| OMB APPROVAL | |
|---|---|
| OMB Number: | 3235-0045 |
| Expires: | June 30, 2007 |
| Estimated average burden hours per response | 38 |



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2007 - 05
Amendment No.

Proposed Rule Change by Fixed Income Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

| Initial | Amendment | Withdrawal | Section 19(b)(2) | Section 19(b)(3)(A) | Section 19(b)(3)(B) |
|---|---|---|---|---|---|
| ☑ | ☐ | ☐ | ☑ | ☐ | ☐ |

Pilot ☐

Extension of Time Period for Commission Action ☐

Date Expires

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

**Description**

Provide a brief description of the proposed rule change (limit 250 characters).

This rule filing proposes to amend the rules of the Government Securities Division and Mortgage-Backed Securities Division of FICC with regard to fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list.

**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 proposed rule change.


First Name: John
Last Name: Petrofsky
Title: Associate Counsel
E-mail: jpetrofsky@dtcc.com
Telephone: (212) 855-7634
Fax: (212) 855-3215


**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 officer.

Date: 04/30/2007

By: Nikki M. Poulos (Name)

Managing Director and General Counsel (Title)

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.

Nikki Poulos, npoulos@dtcc.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

| | |
|---|---|
| **Form 19b-4 Information**<br>Add Remove View | 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**<br>Add Remove View | 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 2 - Notices, Written Comments, Transcripts, Other Communications**<br>Add Remove View<br>Exhibit Sent As Paper Document<br>☐ | 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**<br>Add Remove View<br>Exhibit Sent As Paper Document<br>☐ | 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**<br>Add Remove View | 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**<br>Add Remove View | 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**<br>Add Remove View | 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 Proposed Rule Change.

(a) The proposed rule change is annexed hereto as Exhibit 5 and consists of modifications to the rules of Fixed Income Clearing Corporation's ("FICC") Government Securities Division ("GSD") and Mortgage-Backed Securities Division ("MBSD") with regard to fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list. In addition, this rule filing will make technical changes to the rules of both Divisions.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed changes were approved on February 14, 2007 by the Credit and Market Risk Management Committee of FICC's Board of Directors.

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

(a) The purpose of this filing is to: (i) restructure the GSD and MBSD rules related to fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list, and (ii) (where practicable and/or beneficial) harmonize them with similar rules of FICC's affiliates, the National Securities Clearing Corporation ("NSCC") and The Depository Trust Company ("DTC").

1. *Fines*

*(i) Fine Schedule for Failure to Submit Financial and Other Information*

Members of the GSD and MBSD receive fines for failure to submit required financial, regulatory and other information by the publicized time frames. Oftentimes the fined entity is a common member of DTC and NSCC as well, causing the member to incur multiple penalties for the same offense. FICC is proposing to provide in the applicable fine schedules of both Divisions that a common member of FICC, NSCC and DTC (each a "Clearing Agency" and, collectively, the "Clearing Agencies") that is late in providing the same information to more than one Clearing Agency would be subject to an equal portion of the applicable fine amount at each Clearing Agency.[1]

[1] For example, assume that Firm A is a member of DTC, FICC and NSCC and is required to submit its annual audited financial statements within a certain timeframe. If Member A is late in its submission of the statements (and this is Firm A's first lateness), Firm A will be fined $300 total ($100 for DTC, $100 for FICC and $100 for NSCC).

In addition, FICC proposes changes to the footnotes of the applicable fine schedule to make clarifications including: (i) the method by which the reporting requirements will be published, and (ii) that the determination of the fine amount after the fourth or more occasion of an offense within a twelve month rolling period will be determined with the concurrence of the Board or the Credit and Market Risk Management Committee (or similar committee).[2]

*(ii) Fine Schedule for Late Clearing/Participants Fund Deficiency Payments*

GSD and MBSD Netting and Clearing members are also subject to fines for late Clearing Fund and Participants Fund deficiency payments. In order to harmonize with similar provisions in the NSCC rules, FICC is proposing to adopt the fine amounts set forth in the schedule that is utilized by NSCC for this purpose, and to adopt other provisions in the footnotes of the applicable fine schedules as follows:

(A) A first occasion lateness will generate a warning letter to the firm for all deficiency amounts. (Both Divisions currently impose a fine for a first occasion lateness for its highest deficiency amount.)

(B) Occasions will be counted over a three-month rolling period, which is a change from an existing rolling period of 30 days.

(C) If the number of occasions within the rolling period exceeds four, management will obtain the Board's concurrence as to the fine amount.

(D) A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount.[3] If a member is late for more than one hour and it is the member's fourth occasion, management will obtain the Board's concurrence as to the fine amount.

Please see Exhibit 5 to this rule filing for the actual fine amounts set forth in the proposed schedule.

*(iii) Fine Schedule for Late Settlement Payments*

The GSD and MBSD currently fine members for late settlement payments. FICC is proposing the following by way of harmonization with the other Clearing Agencies:

(A) The GSD and MBSD will adopt the deficiency and fine amounts of the DTC and NSCC schedules, with first occasions resulting in fines (rather than warning letters as under the current schedule), and incorporating a three-month rolling period (rather than

[2] Under the Rules of both Divisions, the terms "Board" or "Board of Directors" mean the Board of Directors of FICC or a committee thereof acting under delegated authority (hereinafter, the "Board").

[3] For example, if Firm A's deficiency amount is under $100,000, it is Firm A's second lateness in the three-month period and Firm A is late by more than one hour, Firm A will be fined $200 pursuant to the proposed fine schedule.

the current 30 days). Please see Exhibit 5 to this rule filing for the fine amounts set forth in the proposed schedule.

