

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="33"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="019"/>
		Amendment No. (req. for Amendments *) <input type="text"/>

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

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

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information

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

First Name * Last Name *

Title *

E-mail *

Telephone * Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date

By

(Name *)

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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 *

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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

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

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is attached hereto as Exhibit 5. The proposed rule change would amend FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”) and Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules,” and collectively with the GSD Rules, the “Rules”)¹ in order to adopt the Interpretive Guidance with Respect to Watch List Consequences (“Interpretive Guidance”), which would provide guidance to members of GSD and MBSD regarding placement on the Watch List and its impact on their respective Clearing Fund deposits as well as other consequences.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Deputy General Counsel of FICC on August 21, 2017 pursuant to delegated authority from FICC’s Board of Directors.

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

(a) Purpose

The proposed rule change would add the Interpretive Guidance into the Rules, which will provide guidance to members of GSD and MBSD regarding the Watch List and its impact on their respective Clearing Fund deposits as well as other possible consequences.

(i) Background

FICC occupies an important role in the securities settlement system by interposing itself through each of GSD and MBSD as a central counterparty between members that are counterparties to transactions accepted for clearing by FICC, thereby reducing the risks faced by its members. FICC’s ability to guarantee settlement of these transactions is dependent upon its risk management, which is the means by which it protects itself and its members from the risks inherent in the settlement process. The Watch List is one of the risk management tools that FICC uses to monitor default risks of its members on an ongoing basis.² A member could be

¹ Capitalized terms not defined herein are defined in the GSD Rules, available at www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf, and the MBSD Rules, available at www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_mbsd_rules.pdf.

² See Exchange Act Release Nos. 80734 (May 19, 2017), 82 FR 24177 (May 25, 2017) (SR-FICC-2017-006), 80731 (May 19, 2017), 82 FR 24174 (May 25, 2017) (SR-FICC-2017-804).

placed on the Watch List if its credit rating derived from the Credit Risk Rating Matrix is 5, 6 or 7,³ or if, based on FICC’s consideration of relevant factors, it is deemed by FICC to pose a heightened risk to FICC and its members.⁴ Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules.

(ii) Detailed Description of the Proposed Rule Change

In order to provide members of GSD and MBSD guidance regarding placement on the Watch List and its impact on their respective Clearing Fund deposits and other consequences, FICC is proposing to adopt the Interpretive Guidance, as described below.

FICC is also proposing to amend the “Watch List” definition in GSD Rule 1 (Definitions) and MBSD Rule 1 (Definitions), respectively, to add a footnote referring to the Interpretive Guidance for members’ ease of reference when reviewing the Rules for Watch List implications. The proposed footnote would indicate to members that being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules and would refer them to the Interpretive Guidance in the Rules.

A. *Clearing Fund-Related Consequences for Members Placed on the Watch List*

As proposed, the Interpretive Guidance would provide details on Clearing Fund-related consequences for members of GSD and MBSD placed on the Watch List, including additional Clearing Fund deposits, restriction on withdrawal of Excess Clearing Fund Deposits, and non-waiver of minimal Clearing Fund payment.

³ The Credit Risk Rating Matrix generates credit ratings for relevant members based on a 7-point rating system, with “1” being the strongest credit rating and “7” being the weakest credit rating.

⁴ Pursuant to GSD Rule 1, the term “Watch List” means “at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 5, 6 or 7, as well as members that, based on the Corporation’s consideration of relevant factors, including those set forth in Section 12(d) of Rule 3, are deemed by the Corporation to pose heightened risk to the Corporation and its Members.” GSD Rule 1, Definitions.

Pursuant to MBSD Rule 1, the term “Watch List” means “at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 5, 6 or 7, as well as Members that, based on the Corporation’s consideration of relevant factors, including those set forth in Section 11(d) of Rule 3, are deemed by the Corporation to pose heightened risk to the Corporation and its Members.” MBSD Rule 1, Definitions.

1. Additional Clearing Fund Deposits

Pursuant to Section 12(e) of GSD Rule 3⁵ and Section 11(e) of MBSD Rule 3,⁶ FICC may require a GSD Netting Member or an MBSD Clearing Member, as applicable, that has been placed on the Watch List to make and maintain a deposit to the GSD Clearing Fund or MBSD Clearing Fund, as applicable, over and above the amount determined in accordance with Section 2 of GSD Rule 4 and Section 2 of MBSD Rule 4, as applicable, or such higher amount as the FICC Board may deem necessary for the protection of FICC or other members.

