netting Member unless, prior to submitting such application, it makes the payment to the Corporation provided for in alternative (i) of the above paragraph, together with interest on that amount at the average of the Federal Funds Rate plus one percent, calculated from the date on which the Remaining Loss or Other Loss was incurred by the Corporation until the date of such payment. If a Netting Member elects to terminate its membership pursuant to alternative (ii) of the above paragraph, or if the Member fails to take any action, the Corporation will promptly make an additional assessment against the remaining Tier One Netting Members to cover the amount not paid by the Netting Member that made such election to terminate its membership.~~

~~(h) — If a Remaining Loss or Other Loss occurs, the Corporation shall promptly notify each Member, and the SEC, of the amount involved and the reasons therefore. Any disciplinary action that the Corporation takes, or the voluntary or involuntary cessation of membership by a Member subsequent to the occurrence of the Remaining Loss or Other Loss, shall not, except as otherwise provided in this Rule, affect the obligations of the Member to the Corporation under this Rule or the Procedures thereof, or affect any remedy to which the Corporation may be entitled. If a Remaining Loss or Other Loss charged to Members is afterward recovered by the Corporation in whole or in part, the net amount of the recovery shall be credited or paid to those Persons, other than a Defaulting Member or other Person who caused in whole or part such Loss, including the~~

~~Corporation, against whom the loss was charged, in proportion to the amounts paid by them, whether or not they are still Members.~~

~~(i) For purposes of calculating the allocations in this Section 7 that are based upon a Member's Average Required FICC Clearing Fund Deposit, a Member that is subject to an increased Clearing Fund deposit requirement pursuant to subsection (f) of Section 2 of this Rule shall be deemed to have a Average Required FICC Clearing Fund Deposit amount without such increase being taken into account.~~

#### Section 7a – Corporate Contribution

For any loss allocation pursuant to Section 7 of this Rule, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation's corporate contribution to losses or liabilities that are incurred by the Corporation with respect to an Event Period ("Corporate Contribution") shall be an amount that is equal to fifty (50) percent of the amount calculated by the Corporation in respect of its General Business Risk Capital Requirement as of the end of the calendar quarter immediately preceding the Event Period. The Corporation's General Business Risk Capital Requirement, as defined in its Clearing Agency Policy on Capital Requirements, is, at a minimum, equal to the regulatory capital that the Corporation is required to maintain in compliance with Rule 17Ad-22(e)(15) under the Exchange Act. If the Corporate Contribution is applied by the Corporation against a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporate Contribution for any subsequent Event Periods occurring during the two hundred fifty (250) Business Days thereafter shall be reduced to the remaining unused portion of the Corporate Contribution amount that applied for the first Event Period. The Corporation shall notify Members of any such reduction to the Corporate Contribution. The Corporation shall maintain one Corporate Contribution, the amount of which is available to both the Government Securities Division and the Mortgage-Backed Securities Division, and would be applied against a loss or liability in either Division in the order in which such loss or liability occurs. In the event of a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, attributable to only one Division, the Corporate Contribution shall be applied to that Division up to the amount then available. If a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, occurs simultaneously at both Divisions, the Corporate Contribution shall be applied to the respective Division in the same proportion that the aggregate Average RFDs of all members in that Division bears to the aggregate Average RFDs of all members in both Divisions.

Nothing in these Rules shall prevent the Corporation from voluntarily applying amounts greater than the Corporate Contribution against any loss or liability of the Corporation, whether *arising out of or relating to* a Defaulting Member Event or a Declared Non-Default Loss Event, if the Board of Directors, in its sole discretion, believes such to be appropriate under the factual situation existing at the time.

### **Section 7b – Withdrawal Following Loss Allocation**

**If a Tier One Netting Member timely notifies the Corporation of its election to withdraw from membership in respect of a loss allocation *round* as set forth in Section 7 of this Rule (“Loss Allocation Withdrawal Notice”), the Tier One Netting Member shall:**

- (i) specify in the Loss Allocation Withdrawal Notice an effective date for its withdrawal from membership, which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Tier One Netting Member to the Corporation, unless otherwise approved by the Corporation; and**
- (ii) as of the time of such Tier One Netting Member’s submission of the Loss Allocation Withdrawal Notice to the Corporation, cease submitting transactions to the Corporation for processing, clearance or settlement, unless otherwise approved by the Corporation.**

***A Tier One Netting Member that withdraws in compliance with the requirements of this section shall nevertheless remain obligated for its pro rata share of losses and liabilities with respect to any Event Period for which it is otherwise obligated hereunder; however, its aggregate obligation shall be limited to the amount of its Loss Allocation Cap (as fixed in the round for which it withdrew).***

**If the Tier One Netting Member fails to comply with the requirements in this section, its Loss Allocation Withdrawal Notice will be deemed void, and the Tier One Netting Member will remain subject to further loss allocations pursuant to Section 7 of this Rule as if it had not given such Loss Allocation Withdrawal Notice.**

### **Section 8 – Return of Members’ Clearing Fund Deposits**

**If a Member gives notice to the Corporation of its election to withdraw from membership, the Member’s Actual Deposit in the form of (i) cash or securities shall be returned to it within thirty (30) calendar days and (ii) Eligible Letters of Credit shall be returned to it within ninety (90) calendar days, after all of its transactions have settled and all matured and contingent obligations to the Corporation for which the Member was responsible while a Member have been satisfied.**

**Notwithstanding anything else contained in these Rules, the Corporation may retain an amount equal to any Cross-Guaranty Repayment Deposit and/or Cross-Margining Repayment Deposit of any Member until such time as the Corporation determines that such Member is no longer liable to the Corporation under Rule 41 “Cross Guaranty Agreements” and/or Rule 43 “Cross-Margining Arrangements”, to reimburse the Corporation for any Cross-Guaranty Repayment or Cross-Margining Repayment, respectively, that the Corporation may be obligated to make under any relevant Cross-Guaranty Agreement or Cross-Margining Agreement.**

**Section 89 - ~~Timing of Payment of Deposit~~ Initial Required Fund Deposit and Changes in Members' Required Fund Deposits**

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A Netting Member must increase the amount of its **deposit to the Clearing Fund Required Fund Deposit** (by the deposit of cash, Eligible Netting Securities, and/or Eligible Letters of Credit subject to the requirements of this Rule) by the Required Fund Deposit Deadline on any Business Day that such Netting Member's **Actual Deposit actual deposit to the Clearing Fund** is less than its Required Fund Deposit as set forth in the Report listing such, subject to the conditions included in Section 2 of this Rule 4. **If there is an increase in a Netting Member's Required Fund Deposit, at the time the increase becomes effective, the Netting Member's obligations to the Corporation shall be determined in accordance with the increased Required Fund Deposit whether or not the Netting Member has satisfied such increased amount.**

**If the Corporation applies a Netting Member's Clearing Fund deposits as permitted pursuant to this Rule, the Corporation may take any and all actions with respect to the Netting Member's Actual Deposit, including assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate. If such application results in any deficiency in the Netting Member's Required Fund Deposit, the Netting Member shall immediately replenish it. If the Netting Member fails to do so, the Corporation may take disciplinary action against such Netting Member pursuant to Rule 21 or Rule 48. Any disciplinary action that the Corporation takes pursuant to Rule 21 or Rule 48 or the voluntary or involuntary cessation of membership shall not affect the Netting Member's obligations to the Corporation or any remedy to which the Corporation may be entitled under applicable law.**

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**Section 910 - ~~Return of Deposits and Payments~~ Excess Clearing Fund Deposits**

The Corporation shall determine with such frequency as it shall from time to time specify, whether the amount deposited by a Member in the Clearing Fund is in excess of its Required Fund Deposit (hereinafter, "Excess Clearing Fund Deposit"). On any day that the Corporation has determined that an Excess Clearing Fund Deposit exists with respect to any Member, the Corporation will, in the form and manner required by the Corporation, notify each **such** Member of such excess. **Subject to the Corporation's rights under these Rules to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member such amount of its excess cash on deposit (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value on the day of such withdrawal) as the Member requests. Upon the request of a Member, in the form and manner required by the Corporation, the Corporation shall cause to be returned to each such Member cash on deposit (in excess of the minimum amount of cash required to be maintained in the Clearing Fund), and/or Eligible Clearing Fund Securities (valued at their**

~~market value, including accrued interest as of the end of the Business Day prior to such withdrawal), in an aggregate amount equal to such excess or such lesser amount as the Member may request; provided, however, that, any return of excess will be done in such a way that the remaining Clearing Fund on deposit meets the requirements of Section 4, 4a, and 4b of this rule. In addition Notwithstanding the foregoing, at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned if the Member has an outstanding payment obligation to the Corporation, if the Corporation determines that the Member's anticipated Funds-Only Settlement Amounts or Net Settlement Positions in the near future may reasonably be expected to be materially different than those of the recent past or if the Member is on the Watch List.~~

In addition, the return of an Excess Clearing Fund Deposit amount to any Member is subject to the following limitations: (1) such return of Excess Clearing Fund Deposit shall not be done in a manner that would cause the Member to violate any other Section of these Rules; (2) Excess Clearing Fund Deposit shall not be returned to a Member to the extent that such return would reduce the amount of the Member's Cross-Guaranty Repayment Deposit to the Clearing Fund below the amount required to be maintained pursuant to Section 4 of Rule 41; and (3) Excess Clearing Fund Deposit shall not be returned to a Member to the extent that such return would reduce the amount of the Member's Cross-Margining Repayment Deposit to the Clearing Fund below the amount required to be maintained pursuant to Section 6 of Rule 43.

