

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 21      SECURITIES AND EXCHANGE COMMISSION      File No.\* SR - 2014 - \* 07  
 WASHINGTON, D.C. 20549      Form 19b-4      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"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<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 3C(b)(2) * <input type="checkbox"/>
Section 806(e)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**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 MBSD Clearing Rules to include a membership category for insured credit unions.

**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 \* Donaldine      Last Name \* Temple  
 Title \* Vice President  
 E-mail \* dtemple@dtcc.com  
 Telephone \* (212) 855-3277      Fax (201) 533-6632

**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 10/15/2014      Managing Director and General Counsel  
 By Nikki Poulos        
 (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 \***

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, 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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of Proposed Rule Change.

(a) The purpose of this filing is to amend the Clearing Rules (the “Rules”) of the Mortgage-Backed Securities Division (“MBSD”) of the Fixed Income Clearing Corporation (“FICC”) in order to establish a membership category and minimum financial requirements for insured credit unions.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed change was approved by the Risk Committee of FICC’s Board of Directors on October 23, 2013.

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

(a) The purpose of this proposed rule change is to establish a membership category and minimum financial requirements for “insured credit unions” as such term is defined in the Federal Credit Union Act (“FCUA”).<sup>1</sup> The FCUA defines “insured credit unions” to mean “any credit union the member accounts of which are insured in accordance with Title II of [FCUA]”.<sup>2</sup> Because Title II of the FCUA requires all credit unions that are chartered by the National Credit Union Administration<sup>3</sup> (“federal credit unions”) to have insured accounts, the term “insured credit union” includes all insured federal credit unions. Because Title II of the FCUA permits the NCUA Board to insure (i) State credit unions and (ii) credit unions operating under the jurisdiction of the Department of Defense (“Defense Credit Unions”), as long as such credit unions comply with FCUA and implementing NCUA regulations, the term “insured credit unions” also includes both federally-insured State credit unions and federally-insured Defense Credit Unions. It should be noted, however, that the proposed category for “insured credit unions” does not encompass credit unions whose accounts have private or

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<sup>1</sup> Federal Credit Union Act, 12 U.S.C. § 1752(7)(2013).

<sup>2</sup> 12 U.S.C. § 1752(7).

<sup>3</sup> The National Credit Union Administration (NCUA) is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. Government, NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of more than 95 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. See [www.ncua.gov](http://www.ncua.gov)

other types of non-federal insurance. As a result, any such credit unions will not be permitted to join MBSD.

FICC believes the participation of this category as guaranteed service members will contribute to the safety, efficiency, and transparency of the market by allowing FICC to capture a greater part of the activity of its existing members and by introducing activity of current non-members to FICC. FICC also believes that insured credit unions will benefit from the MBSD clearing service and the associated operational efficiencies of a central counterparty service.

Specifically, this filing proposes to revise MBSD Rule 2A (“Initial Membership Requirements”) to include a category for insured credit unions that are in good standing with their primary regulators and to establish minimum financial requirements for such category. Such applicants will be required to have a level of equity capital as of the end of the month prior to the effective date of their membership of at least \$100 million and achieve the “well capitalized” statutory net worth category classification defined by the NCUA under 12 C.F.R. Part 702.

In addition to meeting the required financial resources and creditworthiness requirements (which are based on entity type, the types of services the applicant will use and the type of accounting principles used to prepare their audited financial statements), applicants in this new category will have to demonstrate that (1) they have an established profitable business history of a minimum of 6 months or personnel with sufficient operational background and business experience for the firm to conduct its business and to be a member (as is required of all other membership categories) and (2) they are able to satisfactorily communicate with FICC, fulfill anticipated commitments to and meet the operational requirements of FICC with necessary promptness and accuracy, and conform to any condition and requirement that FICC reasonably deems necessary for its protection or that of its Members.<sup>4</sup>

The proposed changes to MBSD Rule 2A provide that insured credit unions will be designated as “Tier One Clearing Members” for loss allocation purposes.<sup>5</sup>

(b) The present filing is consistent with the requirements of Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder applicable to FICC because the proposed rule change permits the participation of insured credit unions, thereby providing these firms with the benefits of the central counterparty service, which includes, among other things, trade comparison, to-be-announced netting, electronic pool notification allocation, pool comparison, pool netting, settlement, and risk management for eligible securities. In addition, this proposal allows FICC to capture a greater market share of the activity of its existing members and non-members thus promoting the

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<sup>4</sup> MBSD Rule 2A Section 2, Mortgage-Backed Securities Division Clearing Rules.