The determination of whether a member that is on the Watch List should be subject to an additional Clearing Fund deposit is based on factors determined to be relevant by FICC from time to time, including:

- (A) The overall financial condition and financial stability or volatility of the GSD Netting Member or the MBSD Clearing Member, as applicable, which may include a review of the member's credit rating/enhanced surveillance⁷ history and outlook. For example, FICC may require an additional Clearing Fund deposit from a member that is both rated a 7 on the Credit Risk Rating Matrix as well as under enhanced surveillance, or if the member's credit rating has deteriorated rapidly month over month.

⁵ Section 12(e) of GSD Rule 3, in relevant parts, states that "The Corporation may require a Netting Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Netting Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member." GSD Rule 3, Ongoing Membership Requirements.

⁶ Section 11(e) of MBSD Rule 3, in relevant parts, states that "The Corporation may require a Clearing Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Clearing Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member." MBSD Rule 3, Ongoing Membership Requirements.

⁷ FICC maintains an enhanced surveillance list for membership monitoring. The enhanced surveillance list is generally used when members are undergoing drastic and unexpected changes in their financial conditions or operational capabilities and thus are deemed by FICC to be of the highest risk level and/or warrant additional scrutiny due to FICC's ongoing concerns about these members.

- (B) The liquidity arrangement, if any, of the GSD Netting Member or the MBSD Clearing Member, as applicable. For example, FICC may require an additional Clearing Fund deposit from a member if FICC has concerns about the member's liquidity arrangement or if FICC determines that the member has insufficient liquidity resources when compared to the volume of the member's clearing activities at FICC.
- (C) The Clearing Fund requirement history, transaction volume trends, simulated closeout results, stress test results, backtest results and outstanding positions of the GSD Netting Member or the MBSD Clearing Member, as applicable. For example, FICC may require an additional Clearing Fund deposit from a member that is on the Watch List if a review of the member's activity level indicates that FICC or its members could be exposed to losses from the member's activities.
- (D) Adverse news reports and/or regulatory concerns relating to the GSD Netting Member or the MBSD Clearing Member, as applicable.
- (E) Any additional concerns relating to the financial or operational condition of the GSD Netting Member or the MBSD Clearing Member, as applicable.

Additionally, pursuant to Section 2(a) of MBSD Rule 4,⁸ FICC may impose an Intraday Mark-to-Market Charge on a MBSD Clearing Member that experiences an adverse Intraday Mark-to-Market change that, among other things, exceeds certain Surveillance Thresholds. The Surveillance Thresholds are set by FICC based on an MBSD Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or its Watch List status.

Furthermore, pursuant to Section 2(g) of MBSD Rule 4,⁹ FICC may subject a MBSD Clearing Member to an intraday VaR Charge if the MBSD Clearing Member is on the Watch

⁸ Section 2(a) of MBSD Rule 4, in relevant parts, states "on any Business Day, a Clearing Member may become subject to an Intraday Mark-to-Market Charge," and the term "Intraday Mark-to-Market Charge" as defined in MBSD Rule 1, in relevant parts, provides that "the Corporation may, in its discretion, collect the Intraday Mark-to-Market Charge from a Clearing Member that experiences an adverse Intraday Mark-to-Market change that...exceeds a certain dollar threshold ("Surveillance Threshold")" and that "the Surveillance Threshold is an amount between \$1,000,000 and \$50,000,000 that is set by the Corporation per Clearing Member based on a Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or a Clearing Member's Watch List status." MBSD Rule 4, Clearing Fund and Loss Allocation.

⁹ Section 2(g) of MBSD Rule 4, in relevant parts, states "any VaR Charge may be collected on an intra-day basis," that "such intra-day VaR Charge amount shall be based upon certain parameter breaks defined by the Corporation from time to time" and "qualitative factors including, but not limited to, Watch List status and internal rating will also be considered in the application of intraday VaR Charge." MBSD Rule 4, Clearing Fund and Loss Allocation.

List; however, FICC does not currently collect a VaR Charge on an intraday basis from any MBSD Clearing Members.

2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 9 of GSD Rule 4¹⁰ and Section 9 of MBSD Rule 4,¹¹ FICC may retain some or all of the Excess Clearing Fund Deposit of a GSD Member or an MBSD Member, as applicable, who is on the Watch List.¹² Nonetheless, FICC generally does not retain the Excess Clearing Fund Deposit of a Watch List member unless the member fails to pay the Required Fund Deposit within the required timeframes established by FICC, or if FICC has a concern that the member will not be able to satisfy its obligation to FICC.

3. Non-Waiver of Minimal Clearing Fund Payment

Pursuant to Section 2(a) of GSD Rule 4¹³ and Section 2(c) of MBSD Rule 4,¹⁴ a GSD

¹⁰ Section 9 of GSD Rule 4, in relevant parts, states “at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned...if the Member is on the Watch List.” GSD Rule 4, Clearing Fund and Loss Allocation.

