

OMB APPROVAL

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

File No. SR - 2009 - 08

Proposed Rule Change 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 checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Description

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

Amendment of rules regarding calculation of the clearing fund deposit for IDB's

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 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 officer.

Date
 By (Name)
 (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.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

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

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-[SRC]-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

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 Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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 Sent As Paper Document

Exhibit 4 - Marked Copies

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

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

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 is annexed hereto as Exhibit 5 and consists of modifications to the rules of the Government Securities Division ("GSD") of Fixed Income Clearing Corporation ("FICC") regarding the calculation of clearing fund deposits on inter-dealer broker positions at the GSD.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed rule change was approved by the FICC Credit and Market Risk Management Committee on December 17, 2008.

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

(a) The purpose of the proposed rule change is to modify the Rules of the GSD with respect to the clearing fund deposit required in connection with inter-dealer broker ("IDB") activity at the GSD, specifically to provide that the calculation of margin applicable to IDB activity at the GSD be calculated with reference to a one-day liquidation assumption.

Background

The GSD maintains a clearing fund comprised of deposits of cash and eligible securities from its members, to provide liquidity and satisfy any losses that might otherwise be incurred as a result of a member's default and the subsequent close-out of its positions. The GSD uses a Value-at-Risk ("VaR") methodology to calculate clearing fund requirements. VaR is defined to be the maximum amount of money that may be lost on a given portfolio over a given period of time within a given level of confidence. The clearing fund methodology utilized by the GSD analyzes risk by reference to three factors: (i) end-of-day VaR charge, assessing market volatility for observed open positions at end-of-day after giving effect to offsetting positions within the portfolio; (ii) margin requirement differential ("MRD"), to address intra-day risk (i.e., the uncertainty of intra-day position changes and the risk of non-payment of daily margin calls); and (iii) coverage component ("CC"), to adjust the calculation if necessary to reach a given confidence level.¹ The margin calculation is predicated upon an assumption that the open positions of a defaulting member would be liquidated at the end of a three day period.

¹ Under GSD margin procedures, CC is not calculated with respect to IDB repo transactions and the GSD has recently adjusted the CC charge with respect to certain cash IDB transactions on a temporary basis, as explained below.

Inter-dealer brokers (“IDBs”) function as intermediaries trading with multiple contra-parties and, with respect to the GSD trading platform, providing anonymity between trading partners, and liquidity. IDBs operate on very small spreads and handle large transactions, performing a critical function in the government securities market in the absence of a centralized trading exchange.

IDBs submit affirmed trades from their systems to the GSD, each already matched to the contra-party who will ultimately deliver or receive the securities. Although IDBs do not hold positions overall, they may incur positions versus the GSD when their contra-parties are not GSD members. Because these trades are matched by the IDB to a contra-party prior to submission to the GSD, the risk to FICC in the case of a IDB’s default is different from that presented when a dealer member submits a trade that may not have been already matched to a contra-side.

Proposed Rule Change

Recent market volatility had caused the clearing fund requirement applicable to IDB transactions to increase dramatically, disproportionately to the risk that IDB activity presents to the GSD.

Given the importance of IDB transactions in the government securities marketplace, undue and unsustainable margin requirements on GSD IDB activity may be harmful and even introduce systemic risk in the event members are motivated to avoid imposition of disproportionate changes by netting outside of the GSD, or by delaying trade submission until later in the day. Accordingly, the GSD adjusted the calculation of CC to IDB transactions in November 2008 and conducted a review of the current margin methodology as applied to IDB activity.

As a result of this review, the GSD proposes to introduce a one-day liquidation assumption when calculating margin applicable to IDB activity. The assumption of a three-day liquidation period will continue to apply to non-IDB activity. Since IDB trades are matched prior to submission, the GSD believes that the one-day liquidation period is a more reasonable assumption in this context. The GSD will continue to monitor the IDB activity of its members, and to periodically reassess whether the one-day liquidation period provides adequate coverage, providing the Commission with such information as the Commission may request in this regard. FICC further notes its ability under Rule 4 of the GSD Rules to impose special changes in response to market circumstances or other risk factors with respect to a particular member.

(b) Because the proposed rule change provides for the more accurate calculation of margin requirements by the GSD of FICC, it is therefore consistent with the safeguarding of securities and funds in the custody or control of FICC or for which FICC is responsible.