The provisions of this section shall not limit the rights or remedies of the Corporation as provided in Section 7 of Rule 3.

#### Section 10- Ceasing to be a Member

~~If a Netting Member gives notice to the Corporation pursuant to Rule 3 of its election to terminate its membership in the Netting System, the Member's deposits to the Clearing Fund in the form of cash or securities shall be returned to it within 30 calendar days thereafter, and the Member's deposits to the Clearing Fund in the form of letters of credit shall be returned to it within 90 calendar days thereafter, in each case provided that all amounts owing to the Corporation by the Member have been paid to the Corporation prior to such return and the Member has no remaining open Net Settlement Position, Fail Net Settlement Position, or Forward Net Settlement Position. Any obligation of a Member to the Corporation pursuant to this Rule that is unsatisfied at the time it ceases to be a Member shall not be effected by such cessation.~~

~~The time periods specified in the above paragraph also govern the return of any cash or securities deposited by, or letters of credit issued on behalf of, an Inter-Dealer Broker pursuant to Section 7 of this Rule.~~

~~Notwithstanding the previous two paragraphs or anything else contained in these Rules, the Corporation may retain an amount equal to any Cross-Guaranty Repayment Deposit and/or Cross-Margining Repayment Deposit of any Member until such time as the Corporation determines that such Member is no longer liable to the Corporation under Rule 41 and/or Rule 43 to reimburse the Corporation for any Cross-Guaranty Repayment~~

~~or Cross-Margining Repayment, respectively, that the Corporation may be obligated to make under any relevant Cross-Guaranty Agreement or Cross-Margining Agreement.~~

#### Section 11 - Corporation's Authority to Pledge and Assign

In furtherance of the rights of the Corporation pursuant to these Rules, the Corporation shall have full power and authority to pledge, repledge, hypothecate, transfer, create a security interest in, or assign any and all **Actual Deposits: (i) cash deposits, (ii) securities, repurchase agreements, deposits or other instruments in which cash deposits of Members are invested, and (iii) any securities or letters of credit pledged or deposited by any Member to secure an open account indebtedness to the Clearing Fund or otherwise to collateralize its obligations to the Corporation, and any proceeds thereof** for the purpose of securing loans made to the Corporation **(the party making any such loan to the Corporation hereinafter referred to as the "Lender"); or other obligations incurred by the Corporation, provided that the proceeds of such loans are used for a purpose permissible under Section 3 and Section 5 of this Rule in each case incident to the clearance and settlement business of the Corporation.** Such loans ~~or obligations~~ shall be on terms and conditions deemed necessary or advisable by the Corporation **(including collateralization thereof)** in its sole discretion, and may be in amounts greater, and extend for periods of time longer, than the obligations, if any, of any Member to the Corporation for which such property **and Eligible Letters of Credit (if any) were was** pledged to or deposited with the Corporation. Notwithstanding the above, the Corporation shall remain obligated to each **such** Member to return, and to allow substitution for or withdrawal of, cash, **and Eligible Clearing Fund Securitiessecurities,** and **Eligible HLetters of eCredit (if any)** pledged or deposited by ~~asuch~~ Member as **a** Clearing Fund deposit ~~or to secure an open account indebtedness to the Clearing Fund,~~ or otherwise to collateralize such Member's obligations to the Corporation, under the circumstances and within the timeframes specified in these Rules. **In the event of any conflict or inconsistency between this Rule 4 and any agreement between the Corporation and any Member, this Rule 4 shall govern and prevail.**

#### Section 12 – Clearance and Settlement Business of the Corporation

For purposes of this Rule 4, references to the clearance and settlement business of the Corporation shall include its business as a Securities Intermediary.

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## **RULE 13 - FUNDS-ONLY SETTLEMENT**

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### Section 5- Funds-Only Settlement Amount Payment Process

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(o) Under FRB Operating Circular No. 12, FICC's Settlement Agent has certain processing responsibilities in allocating an indemnity claim made by an FRB as a result of processing the Corporation's funds-only settlement via NSS. The Corporation shall apportion the entirety of such liability to the Netting Members for whom the Funds-Only Settling Bank to which the indemnity claim relates was acting. Such liability for each applicable Netting Member shall be in proportion to the amount of such Members' Funds-Only Settlement Amounts on the Business Day in question. If for any reason such allocation is not sufficient to fully satisfy the FRB indemnity claim, then the remaining loss shall be treated as ~~an "Other Loss" as defined by Rule 4~~ **a loss that is otherwise incident to the clearance and settlement business of the Corporation** and allocated accordingly **pursuant to Section 7 of Rule 4.**

\*\*\*\*

## **RULE 18 - SPECIAL PROVISIONS FOR REPO TRANSACTIONS**

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### Section 3 - Collateral Substitutions

(f) Upon receipt of a request for such substitution and until information regarding the New Securities Collateral is provided to the Corporation for purposes of calculating the Required Fund Deposit of the Repo Party, the Corporation shall assign to the transaction a Contract Value which is 150 percent of the Contract Value of the original securities collateral. Moreover, where the Corporation has been notified of a substitution but the New Securities Collateral has not yet been reported to the Corporation, the Corporation shall base margining with respect to the New Securities Collateral on the applicable Generic CUSIP using the methodology that is used for securities whose volatility is less amenable to statistical analysis set forth in Section ~~2(b)~~**1b** of Rule 4.

\*\*\*\*



**RULE 21A – WIND-DOWN OF A NETTING MEMBER**

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If the Corporation takes, or mandates, any action pursuant to this Rule, the Corporation shall, as soon as practicable thereafter, notify the SEC and such other Members as it deems proper due to the nature of such action, and shall inform Members as to whether the Corporation shall relieve Members from the loss allocation obligations of ~~Section 8 of~~ Rule 4 with respect to transactions that Members enter into with the Wind-Down Member.

\*\*\*\*

## RULE 22B – CORPORATION DEFAULT

### Corporation Default

(a) If a “Corporation Default” occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated. Each relevant Member shall thereupon promptly take such market action as is commercially reasonable under the circumstances to effect a close out of any outstanding positions. Each Member will report the results of its market action to the Board and the Board shall determine a single net amount owed by or to each Member with respect to such positions, to the extent applicable, by applying the close out and application procedures of Sections 2(a) and (b) of Rule 22A **(interpreted in all such cases as if each Member were a Defaulting Member)** and **Sections 7(a) through (c) of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member)** taking into account the **other loss allocation** provisions in **these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member Rule 4**. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members’ and any other creditors’ claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. For the avoidance of doubt, nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Mortgage-Backed Securities Division or any other Cross-Guaranty Counterparty.

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## **RULE 41 - CROSS GUARANTY AGREEMENTS**

### Section 1 – Authority

The Corporation may, from time to time, enter into one or more Limited Cross-Guaranty Agreements.

In determining its available net resources pursuant to a Limited Cross-Guaranty Agreement, the Corporation shall first offset the available net resources of the Government Securities Division ~~pursuant to the Cross-Margining Agreement between the Corporation and NYPC and then~~ the Mortgage-Backed Securities Division.

\*\*\*\*

### Section 3 - Application of Cross-Guaranty Payments

The Corporation shall, in its sole discretion, either:

(a) apply any Cross-Guaranty Payment received by the Corporation on account of a Cross-Guaranty Defaulting Member: (1) to the unpaid obligations of such Cross-Guaranty Defaulting Member to the Corporation and (2) to reduce the assessments made or that otherwise would be made against other Netting Members (each, a “Cross-Guaranty Beneficiary Member”) pursuant to Section **87** of Rule 4; or

(b) retain any Cross-Guaranty Payment received by the Corporation and not apply such Cross-Guaranty Payment to reduce any assessments against other Netting Members pursuant to Section **87** of Rule 4 until the Corporation determines that the Corporation is no longer liable for any Cross-Guaranty Repayment, at which point the Cross-Guaranty Payment shall be treated as an amount that has been recovered pursuant to Section ~~8(k)~~**7** of Rule 4.

