

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * SECURITIES AND EXCHANGE COMMISSION File No.* SR - - *
 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 *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<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) *	Section 806(e)(2) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description

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

Proposed change to the FICC GSD Rulebook to include the Capped Contingency Liquidity Facility.

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 *)

Persona Not Validated - 1465918991530,

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 *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of Advance Notice

(a) This advance notice of Fixed Income Clearing Corporation (“FICC”) consists of modifications to the Government Securities Division (“GSD”) Rulebook¹ (the “GSD Rules”), annexed hereto as Exhibit 5. The purpose of this filing is to amend the GSD Rules to include a committed liquidity resource (referred to as the “Capped Contingency Liquidity Facility®” (“CCLF”)). This facility would provide FICC with additional liquid financial resources to meet its cash settlement obligations in the event of a default of the largest family of affiliated Netting Members² (an “Affiliated Family”) of GSD.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Clearing Agency

(a) The filing of this advance notice was approved by the Risk Committee of FICC’s Board of Directors on February 9, 2016.

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

Not applicable.

4. Self-Regulatory Agency’s Statement on Burden on Competition

Not applicable.

5. Self-Regulatory Agency’s Statement on Comments on the Advance Notice Received from Members, Participants, or Others

The proposal addresses a risk that spans beyond “extreme but plausible.”

FICC has received feedback that the proposed rule change seeks to address a risk that is not reasonable given the current structure of the short-term tri-party repurchase market (“repo”) in U.S. Government securities. Commenters have explained that a committed liquidity tool such as CCLF is unnecessary because the repo market remained robust during periods of historical market stress and would continue to adequately perform during the next crisis. They have also noted that U.S. Treasury securities continue to be considered a “risk-free” instrument.

¹ GSD Rules, available at www.dtcc.com/legal/rules-and-procedures.aspx. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the GSD Rules

² As defined in the GSD Rules, the term “Netting Member” means a Member that is a Member of the Comparison System and the Netting System. Id.

While FICC believes that historical market behavior allows market participants to observe trends in the repo market, FICC also believes that the adoption of CCLF would better position FICC to protect itself and its Netting Members should the repurchase financing market materially contract in the future. Additionally, the proposed rule change would adhere to the Securities and Exchange Commission's (the "Commission") Rule 17Ad-22(e)(7)(i) which requires FICC to maintain sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.³

The proposal may impact behavior of smaller market participants.

FICC has also received feedback that the proposed rule change would create concentration risk by forcing smaller Netting Members to clear through large financial institutions or exit the business. Commenters have explained that the funding obligation under the CCLF proposal may significantly impact their available capital or operating profiles. As a result, the CCLF proposal may force certain Netting Members to (1) clear through other financial institutions or (2) terminate their membership with FICC and engage in bilateral arrangements.

FICC values each Netting Member and does not wish to force any Netting Member to clear through larger Netting Members or exit the business as a result of this proposed rule change. However, FICC believes that all Netting Members should endeavor to maintain suitable capital to meet FICC's enhanced participation requirements so that such Members do not have to clear through larger financial institutions or exit the business. Because each Netting Member is in the best position to monitor and manage the liquidity risks presented by its own activity, FICC believes that Netting Members should endeavor to manage their own liquidity. In an effort to enable each Netting Member to prepare for its liquidity funding obligation, FICC would provide a liquidity funding report to each Netting Member on a daily basis. This report would enable each Netting Member to prepare for its maximum funding obligations and alter its trading behavior should it desire to minimize the liquidity risk that it presents to FICC.

FICC is cognizant that Netting Members would need to incorporate their respective funding obligation into their internal liquidity plans and evaluate the appropriate course of action for their firm based on the economic impact that such Netting Members believe the funding obligation imposes. Given the added liquidity cost, as noted in the feedback, FICC would implement the proposed rule change 12 months after the later date of the Commission's no objection of this advance notice filing or its approval of FICC's related proposed rule change ("Rule Filing").⁴ During this 12-month period, FICC would periodically provide Netting

³ See 17 CFR 240.17Ad-22(e)(7)(i).

⁴ On March 1, 2017, FICC filed this advance notice as a proposed rule change (SR-FICC-2017-001) with the Commission pursuant to Section 19(b)(1) of the Securities Exchange Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4, 17 CFR 240.19b-4. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

Members with estimates of their Individual Total Amounts. The deferred implementation and the estimate Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact of their Individual Total Amount on their business profile and make any changes that such Netting Members deem necessary to lower their respective allocation.

As noted above, FICC understands that Netting Members must be able to plan for their funding obligations. At the same time, FICC also believes that it is critical that Netting Members understand the risks that their own activity presents to FICC, and be prepared to monitor their own activity and alter their behavior in order to minimize the liquidity risk they present to FICC.

6. Extension of Time Period for Commission Action

Not applicable.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

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

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission. FICC's Mortgage-Backed Securities Division ("MBSD") has its own rules-based CCLF, which is governed by the MBSD Clearing Rules (the "MBSD Rules").⁵

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

Not applicable.

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

Nature of the Proposed Change

FICC is proposing to amend the GSD Rules to include CCLF, which would be a rules-based committed liquidity facility designed to help ensure that FICC maintains sufficient liquid

⁵ MBSD Rule 17, MBSD Rules, available at www.dtcc.com/legal/rules-and-procedures.aspx.

financial resources to meet its cash settlement obligations in the event of a default of the Affiliated Family to which FICC has the largest exposure in extreme but plausible market conditions, as required by Commission Rule 17Ad-22(b)(3).⁶ This proposal is also designed to comply with newly adopted Commission Rule 17Ad-22(e)(7).⁷ As of April 11, 2017, Commission Rule 17Ad-22(e)(7) will require FICC to have policies and procedures reasonably designed to effectively monitor, measure, and manage liquidity risk.

A. Background

FICC occupies an important role in the securities settlement system by interposing itself as a central counterparty between Netting Members that are counterparties to transactions cleared by GSD (“GSD Transactions”), thereby reducing the risk faced by Netting Members.⁸ To manage the counterparty risk, FICC requires each Netting Member to deposit margin (referred to in the GSD Rules as “Required Fund Deposits”) into the Clearing Fund, which constitutes the financial resources that FICC could use to cover potential losses resulting from a Netting Member default. In addition to collecting and maintaining financial resources to cover default losses, FICC also maintains liquid resources to satisfy its settlement obligations in the event of a Netting Member default. Upon regulatory approval and completion of a 12-month phase-in period, as described below, CCLF would become an additional liquid resource available to FICC as part of its liquidity risk management framework for GSD.⁹

B. Overview of the Proposal

CCLF would only be invoked if FICC declared a “CCLF Event,” that is, if FICC has ceased to act for a Netting Member in accordance to GSD Rule 22A¹⁰ (referred to as a “default”) and subsequent to such default, FICC determines that it does not have the ability to obtain

⁶ See 17 CFR 240.17Ad-22(b)(3).

⁷ See 17 CFR 240.17Ad-22(e)(7).

⁸ FICC operates two divisions – GSD and MBSD. GSD provides trade comparison, netting, risk management, settlement and central counterparty services for the U.S. government securities market, while MBSD provides the same services for the U.S. mortgage-backed securities market. Because GSD and MBSD are separate divisions of FICC, each division maintains its own rules, members, margin from their respective members, Clearing Fund, and liquid resources.

⁹ In 2012, FICC amended the MBSD Rules to create a CCLF for managing MBSD’s liquidity risk. FICC is proposing to amend the GSD Rules to create a CCLF for managing GSD’s liquidity risk. Because this CCLF is for GSD only, the description of the proposal should be understood within the framework of the GSD Rules. See Securities Exchange Act Release No. 34-66550 (March 9, 2012), 77 FR 15155 (March 14, 2012) (SR-FICC-2008-01); MBSD Rule 17, MBSD Rules, supra note 5.

¹⁰ GSD Rules, supra note 1.

sufficient liquidity from GSD's Clearing Fund, by entering into repurchase transactions using securities in the Clearing Fund or securities that were destined to the defaulting Netting Member, or through uncommitted bank loans with its Clearing Agent Banks. Upon declaration of a CCLF Event, each Netting Member may be called upon to enter into repurchase transactions with FICC ("CCLF Transactions") up to a previously determined capped dollar amount, as described below.

1. Declaration of a CCLF Event

Following a default, FICC would first obtain liquidity through other available liquid resources, as described above. If and only if, FICC determines that these sources of liquidity are not able to generate sufficient cash to pay the non-defaulting Netting Members, FICC would declare a CCLF Event by issuing an Important Notice informing all Netting Members of FICC's need to make such a declaration and enter into CCLF Transactions, as necessary.¹¹

2. CCLF Transactions

During a CCLF Event, FICC would meet its liquidity need by initiating CCLF Transactions with non-defaulting Netting Members. Each CCLF Transaction would be governed by the terms of the September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement¹² which would be incorporated by reference into the GSD Rules as a master repurchase agreement between FICC as seller and each Netting Member as buyer with certain modifications as outlined in the GSD Rules (the "CCLF MRA").

Each Netting Member would be obligated to enter into CCLF Transactions up to a capped dollar amount. FICC would first identify the non-defaulting Netting Members that are obligated to deliver securities destined for the defaulting Netting Member ("Direct Affected Members") and FICC's cash payment obligation to such Direct Affected Member that FICC would need to finance through CCLF to cover the defaulting Netting Member's failure to deliver cash (the "Financing Amount"). FICC would notify each Direct Affected Member of its Financing Amount and whether such Direct Affected Member should deliver to FICC or suppress any securities that were destined for the defaulting Netting Member. FICC would then initiate CCLF Transactions with each Direct Affected Member for FICC's purchase of the

¹¹ Such Important Notice would also advise Netting Members to review their most recent liquidity funding reports to determine their respective maximum funding obligations.

¹² The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (the "SIFMA MRA") is available at <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>. The SIFMA MRA would be incorporated by reference into the GSD Rules without referenced annexes, other than in the case of any Netting Member that is a registered investment company, then Annex VII would be applicable to such Member. At the time of this filing, there are no registered investment companies that are also GSD Netting Members. If a registered investment company would become a GSD Netting Member, then Annex VII would be applicable to such Member.

securities (the “Financed Securities”) that were destined for the defaulting Netting Member.¹³ The aggregate purchase price of the CCLF Transactions with the Direct Affected Member would equal but never exceed its maximum funding obligation (the “Individual Total Amount”).¹⁴

If any Direct Affected Member’s Financing Amount exceeds its Individual Total Amount (the “Remaining Financing Amount”), FICC would advise (A) each other Direct Affected Member whose Financing Amount is less than its Individual Total Amount, and (B) each Netting Member that has not otherwise entered into CCLF Transactions with FICC (the “Indirect Affected Members,” and together with the Direct Affected Members, “Affected Members”) that FICC intends to initiate CCLF Transactions with them for the Remaining Financing Amount.

The order in which FICC would enter into CCLF Transactions for the Remaining Financing Amount would be based upon the Affected Members that have the most funding available within their Individual Total Amounts. No Affected Member would be obligated to enter into CCLF Transactions greater than its Individual Total Amount.

During a CCLF Event, FICC would engage its investment advisor subject to the approval of its Board and seek to minimize liquidation losses on the Financed Securities through hedging, strategic dispositions, or other investment transactions as determined by FICC under relevant market conditions. Once FICC completes the liquidation of the underlying securities by selling them to a new buyer, FICC would instruct the Affected Member to close the repo trade and deliver the Financed Securities to FICC to complete settlement on the contractual settlement date of the liquidating trade. FICC would endeavor to unwind the CCLF Transactions based on the order that it enters into the Liquidating Trades. Each CCLF Transaction would remain open until the earlier of (x) such time that FICC has liquidated the Affected Member’s Financed Securities, (y) such time that FICC has obtained liquidity through its available liquid resources or (z) 30 or 60 calendar days after entry into the CCLF Transaction for U.S. government bonds and mortgage-backed securities, respectively.

The original GSD Transactions, which FICC is obligated to settle, are independent from the CCLF Transactions. The proposed rule change would clarify that, under the original GSD Transaction, FICC’s obligation to pay cash to a Direct Affected Member, and the Direct Affected Member’s obligation to deliver securities, would be deemed satisfied by entry into CCLF Transactions, and that such settlement would be final.

¹³ It should be noted that FICC would have the authority to initiate CCLF Transactions in respect of any securities that are in the Direct Affected Member’s portfolio which are bound to the defaulting Netting Member.

¹⁴ As described in Section C herein, a Netting Member’s Individual Total Amount represents such Member’s maximum liquidity funding obligation. The Individual Total Amount would be based on a Netting Member’s observed peak historical liquidity need.