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, Participants, 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) or Section 19(b)(7)(D).

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) FICC requests accelerated effectiveness pursuant to Section 19(b)(2) in order to allow implementation of the proposed margin calculation methodology with respect to IDB activity of current GSD members.

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

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission.

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

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-FICC-2009-08)

SELF-REGULATORY ORGANIZATIONS

(a) Proposed Rule Change by FIXED INCOME CLEARING CORPORATION ("FICC") relating to modifications to the rules of the Government Securities Division of FICC regarding the calculation of clearing fund deposit on inter-dealer broker positions at the GSD.

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

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 the proposed rule change is to modify the Rules of the GSD with respect to the clearing fund deposit required in connection with inter-dealer broker ("IDB") activity at the GSD, specifically to provide that the calculation of margin applicable to IDB activity at the GSD be calculated with reference to a one-day liquidation assumption.

Background

The GSD maintains a clearing fund comprised of deposits of cash and eligible securities from its members, to provide liquidity and satisfy any losses that might otherwise be incurred as a result of a member's default and the subsequent close-out of its positions. The GSD uses a Value-at-Risk ("VaR") methodology to calculate clearing fund requirements. VaR is defined to be the maximum amount of money that may be lost on a given portfolio over a given period of time within a given level of confidence. The clearing fund methodology utilized by the GSD analyzes risk by reference to three factors: (i) end-of-day VaR charge, assessing market volatility for observed open positions at end-of-day after giving effect to offsetting positions within the portfolio; (ii) margin requirement differential ("MRD"), to address intra-day risk (*i.e.*, the uncertainty of intra-day position changes and the risk of non-payment of daily margin calls); and (iii) coverage component ("CC"), to adjust the calculation if necessary to reach a given confidence level.¹ The margin calculation is predicated upon an assumption that the open positions of a defaulting member would be liquidated at the end of a three day period.

Inter-dealer brokers ("IDBs") function as intermediaries trading with multiple contra-parties and, with respect to the GSD trading platform, providing anonymity between trading partners, and liquidity. IDBs operate on very small spreads and handle large transactions, performing a critical function in the government securities market in the absence of a centralized trading exchange.

IDBs submit affirmed trades from their systems to the GSD, each already matched to the contra-party who will ultimately deliver or receive the securities. Although IDBs do not hold positions overall, they may incur positions versus the GSD when their contra-parties are not GSD members. Because these trades are matched by the IDB to a contra-party prior to submission to the GSD, the risk to FICC in the case of a IDB's default is different from that presented when a dealer member submits a trade that may not have been already matched to a contra-side.

Proposed Rule Change

Recent market volatility had caused the clearing fund requirement applicable to IDB transactions to increase dramatically, disproportionately to the risk that IDB activity presents to the GSD.

Given the importance of IDB transactions in the government securities marketplace, undue and unsustainable margin requirements on GSD IDB activity may be harmful and even introduce systemic risk in the event members are motivated to avoid imposition of disproportionate changes by netting outside of the GSD, or by delaying trade submission until later in the day. Accordingly, the GSD adjusted the calculation of

¹ Under GSD margin procedures, CC is not calculated with respect to IDB repo transactions and the GSD has recently adjusted the CC charge with respect to certain cash IDB transactions on a temporary basis, as explained below.

CC to IDB transactions in November 2008 and conducted a review of the current margin methodology as applied to IDB activity.

As a result of this review, the GSD proposes to introduce a one-day liquidation assumption when calculating margin applicable to IDB activity. The assumption of a three-day liquidation period will continue to apply to non-IDB activity. Since IDB trades are matched prior to submission, the GSD believes that the one-day liquidation period is a more reasonable assumption in this context. The GSD will continue to monitor the IDB activity of its members, and to periodically reassess whether the one-day liquidation period provides adequate coverage, providing the Commission with such information as the Commission may request in this regard. FICC further notes its ability under Rule 4 of the GSD Rules to impose special changes in response to market circumstances or other risk factors with respect to a particular member.

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-2009-08 on the subject line.

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

All submissions should refer to File Number SR-FICC-2009-08. 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. 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.

