

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 28	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2014 - * 06	Amendment No. (req. for Amendments *)
Filing by Fixed Income Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>		
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
The purpose of this filing is to amend the GSD Rules and the MBS Rules on insolvency and ceasing to act in order to simplify in certain respects FICC's process in a cease to act situation and provide greater legal certainty for FICC and its members, particularly in an intra-day cease to act situation.				
Contact Information				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	Laura	Last Name *	Klimpel	
Title *	Vice President and Assistant General Counsel			
E-mail *	lklimpel@dtcc.com			
Telephone *	(212) 855-5230	Fax	<input type="text"/>	
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.				
(Title *)				
Date	11/25/2014	Managing Director and General Counsel		
By	Nikki Poulos	<input type="text"/>		
(Name *)				
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
Persona Not Validated - 1398177138289,				

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

Item 1. Text of Proposed Rule Change.

(a) The proposed rule change is annexed hereto as Exhibit 5 and consists of amendments to the rules of the Government Securities Division (“GSD Rules”) of Fixed Income Clearing Corporation (“FICC”) and the rules of the Mortgage-Backed Securities Division (“MBSD Rules”) of FICC (each of GSD and MBSD, a “Division” of FICC) on insolvency and ceasing to act that simplify in certain respects FICC’s process in a cease to act situation and provide greater legal certainty for FICC and its members, particularly in an intra-day cease to act situation.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization.

The proposed rule change was approved by the Risk Committee of the Board of Directors of FICC at a meeting duly called and held on June 25, 2014.

Item 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 amend the GSD Rules and the MBSD Rules on insolvency and ceasing to act in order to simplify in certain respects FICC’s process in a cease to act situation and provide greater legal certainty for FICC and its members, particularly in an intra-day cease to act situation.

Background.

In connection with lessons learned from a recent close-out simulation exercise conducted by The Depository Trust & Clearing Corporation, FICC’s parent company, in which FICC participated, and related review of the GSD Rules and the MBSD Rules, certain potential challenges with administering certain aspects of the GSD Rules and the MBSD Rules on insolvency and ceasing to act described below, particularly in an intra-day cease to act situation, were identified.

“Time of Insolvency” and “Cut-Off Time”

Currently, GSD and MBSD include in their insolvency rules (GSD Rule 22, MBSD Rule 16) and cease to act rules (GSD Rule 22A, MBSD Rule 17) the concept of a “Time of Insolvency”, which is defined to mean the time at which FICC determines to its reasonable satisfaction that a member is “insolvent” within the meaning of GSD Rule 22 or MBSD Rule 16, respectively.

This “Time of Insolvency” concept is separate from the time at which FICC ceases to act for a member, and such “Time of Insolvency” is currently used in the GSD Rules and the MBSD Rules as a line of demarcation when determining FICC’s obligations with respect to pending transactions involving the insolvent member. Specifically, transactions with the insolvent member that are not compared or deemed compared in accordance with the GSD Rules or the MBSD Rules, respectively, prior to the “Time of Insolvency” are not eligible to be part of the

close-out process, unless otherwise determined by the Board of Directors of FICC in order to promote orderly settlement.

For a non-insolvency cease to act situation, the GSD Rules and the MBSD Rules on ceasing to act (GSD Rule 22A, MBSD Rule 17) currently include the concept of a “Cut-Off Time”, which is defined to mean a time specified in advance by FICC in a notice to its membership at which it will cease to act for a member. Like the “Time of Insolvency” concept, “Cut-Off Time” is currently used in the GSD Rules and the MBSD Rules when determining FICC’s obligations with respect to pending transactions involving the defaulted member.

Identifying an exact time at which a member has become “insolvent” for purposes of establishing a “Time of Insolvency” may pose potential challenges for FICC in circumstances where the member is deemed “insolvent” based upon the determination or action of a third party, such as the member’s regulator, supervisory authority or a court of competent jurisdiction. In an intra-day cease to act situation where transaction data is being submitted to FICC in real-time, these potential challenges with identifying an exact “Time of Insolvency” may create a lack of legal certainty for FICC and its members regarding FICC’s obligations with respect to pending transactions involving the insolvent member. In light of the foregoing, FICC proposes to remove the “Time of Insolvency” concept from the GSD Rules and the MBSD Rules and instead simply rely on the single time it ceases to act for an insolvent member for purposes of determining its obligations with respect to pending transactions involving such insolvent member.

In order to also simplify its process in non-insolvency cease to act situations, FICC proposes to remove the separate “Cut-Off Time” concept from the GSD Rules and the MBSD Rules and instead rely on the single time it ceases to act for a defaulted member for purposes of determining its obligations with respect to pending transactions involving such defaulted member.¹

Transactions Deemed Compared Based Solely on Non-Defaulting Member Data

Currently, the provisions of the GSD Rules and the MBSD Rules on ceasing to act (GSD Rule 22A, MBSD Rule 17), and the related prongs of the “Compared Trade” definition in Rule 1 of the each of the Division’s Rules, provide that, in the context of FICC ceasing to act for a member, a transaction involving such member that would not otherwise be compared or deemed compared under the GSD Rules or the MBSD Rules, respectively, may, in certain circumstances, be deemed a compared trade based solely on data submitted by a non-defaulting member. The determination of whether such a transaction should be deemed a compared trade is currently based on a multi-pronged facts and circumstances-based test, including determinations as to whether the transaction was executed prior to FICC ceasing to act for the defaulted member, whether the transaction was entered into in good faith and not primarily in order to take advantage of the defaulted member’s financial condition and whether the transaction is an Off-

¹ It should be noted that this proposed change will also more closely align the GSD Rules and the MBSD Rules with the rules of FICC’s affiliate, National Securities Clearing Corporation (“NSCC”). Under its Rule 18 (Procedures for When the Corporation Declines or Ceases to Act), NSCC relies on the time it declines or ceases to act for a member when determining which transactions involving such member will be excluded from its operations, rather than on a separate “Time of Insolvency” or “Cut-Off Time”, as applicable.

the-Market Transaction as defined in Rule 1 of each of the Division's Rules.

