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Filing by Fixed Income Clearing Corporation  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input checked="" type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>
Section 806(e)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

**Contact Information**  
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*   
Title \*   
E-mail \*   
Telephone \*  Fax

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.  
(Date \*)  (Title \*)   
By    
(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## 1. Text of the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is annexed hereto as Exhibit 5 and consists of modifications to the FICC Government Securities Division (“GSD”) Rulebook (“Rules”)<sup>1</sup> in order to (i) clarify which funds-only settlement (“FOS”) payments and underlying “marks”<sup>2</sup> are applicable to transactions in GSD’s delivery-versus-payment (“DVP”) service (hereinafter “DVP Transactions”),<sup>3</sup> clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks,<sup>4</sup> and (iii) make a correction and certain technical changes, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved on October 26, 2020 by the Deputy General Counsel of FICC pursuant to delegated authority from FICC’s Board of Directors.

## 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

### (a) Purpose

The purpose of the proposed rule change is to amend the Rules in order to: (i) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable)

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<sup>1</sup> Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

<sup>2</sup> “Marks” refer to mark-to-market amounts that underlie or make up a FOS payment. For example, the Collateral Mark is an underlying component of the FOS payment known as the “Forward Mark Adjustment Payment.”

<sup>3</sup> “DVP Transactions” refers to buy/sell transactions and Repo Transactions that are Direct Transactions and Brokered Transactions (other than GCF Repo Transactions and CCIT Transactions).

<sup>4</sup> Currently, Section 1 of Rule 13 references both payments and some of the underlying marks that make up payments. FICC wishes to provide clarity to this rule by limiting Section 1 to actual payments rather than underlying components that make up payments. This will be discussed in greater detail below.

Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (iii) make a correction and certain technical changes, as described in greater detail below.

**(i) Background**

FOS is FICC's twice daily process of generating a net credit or debit cash amount for each Member and settling those cash amounts between Members and FICC. FOS is a cash-pass-through process, meaning that those Members that are in a net debit position are obligated to submit payments that are then used to pay Members that are in a net credit position. FOS also includes certain payments that are not pass-through payments, such as Invoice Amounts and Miscellaneous Adjustment Amounts.

GSD processes FOS debit and credit payments via the Federal Reserve's National Settlement Service ("NSS") twice daily at 10:00 a.m. and 3:15 p.m.

GSD FOS payments are set forth in Rule 13, Section 1. The FOS payments consist of (A) transaction adjustment payments for settlement purposes, (B) risk management-related amounts (such as various mark-to-market amounts), (C) security coupon and similar amounts, and (D) other amounts (such as the invoice amounts). A description of these payments is set forth below.

**(A) Transaction Adjustment Payments for Settlement Purposes**

The Transaction Adjustment Payment<sup>5</sup> applies to both DVP Transactions and GCF Repo Transactions that are settling the following Business Day (i.e., the next Business Day after the Business Day on which the Transaction Adjustment Payment was calculated). As a central counterparty that performs a multilateral net process, FICC settles Net Settlement Positions at the System Value. The System Price is used to calculate the System Value. The Transaction Adjustment Payment adjusts the parties' original Contract Value of their pre-netted transaction to the Market Value<sup>6</sup> of the pre-netted transaction.

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<sup>5</sup> Rule 13, Section 1(a), supra note 1. The term "Transaction Adjustment Payment" means the absolute value of the dollar difference between the Contract Values and the Market Values of the trades that comprise a Net Settlement Position or GCF Net Settlement Position that is scheduled to settle on the current Business Day. Rule 1, supra note 1.

<sup>6</sup> The term "Market Value" means, on a particular Business Day, the amount in dollars equal to: (1) as regards a trade other than a Repo Transaction, the System Price established by FICC for the underlying Eligible Netting Securities, multiplied by the par value of such Securities, plus accrued coupon interest that has accrued with regard to such Securities calculated to their Scheduled Settlement Date, (2) as regards a Repo Transaction other than a GCF Repo Transaction, the System Price established by FICC for the underlying Eligible Netting Securities, multiplied by the par value of such Securities, plus accrued coupon interest that has accrued with regard to such Securities

(B) Risk Management-Related Amounts

The risk management-related amounts apply throughout the life of a transaction to bring the transaction to market value (as applicable). These amounts therefore protect FICC and its Members from market risk in the event that there is a Member default and FICC must liquidate such transactions in the market; the closer the value of such transactions is to market, the smaller the amount of the loss that FICC would face in the liquidation of such transactions.

The risk management-related amounts currently set forth in Section 1 of Rule 13 are the following: (1) Forward Mark Adjustment Payment,<sup>7</sup> (2) GCF Interest Rate Mark,<sup>8</sup> (3) Interest Rate Mark,<sup>9</sup> (4) GCF Forward Mark,<sup>10</sup> and (5) Fail Mark Adjustment Payment.<sup>11</sup> In connection with the Forward Mark Adjustment Payment, there is a payment that reflects “use of funds,” (i.e., Interest Adjustment Payment), as described below.

(1) Forward Mark Adjustment Payment

Currently, the Forward Mark Adjustment Payment applies to both DVP Transactions and GCF Repo Transactions.<sup>12</sup> The Forward Mark Adjustment Payment equals the sum of 3 underlying marks (as applicable to a Member’s Forward Net Settlement Position): (a) Collateral Mark, (b) Financing Mark, and (c) Interest Rate Mark. The Collateral Mark is a mark-to-market amount on Forward Trades (Contract Value versus Market Value). The Financing Mark is a mark-to-market amount on the repo rate of a Repo Transaction that has a start date prior to

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calculated to that Business Day, and (3) as regards a GCF Repo Transaction, the principal value of the Transaction. Rule 1, supra note 1.

Market Value applies to transactions, and System Value applies to Net Settlement Positions. Both values are derived using the System Price; for GCF Repo Transactions, Market Value means the principal value.

<sup>7</sup> Rule 13, Section 1(c), supra note 1.

<sup>8</sup> Rule 13, Section 1(d), supra note 1.

<sup>9</sup> Rule 13, Section 1(e), supra note 1.

<sup>10</sup> Rule 13, Section 1(f), supra note 1.

<sup>11</sup> Rule 13, Section 1(h), supra note 1.

<sup>12</sup> The term “Forward Mark Adjustment Payment” means, on a particular Business Day, as regards a Member’s Forward Net Settlement Position, the sum of the Collateral Mark applicable to such Position, the Financing Mark applicable to such Position, and the Interest Rate Mark applicable to such Position. Notwithstanding the above, as regards an outstanding Repo Transaction where a request for substitution has been made but New Securities Collateral has not been received by FICC, the term “Forward Mark Adjustment Payment” means “Forward Unallocated Sub Mark.” Rule 1, supra note 1.

current Business Day. The Interest Rate Mark is a mark-to-market amount on the repo rate for a Forward-Starting Repo Transaction.

In addition, in connection with the Forward Mark Adjustment Payment, there is a payment called the Interest Adjustment Payment<sup>13</sup> that reflects “use of funds.” This means that FICC will charge overnight interest to the Member that received the Forward Mark Adjustment Payment as a credit and this interest amount will be paid to the Member that was charged the Forward Mark Adjustment Payment as a debit. As FICC is passing through a cash payment for risk management purposes, the Member who receives the cash has use of those funds, and the Member who was debited does not have use of those funds. Because the funds belong to the Member who was debited, such Member is entitled to, and receives, the interest income on the amount that was debited.

(2) GCF Interest Rate Mark

The GCF Interest Rate Mark<sup>14</sup> is the mark-to-market amount on the repo rate of a GCF Repo Transaction that has started (typically referred to as an “in-flight” transaction).

(3) Interest Rate Mark

As discussed above, the Interest Rate Mark<sup>15</sup> is an underlying component of the Forward Mark Adjustment Payment. In addition to applying to DVP Transactions as stated above, the

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<sup>13</sup> Rule 13, Section 1(g), supra note 1.

<sup>14</sup> The term “GCF Interest Rate Mark” means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the product of the principal value of the GCF Repo Transaction on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The term “GCF Interest Rate Mark” means, as regards a GCF Net Settlement Position, the sum of all the GCF Interest Rate Mark Payments on each of the GCF Repo Transactions that compose such position. Rule 1, supra note 1.

<sup>15</sup> The term “Interest Rate Mark” means, on a particular Business Day as regards a Forward-Starting Repo Transaction during its Forward-Starting Period, the product of the principal value of the Repo Transaction on the Scheduled Settlement Date for its Start Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the

Interest Rate Mark also applies to GCF Repo Transactions, and is a mark-to-market amount on the repo rate of a forward-starting GCF Repo Transaction.

Similar to the Interest Adjustment Payment, the Interest Rate Mark Adjustment Payment<sup>16</sup> is the interest paid or collected for “use of funds” in connection with the sum of a Member’s GCF Interest Rate Mark and Interest Rate Mark.

(4) GCF Forward Mark

The GCF Forward Mark<sup>17</sup> is currently stated to be the sum of the Accrued Repo Interest-to-Date and the GCF Interest Rate Mark.

(5) Fail Mark Adjustment Payment

The Fail Mark Adjustment Payment<sup>18</sup> is a mark-to-market amount for obligations that were scheduled to settle and have not yet settled.

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Scheduled Settlement Date for the Start Leg of the Repo Transaction until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The Interest Rate Mark for any Repo Transaction other than a Forward-Starting Repo Transaction during its Forward-Starting Period, and for any trade other than a Repo Transaction, shall be zero. The term “Interest Rate Mark” means, as regards a Forward Net Settlement Position, the sum of all the Interest Rate Marks on each of the Forward Trades that compose such position. Rule 1, supra note 1.

<sup>16</sup> Rule 13, Section 1(f), supra note 1. The term “Interest Rate Mark Adjustment Payment” means, as regards the sum of a Netting Member’s GCF Interest Rate Mark and Interest Rate Mark, the product of that sum multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360. Rule 1, supra note 1.

<sup>17</sup> The term “GCF Forward Mark” means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the sum of the Accrued Repo Interest-to-Date and the GCF Interest Rate Mark on such GCF Repo Transaction. Rule 1, supra note 1.

<sup>18</sup> The term “Fail Mark Adjustment Payment” means the absolute value of the dollar difference between the Settlement Value of a Fail Deliver Obligation or a Fail Receive Obligation that constitutes all or part of a Fail Net Settlement Position on the current

(C) Security Coupon and Similar Amounts

FOS includes certain coupon and similar payments as follows: (1) Delivery Differential Adjustment Payment,<sup>19</sup> (2) Coupon Adjustment Payment,<sup>20</sup> and (3) Clearance Difference Amount.<sup>21</sup>

The Delivery Differential Adjustment Payment<sup>22</sup> is the amount of the difference between the Federal Reserve's auction award price and FICC's System Price.

The Coupon Adjustment Payment<sup>23</sup> is the amount that reflects coupon interest from the issuer of the security that is passed to a Member.

The Clearance Difference Amount<sup>24</sup> is the amount of any differences that may occur between the amounts that are reflected in FICC's records versus the Clearing Agent Bank.

(D) Other Amounts

The other amounts that are part of GSD FOS are as follows: (1) Invoice Amount<sup>25</sup> and (2) Miscellaneous Adjustment Amount.<sup>26</sup>

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Business Day and the Settlement Value of such Fail Deliver Obligation or Fail Receive Obligation on the immediately previous Business Day. Rule 1, supra note 1.

<sup>19</sup> Rule 13, Section 1(b), supra note 1.

<sup>20</sup> Rule 13, Section 1(i) and Section 1(j), supra note 1.

<sup>21</sup> Rule 13, Section 1(k), supra note 1.

<sup>22</sup> The term "Delivery Differential Adjustment Payment" means the absolute value of the dollar difference between the System Value and the Settlement Value of a Netting Member's Deliver Obligation or a Receive Obligation. Rule 1, supra note 1.

<sup>23</sup> The term "Coupon Adjustment Payment" means the coupon payments due and owing on each Eligible Netting Security that comprises either a Coupon-Eligible End Leg or a Fail Net Settlement Position. Rule 1, supra note 1.

<sup>24</sup> The term "Clearance Difference Amount" means the absolute value of the dollar difference between the Settlement Value of a Deliver Obligation or a Receive Obligation and the actual value at which such Deliver Obligation or Receive Obligation was settled, by the delivery or receipt of Eligible Netting Securities. Rule 1, supra note 1.

