

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 30	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2018 - * 008	Amendment No. (req. for Amendments *)
Filing by Fixed Income Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>		
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="Apply Government Securities Division Corporation Default Rule to Sponsored Members and Make Other Changes"/>				
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 *	<input type="text" value="Rosa"/>	Last Name *	<input type="text" value="Chang"/>	
Title *	<input type="text" value="Executive Director and Associate General Counsel"/>			
E-mail *	<input type="text" value="rchang1@dtcc.com"/>			
Telephone *	<input type="text" value="(212) 855-4985"/>	Fax	<input type="text"/>	
Signature				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="08/06/2018"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>		
By	<input type="text" value="Nikki Poulos"/>	<input type="text" value=""/>		
(Name *)				
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
<input type="button" value="npoulos@dtcc.com"/>				

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 Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is attached hereto as Exhibit 5. The proposed rule change would amend the FICC Government Securities Division (“GSD”) Rulebook (“GSD Rules”)¹ in order to apply GSD Rule 22B (Corporation Default) to Sponsored Members as well as make certain other changes, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee of FICC’s Board of Directors on February 13, 2018.

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

(a) Purpose

The purpose of this proposed rule change is to amend GSD Rule 3A (Sponsoring Members and Sponsored Members) in order to apply GSD Rule 22B (Corporation Default) to Sponsored Members. In addition, the proposed rule change would make certain other changes, as described in greater detail below.

(i) Background

Under GSD Rule 3A (Sponsoring Members and Sponsored Members), Bank Netting Members that are well-capitalized (as defined by the Federal Deposit Insurance Corporation’s applicable regulations) and have at least \$5 billion in equity capital (Sponsoring Members) are permitted to sponsor qualified institutional buyers as defined by Rule 144A² under the Securities Act of 1933, as amended (“Securities Act”),³ and certain legal entities that, although not organized as entities specifically listed in paragraph (a)(1)(i) of Rule 144A under the Securities Act, satisfy the financial requirements necessary to be qualified institutional buyers as specified in that paragraph (Sponsored Members) into GSD membership.

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

² See 17 CFR 230.144A.

³ 15 U.S.C. 77a *et seq.*

In connection with the onboarding of new Sponsoring Members and their respective Sponsored Members into GSD membership, FICC has received certain questions regarding the applicability of GSD Rule 22B (Corporation Default) to Sponsoring Members and their respective Sponsored Members. GSD Rule 22B provides that close out netting will be applied to obligations between GSD and its Members in the event that a Corporation Default occurs.⁴ GSD Rule 22B currently does not apply to Sponsored Members but does apply to Sponsoring Members in their capacity as Netting Members. Not applying GSD Rule 22B to Sponsored Members creates an inconsistency with respect to the legal framework and process applicable to the Sponsored Members versus other GSD Members⁵ in the event that a Corporation Default occurs.

(ii) Proposed Changes to the GSD Rules

GSD Rule 3A (Sponsoring Members and Sponsored Members)

FICC is proposing to add an introductory paragraph to Section 17 of GSD Rule 3A (Sponsoring Members and Sponsored Members) which makes it clear that for purposes of the Rules, Schedules, Interpretations and Statements of Policy referenced in Section 17 of GSD Rule 3A, Sponsoring Members and/or Sponsored Members, in their respective capacities as such, would be “Members.” Adding this clarifying paragraph would be helpful to Sponsoring Members and Sponsored Members because it would enable them to know which Rules, Schedules, Interpretations and Statements of Policy would govern their rights, liabilities and obligations in their respective capacities as Sponsoring Members and/or Sponsored Members.

In order to ensure that all GSD Members are subject to a common, transparent legal framework in a Corporation Default situation, FICC is proposing to modify GSD Rule 3A so that GSD Rule 22B (Corporation Default) would apply to Sponsored Members in the same manner as it applies to all other GSD Members. Specifically, FICC proposes to add a new subsection (a) to Section 17 of GSD Rule 3A which would provide that GSD Rule 22B would apply to Sponsored Members. This proposed change would necessitate a technical change to renumber all subsequent subsections in Section 17 of GSD Rule 3A.