Administering such a multi-pronged facts and circumstances-based test for individual transactions in a cease to act situation, particularly an intra-day cease to act situation where transaction data is being submitted to FICC in real-time, may pose potential challenges to FICC and create a lack of legal certainty for FICC and its members regarding FICC's obligations with respect to individual pending transactions involving the insolvent or otherwise defaulted member. In order to simplify FICC's process in a cease to act situation and provide FICC and its members with greater ex ante legal certainty regarding the rules applicable to pending transactions involving an insolvent or otherwise defaulted member, FICC proposes to remove the multi-pronged facts and circumstances-based test and the related provisions of each of the Division's Rules and instead simply rely on the compared trade definitions under each of the Division's Rules, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement with respect to transactions the data on which have been submitted only by non-defaulting members.

Proposed GSD Rule Changes.

FICC is proposing to amend the GSD Rules as follows:

In Rule 1 – "Definitions", the following definitions have been revised:

The term "Compared Trade" is revised to remove the prong of the definition which provides that, in the context of FICC ceasing to act for a member under GSD Rule 22A, a transaction involving such member that would not otherwise be a Compared Trade under the GSD Rules may, in certain circumstances, be deemed a Compared Trade based solely on data submitted by a non-defaulting member.

The term "Off-the-Market Transaction" is revised to conform the text and the numbering of the definition with the text and numbering of the parallel "Off-the-Market Transaction" definition in the MBSD Rules.

In Rule 3A – "Sponsoring Members and Sponsored Members", Sections 15(a) and 16(a) are revised to remove references to Rule 22, current Section 3 (Notification of Insolvency) and related conforming changes to the text of such sections are made. Section 15(b) is revised to remove the reference to the "Time of Insolvency" concept and to align the text regarding the actions taken by FICC in connection with the insolvency of a Sponsored Member with the parallel text included in Section 16 relating to the actions taken by FICC in connection with the insolvency of a Sponsoring Member. Consistent with the numbering of Section 15, Section 16(a) is revised to make the second paragraph a new subsection (b). New Section 16(b) is also revised to align the text regarding the actions taken by FICC in connection with the insolvency of a Sponsoring Member with the parallel text included in Section 15(b) relating to the actions taken by FICC in connection with the insolvency of a Sponsored Member.

In Rule 22 – "Insolvency of a Member", current Section 3, which provides for FICC to notice its membership and the Securities and Exchange Commission (SEC) regarding the insolvency of a member, is removed in order to clarify that the membership and the SEC will only receive one notice from FICC at the time it ceases to act for a member in accordance with the provisions of Section 1 of Rule 22A (Procedures for When the Corporation Ceases to Act), whether FICC

ceases to act for the member for insolvency or non-insolvency related reasons. Section 4 (Ceasing to Act for the Member) is renumbered as new Section 3 and revised to remove the reference to the “Time of Insolvency” concept.

In Rule 22A – “Procedures for When the Corporation Ceases to Act”, Section 1 (Notification) is revised to clarify that FICC will notice the SEC as well as its membership of every decision to cease to act for a member. Section 1 is further revised to remove the requirement that FICC establish a separate “Time of Insolvency”, in the event it ceases to act because of a member’s insolvency, or “Cut-Off Time”, in the event it ceases to act for a member for non-insolvency related reasons.

Sections 2, 2(a) and 2(b) are revised remove the “Time of Insolvency” and “Cut-Off Time” concepts, and instead rely on the time FICC ceases to act for a member for purposes of determining its obligations with respect to pending transactions involving such member. Section 2(a) is further revised to use the defined term “Compared Trade” for purposes of clarifying which transactions are eligible to be part of the close-out process as of the time FICC ceases to act for a member, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement.

Section 2(c), which provides that, in the context of FICC ceasing to act for a member, a transaction involving such member that would not otherwise be compared or deemed compared under the GSD Rules may, in certain circumstances, be deemed compared based solely on data submitted by a non-defaulting member, based on a multi-pronged facts and circumstances-based test, is removed. FICC would instead rely on the “Compared Trade” definition in GSD Rule 1 when determining its obligations with respect to pending transactions involving an insolvent or otherwise defaulted member, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement with respect to transactions the data on which have been submitted only by non-defaulting members.

Proposed MBSD Rule Changes.

FICC is proposing to amend the MBSD Rules as follows:

In Rule 1 – “Definitions”, the following definitions have been revised:

The term “Compared Trade” is revised to remove the prong of the definition which provides that, in the context of FICC ceasing to act for a member under MBSD Rule 17, a transaction involving such member that would not otherwise be compared or deemed compared under the MBSD Rules may, in certain circumstances, be deemed a Compared Trade based solely on data submitted by a non-defaulting member. The “Compared Trade” definition is further clarified to reference the specific MBSD Rules (Rule 5 and Rule 7) pursuant to which a transaction would be compared or deemed compared by MBSD.

In Rule 16 – “Insolvency of a Member”, current Section 3, which provides for FICC to notice its membership and the Securities and Exchange Commission (SEC) regarding the insolvency of a member, is removed in order to clarify that the membership and the SEC will only receive one notice from FICC at the time it ceases to act for a member in accordance with the provisions of Section 1 of Rule 17 (Procedures for When the Corporation Ceases to Act), whether FICC ceases to act for the member for insolvency or non-insolvency related reasons. Section 4 (Ceasing to

Act for the Member) is renumbered as new Section 3 and revised to remove the reference to the “Time of Insolvency” concept.