¹¹ Section 9 of MBSD Rule 4, in relevant parts, states “at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned...if the Member is on the Watch List.” MBSD Rule 4, Clearing Fund and Loss Allocation.

¹² Pursuant to Section 9 of GSD Rule 4, FICC may also retain some or all of the Excess Clearing Fund Deposits of a GSD Member if FICC determines that the GSD Member’s anticipated Funds-Only Settlement Amounts or Net Settlement Positions in the near future may reasonably be expected to be materially different than those of the recent past. GSD Rules, supra note 1.

Pursuant to Section 9 of MBSD Rule 4, FICC may also retain some or all of the Excess Clearing Fund Deposits of a MBSD Member if the MBSD Member has an outstanding payment obligation to FICC, if FICC determines that the MBSD Member’s anticipated Cash Settlement Obligations, Pool Net Obligations or Transactions over the next 90 calendar days may reasonably be expected to be materially different than during the prior 90 calendar days. MBSD Rules, supra note 1.

¹³ Section 2(a) of GSD Rule 4, in relevant parts, states that “A Netting Member’s Required Fund Deposit shall be reported daily, and payment shall be due by the time specified in the Corporation’s procedures; however, such payment shall not be due on a given day if: (a) the difference between the amount of a Member’s Required Fund Deposit as reported on that day, and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000, and (ii) 25 percent of the amount then on deposit; and (b) the Member is not on the Watch List. GSD Rule 4, Clearing Fund and Loss Allocation.

Member or an MBSD Member, as applicable, is not required to make any payment to its Clearing Fund on a given day if the difference between the amount of the GSD Member's or the MBSD Member's, as applicable, Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000 and (ii) 25 percent of the amount then on deposit, provided that the GSD Member or the MBSD Member, as applicable, is not on the Watch List. As such, GSD Members and MBSD Members that are on the Watch List must satisfy all margin calls for their respective Clearing Funds regardless of the amount.

B. Other Consequences for GSD Netting Members Placed on the Watch List

As proposed, the Interpretive Guidance would also describe other consequences that may affect GSD Netting Members placed on the Watch List.

Pursuant to Section 12(e) of GSD Rule 3,¹⁵ if a GSD Netting Member is on the Watch List, FICC may (1) suspend the GSD Netting Member's right under the GSD Rules to collect a Credit Forward Mark Adjustment Payment during all or a portion of the time period that the GSD Netting Member is on the Watch List and/or (2) maintain possession of the securities and/or cash that comprise the GSD Netting Member's Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity. Nonetheless, FICC generally does not retain these credits and/or entitlements unless the GSD Netting Member fails to pay the Required Fund Deposit within the required timeframes established by FICC, or if FICC has a concern that the GSD Netting Member will not be able to satisfy its obligation to FICC.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended ("Act")

¹⁴ Section 2(c) of MBSD Rule 4, in relevant parts, states that "A Clearing Member's Required Fund Deposit shall be reported daily, and payment shall be due by the time specified in the Corporation's procedures; however, such payment shall not be due on a given day if: (a) the difference between the amount of a Member's Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000, and (ii) 25 percent of the amount then on deposit from the Clearing Member; and (b) the Member is not on the Watch List." MBSD Rule 4, Clearing Fund and Loss Allocation.

¹⁵ Section 12(e) of GSD Rule 3, in relevant parts, states that "as regards a Netting Member that has been placed on the Watch List by the Corporation, the Corporation may suspend, during all or a portion of the time period that such Member is on the Watch List, its right under these Rules to collect a Credit Forward Mark Adjustment Payment. Moreover, if a Netting Member on the Watch List has a Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity, the Corporation may, in its sole discretion, maintain possession of the securities and/or cash that comprise such Collateral Allocation Entitlement." GSD Rule 3, Ongoing Membership Requirements.

requires, in part, that the Rules promote the prompt and accurate clearance and settlement of securities transactions.¹⁶ The proposed rule change would provide additional transparency to FICC members regarding placement on the Watch List and its impact on their respective Clearing Fund deposits as well as other consequences. The proposed rule change would also clarify FICC's current practices regarding the assessment, collection and withholding of related margin charges, credits and/or entitlements. Accordingly, the proposed rule change would ensure that the Rules are transparent and clear, which would enable all stakeholders to readily understand their respective rights and obligations in connection with FICC's clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(23)(i) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing all relevant rules and material procedures.¹⁷ Rule 17Ad-22(e)(23)(ii) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.¹⁸ The proposed rule change enhances the transparency in the Rules by describing the impact that placement on the Watch List could have on members' respective Clearing Fund deposits and other consequences. By doing so, the proposed rule change would provide for the public disclosure of the rules and procedures through which FICC assesses, collects and withholds certain margin charges, credits and/or entitlements from members on the Watch List. By providing information regarding the assessment, collection and withholding of certain margin charges and other consequences of the Watch List, the proposed rule change would also enable FICC's members to identify and evaluate the risks and material costs they incur by participating in FICC. As such, FICC believes the proposed rule change is consistent with Rule 17Ad-22(e)(23)(i) and (ii) under the Act.¹⁹