### Section 4 - Cross-Guaranty Repayment Deposits

\*\*\*\*

In the event that the Corporation is required to make a Cross-Guaranty Repayment and it does not have a sufficient amount of Cross-Guaranty Repayment Deposits to cover the liability, the Corporation shall treat the shortfall as ~~an “Other Loss”~~**a loss incurred as a result of a Defaulting Member Event to be allocated** pursuant to Section ~~8(g)~~**7** of Rule 4.

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## RULE 43 - CROSS-MARGINING ARRANGEMENTS

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### Section 6 – Cross-Margining Repayment Deposits

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In the event that the Corporation is required to make a Cross-Margining Repayment and it does not have a sufficient amount of Cross-Margining Repayment Deposits to cover the liability, the Corporation shall treat the shortfall as ~~an “Other Loss”~~ **a loss incurred as a result of a Defaulting Member Event to be allocated** pursuant to Section ~~8(g)~~**7** of Rule 4.

\*\*\*\*

**BOARD INTERPRETATIONS AND STATEMENTS OF POLICY**

**INTERPRETATION OF THE BOARD OF DIRECTORS OF THE  
GOVERNMENT SECURITIES CLEARING CORPORATION**

~~Pursuant to Rule 47 of the Government Securities Clearing Corporation ("the Corporation"), the Board of Directors has the authority to interpret the rules of the Corporation. The purpose of this interpretation is to clarify certain provisions of the Corporation Rule 4 ("Rule 4") and the extent to which Clearing Fund and other required deposits of Netting Members may be applied to a loss or liability incurred by the Corporation.~~

~~Section 6 of Rule 4 provides that the use of the Clearing Fund shall be limited to satisfaction of losses or liabilities of the Corporation arising from the failure of a Netting Member to satisfy an obligation to the Corporation or incident to the clearance and settlement business of the Corporation other than from such failure of such Member, and to providing the Corporation with a source of collateral to meet its temporary financing needs. Section 7 of Rule 4 provides that collateral in the amount of \$1.6 million is required to be maintained by Inter-Dealer Broker Netting Members (which Members are not required to contribute to the Clearing Fund) for the purpose of collateralizing any obligations that such Member may have to the Corporation pursuant to the Shareholder Agreement and Section 8 (Allocation of Loss or Liability Incurred by the Corporation) of Rule 4.~~

~~1. Use of required deposits to satisfy a loss or liability arising incident to the clearance and settlement business of the Corporation~~

~~The appropriateness of the use of required deposits to satisfy in whole or part a loss or liability arising incident to the clearance and settlement business of the Corporation is best determined by the Board of Directors on a case-by-case basis. The determination as to whether a loss or liability arose incident to the clearance and settlement business of the Corporation such that the loss or liability may be covered by Netting Members' required collateral may be made only by the Board of Directors, after consideration of the circumstances that led to the loss and liability and the effect on the Corporation of the use of required collateral to cover such loss or liability.~~

~~2. Use of required deposits to provide the Corporation with a source of collateral to meet its temporary financing needs~~

~~The use of required deposits to provide the Corporation with a source of collateral for financing is limited to those temporary financing needs related to the clearance and settlement business of the Corporation.~~

~~September 13, 1989~~

\*\*\*\*

## INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules:

A. *Clearing Fund-Related Consequences*

1. Additional Clearing Fund Deposits

Pursuant to Section 12(e) of Rule 3, the Corporation may require a Netting Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with ~~Section 2~~the provisions of Rule 4 or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members.

\*\*\*\*\*

2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 910 of Rule 4, the Corporation may retain some or all of the Excess Clearing Fund Deposit of a Member who is on the Watch List. Nonetheless, the Corporation generally does not retain the Excess Clearing Fund Deposit of a Watch List Member unless the Member fails to pay the Required Fund Deposit within the required timeframes established by the Corporation, or if the Corporation has a concern that the Member will not be able to satisfy its obligation to the Corporation.

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**FIXED INCOME CLEARING CORPORATION**

**MORTGAGE-BACKED SECURITIES DIVISION**

**CLEARING RULES**

TEXT OF PROPOSED RULE CHANGE

indicates proposed added language

indicates proposed deleted language

indicates additional language proposed by this  
Amendment No. 1

indicates deleted language proposed by this  
Amendment No. 1

**RULE 1 - DEFINITIONS**

\*\*\*\*

**Actual Deposit**

**The term “Actual Deposit” shall have the meaning given that term in Section 4 of Rule 4.**

\*\*\*\*

**Average RFD**

**The term “Average RFD” shall have the meaning given that term in Section 7 of Rule 4.**

\*\*\*\*

**Clearing Fund Cash**

**The term “Clearing Fund Cash” shall have the meaning given that term in Section 3a of Rule 4.**

\*\*\*\*

**Corporate Contribution**

**The term “Corporate Contribution” shall have the meaning given that term in Section 7a of Rule 4.**

\*\*\*\*

**Declared Non-Default Loss Event**

**The term “Declared Non-Default Loss Event” shall have the meaning given that term in Section 7 of Rule 4.**

\*\*\*\*

**Defaulting Member Event**

**The term “Defaulting Member Event” shall have the meaning given that term in Section 7 of Rule 4.**

\*\*\*\*



**Event Period**

**The term “Event Period” shall have the meaning given that term in Section 7 of Rule 4.**

\*\*\*\*

**Excess Clearing Fund Deposit**

**The term “Excess Clearing Fund Deposit” shall have the meaning given that term in Section 10 of Rule 4.**

\*\*\*\*

**Lender**

**The term “Lender” shall have the meaning given that term in Section 11 of Rule 4.**

\*\*\*\*

**Loss Allocation Cap**

**The term “Loss Allocation Cap” shall have the meaning given that term in Section 7 of Rule 4.**

**Loss Allocation Notice**

**The term “Loss Allocation Notice” shall have the meaning given that term in Section 7 of Rule 4.**

**Loss Allocation Withdrawal Notice**

**The term “Loss Allocation Withdrawal Notice” shall have the meaning given that term in Section 7b of Rule 4.**

\*\*\*\*

**Termination Date**

**The term “Termination Date” shall have the meaning given that term in Section 14 of Rule 3.**

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**Voluntary Termination Notice**

**The term “Voluntary Termination Notice” shall have the meaning given that term in Section 14 of Rule 3.**

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### RULE 3 - ONGOING MEMBERSHIP REQUIREMENTS

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#### Section 11 – Ongoing Monitoring

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(e) The Corporation may require a Clearing Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with ~~Section 2~~ **the provisions** of Rule 4 (which additional deposit shall constitute a portion of the Clearing Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member. The Corporation may also retain any Excess Clearing Fund Deposits of a Clearing Member that has been placed on the Watch List as provided in Section **910** of Rule 4.

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#### Section 14 - Voluntary Termination

A Member may elect to terminate its membership in the Clearing System by providing the Corporation with ~~a 10 days~~ written notice of such termination (**“Voluntary Termination Notice”**); ~~however, the Corporation, in its discretion, may accept such termination within a shorter notice period. The Member shall specify in the Voluntary Termination Notice an effective a desired date for its withdrawal from membership (the “Termination Date”), which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Member to the Corporation as of the time such Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.~~

Such termination will not be effective until accepted by the Corporation, **which shall be no later than 10 Business Days after the receipt of the Voluntary Termination Notice from such Member.** The Corporation's acceptance shall be evidenced by a notice to Members announcing the Member's termination and the **effective date of the termination of the Member (hereinafter the “Termination Date”)**. As of the Termination Date, a Clearing Member that terminates its membership in the Clearing System shall no longer be eligible to submit to the Corporation data on trades unless the Board determines otherwise in order to ensure an orderly liquidation of the **Clearing Member's open obligations.** **If any trade is submitted to the Corporation by such Clearing Member that is scheduled to settle on or after the Termination Date, such Clearing Member's Voluntary Termination Notice will be deemed void, and the Clearing Member will remain subject to these Rules as if it had not given such Voluntary Termination Notice.**

A Member's voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to Transactions submitted to the Corporation before the Termination Date. The return of the Member's Clearing Fund deposit shall be governed by Section 108 of Rule 4. **If a Member is a Tier One Member and an Event Period were to occur after such Member has submitted its Voluntary Termination Notice but prior to the Termination Date, in order for such Member to benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4, the Member will need to comply with the provisions of Section 7b of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Voluntary Termination Notice previously submitted by the Member.**