C. CCLF Sizing and Allocation

As noted above, FICC would only enter into CCLF Transactions with a Netting Member in an amount that is up to such Netting Member's maximum funding obligation. This amount would be based on each Netting Member's observed peak historical liquidity need. Initially, FICC would calculate the Netting Member's peak historical liquidity need based on a six-month look-back period.

FICC's liquidity need during a CCLF Event would be determined by the cash settlement obligations presented by the default of a Netting Member and an Affiliated Family. FICC would include an additional amount (i.e., a buffer) to account for changes in Netting Members' cash settlement obligations that may not be observed during the six-month look-back period during which CCLF would be sized. The buffer would also account for the possibility that the defaulting Netting Member is the largest CCLF contributor. FICC would allocate its observed liquidity need among all Netting Members based on their historical settlement activity. Netting Members that present the highest cash settlement obligations would be required to maintain higher funding obligations.

Listed below are the steps that FICC would take to size and allocate each Netting Member's CCLF requirement.

Step 1: CCLF Sizing

Historical Cover 1 Liquidity Requirement

FICC's historical liquidity need for the six-month look-back period would be an amount equal to the dollar amount of the largest sum of an Affiliated Family's obligation to receive GSD eligible securities plus the net dollar amount of its Funds-Only Settlement Amount¹⁵ (collectively, the "Historical Cover 1 Liquidity Requirement"). FICC believes that it is appropriate to calculate the Historical Cover 1 Liquidity Requirement in this manner because the default of the largest Affiliated Family would generate the highest liquidity need for FICC.

Liquidity Buffer

The Historical Cover 1 Liquidity Requirement would be based on the largest Affiliated Family's activity during a six-month look-back period. However, FICC is cognizant that the Historical Cover 1 Liquidity Requirement would not account for changes in a Netting Member's

¹⁵ The Funds-Only Settlement Amount reflects the amount that FICC collects and passes to the contra-side once FICC marks the securities in a Netting Member's portfolio to the current market value. This amount is the difference between the contract value vs. the current market value of a Netting Member's GSD portfolio. FICC would consider this amount when calculating the Historical Cover 1 Liquidity Requirement because in the event that an Affiliated Family defaults, the Funds-Only Settlement Amount would also reflect the cash obligation to non-defaulting Netting Members.

current trading behavior, which may result in a liquidity need that is greater than the Historical Cover 1 Liquidity Requirement. As a result, FICC proposes to add an additional amount to the Historical Cover 1 Liquidity Requirement as a buffer (the “Liquidity Buffer”) to arrive at FICC’s anticipated total liquidity need for GSD during a CCLF Event.

Under the proposed rule change, the Liquidity Buffer would be 20% to 30% of the Historical Cover 1 Liquidity Requirement, subject to a minimum amount of \$15 billion. FICC believes that 20% to 30% of the Historical Cover 1 Liquidity Requirement is appropriate based on its analysis of the calculated coefficient of variation¹⁶ with respect to Affiliated Families’ liquidity needs throughout 2015 and 2016.¹⁷ FICC also believes that the \$15 billion minimum dollar amount is necessary to cover changes in a Netting Member’s trading activity that could exceed the amount that is implied by the calculated coefficient of variation.

FICC would have the discretion to adjust the Liquidity Buffer based on its analysis of the stability of the Historical Cover 1 Liquidity Requirement over the look-back periods of 3-, 6-, 12-, and 24-months. Should FICC observe changes in the stability of the Historical Cover 1 Liquidity Requirements, FICC would have the discretion to increase the six-month look-back period to help ensure that the calculation of its liquidity need appropriately accounts for variability in the Historical Cover 1 Liquidity Requirement. This would help FICC to ensure that its liquidity resources are sufficient under a wide range of potential market scenarios that may lead to a change in Netting Member behavior. FICC would also analyze the trading behavior of Netting Members that present larger liquidity needs than the majority of the Netting Members (as described below).

Aggregate Total Amount

FICC’s anticipated total liquidity need during a CCLF Event (i.e., the sum of the Historical Cover 1 Liquidity Requirement plus the Liquidity Buffer) would be referred to as the “Aggregate Total Amount.”

¹⁶ The “coefficient of variation” is a statistical measurement that is calculated as the standard deviation divided by the mean. It is a typical approach used to compare variability across different data sets.

¹⁷ In connection with this proposed rule change, the coefficient of variation would be used to set the Liquidity Buffer by quantifying the variance of each Affiliated Family’s daily liquidity need. During this period, FICC observed that the coefficient of variation ranged from an average of 15% - 19% for Affiliated Families with liquidity needs above \$50 billion, and an average of 18% - 21% for Affiliated Families with liquidity needs above \$35 billion. Based on the calculated coefficient of variation, FICC believes that an amount equaling 20% to 30% of the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15 billion would be an appropriate Liquidity Buffer.

Step 2: FICC's Allocation of the Aggregate Total Amount Among Netting Members

(A) FICC's Allocation of the Aggregate Regular Amount Among Netting Members

After FICC determines the Aggregate Total Amount, which initially would be set to the Historical Cover 1 Liquidity Requirement plus the greater of 20% of the Historical Cover 1 Liquidity Requirement or \$15 billion. FICC would allocate the Aggregate Total Amount among Netting Members in order to arrive at each Netting Member's Individual Total Amount. FICC would take a two-tiered approach in its allocation of the Aggregate Total Amount. First, FICC would determine the portion of the Aggregate Total Amount that should be allocated among all Netting Members ("Aggregate Regular Amount"). Then, FICC would allocate the remainder of the Aggregate Total Amount (the "Aggregate Supplemental Amount") among Netting Members that incur liquidity needs above the Aggregate Regular Amount within the six-month look-back period. FICC believes that this two-tiered approach reflects FICC's consideration of fairness, transparency and the burdens of the funding obligations on each Netting Member's management of its own liquidity.

Under the proposed rule change, FICC would set the Aggregate Regular Amount at \$15 billion. FICC believes that this amount is appropriate because FICC observed that from 2015 to 2016, the average Netting Member's liquidity need was approximately \$7 billion, with a majority of Netting Members' liquidity needs not exceeding an amount of \$15 billion.¹⁸ Based on that analysis, FICC believes that the Aggregate Regular Amount should capture the liquidity needs of a majority of the Netting Members. Thus, FICC believes that setting the Aggregate Regular Amount at \$15 billion is appropriate.

Under the proposal, the Aggregate Regular Amount would be allocated among all Netting Members, but Netting Members with larger Receive Obligations would be required to contribute a larger amount. FICC believes that this approach is appropriate because a defaulting Netting Member's Receive Obligations are the primary cash settlement obligations that FICC would have to satisfy as a result of the default of a Netting Member or an Affiliated Family. However, FICC also believes that some portion of the Aggregate Regular Amount should be allocated based on Netting Members' aggregate Deliver Obligations since FICC guarantees both sides of a GSD Transaction and all Netting Members benefit from FICC's risk mitigation. As a result, FICC is proposing to allocate the Aggregate Regular Amount based on a scaling factor. Given that the Aggregate Regular Amount is sized at \$15 billion and covers approximately 80% of Netting Members' observed liquidity needs, FICC proposes to set the scaling factor in the range of 65% - 85% to the value of Netting Members' Receive Obligations and set the scaling factor in the range of 15% - 35% to the value of Netting Members' Deliver Obligations.

¹⁸ From 2015 to 2016, 59% of all Netting Members presented average liquidity needs between \$0 to \$5 billion, 78% of all Netting Members presented average liquidity needs between \$0 and \$10 billion, and 85% of all Netting Members presented average liquidity needs between \$0 and \$15 billion.

Initially, FICC would assign a 20% weighting percentage to a Netting Member's aggregate Deliver Obligations (the "Deliver Scaling Factor") and the remaining percentage difference, 80% in this case, to a Netting Member's aggregate Receive Obligations ("Receive Scaling Factor"). FICC would have the discretion to adjust these scaling factors based on a quarterly analysis that would, in part, assess Netting Members' observed liquidity needs that are at or below \$15 billion. This assessment would ensure that the Aggregate Regular Amount would be appropriately allocated across all Netting Members.

FICC would calculate a Netting Member's portion of the Aggregate Regular Amount (its "Individual Regular Amount") by adding (a) and (b) below.

- (a) FICC would (x) divide the absolute value of a Netting Member's peak Receive Obligations by the absolute value of the sum of all Netting Members' peak Receive Obligations, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting value by the Receive Scaling Factor (which would initially be 80%).
- (b) FICC would (x) divide the absolute value of a Netting Member's peak Deliver Obligations by the absolute value of the sum of all Netting Members' peak Deliver Obligations, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting value by the Deliver Scaling Factor (which would initially be 20%).

(B) FICC's Allocation of the Aggregate Supplemental Amount Among Netting Members

The remainder of the Aggregate Total Amount (i.e., the Aggregate Supplemental Amount) would be allocated among Netting Members that present liquidity needs in excess of the Aggregate Regular Amount.

FICC would allocate the Aggregate Supplemental Amount across liquidity tiers ("Liquidity Tiers"). The allocation to each Liquidity Tier would be based on how many times (i.e., "observations") the Netting Members' daily liquidity needs have reached the respective Liquidity Tier. This assignment would result in a larger proportion of the Aggregate Supplemental Amount being borne by those Netting Members who present the highest liquidity needs.

FICC would set the Liquidity Tiers in \$5 billion increments. FICC believes that this increment would appropriately distinguish Netting Members that present the highest liquidity needs on a frequent basis and allocate more of the Individual Supplemental Amount to Netting Members in the top Liquidity Tiers. Increments set to an amount greater than \$5 billion would provide FICC with less ability to allocate the Aggregate Supplemental Amount to Netting Members with the highest liquidity needs.¹⁹

FICC would have the discretion to reduce any one or all of the Liquidity Tiers to \$2.5 billion if FICC determines that the majority of the Netting Members' liquidity needs in such Liquidity Tiers are above or below the midpoint of the Liquidity Tier.

Once the Liquidity Tiers are set, FICC would first allocate the Aggregate Supplemental Amount to each Liquidity Tier in proportion to the total number of observations across all Liquidity Tiers. Next, FICC would allocate the Individual Supplemental Amount to each Netting Member in accordance with each Netting Member's liquidity needs within each Liquidity Tier. This allocation would be based on such Netting Member's number of observations within each Liquidity Tier in proportion to the aggregate of all Netting Member's observations within a particular Liquidity Tier. The sum of a Netting Member's allocation across all Liquidity Tiers would be such Netting Member's Individual Supplemental Amount.

FICC would sum each Netting Member's Individual Regular Amount and its Individual Supplemental Amount (if any) to arrive at such Netting Member's Individual Total Amount.

¹⁹ For example, assume that there are two Netting Members and each Netting Member has 125 liquidity observations each across a six-month period. Member A has 125 observations within the \$15 - \$20 billion Liquidity Tier and Member B has 125 observations equally dispersed between the \$15 - \$20 billion and \$20 - \$25 billion Liquidity Tiers. Under the proposed rule change, Member B would have a higher Individual Supplemental Amount than Member A, because Member B would be allocated a pro-rata share of the Aggregate Supplemental Amount for the \$20 - \$25 billion Liquidity Tier.

CCLF Parameters as of January 2017

Table 1 includes the actual values FICC would set for each step described above, as of January 1, 2017.²⁰ These values would be reset every six months.

Table 1:

\$ billion

CCLF Sizing			
Components of the Aggregate Total Amount			
Step	Component	Size	
1	Historical Cover 1 Liquidity Requirement	\$58.84	
	Liquidity Buffer (20% of the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15B)	\$15.00	
2	Aggregate Total Amount	\$73.84	
2a	Aggregate Regular Amount	\$15.00	
2b	Receive Scaling Factor (80% of the Aggregate Regular Amount)		\$12.00
	Deliver Scaling Factor (20% of the Aggregate Regular Amount)		\$3.00
2c	Aggregate Supplemental Amount	\$58.84	
	Liquidity Tier 1 (\$15 - \$20B)		\$21.04
	Liquidity Tier 2 (\$20 - \$25B)		\$14.29
	Liquidity Tier 3 (\$25 - \$30B)		\$10.32
	Liquidity Tier 4 (\$30 - \$35B)		\$6.14
	Liquidity Tier 5 (\$35 - \$40B)		\$3.32
	Liquidity Tier 6 (\$40 - \$45B)		\$1.86
	Liquidity Tier 7 (\$45 - \$50B)		\$1.10
	Liquidity Tier 8 (\$50 - \$55B)		\$0.62
	Liquidity Tier 9 (\$55 - \$60B)		\$0.14

²⁰ As noted above, FICC would use a six-month look-back period. On January 1, 2017, the look-back period would be July 1, 2016 through December 31, 2016.

The example in Table 2 reflects the allocation of the CCLF size for a hypothetical Netting Member. This example is based on a six-month look-back period of July 1, 2016 through December 31, 2016.