Elizabeth M. Murphy
Secretary

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

Shaded text indicates language that FICC has proposed to delete in a rule filing pending before the Securities and Exchange Commission.

Double underlined text indicates language that FICC has proposed to add in a rule filing pending before the Securities and Exchange Commission.

Italicized text indicates deletions or additions of language (as indicated, respectively, by shading or double underlining as shown) that the SEC has approved but which FICC has not yet implemented.

Bold, underlined text indicates proposed additions of language in this proposed rule change text.

~~Strikethrough~~ text indicates proposed deletions of languages in this proposed rule change text.

RULE 1 – DEFINITIONS

* * *

Brokered Repo Transaction

The term "Brokered Repo Transaction" means a Repo Transaction, including a GCF Repo Transaction, a party to which is an Inter-Dealer Broker Netting Member or a Non-IDB ~~Repo~~ **Repo Broker** with respect to activity in its Segregated ~~Repo~~ **Repo Broker** Account.

Brokered Transaction

The term "Brokered Transaction" means any transaction, including a Repo Transaction, calling for the delivery of an Eligible Netting Security, or the posting of cash or an Eligible Netting Security as collateral, the data on which has been submitted to the Corporation by Members, to which transaction (i) a Category 1 Inter-Dealer Broker, (ii) a Category 2 Inter-Dealer Broker, or (iii) a Non-IDB ~~Repo~~ **Repo Broker** with respect to activity in its Segregated ~~Repo~~ **Repo Broker** Account, is a party. The mere fact that an Inter-Dealer Broker, or a Non-IDB ~~Repo~~ **Repo Broker** with respect to activity in its Segregated ~~Repo~~ **Repo Broker** Account, has submitted data to the Corporation on a transaction is not, solely of itself, determinative of whether such Broker is a party to the transaction.

* * *

Non-IDB ~~Repo~~ Broker

The term "Non-IDB ~~Repo~~ Broker" means a ~~Repo~~ **Repo Broker** that is not an Inter-Dealer Broker Netting Member.

* * *

Repo Broker

The term "Repo Broker" means (i) an Inter-Dealer Broker Netting Member, or (ii) a non Inter-Dealer Broker Netting Member that the Corporation has determined: (a) operates in the same manner as a Broker, with regard to activity in its ~~s~~Segregated ~~repo~~ **Repo Broker** ~~a~~Account and (b) has agreed to, and does, participate in the repo netting service operated by the Corporation pursuant to the same requirements imposed under the Rules on Inter-Dealer Broker Netting Members that participate in that service.

* * *

Segregated ~~Repo~~ **Repo Broker Account**

The term "Segregated ~~Repo~~ **Repo Broker** Account" means an account operated by a Non-IDB ~~Repo~~ **Repo Broker** in which all trading is executed on a brokered basis with Netting Members on each side.

* * *

RULE 4 - CLEARING FUND AND LOSS ALLOCATION

* * *

Section 2 - Required Fund Deposit

* * *

(c) Notwithstanding anything to the contrary above, the Required Fund Deposit of a Category 2 Inter-Dealer Broker Netting Member or a non-IDB Broker with respect to its Segregated Broker Account shall at all times be no less than \$5 million a minimum of \$100,000 of which must be made and maintained in cash.

* * *

Section 7 - Allocation of Loss or Liability Incurred by the Corporation

* * *

(d) If there is any remaining loss or liability (hereinafter, a "Remaining Loss") it (e) The Tier One Remaining Loss shall be allocated as follows:

- (i) To the extent a Remaining Loss is determined by the Corporation to arise in connection with Direct Transactions, it shall be allocated among Netting Members other than those Netting Members that are Inter-Dealer Brokers, pro rata based on the dollar value of the trading activity of each such Netting Member with the Defaulting Member netted and novated on the day of default;
- (ii) To the extent a Remaining Loss is determined by the Corporation to arise in connection with Member Brokered Transactions, it shall be allocated as follows: (A) 50 percent of the loss to the Netting Members that are Category 1 Inter-Dealer Brokers, Category 2 Inter-Dealer Brokers, or Non-IDB ~~Repo~~ Brokers with respect to activity in their Segregated ~~Repo~~ **Broker** Accounts, pro rata based upon the dollar value of trading activity of each such Inter-Dealer Broker Netting Member, or Non-IDB ~~Repo~~ Broker with respect to activity in its Segregated ~~Repo~~ **Broker** Account, with the Defaulting Member netted and novated on the day of default involving Member Brokered Transactions, and (B) 50 percent of the loss to the non-Inter-Dealer Broker Netting Members pro rata based upon the dollar value of the trading activity through Inter-Dealer Brokers, or through Non-IDB ~~Repo~~