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

FICC does not believe that the proposed rule change would impact competition.²⁰ The proposed rule change provides interpretive guidance with respect to existing Rules and would increase the transparency of the Rules regarding the Watch List and its impact on FICC members' respective Clearing Fund deposits and other consequences by clarifying FICC's current practices with respect to the assessment, collection and withholding of certain margin

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ 17 CFR 240.17Ad-22(e)(23)(i).

¹⁸ 17 CFR 240.17Ad-22(e)(23)(ii).

¹⁹ 17 CFR 240-17Ad-22(e)(23)(i), (ii).

²⁰ 15 U.S.C. 78q-1(b)(3)(I).

charges, credits and/or entitlements from members on the Watch List. The proposed rule change would not change such current practices. As such, FICC believes that the proposed rule change will not impact FICC members or have any impact 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 this proposed rule change have not 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 Exchange Act for Commission action.

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

- (a) The proposed rule change has become effective pursuant to paragraph A of Section 19(b)(3) of the Act.²¹
- (b) The proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.²²
- (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

Not applicable.

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

Not applicable.

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(1).

11. Exhibits

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-FICC-2017-019)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of and Immediate Effectiveness of a Proposed Rule Change to Adopt the Interpretive Guidance with Respect to Watch List Consequences

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August __, 2017, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(1) thereunder.⁴ 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 would amend FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”) and Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules,” and collectively with the GSD Rules, the “Rules”)⁵ in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(1).

⁵ Capitalized terms not defined herein are defined in the GSD Rules, available at www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf, and the

order to adopt the Interpretive Guidance with Respect to Watch List Consequences (“Interpretive Guidance”), which would provide guidance to members of GSD and MBSD regarding placement on the Watch List and its impact on their respective Clearing Fund deposits as well as other consequences.

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

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

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

1. Purpose

The proposed rule change would add the Interpretive Guidance into the Rules, which will provide guidance to members of GSD and MBSD regarding the Watch List and its impact on their respective Clearing Fund deposits as well as other possible consequences.

(i) Background

FICC occupies an important role in the securities settlement system by interposing itself through each of GSD and MBSD as a central counterparty between

members that are counterparties to transactions accepted for clearing by FICC, thereby reducing the risks faced by its members. FICC's ability to guarantee settlement of these transactions is dependent upon its risk management, which is the means by which it protects itself and its members from the risks inherent in the settlement process. The Watch List is one of the risk management tools that FICC uses to monitor default risks of its members on an ongoing basis.⁶ A member could be placed on the Watch List if its credit rating derived from the Credit Risk Rating Matrix is 5, 6 or 7,⁷ or if, based on FICC's consideration of relevant factors, it is deemed by FICC to pose a heightened risk to FICC and its members.⁸ Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules.

(ii) Detailed Description of the Proposed Rule Change

In order to provide members of GSD and MBSD guidance regarding placement

⁶ See Exchange Act Release Nos. 80734 (May 19, 2017), 82 FR 24177 (May 25, 2017) (SR-FICC-2017-006), 80731 (May 19, 2017), 82 FR 24174 (May 25, 2017) (SR-FICC-2017-804).

⁷ The Credit Risk Rating Matrix generates credit ratings for relevant members based on a 7-point rating system, with "1" being the strongest credit rating and "7" being the weakest credit rating.

⁸ Pursuant to GSD Rule 1, the term "Watch List" means "at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 5, 6 or 7, as well as members that, based on the Corporation's consideration of relevant factors, including those set forth in Section 12(d) of Rule 3, are deemed by the Corporation to pose heightened risk to the Corporation and its Members." GSD Rule 1, Definitions.

Pursuant to MBSD Rule 1, the term "Watch List" means "at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 5, 6 or 7, as well as Members that, based on the Corporation's consideration of relevant factors, including those set forth in Section 11(d) of Rule 3, are deemed by the Corporation to pose heightened risk to the Corporation and its Members." MBSD Rule 1, Definitions.

on the Watch List and its impact on their respective Clearing Fund deposits and other consequences, FICC is proposing to adopt the Interpretive Guidance, as described below.