### **Section 15 – Indemnification**

~~Clearing Members shall indemnify the Corporation against any loss, reasonable cost or expense, damage or liability arising out of the performance, non-performance or misperformance of such duties except to the extent that the Corporation's conduct violated the standard of care set forth in Rule 30, "Limitations of Liability". In the event that any loss, cost, expense, damage or liability with respect to which the Corporation is entitled to indemnification pursuant to this Section 15 is attributable to one or more identifiable Clearing Members, an assessment shall be made against such Clearing Members. In the event that any such loss, cost, expense, damage or liability cannot be attributed to one or more identifiable Clearing Members, an assessment shall be made against Clearing Members generally in proportion to their relative usage of the facilities of the Corporation (based on fees for services) during the period in which such loss, cost, expense, damage or liability was incurred. The assessment in the immediately preceding sentence shall be subject to Section 7(g) of Rule 4.~~

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RULE 4 - CLEARING FUND AND LOSS ALLOCATION

Section 1 – General Required Fund Deposits

Each Clearing Member shall make, and maintain on an ongoing basis so long as such Member is a Clearing Member, a deposit to the Clearing Fund at no less than the minimum required level set forth in this Rule (the "Required Fund Deposit"). ~~Deposits to the Clearing Fund shall be held by the Corporation or its designated agents to be applied as provided in this Rule.~~ The amount of each Clearing Member's required deposit shall be determined by the Corporation in accordance with this Rule and shall be referred to as the Required Fund Deposit. The timing of payment of the Required Fund Deposit shall be determined in accordance with the provisions of Section ~~89~~ of this Rule. ~~The term "Transactions" as used in this Rule 4 includes Pool Receive Obligations, Pool Deliver Obligations, TBA Obligations, Specified Pool Trades and Stipulated Trades.~~

A Clearing Member may in its discretion maintain additional deposits at the Corporation, subject to any requirements the Corporation may establish for such excess amounts pursuant to Section 10 of this Rule. For purposes of these Rules, such additional deposits shall be deemed to be part of the Clearing Fund and the Clearing Member's Actual Deposit but shall not be deemed to be part of the Clearing Member's Required Fund Deposit. The Corporation shall not be required to segregate each Clearing Member's Actual Deposit, but shall maintain books and records concerning the assets that constitute each Clearing Member's Actual Deposit.

~~If a Member's Required Fund Deposit is charged as a result of a Clearing Fund loss solely attributable to that Member such Member shall promptly replenish the deficit in its Required Fund Deposit.~~

Section 2 – Required Fund Deposit Requirements

- (a) Mark-to-Market -- Computation of profit or loss.

The Corporation shall separately compute profit or loss for each Transaction in each Account maintained by a Clearing Member as follows: The term "Transactions" as used in this Rule 4 includes Pool Receive Obligations, Pool Deliver Obligations, TBA Obligations, Specified Pool Trades and Stipulated Trades.

\*\*\*\*

~~(d) The lesser of \$5,000,000 or 10 percent of the Required Fund Deposit arrived at above, with a minimum of \$100,000, must, be made and maintained in cash, with the remaining portion of the Required Fund Deposit to be made and maintained in the form specified in Section 3 of this Rule.~~

~~(e)~~(d) The initial Required Fund Deposit of each Clearing Member shall be set by the Corporation based upon the expected nature and level of such Member's activity.

~~(f)~~(e) Notwithstanding anything to the contrary in this Rule, the Corporation may require a Clearing Member to make and maintain a higher Required Fund Deposit than the amount ~~calculated~~ as noted above, if the Corporation determines that such higher Required Fund Deposit is necessary to protect the Corporation and its Members from the risk (the “Legal Risk”) that the Corporation, as a result of a law, rule or regulation applicable to a Clearing Member, including a Clearing Member’s insolvency or bankruptcy, may be delayed or prohibited from: (i) accessing any portion of the Clearing Member’s Required Fund Deposit, (ii) netting, closing out or liquidating Transactions, or setting off obligations, or taking any other action contemplated by these Rules or (iii) otherwise exercising its rights pursuant to these Rules.

~~(g)~~(f) Notwithstanding anything to the contrary in this Rule, the Corporation may require a Clearing Member’s Clearing Fund deposit to be in proportions of cash, Eligible Clearing Fund Securities and Eligible Letters of Credit that the Corporation determines to be necessary to protect itself and its Members from Legal Risk. In addition, the Corporation may take all necessary action to mitigate Legal Risk, including, but not limited to, requiring the Member to post additional Clearing Fund as set forth in this Section 2 of Rule 4.

\*\*\*\*\*

### Section 3 - Form of Deposit

Subject to the provisions of Section 2 of this Rule 4 governing the computation of a Clearing Member’s Required Fund Deposit, and the limitations of this Section 3, Section 3a and Section 3b, a Clearing Member’s deposits to the Clearing Fund may be in the form of:

- (a) cash; ~~and or~~
- (b) an open account indebtedness fully secured by Eligible Clearing Fund Securities.

~~The lesser of \$5,000,000 or 10 percent of the Required Fund Deposit made to the Clearing Fund, with a minimum of \$100,000, must be made and maintained in cash. A minimum of 40 percent of the Clearing Member’s Required Fund Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.~~

The lesser of \$5,000,000 or 10 percent of the Required Fund Deposit, with a minimum of \$100,000, must be made and maintained in cash, with the remaining portion of the Required Fund Deposit to be made and maintained in the form specified in this Section 3.

~~Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Clearing Member may substitute and/or withdraw securities from pledge and deposit, provided that the Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour or less prior to the close of the securities FedWire on such Day. Any interest on securities deposited by a Clearing Member to secure a Clearing Fund~~

~~open account indebtedness that is received by the Corporation shall be credited to the Member's cash deposits to the Clearing Fund, except in the event of a default by a Member in payment of any of its obligations to the Corporation, in which case the Corporation may first liquidate such securities and apply all or a portion thereof, including any interest thereon, as provided in Section 7 of this Rule.~~

Section 3a - Special Provisions Relating to Deposits of Cash

Cash deposits to the Clearing Fund shall be paid to the Corporation in immediately available funds. ~~The Corporation may invest any Cash contained cash~~ in the Clearing Fund, including (i) cash deposited by a Clearing Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, "Clearing Fund Cash") in accordance with the Clearing Agency Investment Policy adopted by the Corporation. ~~may be partially or wholly invested by the Corporation, in its sole discretion, for the account of the Clearing Fund in debt obligations of the U.S. Government or those U.S. Government Agencies and instrumentalities of the United States guaranteed by the U.S. Government subject to reverse repurchase agreements ("repo"). Clearing Fund cash may also be partially or wholly invested for its accounts in direct purchases of: (1) U.S. Treasury Bills, Bonds or Notes, (2) Certificates of Deposit or similar deposits of FDIC insured banks ("CDs"), or (3) 2a-7 Money Market Mutual Funds rated AAA or better and to the extent not so invested shall be deposited by the Corporation in its name in a depository (commercial bank account) consistent with its Investment Policy. Investment income, if any, on cash deposits shall be paid to Members at such intervals, in such manner and in such amounts as the Corporation from time to time may determine.~~

Each Clearing Member shall be entitled to any interest earned or paid on Clearing Fund cash deposits.

Section 3b - Special Provisions Relating to Deposits of Eligible Clearing Fund Securities

\*\*\*\*

Eligible Clearing Fund Securities that are used to secure an open account indebtedness must be pledged to the Corporation on such terms and conditions as it may require, and be delivered to ~~either~~ the Corporation or to the Corporation's account at ~~to~~ a depository financial institution approved/designated by the Corporation ~~that shall hold the securities on the Corporation's behalf~~. The valuation of such Eligible Clearing Fund Securities shall be at current market value, which shall be determined by the Corporation not less frequently than on a daily basis. All Eligible Clearing Fund Securities shall be subject to a haircut set forth in these Rules. The Corporation has the right, in its discretion, to refuse to accept a particular type ~~or types~~ of Eligible Clearing Fund Security as a permissible form of Clearing Fund deposit.

Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Clearing Member may substitute and/or withdraw Eligible Clearing Fund Securities from pledge and deposit, provided that the Clearing Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour prior to the close of the securities FedWire on such day. Any interest on Eligible Clearing Fund Securities deposited by a Clearing Member to secure a Clearing Fund open account indebtedness that is received by the Corporation shall be credited to the Clearing Member's cash deposits to the Clearing Fund, except in the event of a default by such Clearing Member on any obligations to the Corporation under these Rules, in which case the Corporation may exercise its rights under Section 6 of this Rule.