<sup>25</sup> Rule 13, Section 1(l), supra note 1.

<sup>26</sup> Rule 13, Section 1(m), supra note 1.

The Invoice Amount<sup>27</sup> is a Member's billing amount.

The Miscellaneous Adjustment Amount<sup>28</sup> is a catch-all amount, in case it is needed.

**(ii) Proposed Rule Changes**

The purpose of the proposed rule change is to amend the Rules in order to: (A) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (B) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (C) make a correction and certain technical changes, as described in greater detail below.

- (A) Clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules

At this time, Section 1 of Rule 13 includes references to payments and certain underlying marks. Some of these payments and marks as currently defined apply to both DVP Transactions and GCF Repo Transactions. In order to provide more clarity, FICC proposes to amend the Rules to clarify which FOS payments are applicable to DVP Transactions and which FOS payments are applicable to GCF Repo Transactions. This proposal would not change the way FICC operates or the payments/marks applicable to GCF Repo Transactions, but instead would take out defined terms from more general definitions in order to be more standalone. Specifically, FICC would clarify Rule 1 by amending certain existing defined terms, deleting certain existing defined terms and adding new defined terms, as described further below.

Furthermore, FICC would amend Rule 13 to specifically list the FOS payments that are applicable to DVP Transactions and the FOS payments that are applicable to GCF Repo Transactions, as further described below.

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<sup>27</sup> The term "Invoice Amount" means all fee amounts due and owing from a Netting Member or CCIT Member, as applicable, to FICC on a particular Business Day. Rule 1, supra note 1.

<sup>28</sup> The term "Miscellaneous Adjustment Amount" means the net total of all miscellaneous funds-only amounts that, on a particular Business Day, are required to be paid by a Netting Member or CCIT Member, as applicable, to FICC and/or are entitled to be collected by a Member (including a CCIT Member, as applicable) from FICC. Rule 1, supra note 1.

## DVP Transactions

As described above, certain FOS payments and underlying marks would be revised to clarify that they only apply to DVP Transactions. The Forward Mark Adjustment Payment is a risk management-related amount that equals the sum of 3 underlying marks (as applicable to a Member's Forward Net Settlement Position): (a) Collateral Mark, (b) Financing Mark, and (c) Interest Rate Mark. FICC proposes to clarify that the Forward Mark Adjustment Payment and its underlying marks, the Collateral Mark, Financing Mark, and Interest Rate Mark, would apply only to DVP Transactions. As such, FICC proposes to revise the definitions of Collateral Mark, Financing Mark, Interest Rate Mark, and Forward Mark Adjustment Payment in Rule 1 to clarify that these terms do not apply to GCF Repo Transactions and CCIT Transactions.

Furthermore, FICC is proposing to delete the defined term Interest Rate Mark Adjustment Payment (and its credit, debit and net equivalents, the Debit Interest Rate Mark Adjustment Payment, Credit Interest Rate Mark Adjustment Payment, and Net Interest Rate Mark Adjustment Payment) in Rule 1, because FICC believes it would enhance clarity to amend the Rules to have separate terms to describe what this FOS payment covers for GCF Repo Transactions and DVP Transactions. This FOS payment covers "use of funds" as described above. For DVP Transactions, FICC would retain Interest Adjustment Payment, as currently defined, for "use of funds" purposes. FICC would amend Rule 1 to add the specific term GCF Interest Adjustment Payment, which would be applicable to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B.

In addition, FICC proposes to amend the definitions of Credit Transaction Adjustment Payment, Debit Transaction Adjustment Payment and Transaction Adjustment Payment in Rule 1 to state that these terms apply to DVP Transactions. Specifically, FICC proposes to delete the reference to GCF Net Settlement Position in the definition of Transaction Adjustment Payment, and the descriptions related to GCF Net Settlement Position in the definitions of Credit Transaction Adjustment Payment and Debit Transaction Adjustment Payment in Rule 1. The definition of Transaction Adjustment Payment would also be amended to add that it would not apply to GCF Repo Transactions and CCIT Transactions. FICC would delete the reference to GCF Net Settlement Position in Section 1(a) of Rule 13 because this Section 1(a) describes Transaction Adjustment Payments (which would be revised to only describe payments for settlement purposes for DVP Transactions). FICC would also add the defined term GCF Transaction Adjustment Payment to Rule 1, as described below.

Coupon Adjustment Payment, Clearance Difference Amount and Delivery Differential Adjustment Payment currently apply only to DVP Transactions. As such, FICC proposes to revise the definitions of Coupon Adjustment Payment, Coupon-Eligible End Leg, Fail Mark Adjustment Payment, and Clearance Difference Amount (and its credit and debit equivalents, Credit Clearance Difference Amount and Debit Clearance Difference Amount), and Delivery

Differential Adjustment Payment to clarify that these terms do not apply to GCF Repo Transactions and CCIT Transactions.<sup>29</sup>

FICC also proposes to add a new defined term, Redemption Adjustment Payment (and its credit, debit and net equivalents, Credit Redemption Adjustment Payment, Debit Redemption Adjustment Payment, and Net Redemption Adjustment Payment) to Rule 1 to reflect an amount that is currently being debited from/credited to Members today. For a Net Settlement Position, the Redemption Adjustment Payment means the difference between the Redemption Value (as defined below and in the proposed rule change) and the Settlement Value due and owing on each Eligible Netting Security that comprises such position. For the End Leg of a Repo Transaction, the Redemption Adjustment Payment means the difference between the Maturity Value and the Contract Value due and owing on each Eligible Netting Security that comprises such Transaction. If the Redemption Adjustment Payment is a positive value, it would be a Credit Redemption Adjustment Payment. If the Redemption Adjustment Payment is a negative value, it would be a Debit Redemption Adjustment Payment. Net Redemption Adjustment Payment would mean the absolute dollar value difference on a particular Business Day for a Netting Member between the total of all Credit Redemption Adjustment Payments and the total of all Debit Redemption Adjustment Payments.<sup>30</sup>

FICC also proposes to add the defined term Redemption Value to Rule 1, which would mean, as regards a Net Settlement Position or a Deliver Obligation, the principal amount paid to the holder of such position or obligation in redeeming Eligible Netting Securities at the maturity for such securities.

#### GCF Repo Transactions and CCIT Transactions

Furthermore, FICC proposes to add certain defined terms associated with FOS that would be applicable only to GCF Repo Transactions and CCIT Transactions.

Specifically, FICC proposes to add GCF Forward Mark Adjustment Payment (and its credit, debit and net equivalents, Credit GCF Forward Mark Adjustment Payment, Debit GCF Forward Mark Adjustment Payment, and Net GCF Forward Mark Adjustment Payment) to Rule 1. These proposed terms would only be applicable to GCF Repo Transactions.

FICC also proposes to add GCF Transaction Adjustment Payment (and its credit, debit, and net equivalents, Credit GCF Transaction Adjustment Payment, Debit GCF Transaction

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<sup>29</sup> As described above, the term “Coupon Adjustment Payment” means the coupon payments due and owing on each Eligible Netting Security that comprises either a Coupon-Eligible End Leg or a Fail Net Settlement Position. Rule 1, supra note 1.

<sup>30</sup> If the total of all of the Credit Redemption Adjustment Payments is greater than all of the Debit Redemption Adjustment Payments, then the Net Redemption Adjustment Payment would be a positive dollar amount owing from FICC to the Member. If the total of all the Credit Redemption Adjustment Payments is less than the total of all of the Debit Redemption Adjustment Payments, then the Net Redemption Adjustment Payment would be a negative dollar amount owing from the Member to FICC.

Adjustment Payment, and Net GCF Transaction Adjustment Payment) to Rule 1. These proposed terms would be applicable to both GCF Repo Transactions and CCIT Transactions.

In addition, FICC proposes to add the following terms to Rule 1, which would be applicable to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B: (1) GCF Forward Starting Interest Rate Mark, and (2) GCF Interest Adjustment Payment (and its credit, debit and net equivalents, Credit GCF Interest Adjustment Payment, Debit GCF Interest Adjustment Payment, and Net GCF Interest Adjustment Payment).

*GCF Forward Mark and GCF Forward Mark Adjustment Payment*

While GCF Forward Mark is referenced in Rule 13, Section 1(f) and is defined to be the sum of Accrued Repo Interest-to-Date and GCF Interest Rate Mark, FICC believes that Section 1 of Rule 13 should be clarified to reference an actual payment (the proposed “GCF Forward Mark Adjustment Payment”) that represents the payment of this mark (which is discussed below). FICC also proposes to revise the definition of GCF Forward Mark in Rule 1 to include the new defined term GCF Forward Starting Interest Rate Mark. FICC is currently collecting the amount represented by the proposed GCF Forward Starting Interest Rate Mark, and the addition of this reference to the definition of GCF Forward Mark is not a substantive change.

The GCF Forward Mark Adjustment Payment would apply only to GCF Repo Transactions and would mean, on a particular Business Day, as regards a Member’s Forward Net Settlement Position, the payment as it relates to the Member’s GCF Forward Mark. If the GCF Forward Mark Adjustment Payment is a positive value, it would be a Credit GCF Forward Mark Adjustment Payment. If the GCF Forward Mark Adjustment Payment is a negative value, then it would be a Debit GCF Forward Mark Adjustment Payment. Net GCF Forward Mark Adjustment Payment would mean the absolute value of the dollar difference on a particular Business Day for a Netting Member between the total of all Credit GCF Forward Mark Adjustment Payments and the total of all of the Debit GCF Forward Mark Adjustment Payments.<sup>31</sup>

*GCF Forward Starting Interest Rate Mark*

GCF Forward Starting Interest Rate Mark would be applicable only to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B, and would be the equivalent term to Interest Rate Mark for DVP Transactions. Like Interest Rate Mark for DVP Transactions, this would be a mark (or underlying component) of a FOS payment. Specifically, this mark would be part of the GCF Forward Mark, which is a FOS payment that is applicable to Forward-Starting Repo Transactions that are GCF Repo Transactions.

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<sup>31</sup> If the total of all of the Credit GCF Forward Mark Adjustment Payments is greater than the total of all of the Debit GCF Forward Mark Adjustment Payments, then the Net GCF Forward Mark Adjustment Payment would be a positive dollar amount owing from FICC to the Member. If the total of all of the Credit GCF Forward Mark Adjustment Payments is less than the total of all of the Debit GCF Forward Mark Adjustment Payments, then the Net GCF Forward Mark Adjustment Payment would be a negative dollar amount owing from the Member to FICC.

### *GCF Interest Adjustment Payment*

FICC also proposes to add the defined term GCF Interest Adjustment Payment (and its credit, debit and net equivalents, the Credit GCF Interest Adjustment Payment, Debit GCF Interest Adjustment Payment, and Net GCF Interest Adjustment Payment) to Rule 1. This term would be applicable to GCF Repo Transactions and with respect to CCIT Transactions, as stipulated in Rule 3B, and would be the equivalent term to Interest Adjustment Payment for DVP Transactions.

### *GCF Transaction Adjustment Payment*

The current definition of Transaction Adjustment Payment covers both FOS payments applicable to DVP Transactions and those that are applicable to GCF Repo Transactions. In order to enhance clarity, as described above, FICC would distinguish between the FOS payments that are applicable to DVP Transactions and those that are applicable to GCF Repo Transactions. Specifically, as described above, FICC would add the defined term GCF Transaction Adjustment Payment (and its credit, debit and net equivalents, the Credit GCF Transaction Adjustment Payment, Debit GCF Transaction Adjustment Payment, and Net GCF Transaction Adjustment Payment) to Rule 1.

GCF Transaction Adjustment Payment would mean, as regards a Netting Member, the total repo interest on the Netting Member's GCF Repo Transactions and CCIT Transactions, as applicable, for which the Scheduled Settlement Date for the End Leg of such transactions is the next Business Day.

If the GCF Transaction Adjustment Payment is a positive value, it would be a Credit GCF Transaction Adjustment Payment. If the GCF Transaction Adjustment Payment is a negative value, it would be a Debit GCF Transaction Adjustment Payment. Net GCF Transaction Adjustment Payment would mean, on a particular Business Day, the absolute value of the dollar difference between the total of all Credit GCF Transaction Adjustment Payments and the total of all Debit GCF Transaction Adjustment Payments for a Netting Member.<sup>32</sup>

FICC would also amend the definition of Transaction Adjustment Payment so that it would be applicable only to DVP Transactions, as described above.