FICC is also proposing to amend the “Watch List” definition in GSD Rule 1 (Definitions) and MBSD Rule 1 (Definitions), respectively, to add a footnote referring to the Interpretive Guidance for members’ ease of reference when reviewing the Rules for Watch List implications. The proposed footnote would indicate to members that being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules and would refer them to the Interpretive Guidance in the Rules.

A. *Clearing Fund-Related Consequences for Members Placed on the Watch List*

As proposed, the Interpretive Guidance would provide details on Clearing Fund-related consequences for members of GSD and MBSD placed on the Watch List, including additional Clearing Fund deposits, restriction on withdrawal of Excess Clearing Fund Deposits, and non-waiver of minimal Clearing Fund payment.

1. Additional Clearing Fund Deposits

Pursuant to Section 12(e) of GSD Rule 3⁹ and Section 11(e) of MBSD Rule 3,¹⁰

⁹ Section 12(e) of GSD Rule 3, in relevant parts, states that “The Corporation may require a Netting Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Netting Member’s Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member.” GSD Rule 3, Ongoing Membership Requirements.

¹⁰ Section 11(e) of MBSD Rule 3, in relevant parts, states that “The Corporation may require a Clearing Member that has been placed on the Watch List to make

FICC may require a GSD Netting Member or an MBSD Clearing Member, as applicable, that has been placed on the Watch List to make and maintain a deposit to the GSD Clearing Fund or MBSD Clearing Fund, as applicable, over and above the amount determined in accordance with Section 2 of GSD Rule 4 and Section 2 of MBSD Rule 4, as applicable, or such higher amount as the FICC Board may deem necessary for the protection of FICC or other members.

The determination of whether a member that is on the Watch List should be subject to an additional Clearing Fund deposit is based on factors determined to be relevant by FICC from time to time, including:

- (A) The overall financial condition and financial stability or volatility of the GSD Netting Member or the MBSD Clearing Member, as applicable, which may include a review of the member's credit rating/enhanced surveillance¹¹ history and outlook. For example, FICC may require an additional Clearing Fund deposit from a member that is both rated a 7 on the Credit Risk Rating Matrix as well as under enhanced surveillance, or if

and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 (which additional deposit shall constitute a portion of the Clearing Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member." MBSD Rule 3, Ongoing Membership Requirements.

¹¹ FICC maintains an enhanced surveillance list for membership monitoring. The enhanced surveillance list is generally used when members are undergoing drastic and unexpected changes in their financial conditions or operational capabilities and thus are deemed by FICC to be of the highest risk level and/or warrant additional scrutiny due to FICC's ongoing concerns about these members.

the member's credit rating has deteriorated rapidly month over month.

- (B) The liquidity arrangement, if any, of the GSD Netting Member or the MBSD Clearing Member, as applicable. For example, FICC may require an additional Clearing Fund deposit from a member if FICC has concerns about the member's liquidity arrangement or if FICC determines that the member has insufficient liquidity resources when compared to the volume of the member's clearing activities at FICC.
- (C) The Clearing Fund requirement history, transaction volume trends, simulated closeout results, stress test results, backtest results and outstanding positions of the GSD Netting Member or the MBSD Clearing Member, as applicable. For example, FICC may require an additional Clearing Fund deposit from a member that is on the Watch List if a review of the member's activity level indicates that FICC or its members could be exposed to losses from the member's activities.
- (D) Adverse news reports and/or regulatory concerns relating to the GSD Netting Member or the MBSD Clearing Member, as applicable.
- (E) Any additional concerns relating to the financial or operational condition of the GSD Netting Member or the MBSD Clearing Member, as applicable.

Additionally, pursuant to Section 2(a) of MBSD Rule 4,¹² FICC may impose an Intraday Mark-to-Market Charge on a MBSD Clearing Member that experiences an

¹² Section 2(a) of MBSD Rule 4, in relevant parts, states "on any Business Day, a Clearing Member may become subject to an Intraday Mark-to-Market Charge," and the term "Intraday Mark-to-Market Charge" as defined in MBSD Rule 1, in

adverse Intraday Mark-to-Market change that, among other things, exceeds certain Surveillance Thresholds. The Surveillance Thresholds are set by FICC based on an MBSD Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or its Watch List status.

Furthermore, pursuant to Section 2(g) of MBSD Rule 4,¹³ FICC may subject a MBSD Clearing Member to an intraday VaR Charge if the MBSD Clearing Member is on the Watch List; however, FICC does not currently collect a VaR Charge on an intraday basis from any MBSD Clearing Members.