(B) In addition, the schedules for both divisions will be amended to provide that if the number of occasions within the rolling period exceeds four, management will obtain the Board's concurrence with respect to the fine amount, and provide that a lateness of more than one hour will result in a fine equal to the amount applicable for the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, management will obtain the Committee's concurrence with respect to the fine amount.

*(iv) General Continuance Standards*

The GSD and MBSD currently impose fines in the amount of $1,000 on a member that fails to notify FICC within two business days of learning of its (the member's) non-compliance with the general continuance standards for membership or becoming subject to a statutory disqualification, and $5,000 if an applicable member fails to notify FICC about a "material" change.[4] With respect to both of these fines, FICC is proposing to amend its rules such that a common member of the Clearing Agencies that is late in providing the same requisite notification to more than one Clearing Agency would be subject to an equal portion of the applicable fine amount at each Clearing Agency (consistent with the approach being proposed above with respect to fines for failure to timely provide requisite financial and other information).

2. *Placement on the Watch List and Prohibition Against Return of Excess Clearing Fund as Consequences for Rules Violations*

The rules of both FICC Divisions contain provisions requiring a member to be placed on the watch list and in certain instances, prohibiting the return of excess collateral, as consequences for certain rules violations and/or certain member actions. For example, the FICC rules require placement on the watch list and prohibition on the return of excess collateral for failure to timely submit a required financial report or other information to FICC.[5] FICC is proposing the deletion of these provisions as (i) the placement on the watch list, which results in additional monitoring of a firm by Risk Management staff, should result from management's surveillance of the member and not automatically from rules violations in and of themselves, and (ii) prohibiting a member's return of excess Clearing Fund is not necessary as an automatic result in instances where a fine is imposed on the member for a rules violation.[6]

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[4] A material change currently includes events such as a merger or acquisition involving the member, a change in corporate form, a name change, a material change in ownership, control or management and participation as a defendant in litigation which could reasonably be anticipated to have a direct negative impact on the member's financial condition or ability to conduct its business.

[5] Other examples include the placement of a GSD netting member on the watch list for having an "excess capital ratio" above a certain number and failure to notify FICC of a material organizational change.

[6] FICC currently has, and will retain, the right to deny the return of excess Clearing Fund collateral in instances where it is concerned about a particular member and is seeking assurances from the member with respect to the member's financial and/or operational capability.

3. *Consequences for Being on the Watch List*

Currently, the GSD rules contain a very specific amount by which the Clearing Fund requirement of a netting member that is placed on the watch list may be increased by the GSD ("The Corporation may require a Netting Member that has been placed on the Watch List, to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Netting Member's Required Fund Deposit) of up to 200 percent of its highest single Business Day's Required Fund Deposit during the most recent 20 Business Days, or such higher amount as the Board may deem necessary . . . . .")). The MBSD and NSCC rules contain provisions that are more general in this regard (e.g., the MBSD provision states: "The Corporation may require a Participant that has been placed on the Watch List to make and maintain a deposit to the Participants Fund over and above the amount determined in accordance with [rules citation] . . . .") Management believes the GSD rules provision is unnecessarily specific and should be amended to more closely reflect the MBSD and NSCC provisions.

(b) FICC's rules, including its membership standards, are intended to protect FICC and its members from undue risk while providing access to FICC services. The proposed changes with respect to the restructuring of existing rules and procedures will assist FICC and its members in interpreting and understanding the Rules with regard to rules on fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list. In addition, enhancing the ability of members to interpret and understand the Rules will assist FICC in assuring the safeguarding of funds and securities in FICC's control or for which FICC is responsible. It is therefore consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder applicable to FICC.

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

FICC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

6. Extension of Time Period for Commission Action.

FICC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

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

Certain portions of the proposed rule changes are based on conforming changes that will be proposed by FICC's affiliates, NSCC and DTC.

9. Exhibits

Exhibit 1 - Notice of proposed rule change for publication in the Federal Register.
Exhibit 2 – N/A
Exhibit 3 – N/A
Exhibit 4 – N/A
Exhibit 5 - Proposed Rule Text

**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 34-_____; File No. SR-FICC-2007-05)**

**SELF-REGULATORY ORGANIZATIONS**

Proposed Rule Change by FIXED INCOME CLEARING CORPORATION ("FICC") relating to modifications to the rules of FICC's Government Securities Division ("GSD") and Mortgage-Backed Securities Division ("MBSD") with regard to fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list. In addition, this rule filing will make technical changes to the rules of both Divisions.

Comments requested within ____ days after the date of this publication.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, 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 FICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The text of the proposed rule change is attached hereto as Exhibit 5.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(i) The purpose of this filing is to: (i) restructure the GSD and MBSD rules related to fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list, and (ii) (where practicable and/or beneficial) harmonize them with similar rules of FICC's affiliates, the National Securities Clearing Corporation ("NSCC") and The Depository Trust Company ("DTC").

1. *Fines*

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In addition, FICC proposes changes to the footnotes of the applicable fine schedule to make clarifications including: (i) the method by which the reporting requirements will be published, and (ii) that the determination of the fine amount after the fourth or more occasion of an offense within a twelve month rolling period will be determined with the concurrence of the Board or the Credit and Market Risk Management Committee (or similar committee).[2]

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(A) A first occasion lateness will generate a warning letter to the firm for all deficiency amounts. (Both Divisions currently impose a fine for a first occasion lateness for its highest deficiency amount.)

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[1] For example, assume that Firm A is a member of DTC, FICC and NSCC and is required to submit its annual audited financial statements within a certain timeframe. If Member A is late in its submission of the statements (and this is Firm A's first lateness), Firm A will be fined $300 total ($100 for DTC, $100 for FICC and $100 for NSCC).