GSD Rule 22B defines the term “Corporation Default” and sets forth the close out netting process in the event of a Corporation Default. Section (b)(ii) of GSD Rule 22B provides that the following events shall constitute a Corporation Default: (A) the dissolution of FICC (other than

⁴ Events that shall constitute a Corporation Default are described in Section (b) of GSD Rule 22B. Supra note 1.

⁵ GSD Rule 1 (Definitions) defines “Member” as a Comparison-Only Member or a Netting Member. Supra note 1. For purposes of this filing, the term “Member” shall exclude Comparison-Only Members because Comparison-Only Members are not relevant in the context of Corporation Default provisions as such Members only participate in the Comparison System.

pursuant to a consolidation, amalgamation, or merger),⁶ (B) the institution by FICC of a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or the presentation of a petition for FICC's winding-up or liquidation, or the making of a general assignment for the benefit of creditors,⁷ (C) the institution of a proceeding against FICC seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or the presentation of a petition for FICC's winding-up or liquidation and, in each case, such proceeding or petition resulting in a judgement of insolvency or bankruptcy or the entry of an order for relief or the making of an order for FICC's winding-up or liquidation,⁸ or (D) FICC seeking or becoming subject to the appointment of a receiver, trustee, or other similar official pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act⁹ for FICC or for all or substantially all of FICC's assets.¹⁰

In addition, subject to the limitations set forth therein, Section (b)(i) of GSD Rule 22B provides that a Corporation Default is deemed to have occurred on the eighth (8th) day after FICC receives notice from a GSD Member of FICC's failure to make, when due, an undisputed payment or delivery to such Member that is required to be made by FICC under the GSD Rules; provided that, such failure remains unremedied throughout the seven (7) day period following FICC's receipt of the notice.¹¹

FICC's provision of clearance and settlement services, including the timely settlement of Transactions in the ordinary course of business, are a part of FICC's fundamental directive as a registered clearing agency under the Securities Exchange Act of 1934, as amended (the "Act"). The seven (7) day period provided by Section (b)(i) of GSD Rule 22B is intended to address the circumstance where FICC experiences an operational issue that prevents it from completing such clearance and settlement services. In this circumstance, if FICC is not able to rectify the failure and satisfy its obligations in seven (7) days, GSD Rule 22B requires that all Transactions which have been subject to Novation pursuant to the GSD Rules but have not yet settled and any rights and obligations of the parties thereto to be immediately terminated.¹² The seven (7) day period is designed to avoid a systemic disruption in such circumstance.

⁶ See Section (b)(ii)(A) of GSD Rule 22B. Supra note 1.

⁷ See Section (b)(ii)(B) of GSD Rule 22B. Supra note 1.

⁸ See Section (b)(ii)(C) of GSD Rule 22B. Supra note 1.

⁹ 12 U.S.C. 5381 *et seq.*

¹⁰ See Section (b)(ii)(D) of GSD Rule 22B. Supra note 1.

¹¹ See Section (b)(i) of GSD Rule 22B. Supra note 1.

¹² See Section (a) of GSD Rule 22B. Supra note 1.

In connection with the proposed rule change to apply GSD Rule 22B to Sponsored Members, FICC is also proposing to add language to clarify that the commencement of the seven (7) day period preceding a potential Corporation Default, as provided by Section (b)(i) of GSD Rule 22B, would not modify FICC's obligations to satisfy any undisputed payment or delivery obligation to a Sponsored Member under the GSD Rules, including any undisputed interest payment obligation owing to the Sponsored Member on an open Sponsored Member Trade, and that such obligation would continue to accrue in favor of the Sponsored Member for the duration of the seven (7) day period. Specifically, FICC is proposing to include in the proposed new subsection (a) to Section 17 of GSD Rule 3A language that makes it clear that FICC would be responsible for satisfying any undisputed payment or delivery obligation required to be made by FICC to a Sponsored Member under the GSD Rules, including, but not limited to, any undisputed interest payment obligation that accrues in favor of a Sponsored Member on a Sponsored Member Trade that has been subject to Novation pursuant to the GSD Rules but has not yet settled and for which FICC has received notice from such Sponsored Member of FICC's failure to make, when due, such undisputed interest payment to such Sponsored Member within the meaning of Section (b)(i) of GSD Rule 22B.