#### Section 4 - Lien

As security for any and all obligations and liabilities of a Clearing Member to the Corporation, including, without limitation, any obligation of a Cross-Guaranty Defaulting Member to reimburse the Corporation pursuant to Rule 32 or any obligation of a Cross-Guaranty Beneficiary Member to reimburse the Corporation pursuant to **Section 5 of Rule 32**, each such **Clearing Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Clearing Member's open account indebtedness or all assets and property** placed by a **Clearing Member** in the possession of the Corporation (or its agents acting on its behalf), including all securities and cash on deposit with the Corporation or its agents pursuant to ~~these~~ **this Rules and Rule 11 (collectively with any Eligible Letters of Credit issued on behalf of a Clearing Member in favor of the Corporation, the Clearing Member's "Actual Deposit")**. The Corporation shall be entitled to **exercise the its rights as of** a pledgee under common law and ~~as~~ a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such ~~collateral assets~~.

#### Section 5 - Use of ~~Deposits and Payments~~ Clearing Fund

~~The use of the Clearing Fund deposits and assets and property on which the Corporation has a lien shall be limited to satisfaction of losses or liabilities of the Corporation, including Cross-Guaranty Payments and Cross-Guaranty Repayments made by the Corporation pursuant to Cross-Guaranty Agreements, arising from the failure of a Defaulting Member to satisfy an obligation to the Corporation, the failure of a Cross-Guaranty Defaulting Member to satisfy an obligation to a Cross-Guaranty Counterparty, or otherwise incident to the clearance and settlement business of the Corporation with respect to losses and liabilities to meet unexpected or unusual requirements for funds that represent a small percentage of the Clearing Fund, and to provide the Corporation with a source of collateral both to meet its temporary financing needs (through an appropriate financing method determined by the Corporation in its sole discretion) for any financing that is obtained by the Corporation to hold securities pending settlement, to ensure the satisfaction of Members' settlement obligations and to meet unexpected or unusual~~

~~requirements for funds that represent a small percentage of the Clearing Fund. If the Corporation pledges, hypothecates, encumbers, borrows, or applies any part of the Clearing Fund deposits, or other collateral that it has received from Members to satisfy, in whole or in part, any liability, obligation, or liquidity requirement, for more than 30 days, the Corporation, at the Close of Business on the thirtieth day (or on the first Business Day thereafter), shall consider the amount used to meet such financing as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with Section 7 of this Rule. Whenever the Clearing Fund is charged for any reason other than to satisfy a clearing loss attributable to a Member solely from that Member's Clearing Fund deposit, each Member will be provided the reasons for the charge.~~

The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including, without limitation, each Member's obligations with respect to any loss allocations as set forth in Section 7 of this Rule and any obligations arising from a Cross-Guaranty Agreement pursuant to Rule 32, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in Section 3a of this Rule.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the Close of Business on the 30th calendar day (or on the first Business Day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 7 of this Rule.

~~If a loss or liability incurred by the Corporation is allocated to a Member pursuant to Section 7 of this Rule, a Member that is a Cross-Guaranty Defaulting Member incurs an obligation to reimburse the Corporation pursuant to Rule 32, or a Member that is a Cross-Guaranty Beneficiary Member incurs an obligation to reimburse the Corporation pursuant to Rule 32, the Corporation may apply the portion of the Member's deposit to the Clearing Fund necessary to satisfy such allocation obligation. In this regard, the Corporation may apply any cash, draw against any letters of credit, and liquidate any securities deposited by the Member, and may do any or all of the foregoing whether or not the Corporation has ceased to act for the Member.~~

#### Section 6 – ~~[RESERVED FOR FUTURE USE]~~Application of Clearing Fund Deposits and Other Amounts to Defaulting Members' Obligations

Any loss or liability incurred by the Corporation as the result of the failure of a Defaulting Member to fulfill its obligations to the Corporation shall be satisfied as set forth in this Section 6.

The Corporation shall apply any Clearing Fund deposits, Cash Settlement Amounts, funds-only payments amounts, and any other collateral or assets held by the Corporation securing such Defaulting Member's obligations to the Corporation, and any



proceeds of any of the foregoing. To the extent that a Defaulting Member is a Cross-Guaranty Defaulting Member, the Corporation shall apply any amounts available under a Cross-Guaranty Agreement either upon receipt or the time described in Section 3(b) of Rule 32.

If the Corporation applies a Defaulting Member's Clearing Fund deposits as permitted by this Rule, the Corporation may take any and all actions with respect to the Defaulting Member's Actual Deposit, including the assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate.

Section 7 - Loss Allocation Waterfall, Off-the-Market Transactions of Loss or Liability Incurred by the Corporation

For the purposes of this Rule, the following terms shall have the following meanings:

"Defaulting Member" shall mean a Member for which the Corporation has ceased to act pursuant to Rule 14 or Rule 16.

"Defaulting Member Event" shall mean the determination by the Corporation to cease to act for a Member pursuant to Rule 14 or Rule 16.

"Declared Non-Default Loss Event" shall mean the determination by the Board of Directors that a loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner.

Each Member shall be obligated to the Corporation for the entire amount of any loss or liability incurred by the Corporation arising out of or relating to any Defaulting Member Event with respect to such Member. To the extent that such loss or liability is not satisfied pursuant to Section 6 of this Rule 4, the Corporation shall apply a Corporate Contribution thereto and charge the remaining amount of such loss or liability ratably to other Members, as further provided below.

If the Corporation incurs a loss or liability (i) relating to or arising out of or relating to incurred by the Corporation as the result of the failure of the default of a Defaulting Member that is not satisfied pursuant to Section 6 of this Rule (a "Defaulting Member Event") or (ii) otherwise incident to the clearance and settlement business of the Corporation, as determined below (a "Declared Non-Default Loss Event"), the Corporation shall address the loss or liability as follows to fulfill its obligations to the Corporation shall be satisfied as set forth in this Section 7 of this Rule 4:

(a) First, by application of any Clearing Fund deposits, Cash Settlement Amounts, funds-only payment amounts, and any other collateral held by the Corporation securing such Member's obligations to the Corporation;

~~(b) — Second, if the Defaulting Member is a Cross-Guaranty Defaulting Member, the Corporation shall apply any amounts available under a Cross-Guaranty Agreement either upon receipt or the time described in Rule 32;~~

~~(e) In the event there is any loss or liability incurred by the Corporation in respect of the Mortgage-Backed Securities Division remaining after application of paragraph (a) above (any such loss or liability, a “Remaining Loss”), the Corporation shall apply the Corporate Contribution to losses and liabilities that arise out of or relate to one or more Defaulting Member Events and/or Declared Non-Default Loss Events that occur within an Event Period. an amount of up to 25% of the existing retained earnings of the Corporation, or such higher amount as the Board of Directors shall determine. Notwithstanding the foregoing, to the extent that a loss or liability is determined by the Corporation to arise in connection with an Off-the-Market Transaction, it shall be allocated directly and entirely to the Member that submitted the data on the Off-the-Market Transaction to the Corporation; If losses and liabilities with respect to such Event Period remain unsatisfied following application of the Corporate Contribution, the Corporation shall allocate such losses and liabilities to Members, subject to the requirements and limitations below.~~

~~d) — If there is any Remaining Loss after application of paragraph (e) above, If the loss or liability with respect to an Event Period results from one or more Defaulting Member Events, the Corporation shall determine the amount of such loss or liability that is attributable to Tier One Members and the amount of such loss or liability that is attributable to Tier Two Members. If the loss or liability with respect to an Event Period results from one or more Declared Non-Default Loss Events, the amount of such loss or liability shall be attributable to Tier One Members. Tier Two Members shall not be subject to loss allocation with respect to Declared Non-Default Loss Events.~~

To the extent that a loss or liability of the Corporation is determined by the Corporation to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction.

*No loss allocation under this Rule shall constitute a waiver of any claim the Corporation may have against a Member for any losses or liabilities, including, without limitation, any loss or liability to which the Member is subject under these Rules.* If the Corporation allocates losses or liabilities pursuant to this Rule and subsequently recovers amounts against such allocated losses or liabilities, in whole or in part, the net amount of the recovery shall be credited to the Persons, including the Corporation, against whom the losses were charged in proportion to the amounts charged against them.

~~To the extent there is a Remaining Loss attributable to Tier One Members, the Corporation shall assess the Required Fund Deposit maintained by each such Member an amount of up to \$50,000, in an equal basis per Tier One Member.~~

## Tier One Members

Defaulting Member Events and/or Declared Non-Default Loss Events that occur within a period of ten (10) Business Days (an “Event Period”) shall be grouped together for purposes of applying the limits on loss allocation set forth in this Rule.

In the case of a Defaulting Member Event, an Event Period begins on the day the Corporation notifies Members that it has ceased to act for a *the* Defaulting Member (or the next Business Day, if such day is not a Business Day).