[2] Under the Rules of both Divisions, the terms "Board" or "Board of Directors" mean the Board of Directors of FICC or a committee thereof acting under delegated authority (hereinafter, the "Board").

(B) Occasions will be counted over a three-month rolling period, which is a change from an existing rolling period of 30 days.

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[3] For example, if Firm A's deficiency amount is under $100,000, it is Firm A's second lateness in the three-month period and Firm A is late by more than one hour, Firm A will be fined $200 pursuant to the proposed fine schedule.

[4] A material change currently includes events such as a merger or acquisition involving the member, a change in corporate form, a name change, a material change in ownership, control or management and

proposing to amend its rules such that a common member of the Clearing Agencies that is late in providing the same requisite notification to more than one Clearing Agency would be subject to an equal portion of the applicable fine amount at each Clearing Agency (consistent with the approach being proposed above with respect to fines for failure to timely provide requisite financial and other information).

2. *Placement on the Watch List and Prohibition Against Return of Excess Clearing Fund as Consequences for Rules Violations*

The rules of both FICC Divisions contain provisions requiring a member to be placed on the watch list and in certain instances, prohibiting the return of excess collateral, as consequences for certain rules violations and/or certain member actions. For example, the FICC rules require placement on the watch list and prohibition on the return of excess collateral for failure to timely submit a required financial report or other information to FICC.[5] FICC is proposing the deletion of these provisions as (i) the placement on the watch list, which results in additional monitoring of a firm by Risk Management staff, should result from management's surveillance of the member and not automatically from rules violations in and of themselves, and (ii) prohibiting a member's return of excess Clearing Fund is not necessary as an automatic result in instances where a fine is imposed on the member for a rules violation.[6]

3. *Consequences for Being on the Watch List*

Currently, the GSD rules contain a very specific amount by which the Clearing Fund requirement of a netting member that is placed on the watch list may be increased by the GSD ("The Corporation may require a Netting Member that has been placed on the Watch List, to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Netting Member's Required Fund Deposit) of up to 200 percent of its highest single Business Day's Required Fund Deposit during the most recent 20 Business Days, or such higher amount as the Board may deem necessary . . . . ")). The MBSD and NSCC rules contain provisions that are more general in this regard (e.g., the MBSD provision states: "The Corporation may require a Participant that has been placed on the Watch List to make and maintain a deposit to the Participants Fund over and above the amount determined in accordance with [rules citation] . . . .") Management believes the GSD rules provision is unnecessarily specific and should be amended to more closely reflect the MBSD and NSCC provisions.

(ii) FICC's rules, including its membership standards, are intended to protect FICC and its members from undue risk while providing access to FICC services. The

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participation as a defendant in litigation which could reasonably be anticipated to have a direct negative impact on the member's financial condition or ability to conduct its business.

[5] Other examples include the placement of a GSD netting member on the watch list for having an "excess capital ratio" above a certain number and failure to notify FICC of a material organizational change.

[6] FICC currently has, and will retain, the right to deny the return of excess Clearing Fund collateral in instances where it is concerned about a particular member and is seeking assurances from the member with respect to the member's financial and/or operational capability.

proposed changes with respect to the restructuring of existing rules and procedures will assist FICC and its members in interpreting and understanding the Rules with regard to rules on fines, Clearing Fund consequences imposed on members and certain aspects of the internal watch list. In addition, enhancing the ability of members to interpret and understand the Rules will assist FICC in assuring the safeguarding of funds and securities in FICC's control or for which FICC is responsible. It is therefore consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder applicable to FICC.

B. Self-Regulatory Organization's Statement on Burden on Competition.

FICC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

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

Written comments relating to the proposed rule change have not been solicited or received.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed change should be disapproved.

IV. Solicitation of Comments

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

- Electronic comments may be submitted by using the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml), or by sending an e-mail to rule-comment@sec.gov. Please include File No. SR-FICC-2007-05 on the subject line.

- Paper comments should be sent in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington D.C. 20549-1090.

All submissions should refer to File Number SR-FICC-2007-05. 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 Web site (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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington D.C. 20549-9303. Copies of such filing also will be available for inspection and copying at FICC's principal office and on FICC's Web site at www.ficc.com. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the file number above and should be submitted within _____ days after the date of publication.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Nancy M. Morris

Exhibit 5

**Bolded, underlined** language indicates proposed additions made by this filing

~~**Bolded, Strikethrough text**~~ indicates proposed deletions made by this filing

Double underlined text indicates additions that are pending in other filings with the Commission

Shaded text indicates deletions pending in other filings with the Commission

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RULES OF THE GOVERNMENT SECURITIES DIVISION

OF

FIXED INCOME CLEARING CORPORATION

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RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS

***

Section 2 - Reports by Netting Members

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Each Netting Member shall submit to the Corporation the reports, financial or other information set forth below and such other reports, financial and other information as the Corporation from time to time may reasonably require. Unless specifically set forth below, the time periods prescribed by the Corporation are set forth in the form of notices posted at the Corporation's Website and/or distributed by the Corporation from time to time. It shall be the Member's responsibility to retrieve all notices daily from the Website.