### *Forward-Starting Period and Forward-Starting Repo Transaction*

FICC also proposes to clarify that the definitions of Forward-Starting Period and Forward-Starting Repo Transaction in Rule 1 include CCIT Transactions. As such, FICC would

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<sup>32</sup> If the total of all of the Credit GCF Transaction Adjustment Payments is greater than the total of all of the Debit GCF Transaction Adjustment Payments, then the Net GCF Transaction Adjustment Payment would be a positive dollar amount owing from FICC to the Member. If the total of all of the Credit GCF Transaction Adjustment Payments is less than the total of all of the Debit GCF Transaction Adjustment Payments, then the Net GCF Transaction Adjustment Payments would be a negative dollar amount owing from the Member to FICC.

amend the definitions of Forward-Starting Period and Forward-Starting Repo Transaction in Rule 1 to reference CCIT Transactions.

*Rule 3B*

In addition, FICC proposes to revise Section 13(b) of Rule 3B, which describes the FOS payments that apply to Netting Members with respect to their CCIT Transactions. In Section 13(b)(i) of Rule 3B, Transaction Adjustment Payment would be revised to the new proposed term GCF Transaction Adjustment Payment. As described above, with respect to CCIT Transactions and GCF Repo Transactions, GCF Transaction Adjustment Payment would be the equivalent term to Transaction Adjustment Payment for DVP Transactions. GCF Transaction Adjustment Payment, like Transaction Adjustment Payment, would describe payments for settlement purposes.

Similarly, the references in Section 13(b)(iii) of Rule 3B to Interest Rate Mark would be revised to GCF Forward Starting Interest Rate Mark. GCF Forward Starting Interest Rate Mark would apply only to GCF Repo Transactions and with respect to CCIT Transactions, as stipulated in Rule 3B, and would be equivalent to the current defined term Interest Rate Mark (which, as described above, would be amended to clarify that it only applies to DVP Transactions). Like Interest Rate Mark for DVP Transactions, GCF Forward Starting Interest Rate Mark would be an underlying mark of a FOS payment, the proposed GCF Forward Mark Adjustment Payment. GCF Forward Mark Adjustment Payment is a FOS payment for risk management-related amounts and is applicable to Forward-Starting Repo Transactions that are a GCF Repo Transactions. As described above, the definition of GCF Forward Mark would be revised to include GCF Forward Starting Interest Rate Mark, so it would state that, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the sum of the Accrued Repo Interest-to-Date, the GCF Forward Starting Interest Rate Mark and the GCF Interest Rate Mark on such GCF Repo Transaction.

Furthermore, in Section 13(b)(iv) of Rule 3B, FICC would revise the reference from Interest Rate Mark Adjustment Payment to GCF Interest Adjustment Payment and would add that the GCF Interest Adjustment Payment is as it relates to (ii) and (iii) of Section 13(b) of Rule 3B. Current Section 13(b)(ii) of Rule 3B specifies that Netting Members are obligated to pay debits but are not entitled to collect credits for GCF Interest Rate Mark with respect to their CCIT Transactions. As described above, Section 13(b)(iii) of Rule 3B would be revised to reference the GCF Forward Starting Interest Rate Mark rather than the Interest Rate Mark. Netting Members would be obligated to pay debits but would not be entitled to collect credits for the GCF Forward Starting Interest Rate Mark with respect to their CCIT Transactions. As described above, GCF Interest Adjustment Payment would be added as a new defined term and would be equivalent to the current defined term, Interest Adjustment Payment (which would apply only to DVP Transactions). As described above, FICC is proposing to delete the term Interest Rate Mark Adjustment Payment because this payment would be covered by the new defined term GCF Interest Adjustment Payment (which would apply to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B) and the current defined term, Interest Adjustment Payment (which would apply only to DVP Transactions).

(B) Restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks

FICC believes it would enhance clarity and consistency in Rule 13 to only list the FOS payments in Section 1 of Rule 13 (and not the underlying marks). Currently, Section 1 of Rule 13 lists both FOS payments and some underlying marks. Specifically, Sections 1(d), (e), and (f) of Rule 13 lists the GCF Interest Rate Mark, the Interest Rate Mark, Debit Interest Rate Marks, Debit GCF Forward Marks and Credit Interest Rate Marks and Credit GCF Forward Marks, which are underlying marks of FOS payments. As such, FICC proposes to delete current Sections 1(d), (e), and (f) of Rule 13.

FICC also proposes to amend Rule 13 by adding the new proposed FOS payment, Redemption Adjustment Payment, as proposed Section 1(h).

FICC also proposes to amend Rule 13 by adding the new proposed FOS payments that are applicable to GCF Repo Transactions (GCF Transaction Adjustment Payment, GCF Forward Mark Adjustment Payment, and GCF Interest Adjustment Payment) as proposed Sections 1(j), (k), and (l).

(C) A Correction and Certain Technical Changes

FICC is proposing to make corrections to the definition of Forward Trade to reflect FICC's practice. FICC is correcting that a Repo Transaction may be a Forward Trade (the current definition excludes Repo Transactions in error). In addition, FICC is also adding a sentence to make clear that if the Forward Trade is a Repo Transaction, the Start Leg and the End Leg would be considered separate trades. FICC is making a correction to provide that a Forward Trade is a trade whose Scheduled Settlement Date is one or more Business Days after the date it is submitted to FICC (not two or more Business Days as is currently stated in the definition). These corrections are necessary to ensure that the definition of Forward Trade reflects current practice. Specifically, the definition of Forward Trade must be consistent with the definition of Forward Net Settlement Position, which is made up of a Member's Forward Trades. The definition of Forward Net Settlement Position provides that the Scheduled Settlement Date of a Forward Trade is one or more Business Days in the future, it includes Repo Transactions, and provides the Start and End Legs shall constitute separate positions. These are the items that FICC is proposing to correct in the definition of Forward Trade. These corrections to the definition of Forward Trade are relevant to the FOS process because under FICC's current process, a Forward Mark Adjustment Payment is applied to Forward Trades that are T+1 trades.

FICC is also proposing to make certain technical changes, such as conforming grammatical changes, capitalizing defined terms, renumbering sections, and reordering a list. For example, in Rule 1, FICC proposes to make a conforming grammatical change to add "and a" in the definition of Forward-Starting Period because a reference to CCIT Transaction would be added. As another example, because FICC is adding a new defined term, Redemption Value, in Rule 1, FICC proposes to capitalize the references to redemption value in the definition of Maturity Value and System Value.

In addition, certain paragraphs would be deleted or added in Rule 13, so FICC proposes to make conforming technical changes to renumber these paragraphs accordingly.

FICC would also make conforming changes to Section 2 of Rule 13, which currently states that the Funds-Only Settlement Amount of each Netting Member is determined by calculating the net total, for a particular Business Day, of the payments and underlying marks set forth in that section. FICC proposes to delete the following terms: the Net Interest Rate Mark Adjustment Payment, the GCF Interest Rate Mark, and the Interest Rate Mark. FICC would add the new proposed terms, Net GCF Transaction Adjustment Payment, Net GCF Forward Mark Adjustment Payment, Net GCF Interest Adjustment Payment, and Net Redemption Adjustment Payment.

In order to enhance clarity and consistency, FICC proposes to reorder the list of payments that make up the Funds-Only Settlement Amount in Section 2 of Rule 13. Currently, the Net Coupon Adjustment Payment and the Net Clearance Difference Amount are listed as items (i) and (j) in the second paragraph of Section 2 of Rule 13. FICC proposes to move the Net Coupon Adjustment Payment to new item (f) and the Net Clearance Difference Amount to new item (g) to be consistent with the order in which these payments appear in Section 1 of Rule 13. FICC would also make a conforming change to renumber the subsections in Section 2 of Rule 13 accordingly.

In addition, FICC is proposing to delete the reference to the term “Clearing Fund Funds-Only Settlement Amount” from the definition of Opening Balance in Rule 1, because this is an outdated Clearing Fund component that should have been deleted when GSD moved to a VaR-based Clearing Fund methodology. FICC is also proposing to clarify the definition by deleting “on a given Business Day” and “of the previous Business Day” from the definition of Opening Balance and adding “immediately prior” before processing cycle because, as described above, FOS occurs twice daily. As such, the Opening Balance of the intraday FOS would be the amount reported to the Member during the morning FOS cycle.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (“Act”) requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>33</sup>

The proposed changes to (i) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (iii) make a correction and certain technical changes to the Rules would help to ensure that the Rules are accurate and clear to participants. When participants better understand their rights and obligations regarding the Rules, such participants are more

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<sup>33</sup> 15 U.S.C. 78q-1(b)(3)(F).

likely to act in accordance with the Rules, which FICC believes would promote the prompt and accurate clearance and settlement of securities transactions. As such, FICC believes that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act.<sup>34</sup>

#### **4. Self-Regulatory Organization's Statement on Burden on Competition**

FICC does not believe the proposed rule changes to (i) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (iii) make a correction and certain technical changes would impact competition. The proposed rule changes would help to ensure that the Rules remain clear and accurate. In addition, the changes would facilitate participants' understanding of the Rules and their obligations thereunder. These changes would not affect FICC's operations or the rights and obligations of the membership. As such, FICC believes the proposed rule changes would not have any impact on competition.

#### **5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

FICC has not received or solicited any written comments relating to this proposal. FICC will notify the Commission of any written comments received by FICC.

#### **6. Extension of Time Period for Commission Action**

Not applicable.

#### **7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

(a) The proposed rule changes are to take effect immediately upon filing pursuant to paragraph A of Section 19(b)(3) of the Act.<sup>35</sup>

(b) The proposed rule change effects changes in an existing service of a registered clearing agency that: (A) do not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible; and (B) do not significantly affect the respective rights or obligations of the clearing agency or persons using the service.<sup>36</sup>

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<sup>34</sup> Id.

<sup>35</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>36</sup> 17 CFR 240.19b-4(f)(4).

(c) Not applicable.

(d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2020-012)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Government Securities Division Rulebook to Clarify Which Funds-Only Settlement Payments and Underlying Marks Are Applicable to Certain Transactions, and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October \_\_, 2020, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of modifications to the FICC Government Securities Division (“GSD”) Rulebook (“Rules”)<sup>5</sup> in order to (i) clarify which funds-only

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4).

<sup>5</sup> Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

settlement (“FOS”) payments and underlying “marks”<sup>6</sup> are applicable to transactions in GSD’s delivery-versus-payment (“DVP”) service (hereinafter “DVP Transactions”),<sup>7</sup> clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks,<sup>8</sup> and (iii) make a correction and certain technical changes, as described in greater detail below.

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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<sup>6</sup> “Marks” refer to mark-to-market amounts that underlie or make up a FOS payment. For example, the Collateral Mark is an underlying component of the FOS payment known as the “Forward Mark Adjustment Payment.”

<sup>7</sup> “DVP Transactions” refers to buy/sell transactions and Repo Transactions that are Direct Transactions and Brokered Transactions (other than GCF Repo Transactions and CCIT Transactions).

<sup>8</sup> Currently, Section 1 of Rule 13 references both payments and some of the underlying marks that make up payments. FICC wishes to provide clarity to this rule by limiting Section 1 to actual payments rather than underlying components that make up payments. This will be discussed in greater detail below.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend the Rules in order to:

- (i) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (iii) make a correction and certain technical changes, as described in greater detail below.

*(i) Background*

FOS is FICC's twice daily process of generating a net credit or debit cash amount for each Member and settling those cash amounts between Members and FICC. FOS is a cash-pass-through process, meaning that those Members that are in a net debit position are obligated to submit payments that are then used to pay Members that are in a net credit position. FOS also includes certain payments that are not pass-through payments, such as Invoice Amounts and Miscellaneous Adjustment Amounts.

GSD processes FOS debit and credit payments via the Federal Reserve's National Settlement Service ("NSS") twice daily at 10:00 a.m. and 3:15 p.m.

GSD FOS payments are set forth in Rule 13, Section 1. The FOS payments consist of (A) transaction adjustment payments for settlement purposes, (B) risk management-related amounts (such as various mark-to-market amounts), (C) security

coupon and similar amounts, and (D) other amounts (such as the invoice amounts). A description of these payments is set forth below.