In Rule 17 – “Procedures for When the Corporation Ceases to Act”, Section 1 (Notification) is revised to clarify that FICC will notice the SEC as well as its membership of every decision to cease to act for a member. Section 1 is further revised to remove the requirement that FICC establish a separate “Time of Insolvency”, in the event it ceases to act because of a member’s insolvency, or “Cut-Off Time”, in the event it ceases to act for a member for non-insolvency related reasons.

Sections 2, 2(a), 2(d) and 2(e) are revised to remove the “Time of Insolvency” and “Cut-Off Time” concepts, and instead rely on the time FICC ceases to act for a member for purposes of determining its obligations with respect to pending transactions involving such member.

Section 2(g), which provides that, in the context of FICC ceasing to act for a member, a transaction involving such member that would not otherwise be compared or deemed compared under the MBSD Rules may, in certain circumstances, be deemed compared based solely on data submitted by a non-defaulting member, based on a multi-pronged facts and circumstances-based test, is removed. FICC would instead rely on the compared trade definitions in the MBSD Rules when determining its obligations with respect to pending transactions involving an insolvent or otherwise defaulted member, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement with respect to transactions the data on which have been submitted only by non-defaulting members.

(b) The proposed rule change is consistent with Section 17A of the Securities and Exchange Act of 1934, as amended (the “Act”) and the rules and regulations promulgated thereunder because it will promote the prompt and accurate clearance and settlement of securities transactions and remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions in that it will simplify in certain respects FICC’s process in a cease to act situation and provide greater legal certainty for FICC and its members as to FICC’s obligations with respect to pending transactions involving an insolvent or otherwise defaulted member, particularly in an intra-day cease to act situation.

Item 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 because it relates to changes to FICC’s insolvency and cease to act rules that would apply equally to all members of each Division of FICC.

Item 5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Participants, 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.

Item 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.

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

Not applicable.

Item 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.

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

Not applicable.

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

Not applicable.

Item 11. Exhibits

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable

Exhibit 5 – Proposed Changes to the GSD Rules and the MBSD Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-[_____]; File No. SR-FICC-2014-06]

[DATE]

SELF-REGULATORY ORGANIZATIONS; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend the Rules of the Government Securities Division and the Mortgage-Backed Securities Division on Insolvency and Ceasing to Act.

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

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

The proposed rule change consists of amendments to the rules of the Government Securities Division (“GSD Rules”) of FICC and the rules of the Mortgage-Backed Securities Division (“MBSD Rules”) of FICC (each of GSD and MBSD, a “Division” of FICC) on insolvency and ceasing to act that simplify in certain respects FICC’s process in a cease to act situation and provide greater legal certainty for FICC and its members, particularly in an intra-day cease to act situation.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

(i) The purpose of this filing is to amend the GSD Rules and the MBSD Rules on insolvency and ceasing to act in order to simplify in certain respects FICC’s process in a cease to act situation and provide greater legal certainty for FICC and its members, particularly in an intra-day cease to act situation.

Background

In connection with lessons learned from a recent close-out simulation exercise conducted by The Depository Trust & Clearing Corporation, FICC’s parent company, in which FICC participated, and related review of the GSD Rules and the MBSD Rules, certain potential challenges with administering certain aspects of the GSD Rules and the MBSD Rules on insolvency and ceasing to act described below, particularly in an intra-day cease to act situation, were identified.

“Time of Insolvency” and “Cut-Off Time”

Currently, GSD and MBSD include in their insolvency rules (GSD Rule 22, MBSD Rule 16) and cease to act rules (GSD Rule 22A, MBSD Rule 17) the concept of a “Time of Insolvency”, which is defined to mean the time at which FICC determines to its reasonable satisfaction that a member is “insolvent” within the meaning of GSD Rule 22 or MBSD Rule 16, respectively.

This “Time of Insolvency” concept is separate from the time at which FICC ceases to act

for a member, and such “Time of Insolvency” is currently used in the GSD Rules and the MBSD Rules as a line of demarcation when determining FICC’s obligations with respect to pending transactions involving the insolvent member. Specifically, transactions with the insolvent member that are not compared or deemed compared in accordance with the GSD Rules or the MBSD Rules, respectively, prior to the “Time of Insolvency” are not eligible to be part of the close-out process, unless otherwise determined by the Board of Directors of FICC in order to promote orderly settlement.

For a non-insolvency cease to act situation, the GSD Rules and the MBSD Rules on ceasing to act (GSD Rule 22A, MBSD Rule 17) currently include the concept of a “Cut-Off Time”, which is defined to mean a time specified in advance by FICC in a notice to its membership at which it will cease to act for a member. Like the “Time of Insolvency” concept, “Cut-Off Time” is currently used in the GSD Rules and the MBSD Rules when determining FICC’s obligations with respect to pending transactions involving the defaulted member.

Identifying an exact time at which a member has become “insolvent” for purposes of establishing a “Time of Insolvency” may pose potential challenges for FICC in circumstances where the member is deemed “insolvent” based upon the determination or action of a third party, such as the member’s regulator, supervisory authority or a court of competent jurisdiction. In an intra-day cease to act situation where transaction data is being submitted to FICC in real-time, these potential challenges with identifying an exact “Time of Insolvency” may create a lack of legal certainty for FICC and its members regarding FICC’s obligations with respect to pending transactions involving the insolvent member. In light of the foregoing, FICC proposes to remove the “Time of Insolvency” concept from the GSD Rules and the MBSD Rules and instead simply rely on the single time it ceases to act for an insolvent member for purposes of determining its obligations with respect to pending transactions involving such insolvent member.