2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 9 of GSD Rule 4¹⁴ and Section 9 of MBSD Rule 4,¹⁵ FICC may retain some or all of the Excess Clearing Fund Deposit of a GSD Member or an

relevant parts, provides that “the Corporation may, in its discretion, collect the Intraday Mark-to-Market Charge from a Clearing Member that experiences an adverse Intraday Mark-to-Market change that...exceeds a certain dollar threshold (“Surveillance Threshold”)” and that “the Surveillance Threshold is an amount between \$1,000,000 and \$50,000,000 that is set by the Corporation per Clearing Member based on a Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or a Clearing Member's Watch List status.” MBSD Rule 4, Clearing Fund and Loss Allocation.

¹³ Section 2(g) of MBSD Rule 4, in relevant parts, states “any VaR Charge may be collected on an intra-day basis,” that “such intra-day VaR Charge amount shall be based upon certain parameter breaks defined by the Corporation from time to time” and “qualitative factors including, but not limited to, Watch List status and internal rating will also be considered in the application of intraday VaR Charge.” MBSD Rule 4, Clearing Fund and Loss Allocation.

¹⁴ Section 9 of GSD Rule 4, in relevant parts, states “at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned...if the Member is on the Watch List.” GSD Rule 4, Clearing Fund and Loss Allocation.

¹⁵ Section 9 of MBSD Rule 4, in relevant parts, states “at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be

MBSD Member, as applicable, who is on the Watch List.¹⁶ Nonetheless, FICC generally does not retain the Excess Clearing Fund Deposit of a Watch List member unless the member fails to pay the Required Fund Deposit within the required timeframes established by FICC, or if FICC has a concern that the member will not be able to satisfy its obligation to FICC.

3. Non-Waiver of Minimal Clearing Fund Payment

Pursuant to Section 2(a) of GSD Rule 4¹⁷ and Section 2(c) of MBSD Rule 4,¹⁸ a GSD Member or an MBSD Member, as applicable, is not required to make any payment

returned...if the Member is on the Watch List.” MBSD Rule 4, Clearing Fund and Loss Allocation.

¹⁶ Pursuant to Section 9 of GSD Rule 4, FICC may also retain some or all of the Excess Clearing Fund Deposits of a GSD Member if FICC determines that the GSD Member’s anticipated Funds-Only Settlement Amounts or Net Settlement Positions in the near future may reasonably be expected to be materially different than those of the recent past. GSD Rules, supra note 5.

Pursuant to Section 9 of MBSD Rule 4, FICC may also retain some or all of the Excess Clearing Fund Deposits of a MBSD Member if the MBSD Member has an outstanding payment obligation to FICC, if FICC determines that the MBSD Member’s anticipated Cash Settlement Obligations, Pool Net Obligations or Transactions over the next 90 calendar days may reasonably be expected to be materially different than during the prior 90 calendar days. MBSD Rules, supra note 5.

¹⁷ Section 2(a) of GSD Rule 4, in relevant parts, states that “A Netting Member’s Required Fund Deposit shall be reported daily, and payment shall be due by the time specified in the Corporation’s procedures; however, such payment shall not be due on a given day if: (a) the difference between the amount of a Member’s Required Fund Deposit as reported on that day, and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000, and (ii) 25 percent of the amount then on deposit; and (b) the Member is not on the Watch List. GSD Rule 4, Clearing Fund and Loss Allocation.

¹⁸ Section 2(c) of MBSD Rule 4, in relevant parts, states that “A Clearing Member’s Required Fund Deposit shall be reported daily, and payment shall be due by the time specified in the Corporation’s procedures; however, such payment shall not be due on a given day if: (a) the difference between the amount of a Member’s

to its Clearing Fund on a given day if the difference between the amount of the GSD Member's or the MBSD Member's, as applicable, Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000 and (ii) 25 percent of the amount then on deposit, provided that the GSD Member or the MBSD Member, as applicable, is not on the Watch List. As such, GSD Members and MBSD Members that are on the Watch List must satisfy all margin calls for their respective Clearing Funds regardless of the amount.

B. Other Consequences for GSD Netting Members Placed on the Watch List

As proposed, the Interpretive Guidance would also describe other consequences that may affect GSD Netting Members placed on the Watch List.

Pursuant to Section 12(e) of GSD Rule 3,¹⁹ if a GSD Netting Member is on the Watch List, FICC may (1) suspend the GSD Netting Member's right under the GSD Rules to collect a Credit Forward Mark Adjustment Payment during all or a portion of the time period that the GSD Netting Member is on the Watch List and/or (2) maintain possession of the securities and/or cash that comprise the GSD Netting Member's

Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000, and (ii) 25 percent of the amount then on deposit from the Clearing Member; and (b) the Member is not on the Watch List." MBSD Rule 4, Clearing Fund and Loss Allocation.