(A) Transaction Adjustment Payments for Settlement Purposes

The Transaction Adjustment Payment<sup>9</sup> applies to both DVP Transactions and GCF Repo Transactions that are settling the following Business Day (i.e., the next Business Day after the Business Day on which the Transaction Adjustment Payment was calculated). As a central counterparty that performs a multilateral net process, FICC settles Net Settlement Positions at the System Value. The System Price is used to calculate the System Value. The Transaction Adjustment Payment adjusts the parties' original Contract Value of their pre-netted transaction to the Market Value<sup>10</sup> of the pre-netted transaction.

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<sup>9</sup> Rule 13, Section 1(a), supra note 5. The term "Transaction Adjustment Payment" means the absolute value of the dollar difference between the Contract Values and the Market Values of the trades that comprise a Net Settlement Position or GCF Net Settlement Position that is scheduled to settle on the current Business Day. Rule 1, supra note 5.

<sup>10</sup> The term "Market Value" means, on a particular Business Day, the amount in dollars equal to: (1) as regards a trade other than a Repo Transaction, the System Price established by FICC for the underlying Eligible Netting Securities, multiplied by the par value of such Securities, plus accrued coupon interest that has accrued with regard to such Securities calculated to their Scheduled Settlement Date, (2) as regards a Repo Transaction other than a GCF Repo Transaction, the System Price established by FICC for the underlying Eligible Netting Securities, multiplied by the par value of such Securities, plus accrued coupon interest that has accrued with regard to such Securities calculated to that Business Day, and (3) as regards a GCF Repo Transaction, the principal value of the Transaction. Rule 1, supra note 5.

Market Value applies to transactions, and System Value applies to Net Settlement Positions. Both values are derived using the System Price; for GCF Repo Transactions, Market Value means the principal value.

(B) Risk Management-Related Amounts

The risk management-related amounts apply throughout the life of a transaction to bring the transaction to market value (as applicable). These amounts therefore protect FICC and its Members from market risk in the event that there is a Member default and FICC must liquidate such transactions in the market; the closer the value of such transactions is to market, the smaller the amount of the loss that FICC would face in the liquidation of such transactions.

The risk management-related amounts currently set forth in Section 1 of Rule 13 are the following: (1) Forward Mark Adjustment Payment,<sup>11</sup> (2) GCF Interest Rate Mark,<sup>12</sup> (3) Interest Rate Mark,<sup>13</sup> (4) GCF Forward Mark,<sup>14</sup> and (5) Fail Mark Adjustment Payment.<sup>15</sup> In connection with the Forward Mark Adjustment Payment, there is a payment that reflects “use of funds,” (i.e., Interest Adjustment Payment), as described below.

(1) Forward Mark Adjustment Payment

Currently, the Forward Mark Adjustment Payment applies to both DVP Transactions and GCF Repo Transactions.<sup>16</sup> The Forward Mark Adjustment Payment

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<sup>11</sup> Rule 13, Section 1(c), supra note 5.

<sup>12</sup> Rule 13, Section 1(d), supra note 5.

<sup>13</sup> Rule 13, Section 1(e), supra note 5.

<sup>14</sup> Rule 13, Section 1(f), supra note 5.

<sup>15</sup> Rule 13, Section 1(h), supra note 5.

<sup>16</sup> The term “Forward Mark Adjustment Payment” means, on a particular Business Day, as regards a Member’s Forward Net Settlement Position, the sum of the Collateral Mark applicable to such Position, the Financing Mark applicable to such Position, and the Interest Rate Mark applicable to such Position.

equals the sum of 3 underlying marks (as applicable to a Member's Forward Net Settlement Position): (a) Collateral Mark, (b) Financing Mark, and (c) Interest Rate Mark. The Collateral Mark is a mark-to-market amount on Forward Trades (Contract Value versus Market Value). The Financing Mark is a mark-to-market amount on the repo rate of a Repo Transaction that has a start date prior to current Business Day. The Interest Rate Mark is a mark-to-market amount on the repo rate for a Forward-Starting Repo Transaction.

In addition, in connection with the Forward Mark Adjustment Payment, there is a payment called the Interest Adjustment Payment<sup>17</sup> that reflects "use of funds." This means that FICC will charge overnight interest to the Member that received the Forward Mark Adjustment Payment as a credit and this interest amount will be paid to the Member that was charged the Forward Mark Adjustment Payment as a debit. As FICC is passing through a cash payment for risk management purposes, the Member who receives the cash has use of those funds, and the Member who was debited does not have use of those funds. Because the funds belong to the Member who was debited, such Member is entitled to, and receives, the interest income on the amount that was debited.

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Notwithstanding the above, as regards an outstanding Repo Transaction where a request for substitution has been made but New Securities Collateral has not been received by FICC, the term "Forward Mark Adjustment Payment" means "Forward Unallocated Sub Mark." Rule 1, supra note 5.

<sup>17</sup> Rule 13, Section 1(g), supra note 5.

(2) GCF Interest Rate Mark

The GCF Interest Rate Mark<sup>18</sup> is the mark-to-market amount on the repo rate of a GCF Repo Transaction that has started (typically referred to as an “in-flight” transaction).

(3) Interest Rate Mark

As discussed above, the Interest Rate Mark<sup>19</sup> is an underlying component of the Forward Mark Adjustment Payment. In addition to applying to DVP Transactions as

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<sup>18</sup> The term “GCF Interest Rate Mark” means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the product of the principal value of the GCF Repo Transaction on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The term “GCF Interest Rate Mark” means, as regards a GCF Net Settlement Position, the sum of all the GCF Interest Rate Mark Payments on each of the GCF Repo Transactions that compose such position. Rule 1, supra note 5.

<sup>19</sup> The term “Interest Rate Mark” means, on a particular Business Day as regards a Forward-Starting Repo Transaction during its Forward-Starting Period, the product of the principal value of the Repo Transaction on the Scheduled Settlement Date for its Start Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the Scheduled Settlement Date for the Start Leg of the Repo Transaction until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The Interest Rate Mark for any Repo Transaction other than a Forward-Starting Repo Transaction during its Forward-Starting Period, and for

stated above, the Interest Rate Mark also applies to GCF Repo Transactions, and is a mark-to-market amount on the repo rate of a forward-starting GCF Repo Transaction.

Similar to the Interest Adjustment Payment, the Interest Rate Mark Adjustment Payment<sup>20</sup> is the interest paid or collected for “use of funds” in connection with the sum of a Member’s GCF Interest Rate Mark and Interest Rate Mark.

(4) GCF Forward Mark

The GCF Forward Mark<sup>21</sup> is currently stated to be the sum of the Accrued Repo Interest-to-Date and the GCF Interest Rate Mark.

(5) Fail Mark Adjustment Payment

The Fail Mark Adjustment Payment<sup>22</sup> is a mark-to-market amount for obligations that were scheduled to settle and have not yet settled.

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any trade other than a Repo Transaction, shall be zero. The term “Interest Rate Mark” means, as regards a Forward Net Settlement Position, the sum of all the Interest Rate Marks on each of the Forward Trades that compose such position. Rule 1, supra note 5.

<sup>20</sup> Rule 13, Section 1(f), supra note 5. The term “Interest Rate Mark Adjustment Payment” means, as regards the sum of a Netting Member’s GCF Interest Rate Mark and Interest Rate Mark, the product of that sum multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360. Rule 1, supra note 5.

<sup>21</sup> The term “GCF Forward Mark” means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the sum of the Accrued Repo Interest-to-Date and the GCF Interest Rate Mark on such GCF Repo Transaction. Rule 1, supra note 5.

<sup>22</sup> The term “Fail Mark Adjustment Payment” means the absolute value of the dollar difference between the Settlement Value of a Fail Deliver Obligation or a Fail Receive Obligation that constitutes all or part of a Fail Net Settlement Position on the current Business Day and the Settlement Value of such Fail Deliver Obligation or Fail Receive Obligation on the immediately previous Business Day. Rule 1, supra note 5.

(C) Security Coupon and Similar Amounts

FOS includes certain coupon and similar payments as follows: (1) Delivery Differential Adjustment Payment,<sup>23</sup> (2) Coupon Adjustment Payment,<sup>24</sup> and (3) Clearance Difference Amount.<sup>25</sup>

The Delivery Differential Adjustment Payment<sup>26</sup> is the amount of the difference between the Federal Reserve's auction award price and FICC's System Price.

The Coupon Adjustment Payment<sup>27</sup> is the amount that reflects coupon interest from the issuer of the security that is passed to a Member.

The Clearance Difference Amount<sup>28</sup> is the amount of any differences that may occur between the amounts that are reflected in FICC's records versus the Clearing Agent Bank.

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<sup>23</sup> Rule 13, Section 1(b), supra note 5.

<sup>24</sup> Rule 13, Section 1(i) and Section 1(j), supra note 5.

<sup>25</sup> Rule 13, Section 1(k), supra note 5.

<sup>26</sup> The term "Delivery Differential Adjustment Payment" means the absolute value of the dollar difference between the System Value and the Settlement Value of a Netting Member's Deliver Obligation or a Receive Obligation. Rule 1, supra note 5.

<sup>27</sup> The term "Coupon Adjustment Payment" means the coupon payments due and owing on each Eligible Netting Security that comprises either a Coupon-Eligible End Leg or a Fail Net Settlement Position. Rule 1, supra note 5.

<sup>28</sup> The term "Clearance Difference Amount" means the absolute value of the dollar difference between the Settlement Value of a Deliver Obligation or a Receive Obligation and the actual value at which such Deliver Obligation or Receive Obligation was settled, by the delivery or receipt of Eligible Netting Securities. Rule 1, supra note 5.

(D) Other Amounts

The other amounts that are part of GSD FOS are as follows: (1) Invoice Amount<sup>29</sup> and (2) Miscellaneous Adjustment Amount.<sup>30</sup>

The Invoice Amount<sup>31</sup> is a Member's billing amount.

The Miscellaneous Adjustment Amount<sup>32</sup> is a catch-all amount, in case it is needed.

(ii) ***Proposed Rule Changes***

The purpose of the proposed rule change is to amend the Rules in order to: (A) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (B) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (C) make a correction and certain technical changes, as described in greater detail below.

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<sup>29</sup> Rule 13, Section 1(l), supra note 5.

<sup>30</sup> Rule 13, Section 1(m), supra note 5.

<sup>31</sup> The term "Invoice Amount" means all fee amounts due and owing from a Netting Member or CCIT Member, as applicable, to FICC on a particular Business Day. Rule 1, supra note 5.

<sup>32</sup> The term "Miscellaneous Adjustment Amount" means the net total of all miscellaneous funds-only amounts that, on a particular Business Day, are required to be paid by a Netting Member or CCIT Member, as applicable, to FICC and/or are entitled to be collected by a Member (including a CCIT Member, as applicable) from FICC. Rule 1, supra note 5.

- (A) Clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules

At this time, Section 1 of Rule 13 includes references to payments and certain underlying marks. Some of these payments and marks as currently defined apply to both DVP Transactions and GCF Repo Transactions. In order to provide more clarity, FICC proposes to amend the Rules to clarify which FOS payments are applicable to DVP Transactions and which FOS payments are applicable to GCF Repo Transactions. This proposal would not change the way FICC operates or the payments/marks applicable to GCF Repo Transactions, but instead would take out defined terms from more general definitions in order to be more standalone. Specifically, FICC would clarify Rule 1 by amending certain existing defined terms, deleting certain existing defined terms and adding new defined terms, as described further below.

Furthermore, FICC would amend Rule 13 to specifically list the FOS payments that are applicable to DVP Transactions and the FOS payments that are applicable to GCF Repo Transactions, as further described below.

#### DVP Transactions

As described above, certain FOS payments and underlying marks would be revised to clarify that they only apply to DVP Transactions. The Forward Mark Adjustment Payment is a risk management-related amount that equals the sum of 3 underlying marks (as applicable to a Member's Forward Net Settlement Position): (a) Collateral Mark, (b) Financing Mark, and (c) Interest Rate Mark. FICC proposes to clarify that the Forward Mark Adjustment Payment and its underlying marks, the

Collateral Mark, Financing Mark, and Interest Rate Mark, would apply only to DVP Transactions. As such, FICC proposes to revise the definitions of Collateral Mark, Financing Mark, Interest Rate Mark, and Forward Mark Adjustment Payment in Rule 1 to clarify that these terms do not apply to GCF Repo Transactions and CCIT Transactions.