In order to also simplify its process in non-insolvency cease to act situations, FICC proposes to remove the separate “Cut-Off Time” concept from the GSD Rules and the MBSD Rules and instead rely on the single time it ceases to act for a defaulted member for purposes of determining its obligations with respect to pending transactions involving such defaulted member.³

Transactions Deemed Compared Based Solely on Non-Defaulting Member Data

Currently, the provisions of the GSD Rules and the MBSD Rules on ceasing to act (GSD Rule 22A, MBSD Rule 17), and the related prongs of the “Compared Trade” definition in Rule 1 of each of the Division’s Rules, provide that, in the context of FICC ceasing to act for a member, a transaction involving such member that would not otherwise be compared or deemed compared under the GSD Rules or the MBSD Rules, respectively, may, in certain circumstances, be deemed a compared trade based solely on data submitted by a non-defaulting member. The determination of whether such a transaction should be deemed a compared trade is currently based on a multi-pronged facts and circumstances-based test, including determinations as to whether the transaction was executed prior to FICC ceasing to act for the defaulted member, whether the transaction was entered into in good faith and not primarily in order to take advantage of the defaulted member’s financial condition and whether the transaction is an Off-the-Market Transaction as defined in Rule 1 of each of the Division’s Rules.

Administering such a multi-pronged facts and circumstances-based test for individual transactions in a cease to act situation, particularly an intra-day cease to act situation where

³ It should be noted that this proposed change will more closely align the GSD Rules and the MBSD Rules with the rules of FICC’s affiliate, National Securities Clearing Corporation (“NSCC”). Under its Rule 18 (Procedures for When the Corporation Declines or Ceases to Act), NSCC relies on the time it declines or ceases to act for a member when determining which transactions involving such member will be excluded from its operations, rather than on a separate “Time of Insolvency” or “Cut-Off Time”, as applicable.

transaction data is being submitted to FICC in real-time, may pose potential challenges to FICC and create a lack of legal certainty for FICC and its members regarding FICC's obligations with respect to individual pending transactions involving the insolvent or otherwise defaulted member. In order to simplify FICC's process in a cease to act situation and provide FICC and its members with greater ex ante legal certainty regarding the rules applicable to pending transactions involving an insolvent or otherwise defaulted member, FICC proposes to remove the multi-pronged facts and circumstances-based test and the related provisions of each of the Division's Rules and instead simply rely on the compared trade definitions under each of the Division's Rules, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement with respect to transactions the data on which have been submitted only by non-defaulting members.

Proposed GSD Rule Changes

FICC is proposing to amend the GSD Rules as follows:

In Rule 1 – “Definitions”, the following definitions have been revised:

The term “Compared Trade” is revised to remove the prong of the definition which provides that, in the context of FICC ceasing to act for a member under GSD Rule 22A, a transaction involving such member that would not otherwise be a Compared Trade under the GSD Rules may, in certain circumstances, be deemed a Compared Trade based solely on data submitted by a non-defaulting member.

The term “Off-the-Market Transaction” is revised to conform the text and the numbering of the definition with the text and numbering of the parallel “Off-the-Market Transaction” definition in the MBSD Rules.

In Rule 3A – “Sponsoring Members and Sponsored Members”, Sections 15(a) and 16(a) are revised to remove references to Rule 22, current Section 3 (Notification of Insolvency) and

related conforming changes to the text of such sections are made. Section 15(b) is revised to remove the reference to the “Time of Insolvency” concept and to align the text regarding the actions taken by FICC in connection with the insolvency of a Sponsored Member with the parallel text included in Section 16 relating to the actions taken by FICC in connection with the insolvency of a Sponsoring Member. Consistent with the numbering of Section 15, Section 16(a) is revised to make the second paragraph a new subsection (b). New Section 16(b) is also revised to align the text regarding the actions taken by FICC in connection with the insolvency of a Sponsoring Member with the parallel text included in Section 15(b) relating to the actions taken by FICC in connection with the insolvency of a Sponsored Member.

In Rule 22 – “Insolvency of a Member”, current Section 3, which provides for FICC to notice its membership and the Securities and Exchange Commission (SEC) regarding the insolvency of a member, is removed in order to clarify that the membership and the SEC will only receive one notice from FICC at the time it ceases to act for a member in accordance with the provisions of Section 1 of Rule 22A (Procedures for When the Corporation Ceases to Act), whether FICC ceases to act for the member for insolvency or non-insolvency related reasons. Section 4 (Ceasing to Act for the Member) is renumbered as new Section 3 and revised to remove the reference to the “Time of Insolvency” concept.

In Rule 22A – “Procedures for When the Corporation Ceases to Act”, Section 1 (Notification) is revised to clarify that FICC will notice the SEC as well as its membership of every decision to cease to act for a member. Section 1 is further revised to remove the requirement that FICC establish a separate “Time of Insolvency”, in the event it ceases to act because of a member’s insolvency, or “Cut-Off Time”, in the event it ceases to act for a member for non-insolvency related reasons.

Sections 2, 2(a) and 2(b) are revised remove the “Time of Insolvency” and “Cut-Off

Time” concepts, and instead rely on the time FICC ceases to act for a member for purposes of determining its obligations with respect to pending transactions involving such member. Section 2(a) is further revised to use the defined term “Compared Trade” for purposes of clarifying which transactions are eligible to be part of the close-out process as of the time FICC ceases to act for a member, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement.

Section 2(c), which provides that, in the context of FICC ceasing to act for a member, a transaction involving such member that would not otherwise be compared or deemed compared under the GSD Rules may, in certain circumstances, be deemed compared based solely on data submitted by a non-defaulting member, based on a multi-pronged facts and circumstances-based test, is removed. FICC would instead rely on the “Compared Trade” definition in GSD Rule 1 when determining its obligations with respect to pending transactions involving an insolvent or otherwise defaulted member, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement with respect to transactions the data on which have been submitted only by non-defaulting members.