In the case of a Declared Non-Default Loss Event, an Event Period begins on the day that the Corporation notifies Members of the determination by the Board of Directors that the applicable loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Tier One Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner. *Declared Non-Default Loss Event* (or the next Business Day, if such day is not a Business Day), which notification shall be issued promptly following any such determination. If a subsequent Defaulting Member Event or Declared Non-Default Loss Event occurs during an Event Period, any losses or liabilities arising out of or relating to any such subsequent event shall be resolved as losses or liabilities that are part of the same Event Period, without extending the duration of such Event Period.

In the case of losses and liabilities relating to or arising out of a Declared Non-Default Loss Event, all Tier One Members shall be subject to loss allocation. In the case of losses and liabilities relating to or arising out of a Defaulting Member Event, only non-defaulting Tier One Members shall be subject to loss allocation. After a first round of loss allocations with respect to an Event Period, only Tier One Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule shall be subject to further loss allocation with respect to that Event Period. The Corporation shall notify Tier One Members subject to loss allocation of the amounts being allocated to them (“Loss Allocation Notice”) in successive rounds of loss allocations.

*Each Tier One Member that is a Tier One Member on the first day of an Event Period shall be obligated to pay its pro rata share of losses and liabilities arising out of or relating to each Defaulting Member Event (other than a Defaulting Member Event with respect to which it is the Defaulting Member) and each Declared Non-Default Loss Event occurring during the Event Period. Any Tier One Member for which the Corporation ceases to act on a non-Business Day, triggering an Event Period that commences on the next Business Day, shall be deemed to be a Tier One Member on the first day of that Event Period.*

A loss allocation “round” means a series of loss allocations relating to an Event Period, the aggregate amount of which is limited by the sum of the Loss Allocation Caps of affected Tier One Members (a “round cap”). When the aggregate amount of losses allocated in a round equals the round cap, any additional losses relating to the applicable

Event Period would be allocated in one or more subsequent rounds, in each case subject to a round cap for that round. The Corporation may continue the loss allocation process in successive rounds until all losses from the Event Period are allocated among Tier One Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule.

Each loss allocation shall be communicated to Tier One Members by the issuance of a notice that advises the Tier One Members of the amount being allocated to them (“of a Loss Allocation Notice”). Each Tier One Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) Business Days preceding the first day of the applicable Event Period or such shorter period of time that the Tier One Member has been a Tier One Member (each Tier One Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Tier One Members subject to loss allocation in such round.

Each Loss Allocation Notice shall specify the relevant Event Period and the round to which it relates. The first Loss Allocation Notice in any first, second, or subsequent round shall expressly state that such Loss Allocation Notice reflects the beginning of the first, second, or subsequent round, as the case may be, and that each Tier One Member in that round has five (5) Business Days from the issuance of such first Loss Allocation Notice for the round to notify the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, and thereby benefit from its Loss Allocation Cap. The “Loss Allocation Cap” of a Tier One Member shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period and (y) its Average RFD.

After a first round of loss allocations with respect to an Event Period, only Tier One Netting Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule shall be subject to further loss allocation with respect to that Event Period.

Each Tier One Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) Business Days preceding the first day of the applicable Event Period or such shorter period of time that the Tier One Member has been a Tier One Member (each Tier One Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Tier One Members subject to loss allocation in such round. Each Tier One Member’s maximum payment obligation with respect to any loss allocation round shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period or (y) its Average RFD (such amount shall be each Tier One Member’s “Loss Allocation Cap”).

For purposes of calculating the pro rata share of losses and liabilities and the Loss Allocation Cap pursuant to the previous paragraph, the Corporation shall not count toward a Tier One Member’s Required Fund Deposit any increased Clearing Fund deposit that the Tier One Member may be subject to pursuant to Section 2(e) of this Rule.

Tier One Members shall pay to the Corporation the amount specified in any first round Loss Allocation Notice on the second Business Day after the Corporation issues any

such notice. Tier One Members shall pay to the Corporation the amount specified in any subsequent round Loss Allocation Notice on the second Business Day after the Corporation issues such notice, unless the Tier One Member has timely notified (or will timely notify) the Corporation of its election to withdraw from membership with respect to a prior loss allocation round, pursuant to Section 7b of this Rule.

~~Notwithstanding Section 10 of this Rule, to~~To the extent that a Tier One Member's Loss Allocation Cap exceeds the Tier One Member's Required Fund Deposit on the first day of the applicable Event Period, the Corporation may, in its discretion, retain any excess amounts on deposit from the Tier One Member, up to the Tier One Member's Loss Allocation Cap.

If a Tier One Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Tier One Member as a Defaulting Member that has failed to satisfy an obligation in accordance with Section 6 of this Rule.

If a Tier One Member notifies the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, the Tier One Member shall comply with the provisions of Section 7b of this Rule. If, after notifying the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, the Tier One Member fails to comply with the provisions of Section 7b of this Rule, its notice of withdrawal shall be deemed void and any further losses resulting from the applicable Event Period may be allocated against it as if it had not given such notice.

A Tier One Member that elects to withdraw pursuant to Section 7b of this Rule shall not be eligible to re-apply to become a Clearing Member unless, prior to submitting such application, it makes the payment(s) to the Corporation that would have been due pursuant to Section 7 of this Rule as if the Tier One Member had not withdrawn, together with interest on that amount at the average of the Federal Funds Rate plus one percent, calculated from the date on which the Event Period began.

### Tier Two Members

To the extent there is a loss or liability payable by Tier Two ~~Remaining Loss Members, the Tier Two Remaining Loss~~ such loss or liability shall be allocated to Tier Two Members based upon their trading activity with the Defaulting Member that resulted in a loss or liability. The Corporation shall assess such loss or liability against the Tier Two Members ratably based upon their loss or liability as a percentage of the entire amount of the ~~Remaining Loss~~ loss or liability attributable to Tier Two Members. Tier Two Members with a bilateral liquidation profit will not be allocated any portion of the ~~Remaining Loss~~ loss or liability attributable to Tier Two ~~Remaining Loss Members~~.

If a Tier Two Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Tier Two Member as a Defaulting Member that has failed to satisfy an obligation in accordance with Section 6 of this Rule.

~~(e) — If there is any Remaining Loss attributable to Tier One Members after application of paragraph (d) above, it shall be allocated among Tier One Members, ratably, in accordance with the amount of each Tier One Member's respective Required Fund Deposit and based on the average daily level of such deposit over the prior twelve months (or such shorter period as may be available in the case of a Member which has not maintained a deposit over such time period) (such amount, the Member's "Average Required Clearing Fund Deposit").~~

~~(f) — Any loss or liability incurred by the Corporation incident to its clearance and settlement business arising from the failure of a Clearing Member to pay to the Corporation an allocation made pursuant to the preceding subsections of this Section or arising other than from a Remaining Loss (hereinafter, an "Other Loss"), shall be allocated among Tier One Members, ratably, in accordance with the respective amounts of their Average Required Clearing Fund Deposits.~~

~~(g) — The entire amount of the Required Fund Deposit of any Clearing Member at the time that the Corporation incurred an applicable Remaining Loss or Other Loss may be used to satisfy any amount allocated against a Member as a result of such Remaining Loss or Other Loss. If notification is provided to a Member that an allocation has been made against a Member pursuant to this Rule and that application of the Member's Required Fund Deposit is not sufficient to satisfy such obligation to make payment to the Corporation, the Member shall (i) deliver to the Corporation by the Close of Business on the next Business Day, or by the Close of Business on the Business Day of issuance of the notification if so determined by the Corporation, that amount which is necessary to eliminate any such deficiency, except that (ii) with regard to an allocation arising from any Remaining Loss allocated by the Corporation pursuant to subsection (c) of this Section 7 and any Other Loss, such Member may instead provide by the Close of Business on the Business Day on which such payment is due the Corporation written notice to the Corporation, pursuant to Section 13 of Rule 3, of its election to terminate its membership in the Corporation. If such Member elects to terminate its membership in the Corporation, its liability for an allocation arising from such Remaining Loss and Other Loss shall be limited to the amount of its Required Fund Deposit for the Business Day on which the notification of such allocation is provided to the Member. If such Member does not elect to terminate its membership in the Corporation as provided for above, it shall make such deposits to the Clearing Fund, by the Close of Business on the Business Day on which the Member is obligated to make the payment provided for above, as are necessary to satisfy its Required Fund Deposit as of such Business Day. If the Member shall fail to take the action stated in either (i) or (ii) above, the Corporation shall cease to act generally with regard to such Member pursuant to Rules 14 and 17, and may take disciplinary action against the Member pursuant to Rule 38.~~