Furthermore, FICC is proposing to delete the defined term Interest Rate Mark Adjustment Payment (and its credit, debit and net equivalents, the Debit Interest Rate Mark Adjustment Payment, Credit Interest Rate Mark Adjustment Payment, and Net Interest Rate Mark Adjustment Payment) in Rule 1, because FICC believes it would enhance clarity to amend the Rules to have separate terms to describe what this FOS payment covers for GCF Repo Transactions and DVP Transactions. This FOS payment covers “use of funds” as described above. For DVP Transactions, FICC would retain Interest Adjustment Payment, as currently defined, for “use of funds” purposes. FICC would amend Rule 1 to add the specific term GCF Interest Adjustment Payment, which would be applicable to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B.

In addition, FICC proposes to amend the definitions of Credit Transaction Adjustment Payment, Debit Transaction Adjustment Payment and Transaction Adjustment Payment in Rule 1 to state that these terms apply to DVP Transactions. Specifically, FICC proposes to delete the reference to GCF Net Settlement Position in the definition of Transaction Adjustment Payment, and the descriptions related to GCF Net Settlement Position in the definitions of Credit Transaction Adjustment Payment and Debit Transaction Adjustment Payment in Rule 1. The definition of Transaction

Adjustment Payment would also be amended to add that it would not apply to GCF Repo Transactions and CCIT Transactions. FICC would delete the reference to GCF Net Settlement Position in Section 1(a) of Rule 13 because this Section 1(a) describes Transaction Adjustment Payments (which would be revised to only describe payments for settlement purposes for DVP Transactions). FICC would also add the defined term GCF Transaction Adjustment Payment to Rule 1, as described below.

Coupon Adjustment Payment, Clearance Difference Amount and Delivery Differential Adjustment Payment currently apply only to DVP Transactions. As such, FICC proposes to revise the definitions of Coupon Adjustment Payment, Coupon-Eligible End Leg, Fail Mark Adjustment Payment, and Clearance Difference Amount (and its credit and debit equivalents, Credit Clearance Difference Amount and Debit Clearance Difference Amount), and Delivery Differential Adjustment Payment to clarify that these terms do not apply to GCF Repo Transactions and CCIT Transactions.<sup>33</sup>

FICC also proposes to add a new defined term, Redemption Adjustment Payment (and its credit, debit and net equivalents, Credit Redemption Adjustment Payment, Debit Redemption Adjustment Payment, and Net Redemption Adjustment Payment) to Rule 1 to reflect an amount that is currently being debited from/credited to Members today. For a Net Settlement Position, the Redemption Adjustment Payment means the difference between the Redemption Value (as defined below and in the proposed rule change) and the Settlement Value due and owing on each Eligible Netting Security that comprises such position. For the End Leg of a Repo Transaction, the Redemption Adjustment

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<sup>33</sup> As described above, the term “Coupon Adjustment Payment” means the coupon payments due and owing on each Eligible Netting Security that comprises either a Coupon-Eligible End Leg or a Fail Net Settlement Position. Rule 1, supra note 5.

Payment means the difference between the Maturity Value and the Contract Value due and owing on each Eligible Netting Security that comprises such Transaction. If the Redemption Adjustment Payment is a positive value, it would be a Credit Redemption Adjustment Payment. If the Redemption Adjustment Payment is a negative value, it would be a Debit Redemption Adjustment Payment. Net Redemption Adjustment Payment would mean the absolute dollar value difference on a particular Business Day for a Netting Member between the total of all Credit Redemption Adjustment Payments and the total of all Debit Redemption Adjustment Payments.<sup>34</sup>

FICC also proposes to add the defined term Redemption Value to Rule 1, which would mean, as regards a Net Settlement Position or a Deliver Obligation, the principal amount paid to the holder of such position or obligation in redeeming Eligible Netting Securities at the maturity for such securities.

#### GCF Repo Transactions and CCIT Transactions

Furthermore, FICC proposes to add certain defined terms associated with FOS that would be applicable only to GCF Repo Transactions and CCIT Transactions.

Specifically, FICC proposes to add GCF Forward Mark Adjustment Payment (and its credit, debit and net equivalents, Credit GCF Forward Mark Adjustment Payment, Debit GCF Forward Mark Adjustment Payment, and Net GCF Forward Mark Adjustment

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<sup>34</sup> If the total of all of the Credit Redemption Adjustment Payments is greater than all of the Debit Redemption Adjustment Payments, then the Net Redemption Adjustment Payment would be a positive dollar amount owing from FICC to the Member. If the total of all the Credit Redemption Adjustment Payments is less than the total of all of the Debit Redemption Adjustment Payments, then the Net Redemption Adjustment Payment would be a negative dollar amount owing from the Member to FICC.

Payment) to Rule 1. These proposed terms would only be applicable to GCF Repo Transactions.

FICC also proposes to add GCF Transaction Adjustment Payment (and its credit, debit, and net equivalents, Credit GCF Transaction Adjustment Payment, Debit GCF Transaction Adjustment Payment, and Net GCF Transaction Adjustment Payment) to Rule 1. These proposed terms would be applicable to both GCF Repo Transactions and CCIT Transactions.

In addition, FICC proposes to add the following terms to Rule 1, which would be applicable to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B: (1) GCF Forward Starting Interest Rate Mark, and (2) GCF Interest Adjustment Payment (and its credit, debit and net equivalents, Credit GCF Interest Adjustment Payment, Debit GCF Interest Adjustment Payment, and Net GCF Interest Adjustment Payment).

*GCF Forward Mark and GCF Forward Mark Adjustment Payment*

While GCF Forward Mark is referenced in Rule 13, Section 1(f) and is defined to be the sum of Accrued Repo Interest-to-Date and GCF Interest Rate Mark, FICC believes that Section 1 of Rule 13 should be clarified to reference an actual payment (the proposed “GCF Forward Mark Adjustment Payment”) that represents the payment of this mark (which is discussed below). FICC also proposes to revise the definition of GCF Forward Mark in Rule 1 to include the new defined term GCF Forward Starting Interest Rate Mark. FICC is currently collecting the amount represented by the proposed GCF Forward Starting Interest Rate Mark, and the addition of this reference to the definition of GCF Forward Mark is not a substantive change.

The GCF Forward Mark Adjustment Payment would apply only to GCF Repo Transactions and would mean, on a particular Business Day, as regards a Member's Forward Net Settlement Position, the payment as it relates to the Member's GCF Forward Mark. If the GCF Forward Mark Adjustment Payment is a positive value, it would be a Credit GCF Forward Mark Adjustment Payment. If the GCF Forward Mark Adjustment Payment is a negative value, then it would be a Debit GCF Forward Mark Adjustment Payment. Net GCF Forward Mark Adjustment Payment would mean the absolute value of the dollar difference on a particular Business Day for a Netting Member between the total of all Credit GCF Forward Mark Adjustment Payments and the total of all of the Debit GCF Forward Mark Adjustment Payments.<sup>35</sup>

*GCF Forward Starting Interest Rate Mark*

GCF Forward Starting Interest Rate Mark would be applicable only to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B, and would be the equivalent term to Interest Rate Mark for DVP Transactions. Like Interest Rate Mark for DVP Transactions, this would be a mark (or underlying component) of a FOS payment. Specifically, this mark would be part of the GCF Forward Mark, which is a FOS payment that is applicable to Forward-Starting Repo Transactions that are GCF Repo Transactions.

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<sup>35</sup> If the total of all of the Credit GCF Forward Mark Adjustment Payments is greater than the total of all of the Debit GCF Forward Mark Adjustment Payments, then the Net GCF Forward Mark Adjustment Payment would be a positive dollar amount owing from FICC to the Member. If the total of all of the Credit GCF Forward Mark Adjustment Payments is less than the total of all of the Debit GCF Forward Mark Adjustment Payments, then the Net GCF Forward Mark Adjustment Payment would be a negative dollar amount owing from the Member to FICC.

*GCF Interest Adjustment Payment*

FICC also proposes to add the defined term GCF Interest Adjustment Payment (and its credit, debit and net equivalents, the Credit GCF Interest Adjustment Payment, Debit GCF Interest Adjustment Payment, and Net GCF Interest Adjustment Payment) to Rule 1. This term would be applicable to GCF Repo Transactions and with respect to CCIT Transactions, as stipulated in Rule 3B, and would be the equivalent term to Interest Adjustment Payment for DVP Transactions.

*GCF Transaction Adjustment Payment*

The current definition of Transaction Adjustment Payment covers both FOS payments applicable to DVP Transactions and those that are applicable to GCF Repo Transactions. In order to enhance clarity, as described above, FICC would distinguish between the FOS payments that are applicable to DVP Transactions and those that are applicable to GCF Repo Transactions. Specifically, as described above, FICC would add the defined term GCF Transaction Adjustment Payment (and its credit, debit and net equivalents, the Credit GCF Transaction Adjustment Payment, Debit GCF Transaction Adjustment Payment, and Net GCF Transaction Adjustment Payment) to Rule 1.

GCF Transaction Adjustment Payment would mean, as regards a Netting Member, the total repo interest on the Netting Member's GCF Repo Transactions and CCIT Transactions, as applicable, for which the Scheduled Settlement Date for the End Leg of such transactions is the next Business Day.

If the GCF Transaction Adjustment Payment is a positive value, it would be a Credit GCF Transaction Adjustment Payment. If the GCF Transaction Adjustment Payment is a negative value, it would be a Debit GCF Transaction Adjustment Payment.

Net GCF Transaction Adjustment Payment would mean, on a particular Business Day, the absolute value of the dollar difference between the total of all Credit GCF Transaction Adjustment Payments and the total of all Debit GCF Transaction Adjustment Payments for a Netting Member.<sup>36</sup>

FICC would also amend the definition of Transaction Adjustment Payment so that it would be applicable only to DVP Transactions, as described above.

*Forward-Starting Period and Forward-Starting Repo Transaction*

FICC also proposes to clarify that the definitions of Forward-Starting Period and Forward-Starting Repo Transaction in Rule 1 include CCIT Transactions. As such, FICC would amend the definitions of Forward-Starting Period and Forward-Starting Repo Transaction in Rule 1 to reference CCIT Transactions.

*Rule 3B*

In addition, FICC proposes to revise Section 13(b) of Rule 3B, which describes the FOS payments that apply to Netting Members with respect to their CCIT Transactions. In Section 13(b)(i) of Rule 3B, Transaction Adjustment Payment would be revised to the new proposed term GCF Transaction Adjustment Payment. As described above, with respect to CCIT Transactions and GCF Repo Transactions, GCF Transaction Adjustment Payment would be the equivalent term to Transaction Adjustment Payment

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<sup>36</sup> If the total of all of the Credit GCF Transaction Adjustment Payments is greater than the total of all of the Debit GCF Transaction Adjustment Payments, then the Net GCF Transaction Adjustment Payment would be a positive dollar amount owing from FICC to the Member. If the total of all of the Credit GCF Transaction Adjustment Payments is less than the total of all of the Debit GCF Transaction Adjustment Payments, then the Net GCF Transaction Adjustment Payments would be a negative dollar amount owing from the Member to FICC.

for DVP Transactions. GCF Transaction Adjustment Payment, like Transaction Adjustment Payment, would describe payments for settlement purposes.

Similarly, the references in Section 13(b)(iii) of Rule 3B to Interest Rate Mark would be revised to GCF Forward Starting Interest Rate Mark. GCF Forward Starting Interest Rate Mark would apply only to GCF Repo Transactions and with respect to CCIT Transactions, as stipulated in Rule 3B, and would be equivalent to the current defined term Interest Rate Mark (which, as described above, would be amended to clarify that it only applies to DVP Transactions). Like Interest Rate Mark for DVP Transactions, GCF Forward Starting Interest Rate Mark would be an underlying mark of a FOS payment, the proposed GCF Forward Mark Adjustment Payment. GCF Forward Mark Adjustment Payment is a FOS payment for risk management-related amounts and is applicable to Forward-Starting Repo Transactions that are a GCF Repo Transactions. As described above, the definition of GCF Forward Mark would be revised to include GCF Forward Starting Interest Rate Mark, so it would state that, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the sum of the Accrued Repo Interest-to-Date, the GCF Forward Starting Interest Rate Mark and the GCF Interest Rate Mark on such GCF Repo Transaction.