GSD Rule 22B (Corporation Default)

FICC is proposing to amend the wording of the third sentence of Section (a) of GSD Rule 22B to provide greater clarity regarding the close out netting process upon a Corporation Default. Specifically, FICC is proposing to delete a reference to Section 2(a) of GSD Rule 22A in that sentence and modify the reference to Section 2(b) of GSD Rule 22A to specifically refer to Section 2(b)(i) of GSD Rule 22A.

FICC is proposing to delete the reference to Section 2(a) of GSD Rule 22A in the third sentence of Section (a) of GSD Rule 22B because this reference is unnecessary and potentially confusing to GSD Members. The reference to Section 2(a) of GSD Rule 22A is meant to set forth Transactions that would not be subject to the close out netting process in the event of a Corporation Default by referring (by way of analogy) to Transactions that FICC would not close out in the event FICC ceases to act for a GSD Member. However, Section (a) of GSD Rule 22B already contains a statement that makes it clear which Transactions are subject to the close out netting process in the event of a Corporation Default: "all Transactions which have been subject to Novation pursuant to these [GSD] Rules" ¹³ Therefore, the reference to Section 2(a) of GSD Rule 22A is not necessary and potentially confusing to GSD Members, and FICC proposes to delete it from the third sentence of Section (a) of GSD Rule 22B.

In addition, FICC is proposing to modify the reference to Section 2(b) of GSD Rule 22A in the third sentence of Section (a) of GSD Rule 22B to specifically refer to Section 2(b)(i) of GSD Rule 22A. Section (a) of GSD Rule 22B provides, in relevant part, that "the Board shall determine a single net amount owed by or to each Member ... by applying the close out...procedures of Section 2(a) and (b) of [GSD] Rule 22A" ¹⁴ The reference to the entirety

¹³ See Section (a) of GSD Rule 22B. Supra note 1.

¹⁴ Id.

of Section 2(b) of GSD Rule 22A could cause confusion for GSD Members. This is because only subsection (i) of Section 2(b) of GSD Rule 22A, which speaks specifically to final net settlement positions, is relevant in the context of GSD Rule 22B. The rest of Section 2(b) of GSD Rule 22A is not relevant. Therefore, FICC is proposing to amend the reference to point specifically to Section 2(b)(i) of GSD Rule 22A.

FICC is also proposing to delete the “, to the extent applicable,” and “and application” language from the third sentence of Section (a) of GSD Rule 22B. FICC is proposing to delete the “, to the extent applicable,” language because Section 2(b)(i) of GSD Rule 22A would always be applicable for purposes of the Board determining a single net amount owed by or to each Member under GSD Rule 22B after a Corporation Default has occurred. Likewise, FICC is proposing to streamline the wording of the third sentence of Section (a) of GSD Rule 22B by deleting the “and application” language because it is extraneous wording that is unnecessary and not relevant in the context of Section 2(b)(i) of GSD Rule 22A.

Lastly, FICC is proposing a change to the third sentence of Section (a) of GSD Rule 22B to make it clear that, although GSD Rule 22B would apply to Sponsored Members pursuant to this proposal, the loss allocation provisions of GSD Rule 4 (Clearing Fund and Loss Allocation) referenced in GSD Rule 22B would not apply to Sponsored Members. Specifically, FICC is proposing a clarifying change in that sentence to add “, to the extent such provisions are otherwise applicable to such Member” following the reference in that sentence to the loss allocation provisions in GSD Rule 4. This proposed change is consistent with Section 12(a) of GSD Rule 3A, which provides that Sponsored Members are not obligated for allocations, pursuant to GSD Rule 4, of loss or liability incurred by FICC.

(b) Statutory Basis

FICC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes this proposal is consistent with Section 17A(b)(3)(F) of the Act¹⁵ and Rule 17Ad-22(e)(23)(i),¹⁶ as promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to “promote the prompt and accurate clearance and settlement of securities transactions.”¹⁷ FICC believes that the proposed rule change to apply GSD Rule 22B to Sponsored Members in the same manner as it applies to all other GSD Members would help to ensure that all GSD Members are subject to a common, transparent legal framework in a Corporation Default situation. Having a common, transparent legal framework in a Corporation Default situation would facilitate an orderly close out netting of obligations between FICC and the GSD Members

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

¹⁶ 17 CFR 240.17Ad-22(e)(23)(i).