***

A Member that fails to submit the above listed information within the timeframes required by guidelines issued by the Corporation from time to time and in the manner requested, shall:

(i) be subject to a fine by the Corporation; **and**
(ii) until the required information is submitted to the Corporation, have a Required Fund Deposit equal to the greater of either (x) the sum of the normal calculation of its Required Fund Deposit plus $1,000,000, or (y) 125 percent of the normal calculation of its Required Fund Deposit~~;~~**.**

~~**(iii) be precluded from taking back any excess Clearing Fund collateral to which that Member would normally be entitled, and.**~~
~~**(iv) be placed on the Watch List.**~~

***

Section 5 7 - General Continuance Standards

A Member shall promptly inform the Corporation, orally or in writing, if it no longer is in compliance with any of the relevant qualifications and standards for admission to membership set forth in Rule 2 and in this Rule, including whether it is subject to any of the criteria set forth in subsection (d) of Section 1 3 of this Rule 2A. Notification must take place within two business days from the date on which the Member first learns of its non-compliance. The Corporation shall assess a ~~**$1,000**~~ fine against any Member who fails to so notify the Corporation. In addition, a Member shall notify the Corporation within two business days of learning of an investigation or proceeding to which it is or is becoming subject that would cause the Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in Rules 2, 2A and 3. Notwithstanding the previous sentence, the Member shall not be required to notify the Corporation if doing so would cause the Member to violate an applicable law, rule or regulation. If, with respect to any type of Member: (a) it fails to maintain the relevant standards and qualifications for admission to membership, including but not limited to minimum capital standards and operational testing and related reporting requirements imposed by the Corporation from time to time; (b) it violates any Rule of the Corporation or other agreement with the Corporation; (c) it fails to satisfy in a timely manner any obligation to the Corporation; (d) there is Reportable Event relating to such Member; or (e) the Corporation otherwise deems it necessary or advisable, in order to protect the Corporation, its other Members, or its creditors or investors, to safeguard securities and funds in the custody or control of the Corporation, or to promote the prompt and accurate processing, clearance or settlement of securities transactions, the Corporation will undertake appropriate action to determine the status of the Member and its continued eligibility. In addition, the Corporation may review the financial responsibility and operational capability of the Member to the extent provided in Section 2 of these Rules 2 and otherwise require from the Member additional reporting of its financial or operational condition at such intervals and in such detail as the Corporation shall determine, and shall make a determination as to whether such Member should be placed on the Watch List by the Corporation consistent with the provisions of Section 12 3 of this Rule 4.

Furthermore, a Netting Member must submit to the Corporation written notice of any Reportable Event at least 90 calendar days prior to the effective date of such Reportable Event unless the Member demonstrates that it could not have reasonably done so, and provided notice, both orally and in writing, to FICC as soon as possible. The Corporation shall assess a ~~**$5,000**~~ fine against any Netting Member who fails to so notify the Corporation.

In addition, if the Corporation has reason to believe that a Member may fail to comply with any of these Rules, it may require the Member to provide it, within such timeframe, in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Member shall not, in fact, violate any of these Rules. Notwithstanding the previous sentence, each Member, or any applicant to become such, shall furnish to the Corporation such adequate assurances of its financial responsibility and operational capability as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation and its members, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions. Upon the request of a participant or applicant, or otherwise, the Corporation may choose to confer with the participant or applicant before or after requiring it to furnish adequate assurances pursuant to this Rule.

Adequate assurances of financial responsibility or operational capability of a Member or applicant to become such, as may be required by the Corporation pursuant to these Rules, may include, but shall not be limited to, as appropriate under the context of the Member's use of the Corporation's services:

(i) restrictions or modifications on the Member's use of any or all of the Corporation's services (whether generally, or with respect to certain transactions);

(ii) additional reporting by the Member of its financial or operational condition at such intervals and in such detail as the Corporation shall determine;

(iii) increased Clearing Fund deposits and/or a requirement to post its Required Fund Deposit in proportions of cash, Eligible Netting Securities and Eligible Letters of Credit different from those permitted under Rule 4; or

(iv) prohibitions on the Member from withdrawing Clearing Fund on deposit in excess of its Required Fund Deposit.

In the event that a Member fails to maintain the relevant requirements of any of these Rules, the Corporation shall, pursuant to these Rules, either cease to act for the Member or terminate its membership in the Comparison System or in both the Comparison System and the Netting System, unless the Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the Member, it is appropriate instead to establish for such Member a time period (the "Noncompliance Time Period"), which shall be determined by the Corporation and which shall be no longer than 30 calendar days unless otherwise determined by the Corporation, during which the Member must resume compliance with such requirements. In the event that the Member is unable to satisfy such requirements within the Noncompliance Time Period, the Corporation shall, pursuant to these Rules,

either cease to act for the Member or terminate its membership in the Comparison System or in both the Comparison System and the Netting System. If the Corporation takes any action pursuant to this paragraph, it shall promptly file with its records and with the SEC a full report of such actions, and the reasons thereof.

Notwithstanding anything to the contrary in this Section, if the Corporation, in its sole discretion, determines that a Netting Member's financial condition has significantly deteriorated during a Noncompliance Time Period, the Corporation immediately may, pursuant to these Rules, either cease to act for the Member or terminate its membership in the Comparison System or in both the Comparison System and the Netting System.

***

**Section 9 – Excess Capital Premium**

**If a Netting Member maintains an Excess Capital Ratio greater than 1.0, then the Corporation may require the Netting Member to make and maintain an additional deposit to the Clearing Fund in an amount equal to the product of its Excess Capital Differential multiplied by its Excess Capital. Any such additional deposit required by the Corporation shall be considered included as part of the Netting Member's Required Fund Deposit.**

**The Corporation also will reserve the right to: (i) collect an amount less than the Excess Capital Premium (including no premium) based on specific circumstances (such as a Netting Member being subject to an unexpected haircut or capital charge that does not fundamentally change its risk profile), and (ii) return all or a portion of the Excess Capital Premium (or such lesser amount) if it believes that the Netting Member's risk profile does not require the maintenance of that amount.**[1]

***

Section 12 - Watch List

(a) A Member that is a Bank Netting Member, Category 1 Dealer Netting Member, Category 2 Dealer Netting Member, Category 1 Inter-Dealer Broker Netting Member or Category 2 Inter Dealer-Broker Netting Member will be monitored and may be placed on the Watch List based on that Member's rating as determined by the Credit Risk Rating Matrix. Such Members may also be placed on the Watch List, at the Corporation's discretion, based on failure to comply with operational standards and requirements.