~~A Member that elects to terminate its membership pursuant to alternative (ii) of the above paragraph in lieu of being liable to pay an additional assessment amount above its Required Fund Deposit shall not be eligible to re-apply to become a Clearing Member unless, prior to submitting such application, it makes the payment to the Corporation provided for in alternative (i) of the above paragraph, together with interest on that amount at the average of the Federal Funds Rate plus one percent, calculated from the date~~

~~on which the Remaining Loss or Other Loss was incurred by the Corporation until the date of such payment. If a Clearing Member elects to terminate its membership pursuant to alternative (ii) of the above paragraph, or if the Member fails to take any action, the Corporation will promptly make an additional assessment against the remaining Tier One to cover the amount not paid by the Clearing Member that made such election to terminate its membership.~~

~~(h) — If a Remaining Loss or Other Loss occurs, the Corporation shall promptly notify each Member, and the SEC, of the amount involved and the reasons therefor. Any disciplinary action that the Corporation takes, or the voluntary or involuntary cessation of membership by a Clearing Member subsequent to the occurrence of the Remaining Loss or Other Loss, shall not, except as otherwise provided in this Rule, affect the obligations of the Clearing Member to the Corporation under this Rule or the procedures thereof, or affect any remedy to which the Corporation may be entitled. If a Remaining Loss or Other Loss charged to Members is afterward recovered by the Corporation in whole or in part, the net amount of the recovery shall be credited or paid to those Persons, other than a Defaulting Member or other Person who caused in whole or part such Loss, including the Corporation, against whom the loss was charged, in proportion to the amounts paid by them, whether or not they are still Members.~~

~~(i) — For purposes of calculating the allocations in this Section 7 that are based upon a Member's Average Required Fund Deposit, a Clearing Member that is subject to an increased Required Fund Deposit pursuant to provisions of this Rule regarding special charges or such other premium applied pursuant to these Rules shall be deemed to have an Average Required Clearing Fund Deposit amount without such increases being taken into account.~~

#### Section 7a – Corporate Contribution

For any loss allocation pursuant to Section 7 of this Rule, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation's corporate contribution to losses or liabilities that are incurred by the Corporation with respect to an Event Period ("Corporate Contribution") shall be an amount that is equal to fifty (50) percent of the amount calculated by the Corporation in respect of its General Business Risk Capital Requirement as of the end of the calendar quarter immediately preceding the Event Period. The Corporation's General Business Risk Capital Requirement, as defined in its Clearing Agency Policy on Capital Requirements, is, at a minimum, equal to the regulatory capital that the Corporation is required to maintain in compliance with Rule 17Ad-22(e)(15) under the Exchange Act. If the Corporate Contribution is applied by the Corporation against a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporate Contribution for any subsequent Event Periods occurring during the two hundred fifty (250) Business Days thereafter shall be reduced to the remaining unused portion of the Corporate Contribution amount that applied for the first Event Period. The Corporation shall notify Members of any such reduction to the Corporate Contribution. The Corporation shall maintain one Corporate Contribution, the amount of which is available to both the Government Securities Division

and the Mortgage-Backed Securities Division, and would be applied against a loss or liability in either Division in the order in which such loss or liability occurs. In the event of a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, attributable to only one Division, the Corporate Contribution shall be applied to that Division up to the amount then available. If a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, occurs simultaneously at both Divisions, the Corporate Contribution shall be applied to the respective Division in the same proportion that the aggregate Average RFDs of all members in that Division bears to the aggregate Average RFDs of all members in both Divisions.

Nothing in these Rules shall prevent the Corporation from voluntarily applying amounts greater than the Corporate Contribution against any loss or liability of the Corporation, whether *arising out of or relating to* a Defaulting Member Event or a Declared Non-Default Loss Event, if the Board of Directors, in its sole discretion, believes such to be appropriate under the factual situation existing at the time.

#### Section 7b – Withdrawal Following Loss Allocation

If a Tier One Member timely notifies the Corporation of its election to withdraw from membership in respect of a loss allocation *round* as set forth in Section 7 of this Rule (“Loss Allocation Withdrawal Notice”), the Tier One Member shall:

- (i) specify in the Loss Allocation Withdrawal Notice an effective date for its withdrawal from membership, which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Tier One Member to the Corporation, unless otherwise approved by the Corporation; and
- (ii) as of the time of such Tier One Member’s submission of the Loss Allocation Withdrawal Notice to the Corporation, cease submitting transactions to the Corporation for processing, clearance or settlement, unless otherwise approved by the Corporation.

*A Tier One Member that withdraws in compliance with the requirements of this section shall nevertheless remain obligated for its pro rata share of losses and liabilities with respect to any Event Period for which it is otherwise obligated hereunder; however, its aggregate obligation shall be limited to the amount of its Loss Allocation Cap (as fixed in the round for which it withdrew).*

If the Tier One Member fails to comply with the requirements in this section, its Loss Allocation Withdrawal Notice will be deemed void, and the Tier One Member will remain subject to further loss allocations pursuant to Section 7 of this Rule as if it had not given such Loss Allocation Withdrawal Notice.



### **Section 8 – Return of Members’ Clearing Fund Deposits**

**If a Member gives notice to the Corporation of its election to withdraw from membership, the Member’s Actual Deposit in the form of (i) cash or securities shall be returned to it within thirty (30) calendar days and (ii) Eligible Letters of Credit shall be returned to it within ninety (90) calendar days, after all of its transactions have settled and all matured and contingent obligations to the Corporation for which the Member was responsible while a Member have been satisfied.**

**Notwithstanding anything else contained in these Rules, the Corporation may retain an amount equal to any Cross-Guaranty Repayment Deposit of any Member until such time as the Corporation determines that such Member is no longer liable to the Corporation under Rule 32 “Cross Guaranty Agreements”, to reimburse the Corporation for any Cross-Guaranty Repayment that the Corporation may be obligated to make under any relevant Cross-Guaranty Agreement.**

### **Section 89 - ~~Timing of Payment of Deposit~~ Initial Required Fund Deposit and Changes in Members’ Required Fund Deposits**

The initial Required Fund Deposit of a Clearing Member shall be required to be deposited into the Clearing Fund ~~by the Close of Business on the Business Day immediately~~ prior to the Business Day on which each such Person becomes a Clearing Member in accordance with the Corporation’s procedures.

A **Clearing** Member must increase the amount of its **deposit to the Clearing Fund**~~Required Fund Deposit~~ (by the deposit of cash, Eligible Securities, and/or Eligible Letters of Credit subject to the requirements of this Rule) by the Required Fund Deposit Deadline on any Business Day that such Clearing Member’s ~~Actual D~~**deposit to the Clearing Fund** is less than its Required Fund Deposit as set forth in the Report listing such, subject to the conditions included in Section 3 of this Rule 4. **If there is an increase in a Clearing Member’s Required Fund Deposit, at the time the increase becomes effective, the Clearing Member’s obligations to the Corporation shall be determined in accordance with the increased Required Fund Deposit whether or not the Clearing Member has satisfied such increased amount.**

**If the Corporation applies a Clearing Member’s Clearing Fund deposits as permitted pursuant to this Rule, the Corporation may take any and all actions with respect to the Clearing Member’s Actual Deposit, including assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate. If such application results in any deficiency in the Clearing Member’s Required Fund Deposit, the Clearing Member shall immediately replenish it. If the Clearing Member fails to do so, the Corporation may take disciplinary action against such Clearing Member pursuant to Rule 14 or Rule 38. Any disciplinary action that the Corporation takes pursuant to Rule 14 or Rule 38 or the voluntary or involuntary cessation of membership shall not affect the Clearing Member’s obligations to the Corporation or any remedy to which the Corporation may be entitled under applicable law.**

The Corporation retains the discretion to extend the Required Fund Deposit Deadline on any Business Day if there are operational or system difficulties that would reasonably prevent Members from satisfying Required Fund Deposit deficits by the time specified in the Corporation's procedures.

Notwithstanding the foregoing, the Corporation may require a **Clearing** Member or **Clearing** Members generally to deposit additional amounts to their Clearing Fund on an intraday basis if the Corporation believes such action is necessary in order to protect itself and its Members.