¹⁹ Section 12(e) of GSD Rule 3, in relevant parts, states that "as regards a Netting Member that has been placed on the Watch List by the Corporation, the Corporation may suspend, during all or a portion of the time period that such Member is on the Watch List, its right under these Rules to collect a Credit Forward Mark Adjustment Payment. Moreover, if a Netting Member on the Watch List has a Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity, the Corporation may, in its sole discretion, maintain possession of the securities and/or cash that comprise such Collateral Allocation Entitlement." GSD Rule 3, Ongoing Membership Requirements.

Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity. Nonetheless, FICC generally does not retain these credits and/or entitlements unless the GSD Netting Member fails to pay the Required Fund Deposit within the required timeframes established by FICC, or if FICC has a concern that the GSD Netting Member will not be able to satisfy its obligation to FICC.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules promote the prompt and accurate clearance and settlement of securities transactions.²⁰ The proposed rule change would provide additional transparency to FICC members regarding placement on the Watch List and its impact on their respective Clearing Fund deposits as well as other consequences. The proposed rule change would also clarify FICC's current practices regarding the assessment, collection and withholding of related margin charges, credits and/or entitlements. Accordingly, the proposed rule change would ensure that the Rules are transparent and clear, which would enable all stakeholders to readily understand their respective rights and obligations in connection with FICC's clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(23)(i) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing all relevant rules and material procedures.²¹ Rule 17Ad-

²⁰ 15 U.S.C. 78q-1(b)(3)(F).

²¹ 17 CFR 240.17Ad-22(e)(23)(i).

22(e)(23)(ii) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.²² The proposed rule change enhances the transparency in the Rules by describing the impact that placement on the Watch List could have on members' respective Clearing Fund deposits and other consequences. By doing so, the proposed rule change would provide for the public disclosure of the rules and procedures through which FICC assesses, collects and withholds certain margin charges, credits and/or entitlements from members on the Watch List. By providing information regarding the assessment, collection and withholding of certain margin charges and other consequences of the Watch List, the proposed rule change would also enable FICC's members to identify and evaluate the risks and material costs they incur by participating in FICC. As such, FICC believes the proposed rule change is consistent with Rule 17Ad-22(e)(23)(i) and (ii) under the Act.²³

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

FICC does not believe that the proposed rule change would impact competition.²⁴ The proposed rule change provides interpretive guidance with respect to existing Rules and would increase the transparency of the Rules regarding the Watch List and its impact on FICC members' respective Clearing Fund deposits and other consequences by clarifying FICC's current practices with respect to the assessment, collection and

²² 17 CFR 240.17Ad-22(e)(23)(ii).

²³ 17 CFR 240-17Ad-22(e)(23)(i), (ii).

²⁴ 15 U.S.C. 78q-1(b)(3)(I).

withholding of certain margin charges, credits and/or entitlements from members on the Watch List. The proposed rule change would not change such current practices. As such, FICC believes that the proposed rule change will not impact FICC members or have any impact on competition.

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

Written comments relating to this proposed rule change have not 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²⁵ and paragraph (f) of Rule 19b-4 thereunder.²⁶ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form

²⁵ 15 U.S.C. 78s(b)(3)(A).

²⁶ 17 CFR 240.19b-4(f).

(<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2017-019 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-2017-019. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; 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-2017-019 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.²⁷

Secretary

²⁷ 17 CFR 200.30-3(a)(12).

Underlined and boldface text indicates proposed new language

~~**Strikethrough and bold face**~~ text indicates proposed deleted language

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

RULE 1 – DEFINITIONS

Watch List^π

The term “Watch List” means, at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 5, 6 or 7, as well as members that, based on the Corporation’s consideration of relevant factors, including those set forth in Section 12(d) of Rule 3, are deemed by the Corporation to pose a heightened risk to the Corporation and its Members.

^π **Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules. Please refer to the Interpretive Guidance with Respect to Watch List Consequences in this rulebook.**

BOARD INTERPRETATIONS AND STATEMENTS OF POLICY

INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules:

A. Clearing Fund-Related Consequences

1. Additional Clearing Fund Deposits

Pursuant to Section 12(e) of Rule 3, the Corporation may require a Netting Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members.

The determination of whether a Netting Member that is on the Watch List should be subject to an additional Clearing Fund deposit is based on factors determined to be relevant by the Corporation from time to time, including:

- a. the overall financial condition and financial stability or volatility of the Netting Member, which may include a review of the Netting Member's credit rating/enhanced surveillance history and outlook;
- b. the liquidity arrangement, if any, of the Netting Member;
- c. the Clearing Fund requirement history, transaction volume trends, simulated closeout results, stress test results, backtest results and outstanding positions of the Netting Member;
- d. adverse news reports and/or regulatory concerns relating to the Netting Member; and
- e. any additional concerns relating to the financial or operational condition of the Netting Member.