<sup>5</sup> MBSD Rule 4 Section 7, Mortgage-Backed Securities Division Clearing Rules.

prompt and accurate clearance and settlement of securities transactions. Under the proposed rule change, existing members will be able to submit their eligible trading activity with entities in the proposed membership category to MBSB and thereby obtain the benefits of the central counterparty service for such trading activity.

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

Subject to the Commission's approval of this rule filing, insured credit unions will be subject to initial membership requirements and ongoing membership requirements in the same way as other MBSB members. As a result, 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 changes 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) Not applicable.

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. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act.
  - (a) Not applicable.
  - (b) Not applicable.
  - (c) Not applicable.
  - (d) Not applicable.
  
10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.
  
11. Exhibits

Exhibit 1 – Not Applicable.

Exhibit 1A – Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice filed by Clearing Agencies for publication in the Federal Register.

Exhibit 2 – Not Applicable.

Exhibit 3 – Not Applicable.

Exhibit 4 – Not Applicable.

Exhibit 5 – Proposed MBSD Rule Changes.

**EXHIBIT 1A**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-\_\_\_\_\_ ; File No. SR-FICC-2014-07]

[DATE]

**SELF-REGULATORY ORGANIZATIONS;** Fixed Income Clearing Corporation; Proposed Rule Change to Amend the Clearing Rules of the Mortgage-Backed Securities Division of the Fixed Income Clearing Corporation in order to establish a membership category and minimum financial requirements for insured credit unions.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4,<sup>2</sup> 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 by FICC. 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 purpose of this filing is to amend the Clearing Rules (the “Rules”) of the Mortgage-Backed Securities Division (“MBSD”) of FICC in order to establish a membership category and financial minimum requirements for insured credit unions.

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

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

**II. Clearing Agency’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 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) Purpose

The purpose of this proposed rule change is to establish a membership category and minimum financial requirements for “insured credit unions” as such term is defined in the Federal Credit Union Act (“FCUA”).<sup>3</sup> The FCUA defines “insured credit unions” to mean “any credit union the member accounts of which are insured in accordance with Title II of [FCUA]”.<sup>4</sup> Because Title II of the FCUA requires all credit unions that are chartered by the National Credit Union Administration<sup>5</sup> (“federal credit unions”) to have insured accounts, the term “insured credit union” includes all insured federal credit unions. Because Title II of the FCUA permits the NCUA Board to insure (i) State credit unions and (ii) credit unions operating under the

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<sup>3</sup> Federal Credit Union Act, 12 U.S.C. § 1752(7)(2013).

<sup>4</sup> 12 U.S.C. § 1752(7).

<sup>5</sup> The National Credit Union Administration (NCUA) is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. Government, NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of more than 95 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. See [www.ncua.gov](http://www.ncua.gov)



jurisdiction of the Department of Defense (“Defense Credit Unions”), as long as such credit unions comply with FCUA and implementing NCUA regulations, the term “insured credit unions” also includes both federally-insured State credit unions and federally-insured Defense Credit Unions. It should be noted, however, that the proposed category for “insured credit unions” does not encompass credit unions whose accounts have private or other types of non-federal insurance. As a result, any such credit unions will not be permitted to join MBSD.

FICC believes the participation of this category as guaranteed service members will contribute to the safety, efficiency, and transparency of the market by allowing FICC to capture a greater part of the activity of its existing members and by introducing activity of current non-members to FICC. FICC also believes that insured credit unions will benefit from the MBSD clearing service and the associated operational efficiencies of a central counterparty service.

Specifically, this filing proposes to revise MBSD Rule 2A (“Initial Membership Requirements”) to include a category for insured credit unions that are in good standing with their primary regulators and to establish minimum financial requirements for such category. Such applicants will be required to have a level of equity capital as of the end of the month prior to the effective date of their membership of at least \$100 million and achieve the “well capitalized” statutory net worth category classification defined by the NCUA under 12 C.F.R. Part 702.