Table 2:

\$ billion

CCLF Sizing: Components of the Aggregate Total Amount				Allocation of Aggregate Total Amount Hypothetical Member A	
Step	Component	Size		Member A's Percentage	Member A's Allocation of the Component
			(X)	(Y)	(Z) = (X) * (Y)
2a	Aggregate Regular Amount	\$15.00			
2b	Receive Scaling Factor (80% of the Aggregate Regular Amount)		\$12.00	5.0%	\$0.60
	Deliver Scaling Factor (20% of the Aggregate Regular Amount)		\$3.00	2.5%	\$0.08
				Member A's Individual Regular Amount	\$0.68
2c	Aggregate Supplemental Amount	\$58.84			
	Liquidity Tier 1 (\$15-\$20B)		\$21.04	8.5%	\$1.79
	Liquidity Tier 2 (\$20-\$25B)		\$14.29	13.0%	\$1.86
	Liquidity Tier 3 (\$25-\$30B)		\$10.32	16.0%	\$1.65
	Liquidity Tier 4 (\$30-\$35B)		\$6.14	20.0%	\$1.23
	Liquidity Tier 5 (\$35-\$40B)		\$3.32	35.0%	\$1.16
	Liquidity Tier 6 (\$40-\$45B)		\$1.86	52.0%	\$0.97
	Liquidity Tier 7 (\$45-\$50B)		\$1.10	65.0%	\$0.72
	Liquidity Tier 8 (\$50-\$55B)		\$0.62	80.0%	\$0.50
	Liquidity Tier 9 (\$55-\$60B)		\$0.14	100.0%	\$0.14
				Member A's Individual Supplemental Amount	\$10.01
				Member A's Individual Total Amount	\$10.68

D. FICC's Ongoing Assessment of the Sufficiency of CCLF

As described above, the Aggregate Total Amount and each Netting Member's Individual Total Amount (i.e., each Netting Member's allocation of the Aggregate Total Amount) would initially be calculated using a six-month look-back period that FICC would reset every six months ("reset period"). On a quarterly basis, FICC's Liquidity Product Risk Unit²¹ would assess the following parameters that it uses to calculate the Aggregate Total Amount and may recommend to the Board's Risk Committee changes to such parameters:

- peak daily liquidity need for the largest Affiliated Family;
- the Liquidity Buffer;
- the Aggregate Regular Amount;
- the Aggregate Supplemental Amount;
- the Deliver Scaling Factor and the Receive Scaling Factor used to allocate the Aggregate Regular Amount;
- the increments for the Liquidity Tiers; and
- the length of the look-back period and the reset period for the Aggregate Total Amount.

In the event that any changes to the above-referenced parameters result in an increase in a Netting Member's Individual Total Amount, such increase would be effective as of the next reset.

Additionally, on a daily basis, FICC would examine the Aggregate Total Amount to ensure that such amount is sufficient to satisfy FICC's liquidity needs. If FICC determines that the Aggregate Total Amount is insufficient to satisfy its liquidity needs, FICC may modify the length of the look-back or reset periods or otherwise increase the Aggregate Total Amount.

Any increase in the Aggregate Total Amount resulting from the Liquidity Product Risk Unit's quarterly assessments or FICC's daily monitoring would be subject to the approvals, as set forth in Table 3 below.

²¹ FICC's Liquidity Product Risk Unit is responsible for assessing the liquidity needs of GSD and MBSD.

Table 3:

Increase in Aggregate Total Amount	Required Approval Level
≤ \$500 mil	Managing Director, Financial Risk Management
\$501 mil to \$1.0 B	Group Chief Risk Officer
\$1.1 B to \$1.9 B	Management Risk Committee, or designee
≥ \$2.0 B	Chair of the Board Risk Committee, or designee

If FICC increases a Netting Member's Individual Total Amount as a result of its daily monitoring, such increase will not be effective until ten (10) Business Days after FICC provides an Important Notice regarding the increase.

If FICC determines that its liquidity needs may be satisfied with a lower Aggregate Total Amount, a reduction in the Aggregate Total Amount would be reflected at the conclusion of the reset period.

E. Implementation of the Proposed Rule Change and Required Attestation from Each Netting Member

The CCLF proposal would become operative 12 months after the later date of the Commission's no objection of this advance notice and its approval of the Rule Filing. During this 12-month period, FICC would periodically provide each Netting Member with estimated Individual Total Amounts. The delayed implementation and the estimated Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact that the CCLF proposal would have on their business profile.

Prior to the effective date, FICC would add a legend to the GSD Rules to state that the specified changes to the GSD Rules are approved but not yet operative and to provide the date such approved changes would become operative. The legend would also include the file numbers of this advance notice and the approved Rule Filing and would state that once operative, the legend would automatically be removed from the GSD Rules.

As of the implementation date and annually thereafter, FICC would require that each Netting Member attest that its Individual Total Amount has been incorporated into its liquidity plans.²² This required attestation would be from authorized officers of the Netting Member or

²² The attestation would not refer to the actual dollar amount that has been allocated as the Individual Total Amount. Each Netting Member's Individual Total Amount would be made available to such Member via GSD's access controlled portal website.

otherwise in form and substance satisfactory to FICC making the following certification: (1) such officers have read and understand the GSD Rules, including the CCLF rules, (2) the Netting Member's Individual Total Amount has been incorporated into the Netting Member's liquidity planning, (3) the Netting Member acknowledges and agrees that its Individual Total Amount may be changed at the conclusion of any reset period or otherwise upon ten (10) Business Days' Notice, (4) the Netting Member will incorporate any changes to its Individual Total Amount into its liquidity planning, and (5) the Netting Member will continually reassess its liquidity plans and related operational plans, including in the event of any changes to such Netting Member's Individual Total Amount, to ensure such Netting Member's ability to meet its Individual Total Amount. FICC may require any Netting Member to provide FICC with a new certification in the foregoing form at any time, including upon a change to a Netting Member's Individual Total Amount or in the event that a Netting Member undergoes a change in its corporate structure.

In addition to the above, on a quarterly basis, FICC's Counterparty Credit Risk Management group would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount. This due diligence would include a review of all information that the Netting Member has provided FICC in connection with its ongoing reporting obligations pursuant to the GSD Rules and a review of other publicly available information. Additionally, FICC would test its operational procedures for invoking a CCLF Event. Pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests. If a Netting Member fails to participate in such testing when required by FICC, FICC may take disciplinary measures as set forth in GSD Rule 3 Section 7.

F. FICC's Commitment to Enhanced Transparency

FICC understands that each Netting Member must be able to evaluate the risks of its membership and plan for its funding obligations. Additionally, FICC believes that it is critical that each Netting Member understands the risks that its activity presents to FICC, and that each Netting Member should be prepared to monitor its activity and alter its behavior in order to minimize the liquidity risk that it presents to FICC. Accordingly, on each Business Day, FICC would make a liquidity funding report available to each Netting Member that would include the following:

1. the Netting Member's Individual Total Amount, Individual Regular Amount and, if applicable, its Individual Supplemental Amount;
2. FICC's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and
3. FICC's regulatory liquidity requirements as of the prior Business Day.

The liquidity funding report would be provided for informational purposes only. Pursuant to the proposed rule change, upon a CCLF Event, each Netting Member would be required to enter into CCLF Transactions having an aggregate purchase price up to its Individual Total Amount as calculated by FICC.

G. Proposed Changes to the GSD Rules

GSD Rule 1 – Definitions

In order to help effectuate the proposed changes, FICC proposes to add the following defined terms to the GSD Rule 1: Affected Member; Aggregate Regular Amount; Aggregate Supplemental Amount; Aggregate Total Amount; CCLF Event; CCLF MRA; CCLF MRA Termination Date; CCLF Transaction; Deliver Scaling Factor; Direct Affected Member; Financed Securities; Financing Amount; Historical Cover 1 Liquidity Requirement; Indirect Affected Member; Individual Regular Amount; Individual Supplemental Amount; Individual Total Amount; Liquidating Trade; Liquidity Buffer; Liquidity Need; Liquidity Percentage; Liquidity Tier; Look-Back Period; Observation; Receive Scaling Factor; Relative Inter-Tier Frequency; Relative Intra-Tier Frequency; Relevant Securities; Remaining Financing Amount; Required Attestation; and SIFMA MRA.

Rule 22A – Procedures for When the Corporation Ceases to Act

FICC is proposing to amend Rule 22A to include a new section in this Rule. This new section would be entitled “Section 2a.” Proposed Section 2a would incorporate the CCLF MRA into the GSD Rules subject to the amendments proposed therein. In addition, the proposed section would include (1) the notification process that would occur once FICC invokes a CCLF Event; (2) the CCLF Transactions that FICC would enter into once it invokes a CCLF Event; (3) disclosure of each relevant CCLF sizing component that FICC would assess; (4) the calculation that FICC would use to determine each Netting Member’s Individual Regular Amount and Individual Supplemental Amount, if applicable; and (5) a description of the officers’ certificate that each Netting Member would be required to provide certifying that, among other things, its Individual Total Amount has been incorporated into its liquidity plans.

Anticipated Effect on and Management of Risks

FICC believes that the proposed change to amend the GSD Rules to include the CCLF, a committed liquidity resource in the event of a Netting Member default, would provide FICC with sufficient committed liquid financial resources to meet the cash settlement obligations of a defaulting Netting Member.

FICC’s proposed change comprises a rules-based committed liquidity facility that is designed to help ensure that FICC maintains sufficient liquid financial resources to meet its cash settlement obligations of a Netting Member. This change would affect FICC’s management of risk because it would provide additional liquidity resources if FICC could not to obtain sufficient liquidity from GSD’s Clearing Fund, by entering into repurchase transactions using securities in the Clearing Fund or securities that were destined to the defaulting Netting Member, or through uncommitted bank loans with its Clearing Agent Banks. Thus, the proposed change would enhance FICC’s risk management capabilities because it provide committed liquidity resources from its Netting Members based on each Netting Member’s observed peak historical liquidity need.

FICC has also managed the effect of the overall proposal by conducting extensive outreach with Netting Members regarding the proposed changes, educating such Members on

reasons for these proposed changes, and explaining the importance of this proposal to FICC's overall risk management functions. FICC has invited all Netting Members to customer forums in an effort to provide transparency regarding the changes and the expected impact across the membership, and has provided each Netting Member with an individual impact study. In addition, FICC's Financial Risk Management team and Relationship Management team have been available to answer all questions. Such communication gives Netting Members the opportunity to manage any impact to their own risk profile.

In an effort to help Netting Members further manage the effect of this proposal, FICC would delay the implementation of the CCLF proposal as described above. During the 12-month implementation period, FICC would periodically provide each Netting Member with estimated Individual Total Amounts. The delayed implementation and the estimated Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact that the CCLF proposal would have on their business profile.

Consistency with the Clearing Supervision Act

The proposed changes, which have been described in detail above, would be consistent with Section 805(b) of the Clearing Supervision Act.²³ The objectives and principles of Section 805(b) include, among other things, the promotion of robust risk management.²⁴ FICC believes the proposed changes would promote this objective because the CCLF proposal would give FICC access to additional liquidity in the event that its other liquidity resources are insufficient upon the default of a Netting Member. Thus the proposed change would help ensure that FICC has sufficient funds to meet its cash settlement obligations to its non-defaulting Netting Members. As a result, FICC believes that the proposed changes are also consistent with Commission Rules 17Ad-22(b)(3), (d)(9) and (e)(7).²⁵

Commission Rule 17Ad-22(b)(3) requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.²⁶ As described above, FICC would size CCLF based on the peak liquidity need that would be generated by the default of its largest participant family (its Historical Cover 1 Liquidity Requirement), plus an additional Liquidity Buffer to account for unexpected Netting Member trading behavior that could increase FICC's Historical Cover 1 Liquidity Requirement or a situation in which its largest Netting Member defaults and cannot contribute to the CCLF. Thus, FICC believes that the proposal would be consistent with Commission Rule 17Ad-22(b)(3) because it is designed to provide FICC with sufficient financial

²³ See 12 U.S.C. 5464(b).

²⁴ Id.

²⁵ See 17 CFR 240.17Ad-22(b)(3), (b)(9) and (e)(7).

²⁶ See 17 CFR 240.17Ad-22(b)(3).

resources to withstand a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.

Commission Rule 17Ad-22(d)(9) requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures to provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services.²⁷ As described above, on each Business Day, FICC would make a liquidity funding report available to each Netting Member. This report would include (1) the Netting Member's Individual Total Amount, Individual Regular Amount and, to the extent applicable, its Individual Supplemental Amount; (2) FICC's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and (3) FICC's regulatory liquidity requirements as of the prior Business Day. This report would enable each Netting Member to prepare for its maximum funding obligations and alter its trading behavior should it desire to minimize the liquidity risk it presents to FICC. FICC believes that the proposed rule change would be consistent with Commission Rule 17Ad-22(d)(9) because the liquidity funding report would provide Netting Members with sufficient information to identify and evaluate the risks and costs associated with using the services that FICC provides through GSD.