Proposed MBSD Rule Changes

FICC is proposing to amend the MBSD Rules as follows:

In Rule 1 – “Definitions”, the following definitions have been revised:

The term “Compared Trade” is revised to remove the prong of the definition which provides that, in the context of FICC ceasing to act for a member under MBSD Rule 17, a transaction involving such member that would not otherwise be compared or deemed compared under the MBSD Rules may, in certain circumstances, be deemed a Compared Trade based solely on data submitted by a non-defaulting member. The “Compared Trade” definition is further clarified to reference the specific MBSD Rules (Rule 5 and Rule 7) pursuant to which a

transaction would be compared or deemed compared by MBSD.

In Rule 16 – “Insolvency of a Member”, current Section 3, which provides for FICC to notice its membership and the Securities and Exchange Commission (SEC) regarding the insolvency of a member, is removed in order to clarify that the membership and the SEC will only receive one notice from FICC at the time it ceases to act for a member in accordance with the provisions of Section 1 of Rule 17 (Procedures for When the Corporation Ceases to Act), whether FICC ceases to act for the member for insolvency or non-insolvency related reasons. Section 4 (Ceasing to Act for the Member) is renumbered as new Section 3 and revised to remove the reference to the “Time of Insolvency” concept.

In Rule 17 – “Procedures for When the Corporation Ceases to Act”, Section 1 (Notification) is revised to clarify that FICC will notice the SEC as well as its membership of every decision to cease to act for a member. Section 1 is further revised to remove the requirement that FICC establish a separate “Time of Insolvency”, in the event it ceases to act because of a member’s insolvency, or “Cut-Off Time”, in the event it ceases to act for a member for non-insolvency related reasons.

Sections 2, 2(a), 2(d) and 2(e) are revised to remove the “Time of Insolvency” and “Cut-Off Time” concepts, and instead rely on the time FICC ceases to act for a member for purposes of determining its obligations with respect to pending transactions involving such member.

Section 2(g), which provides that, in the context of FICC ceasing to act for a member, a transaction involving such member that would not otherwise be compared or deemed compared under the MBSD Rules may, in certain circumstances, be deemed compared based solely on data submitted by a non-defaulting member, based on a multi-pronged facts and circumstances-based test, is removed. FICC would instead rely on the compared trade definitions in the MBSD Rules when determining its obligations with respect to pending transactions involving an insolvent or

otherwise defaulted member, subject to the discretion of the Board of Directors of FICC to determine otherwise in order to promote orderly settlement with respect to transactions the data on which have been submitted only by non-defaulting members.

(ii) The proposed rule is consistent with Section 17A(b)(3)(F)⁴ of the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder because it will promote the prompt and accurate clearance and settlement of securities transactions and remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions in that it will simplify in certain respects FICC's process in a cease to act situation and provide greater legal certainty for FICC and its members as to FICC's obligations with respect to pending transactions involving an insolvent or otherwise defaulted member, particularly in an intra-day cease to act situation.

B. Clearing Agency'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 because it relates to changes to FICC's insolvency and cease to act rules that would apply equally to all members of each Division of FICC.

C. Clearing Agency'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.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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:

⁴ 15 U.S.C. 78q-1(b)(3)(F).

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or
- Send an e-mail to rule-comment@sec.gov. Please include File No. SR-FICC-2014-06 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2014-06. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from

the public in accordance with the provisions of 5 U.S.C 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on its website (<http://www.dtcc.com/legal/sec-rule-filings.aspx>). 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 submission should refer to File Number SR-FICC-2014-06 and should be submitted on or before [insert 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵

Secretary

⁵ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Bold underlined text indicates proposed additions
~~Bolded, strikethrough texts~~ indicates deleted language

FIXED INCOME CLEARING CORPORATION GOVERNMENT SECURITIES DIVISION RULEBOOK

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RULE 1 – DEFINITIONS

* * * * *

Compared Trade

The term “Compared Trade” means a trade, including a Repo Transaction, the data on which has been compared or deemed compared in the Comparison System pursuant to these Rules, as the result of any one of the following methods: (1) Bilateral Comparison, which requires the matching by the Corporation of data submitted by two Members, (2) Demand Comparison, which requires that data to be submitted to the Corporation by a Demand Trade Source, or (3) Locked-In Comparison, which requires the data to be submitted to the Corporation by a Locked-In Trade Source, ~~or (4) the Corporation has exercised its authority, as provided for in Rule 22A in the case of a Member determined by the Corporation to be insolvent, to compare a trade based on data submitted by a single Member.~~

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Off-the Market Transaction

The term “Off-the-Market Transaction” means either of the following:

(1) A single transaction that is:

(i) greater than \$1 million in par value; and

(ii) executed at a contract price that is either higher or lower (by a percentage amount determined by the Corporation based on factors such as market conditions) than the System Price for the underlying Eligible Netting Security on the day of the submission of data on the transaction to the Corporation;

(2) A pattern of transactions submitted by two Members that, if looked at as a single transaction, would be encompassed by subsection (1) of this definition.

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RULE 3A—SPONSORING MEMBERS AND SPONSORED MEMBERS

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Section 15—Insolvency of a Sponsored Member

(a) A Sponsored Member and its Sponsoring Member (to the extent it has knowledge thereof) shall be obligated to inform the Corporation that the Sponsored Member is insolvent or that the Sponsored Member will be unable to perform any of its material contracts, obligations or agreements in the same manner as required by Section 1 of Rule 22 for other Members. A Sponsored Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 22 for other Members. Sections 3 ~~and 4~~ of Rule 22 shall apply, in the same manner in which such Sections ~~apply~~ to other Members, in the case where the Corporation treats a Sponsored Member as insolvent.

(b) **In the event that the Corporation determines to treat a Sponsored Member as insolvent, T** the Corporation shall, ~~as soon as practicable after the Time of Insolvency (as defined in Rule 22)~~, cease to act for the insolvent Sponsored Member and Rule 22A shall apply with respect to the close-out of the insolvent's Sponsored Member Trades.