In addition to meeting the required financial resources and creditworthiness requirements (which are based on entity type, the types of services the applicant will use and the type of accounting principles used to prepare their audited financial statements), applicants in this new category will have to demonstrate that (1) they have an established profitable business history of a minimum of 6 months or personnel with sufficient operational background and business

experience for the firm to conduct its business and to be a member (as is required of all other membership categories) and (2) they are able to satisfactorily communicate with FICC, fulfill anticipated commitments to and meet the operational requirements of FICC with necessary promptness and accuracy, and conform to any condition and requirement that FICC reasonably deems necessary for its protection or that of its Members.<sup>6</sup>

The proposed changes to MBSD Rule 2A provide that insured credit unions will be designated as “Tier One Clearing Members” for loss allocation purposes.<sup>7</sup>

(ii) Statutory Basis

The present filing is consistent with the requirements of Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder applicable to FICC because the proposed rule change permits the participation of insured credit unions, thereby providing these firms with the benefits of the central counterparty service, which includes, among other things, trade comparison, to-be-announced netting, electronic pool notification allocation, pool comparison, pool netting, settlement, and risk management for eligible securities. In addition, this proposal allows FICC to capture a greater market share of the activity of its existing members and non-members thus promoting the prompt and accurate clearance and settlement of securities transactions. Under the proposed rule change, existing members will be able to submit their eligible trading activity with entities in the proposed membership category to MBSD and thereby obtain the benefits of the central counterparty service for such trading activity.

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<sup>6</sup> MBSD Rule 2A Section 2, Mortgage-Backed Securities Division Clearing Rules.

<sup>7</sup> MBSD Rule 4 Section 7, Mortgage-Backed Securities Division Clearing Rules.

**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.

**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 changes 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:

- (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](mailto:rule-comment@sec.gov). Please include File Number SR-FICC-2014-07 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-2014-07. 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 copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on 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 submissions should refer to File Number SR-FICC-2014-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

Secretary

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<sup>8</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

**Bolded, underlined text** indicates added language

~~**Bolded, strikethrough texts**~~ indicates deleted language

RULE 1 – DEFINITIONS

\* \* \* \*

**Insurance Company Clearing Member**

The term "Insurance Company Clearing Member" shall have the meaning given that term in Section 1 of Rule 2A.

**Insured Credit Union**

**The term "Insured Credit Union" shall have the meaning given to that term in Federal Credit Union Act.**

**Insured Credit Union Clearing Member**

**The term "Insured Credit Union Clearing Member" shall have the meaning given that term in Section 1 of Rule 2A.**

**Interactive Submission Method**

The term "Interactive Submission Method" means a trade submission method that is used to submit data on individual trades to the Corporation immediately after trade execution pursuant to communications links, formats, timeframes, and deadlines established by the Corporation for such purpose.

\* \* \* \*

**Multiple Batch Submission Method**

The term "Multiple Batch Submission Method" means a trade submission method that is used to submit multiple batches of trade data to the Corporation throughout the day pursuant to communications links, formats, timeframes, and deadlines established by the Corporation for such purpose.

**NCUA**

**The term "NCUA" means the National Credit Union Administration.**

**Net Assets**

The term “Net Assets” shall mean the difference between the total assets and the total liabilities of a Clearing Member.

\* \* \* \*

**RULE 2A – INITIAL MEMBERSHIP REQUIREMENTS**

**Section 1 - Eligibility for Membership: Clearing Members**

Eligibility for Clearing Membership shall be as follows:

(a) A Person shall be eligible to apply to become a Bank Clearing Member if it is a bank or trust company chartered as such under the laws of the United States, or a State thereof, or is a bank or trust company established or chartered under the laws of a non-U.S. jurisdiction and participates in the Corporation through its U.S. branch or agency. A bank or trust company that is admitted to membership in the Clearing System pursuant to these Rules, and whose membership in the Clearing System has not been terminated, shall be a Bank Clearing Member.

(b) A Person shall be eligible to apply to become a Dealer Clearing Member if it is a Registered Securities Dealer and is not a bank or trust company. A Registered Securities Dealer that is admitted to membership in the Clearing System pursuant to these Rules, and whose membership in the Clearing System has not been terminated, shall be a Dealer Clearing Member.

(c) A Person shall be eligible to apply to become an Inter-Dealer Broker Clearing Member if it is an Inter-Dealer Broker. An Inter-Dealer Broker that is admitted to membership in the Clearing System pursuant to these Rules, and whose membership in the Clearing System has not been terminated, shall be an Inter-Dealer Broker Clearing Member.

(d) A Person shall be eligible to become an Unregistered Investment Pool Clearing Member if it is an Unregistered Investment Pool. An Unregistered Investment Pool that has been admitted into membership in the Clearing System pursuant to these rules and whose membership has not been terminated, shall be an Unregistered Investment Pool Clearing Member.