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

in the event that a Corporation Default occurs. An orderly close out netting of obligations between FICC and the GSD Members would provide clarity and certainty to market participants in a time of distress regarding their rights and obligations and the rights and obligations of FICC. Clarity and certainty of the rights and obligations of market participants as well as rights and obligations of FICC would in turn promote the prompt and accurate clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule change to apply GSD Rule 22B to Sponsored Members in the same manner as it applies to all other GSD Members is consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(23)(i) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures.¹⁸ FICC believes that the proposed rule changes to (i) amend the third sentence of Section (a) of GSD Rule 22B by (A) deleting the unnecessary and potentially confusing reference to Section 2(a) of GSD Rule 22A and (B) modifying the reference to Section 2(b) of GSD Rule 22A to specifically refer to Section 2(b)(i) of GSD Rule 22A, and (ii) make clarifying and/or technical changes in GSD Rule 3A and GSD Rule 22B, would ensure that the GSD Rules remain clear and accurate to GSD Members. Having clear and accurate GSD Rules would facilitate GSD Members' understanding of those rules and provide GSD Members with increased predictability and certainty regarding their obligations. As such, FICC believes that these proposed rule changes are consistent with Rule 17Ad-22(e)(23)(i) under the Act.

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

FICC believes that the proposed rule change to apply GSD Rule 22B to Sponsored Members could have an impact on competition. This is because the proposed change to apply GSD Rule 22B to Sponsored Members would (i) provide for the immediate termination upon a Corporation Default of all Transactions to which a Sponsored Member is a party and which have been subject to Novation pursuant to GSD Rules but have not yet settled and (ii) require a Sponsored Member to provide FICC with a 7-day period under the circumstances described in Section (b)(i) of GSD Rule 22B before such termination can occur. FICC believes this proposed rule change could both promote competition and burden competition. The proposed rule change to apply GSD Rule 22B to Sponsored Members could promote competition by ensuring that GSD Members are subject to a common, transparent legal framework in a Corporation Default. Applying the close out netting process and the 7-day period requirement to Sponsored Members in the same manner as they apply to all other GSD Members would help ensure that, in the unlikely event that FICC becomes insolvent or defaults in its obligations to GSD Members, all GSD Members follow the same procedures in closing out their positions and netting them against FICC's obligations to the GSD Members. Requiring that all GSD Members follow the same procedures in closing out their positions in a Corporation Default would help promote competition because all GSD Members would be treated alike during a stressed market condition. Conversely, the propose rule change to apply GSD Rule 22B to Sponsored Members could burden competition by subjecting the Sponsored Members to the close out netting process and the 7-day period requirement. However, FICC believes any burden on competition that is created

¹⁸ 17 CFR 240.17Ad-22(e)(23)(i).

by this proposed rule change would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.¹⁹

FICC believes any burden on competition that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be necessary in furtherance of the purposes of the Act²⁰ because the GSD Rules are required to be designed to “promote the prompt and accurate clearance and settlement of securities transactions.”²¹ As described above, the proposed rule change to apply GSD Rule 22B to Sponsored Members would help to ensure that all GSD Members are subject to a common, transparent legal framework in a Corporation Default. Having a common, transparent legal framework in a Corporation Default situation would facilitate an orderly close out netting of obligations between FICC and the GSD Members in the event that a Corporation Default occurs. An orderly close out netting of obligations between FICC and the GSD Members would provide clarity and certainty to market participants in a time of distress regarding their rights and obligations and the rights and obligations of FICC. Clarity and certainty of the rights and obligations of market participants as well as the rights and obligations of FICC would in turn promote the prompt and accurate clearance and settlement of securities transactions. Therefore, FICC believes any burden that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be necessary in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.²²

FICC also believes any burden on competition that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be appropriate in furtherance of the purposes of the Act.²³ As described above, the proposed rule change to apply GSD Rule 22B to Sponsored Members would subject Sponsored Members to the close out netting process and the 7-day period requirement. Subjecting Sponsored Members to the close out netting process would facilitate an orderly close out netting of obligations between FICC and all GSD Members (including the Sponsored Members) in the event that a Corporation Default occurs. Requiring Sponsored Members to provide FICC with a 7-day period under the circumstances described in Section (b)(i) of GSD Rule 22B would help to avoid a systemic disruption under such circumstances. Therefore, FICC believes any burden that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.²⁴

¹⁹ 15 U.S.C. 78q-1(b)(3)(I).