Brokers with respect to activity in their Segregated ~~Repo~~ **Repo Broker** Accounts, of each such Member with the Defaulting Member netted and novated on the day of default involving Member Brokered Transactions. Notwithstanding anything to the contrary in the above sentence: (C) an Inter-Dealer Broker Netting Member, or a Non-IDB ~~Repo~~ **Repo** Broker with respect to activity in its Segregated ~~Repo~~ **Repo Broker** Account, shall not be subject to an allocation of loss pursuant to this subsection (d)(ii), for any single loss-allocation event, in an amount greater than \$5 million, and (D) a non-Inter-Dealer Broker Netting Member shall not be subject to an allocation of loss pursuant to this subsection (d)(ii), for any single loss-allocation event, in an amount greater than the lesser of \$5 million or five percent of the overall loss amount allocated to non-Inter-Dealer Broker Netting Members pursuant to subsection (d)(ii)(B) above;

- (iii) To the extent a Remaining Loss is determined by the Corporation to arise in connection with Non-Member Brokered Transactions, it shall be allocated among the Category 2 Inter-Dealer Broker Netting Members that were parties to such Non-Member Brokered Transactions, pro rata based upon the dollar value of each such Category 2 Inter-Dealer Broker Netting Member's trading activity with the Defaulting Member netted and novated on the day of default involving Non-Member Brokered Transactions;
- (iv) To the extent a Remaining Loss is determined by the Corporation to arise in connection with Auction Purchases, it shall be allocated among Netting Members without regard to such Auction Purchases;
- (v) Notwithstanding anything to the contrary in this subsection 8(d), to the extent that a Remaining Loss is determined by the Corporation to arise in connection with an Off-the-Market Transaction, it shall be allocated directly and entirely to the Remaining Member that submitted the data on the Off-the-Market Transaction to the Corporation.
- (vi) Notwithstanding any other provision of this subsection 8(d), in the event that the Corporation makes a payment to an FCO under a Cross-Margining Guaranty and the Cross-Margining Participant that incurs a Reimbursement Obligation representing the amount of such payment fails to promptly satisfy the Reimbursement Obligation, the Corporation may in its discretion, and without treating such Cross-Margining Participant as a Defaulting Member, treat such payment as a Remaining Loss to be allocated in accordance with this subsection 8(d).

(f) The Tier Two Remaining Loss shall be allocated to Tier Two Members with a Bilateral Liquidation Loss only; Tier Two Members with a Bilateral Liquidation Profit will not be allocated any portion of the Tier Two Remaining Loss. Each Tier Two Member with a Bilateral Liquidation Loss will be allocated a percentage of the Tier Two Remaining Loss. This percentage will be obtained by dividing each Tier Two Member's Bilateral Liquidation Loss by the sum of all Tier Two Members' Bilateral Liquidation Losses. Notwithstanding the foregoing:

(i) To the extent a Tier Two Remaining Loss is determined by the Corporation to arise in connection with Auction Purchases, it shall be allocated among Tier One Members without regard to such Auction Purchases; and

(ii) To the extent that a Tier Two Remaining Loss is determined by the Corporation to arise in connection with an Off-the-Market Transaction, it shall be allocated directly and entirely to the Tier Two Remaining Member that submitted the data on the Off-the-Market Transaction to the Corporation.