**[1] FICC has identified the following guidelines, which are intended to be illustrative, but not limited, where the premium will not be imposed: management will look to see whether the premium results from unusual or non-recurring circumstances where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.**

(b) All other categories of Netting Members, including Foreign Netting Members, may be monitored for financial and/or operational factors as the Corporation deems necessary to protect the Corporation and its Members from undue risk. These Members will not be assigned a rating from the Credit Risk Rating Matrix; however, they may be included on the Watch List at the Corporation's discretion.

(c) The Corporation may require a Netting Member that has been placed on the Watch List, to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Netting Member's Required Fund Deposit) ~~**of up to 200 percent of its highest single Business Day's Required Fund Deposit during the most recent 20 Business Days**~~, or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to including, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member ~~**in Forward Trades and/or Yield Comparison Trades.**~~ Moreover, as regards a Netting Member that has been placed on the Watch List by the Corporation the Corporation may suspend, during all or a portion of the time period that such Member is on the Watch List, its right under these Rules to collect a Credit Forward Mark Adjustment Payment. Moreover, if a Netting Member on the Watch List has a Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity, the Corporation may, in its sole discretion, maintain possession of the securities and/or cash that comprise such Collateral Allocation Entitlement.

(d) Placement on the Watch List shall result in a more thorough monitoring of the Member's financial and/or operational condition, as applicable, and activities by the Corporation. The Corporation may require Members placed on the Watch List to make more frequent financial disclosures, possibly including interim and/or pro forma reports.

(e) The Corporation shall have the right to place a Member with an Excess Capital Ratio of 0.5 ~~**through 1.0**~~ **or greater** on the Watch List if the Corporation, in its sole discretion, deems such action necessary to protect itself and its Members. ~~**A Netting Member may be placed on the Watch List due to the presence of an Excess Capital Ratio of 0.5 through 1.0.**~~ If ~~**this**~~ **such placement on the Watchlist** occurs, the Corporation will require the Netting Member to provide it with comfort satisfactory to the Corporation that the Netting Member is and shall continue to be able to fulfill its obligations to the Corporation, and may obtain or exchange with any other Clearing Organization margin information as specified in Rule 29.

~~**(f) A Netting Member shall be placed on the Watch List due to the presence of an Excess Capital Ratio greater than 1.0. If this occurs, the Corporation may require the Netting Member to make and maintain an additional deposit to the Clearing Fund in an amount equal to the product of its Excess Capital Differential multiplies by its Excess Capital. Any such additional deposit required by the Corporation shall be considered included as part of the Netting Member's Required Fund Deposit.**~~

~~**The Corporation also will reserve the right to: (i) collect an amount less than the Excess Capital Premium (including no premium) based on specific circumstances (such as a Netting Member being subject to an unexpected haircut or capital charge that does not fundamentally change its risk profile), and (ii) return all or a portion of the Excess Capital Premium (or such lesser amount) if it believes that the Netting Member's risk profile does not require the maintenance of that amount.**~~[2]

~~**(g)**~~**(f)** A Netting Member shall be placed on the Watch List if the Corporation takes any action against such Member pursuant to Section 7 of Rule 3.

~~(h)~~**(g)** A Member shall be placed on the Watch List if that Member fails to submit reports and such other financial information as the Corporation from time to time may reasonably require within the timeframes required by guidelines issued by the Corporation from time to time and in the manner requested.

A Member shall continue to be included on the Watch List until the condition(s) that resulted in its placement on the Watch List have improved to the point where the condition(s) are no longer present or a determination is made by the Corporation that close monitoring is no longer warranted.

***

[2] FICC has identified the following guidelines, which are intended to be illustrative, but not limited, where the premium will not be imposed: management will look to see whether the premium results from unusual or non-recurring circumstances where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.

FINE SCHEDULES

~~**Late Payment of Funds Settlement Debit/**~~Late Satisfaction of Clearing Fund Deficiency Call

| ~~**Amount**~~ | ~~**First Occasion**~~ | ~~**Second Occasion**~~ | ~~**Third Occasion**~~ | ~~**Any Lateness More Than 1 Hour or Fourth Occasion**~~ |
|---|---|---|---|---|
| ~~**$1 - $100 M**~~ | ~~**(1)**~~ | ~~**$100**~~ | ~~**$200**~~ | ~~**$500**~~ |
| ~~**$100 M - $1 MM**~~ | ~~**(1)**~~ | ~~**$300**~~ | ~~**$600**~~ | ~~**$1,000**~~ |
| ~~**$1 MM - $2 MM**~~ | ~~**(1)**~~ | ~~**$600**~~ | ~~**$1,200**~~ | ~~**$2,000**~~ |
| ~~**Greater than $2 MM**~~ | ~~**$250**~~ | ~~**$1,000**~~ | ~~**$2,000**~~ | ~~**$3,000**~~ |

| **AMOUNT** | **FIRST OCCASION** | **SECOND OCCASION** | **THIRD OCCASION** | **FOURTH OCCASION** |
|---|---|---|---|---|
| **Up to $100M** | ****** | **$100** | **$200** | **$500** |
| **Greater than $100M to $900 M** | ****** | **300** | **600** | **1,500** |
| **Greater than $900 M to $1.7 MM** | ****** | **600** | **1,200** | **3,000** |
| **Greater than $1.7 MM to $2.5MM** | ****** | **900** | **1,800** | **4,500** |
| **Greater than $2.5 MM** | ****** | **1,000** | **2,000** | **5,000** |

Notes:

~~**(1) A warning letter is sent to senior officials of the offender describing the nature of the violation and the consequences of successive violations.**~~

~~**(2) Each instance of late payment of a funds settlement debit or late satisfaction of a Clearing Fund deficiency call is deemed to be a separate occasion. Such latenesses are combined, regardless of type, to determine the number of occasions.**~~

~~**(3) The number of occasions is determined over a moving 30 calendar day period beginning with the first occasion.**~~

~~**(4) A specific determination will be made by the Board of Directors when the number of occasions exceeds four, or when the number of occasions of lateness of more than an hour exceeds two.**~~

~~**(5) The Membership and Risk Management Committee reserves the discretion to waive or reduce scheduled fines when a particular occasion is not deemed to be the fault of the affected member.**~~

**** First occasions result in a warning letter issued to the Member.**

**The number of occasions is determined over a moving three-month period beginning with the first occasion.**

**If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.**

**A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.**

## Late Payment of Funds Settlement Debit

| Amount | First Occasion | Second Occasion | Third Occasion | Fourth Occasion |
|---|---|---|---|---|
| $1 to $100M | $100 | $200 | $ 500 | $1,000 |
| Greater than $100M to $9 | 300 | 600 | 1,500 | 3,000 |
| Greater than $ 9M to $1.7 MM | 600 | 1,200 | 3,000 | 6,000 |
| Greater than $1.7 MM to $2.5MM | 900 | 1,800 | 4,500 | 9,000 |
| Greater than $2.5 MM | 1,000 | 2,000 | 5,000 | 10,000 |

**(1) Each instance of late payment of a late payment of a Funds Settlement Debit is deemed to be a separate occasion. Such latenesses are combined, regardless of type, to determine the number of occasions.**
**(2) The number of occasions is determined over a moving three-month period beginning with the 1st occasion.**
**(3) If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.**
**(4) A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.**

# FINE SCHEDULE

## Failure to Timely Provide Financial and Related Information

| Request for Information* | First Occasion | Second Occasion | Third Occasion | Fourth Occasion |
|---|---|---|---|---|
| Financial Reports** | $300 | $600 | $1,500 | *** |

*Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

**For purposes of this Fine Schedule, ~~"Financial Reports"~~ "Reports/Information"** shall mean the financial, regulatory and other information required to be submitted to the Corporation pursuant to **~~Sections 5 and 6 of Rule 2 and shall include the information required to be provided to the Corporation by Sponsoring Members pursuant to Rule 3A~~ the Rules, Procedures, Important Notices or notices on the Corporation's website.**

***Fourth or more occasion fines will be determined by the Corporation **with the concurrence of the Board of Directors**.

**If the Member's late submission applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

## Business Continuity Testing for Top Tier Firms – Fines for Failure to Test

| | |
|---|---|
| Fine for failure to complete annual testing requirement: | $10,000 |
| Fine for failure to complete testing for two successive years: | $20,000 |

## General Continuance Standards-Fine for Failure to Notify of Falling out of Compliance

**Fine for failure to notify $1,000**

**If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

## Reportable Events-Fine for Failure of Timely Notification

**Fine for failure to timely notify $5,000**

**If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

***

RULES OF THE MORTGAGE-BACKED SECURITIES DIVISION

OF

FIXED INCOME CLEARING CORPORATION

***

ARTICLE III PARTICIPANTS

***

Rule 1. Requirements Applicable to Participants and Limited Purpose Participants

***

Sec. 10. Financial Reports by Participants.

Each Participant shall submit to the Corporation the following financial reports and/or such other reports and information as pertaining to the financial condition of the Participant or its parent guarantor as the Corporation from time to time may require:

***

A Participant that fails to submit the above listed information or the information in Section 12 of this Rule 1, within the timeframes required by guidelines issued by the Corporation from time to time and in the manner requested, shall be subject to: (i) a fine by the Corporation, **and** (ii) until appropriate financial data is submitted to FICC, an increase in the Participant's Participants Fund requirement equal to the greater of either: (x) the sum of the normal calculation of the Participants Fund requirement plus $1,000,000, or (y) 125 percent of the normal calculation of the Participants Fund requirement, ~~**(iii) placement on the Watch List by the Corporation consistent with the provisions of Rule 6 of Article IV**~~, ~~**and (iv) preclusion from taking back any excess Participants Fund collateral to which that Participant might normally be entitled**~~.

***

Sec. 11. Reportable Events.

A Participant must submit to the Corporation written notice of any Reportable Event at least 90 calendar days prior to the effective date of such Reportable Event unless the Participant demonstrates that it could not have reasonably done so, and provided notice, both orally and in writing, to FICC as soon as possible. The Corporation shall assess a **~~$5,000~~** fine against any Participant who fails to so notify the Corporation.

***

Sec. 18. Additional Assurances.