Commission Rule 17Ad-22(e)(7) which was recently adopted by the Commission, will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage liquidity risk that arises in or is borne by FICC, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.²⁸

Commission Rule 17Ad-22(e)(7)(i) will require FICC to maintain sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.²⁹ FICC believes that the proposal would be consistent with Commission Rule 17Ad-22(e)(7)(i) because CCLF would be sized based on the peak liquidity need that would be generated by the default of its largest participant family (its Historical Cover 1 Liquidity Requirement), plus an additional Liquidity Buffer, which would help FICC maintain sufficient liquid resources to settle the cash obligations of an Affiliated Family that would generate the largest aggregate payment obligation for FICC in extreme but plausible market conditions.

Commission Rule 17Ad-22(e)(7)(ii) will require FICC to hold qualifying liquid resources sufficient to satisfy payment obligations owed to clearing members.³⁰ FICC believes that the

²⁷ See 17 CFR 240.17Ad-22(d)(9).

²⁸ See 17 CFR 240.17Ad-22(e)(7).

²⁹ See 17 CFR 240.17Ad-22(e)(7)(i).

³⁰ See 17 CFR 240.17Ad-22(e)(7)(ii).

proposed rule change would be consistent with Commission Rule 17Ad-22(e)(7)(ii) because the CCLF MRA would be a committed arrangement and all CCLF Transactions entered into pursuant the CCLF MRA would be readily available and the related assets would be convertible into cash in order to settle cash obligations owed to non-defaulting Netting Members.

Commission Rule 17Ad-22(e)(7)(iv) will require FICC to undertake due diligence that confirms that it has a reasonable basis to believe each of its liquidity providers has: (a) sufficient information to understand and manage the liquidity provider's liquidity risks; and (b) the capacity to perform as required under its commitments to provide liquidity.³¹ As described above, on a quarterly basis, FICC would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount. This due diligence would include a review of all information that the Netting Member has provided FICC in connection with its ongoing reporting requirements pursuant to the GSD Rules as well as a review of other publicly available information. As a result, FICC believes that its due diligence of Netting Members would be consistent with Commission Rule 17Ad-22(e)(7)(iv).

Additionally, Commission Rule 17Ad-22(e)(7)(v) will require FICC to maintain and test with each liquidity provider, to the extent practicable, FICC's procedures and operational capacity for accessing its relevant liquid resources.³² As described above, FICC would test its operational procedures for invoking a CCLF Event and pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests. As a result, FICC believes that its testing of its capability to invoke a CCLF MRA would be consistent with Commission Rule 17Ad-22(e)(7)(v).

11. Exhibits

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of advance notice for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the GSD Rules.

³¹ See 17 CFR 240.17Ad-22(e)(7)(iv).

³² See 17 CFR 240.17Ad-22(e)(7)(v).

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-FICC-2017-802)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Advance Notice to Implement the Capped Contingency Liquidity Facility® in the Government Securities Division Rulebook

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)¹ and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 (“Exchange Act”),² notice is hereby given that on March 1, 2017, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the advance notice SR FICC-2017-802 (“Advance Notice”) as described in Items I, II and III below, which Items have been prepared by the clearing agency.³ The Commission is publishing this notice to solicit comments on the Advance Notice from interested persons.

¹ 12 U.S.C. 5465(e)(1).

² 17 CFR 240.19b-4(n)(1)(i).

³ On March 1, 2017, FICC filed this Advance Notice as a proposed rule change (SR-FICC-2017-002) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4, 17 CFR 240.19b-4. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

This Advance Notice consists of amendments to FICC's Government Securities Division ("GSD") Rulebook (the "GSD Rules")⁴ in order to include a committed liquidity resource (referred to as the "Capped Contingency Liquidity Facility®" ("CCLF")). This facility would provide FICC with additional liquid financial resources to meet its cash settlement obligations in the event of a default of the largest family of affiliated Netting Members⁵ (an "Affiliated Family") of GSD, as described in greater detail below.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the Advance Notice and discussed any comments it received on the Advance Notice. 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 and B below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants, or Others

The proposal addresses a risk that spans beyond "extreme but plausible."

FICC has received feedback that the proposed rule change seeks to address a risk that is not reasonable given the current structure of the short-term tri-party repurchase market ("repo") in U.S. Government securities. Commenters have explained that a

⁴ GSD Rules, available at www.dtcc.com/legal/rules-and-procedures.aspx. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the GSD Rules.

⁵ As defined in the GSD Rules, the term "Netting Member" means a Member that is a Member of the Comparison System and the Netting System. Id.

committed liquidity tool such as CCLF is unnecessary because the repo market remained robust during periods of historical market stress and would continue to adequately perform during the next crisis. They have also noted that U.S. Treasury securities continue to be considered a “risk-free” instrument.

While FICC believes that historical market behavior allows market participants to observe trends in the repo market, FICC also believes that the adoption of CCLF would better position FICC to protect itself and its Netting Members should the repurchase financing market materially contract in the future. Additionally, the proposed rule change would adhere to the Commission’s Rule 17Ad-22(e)(7)(i) which requires FICC to maintain sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.⁶

The proposal may impact behavior of smaller market participants.

FICC has also received feedback that the proposed rule change would create concentration risk by forcing smaller Netting Members to clear through large financial institutions or exit the business. Commenters have explained that the funding obligation under the CCLF proposal may significantly impact their available capital or operating profiles. As a result, the CCLF proposal may force certain Netting Members to (1) clear through other financial institutions or (2) terminate their membership with FICC and engage in bilateral arrangements.

⁶ See 17 CFR 240.17Ad-22(e)(7)(i).

FICC values each Netting Member and does not wish to force any Netting Member to clear through larger Netting Members or exit the business as a result of this proposed rule change. However, FICC believes that all Netting Members should endeavor to maintain suitable capital to meet FICC's enhanced participation requirements so that such Members do not have to clear through larger financial institutions or exit the business. Because each Netting Member is in the best position to monitor and manage the liquidity risks presented by its own activity, FICC believes that Netting Members should endeavor to manage their own liquidity. In an effort to enable each Netting Member to prepare for its liquidity funding obligation, FICC would provide a liquidity funding report to each Netting Member on a daily basis. This report would enable each Netting Member to prepare for its maximum funding obligations and alter its trading behavior should it desire to minimize the liquidity risk that it presents to FICC.

FICC is cognizant that Netting Members would need to incorporate their respective funding obligation into their internal liquidity plans and evaluate the appropriate course of action for their firm based on the economic impact that such Netting Members believe the funding obligation imposes. Given the added liquidity cost, as noted in the feedback, FICC would implement the proposed rule change 12 months after the later date of the Commission's no objection of this Advance Notice filing or its approval of FICC's related proposed rule change ("Rule Filing"). During this 12-month period, FICC would periodically provide Netting Members with estimates of their Individual Total Amounts. The deferred implementation and the estimate Individual Total Amounts are designed to give Netting Members the opportunity to assess the

impact of their Individual Total Amount on their business profile and make any changes that such Netting Members deem necessary to lower their respective allocation.

As noted above, FICC understands that Netting Members must be able to plan for their funding obligations. At the same time, FICC also believes that it is critical that Netting Members understand the risks that their own activity presents to FICC, and be prepared to monitor their own activity and alter their behavior in order to minimize the liquidity risk they present to FICC.

(B) Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Nature of the Proposed Change

FICC is proposing to amend the GSD Rules to include CCLF, which would be a rules-based committed liquidity facility designed to help ensure that FICC maintains sufficient liquid financial resources to meet its cash settlement obligations in the event of a default of the Affiliated Family to which FICC has the largest exposure in extreme but plausible market conditions, as required by Commission Rule 17Ad-22(b)(3).⁷ This proposal is also designed to comply with newly adopted Commission Rule 17Ad-22(e)(7).⁸ As of April 11, 2017, Commission Rule 17Ad-22(e)(7) will require FICC to have policies and procedures reasonably designed to effectively monitor, measure, and manage liquidity risk.

A. *Background*

FICC occupies an important role in the securities settlement system by interposing itself as a central counterparty between Netting Members that are

⁷ See 17 CFR 240.17Ad-22(b)(3).

⁸ See 17 CFR 240.17Ad-22(e)(7).

counterparties to transactions cleared by GSD (“GSD Transactions”), thereby reducing the risk faced by Netting Members.⁹ To manage the counterparty risk, FICC requires each Netting Member to deposit margin (referred to in the GSD Rules as “Required Fund Deposits”) into the Clearing Fund, which constitutes the financial resources that FICC could use to cover potential losses resulting from a Netting Member default. In addition to collecting and maintaining financial resources to cover default losses, FICC also maintains liquid resources to satisfy its settlement obligations in the event of a Netting Member default. Upon regulatory approval and completion of a 12-month phase-in period, as described below, CCLF would become an additional liquid resource available to FICC as part of its liquidity risk management framework for GSD.¹⁰

B. Overview of the Proposal

CCLF would only be invoked if FICC declared a “CCLF Event,” that is, if FICC has ceased to act for a Netting Member in accordance to GSD Rule 22A¹¹ (referred to as a “default”) and subsequent to such default, FICC determines that it does not have the

⁹ FICC operates two divisions – GSD and MBSD. GSD provides trade comparison, netting, risk management, settlement and central counterparty services for the U.S. government securities market, while MBSD provides the same services for the U.S. mortgage-backed securities market. Because GSD and MBSD are separate divisions of FICC, each division maintains its own rules, members, margin from their respective members, Clearing Fund, and liquid resources.

¹⁰ In 2012, FICC amended the MBSD Rules to create a CCLF for managing MBSD’s liquidity risk. FICC is proposing to amend the GSD Rules to create a CCLF for managing GSD’s liquidity risk. Because this CCLF is for GSD only, the description of the proposal should be understood within the framework of the GSD Rules. See Securities Exchange Act Release No. 34-66550 (March 9, 2012), 77 FR 15155 (March 14, 2012) (SR-FICC-2008-01); MBSD Rule 17, MBSD Rules, available at www.dtcc.com/legal/rules-and-procedures.aspx.

¹¹ GSD Rules, supra note 4.

ability to obtain sufficient liquidity from GSD's Clearing Fund, by entering into repurchase transactions using securities in the Clearing Fund or securities that were destined to the defaulting Netting Member, or through uncommitted bank loans with its Clearing Agent Banks. Upon declaration of a CCLF Event, each Netting Member may be called upon to enter into repurchase transactions with FICC ("CCLF Transactions") up to a previously determined capped dollar amount, as described below.

1. Declaration of a CCLF Event

Following a default, FICC would first obtain liquidity through other available liquid resources, as described above. If and only if, FICC determines that these sources of liquidity are not able to generate sufficient cash to pay the non-defaulting Netting Members, FICC would declare a CCLF Event by issuing an Important Notice informing all Netting Members of FICC's need to make such a declaration and enter into CCLF Transactions, as necessary.¹²

2. CCLF Transactions

During a CCLF Event, FICC would meet its liquidity need by initiating CCLF Transactions with non-defaulting Netting Members. Each CCLF Transaction would be governed by the terms of the September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement,¹³ which would be incorporated by reference

¹² Such Important Notice would also advise Netting Members to review their most recent liquidity funding reports to determine their respective maximum funding obligations.

¹³ The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (the "SIFMA MRA") is available at <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>. The SIFMA MRA would be incorporated by reference into the GSD Rules without referenced annexes, other than in the case of any Netting Member that is a registered investment company, then Annex VII would be

into the GSD Rules as a master repurchase agreement between FICC as seller and each Netting Member as buyer with certain modifications as outlined in the GSD Rules (the “CCLF MRA”).

Each Netting Member would be obligated to enter into CCLF Transactions up to a capped dollar amount. FICC would first identify the non-defaulting Netting Members that are obligated to deliver securities destined for the defaulting Netting Member (“Direct Affected Members”) and FICC’s cash payment obligation to such Direct Affected Member that FICC would need to finance through CCLF to cover the defaulting Netting Member’s failure to deliver cash (the “Financing Amount”). FICC would notify each Direct Affected Member of its Financing Amount and whether such Direct Affected Member should deliver to FICC or suppress any securities that were destined for the defaulting Netting Member. FICC would then initiate CCLF Transactions with each Direct Affected Member for its purchase of the securities (the “Financed Securities”) that were destined for the defaulting Netting Member.¹⁴ The aggregate purchase price of the CCLF Transactions with the Direct Affected Member would equal but never exceed its maximum funding obligation (the “Individual Total Amount”).¹⁵

applicable to such Member. At the time of this filing, there are no registered investment companies that are also GSD Netting Members. If a registered investment company would become a GSD Netting Member, then Annex VII would be applicable to such Member.