(e) A Person shall be eligible to apply to become a Government Securities Issuer Clearing Member if it is a Government Securities Issuer or a Government Sponsored Enterprise. A Government Securities Issuer or a Government Sponsored Enterprise that is admitted to membership in the Clearing System pursuant to these Rules and whose membership in the Clearing System has not been terminated, shall be a Government Securities Issuer Clearing Member.

(f) A Person shall be eligible to become an Insurance Company Clearing Member if it is a Insurance Company in good standing with its primary regulator. An Insurance Company that is admitted to membership in the Clearing System pursuant to these Rules, and whose

membership in the Clearing System has not been terminated, shall be an Insurance Company Clearing Member.

(g) A Person shall be eligible to become a Registered Clearing Agency Member if it is a Registered Clearing Agency in good standing with its primary regulator. A Registered Clearing Agency that is admitted to membership in the Clearing System pursuant to these Rules, and whose membership in the Clearing System has not been terminated, shall be a Registered Clearing Agency Member.

**(h) A Person shall be eligible to apply to become an Insured Credit Union Clearing Member if it is an Insured Credit Union in good standing with its primary regulator. An Insured Credit Union that is admitted to membership in the Clearing System pursuant to these Rules and whose membership in the Clearing System has not been terminated, shall be an Insured Credit Union Clearing Member.**

**(hi)** A Person shall be eligible to apply to become a Registered Investment Company Clearing Member if it is a Registered Investment Company. A Registered Investment Company that is admitted to membership in the Clearing System pursuant to these Rules, and whose membership in the Clearing System has not been terminated, shall be a Registered Investment Company Clearing Member.

**(ji)** The Corporation shall make its services available to Persons in such other categories as the Corporation may from time to time determine, subject to approval of such categories and their minimum membership standards by the SEC.

Applicants in categories (a) through **(fh)** above that are admitted into membership in the Clearing System shall be Tier One Members. Applicants in category **(hi)** above that are admitted into membership in the Clearing System shall be Tier Two Members. With respect to applicants in categories ~~(g) and (i)~~, the Corporation shall make a determination as to whether such applicant shall be a Tier One or Tier Two Member.

If any Person in categories (a) through **(ji)** above is a Foreign Person, then it shall be eligible to become a Clearing Member if the Corporation, in its sole discretion, has determined that such Person maintains a presence in the United States, either directly or through a suitable agent, that both has available individuals fluent in English who are knowledgeable in the Foreign Person's business and can assist the Corporation's representatives as necessary, and ensures that the Foreign Person will be able to meet its data submission, settlement, and other obligations to the Corporation as a Member in a timely manner. The Person applying to become a Foreign Member must represent and certify to the Corporation that it is in compliance with the financial reporting and responsibility standards of its home country and, if it is a regulated entity, that it is regulated in its home country by a financial regulatory authority in the areas of maintenance of relevant books and records, regular inspections and examinations, and minimum capital standards, and make such other representations, certifications or assurances as the Corporation deems necessary to address jurisdictional and tax concerns. Without limiting the generality of



the foregoing, the Corporation shall require each applicant that shall be an FFI Member to certify and periodically recertify to the Corporation that it is FATCA Compliant under such procedures as are set forth under FATCA, unless such requirements have been explicitly waived in writing by the Corporation, provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. In addition, as part of its membership application, each applicant that shall be an FFI Member must agree that it shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation as a result of its failing to be FATCA Compliant. The Corporation shall determine, in its sole discretion, which category of membership set forth above the Foreign Person shall be for purposes of these Rules. Except as with respect to FATCA, a Bank Clearing Member that participates in the Corporation through its U.S. branch or agency shall not be deemed a Foreign Member for purposes of the Corporation's Rules and procedures, unless otherwise stated by the Corporation.

## Section 2 - Membership Qualifications and Standards for Clearing Members

The Board may approve an application to become a Clearing Member by a Person that is eligible to apply to become a Clearing Member pursuant to this Rule upon a determination that such applicant meets the following requirements:

(a) Operational Capability - The applicant must be able to satisfactorily communicate with the Corporation, fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy, and conform to any condition and requirement that the Corporation reasonably deems necessary for its protection or that of its Members. The applicant agrees that it must fulfill, within the timeframes established by the Corporation, operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the continuing operational capability of the applicant.