Any Participant or Limited Purpose Participant that contemplates it no longer will be in compliance with the Corporation's Rules and Procedures or no longer will be able to meet applicable membership requirements or perform its contracts or satisfy its obligations to the Corporation, Participants or Limited Purpose Participants shall notify the Corporation thereof and shall confirm such notification in writing. Notification must take place within two business days from the date on which the Participant or Limited Purpose Participant first learns of its non-compliance. The Corporation shall assess a **~~$1,000~~** fine against any Participant or Limited Purpose Participant who fails to so notify the Corporation. In addition, a Participant or applicant shall notify the Corporation within two business days of learning of an investigation or proceeding to which it is or is becoming subject that would cause the Participant or applicant to fall out of compliance with any of the relevant qualifications and standards for membership set forth in Rules 2 and 3. Notwithstanding the previous sentence, the Participant or applicant shall not be required to notify the Corporation if doing so would cause the Participant or applicant to violate an applicable law, rule or regulation. If the Corporation has reasonable grounds to believe that a Participant or Limited Purpose Participant no longer will be in compliance with the Corporation's Rules and Procedures or no longer will be able to meet applicable membership requirements or perform its contracts or satisfy its obligations to the Corporation, Participants or Limited Purpose Participants, or meets any of the criteria for being placed on the Watch List**,** the Corporation will undertake appropriate action to determine the status of the Participant or Limited Purpose Participant and its continued eligibility. In addition, the Corporation may require additional information from such Participant or Limited Purpose Participant relating to its ability to comply with the Corporation's Rules and Procedures, perform its contracts, and satisfy its obligations to the Corporation, Participants or Limited Purpose Participants in such time frame, detail, and manner as the Corporation may determine. The Corporation may also increase a Participant's minimum required deposits to the Participants Fund for any of its Accounts or sets of Aggregated Accounts if the Corporation has reasonable grounds to believe that such Participant no longer will be in compliance with the Corporation's Rules and Procedures, no longer will be able to meet applicable membership requirements or perform its contracts or satisfy its obligations to the Corporation, Participants or Limited Purpose Participants or meets or will meet any of the criteria for being placed on the Watch List. The Corporation may also, in its sole discretion, if it believes it necessary to protect **~~the~~** itself and its Participants, require a Participant to deliver to the Corporation a guaranty of an Affiliate of the Participant, satisfactory in form and substance to the Corporation, of the obligations of the Participant to the Corporation. Notwithstanding the

foregoing, the Corporation shall not be restricted from exercising its right at any time to cease to act for the Participant or Limited Purpose Participant pursuant to Rule 3 of this Article III.

***

FICC MORTGAGE-BACKED SECURITIES DIVISION
SCHEDULE OF CHARGES BROKER ACCOUNT GROUP

***

II. FINES

~~**Late Payment of Cash Obligation Item**~~/Late Satisfaction of Participants Fund Margin Deficit*

| ~~**Amount**~~ | ~~**First Occasion**~~ | ~~**Second Occasion**~~ | ~~**Third Occasion**~~ | ~~**Any Lateness More Than One Hour or Fourth Occasion**~~ |
|---|---|---|---|---|
| ~~**$1 to $100M**~~ | ~~**(1)**~~ | ~~**$ 100**~~ | ~~**$ 200**~~ | ~~**$ 500**~~ |
| ~~**Greater than $100M to $1MM**~~ | ~~**(1)**~~ | ~~**$ 300**~~ | ~~**$ 600**~~ | ~~**$1,000**~~ |
| ~~**Greater than $1MM to $2MM**~~ | ~~**(1)**~~ | ~~**$ 600**~~ | ~~**$1,200**~~ | ~~**$2,000**~~ |
| ~~**Greater than $2MM**~~ | ~~**$ 250**~~ | ~~**$1,000**~~ | ~~**$2,000**~~ | ~~**$3,000**~~ |

| **Deficiency Amount** | **First Occasion** | **Second Occasion** | **Third Occasion** | **Fourth Occasion** |
|---|---|---|---|---|
| **Up to $100M** | ****** | **$100** | **$200** | **$500** |
| **Greater than $100M to $900 M** | ****** | **300** | **600** | **1,500** |
| **Greater than $900 M to $1.7 MM** | ****** | **600** | **1,200** | **3,000** |
| **Greater than $1.7 MM to $2.5MM** | ****** | **900** | **1,800** | **4,500** |
| **Greater than $2.5 MM** | ****** | **1,000** | **2,000** | **5,000** |

* Overnight failures are also subject to interest charges.

Notes:

~~**(1)A warning letter is sent to senior officials of the offender describing the nature of the violation and the consequences of successive violations.**~~

~~**(2) Each instance of late payment of a cash obligation item or late satisfaction of a Participants Fund margin deficit is deemed to be a separate occasion. Such instances are combined, regardless of type, to determine the number of occasions.**~~

~~**(3) The number of occasions is determined over a moving 30 calendar day period beginning with the first occasion.**~~

~~**(4) A specific determination will be made by the Board of Directors when the number of occasions exceeds four, or when the number of occasions of lateness of more than an hour exceeds two.**~~

~~**(5) The Board of Directors reserves the discretion to waive or reduce scheduled fines when a particular occasion is not deemed to be the fault of the affected Participant.**~~

**** First occasions result in a warning letter issued to the Member.**

**The number of occasions is determined over a moving three-month period beginning with the first occasion.**

**If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.**

**A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.**

## Late Payment of Cash Obligation Item

| Amount | First Occasion | Second Occasion | Third Occasion | Fourth Occasion |
|---|---|---|---|---|
| $1 to $100M | $100 | $200 | $ 500 | $1,000 |
| Greater than $100M to $9 | 300 | 600 | 1,500 | 3,000 |
| Greater than $ 9M to $1.7 MM | 600 | 1,200 | 3,000 | 6,000 |
| Greater than $1.7 MM to $2.5MM | 900 | 1,800 | 4,500 | 9,000 |
| Greater than $2.5 MM | 1,000 | 2,000 | 5,000 | 10,000 |

**(1) Each instance of late payment of a late payment of a cash obligation item is deemed to be a separate occasion. Such latenesses are combined, regardless of type, to determine the number of occasions.**
**(2) The number of occasions is determined over a moving three-month period beginning with the 1st occasion.**

**(3) If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.**
**(4) A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.**

**Failure to Timely Provide Financial and Related Information**

| Request For Information* | First Occasion | Second Occasion | Third Occasion | Fourth Occasion |
|---|---|---|---|---|
| ~~**Financial**~~ Reports **/Information** ** | $300 | $600 | $1,500 | *** |

* Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

** For purposes of this Fine Schedule, ~~**"Financial Reports"**~~ **"Reports/Information"** shall mean the financial and regulatory information required to be submitted to the Corporation pursuant to ~~**Article III, Rule 1, Sections 10 and 12**~~ **the Rules, Procedures, Important Notices or notices on the Corporation's website**.