- ¹⁴ It should be noted that FICC would have the authority to initiate CCLF Transactions in respect of any securities that are in the Direct Affected Member’s portfolio which are bound to the defaulting Netting Member.
- ¹⁵ As described in Section C herein, a Netting Member’s Individual Total Amount represents such Member’s maximum liquidity funding obligation. The Individual Total Amount would be based on a Netting Member’s observed peak historical liquidity need.

If any Direct Affected Member's Financing Amount exceeds its Individual Total Amount (the "Remaining Financing Amount"), FICC would advise (A) each other Direct Affected Member whose Financing Amount is less than its Individual Total Amount, and (B) each Netting Member that has not otherwise entered into CCLF Transactions with FICC (the "Indirect Affected Members," and together with the Direct Affected Members, "Affected Members") that FICC intends to initiate CCLF Transactions with them for the Remaining Financing Amount.

The order in which FICC would enter into CCLF Transactions for the Remaining Financing Amount would be based upon the Affected Members that have the most funding available within their Individual Total Amounts. No Affected Member would be obligated to enter into CCLF Transactions greater than its Individual Total Amount.

During a CCLF Event, FICC would engage its investment advisor subject to the approval of its Board and seek to minimize liquidation losses on the Financed Securities through hedging, strategic dispositions, or other investment transactions as determined by FICC under relevant market conditions. Once FICC completes the liquidation of the underlying securities by selling them to a new buyer, FICC would instruct the Affected Member to close the repo trade and deliver the Financed Securities to FICC to complete settlement on the contractual settlement date of the liquidating trade. FICC would endeavor to unwind the CCLF Transactions based on the order that it enters into the Liquidating Trades. Each CCLF Transaction would remain open until the earlier of (x) such time that FICC has liquidated the Affected Member's Financed Securities, (y) such time that FICC has obtained liquidity through its available liquid resources or (z) 30 or 60

calendar days after entry into the CCLF Transaction for U.S. government bonds and mortgage-backed securities, respectively.

The original GSD Transactions, which FICC is obligated to settle, are independent from the CCLF Transactions. The proposed rule change would clarify that, under the original GSD Transaction, FICC's obligation to pay cash to a Direct Affected Member, and the Direct Affected Member's obligation to deliver securities, would be deemed satisfied by entry into CCLF Transactions, and that such settlement would be final.

C. CCLF Sizing and Allocation

As noted above, FICC would only enter into CCLF Transactions with a Netting Member in an amount that is up to such Netting Member's maximum funding obligation. This amount would be based on each Netting Member's observed peak historical liquidity need. Initially, FICC would calculate the Netting Member's peak historical liquidity need based on a six-month look-back period.

FICC's liquidity need during a CCLF Event would be determined by the cash settlement obligations presented by the default of a Netting Member and an Affiliated Family. FICC would include an additional amount (i.e., a buffer) to account for changes in Netting Members' cash settlement obligations that may not be observed during the six-month look-back period during which CCLF would be sized. The buffer would also account for the possibility that the defaulting Netting Member is the largest CCLF contributor. FICC would allocate its observed liquidity need among all Netting Members based on their historical settlement activity. Netting Members that present the highest cash settlement obligations would be required to maintain higher funding obligations.

Listed below are the steps that FICC would take to size and allocate each Netting Member's CCLF requirement.

Step 1: CCLF Sizing

Historical Cover 1 Liquidity Requirement

FICC's historical liquidity need for the six-month look-back period would be an amount equal to the dollar amount of the largest sum of an Affiliated Family's obligation to receive GSD eligible securities plus the net dollar amount of its Funds-Only Settlement Amount¹⁶ (collectively, the "Historical Cover 1 Liquidity Requirement"). FICC believes that it is appropriate to calculate the Historical Cover 1 Liquidity Requirement in this manner because the default of the largest Affiliated Family would generate the highest liquidity need for FICC.

Liquidity Buffer

The Historical Cover 1 Liquidity Requirement would be based on the largest Affiliated Family's activity during a six-month look-back period. However, FICC is cognizant that the Historical Cover 1 Liquidity Requirement would not account for changes in a Netting Member's current trading behavior, which may result in a liquidity need that is greater than the Historical Cover 1 Liquidity Requirement. As a result, FICC proposes to add an additional amount to the Historical Cover 1 Liquidity Requirement as

¹⁶ The Funds-Only Settlement Amount reflects the amount that FICC collects and passes to the contra-side once FICC marks the securities in a Netting Member's portfolio to the current market value. This amount is the difference between the contract value vs. the current market value of a Netting Member's GSD portfolio. FICC would consider this amount when calculating the Historical Cover 1 Liquidity Requirement because in the event that an Affiliated Family defaults, the Funds-Only Settlement Amount would also reflect the cash obligation to non-defaulting Netting Members.

a buffer (the “Liquidity Buffer”) to arrive at FICC’s anticipated total liquidity need for GSD during a CCLF Event.

Under the proposed rule change, the Liquidity Buffer would be 20% to 30% of the Historical Cover 1 Liquidity Requirement, subject to a minimum amount of \$15 billion. FICC believes that 20% to 30% of the Historical Cover 1 Liquidity Requirement is appropriate based on its analysis of the calculated coefficient of variation¹⁷ with respect to Affiliated Families’ liquidity needs throughout 2015 and 2016.¹⁸ FICC also believes that the \$15 billion minimum dollar amount is necessary to cover changes in a Netting Member’s trading activity that could exceed the amount that is implied by the calculated coefficient of variation.

FICC would have the discretion to adjust the Liquidity Buffer based on its analysis of the stability of the Historical Cover 1 Liquidity Requirement over the look-back periods of 3-, 6-, 12-, and 24-months. Should FICC observe changes in the stability of the Historical Cover 1 Liquidity Requirements, FICC would have the discretion to

¹⁷ The “coefficient of variation” is a statistical measurement that is calculated as the standard deviation divided by the mean. It is a typical approach used to compare variability across different data sets.

¹⁸ In connection with this proposed rule change, the coefficient of variation would be used to set the Liquidity Buffer by quantifying the variance of each Affiliated Family’s daily liquidity need. During this period, FICC observed that the coefficient of variation ranged from an average of 15% - 19% for Affiliated Families with liquidity needs above \$50 billion, and an average of 18% - 21% for Affiliated Families with liquidity needs above \$35 billion. Based on the calculated coefficient of variation, FICC believes that an amount equaling 20% to 30% of the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15 billion would be an appropriate Liquidity Buffer.

increase the six-month look-back period to help ensure that the calculation of its liquidity need appropriately accounts for variability in the Historical Cover 1 Liquidity Requirement. This would help FICC to ensure that its liquidity resources are sufficient under a wide range of potential market scenarios that may lead to a change in Netting Member behavior. FICC would also analyze the trading behavior of Netting Members that present larger liquidity needs than the majority of the Netting Members (as described below).

Aggregate Total Amount

FICC's anticipated total liquidity need during a CCLF Event (i.e., the sum of the Historical Cover 1 Liquidity Requirement plus the Liquidity Buffer) would be referred to as the "Aggregate Total Amount."

Step 2: FICC's Allocation of the Aggregate Total Amount Among Netting Members

(A) *FICC's Allocation of the Aggregate Regular Amount Among Netting Members*

After FICC determines the Aggregate Total Amount, which initially would be set to the Historical Cover 1 Liquidity Requirement plus the greater of 20% of the Historical Cover 1 Liquidity Requirement or \$15 billion. FICC would allocate the Aggregate Total Amount among Netting Members in order to arrive at each Netting Member's Individual Total Amount. FICC would take a two-tiered approach in its allocation of the Aggregate Total Amount. First, FICC would determine the portion of the Aggregate Total Amount that should be allocated among all Netting Members ("Aggregate Regular Amount"). Then, FICC would allocate the remainder of the Aggregate Total Amount (the "Aggregate Supplemental Amount") among Netting Members that incur liquidity needs above the Aggregate Regular Amount within the six-month look-back period. FICC

believes that this two-tiered approach reflects FICC's consideration of fairness, transparency and the burdens of the funding obligations on each Netting Member's management of its own liquidity.

Under the proposed rule change, FICC would set the Aggregate Regular Amount at \$15 billion. FICC believes that this amount is appropriate because FICC observed that from 2015 to 2016, the average Netting Member's liquidity need was approximately \$7 billion, with a majority of Netting Members' liquidity needs not exceeding an amount of \$15 billion.¹⁹ Based on that analysis, FICC believes that the Aggregate Regular Amount should capture the liquidity needs of a majority of the Netting Members. Thus, FICC believes that setting the Aggregate Regular Amount at \$15 billion is appropriate.

Under the proposal, the Aggregate Regular Amount would be allocated among all Netting Members, but Netting Members with larger Receive Obligations would be required to contribute a larger amount. FICC believes that this approach is appropriate because a defaulting Netting Member's Receive Obligations are the primary cash settlement obligations that FICC would have to satisfy as a result of the default of a Netting Member or an Affiliated Family. However, FICC also believes that some portion of the Aggregate Regular Amount should be allocated based on Netting Members' aggregate Deliver Obligations since FICC guarantees both sides of a GSD Transaction and all Netting Members benefit from FICC's risk mitigation. As a result, FICC is proposing to allocate the Aggregate Regular Amount based on a scaling factor. Given that the Aggregate Regular Amount is sized at \$15 billion and covers approximately 80%

¹⁹ From 2015 to 2016, 59% of all Netting Members presented average liquidity needs between \$0 to \$5 billion, 78% of all Netting Members presented average liquidity needs between \$0 and \$10 billion, and 85% of all Netting Members presented average liquidity needs between \$0 and \$15 billion.

of Netting Members' observed liquidity needs, FICC proposes to set the scaling factor in the range of 65% - 85% to the value of Netting Members' Receive Obligations and set the scaling factor in the range of 15% - 35% to the value of Netting Members' Deliver Obligations.

Initially, FICC would assign a 20% weighting percentage to a Netting Member's aggregate Deliver Obligations (the "Deliver Scaling Factor") and the remaining percentage difference, 80% in this case, to a Netting Member's aggregate Receive Obligations ("Receive Scaling Factor"). FICC would have the discretion to adjust these scaling factors based on a quarterly analysis that would, in part, assess Netting Members' observed liquidity needs that are at or below \$15 billion. This assessment would ensure that the Aggregate Regular Amount would be appropriately allocated across all Netting Members.

FICC would calculate a Netting Member's portion of the Aggregate Regular Amount (its "Individual Regular Amount") by adding (a) and (b) below.

- (a) FICC would (x) divide the absolute value of a Netting Member's peak Receive Obligations by the absolute value of the sum of all Netting Members' peak Receive Obligations, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting value by the Receive Scaling Factor (which would initially be 80%).
- (b) FICC would (x) divide the absolute value of a Netting Member's peak Deliver Obligations by the absolute value of the sum of all Netting Members' peak Deliver Obligations, then (y) multiply

such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting value by the Deliver Scaling Factor (which would initially be 20%).

(B) FICC's Allocation of the Aggregate Supplemental Amount Among Netting Members

The remainder of the Aggregate Total Amount (i.e., the Aggregate Supplemental Amount) would be allocated among Netting Members that present liquidity needs in excess of the Aggregate Regular Amount.

FICC would allocate the Aggregate Supplemental Amount across liquidity tiers ("Liquidity Tiers"). The allocation to each Liquidity Tier would be based on how many times (i.e., "observations") the Netting Members' daily liquidity needs have reached the respective Liquidity Tier. This assignment would result in a larger proportion of the Aggregate Supplemental Amount being borne by those Netting Members who present the highest liquidity needs.

FICC would set the Liquidity Tiers in \$5 billion increments. FICC believes that this increment would appropriately distinguish Netting Members that present the highest liquidity needs on a frequent basis and allocate more of the Individual Supplemental Amount to Netting Members in the top Liquidity Tiers. Increments set to an amount greater than \$5 billion would provide FICC with less ability to allocate the Aggregate Supplemental Amount to Netting Members with the highest liquidity needs.²⁰

²⁰ For example, assume that there are two Netting Members and each Netting Member has 125 liquidity observations each across a six-month period. Member A has 125 observations within the \$15 - \$20 billion Liquidity Tier and Member B has 125 observations equally dispersed between the \$15 - \$20 billion and \$20 - \$25 billion Liquidity Tiers. Under the proposed rule change, Member B would have a higher Individual Supplemental Amount than Member A, because Member

FICC would have the discretion to reduce any one or all of the Liquidity Tiers to \$2.5 billion if FICC determines that the majority of the Netting Members' liquidity needs in such Liquidity Tiers are above or below the midpoint of the Liquidity Tier.