²⁰ Id.

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² 15 U.S.C. 78q-1(b)(3)(I).

²³ Id.

²⁴ Id.

FICC does not believe that the proposed rule changes to (i) amend the third sentence of Section (a) of GSD Rule 22B by (A) deleting the unnecessary and potentially confusing reference to Section 2(a) of GSD Rule 22A and (B) modifying the reference to Section 2(b) of GSD Rule 22A to specifically refer to Section 2(b)(i) of GSD Rule 22A, and (ii) make clarifying and/or technical changes in GSD Rule 3A and GSD Rule 22B, would have an impact on competition.²⁵ These changes would simply provide specificity, clarity and additional transparency within the GSD Rules and not affect GSD Members' rights and obligations. As such, FICC believes that these proposed rule changes would not have any impact on competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC reviewed the proposed rule change with its Sponsoring Members in order to benefit from their expertise on the Sponsored Members. Written comments relating to this proposed rule change have not been received from the Sponsoring Members or any other person. FICC will notify the Commission of any written comments received by FICC.

6. Extension of Time Period for Commission Action

FICC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act²⁶ for Commission action.

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

- (a) 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 changes are not based on the rules of another self-regulatory organization or the Commission.

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

Not applicable.

²⁵ Id.

²⁶ 15 U.S.C. 78s(b)(2).

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010

Not applicable.

11. Exhibits

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the GSD Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-FICC-2018-008)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Apply Government Securities Division Corporation Default Rule to Sponsored Members and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on August __, 2018, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of modifications to FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”)³ in order to apply GSD Rule 22B (Corporation Default) to Sponsored Members as well as make certain other changes, as described in greater detail below.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein are defined in the GSD Rules, available at http://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf.

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

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

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

1. Purpose

The purpose of this proposed rule change is to amend GSD Rule 3A (Sponsoring Members and Sponsored Members) in order to apply GSD Rule 22B (Corporation Default) to Sponsored Members. In addition, the proposed rule change would make certain other changes, as described in greater detail below.

(i) Background

Under GSD Rule 3A (Sponsoring Members and Sponsored Members), Bank Netting Members that are well-capitalized (as defined by the Federal Deposit Insurance Corporation's applicable regulations) and have at least \$5 billion in equity capital (Sponsoring Members) are permitted to sponsor qualified institutional buyers as defined by Rule 144A⁴ under the Securities Act of 1933, as amended ("Securities Act"),⁵ and certain legal entities that, although not organized as entities specifically listed in

⁴ See 17 CFR 230.144A.

⁵ 15 U.S.C. 77a *et seq.*

paragraph (a)(1)(i) of Rule 144A under the Securities Act, satisfy the financial requirements necessary to be qualified institutional buyers as specified in that paragraph (Sponsored Members) into GSD membership.

In connection with the onboarding of new Sponsoring Members and their respective Sponsored Members into GSD membership, FICC has received certain questions regarding the applicability of GSD Rule 22B (Corporation Default) to Sponsoring Members and their respective Sponsored Members. GSD Rule 22B provides that close out netting will be applied to obligations between GSD and its Members in the event that a Corporation Default occurs.⁶ GSD Rule 22B currently does not apply to Sponsored Members but does apply to Sponsoring Members in their capacity as Netting Members. Not applying GSD Rule 22B to Sponsored Members creates an inconsistency with respect to the legal framework and process applicable to the Sponsored Members versus other GSD Members⁷ in the event that a Corporation Default occurs.

(ii) Proposed Changes to the GSD Rules

GSD Rule 3A (Sponsoring Members and Sponsored Members)

FICC is proposing to add an introductory paragraph to Section 17 of GSD Rule 3A (Sponsoring Members and Sponsored Members) which makes it clear that for purposes of the Rules, Schedules, Interpretations and Statements of Policy referenced in Section 17 of GSD Rule 3A, Sponsoring Members and/or Sponsored Members, in their

⁶ Events that shall constitute a Corporation Default are described in Section (b) of GSD Rule 22B. Supra note 3.