Furthermore, in Section 13(b)(iv) of Rule 3B, FICC would revise the reference from Interest Rate Mark Adjustment Payment to GCF Interest Adjustment Payment and would add that the GCF Interest Adjustment Payment is as it relates to (ii) and (iii) of Section 13(b) of Rule 3B. Current Section 13(b)(ii) of Rule 3B specifies that Netting Members are obligated to pay debits but are not entitled to collect credits for GCF Interest Rate Mark with respect to their CCIT Transactions. As described above, Section

13(b)(iii) of Rule 3B would be revised to reference the GCF Forward Starting Interest Rate Mark rather than the Interest Rate Mark. Netting Members would be obligated to pay debits but would not be entitled to collect credits for the GCF Forward Starting Interest Rate Mark with respect to their CCIT Transactions. As described above, GCF Interest Adjustment Payment would be added as a new defined term and would be equivalent to the current defined term, Interest Adjustment Payment (which would apply only to DVP Transactions). As described above, FICC is proposing to delete the term Interest Rate Mark Adjustment Payment because this payment would be covered by the new defined term GCF Interest Adjustment Payment (which would apply to GCF Repo Transactions and with respect to CCIT Transactions, only as stipulated in Rule 3B) and the current defined term, Interest Adjustment Payment (which would apply only to DVP Transactions).

(B) *Restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks*

FICC believes it would enhance clarity and consistency in Rule 13 to only list the FOS payments in Section 1 of Rule 13 (and not the underlying marks). Currently, Section 1 of Rule 13 lists both FOS payments and some underlying marks. Specifically, Sections 1(d), (e), and (f) of Rule 13 lists the GCF Interest Rate Mark, the Interest Rate Mark, Debit Interest Rate Marks, Debit GCF Forward Marks and Credit Interest Rate Marks and Credit GCF Forward Marks, which are underlying marks of FOS payments. As such, FICC proposes to delete current Sections 1(d), (e), and (f) of Rule 13.

FICC also proposes to amend Rule 13 by adding the new proposed FOS payment, Redemption Adjustment Payment, as proposed Section 1(h).

FICC also proposes to amend Rule 13 by adding the new proposed FOS payments that are applicable to GCF Repo Transactions (GCF Transaction Adjustment Payment, GCF Forward Mark Adjustment Payment, and GCF Interest Adjustment Payment) as proposed Sections 1(j), (k), and (l).

(C) *A Correction and Certain Technical Changes*

FICC is proposing to make corrections to the definition of Forward Trade to reflect FICC's practice. FICC is correcting that a Repo Transaction may be a Forward Trade (the current definition excludes Repo Transactions in error). In addition, FICC is also adding a sentence to make clear that if the Forward Trade is a Repo Transaction, the Start Leg and the End Leg would be considered separate trades. FICC is making a correction to provide that a Forward Trade is a trade whose Scheduled Settlement Date is one or more Business Days after the date it is submitted to FICC (not two or more Business Days as is currently stated in the definition). These corrections are necessary to ensure that the definition of Forward Trade reflects current practice. Specifically, the definition of Forward Trade must be consistent with the definition of Forward Net Settlement Position, which is made up of a Member's Forward Trades. The definition of Forward Net Settlement Position provides that the Scheduled Settlement Date of a Forward Trade is one or more Business Days in the future, it includes Repo Transactions, and provides the Start and End Legs shall constitute separate positions. These are the items that FICC is proposing to correct in the definition of Forward Trade. These corrections to the definition of Forward Trade are relevant to the FOS process because under FICC's current process, a Forward Mark Adjustment Payment is applied to Forward Trades that are T+1 trades.

FICC is also proposing to make certain technical changes, such as conforming grammatical changes, capitalizing defined terms, renumbering sections, and reordering a list. For example, in Rule 1, FICC proposes to make a conforming grammatical change to add “and a” in the definition of Forward-Starting Period because a reference to CCIT Transaction would be added. As another example, because FICC is adding a new defined term, Redemption Value, in Rule 1, FICC proposes to capitalize the references to redemption value in the definition of Maturity Value and System Value.

In addition, certain paragraphs would be deleted or added in Rule 13, so FICC proposes to make conforming technical changes to renumber these paragraphs accordingly.

FICC would also make conforming changes to Section 2 of Rule 13, which currently states that the Funds-Only Settlement Amount of each Netting Member is determined by calculating the net total, for a particular Business Day, of the payments and underlying marks set forth in that section. FICC proposes to delete the following terms: the Net Interest Rate Mark Adjustment Payment, the GCF Interest Rate Mark, and the Interest Rate Mark. FICC would add the new proposed terms, Net GCF Transaction Adjustment Payment, Net GCF Forward Mark Adjustment Payment, Net GCF Interest Adjustment Payment, and Net Redemption Adjustment Payment.

In order to enhance clarity and consistency, FICC proposes to reorder the list of payments that make up the Funds-Only Settlement Amount in Section 2 of Rule 13. Currently, the Net Coupon Adjustment Payment and the Net Clearance Difference Amount are listed as items (i) and (j) in the second paragraph of Section 2 of Rule 13. FICC proposes to move the Net Coupon Adjustment Payment to new item (f) and the Net

Clearance Difference Amount to new item (g) to be consistent with the order in which these payments appear in Section 1 of Rule 13. FICC would also make a conforming change to renumber the subsections in Section 2 of Rule 13 accordingly.

In addition, FICC is proposing to delete the reference to the term “Clearing Fund Funds-Only Settlement Amount” from the definition of Opening Balance in Rule 1, because this is an outdated Clearing Fund component that should have been deleted when GSD moved to a VaR-based Clearing Fund methodology. FICC is also proposing to clarify the definition by deleting “on a given Business Day” and “of the previous Business Day” from the definition of Opening Balance and adding “immediately prior” before processing cycle because, as described above, FOS occurs twice daily. As such, the Opening Balance of the intraday FOS would be the amount reported to the Member during the morning FOS cycle.

## 2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>37</sup>

The proposed changes to (i) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (iii) make a correction and

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<sup>37</sup> 15 U.S.C. 78q-1(b)(3)(F).

certain technical changes to the Rules would help to ensure that the Rules are accurate and clear to participants. When participants better understand their rights and obligations regarding the Rules, such participants are more likely to act in accordance with the Rules, which FICC believes would promote the prompt and accurate clearance and settlement of securities transactions. As such, FICC believes that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act.<sup>38</sup>

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

FICC does not believe the proposed rule changes to (i) clarify which FOS payments and underlying marks are applicable to DVP Transactions, clarify which payments and underlying marks are applicable to GCF Repo Transactions and CCIT Transactions, and add a payment that is currently debited from/credited to (as applicable) Members that is not currently referenced in the Rules, (ii) restructure Section 1 of Rule 13 to list only FOS payments rather than both payments and some underlying marks, and (iii) make a correction and certain technical changes would impact competition. The proposed rule changes would help to ensure that the Rules remain clear and accurate. In addition, the changes would facilitate participants' understanding of the Rules and their obligations thereunder. These changes would not affect FICC's operations or the rights and obligations of the membership. As such, FICC believes the proposed rule changes would not have any impact on competition.

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<sup>38</sup>

Id.

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

FICC has not received or solicited any written comments relating to this proposal.

FICC will notify the Commission of any written comments received by FICC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>39</sup> of the Act and paragraph (f)<sup>40</sup> of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2020-012 on the subject line.

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<sup>39</sup> 15 U.S.C 78s(b)(3)(A).

<sup>40</sup> 17 CFR 240.19b-4(f).

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2020-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2020-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>41</sup>

Secretary

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<sup>41</sup> 17 CFR 200.30-3(a)(12).

**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

## RULE 1 – DEFINITIONS

\* \* \*

### Clearance Difference Amount

The term “Clearance Difference Amount” means the absolute value of the dollar difference between the Settlement Value of a Deliver Obligation or a Receive Obligation and the actual value at which such Deliver Obligation or Receive Obligation was settled, by the delivery or receipt of Eligible Netting Securities. **Notwithstanding the above, the term “Clearance Difference Amount” shall not apply to GCF Repo Transactions and CCIT Transactions.**

\* \* \*

### Collateral Mark

The term “Collateral Mark” means, on a particular Business Day, as regards any Forward Trade other than a Forward-Starting Repo Transaction during its Forward-Starting Period, the absolute value of the difference between the Contract Value of the Forward Trade and the Market Value of the Forward Trade. If the Contract Value is greater than the Market Value, then this difference shall be a positive value for a Member with a Net Short Position, and a negative value for a Member with Net Long Position. If the Market Value is greater than the Contract Value, then this difference shall be a positive value for a Member with a Net Long Position, and a negative value for a Member with a Net Short Position. The Collateral Mark for a Forward-Starting Repo Transaction during its Forward-Starting Period shall be Zero. The term “Collateral Mark” means, as regards a Forward Net Settlement Position, the sum of all of the Collateral Marks on each of the Forward Trades that compose such Position. **Notwithstanding the above, the term “Collateral Mark” shall not apply to GCF Repo Transactions and CCIT Transactions.**

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### Coupon Adjustment Payment

The term “Coupon Adjustment Payment” means the coupon payments due and owing on each Eligible Netting Security that comprises either a Coupon-Eligible End Leg or a Fail Net Settlement Position. **Notwithstanding the above, the term “Coupon Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.**

### Coupon-Eligible End Leg

The term “Coupon-Eligible End Leg” means an End Leg on a coupon payment date for the Eligible Netting Securities that comprise it, where such coupon payment date falls after the Start Leg related to the same Repo Transaction from which such End Leg arises has settled and on or before the Scheduled Settlement Date of the End Leg. **Notwithstanding the above, the term “Coupon-Eligible End Leg” shall not apply to GCF Repo Transactions and CCIT Transactions.**

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#### **Credit Clearance Difference Amount**

The term “Credit Clearance Difference Amount” means, on a particular Business Day, the absolute value of the dollar difference between the Settlement Value of a Deliver Obligation or a Receive Obligation and the actual value at which such Deliver Obligation or Receive Obligation was settled, by the delivery or receipt of Eligible Netting Securities. **Notwithstanding the above, the term “Credit Clearance Difference Amount” shall not apply to GCF Repo Transactions and CCIT Transactions.**

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#### **Credit GCF Forward Mark Adjustment Payment**

**The term “Credit GCF Forward Mark Adjustment Payment” means, on a particular Business Day, a GCF Forward Mark Adjustment Payment that is a positive value, and that a Netting Member is entitled to collect from the Corporation.**

#### **Credit GCF Interest Adjustment Payment**

**The term “Credit GCF Interest Adjustment Payment” means, on a particular Business Day, a GCF Interest Adjustment Payment on an associated Debit GCF Forward Mark Adjustment Payment made on the previous Business Day, which GCF Interest Adjustment Payment a Netting Member is entitled to collect from the Corporation.**

#### **Credit GCF Transaction Adjustment Payment**

**The term “Credit GCF Transaction Adjustment Payment” means, on a particular Business Day, as regards the total repo interest accrued on GCF Repo Transactions and CCIT Transactions, as applicable, the GCF Transaction Adjustment Payment that a Netting Member is entitled to collect from the Corporation.**

\* \* \*

#### **Credit Interest Rate Mark Adjustment Payment**

**The term “Credit Interest Rate Mark Adjustment Payment” means, on a particular Business Day, an Interest Rate Mark Adjustment Payment on the sum of the associated Debit GCF Forward Mark and Debit Interest Rate Mark made on the previous Business Day, which Interest Rate Mark Adjustment Payment a Netting Member is entitled to collect from the Corporation.**

\* \* \*

### Credit Redemption Adjustment Payment

The term “Credit Redemption Adjustment Payment” means on a particular Business Day, a Redemption Adjustment Payment that a Netting Member is entitled to collect from the Corporation, involving either (1) a Net Settlement Position in an Eligible Netting Security on the last Business Day before or on the maturity date for such security or (2) a Repo Transaction where the Scheduled Settlement Date of the End Leg is on the maturity date, after the maturity date or on the last Business Day before the maturity date and the maturity date is not a Business Day.