#### **Section 910 - Return of Deposits and Payments Excess Clearing Fund Deposits**

The Corporation shall determine with such frequency as it shall from time to time specify, whether the amount deposited by a Member in the Clearing Fund is in excess of its Required Fund Deposit (hereinafter, "Excess Clearing Fund Deposit"). On any day that the Corporation has determined that an Excess Clearing Fund Deposit exists with respect to any Member, the Corporation will, in the form and manner determined by the Corporation, notify each **such** Member of such excess. **Subject to the Corporation's rights under these Rules to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member such amount of its excess cash on deposit (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value on the day of such withdrawal) as the Member requests. Upon the request of a Member, in the form and manner determined by the Corporation, the Corporation shall cause to be returned to each such Member cash on deposit (in excess of the minimum amount of cash the Member is required to maintain in the Clearing Fund), and/or Eligible Clearing Fund Securities (valued at their current market value, including accrued interest as of the end of the Business Day prior to such withdrawal), in an aggregate amount equal to such excess or such lesser amount as the Member may request; provided, however, that, any return of excess will be done in such a way that the remaining Clearing Fund on deposit meets the requirements of this Rule. In addition**Notwithstanding the foregoing, at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned if the Member has an outstanding payment obligation to the Corporation, if the Corporation determines that the Member's anticipated Cash Settlement obligations, Pool Net Obligations or Transactions ~~over the next 90 calendar days in the near future~~ may reasonably be expected to be materially different than ~~during the prior 90 calendar days, those of the recent past~~ or if the Member is on the Watch List.

In addition, the return of an Excess Clearing Fund Deposit amount to any Member is subject to the following limitations: (1) such return of Excess Clearing Fund Deposit shall not be done in a manner that would cause the Member to violate any other Section of these Rules; and (2) Excess Clearing Fund Deposit shall not be returned to a Member to the extent that such return would reduce the amount of the Member's Cross-Guaranty Repayment Deposit to the Clearing Fund below the amount to be maintained by the Member pursuant to **Section 4 of Rule 32, "Cross Guaranty Agreements."**

The provisions of this section shall not limit the rights or remedies of the Corporation as provided in Section 6 of Rule 3.

Section 10 - Ceasing to be a Member

~~If a Clearing Member gives notice to the Corporation pursuant to these Rules of its election to terminate its membership in the Clearing System, the Member's deposits to the Clearing Fund shall be returned to it when the Corporation is satisfied that all of the Member's obligations arising under these Rules have been satisfied. However, the Corporation in its discretion may return Clearing Fund amounts to a Member notwithstanding any obligations such Member may have to the Corporation, provided such obligations are de minimis. Any obligation of a Member to the Corporation pursuant to this Rule that is unsatisfied at the time it ceases to be a Member shall not be affected by such cessation.~~

~~Notwithstanding the previous paragraph or anything else contained in these Rules, the Corporation may retain an amount equal to any Cross-Guaranty Repayment Deposit of any Member until such time as the Corporation determines that such Member is no longer liable to the Corporation under Rule 32, "Cross-Guaranty Agreements" to reimburse the Corporation for any Cross-Guaranty that the Corporation may be obligated to make under any relevant Cross-Guaranty Agreement.~~

Section 11 - Corporation's Authority to Pledge and Assign

In furtherance of the rights of the Corporation pursuant to these Rules, the Corporation shall have full power and authority to pledge, repledge, hypothecate, transfer, create a security interest in, or assign any and all Actual Deposits: (i) cash deposits, (ii) securities, repurchase agreements, deposits or other instruments in which cash deposits of Members are invested, and (iii) any securities or letters of credit pledged or deposited by any Member to secure an open account indebtedness to the Clearing Fund or otherwise to collateralize its obligations to the Corporation or in the possession of the Corporation, and any proceeds thereof for the purpose of securing loans made to the Corporation (the party making such loan to the Corporation hereinafter referred to as the "Lender"); or other obligations incurred by the Corporation, provided that the proceeds of such loans are used for a purpose permissible under Section 3 and Section 5 of this Rule in each case incident to the clearance and settlement business of the Corporation. Such loans ~~or obligations~~ shall be on terms and conditions deemed necessary or advisable by the Corporation (including collateralization thereof) in its sole discretion, and may be in amounts greater, and extend for periods of time longer, than the obligations, if any, of any Member to the Corporation for which such property and Eligible Letters of Credit (if any) werewas pledged to or deposited with the Corporation. Notwithstanding the above, the Corporation shall remain obligated to each such Member to return, and to allow substitution for or withdrawal of, cash, and Eligible Clearing Fund Securities, and Eligible Letters of Credit (if any) pledged or deposited by asuch Member as a Clearing Fund deposit ~~or to secure an open account indebtedness to the Clearing Fund,~~ or otherwise to collateralize such Member's obligations to the Corporation, under the circumstances and within the timeframes specified in these Rules. In the event of any conflict or

**inconsistency between this Rule 4 and any agreement between the Corporation and any Member, this Rule 4 shall govern and prevail.**

Section 12 – Clearance and Settlement Business of the Corporation

For purposes of this Rule 4, references to the clearance and settlement business of the Corporation shall include its business as a Securities Intermediary.

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RULE 5 – TRADE COMPARISON

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Section 8 – Binding Nature of Comparisons

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If trade input with respect to a Transaction in Eligible Securities involving a Broker has not compared or has Partially Compared, the Dealer(s) for which trade input has not compared will be furnished a Report noting such uncomparing or Partially Compared Transaction. The Dealer may then either affirm the Transaction or submit a DK of the Transaction as described in Section 9 of this Rule **45**. Unless the Dealer receiving the Unmatched Margin Report submits a DK of such transaction in accordance with the Corporation's procedures, the Total Required Fund Deposit shall be payable by the Dealer with respect to such Transaction pursuant to these Rules, the same as if such transaction had been listed in such Dealer's Open Commitment Report.

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RULE 11 – CASH SETTLEMENT

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Section 9 – Cash Settlement

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(o) Under FRB Operating Circular No. 12, FICC's Settlement Agent has certain processing responsibilities in allocating an indemnity claim made by an FRB as a result of processing the Corporation's cash settlement via NSS. The Corporation shall apportion the entirety of such liability to the Member or Members for whom the Cash Settling Bank to which the indemnity claim relates was acting. Such liability for each applicable Member shall be in proportion to the amount of such Members' Cash Settlement amounts on the Business Day in question. If for any reason such allocation is not sufficient to fully satisfy the FRB indemnity claim, then the remaining loss shall be treated as ~~an "Other Loss" as defined by Rule 4~~ **a loss that is otherwise incident to the clearance and settlement business of the Corporation** and allocated accordingly **pursuant to Section 7 of Rule 4.**

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RULE 17A – CORPORATION DEFAULT

(a) If a "Corporation Default" occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated and the Board shall determine a single net amount owed by or to each Member with respect to such Transactions by applying the close out and application procedures in Section 2 of Rule 17 **(interpreted in all such cases as if each Member were a Defaulting Member)** and ~~Section 7 of Rule 4~~ **(interpreted in all such cases as if each Member were a Defaulting Member)** taking into account the ~~other loss allocation~~ provisions in ~~these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member~~ **Rule 4**. For purposes of this Rule 17A and notwithstanding any other provision to the contrary, Pool Deliver Obligations and Pool Receive Obligations shall be established with respect to all Transactions, at the time at which the data submitted in respect of such Transactions are compared and such Transactions constitute Compared Trades. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying Contracts with respect thereto, these Rules and applicable law. Nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Government Securities Division or any other Cross-Guaranty Counterparty.

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RULE 32 - CROSS GUARANTY AGREEMENTS

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Section 3 - Application of Cross-Guaranty Payments

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(b) retain any Cross-Guaranty Payment received by the Corporation and not apply such Cross-Guaranty Payment to reduce any assessments against other Members pursuant to Section 7 of Rule 4 until the Corporation determines that the Corporation is no longer liable for any Cross-Guaranty Repayment, at which point the Cross-Guaranty Payment shall be treated as an amount that has been recovered pursuant to Section 7(~~i~~) of Rule 4.

Section 4 - Cross-Guaranty Repayment Deposits

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In the event that the Corporation is required to make a Cross-Guaranty Repayment and it does not have a sufficient amount of Cross-Guaranty Repayment Deposits to cover the liability, the Corporation shall treat the shortfall as ~~an "Other Loss"~~ **a loss incurred as a result of a Defaulting Member Event to be allocated** pursuant to Section 7 of Rule 4.

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## INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

Being placed on the Watch List may result in Clearing Fund-related consequences under the Rules:

A. *Clearing Fund-Related Consequences*

1. Additional Clearing Fund Deposits

Pursuant to Section 11(e) of Rule 3, the Corporation may require a Clearing Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with ~~Section 2~~the provisions of Rule 4 or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members.

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Furthermore, pursuant to Section 2(~~g~~f) of Rule 4, the Corporation may subject a Clearing Member to an intraday VaR Charge if the Clearing Member is on the Watch List.

2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 910 of Rule 4, the Corporation may retain some or all of the Excess Clearing Fund Deposit of a Member who is on the Watch List. Nonetheless, the Corporation generally does not retain the Excess Clearing Fund Deposit of a Watch List Member unless the Member fails to pay the Required Fund Deposit within the required timeframes established by the Corporation, or if the Corporation has a concern that the Member will not be able to satisfy its obligation to the Corporation.

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