*** Fourth or more occasion fines will be determined by the Corporation **with the concurrence of the Board of Directors**.

**If the Member's late submission applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

Business Continuity Testing for Top Tier Firms – Fines for Failure to Test

| | |
|---|---|
| Fine for failure to complete annual testing requirement: | $10,000 |
| Fine for failure to complete testing for two successive years: | $20,000 |

**General Continuance Standards-Fine for Failure to Notify of Falling out of Compliance**

**Fine for failure to notify $1,000**

**If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

**Reportable Events-Fine for Failure of Timely Notification**

**Fine for failure to timely notify $5,000**

**If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

***

FICC MORTGAGE-BACKED SECURITIES DIVISION
SCHEDULE OF CHARGES DEALER ACCOUNT GROUP

***

II. FINES

~~**Late Payment of Cash Obligation Item/**~~Late Satisfaction of Participants Fund Margin Deficit*

| ~~Amount~~ | ~~First Occasion~~ | ~~Second Occasion~~ | ~~Third Occasion~~ | ~~Any Lateness More Than One Hour or Fourth Occasion~~ |
|---|---|---|---|---|
| ~~$1 to $100M~~ | ~~(1)~~ | ~~$ 100~~ | ~~$ 200~~ | ~~$500~~ |
| ~~Greater than $100M to $1MM~~ | ~~(1)~~ | ~~$ 300~~ | ~~$ 600~~ | ~~$1,000~~ |
| ~~Greater than $1MM to $2MM~~ | ~~(1)~~ | ~~$ 600~~ | ~~$1,200~~ | ~~$2,000~~ |
| ~~Greater than $2MM~~ | ~~$ 250~~ | ~~$1,000~~ | ~~$2,000~~ | ~~$3,000~~ |

| AMOUNT | FIRST OCCASION | SECOND OCCASION | THIRD OCCASION | FOURTH OCCASION |
|---|---|---|---|---|
| **Up to $100M** | ****** | **$100** | **$200** | **$500** |
| **Greater than $100M to $900 M** | ****** | **300** | **600** | **1,500** |
| **Greater than $900 M to $1.7 MM** | ****** | **600** | **1,200** | **3,000** |

| AMOUNT | FIRST OCCASION | SECOND OCCASION | THIRD OCCASION | FOURTH OCCASION |
|---|---|---|---|---|
| **Greater than $1.7 MM to $2.5MM** | ****** | **900** | **1,800** | **4,500** |
| **Greater than $2.5 MM** | ****** | **1,000** | **2,000** | **5,000** |

* Overnight failures are also subject to interest charges.

Notes:

~~**(1)A warning letter is sent to senior officials of the offender describing the nature of the violation and the consequences of successive violations.**~~

~~**(2) Each instance of late payment of a cash obligation item or late satisfaction of a Participants Fund margin deficit is deemed to be a separate occasion. Such instances are combined, regardless of type, to determine the number of occasions.**~~

~~**(3) The number of occasions is determined over a moving 30 calendar day period beginning with the first occasion.**~~

~~**(4) A specific determination will be made by the Board of Directors when the number of occasions exceeds four, or when the number of occasions of lateness of more than an hour exceeds two.**~~

~~**(5) The Board of Directors reserves the discretion to waive or reduce scheduled fines when a particular occasion is not deemed to be the fault of the affected Participant.**~~

****First occasions result in a warning letter issued to the Member.**

**The number of occasions is determined over a moving three-month period beginning with the first occasion.**

**If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.**

**A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.**

**Late Payment of Cash Obligation Item**

| Amount | First Occasion | Second Occasion | Third Occasion | Fourth Occasion |
|---|---|---|---|---|
| $1 to $100M | $100 | $200 | $ 500 | $1,000 |
| Greater than $100M to $9 | 300 | 600 | 1,500 | 3,000 |
| Greater than $ 9M to $1.7 MM | 600 | 1,200 | 3,000 | 6,000 |
| Greater than $1.7 MM to $2.5MM | 900 | 1,800 | 4,500 | 9,000 |
| Greater than $2.5 MM | 1,000 | 2,000 | 5,000 | 10,000 |

**(1) Each instance of late payment of a late payment of a cash obligation item is deemed to be a separate occasion. Such latenesses are combined, regardless of type, to determine the number of occasions.**
**(2) The number of occasions is determined over a moving three-month period beginning with the 1st occasion.**
**(3) If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.**
**(4) A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.**

**Failure to Timely Provide Financial and Related Information**

| Request For Information* | First Occasion | Second Occasion | Third Occasion | Fourth Occasion |
|---|---|---|---|---|
| ~~**Financial**~~ Reports **/Information** ** | $300 | $600 | $1,500 | *** |

* Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

** For purposes of this Fine Schedule, ~~**"Financial Reports"**~~ **"Reports/Information"** shall mean the financial and regulatory information required to be submitted to the Corporation pursuant to ~~**Article III, Rule 1, Sections 10 and 12**~~ **the Rules, Procedures, Important Notices or notices on the Corporation's website**.

*** Fourth or more occasion fines will be determined by the Corporation **with the concurrence of the Board of Directors**.

**If the Member's late submission applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

**General Continuance Standards-Fine for Failure to Notify of Falling out of Compliance**

**Fine for failure to notify $1,000**

**If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**

## Reportable Events-Fine for Failure of Timely Notification

**Fine for failure to timely notify $5,000**

**If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies.**