\* \* \*

### Credit Transaction Adjustment Payment

The term “Credit Transaction Adjustment Payment” means, on a particular Business Day as regards a Net Settlement Position, a Transaction Adjustment Payment that a Netting Member is entitled to collect from the Corporation, involving either: (1) a Net Long Position where the aggregate of the Contract Values of the trades that comprise such Position is less than the Aggregate of the Market Values of such trades, or (2) a Net Short Position where the aggregate of the Contract Values of the trades that comprise such Position is greater than the Market Values of such trades. ~~The term “Credit Transaction Adjustment Payment” means, on a particular Business Day as regards a GCF Net Settlement Position, a Transaction Adjustment Payment that a Netting Member is entitled to collect from the Corporation, involving either: (1) a GCF Net Funds Borrower Position where the aggregate of the Contract Values of the GCF Repo Transactions that comprise such Position is less than the Aggregate of the Market Values of such Transactions, or (2) a GCF Net Funds Lender Position where the aggregate of the Contract Values of the GCF Repo Transactions that comprise such Position is greater than the Market Values of such Transactions.~~

\* \* \*

### Debit Clearance Difference Amount

The term “Debit Clearance Difference Amount” means, on a particular Business Day, the absolute value of the dollar difference between the Settlement Value of a Deliver Obligation or a Receive Obligation and the actual value at which such Deliver Obligation or Receive Obligation was settled, by the delivery or receipt of Eligible Netting Securities. Notwithstanding the above, the term “Debit Clearance Difference Amount” shall not apply to GCF Repo Transactions and CCIT Transactions.

\* \* \*

### Debit GCF Forward Mark Adjustment Payment

The term “Debit GCF Forward Mark Adjustment Payment” means, on a particular Business Day, a GCF Forward Mark Adjustment Payment that is a negative value, and that a Netting Member is obligated to pay the Corporation.

\* \* \*

#### **Debit GCF Interest Adjustment Payment**

**The term “Debit GCF Interest Adjustment Payment” means, on a particular Business Day, a GCF Interest Adjustment Payment on an associated Credit GCF Forward Mark Adjustment Payment made on the previous Business Day, which GCF Interest Adjustment Payment a Netting Member is obligated to make to the Corporation.**

\* \* \*

#### **Debit GCF Transaction Adjustment Payment**

**The term “Debit GCF Transaction Adjustment Payment” means, on a particular Business Day, as regards the total repo interest accrued on GCF Repo Transactions and CCIT Transactions, as applicable, the GCF Transaction Adjustment Payment that a Netting Member is obligated to pay to the Corporation.**

\* \* \*

#### **Debit Interest Rate Mark Adjustment Payment**

**The term “Debit Interest Rate Mark Adjustment Payment” means, on a particular Business Day, an Interest Rate Mark Adjustment Payment on the sum of the associated Credit GCF Forward Mark and Credit Interest Rate Mark made on the previous Business Day, which Interest Rate Mark Adjustment Payment a Netting Member is obligated to make to the Corporation.**

#### **Debit Redemption Adjustment Payment**

**The term “Debit Redemption Adjustment Payment” means, on a particular Business Day, a Redemption Adjustment Payment that a Netting Member is obligated to make to the Corporation, involving either (1) a Net Settlement Position in an Eligible Netting Security on the last Business Day before or on the maturity date for such security or (2) a Repo Transaction where the Scheduled Settlement Date of the End Leg is on the maturity date, after the maturity date or on the last Business Day before the maturity date and the maturity date is not a Business Day.**

#### **Debit Transaction Adjustment Payment**

The term “Debit Transaction Adjustment Payment” means, on a particular Business Day as regards a Net Settlement Position, a Transaction Adjustment Payment that a Netting Member is obligated to make to the Corporation, involving either: (1) a Net Long Position where the aggregate of the Contract Values of the trades that comprise such Position is greater than the aggregate of the Market Values of such trades, or (2) a Net Short Position where the aggregate of the Contract values of the trades that comprise such Position is less than the Market Values of such trades. ~~The term “Debit Transaction Adjustment Payment” means, on a particular Business Day as regards a GCF Net Settlement~~

~~Position, a Transaction Adjustment Payment that a Netting Member is obligated to make to the Corporation, involving either: (1) a GCF Net Funds Borrower Position where the aggregate of the Contract Values of the GCF Repo Transactions that comprise such Position is greater than the aggregate of the Market Values of such Transactions, or (2) a GCF Net Funds Lender Position where the aggregate of the Contract Values of the GCF Repo Transactions that comprise such position is less than the Market Values of such Transactions.~~

\* \* \*

### **Delivery Differential Adjustment Payment**

The term “Delivery Differential Adjustment Payment” means the absolute value of the dollar difference between the System Value and the Settlement Value of a Netting Member’s Deliver Obligation or a Receive Obligation. **Notwithstanding the above, the term “Delivery Differential Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.**

\* \* \*

### **Fail Mark Adjustment Payment**

The term “Fail Mark Adjustment Payment” means the absolute value of the dollar difference between the Settlement Value of a Fail Deliver Obligation or a Fail Receive Obligation that constitutes all or part of a Fail Net Settlement Position on the current Business Day and the Settlement Value of such Fail Deliver Obligation or Fail Receive Obligation on the immediately previous Business Day. **Notwithstanding the above, the term “Fail Mark Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.**

\* \* \*

### **Financing Mark**

The term “Financing Mark” means, on a particular Business Day, as regards a Repo Transaction, the product of the Market Value of the Repo Transaction multiplied by System Repo Rate established by the Corporation for such Repo Transaction, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current Business Day until the Scheduled Settlement Date for the Repo Transaction and the denominator of which is 360. If a Repo Transaction other than a Forward-Starting Repo Transaction during its Forward-Starting Period comprises a Net Short Position of the Member, then the Financing Mark shall be a negative value. If a Repo Transaction other than a Forward-Starting Repo Transaction during its Forward-Starting Period comprises a Net Long Position of the Member, then the Financing Mark shall be a positive value. The Financing Mark for a Forward-Starting Repo Transaction during its Forward-Starting Period, and for any trade other than a Repo Transaction, shall be zero. The term “Financing Mark” means, as regards a Forward Net Settlement Position, the sum of all the Financing Marks on each of the Forward Trades that compose such position. **Notwithstanding the**

**above, the term “Financing Mark” shall not apply to GCF Repo Transactions and CCIT Transactions.**

\* \* \*

### **Forward Mark Adjustment Payment**

The term “Forward Mark Adjustment Payment” means, on a particular Business Day, as regards a Member’s Forward Net Settlement Position, the sum of the Collateral Mark applicable to such Position, the Financing Mark applicable to such Position, and the Interest Rate Mark applicable to such Position. Notwithstanding the above, as regards an outstanding Repo Transaction where a request for substitution has been made but New Securities Collateral has not been received by the Corporation, the term “Forward Mark Adjustment Payment” means “Forward Unallocated Sub Mark”. **Notwithstanding the above, the term “Forward Mark Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.**

\* \* \*

### **Forward-Starting Period**

The term “Forward-Starting Period” means, as regards a Forward-Starting Repo Transaction, including a GCF Repo Transaction **and a CCIT Transaction**, the period of time between the Business Day on which the Transaction is compared by the Corporation pursuant to these Rules and the Scheduled Settlement Date for the Start Leg of the Transaction.

### **Forward-Starting Repo Transaction**

The term “Forward-Starting Repo Transaction” means a Repo Transaction, including a GCF Repo Transaction **and a CCIT Transaction**, that is scheduled to start one or more Business Days after the date it is submitted to the Corporation.

### **Forward Trade**

The term “Forward Trade” means a trade ~~other than a Repo Transaction~~, including an Eligible Conversion Trade, whose Scheduled Settlement Date is ~~one~~**two** or more Business Days after the date it is submitted to the Corporation. **For purposes of this definition, if the trade is a Repo Transaction, the Start and End Legs of the Transaction should be considered as separate trades.**

\* \* \*

### **GCF Forward Mark**

The term “GCF Forward Mark” means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the sum of the Accrued Repo

Interest-to-Date, the GCF Forward Starting Interest Rate Mark and the GCF Interest Rate Mark on such GCF Repo Transaction.

#### GCF Forward Mark Adjustment Payment

The term “GCF Forward Mark Adjustment Payment” means, on a particular Business Day, as regards a Member’s Forward Net Settlement Position in GCF Repo Transactions, the payment as it relates to the Member’s GCF Forward Mark.

#### GCF Forward Starting Interest Rate Mark

The term “GCF Forward Starting Interest Rate Mark” means, on a particular Business Day, as regards a Forward-Starting Repo Transaction that is a GCF Repo Transaction during its Forward-Starting Period, the product of the principal value of the Repo Transaction on the Scheduled Settlement Date for its Start Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by the Corporation for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the Scheduled Settlement Date for the Start Leg of the Repo Transaction until the Scheduled Settlement Date for the End Leg of the Repo Transaction, and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the GCF Forward Starting Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the GCF Forward Starting Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The term “GCF Forward Starting Interest Rate Mark” means, as regards a Forward Net Settlement Position, the sum of all the GCF Forward Starting Interest Rate Marks on each of the Forward Trades that compose such position.

#### GCF Interest Adjustment Payment

The term “GCF Interest Adjustment Payment” means, as regards a GCF Forward Mark Adjustment Payment, the product of the GCF Forward Mark Adjustment Payment multiplied by the applicable Overnight Investment Rate multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day, and the denominator of which is 360.

\* \* \*

#### GCF Transaction Adjustment Payment

The term “GCF Transaction Adjustment Payment” means, as regards a Netting Member, the total repo interest on the Netting Member’s GCF Repo Transactions and CCIT Transactions, as applicable, for which the Scheduled Settlement Date for the End Leg of such transactions is the next Business Day.

\* \* \*

## Interest Rate Mark

The term “Interest Rate Mark” means, on a particular Business Day as regards a Forward-Starting Repo Transaction during its Forward-Starting Period, the product of the principal value of the Repo Transaction on the Scheduled Settlement Date for its Start Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by the Corporation for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the Scheduled Settlement Date for the Start Leg of the Repo Transaction until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction’s Contract Repo Rate is greater than its System Repo Rate, then the Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction’s Contract Repo Rate is less than its System Repo Rate, then the Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The Interest Rate Mark for any Repo Transaction other than a Forward-Starting Repo Transaction during its Forward-Starting Period, and for any trade other than a Repo Transaction, shall be zero. The term “Interest Rate Mark” means, as regards a Forward Net Settlement Position, the sum of all the Interest Rate Marks on each of the Forward Trades that compose such position. **Notwithstanding the above, the term “Interest Rate Mark” shall not apply to GCF Repo Transactions or CCIT Transactions.**

## ~~Interest Rate Mark Adjustment Payment~~

~~The term “Interest Rate Mark Adjustment Payment” means, as regards the sum of a Netting Member’s GCF Interest Rate Mark and Interest Rate Mark, the product of that sum multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360.~~

\* \* \*

## Maturity Value

The term “Maturity Value” means, as regards a Net Settlement Position, Deliver Obligation, the ~~R~~redemption ~~V~~value of the Eligible Netting Securities that comprise such Position or Obligation.

\* \* \*

## Net GCF Forward Mark Adjustment Payment

**The term “Net GCF Forward Mark Adjustment Payment” means the absolute value of the dollar difference on a particular Business Day for a Netting Member between the total of all of the Credit GCF Forward Mark Adjustment Payments and the total of all of the Debit GCF Forward Mark Adjustment Payments. If the total of all of the Credit GCF Forward Mark Adjustment Payments is greater than the total of all of**

the Debit GCF Forward Mark Adjustment Payments, then the Net GCF Forward Mark Adjustment Payment shall be a positive dollar amount owing from the Corporation to the Member. If the total of all of the Credit GCF Forward Mark Adjustment Payments is less than the total of all of the Debit GCF Forward Mark Adjustment Payments, then the Net GCF Forward Mark Adjustment Payment shall be a negative dollar amount owing from the Member to the Corporation.

#### Net GCF Interest Adjustment Payment

The term “Net GCF Interest Adjustment Payment” means the absolute value of the dollar difference on a particular Business Day for a Netting Member between the total of all of the Credit GCF Interest Adjustment Payments and the total of all of the Debit GCF Interest Adjustment Payments. If the total of all of the Credit GCF Interest Adjustment Payments is greater than the total of all of the Debit GCF Interest Adjustment Payments, then the Net GCF Interest Adjustment Payment shall be a positive dollar amount owing from the Corporation to the Member. If the total of all of the Credit GCF Interest Adjustment Payments is less than the total of all of the Debit GCF Interest Adjustment Payments, then the Net GCF Interest Adjustment Payment shall be a negative dollar amount owing from the Member to the Corporation.