Section 16 —Insolvency of a Sponsoring Member

(a) A Sponsoring Member shall be obligated to inform the Corporation that it is insolvent or that it will be unable to perform any of its material contracts, obligations or agreements in the same manner as required by Section 1 of Rule 22 for other Members. A Sponsoring Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 22 for other Members. Sections 3 ~~and 4~~ of Rule 22 shall apply, in the same manner in which such Sections ~~apply~~ to other Members, in the case where the Corporation treats a Sponsoring Member as insolvent.

(b) In the event that the Corporation determines to treat a Sponsoring Member as insolvent, the Corporation shall, ~~as soon as practicable after the Time of Insolvency (as defined in Rule 22)~~, **cease to act for the insolvent Sponsoring Member and** decline to accept or process data from the Sponsoring Member, including Sponsored Member Trades, and the Corporation shall terminate the membership of all of the insolvent's Sponsored Members unless they are the Sponsored Members of another Sponsoring Member. Any Sponsored Member Trades which have received the Corporation's guaranty of settlement shall continue to be processed and guaranteed by the Corporation. The Corporation, in its sole discretion, shall determine whether to close-out the affected Sponsored Member Trades and/or permit the Sponsored Members to complete their settlement.

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RULE 22 - INSOLVENCY OF A MEMBER

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Section 3 – Notification of Insolvency

~~— The Corporation shall, as soon as practicable after the Time of Insolvency, notify the SEC and each Member of the treatment of a Member as an insolvent Member. Such notice shall state whether the Corporation has ceased to act for the Member, the Time of Insolvency and in at least general terms, the actions that will be taken by the Corporation to resolve all outstanding obligations and other pending matters involving the insolvent Member and the Corporation.~~

~~— As used in this Rule, the phrase "Time of Insolvency" shall mean the time, as determined by the Corporation to its reasonable satisfaction, that any event specified in Section 2 of this Rule has occurred.~~

Section 4.3 – Ceasing to Act for the Member

Except as otherwise may be determined by the Board in any particular case, the Corporation shall, ~~as soon as practicable after the Time of Insolvency,~~ cease to act for the insolvent Member, as detailed in Rule 22A.

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RULE 22A – PROCEDURES FOR WHEN THE CORPORATION CEASES TO ACT

Section 1 – Notification

When the Corporation has ceased to act for a Member, it shall provide Members and the SEC with notice stating the Corporation's decision to cease to act for the Member. The Corporation may provide in such notice or a subsequent notice the steps to be taken as well as how pending transactions shall be affected.

~~If the Corporation has ceased to act for the Member because it has deemed the Member to be legally insolvent, the Corporation shall establish the Time of Insolvency as stated in Rule 22. If the Corporation has ceased to act for the Member for reasons other than legal insolvency, the Corporation shall establish the "Cut-Off Time". As used in this Rule, the phrase "Cut-Off Time" shall mean the time that is specified in advance by the Corporation in a notice to Members to be the time at which the Corporation is deemed to have ceased to act for the Member.~~

Section 2 - Action by the Corporation

Except as otherwise may be determined by the Board in any particular case, from and after the time the Corporation shall, ~~as soon as practicable after the Time of Insolvency or the Cut-Off Time, as applicable,~~ cease to act for a the Member, the following shall apply as detailed below:

(a) Notwithstanding anything to the contrary in the Schedule for Deletion of Trade Data Submitted to the Comparison System that is published from time to time by the Corporation, ~~from and after the Time of Insolvency or the Cut-Off Time, as applicable,~~ trades to which the Member is a party the data on which have been submitted to the Corporation that have not been deemed Compared Trades upon receipt by the Corporation pursuant to these Rules or that have not been reported by the Corporation to Members as Compared Trades, shall be deleted from the Comparison System, unless otherwise determined by the Board in order to promote an orderly settlement.

(b) Except as otherwise provided in Rules 17 and 18, all long and short Net Settlement Positions, Fail Net Settlement Positions, and Forward Net Settlement Positions, of the Member outstanding at the ~~Time of Insolvency or the Cut-Off Time, as applicable,~~ time the Corporation ceases to act for the Member that have been reported by the Corporation to Members pursuant to Rule 11 and Rule 14 shall be closed out by (i) for each Eligible Netting Security with a distinct CUSIP Number, establishing a final Net Settlement Position (hereinafter, the "Final Net Settlement Position") that shall be equal to the net of all outstanding deliver and receive obligations of the Member in each Security, including those that arise from Fail Net Settlement Positions and those that are determined by the Corporation to arise from Forward Net Settlement Positions, and (ii) buying, borrowing, or reversing in or selling, lending or repoing out the Securities deliverable by or to such insolvent Member, and/or borrowing or lending monies, in order to close out the Final Net Settlement Position established for each Security. If a Member also has a Market Professional Cross-Margining Account, any resulting gains upon liquidation of the Member's proprietary Account shall be used to offset any resulting liquidation loss in the Market Professional Cross-Margining Account. This close out procedure shall be completed as promptly as practicable after the Corporation has given notice pursuant to Section 1 of this Rule Corporation's determination to cease to act, unless the Board determines that the immediate close out of Positions in a security may be disadvantageous to the Corporation or may promote a disorderly market in that security, in which case the Corporation may suspend the operation of this close-out provision until such later time as is determined by the Board, except that the Board may not suspend the operation of such close-out procedure for a period longer than 30 calendar days without the approval of such by the SEC. If, in the aggregate, the close-out of all of the Final Net Settlement Positions established for a Member results in the Corporation incurring any loss or liability, such loss or liability shall be allocated as provided in Rule 4. If, in the aggregate, the close-out of all of the Final Net Settlement Positions established for a Member results in a profit to the Corporation (after the Corporation has fulfilled its obligations under any Cross-Margining Agreements and Limited Cross-Guarantee Agreements), such profit shall be credited to the Member, or to a duly-appointed legal representative of the Member.