(b) Fees - The applicant agrees to make, and has sufficient financial ability to make, all anticipated fee payments required to be made to the Corporation that may be set forth in these Rules.

(c) Required Capital - If a regulated entity, the applicant represents and warrants to the Corporation that it is in compliance (as an applicant) with the capital requirements imposed by its Designated Examining Authority, Appropriate Regulatory Agency, or other examining authority or regulator, and any other Self-Regulatory Organizations to which it is subject by statute, regulation or agreement.

(d) Disqualification Criteria - The Corporation has received no substantial information which would reasonably and adversely reflect on the applicant or its Controlling Management to such an extent that the applicant should be denied access to the services of the Corporation. The Corporation shall

determine whether any of the following criteria should be the basis for denial of the membership application:

- (i) the applicant is subject to Statutory Disqualification as defined in Section 3(a)(39) of the Securities Exchange Act of 1934, or an order of similar effect issued by a Federal or State banking authority, or other examining authority or regulator, including a non-U.S. examining authority or regulator;
- (ii) the applicant or its Controlling Management has been responsible for: (A) making a misstatement of a material fact or has omitted to state a material fact to the Corporation in connection with its application to become a Member or thereafter, or (B) fraudulent acts or a violation of the Securities Act of 1933, the Exchange Act, the Government Securities Act of 1986, the Investment Company Act, the Investment Advisers Act or any rule or regulation promulgated thereunder;
- (iii) the applicant or its Controlling Management has been convicted within the ten years preceding the filing of the application or at any time thereafter of (A) any criminal offense involving the purchase, sale or delivery of any security, or bribery, or burglary, or conspiracy to commit any offense referred to in this subparagraph (iii), (B) the larceny, theft, robbery, embezzlement, extortion, fraudulent conversion, fraudulent concealment, forgery or misappropriation of funds, securities or other property, (C) any violation of Sections 1341, 1342 or 1343 of Title 18, United States Code, or (D) any other criminal offense involving breach of fiduciary obligation, or arising out of the conduct of business as a broker, dealer, investment company, adviser or underwriter, bank, trust company, fiduciary, insurance company or other financial institution;
- (iv) the applicant or its Controlling Management has been permanently or temporarily enjoined or prohibited by order, judgment or decree of any court or other governmental authority of competent jurisdiction from acting as, or as a Person associated with or as an affiliated Person or employee of, a broker, dealer, investment company, advisor or underwriter, bank, trust company, fiduciary, insurance company, or other financial institution, or from engaging in or continuing any conduct or practice in connection with any such activity, or in connection with the purchase, sale or delivery of any security, and the enforcement of such injunction or prohibition has not been stayed; or
- (v) the applicant has been expelled or suspended from or had its participation terminated by a national securities association or exchange registered under the Exchange Act, a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act, or a corporation that engages in clearance and settlement activities or a securities depository, or has been barred or suspended from being associated with any member of such an exchange, association, organization, corporation, or securities depository.

In addition to items (a) through (d) above, the Corporation shall retain the right to deny membership to an applicant if the Corporation becomes aware of any factor or circumstance about the applicant or its Controlling Management which may impact the suitability of that particular applicant as a Member of the Corporation. Further, applicants are required to inform the Corporation as to any member of its Controlling Management that is or becomes subject to Statutory Disqualification (as defined in Section 3(a)(39) of the Exchange Act).

- (e) Financial Responsibility - The applicant shall:
  - (i) have sufficient financial ability to make anticipated required deposits to the Clearing Fund as provided for in Rule 4 and anticipated Cash Settlement amounts as provided for in Rule 11, and to meet all of its other obligations to the Corporation in a timely manner; and
  - (ii) satisfy the following minimum financial requirements:
    - (A) for applicants whose Financial Statements are prepared in accordance with U.S. generally accepted accounting principles:
      - (1) if the applicant is applying to become a Bank Clearing Member, it must have a level of equity capital as of the end of the month prior to the effective date of its membership of at least \$100 million, and its capital levels and ratios must meet the applicable minimum levels for such as required by its Appropriate Regulatory Agency (or, if the applicant's Appropriate Regulatory Agency does not specify any such minimum levels, such minimum levels as would be required if the Member were a member bank of the Federal Reserve System and the Member's Appropriate Regulatory Agency were the Board of Governors of the Federal Reserve System);
      - (2) if the applicant is registered with the SEC pursuant to Section 15 or Section 15C of the Exchange Act and is applying to become a Dealer Clearing Member, it must have, as of the end of the calendar month prior to the effective date of its membership, (1) Net Worth of at least \$25 million and (2) Excess Net Capital of at least \$10 million;
      - (3) if the applicant is registered with the SEC pursuant to Section 15 or Section 15C of the Exchange Act and is applying to become an Inter-Dealer Broker Clearing Member, it must have, as of the end of the calendar month prior to the effective date of its membership, Excess Net Capital of at least \$10 million;
      - (4) if the applicant is applying to become an Unregistered Investment Pool Clearing Member, it must have an investment advisor domiciled in the United States. The Unregistered Investment Pool applicant must have at least \$250 million in Net Assets. An Unregistered