\* \* \*

#### Net GCF Transaction Adjustment Payment

The term “Net GCF Transaction Adjustment Payment” means, on a particular Business Day, the absolute value of the dollar difference between the total of all of the Credit GCF Transaction Adjustment Payments and the total of all of the Debit GCF Transaction Adjustment Payments for a Netting Member. If the total of all of the Credit GCF Transaction Adjustment Payments is greater than the total of all of the Debit GCF Transaction Adjustment Payments, then the Net GCF Transaction Adjustment Payment shall be a positive dollar amount owing from the Corporation to the Member. If the total of all of the Credit GCF Transaction Adjustment Payments is less than the total of all of the Debit GCF Transaction Adjustment Payments, then the Net GCF Transaction Adjustment Payment shall be a negative dollar amount owing from the Member to the Corporation.

\* \* \*

#### Net Interest Rate Mark Adjustment Payment

The term “Net Interest Rate Mark Adjustment Payment” means the absolute value of the dollar difference on a particular Business Day for a Netting Member between the total of all of Credit Interest Rate Mark Adjustment Payments and the total of all Debit Interest Rate Mark Adjustment Payments. If the total of all of the Credit Interest Rate Mark Adjustment Payments is greater than the total of all of the Debit Interest Rate Mark Adjustment Payments, then the Net Interest Rate Mark Adjustment Payment shall be a positive dollar amount owing from the Corporation

~~to the Member. If the total of all of the Credit Interest Rate Mark Adjustment Payments is less than the total of all of the Debit Interest Rate Mark Adjustment Payments, then the Net Interest Rate Mark Adjustment Payment shall be a negative dollar amount owing from the Member to the Corporation.~~

\* \* \*

### Net Redemption Adjustment Payment

The term “Net Redemption Adjustment Payment” means the absolute value of the dollar difference on a particular Business Day for a Netting Member between the total of all Credit Redemption Adjustment Payments and the total of all Debit Redemption Adjustment Payments. If the total of all Credit Redemption Adjustment Payments is greater than all of the Debit Redemption Adjustment Payments, then the Net Redemption Adjustment Payment shall be a positive dollar amount owing from the Corporation to the Member. If the total of all the Credit Redemption Adjustment Payments is less than the total of all of the Debit Redemption Adjustment Payments, then the Net Redemption Adjustment Payment shall be a negative amount owing from the Member to the Corporation.

\* \* \*

### Opening Balance

The term “Opening Balance” means, with regard to the calculation of a Member’s Funds-Only Settlement Amount ~~and Clearing Fund Funds Only Settlement Amount on a given Business Day~~, the amount reported to such Member during the immediately prior processing cycle ~~of the previous Business Day~~ as the Member’s Funds-Only Settlement Amount obligation.

\* \* \*

### Redemption Adjustment Payment

The term “Redemption Adjustment Payment” means for a Net Settlement Position, the difference between the Redemption Value and the Settlement Value due and owing on each Eligible Netting Security that comprises such position. The term “Redemption Adjustment Payment” means for the End Leg of a Repo Transaction, the difference between the Redemption Value and the Contract Value due and owing on each Eligible Netting Security that comprises such Transaction. Notwithstanding the above, the term “Redemption Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.

\* \* \*

### **Redemption Value**

**The term “Redemption Value” means, as regards a Net Settlement Position or a Deliver Obligation, the principal amount paid to the holder of such position or obligation in redeeming Eligible Netting Securities at the maturity for such securities.**

### **System Value**

The term “System Value” means, as regards a Deliver Obligation, a Receive Obligation, a Net Settlement Position, Existing Securities Collateral, or New Securities Collateral, the amount in dollars equal to the par value of each Eligible Netting Security that comprises such Obligation, Position, or Collateral, as applicable, multiplied by its System Price, plus interest that has accrued with regard to each such Eligible Netting Security up to the Business Day for which such dollar amount is calculated. The System Value of a Net Settlement Position that has remained unsettled on the maturity date for the Eligible Netting Securities that comprise such Position shall be the ~~R~~edemption ~~V~~alue of such Securities.

### **Transaction Adjustment Payment**

The term “Transaction Adjustment Payment” means the absolute value of the dollar difference between the Contract Values and the Market Values of the trades that comprise a Net Settlement Position ~~or GCF Net Settlement Position~~ that is scheduled to settle on the current Business Day. **Notwithstanding the above, the term “Transaction Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.**

\* \* \*

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

\* \* \*

Section 13 – Funds-Only Settlement

\* \* \*

(b) The following components of Section 1 of Rule 13 shall apply to Netting Members with respect to their CCIT Transactions (such components shall apply as they apply to GCF Repo Transactions except as noted below):

(i) **GCF** Transaction Adjustment Payment;

(ii) GCF Interest Rate Mark, provided that Netting Members shall be obligated to pay debits but shall not be entitled to collect credits for GCF Interest Rate Mark with respect to their CCIT Transactions;

(iii) **GCF Forward Starting** Interest Rate Mark, provided that Netting Members shall be obligated to pay debits but shall not be entitled to collect credits for **GCF Forward Starting** Interest Rate Mark with respect to their CCIT Transactions;

(iv) **GCF** Interest ~~Rate Mark~~ Adjustment Payment, **as it relates to (ii) and (iii) above;**

(v) Invoice Amount as it relates to CCIT Transactions; and

(vi) Miscellaneous Adjustment Amount as it relates to CCIT Transactions.

(c) CCIT Daily Repo Interest shall also apply to CCIT Members (or Joint Accounts as applicable) and Netting Members with respect to their CCIT Transactions.

\* \* \*

## RULE 13 - FUNDS-ONLY SETTLEMENT

### Section 1 - General

One or more times on each Business Day, each Netting Member, as appropriate in accordance with this Rule, shall be obligated to pay to the Corporation, and/or shall be entitled to collect from the Corporation, the following (determined separately, where applicable, for the Market Professional Cross-Margining Account of a Netting Member):

(a) With regard to every Net Settlement Position, ~~including every GCF Net Settlement Position~~, other than either a Fail Net Settlement Position or a Forward Net Settlement Position, either pay to the Corporation a Debit Transaction Adjustment Payment or collect from the Corporation a Credit Transaction Adjustment Payment;

(b) With regard to every Deliver Obligation and Receive Obligation, either pay to the Corporation a Debit Delivery Differential Adjustment Payment or collect from the Corporation a Credit Delivery Differential Adjustment Payment;

(c) With regard to every Forward Net Settlement Position, either pay to the Corporation a Debit Forward Mark Adjustment Payment or collect from the Corporation a Credit Forward Mark Adjustment Payment;

~~(d) With regard to all of its outstanding Term GCF Repo Transactions, the GCF Interest Rate Mark;~~

~~(e) With regard to all outstanding Forward Starting Repo Transactions during their Forward Starting Period, the Interest Rate Mark;~~

~~(f) With regard to each of its Debit Interest Rate Marks and Debit GCF Forward Marks, pay to the Corporation a related Debit Interest Rate Mark Adjustment Payment, and with regard to each of its Credit Interest Rate Marks and Credit GCF Forward Marks, collect from the Corporation a related Credit Interest Rate Mark Adjustment Payment;~~

~~(gd)~~ With regard to each of its Debit Forward Mark Adjustment Payments, collect from the Corporation a related Credit Interest Adjustment Payment, and with regard to each of its Credit Forward Mark Adjustment Payments, pay to the Corporation a related Debit Interest Adjustment Payment;

~~(he)~~ With regard to every Fail Deliver Obligation and Fail Receive Obligation, either pay to the Corporation a Debit Fail Mark Adjustment Payment or collect from the Corporation a Credit Fail Mark Adjustment Payment;

~~(if)~~ With regard to every Fail Net Settlement Position on a coupon payment date for the Eligible Netting Securities that comprise such Fail Net Settlement Position: (1) if the Member is in a Fail Net Short Position, it shall pay to the Corporation a Debit Coupon Adjustment Payment, and (2) if the Member is in a Fail Net Long Position, it shall collect from the Corporation a Credit Coupon Adjustment Payment;

(jg) With regard to every Coupon-Eligible End Leg on a coupon payment date for the Position, it shall pay to the Corporation a Debit Coupon Adjustment Payment, and (2) if the Member is in a Net Long Position, it shall collect from the Corporation a Credit Coupon Adjustment Payment;

**(h) With regard to every Net Settlement Position or End Leg of a Repo Transaction on the maturity date for the Eligible Netting Security that comprises such position or Transaction: (1) if the Redemption Adjustment Payment is a positive amount, then the Member shall collect a Credit Redemption Adjustment Payment from the Corporation, and (2) if the Redemption Adjustment Payment is a negative amount, then Member shall pay to the Corporation a Debit Redemption Adjustment Payment;**

(ki) With regard to any settlement made pursuant to Rule 12 where there is a difference between the Settlement Value at which a Deliver Obligation or Receive Obligation was obligated to have been made and the dollar value at which such Obligation actually was settled, either pay to the Corporation a Debit Clearance Difference Amount or collect from the Corporation a Credit Clearance Difference Amount;

**(j) With regard to every GCF Net Settlement Position, either pay to the Corporation a Debit GCF Transaction Adjustment Payment or collect from the Corporation a Credit GCF Transaction Adjustment Payment;**

**(k) With regard to any GCF Repo Transaction that is not scheduled to settle on that day, either pay to the Corporation a Debit GCF Forward Mark Adjustment Payment or collect from the Corporation a Credit GCF Forward Mark Adjustment Payment;**

**(l) With regard to each of its Debit GCF Forward Mark Adjustment Payments, collect from the Corporation a related Credit GCF Interest Adjustment Payment, and with regard to each of its Credit GCF Forward Mark Adjustment Payments, pay to the Corporation a related Debit GCF Interest Adjustment Payment;**

(lm) With regard to any fees due and owing by a Netting Member to the Corporation it shall pay to the Corporation an Invoice Amount; and

(mn) With regard to any other cash payments owing from a Netting Member to the Corporation or entitled to be collected by a Netting Member from the Corporation, the Miscellaneous Adjustment Amount.

\* \* \*

## Section 2 - Calculation of Funds-Only Settlement Amount

One or more times on each Business Day, the Corporation shall make available to each Netting Member and to the Funds-Only Settling Bank Member acting on behalf of the Member a Report stating the Funds-Only Settlement Amount that is either to be paid from such Member to the Corporation on such Business Day or to be collected by such Member from the Corporation on such Business Day. The Funds-Only Settling Bank Member shall also receive the Funds-Only

Settlement amounts of all of the Netting Members for which it is acting and the Net Funds-Only Settlement Figure.

The Funds-Only Settlement Amount of each Netting Member shall be determined by calculating the net total, for a particular Business Day, of the following: (a) the Net Transaction Adjustment Payment; (b) the Net Delivery Differential Adjustment Payment; (c) the Net Forward Mark Adjustment Payment; (d) the Net Interest Adjustment Payment; (e) ~~the Net Interest Rate Mark Adjustment Payment~~; (f) the Net Fail Mark Adjustment Payment; (g) ~~the Net Coupon Adjustment Payment~~; (h) ~~the GCF Interest Rate Mark~~; (i) ~~the Net Clearance Difference Amount~~; (j) ~~the Net GCF Transaction Adjustment Payment~~; (k) ~~the Net Coupon Adjustment Payment~~; (l) ~~the Net GCF Forward Mark Adjustment Payment~~; (m) ~~the Net Clearance Difference Amount~~; (n) ~~the Net GCF Interest Adjustment Payment~~; (o) the Total Invoice Amount; (p) the Miscellaneous Adjustment Amount; (q) ~~the Net Redemption Adjustment Payment~~; (r) the Opening Balance; and (s) the Collected/Paid Amount. If such net total is a negative amount, such amount shall be owing by the Member to the Corporation; if such net total is a positive amount, such amount shall be owing by the Corporation to the Member. The amount of each component, as listed above, of the Funds-Only Settlement Amount shall be reported on each Business Day to each Netting Member.

\* \* \*