~~(c) — Notwithstanding anything to the contrary elsewhere in these Rules, data on a transaction that is submitted to the Corporation by a Netting Member (hereinafter, the "Solvent Member") shall be deemed to be a Compared Trade (to the extent not already deemed compared by the Corporation pursuant to these Rules), based solely on the receipt of such data and without the need to match that data with data submitted by another Netting Member, under the following circumstances:~~

~~(1) — The data submitted by the Solvent Member indicate that the counterparty on the transaction is either a Netting Member that, subsequent to the execution of the transaction, the Corporation has determined to cease to act for (hereinafter, the “Insolvent Member”) or an Executing Firm that used the Insolvent Member as its Submitting Member (hereinafter, the “Insolvent Member’s Executing Firm”);~~

~~(2) — The Solvent Member has submitted, in a timely manner, all of the transactions eligible for netting and settlement through the Netting System entered into either by it, or by an Executing Firm that it acts for as a Submitting Member (hereinafter, the “Solvent Member’s Executing Firm”), with the Insolvent Member or the Insolvent Member’s Executing Firm;~~

~~(3) — If the Corporation had announced to its Members that it would cease to act for the Insolvent Member as of a specified date and time, the transaction was executed before such specified deadline;~~

~~(4) — The transaction is not an Off-the-Market Transaction; and~~

~~(5) — The Corporation has made a determination that the transaction was entered into by the Solvent Member, or the Solvent Member’s Executing Firm, in good faith and not primarily in order to take advantage of the Insolvent Member’s financial condition.~~

Subsequent to the close-out of a Member’s Positions, the Corporation shall in accordance with these Rules, ensure the timely settlement of all Deliver Obligations, Receive Obligations, and related payment obligations, that would have arisen had the Corporation not ceased to act, in accordance with the terms of the transactions that comprise such obligations. Notwithstanding the foregoing, if the Member was a GCF Net Funds Lender and had a Deliver Obligation of GCF-eligible mortgage-backed securities in connection with a GCF Repo Transaction, the Corporation shall be authorized to satisfy the Deliver Obligation with: (i) Comparable Securities, and/or (ii) U.S. Treasury bills, notes or bonds. In the alternative, the Corporation may, in its sole discretion, permit a GCF Net Funds Borrower to purchase Comparable Securities and/or U.S. Treasury bills, notes, or bonds in return for a cash payment by the Corporation equal to the price paid by the GCF Net Funds Borrower for the Comparable Securities and/or the U.S. Treasury bills, notes, or bonds; provided, however, that if the Corporation in its sole discretion determines that the price paid by the GCF Net Funds Borrower was unreasonably high, the Corporation shall be entitled to pay the GCF Net Funds Borrower a reasonable price (as determined by an independent third party pricing source) for the Comparable Securities and/or the U.S. Treasury bills, notes or bonds.

If the Corporation takes any action pursuant to this Section, it shall notify the SEC of such by the Close of Business on the Business Day on which such action is taken.

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FIXED INCOME CLEARING CORPORATION MORTGAGE-BACKED SECURITIES DIVISION RULEBOOK

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RULE 1 – DEFINITIONS

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Compared Trade

The term "Compared Trade" means a trade the data on which has been compared or deemed compared pursuant to ~~these Rules 5 or Rule 7, as applicable including trades that the Corporation, in exercising authority under Rule 17 in the case of a Member for whom the Corporation has ceased to act, has deemed compared based on data submitted by a single Member.~~ **5 or Rule 7, as applicable** ~~including trades that the Corporation, in exercising authority under Rule 17 in the case of a Member for whom the Corporation has ceased to act, has deemed compared based on data submitted by a single Member.~~

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RULE 16 - INSOLVENCY OF A MEMBER

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Section 3 – Notification of Insolvency

~~— The Corporation shall, as soon as practicable after the Time of Insolvency, notify the SEC and each Member of the treatment of a Member as an insolvent Member. Such notice shall state whether the Corporation has ceased to act for the Member, the Time of Insolvency and in at least general terms, the actions that will be taken by the Corporation to resolve all outstanding obligations and other pending matters involving the insolvent Member and the Corporation.~~

~~— As used in this Rule, the phrase "Time of Insolvency" shall mean the time, as determined by the Corporation to its reasonable satisfaction, that any event specified in Section 2 of this Rule has occurred.~~

Section 4.3 – Ceasing to Act for the Member

Except as otherwise may be determined by the Board in any particular case, the Corporation shall, ~~as soon as practicable after the Time of Insolvency,~~ cease to act for the insolvent Member, as detailed in Rule 17, "Procedures for When the Corporation Ceases to Act."

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RULE 17 – PROCEDURES FOR WHEN THE CORPORATION CEASES TO ACT

Section 1 – Notification

When the Corporation has ceased to act for a Member, it shall provide Members **and the SEC** with notice stating the Corporation’s decision to cease to act for the Member. The Corporation may provide in such notice or a subsequent notice the steps to be taken as well as how Transactions shall be affected.