Once the Liquidity Tiers are set, FICC would first allocate the Aggregate Supplemental Amount to each Liquidity Tier in proportion to the total number of observations across all Liquidity Tiers. Next, FICC would allocate the Individual Supplemental Amount to each Netting Member in accordance with each Netting Member's liquidity needs within each Liquidity Tier. This allocation would be based on such Netting Member's number of observations within each Liquidity Tier in proportion to the aggregate of all Netting Member's observations within a particular Liquidity Tier. The sum of a Netting Member's allocation across all Liquidity Tiers would be such Netting Member's Individual Supplemental Amount.

FICC would sum each Netting Member's Individual Regular Amount and its Individual Supplemental Amount (if any) to arrive at such Netting Member's Individual Total Amount.

B would be allocated a pro-rata share of the Aggregate Supplemental Amount for the \$20 - \$25 billion Liquidity Tier.

CCLF Parameters as of January 2017

Table 1 includes the actual values FICC would set for each step described above, as of January 1, 2017.²¹ These values would be reset every six months.

Table 1:*\$ billion*

CCLF Sizing Components of the Aggregate Total Amount				
Step	Component	Size		
1	Historical Cover 1 Liquidity Requirement	\$58.84		
	Liquidity Buffer (20% of the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15B)	\$15.00		
2	Aggregate Total Amount	\$73.84		
2a	Aggregate Regular Amount	\$15.00		
2b	Receive Scaling Factor (80% of the Aggregate Regular Amount)			\$12.00
	Deliver Scaling Factor (20% of the Aggregate Regular Amount)			\$3.00
2c	Aggregate Supplemental Amount	\$58.84		
	Liquidity Tier 1 (\$15 - \$20B)			\$21.04
	Liquidity Tier 2 (\$20 - \$25B)			\$14.29
	Liquidity Tier 3 (\$25 - \$30B)			\$10.32
	Liquidity Tier 4 (\$30 - \$35B)		\$6.14	
	Liquidity Tier 5 (\$35 - \$40B)		\$3.32	
	Liquidity Tier 6 (\$40 - \$45B)		\$1.86	
	Liquidity Tier 7 (\$45 - \$50B)		\$1.10	
	Liquidity Tier 8 (\$50 - \$55B)		\$0.62	
	Liquidity Tier 9 (\$55 - \$60B)		\$0.14	

The example in Table 2 reflects the allocation of the CCLF size for a hypothetical Netting Member. This example is based on a six-month look-back period of July 1, 2016 through December 31, 2016.

²¹ As noted above, FICC would use a six-month look-back period. On January 1, 2017, the look-back period would be July 1, 2016 through December 31, 2016.

Table 2:

\$ billion

CCLF Sizing: Components of the Aggregate Total Amount				Allocation of Aggregate Total Amount Hypothetical Member A	
Step	Component	Size		Member A's Percentage	Member A's Allocation of the Component
			(X)	(Y)	(Z) = (X) * (Y)
2a	Aggregate Regular Amount	\$15.00			
2b	Receive Scaling Factor (80% of the Aggregate Regular Amount)		\$12.00	5.0%	\$0.60
	Deliver Scaling Factor (20% of the Aggregate Regular Amount)		\$3.00	2.5%	\$0.08
				Member A's Individual Regular Amount	\$0.68
2c	Aggregate Supplemental Amount	\$58.84			
	Liquidity Tier 1 (\$15-\$20B)		\$21.04	8.5%	\$1.79
	Liquidity Tier 2 (\$20-\$25B)		\$14.29	13.0%	\$1.86
	Liquidity Tier 3 (\$25-\$30B)		\$10.32	16.0%	\$1.65
	Liquidity Tier 4 (\$30-\$35B)		\$6.14	20.0%	\$1.23
	Liquidity Tier 5 (\$35-\$40B)		\$3.32	35.0%	\$1.16
	Liquidity Tier 6 (\$40-\$45B)		\$1.86	52.0%	\$0.97
	Liquidity Tier 7 (\$45-\$50B)		\$1.10	65.0%	\$0.72
	Liquidity Tier 8 (\$50-\$55B)		\$0.62	80.0%	\$0.50
	Liquidity Tier 9 (\$55-\$60B)		\$0.14	100.0%	\$0.14
				Member A's Individual Supplemental Amount	\$10.01
				Member A's Individual Total Amount	\$10.68

D. FICC's Ongoing Assessment of the Sufficiency of CCLF

As described above, the Aggregate Total Amount and each Netting Member's Individual Total Amount (i.e., each Netting Member's allocation of the Aggregate Total Amount) would initially be calculated using a six-month look-back period that FICC would reset every six months ("reset period"). On a quarterly basis, FICC's Liquidity Product Risk Unit²² would assess the following parameters that it uses to calculate the Aggregate Total Amount and may recommend to the Board's Risk Committee changes to such parameters:

- peak daily liquidity need for the largest Affiliated Family;
- the Liquidity Buffer;
- the Aggregate Regular Amount;
- the Aggregate Supplemental Amount;
- the Deliver Scaling Factor and the Receive Scaling Factor used to allocate the Aggregate Regular Amount;
- the increments for the Liquidity Tiers; and
- the length of the look-back period and the reset period for the Aggregate Total Amount.

In the event that any changes to the above-referenced parameters result in an increase in a Netting Member's Individual Total Amount, such increase would be effective as of the next reset.

Additionally, on a daily basis, FICC would examine the Aggregate Total Amount to ensure that such amount is sufficient to satisfy FICC's liquidity needs. If FICC

²² FICC's Liquidity Product Risk Unit is responsible for assessing the liquidity needs of GSD and MBSD.

determines that the Aggregate Total Amount is insufficient to satisfy its liquidity needs, FICC may modify the length of the look-back or reset periods or otherwise increase the Aggregate Total Amount.

Any increase in the Aggregate Total Amount resulting from the Liquidity Product Risk Unit’s quarterly assessments or FICC’s daily monitoring would be subject to the approvals, as set forth in Table 3 below.

Table 3:

Increase in Aggregate Total Amount	Required Approval Level
≤ \$500 mil	Managing Director, Financial Risk Management
\$501 mil to \$1.0 B	Group Chief Risk Officer
\$1.1 B to \$1.9 B	Management Risk Committee, or designee
≥ \$2.0 B	Chair of the Board Risk Committee, or designee

If FICC increases a Netting Member’s Individual Total Amount as a result of its daily monitoring, such increase will not be effective until ten (10) Business Days after FICC provides an Important Notice regarding the increase.

If FICC determines that its liquidity needs may be satisfied with a lower Aggregate Total Amount, a reduction in the Aggregate Total Amount would be reflected at the conclusion of the reset period.

E. Implementation of the Proposed Rule Change and Required Attestation from Each Netting Member

The CCLF proposal would become operative 12 months after the later date of the Commission’s no objection of this Advance Notice and its approval of the Rule Filing.

During this 12-month period, FICC would periodically provide each Netting Member

with estimated Individual Total Amounts. The delayed implementation and the estimated Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact that the CCLF proposal would have on their business profile.

Prior to the effective date, FICC would add a legend to the GSD Rules to state that the specified changes to the GSD Rules are approved but not yet operative and to provide the date such approved changes would become operative. The legend would also include the file numbers of this Advance Notice and the approved Rule Filing and would state that once operative, the legend would automatically be removed from the GSD Rules.

As of the implementation date and annually thereafter, FICC would require that each Netting Member attest that its Individual Total Amount has been incorporated into its liquidity plans.²³ This required attestation would be from authorized officers of the Netting Member or otherwise in form and substance satisfactory to FICC making the following certification: (1) such officers have read and understand the GSD Rules, including the CCLF rules, (2) the Netting Member's Individual Total Amount has been incorporated into the Netting Member's liquidity planning, (3) the Netting Member acknowledges and agrees that its Individual Total Amount may be changed at the conclusion of any reset period or otherwise upon ten (10) Business Days' Notice, (4) the Netting Member will incorporate any changes to its Individual Total Amount into its liquidity planning, and (5) the Netting Member will continually reassess its liquidity plans and related operational plans, including in the event of any changes to such Netting

²³ The attestation would not refer to the actual dollar amount that has been allocated as the Individual Total Amount. Each Netting Member's Individual Total Amount would be made available to such Member via GSD's access controlled portal website.

Member's Individual Total Amount, to ensure such Netting Member's ability to meet its Individual Total Amount. FICC may require any Netting Member to provide FICC with a new certification in the foregoing form at any time, including upon a change to a Netting Member's Individual Total Amount or in the event that a Netting Member undergoes a change in its corporate structure.

In addition to the above, on a quarterly basis, FICC's Counterparty Credit Risk Management group would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount. This due diligence would include a review of all information that the Netting Member has provided FICC in connection with its ongoing reporting obligations pursuant to the GSD Rules and a review of other publicly available information. Additionally, FICC would test its operational procedures for invoking a CCLF Event. Pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests. If a Netting Member fails to participate in such testing when required by FICC, FICC may take disciplinary measures as set forth in GSD Rule 3 Section 7.

F. FICC's Commitment to Enhanced Transparency

FICC understands that each Netting Member must be able to evaluate the risks of its membership and plan for its funding obligations. Additionally, FICC believes that it is critical that each Netting Member understands the risks that its activity presents to FICC, and that each Netting Member should be prepared to monitor its activity and alter its behavior in order to minimize the liquidity risk that it presents to FICC. Accordingly, on each Business Day, FICC would make a liquidity funding report available to each Netting Member that would include the following:

1. the Netting Member's Individual Total Amount, Individual Regular Amount and, if applicable, its Individual Supplemental Amount;
2. FICC's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and
3. FICC's regulatory liquidity requirements as of the prior Business Day.

The liquidity funding report would be provided for informational purposes only.

Pursuant to the proposed rule change, upon a CCLF Event, each Netting Member would be required to enter into CCLF Transactions having an aggregate purchase price up to its Individual Total Amount as calculated by FICC.

G. Proposed Changes to the GSD Rules

GSD Rule 1 – Definitions

In order to help effectuate the proposed changes, FICC proposes to add the following defined terms to the GSD Rule 1: Affected Member; Aggregate Regular Amount; Aggregate Supplemental Amount; Aggregate Total Amount; CCLF Event; CCLF MRA; CCLF MRA Termination Date; CCLF Transaction; Deliver Scaling Factor; Direct Affected Member; Financed Securities; Financing Amount; Historical Cover 1 Liquidity Requirement; Indirect Affected Member; Individual Regular Amount; Individual Supplemental Amount; Individual Total Amount; Liquidating Trade; Liquidity Buffer; Liquidity Need; Liquidity Percentage; Liquidity Tier; Look-Back Period; Observation; Receive Scaling Factor; Relative Inter-Tier Frequency; Relative Intra-Tier Frequency; Relevant Securities; Remaining Financing Amount; Required Attestation; and SIFMA MRA.

Rule 22A – Procedures for When the Corporation Ceases to Act

FICC is proposing to amend Rule 22A to include a new section in this Rule. This new section would be entitled “Section 2a.” Proposed Section 2a would incorporate the CCLF MRA into the GSD Rules subject to the amendments proposed therein. In addition, the proposed section would include (1) the notification process that would occur once FICC invokes a CCLF Event; (2) the CCLF Transactions that FICC would enter into once it invokes a CCLF Event; (3) disclosure of each relevant CCLF sizing component that FICC would assess; (4) the calculation that FICC would use to determine each Netting Member’s Individual Regular Amount and Individual Supplemental Amount, if applicable; and (5) a description of the officers’ certificate that each Netting Member would be required to provide certifying that, among other things, its Individual Total Amount has been incorporated into its liquidity plans.

Anticipated Effect on and Management of Risks

FICC believes that the proposed change to amend the GSD Rules to include the CCLF, a committed liquidity resource in the event of a Netting Member default, would provide FICC with sufficient committed liquid financial resources to meet the cash settlement obligations of a defaulting Netting Member.

FICC’s proposed change comprises a rules-based committed liquidity facility that is designed to help ensure that FICC maintains sufficient liquid financial resources to meet its cash settlement obligations of a Netting Member. This change would affect FICC’s management of risk because it would provide additional liquidity resources if FICC could not to obtain sufficient liquidity from GSD’s Clearing Fund, by entering into repurchase transactions using securities in the Clearing Fund or securities that were

destined to the defaulting Netting Member, or through uncommitted bank loans with its Clearing Agent Banks. Thus, the proposed change would enhance FICC's risk management capabilities because it provide committed liquidity resources from its Netting Members based on each Netting Member's observed peak historical liquidity need.