2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 9 of Rule 4, the Corporation may retain some or all of the Excess Clearing Fund Deposit of a Member who is on the Watch List. Nonetheless, the Corporation generally does not retain the Excess Clearing Fund Deposit of a Watch List Member unless the Member fails to pay the Required Fund Deposit within the required timeframes established by the Corporation, or if the Corporation has a concern that the Member will not be able to satisfy its obligation to the Corporation.

3. Non-Waiver of Minimal Clearing Fund Payment

Pursuant to Section 2(a) of Rule 4, a Member is not required to make any payment to its Clearing Fund on a given day if the difference between the amount of the Member's Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000 and (ii) 25 percent of the amount then on deposit, provided that the Member is not on the Watch List. As such, Members that are on the Watch List must satisfy all margin calls for their respective Clearing Funds regardless of the amount.

B. Other Consequences

Pursuant to Section 12(e) of Rule 3, if a Netting Member is on the Watch List, the Corporation may (1) suspend the Netting Member's right under the Rules to collect a Credit Forward Mark Adjustment Payment during all or a portion of the time period that the Netting Member is on the Watch List and/or (2) maintain possession of the securities and/or cash that comprise the Netting Member's Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity. Nonetheless, the Corporation generally does not retain these credits and/or entitlements unless the Netting Member fails to pay the Required Fund Deposit within the required timeframes established by the Corporation, or if the Corporation has a concern that the Netting Member will not be able to satisfy its obligation to the Corporation.

August 23, 2017

FIXED INCOME CLEARING CORPORATION

MORTGAGE-BACKED SECURITIES DIVISION

CLEARING RULES

RULE 1 - DEFINITIONS

Watch List^π

The term “Watch List” means, at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 5, 6 or 7, as well as Members that, based on the Corporation’s consideration of relevant factors, including those set forth in Section 11(d) of Rule 3, are deemed by the Corporation to pose a heightened risk to the Corporation and its Members.

^π Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under the Rules. Please refer to the Interpretive Guidance with Respect to Watch List Consequences in this rulebook.

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

INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

Being placed on the Watch List may result in Clearing Fund-related consequences under the Rules:

A. Clearing Fund-Related Consequences

1. Additional Clearing Fund Deposits

Pursuant to Section 11(e) of Rule 3, the Corporation may require a Clearing Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Section 2 of Rule 4 or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members.

The determination of whether a Clearing Member that is on the Watch List should be subject to an additional Clearing Fund deposit is based on factors determined to be relevant by the Corporation from time to time, including:

- a. the overall financial condition and financial stability or volatility of the Clearing Member, which may include a review of the Clearing Member's credit rating/enhanced surveillance history and outlook;**
- b. the liquidity arrangement, if any, of the Clearing Member;**
- c. the Clearing Fund requirement history, transaction volume trends, simulated closeout results, stress test results, backtest results and outstanding positions of the Clearing Member;**
- d. adverse news reports and/or regulatory concerns relating to the Clearing Member; and**
- e. any additional concerns relating to the financial or operational condition of the Clearing Member.**

Additionally, pursuant to Section 2(a) of Rule 4, the Corporation may impose an Intraday Mark-to-Market Charge on a Clearing Member that experiences an adverse Intraday Mark-to-Market change that, among other things, exceeds certain Surveillance Thresholds. The Surveillance Thresholds are set by the Corporation based on a Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or its Watch List status.

Furthermore, pursuant to Section 2(g) of Rule 4, the Corporation may subject a Clearing Member to an intraday VaR Charge if the Clearing Member is on the Watch List.

2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 9 of Rule 4, the Corporation may retain some or all of the Excess Clearing Fund Deposit of a Member who is on the Watch List. Nonetheless, the Corporation generally does not retain the Excess Clearing Fund Deposit of a Watch List Member unless the Member fails to pay the Required Fund Deposit within the required timeframes established by the Corporation, or if the Corporation has a concern that the Member will not be able to satisfy its obligation to the Corporation.

3. Non-Waiver of Minimal Clearing Fund Payment

Pursuant to Section 2(c) of Rule 4, a Member is not required to make any payment to its Clearing Fund on a given day if the difference between the amount of the Member's Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000 and (ii) 25 percent of the amount then on deposit, provided that the Member is not on the Watch List. As such, Members that are on the Watch List must satisfy all margin calls for their respective Clearing Funds regardless of the amount.

August 23, 2017