~~If the Corporation has ceased to act for the Member because it has deemed the Member to be legally insolvent, the Corporation shall establish the Time of Insolvency as stated in Rule 16. If the Corporation has ceased to act for the Member for reasons other than legal insolvency, the Corporation shall establish the “Cut-Off Time”. As used in this Rule, the phrase “Cut-Off Time” shall mean the time that is specified in advance by the Corporation in a notice to Members to be the time at which the Corporation is deemed to have ceased to act for the Member.~~

Section 2 – Action by the Corporation – Close-Out Procedure

Except as otherwise may be determined by the Board in any particular case, **from and after the time** the Corporation ~~shall, as soon as practicable after the Time of Insolvency or the Cut-Off Time, as applicable,~~ ceases to act for a the Member, **the following shall apply as detailed below:**

(a) Notwithstanding anything to the contrary in these Rules ~~from and after the Time of Insolvency or the Cut-Off Time, as applicable,~~ trades to which the Member is a party the data on which have been submitted to the Corporation that have not been deemed Fully Compared or Partially Compared upon receipt by the Corporation pursuant to these Rules or that have not been reported by the Corporation to Members as Fully Compared or Partially Compared, shall not be part of the close out process described in this Section 2, unless otherwise determined by the Corporation in order to promote an orderly settlement.

(b) Not later than the time specified by the Corporation in its procedures or in an Important Notice, all Clearing Members that have open settlement obligations pursuant to these Rules with the Defaulting Member as settlement counterparty shall be required to submit Notifications of Settlement with respect to such obligations that have in fact been settled but for which the Corporation has not yet been provided with Notifications of Settlement. Except for loss allocations against Members in accordance with Section 7 of Rule 4, a Member that follows the foregoing procedures shall not have any liability to the Corporation with respect to such settlement obligations.

(c) In the event that the Member’s counterparty to any transaction is a Broker, the following shall apply:

(i) If the transaction is Fully Compared, the Dealers on whose behalf the Broker was acting shall be substituted for such Broker.

(ii) If the transaction is Partially Compared:

(A) the Dealer with respect to which the transaction has compared shall be responsible for the transaction;

(B) if the Dealer with respect to which the transaction has not compared has not submitted a DK of the transaction as reflected on its Unmatched Margin Report, such Dealer shall likewise be responsible for the transaction; and

(C) if the Dealer with respect to which the transaction has not compared has submitted a DK of the transaction as reflected on its Unmatched Margin Report, the Broker shall be treated for all purposes as a principal in such transaction in accordance with these Rules.

(d) All long and short settlement obligations of the Member, with the exception of those obligations associated with Option Contracts, outstanding at **the time the Corporation ceases to act for the Member** ~~the Time of Insolvency or the Cut-Off Time, as applicable~~ that have been reported by the Corporation to Members pursuant to these Rules shall be assumed by the Corporation and closed out by (i) for each Eligible Security with a distinct CUSIP Number, establishing a final net settlement obligation (hereinafter, the "Final Net Settlement Obligation") that shall be equal to the net of all outstanding deliver and receive obligations of the Member in each Security, and (ii) buying, borrowing, or reversing in or selling, lending or repoing out the Securities deliverable by or to such insolvent Member, and/or borrowing or lending monies, in order to close out the Final Net Settlement Obligations established for each Security. Pool Net Deliver and Receive Obligations may be disposed of based upon the generic terms of the underlying TBA transaction from which the obligation was created.

(e) With respect to the disposition of Option Contracts, those that are deemed by the Corporation to be "out of the money" will be canceled; those deemed by the Corporation to be "in the money" shall be settled in cash based upon the difference between the last System Price **at the time the Corporation ceases to act for the Member** ~~Time of Insolvency/Cut-off Time~~ and the Strike Price.

(f) Specified Pool Trades may be disposed of as if they did not contain a specified pool

(i.e., the Trade will be disposed of based on its generic trade terms such as agency, product, coupon rate and maturity).

This close-out procedure shall be completed as promptly as practicable after the Corporation has given notice pursuant to Section 1 of this Rule of the Corporation's determination to cease to act, unless the Board determines that the immediate close out of Obligations in a security may be disadvantageous to the Corporation or may promote a disorderly market in that security, in which case the Corporation may suspend the operation of this close-out provision until such later time as is determined by the Board, except that the Board may not suspend the operation of such close-out procedure for a period longer than 30 calendar days without the approval of such by the SEC. If, in the aggregate, the close-out of all of the Final Net Settlement Obligations established for a Member results in the Corporation incurring any loss or liability, such loss or liability shall be allocated as provided in Rule 4. If, in the aggregate, the close-out of all of the Final Net Settlement Obligations established for a Member results in a profit to the Corporation (after the Corporation has fulfilled its obligations under any

Cross-Guarantee Agreements), such profit shall be credited to the Member, or to a duly-appointed legal representative of the Member.

~~(g) Notwithstanding anything to the contrary elsewhere in these Rules, data on a transaction that is submitted to the Corporation by a Member (hereinafter, the “Solvent Member”) shall be deemed to be a Compared Trade (to the extent not already deemed compared by the Corporation pursuant to these Rules), based solely on the receipt of such data and without the need to match that data with data submitted by another Member, under the following circumstances:~~

- ~~(1) The data submitted by the Solvent Member indicate that the counterparty on the transaction is a Member that, subsequent to the execution of the transaction, the Corporation has determined to cease to act for (hereinafter, the “Insolvent Member”);~~
- ~~(2) The Solvent Member has submitted, in a timely manner, all of the Transactions eligible for processing through the Clearing System entered into by it;~~
- ~~(3) If the Corporation had announced to its Members that it would cease to act for the Insolvent Member as of a specified date and time, the Transaction was executed before such specified deadline;~~
- ~~(4) The Transaction is not an Off-the-Market Transaction; and~~
- ~~(5) The Corporation has made a determination that the Transaction was entered into by the Solvent Member in good faith and not primarily in order to take advantage of the Insolvent Member’s financial condition.~~

Subsequent to the close-out of a Member’s Positions, the Corporation shall in accordance with these Rules, ensure the settlement of all obligations that would have arisen had the Corporation not ceased to act, in accordance with the terms of the Transactions that comprise such obligations, subject to the provisions of this Section 2.

If the Corporation takes any action pursuant to this Section, it shall promptly notify the SEC.