FICC has also managed the effect of the overall proposal by conducting extensive outreach with Netting Members regarding the proposed changes, educating such Members on reasons for these proposed changes, and explaining the importance of this proposal to FICC's overall risk management functions. FICC has invited all Netting Members to customer forums in an effort to provide transparency regarding the changes and the expected impact across the membership, and has provided each Netting Member with an individual impact study. In addition, FICC's Financial Risk Management team and Relationship Management team have been available to answer all questions. Such communication gives Netting Members the opportunity to manage any impact to their own risk profile.

In an effort to help Netting Members further manage the effect of this proposal, FICC would delay the implementation of the CCLF proposal as described above. During the 12-month implementation period, FICC would periodically provide each Netting Member with estimated Individual Total Amounts. The delayed implementation and the estimated Individual Total Amounts are designed to give Netting Members the opportunity to assess the impact that the CCLF proposal would have on their business profile.

Consistency with the Clearing Supervision Act

The proposed changes, which have been described in detail above, would be consistent with Section 805(b) of the Clearing Supervision Act.²⁴ The objectives and principles of Section 805(b) include, among other things, the promotion of robust risk management.²⁵ FICC believes the proposed changes would promote this objective because the CCLF proposal would give FICC access to additional liquidity in the event that its other liquidity resources are insufficient upon the default of a Netting Member. Thus the proposed change would help ensure that FICC has sufficient funds to meet its cash settlement obligations to its non-defaulting Netting Members. As a result, FICC believes that the proposed changes are also consistent with Commission Rules 17Ad-22(b)(3), (d)(9) and (e)(7).²⁶

Commission Rule 17Ad-22(b)(3) requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.²⁷ As described above, FICC would size CCLF based on the peak liquidity need that would be generated by the default of its largest participant family (its Historical Cover 1 Liquidity Requirement), plus an additional Liquidity Buffer to account for unexpected Netting Member trading

²⁴ See 12 U.S.C. 5464(b).

²⁵ Id.

²⁶ See 17 CFR 240.17Ad-22(b)(3), (b)(9) and (e)(7).

²⁷ See 17 CFR 240.17Ad-22(b)(3).

behavior that could increase FICC's Historical Cover 1 Liquidity Requirement or a situation in which its largest Netting Member defaults and cannot contribute to the CCLF. Thus, FICC believes that the proposal would be consistent with Commission Rule 17Ad-22(b)(3) because it is designed to provide FICC with sufficient financial resources to withstand a default by the participant family to which it has the largest exposure in extreme but plausible market conditions.

Commission Rule 17Ad-22(d)(9) requires a registered clearing agency that performs central counterparty services to establish, implement, maintain and enforce written policies and procedures to provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services.²⁸ As described above, on each Business Day, FICC would make a liquidity funding report available to each Netting Member. This report would include (1) the Netting Member's Individual Total Amount, Individual Regular Amount and, to the extent applicable, its Individual Supplemental Amount; (2) FICC's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and (3) FICC's regulatory liquidity requirements as of the prior Business Day. This report would enable each Netting Member to prepare for its maximum funding obligations and alter its trading behavior should it desire to minimize the liquidity risk it presents to FICC. FICC believes that the proposed rule change would be consistent with Commission Rule 17Ad-22(d)(9) because the liquidity funding report would provide Netting Members with sufficient information to identify and evaluate the risks and costs associated with using the services that FICC provides through GSD.

²⁸ See 17 CFR 240.17Ad-22(d)(9).

Commission Rule 17Ad-22(e)(7) which was recently adopted by the Commission, will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage liquidity risk that arises in or is borne by FICC, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.²⁹

Commission Rule 17Ad-22(e)(7)(i) will require FICC to maintain sufficient liquid resources to effect same-day settlement of payment obligations in the event of a default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.³⁰ FICC believes that the proposal would be consistent with Commission Rule 17Ad-22(e)(7)(i) because CCLF would be sized based on the peak liquidity need that would be generated by the default of its largest participant family (its Historical Cover 1 Liquidity Requirement), plus an additional Liquidity Buffer, which would help FICC maintain sufficient liquid resources to settle the cash obligations of an Affiliated Family that would generate the largest aggregate payment obligation for FICC in extreme but plausible market conditions.

Commission Rule 17Ad-22(e)(7)(ii) will require FICC to hold qualifying liquid resources sufficient to satisfy payment obligations owed to clearing members.³¹ FICC believes that the proposed rule change would be consistent with Commission Rule 17Ad-

²⁹ See 17 CFR 240.17Ad-22(e)(7).

³⁰ See 17 CFR 240.17Ad-22(e)(7)(i).

³¹ See 17 CFR 240.17Ad-22(e)(7)(ii).

22(e)(7)(ii) because the CCLF MRA would be a committed arrangement and all CCLF Transactions entered into pursuant the CCLF MRA would be readily available and the related assets would be convertible into cash in order to settle cash obligations owed to non-defaulting Netting Members.

Commission Rule 17Ad-22(e)(7)(iv) will require FICC to undertake due diligence that confirms that it has a reasonable basis to believe each of its liquidity providers has: (a) sufficient information to understand and manage the liquidity provider's liquidity risks; and (b) the capacity to perform as required under its commitments to provide liquidity.³² As described above, on a quarterly basis, FICC would conduct due diligence to assess each Netting Member's ability to meet its Individual Total Amount. This due diligence would include a review of all information that the Netting Member has provided FICC in connection with its ongoing reporting requirements pursuant to the GSD Rules as well as a review of other publicly available information. As a result, FICC believes that its due diligence of Netting Members would be consistent with Commission Rule 17Ad-22(e)(7)(iv).

Additionally, Commission Rule 17Ad-22(e)(7)(v) will require FICC to maintain and test with each liquidity provider, to the extent practicable, FICC's procedures and operational capacity for accessing its relevant liquid resources.³³ As described above, FICC would test its operational procedures for invoking a CCLF Event and pursuant to GSD Rule 3 Section 6, Netting Members would be required to participate in such tests.

³² See 17 CFR 240.17Ad-22(e)(7)(iv).

³³ See 17 CFR 240.17Ad-22(e)(7)(v).

As a result, FICC believes that its testing of its capability to invoke a CCLF MRA would be consistent with Commission Rule 17Ad-22(e)(7)(v).

III. Date of Effectiveness of the Advance Notice, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its website of proposed changes that are implemented.

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 Advance Notice is consistent with the

Clearing Supervision 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-comments@sec.gov. Please include File Number SR-FICC-2017-802 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-2017-802. 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 Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice 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-2017-802 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

By the Commission.

Secretary

Bolded, underlined text indicates added language

~~Bolded, strikethrough text~~ indicates deleted language

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

RULE 1 – DEFINITIONS

Approved but not yet operative changes to this Rule 1, as amended by File Nos. SR-FICC-2017-002 and SR-FICC-2017-802, are set forth below. Underlined and boldface text indicates added language. Strikethrough and boldface text indicates deleted language. These changes will become operative [insert date twelve (12) months after the later date of the SEC’s approval of File No. SR-FICC-2017-002 or no objection to File No. SR-FICC-2017-802]. The Corporation will notify Netting Members via Important Notice 30 Business Days before these changes become operative. Once operative, this legend will automatically be removed from the Rules and the formatting of the text of the changes in this Rule 1 will automatically be revised to reflect that these changes are operative.

* * * *

Affected Member

The term “Affected Member” has the meaning assigned in Section 2a(b)(i)(E) of Rule 22A.

* * * *

Aggregate Regular Amount

The term “Aggregate Regular Amount” means the total dollar amount determined by the Corporation as a sufficient threshold to capture the majority of all Netting Members’ observed Liquidity Needs.

Aggregate Supplemental Amount

The term “Aggregate Supplemental Amount” means the difference between the Aggregate Total Amount minus the Aggregate Regular Amount.

Aggregate Total Amount

The term “Aggregate Total Amount” means the sum of the Corporation’s Historical Cover 1 Liquidity Requirement plus the Liquidity Buffer for a given Look-Back Period.

CCLF®

The term “CCLF®” means the Corporation’s “Capped Contingency Liquidity Facility®” as more fully described in Section 2a of Rule 22A.

CCLF Event

The term “CCLF Event” means an event declared by the Corporation once it has ceased to act for a Netting Member pursuant to Rule 22A and determines, in its sole

discretion, that it does not have sufficient liquidity to satisfy the obligations of such Netting Member.

CCLF MRA

The term “CCLF MRA” has the meaning assigned in Section 2a(a) of Rule 22A.

CCLF MRA Termination Date

The term “CCLF MRA Termination Date” has the meaning assigned in Section 2a(a)(L) of Rule 22A.

CCLF Transaction

The term “CCLF Transaction” refers to a repurchase transaction entered into subject to the CCLF MRA.

* * * *

Deliver Scaling Factor

The term “Deliver Scaling Factor” means the percentage established by the Corporation which shall be used to calculate a Netting Member’s Individual Regular Amount.

* * * *

Direct Affected Member

The term “Direct Affected Member” has the meaning assigned in Section 2a(b)(i)(B) of Rule 22A.

* * * *

Financed Securities

The term “Financed Securities” has the meaning assigned in Section 2a(b)(i)(C) of Rule 22A.

Financing Amount

The term “Financing Amount” has the meaning assigned in Section 2a(b)(i)(B) of Rule 22A.

* * * *

Historical Cover 1 Liquidity Requirement

The term “Historical Cover 1 Liquidity Requirement” means the largest Liquidity Need of a Netting Member or family of affiliated Netting Members during the applicable Look-Back Period as determined by the Corporation.

* * * *

Indirect Affected Member

The term “Indirect Affected Member” has the meaning assigned in Section 2a(b)(i)(E) of Rule 22A.

Individual Regular Amount

The term “Individual Regular Amount” means the portion of the Aggregate Regular Amount that is allocated to each Netting Member by the Corporation in accordance with Section 2a(b)(iii) of Rule 22A.

Individual Supplemental Amount

The term “Individual Supplemental Amount” means the portion of the Aggregate Supplemental Amount that is allocated to each Netting Member by the Corporation in accordance with Section 2a(b)(iv) of Rule 22A.

Individual Total Amount

The term “Individual Total Amount” means the sum of a Netting Member’s Individual Regular Amount plus such Netting Member’s Individual Supplemental Amount.

* * * *

Liquidating Trade

The term “Liquidating Trade” has the meaning assigned in Section 2a(b)(i)(G) of Rule 22A.

Liquidity Buffer

The term “Liquidity Buffer” means the product of the Liquidity Percentage multiplied by the Historical Cover 1 Liquidity Requirement subject to a minimum of \$15 billion.

Liquidity Need

The term “Liquidity Need” means the sum of a Netting Member’s Receive Obligations and Funds-Only Settlement Amounts.

Liquidity Percentage

The term “Liquidity Percentage” means a percentage determined by the Corporation in its sole discretion. Such percentage will be influenced by the Historical Cover 1 Liquidity Requirements over various time horizons and business trends related to the Corporation’s ability to maintain sufficient financial resources.

Liquidity Tier

The term “Liquidity Tier” means a stratum of Liquidity Needs, as determined in the Corporation’s sole discretion, that the Corporation defines to group Netting Members’ liquidity needs into discrete numeric ranges.

* * * *

Look-Back Period

The term “Look-Back Period” means a period of time determined by the Corporation in its sole discretion over which the Corporation analyzes Netting Members’ Liquidity Needs in order to determine the Historical Cover 1 Liquidity Requirement.

* * * *

Observation

The term “Observation” means a measurement of a Netting Member’s Liquidity Need as calculated on each Business Day during a Look-Back Period.

* * * *

Receive Scaling Factor

The term “Receive Scaling Factor” means the percentage established by the Corporation which shall be used to calculate a Netting Member’s Individual Regular Amount.

* * * *

Relative Inter-Tier Frequency

The term “Relative Inter-Tier Frequency” means, for each Liquidity Tier, the quotient of (x) the sum of all Netting Members’ Observations allocable to such Liquidity Tier divided by (y) the sum of all Netting Members’ Observations.

Relative Intra-Tier Frequency

The term “Relative Intra-Tier Frequency” means, for a certain Liquidity Tier, the quotient of (x) the number of a Netting Member’s Observations within such

Liquidity Tier divided by (v) the sum of all Netting Members' Observations allocable to such Liquidity Tier.

Relevant Securities

The term "Relevant Securities" has the meaning assigned in Section 2a(a)(H)(1) of Rule 22A.

Remaining Financing Amount

The term "Remaining Financing Amount" has the meaning assigned in Section 2a(b)(i)(E) of Rule 22A.

* * * *

Required Attestation

The term "Required Attestation" has the meaning assigned in Section 2a(d) of Rule 22A.

* * * *

SIFMA MRA

The term "SIFMA MRA" means the September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement, available at <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>.