(e g) To the extent that a Tier One Netting Member or Netting Members are not subject to allocations of loss due to the application of the limitations on the loss that may be allocated to individual Tier One Netting Members provided for in subsection (d)(ii) (e)(ii) above, such loss amounts shall then be allocated to all Persons that were Tier One Netting Members on the date on which the failure of a Defaulting Member to fulfill its obligations to the Corporation occurred, including those same Tier One Netting Members that benefited from the limitations on loss allocation provided for in subsection (d)(ii) (e)(ii) above, pro rata based on each Tier One Netting Member's average daily Required Fund Deposit over the twelve-month period immediately prior to the date on which the failure of a Defaulting Member to fulfill its obligations to the Corporation occurred. Such allocated amounts will be assessed to a Tier One Netting Member in addition to any loss amount allocated pursuant to subsection (d)(ii) (e)(ii) above and, therefore, such Tier One Netting Member may be subject to an aggregate allocation of loss that may exceed the applicable limitation set forth in subsection (d)(ii) (e)(ii). Section 8(h) 7(j) of this Rule 4 shall apply to any assessments made pursuant to this subsection (e) (g).

Notwithstanding anything to the contrary in this subsection (e) (g), however, an Inter-Dealer Broker Netting Member, or a Non-IDB ~~Repo~~ Broker with respect to activity in its Segregated ~~Repo~~ **Broker** Account, shall not be subject to an aggregate allocation of loss pursuant to subsection (d)(ii) (e)(ii) and this subsection (e) (g) of Section 8 7 for any single loss-allocation event, in an amount greater than \$5 million.

With respect to an obligation to make payment due to any loss allocation amounts assessed to a Netting Member pursuant to subsection (d)(iv) (e)(iv) or this subsection (e) (g), the Netting Member may instead provide by the Close of Business of the Business Day on which such payment is due the Corporation written notice to the Corporation, pursuant to Section 13 of Rule 3, of its election to terminate its membership in the Corporation. If such Netting Member elects to terminate its membership in the Corporation, its liability for an assessed allocation shall be limited to the amount of its Required Clearing Fund for the Business Day on which the notification of such allocation is provided to the Netting Member.

(h) For purposes of this Section 8 7, "trading activity with the Defaulting Member netted and novated on the day of default" shall mean trading activity with a Defaulting Member, and with each Executing Firm that such Defaulting Member was acting as a Submitting Member for, submitted by a Tier One Netting Member that was compared, entered the net and was novated by the Corporation pursuant to these Rules on the Business Day on which the failure of the Defaulting Member to fulfill its obligations to the Corporation occurred, except that, if the level of such trading activity of Tier One Netting Members with a Defaulting Member, and with each Executing Firm that such Defaulting Member was acting as a Submitting Member for, compared, netted and novated on the day of default, measured by the dollar value of securities traded, is in the aggregate including all types of Transactions less than five times the dollar value amount of the securities of the Defaulting Member that are liquidated pursuant to the close-out procedure provided for in Rule 22A, "trading activity with the Defaulting Member netted and novated on the day of default" shall mean trading activity with a Defaulting Member, and with each Executing Firm that such Defaulting Member was acting as a Submitting Member for, submitted by a Tier One Netting Member that was compared, entered the net and was novated by the Corporation pursuant to these Rules on that number of Business Days on and immediately prior to the Business Day on which the failure of the Defaulting Member to fulfill its

obligations to the Corporation occurred such that the dollar value amount of such trading activity is in the aggregate including all types of Transactions equal to or greater than five times the dollar value amount of such liquidated securities.

(g) (i) Any loss or liability incurred by the Corporation incident to its clearance and settlement business arising from the failure of a Netting Member to pay to the Corporation an allocation made pursuant to paragraphs (d) and (e) or (f) above of this Section, or arising other than from a Remaining Loss (hereinafter, an "Other Loss") shall be allocated as follows:

- (i) 25 percent of the existing retained earnings of the Government Securities Division, which shall be maintained by the Corporation separately from the retained earnings of the Mortgage-Backed Securities Division, or such greater percentage of the existing retained earnings of the Government Securities Division, as the Board determines to be appropriate, shall be applied to the Other Loss;
- (ii) If the retained earnings of the Government Securities Division applied to the Other Loss are insufficient to eliminate such loss, then up to 50 percent of the first \$100,000 in cash of each Tier One Netting Member's Required Fund Deposit (or, in the case of a Category 1 Inter-Dealer Broker Tier One Netting Member, of the cash deposit maintained by it with the Corporation pursuant to Section 6 7 of this Rule) shall be applied to the Other Loss, on an equal basis per Member;
- (iii) If a portion of the Other Loss thereafter remains, the remaining portion of the Required Fund Deposit of each Tier One Netting Member or, in the case of a Category 1 Inter-Dealer Broker Tier One Netting Member, of the collateral maintained by it with the Corporation pursuant to Section 6 of this Rule, shall be applied, pro rata based on the average daily level of such deposits or collateral over the prior twelve calendar months, except that the liability of an Inter-Dealer Broker Tier One Netting Member is subject to a limit per each such Inter-Dealer Broker of \$5 million for any loss-allocation event.