Investment Pool that does not meet the \$250 million Net Asset requirement, but has Net Assets of at least \$100 million, shall be eligible for membership if the Unregistered Investment Pool's investment advisor advises an existing Member and has assets under management of at least \$1.5 billion. An Unregistered Investment Pool must have an investment advisor registered with the SEC.;

(5) if the applicant is applying to become a Government Securities Issuer Clearing Member, it must have at least \$100 million in equity capital;

(6) if the applicant is applying to become a Registered Investment Company Clearing Member, it must have minimum Net Assets of \$100 million.

**(7) if the applicant is applying to become an Insured Credit Union Clearing Member, it must have a level of equity capital as of the end of the month prior to the effective date of its membership of at least \$100 million and achieve the "well capitalized" statutory net worth category classification as defined by the NCUA under 12 C.F.R. Part 702.**

**(8)** For all other applicants, sufficient net worth, liquid capital, regulatory capital, or Net Assets, as applicable to the particular type of entity as determined by the Corporation, and subject to approval of such minimum membership standards by the SEC.

If the applicant in sections (1) through ~~(7)~~ **(8)** above is a Foreign Person that is applying to become a Foreign Clearing Member, it must satisfy the minimum financial requirements: (i) defined by reference to regulatory capital as defined by the applicant's home country regulator, or (ii) in the case of unregulated entities, as defined by the Corporation in its discretion, that are applicable to the Clearing System membership category that the Corporation determines, in its sole discretion, would be applicable to the Foreign Person if it were organized or established under the laws of the United States or a State or other political subdivision thereof, subject to subsections (B), (C) and (D) below if the entity's financial statements are not prepared in accordance with U.S. generally accepted accounting principles. For Unregistered Investment Pools, subsections (B), (C) and (D) shall apply to the following figures cited in subsection (A)(4) above: the \$250 million in Net Assets, the \$100 million in Net Assets.

(B) for applicants whose Financial Statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of 1985 (UK generally accepted accounting principles), or Canadian generally accepted accounting principles, the minimum financial requirements shall be one and one-half times the applicable requirements set forth in subsection (A) above.

- (C) for applicants whose Financial Statements are prepared in accordance with the generally accepted accounting principles of a European Union country other than the United Kingdom, the minimum financial requirements shall be five times the applicable requirements set forth in subsection (A) above.
- (D) for applicants whose financial statements are prepared in accordance with any other type of generally accepted accounting principles, the minimum financial requirements shall be seven times the requirements set forth in subsection (A) above.

(f) Business History - The applicant must have an established, profitable business history of a minimum of six months or personnel with sufficient operational background and experience to ensure, in the judgment of the Board, the ability of the firm to conduct its business.

(g) In addition to the above, applicants that are Unregistered Investment Pools must obtain at least a “medium” rating resulting from a qualitative assessment performed by the Corporation whereby the Corporation will assess certain factors, such as management, capital, strategy and risk profile, internal controls, and any other factors deemed relevant by the Corporation. The Corporation shall perform the assessment of each factor at the level (e.g., at the Unregistered Investment Pool level, at the level of the Unregistered Investment Pool’s investment advisor or other service provider, or some combination thereof) at which the responsibility for such factor falls.

The foregoing financial responsibility standards are only minimum requirements, and the Board, based upon the level of the anticipated positions and obligations of the applicant, the anticipated risk associated with the volume and types of Transactions the applicant proposes to process through the Corporation, and the overall financial condition of the applicant, may impose greater standards. If an applicant does not itself satisfy the above minimum capital requirements, the Board may include for such purposes the capital of an Affiliate of the applicant, if the Affiliate has delivered to the Corporation a guaranty, satisfactory in form and substance to the Board, of the obligations of the applicant to the Corporation.

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