* * * *

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

Approved but not yet operative changes to this Rule 22A, as amended by File Nos. SR-FICC-2017-002 and SR-FICC-2017-802, are set forth below. Underlined and boldface text indicates added language. Strikethrough and boldface text indicates deleted language. These changes will become operative [insert date twelve (12) months after the later date of the SEC's approval of File No. SR-FICC-2017-002 or no objection to File No. SR-FICC-2017-802]. The Corporation will notify Netting Members via Important Notice 30 Business Days before these changes become operative. Once operative, this legend will automatically be removed from the Rules and the formatting of the text of the changes in this Rule 22A will automatically be revised to reflect that these changes are operative.

* * * *

Section 2a - Liquidity Requirements of Netting Members

(a) Master Repurchase Agreements

In order to finance the Corporation's obligations related to Netting Members' Deliver Obligations in accordance with paragraphs (b) and (c) below, the SIFMA MRA (without the referenced annexes, other than in the case of any Netting Member that is a registered investment company, Annex VII) is hereby incorporated by reference in the Rules as a master repurchase agreement between the Corporation, as Seller, and each Netting Member, as Buyer (the "CCLF MRA"); provided that, notwithstanding anything else set forth in the CCLF MRA:

- (A) CCLF Transactions (for purposes of this Section 2a, as defined in the CCLF MRA) shall only be initiated by the Corporation in accordance with this Rule 22A,**
- (B) all CCLF Transactions shall be terminable only by demand of the Corporation and in accordance with this Rule 22A except as specified in paragraph (L) below,**
- (C) all Securities (for purposes of this Section 2a, as defined in the CCLF MRA) shall be transferred by the Corporation in its sole discretion,**
- (D) any and all notices, statements, demands or other communications under the CCLF MRA shall be given by a party to the other in accordance with the notice provisions set forth in the Rules,**
- (E) so long as the Netting Member is a Member of the Corporation, the CCLF MRA may only be terminated by the Corporation,**
- (F) there shall be no Events of Default (for purposes of this Section 2a, as defined in the CCLF MRA) with respect to the Seller other than a Corporation Default,**
- (G) on any Business Day prior to the CCLF MRA Termination Date as defined in paragraph (L) below, the Corporation may, by notice to Buyer, terminate any CCLF Transaction, in whole or in part, by specifying such Business Day as the Repurchase Date (for purposes of this Section 2a, as defined in the CCLF MRA) for some or all of the Purchased Securities (for purposes of this Section 2a, as defined in the CCLF MRA),**
- (H) if the Corporation terminates a portion of a CCLF Transaction pursuant to clause (G) of this paragraph:**

- (1) the Repurchase Price (for purposes of this Section 2a, as defined in the CCLF MRA) for the Purchased Securities to be repurchased on such date (the “Relevant Securities”) shall be an amount equal to the sum of the Purchase Price (for purposes of this Section 2a, as defined in the CCLF MRA) for the Relevant Securities and the unpaid Price Differential (for purposes of this Section 2a, as defined in the CCLF MRA) accrued on the Purchase Price for the Relevant Securities through such Business Day;**
- (2) upon transfer of the Repurchase Price for the Relevant Securities, the Relevant Securities shall no longer constitute Purchased Securities; and**
- (3) upon transfer of the Repurchase Price for the Relevant Securities, the Purchase Price for the CCLF Transaction shall be reduced by the Purchase Price for the Relevant Securities,**
- (I) It shall be an “Event of Default” with respect to Buyer under a CCLF MRA if the Corporation ceases to act for the relevant Affected Member,**
- (J) Section 19(a) of the CCLF MRA shall be amended by adding at the end thereof before the period “, and this Agreement and each CCLF Transaction is of a type set forth in Section 5390(c)(8)(D) of Title 12 of the United States Code, as amended”,**
- (K) Section 19(b) of the CCLF MRA shall be amended by adding at the end thereof before the period “, and a right to terminate, liquidate or accelerate as described in Section 5390(c)(8)(A) and (C) of Title 12 of the United States Code, as amended”, and**
- (L) If (x) a Corporation Default has occurred during the term of a CCLF Transaction or (y) the Corporation has not repurchased all Purchased Securities (for purposes of this Section 2a, as defined in the CCLF MRA) under the applicable CCLF Transaction by (A) the end of the 30th calendar day after the Purchase Date (for purposes of this Section 2a, as defined in the CCLF MRA) in the case of a CCLF Transaction where the underlying security is a U.S. government agency debenture or U.S. Treasury bill, note or bond or (B) the end of the 60th calendar day after the Purchase Date in the case of a CCLF Transaction where the underlying security is a mortgage-**

backed security (the “CCLF MRA Termination Date”), the Affected Member may exercise the rights of a “nondefaulting party” under Section 11 of the CCLF MRA as if an “Event of Default” with respect to the Seller had occurred and such Affected Member had exercised the option referred to in Section 11(a) of the CCLF MRA.

(b) Capped Contingency Liquidity Facility (“CCLF”)

(i) In the event that the Corporation ceases to act for a Netting Member pursuant to this Rule 22A and determines, in its sole discretion, that it does not have the ability to obtain sufficient liquidity from other resources in order to satisfy the obligations of a Defaulting Member, the Corporation may declare a CCLF Event. Upon such declaration, the following shall occur:

- (A) The Corporation shall issue an Important Notice to all Netting Members informing them of the CCLF Event with respect to the Defaulting Member and advising such Netting Members to review their most recent liquidity funding reports to determine their respective Individual Total Amount;**
- (B) The Corporation shall determine (x) which Netting Members had Deliver Obligations to the Corporation, the securities in respect of which were destined for the Defaulting Member (each such Netting Member, a “Direct Affected Member”) and (y) the cash obligations of the Corporation to such Direct Affected Member in respect of which the Corporation needs financing (such Direct Affected Member’s “Financing Amount”);**
- (C) The Corporation shall notify each Direct Affected Member of the amount and description of the Eligible Netting Securities to which the Direct Affected Member’s Financing Amount relates (such Direct Affected Member’s “Financed Securities”) and whether such Affected Member is to deliver any such Financed Securities to the Corporation;**
- (D) The Corporation shall initiate CCLF Transactions with each Direct Affected Member having an aggregate purchase price up to such Affected Member’s Financing Amount, but in no event in excess of such Direct Affected Member’s Individual Total Amount;**
- (E) In the event that a Direct Affected Member’s Financing Amount exceeds its Individual Total Amount (the “Remaining Financing Amount”), the Corporation shall advise (x) each**

other Direct Affected Member whose Financing Amount is less than its Individual Total Amount, and (y) each Netting Member that has not otherwise entered into CCLF Transactions with the Corporation (the “Indirect Affected Members,” and together with the Direct Affected Members, “Affected Members”) that the Corporation intends to initiate CCLF Transactions with such Affected Members based on such Affected Members’ funding availability within their Individual Total Amounts. Each such CCLF Transaction shall have an aggregate purchase price equal to all or a portion of the Remaining Financing Amount, but in no event in excess of the Affected Member’s Individual Total Amount (after taking into account all CCLF Transactions in connection with the subject CCLF Event);

- (F) At any time and from time to time, if a Remaining Financing Amount exists, the Corporation may, in its sole discretion, enter into CCLF Transactions with Affected Members based on such Affected Members’ funding availability within their Individual Total Amount (but in no event shall such CCLF Transactions in respect of an individual Affected Member exceed such Affected Member’s Individual Total Amount (after taking all CCLF Transactions in connection with any and all existing CCLF Events into account));
- (G) Each CCLF Transaction shall remain open until the earlier of (x) such time that the Corporation has executed a transaction liquidating the Financed Securities (a “Liquidating Trade”), (y) such time that the Corporation has obtained liquidity through its available liquid resources or (z) the CCLF MRA Termination Date; and
- (H) Upon the Corporation’s execution of the Liquidating Trade, the Corporation shall notify each Netting Member party to a related CCLF Transaction of the Corporation’s termination of such CCLF Transaction and shall instruct each such Netting Member to deliver the related securities to the Corporation in order to complete settlement on the contractual settlement date of the Liquidating Trade. The Corporation shall endeavor to terminate the CCLF Transactions based on the order that the Corporation enters into Liquidating Trades for the Financed Securities, subject to the Corporation’s risk management objective to minimize liquidation losses on the Financed Securities and minimize disruption to the fixed income markets.

All Delivery Obligations in respect of Financed Securities shall be deemed satisfied by operation of this Rule, and settlement of any original transaction between the Corporation and any Direct Affected Member shall be final notwithstanding that the Financed Securities are not required to be delivered to the Corporation in connection with such original transaction by the Direct Affected Member who was a buyer in the original transaction (such delivery being netted against delivery to the buyer under the CCLF MRA).

(ii) The Corporation shall conduct a study every six months, or at such intervals as the Corporation deems appropriate, to determine the following parameters:

- (A) Historical Cover 1 Liquidity Requirement,
- (B) the Liquidity Buffer,
- (C) the Receive Scaling Factor,
- (D) the Deliver Scaling Factor,
- (E) the Aggregate Total Amount,
- (F) the Aggregate Regular Amount, and
- (G) the Aggregate Supplemental Amount.

(iii) Based on the determinations referred to in (ii) above, the Corporation shall calculate the Individual Regular Amount for each Netting Member as the sum of subsections (A) and (B) below.

- (A) The Corporation shall (x) divide the absolute value of a Netting Member's Receive Obligations by the absolute value of the aggregate Receive Obligations of all Netting Members, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting product by the Receive Scaling Factor.
- (B) The Corporation shall (x) divide the absolute value of a Netting Member's Deliver Obligations by the absolute value of the aggregate Deliver Obligations of all Netting Members, then (y) multiply such resulting value by the Aggregate Regular Amount, then (z) multiply the resulting product by the Deliver Scaling Factor.

(iv) Based on the determinations referred to in (ii) above, the Corporation shall calculate the Individual Supplemental Amount for each Netting Member by:

- (A) apportioning an amount of the Aggregate Supplemental Amount to each Liquidity Tier based on the Relative Inter-Tier Frequency of Liquidity Needs,
- (B) apportioning each Netting Member's portion of the Aggregate Supplemental Amount assigned to each of that Netting Member's Liquidity Tiers based on the Relative Intra-Tier Frequency in which that Netting Member's Liquidity Needs have reached the respective Liquidity Tier, and
- (C) summing each Netting Member's apportionment across Liquidity Tiers.

(v) Each Netting Member's Individual Total Amount is the sum of its Individual Regular Amount and its Individual Supplemental Amount. FICC shall provide each Netting Member with its Individual Total Amount every six months (the "Reset Period").

(vi) Every three months, or at such times as the Corporation deems appropriate, the Corporation shall assess the parameters set forth in (ii) above and may change any such parameter to ensure that the Corporation is able to satisfy its liquidity needs or to achieve the purposes of this Section 2a. If any Netting Member's Individual Total Amount is increased as a result of this paragraph (vi), such increase shall be effective as of the next Reset Period.

(vii) On a daily basis, or at such times as the Corporation deems appropriate, the Corporation may increase the Aggregate Total Amount to ensure that such amount is sufficient to satisfy its liquidity needs. If any Netting Member's Individual Total Amount is increased as a result of this paragraph (vii), such increase shall not be effective until ten (10) Business Days after the Corporation has made an Important Notice available to such Netting Member regarding such increase.

(c) Information to Netting Members

On each Business Day, the Corporation shall make a liquidity funding report available to each Netting Member. Each Netting Member's report shall include the following:

- (i) the Netting Member's Individual Regular Amount and Individual Supplemental Amount;

(ii) the Corporation's Aggregate Total Amount, Aggregate Regular Amount and Aggregate Supplemental Amount; and

(iii) the daily liquidity coverage necessary to meet the Corporation's liquidity requirements.

This liquidity funding report shall be provided for informational purposes only. In the event that the Corporation declares a CCLF Event, Netting Members shall be required to enter into CCLF Transactions up to their Individual Total Amount as calculated by the Corporation.

(d) Required Attestation

At regular intervals determined in the Corporation's sole discretion or upon demand by the Corporation, each Netting Member shall attest that its Individual Total Amount has been incorporated into its liquidity plans (such attestation, the "Required Attestation"). The Required Attestation must be signed by two authorized officers of the Netting Member (or otherwise be satisfactory in form and substance to the Corporation) and contain the following certifications: (1) such officers have read and understand the Rules, (2) the Netting Member's Individual Total Amount has been incorporated into the Netting Member's liquidity planning, (3) the Netting Member acknowledges and agrees that its Individual Total Amount may be changed pursuant to Section 2a(b)(ii) through (v) of this Rule or otherwise upon ten (10) Business Days' Notice, (4) the Netting Member will incorporate any changes to its Individual Total Amount into its liquidity planning, and (5) the Netting Member shall, through periodic discussions with its financing sources and other methods, continually reassess its liquidity plans and related operational plans, including in the event of any changes to such Netting Member's Individual Total Amount, to ensure such Netting Member's ability to meet its Individual Total Amount.

* * * *