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

stated in either (i) or (ii) above, the Corporation shall cease to act generally with regard to such Member pursuant to Rules 21 and 22A, and may take disciplinary action against the Member pursuant to Rule 48.

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

(i) **(k)** Notwithstanding the number or level of either the allocations made by the Corporation with respect to Remaining Losses of any type or Other Losses, a Netting Member that is a Category 1 Inter-Dealer Broker shall in no event be liable to the Corporation with respect to any loss-allocation event for an amount in excess of \$5 million. In no event shall a Non-IDB ~~Repo~~ Broker, with respect to activity in its Segregated ~~Repo~~ **Broker** Account, be liable to the Corporation for a Remaining Loss arising from any loss-allocation event for an amount in excess of \$5 million. To the extent that a Remaining Loss or Other Loss is allocated to a Netting Member that is a Category 1 Inter-Dealer Broker, the Corporation shall, with respect to each such Member, apply to such Remaining Loss or Other Loss the cash and securities deposited by, and the letters of credit issued on behalf of, the Member pursuant to Section 7 of this Rule.

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

(k) **(m)** For purposes of calculating the allocations in this Section 8 that are based upon a Member's Required Fund Deposit, a Member that is subject to an increased Clearing Fund deposit requirement pursuant to subsection (n) of Section 2 of this Rule shall be deemed to have a Required Fund Deposit amount without such Section 2(n) increase being taken into account.

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RULE 19 - SPECIAL PROVISIONS FOR BROKERED REPO TRANSACTIONS

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Section 2 - Responsibilities of Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers

If an Inter-Dealer Broker Netting Member or Non-IDB **Repo** Broker wishes to submit to the Corporation data on a Repo Brokered Transaction, it must do so through a second participant account, which the Corporation will assign to it. With respect to a Non-IDB **Repo** Broker, this separate account shall be its Segregated **Repo Broker** Account.

An Inter-Dealer Broker Netting Member or a Non-IDB **Repo** Broker may submit to the Corporation data on a Brokered Repo Transaction only upon written agreement, and compliance, with the following conditions: (a) the Inter-Dealer Broker Netting Member's or Non-IDB **Repo** Broker's establishment of a separate account, with a separate FedWire address, at a clearing bank that will be used exclusively for the settlement by the parties to the transaction of the Start Leg, and (b) the Inter-Dealer Broker Netting Member's or Non-IDB **Repo** Broker's granting of the necessary permissions to allow this account to be subject to review by the Corporation.

An Inter-Dealer Broker Netting Member or a Non-IDB **Repo** Broker that submits to the Corporation data on Brokered Repo Transactions shall be responsible for responding promptly and in good faith to notifications submitted by the Corporation and/or non-Inter-Dealer-Broker Netting Members to it of errors with such data, by modifying or canceling and replacing any incorrect data.

Section 3 - Responsibilities of a Non-Inter-Dealer-Broker Netting Member

A non-Inter-Dealer-Broker Netting Member must submit, or have submitted on its behalf, to the Corporation, or to either another Registered Clearing Agency or a Clearing Agency that has been exempted from registration as a Clearing Agency by the SEC, in a timely and accurate manner, data on all of its Brokered Repo Transactions. Notwithstanding anything to the contrary elsewhere in these Rules, if a Non-Inter-Dealer-Broker Netting Member fails, without good cause as determined by the Corporation, to submit data on Brokered Repo Transaction to the Corporation on a timely or accurate basis, the Corporation may treat the Brokered Repo Transaction as compared based on the data submission received from its counterparty Inter-Dealer-Broker Netting Member or Non-IDB **Repo** Broker with respect to activity in its Segregated **Repo Broker** Account, for purposes of assessing all Clearing Fund deposit and Funds-Only Settlement Amount payment consequences of the Transaction, as well as the respective Receive Obligations(s) and/or Deliver Obligations(s) of the parties to the Transaction.