⁷ GSD Rule 1 (Definitions) defines “Member” as a Comparison-Only Member or a Netting Member. Supra note 3. For purposes of this filing, the term “Member” shall exclude Comparison-Only Members because Comparison-Only Members are not relevant in the context of Corporation Default provisions as such Members only participate in the Comparison System.

respective capacities as such, would be “Members.” Adding this clarifying paragraph would be helpful to Sponsoring Members and Sponsored Members because it would enable them to know which Rules, Schedules, Interpretations and Statements of Policy would govern their rights, liabilities and obligations in their respective capacities as Sponsoring Members and/or Sponsored Members.

In order to ensure that all GSD Members are subject to a common, transparent legal framework in a Corporation Default situation, FICC is proposing to modify GSD Rule 3A so that GSD Rule 22B (Corporation Default) would apply to Sponsored Members in the same manner as it applies to all other GSD Members. Specifically, FICC proposes to add a new subsection (a) to Section 17 of GSD Rule 3A which would provide that GSD Rule 22B would apply to Sponsored Members. This proposed change would necessitate a technical change to renumber all subsequent subsections in Section 17 of GSD Rule 3A.

GSD Rule 22B defines the term “Corporation Default” and sets forth the close out netting process in the event of a Corporation Default. Section (b)(ii) of GSD Rule 22B provides that the following events shall constitute a Corporation Default: (A) the dissolution of FICC (other than pursuant to a consolidation, amalgamation, or merger),⁸ (B) the institution by FICC of a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or the presentation of a petition for FICC’s winding-up or liquidation, or the making of a general assignment for the benefit of creditors,⁹ (C) the

⁸ See Section (b)(ii)(A) of GSD Rule 22B. Supra note 3.

⁹ See Section (b)(ii)(B) of GSD Rule 22B. Supra note 3.

institution of a proceeding against FICC seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or the presentation of a petition for FICC's winding-up or liquidation and, in each case, such proceeding or petition resulting in a judgement of insolvency or bankruptcy or the entry of an order for relief or the making of an order for FICC's winding-up or liquidation,¹⁰ or (D) FICC seeking or becoming subject to the appointment of a receiver, trustee, or other similar official pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act¹¹ for FICC or for all or substantially all of FICC's assets.¹²

In addition, subject to the limitations set forth therein, Section (b)(i) of GSD Rule 22B provides that a Corporation Default is deemed to have occurred on the eighth (8th) day after FICC receives notice from a GSD Member of FICC's failure to make, when due, an undisputed payment or delivery to such Member that is required to be made by FICC under the GSD Rules; provided that, such failure remains unremedied throughout the seven (7) day period following FICC's receipt of the notice.¹³

FICC's provision of clearance and settlement services, including the timely settlement of Transactions in the ordinary course of business, are a part of FICC's fundamental directive as a registered clearing agency under the Act. The seven (7) day period provided by Section (b)(i) of GSD Rule 22B is intended to address the

¹⁰ See Section (b)(ii)(C) of GSD Rule 22B. Supra note 3.

¹¹ 12 U.S.C. 5381 *et seq.*

¹² See Section (b)(ii)(D) of GSD Rule 22B. Supra note 3.

¹³ See Section (b)(i) of GSD Rule 22B. Supra note 3.

circumstance where FICC experiences an operational issue that prevents it from completing such clearance and settlement services. In this circumstance, if FICC is not able to rectify the failure and satisfy its obligations in seven (7) days, GSD Rule 22B requires that all Transactions which have been subject to Novation pursuant to the GSD Rules but have not yet settled and any rights and obligations of the parties thereto to be immediately terminated.¹⁴ The seven (7) day period is designed to avoid a systemic disruption in such circumstance.

In connection with the proposed rule change to apply GSD Rule 22B to Sponsored Members, FICC is also proposing to add language to clarify that the commencement of the seven (7) day period preceding a potential Corporation Default, as provided by Section (b)(i) of GSD Rule 22B, would not modify FICC's obligations to satisfy any undisputed payment or delivery obligation to a Sponsored Member under the GSD Rules, including any undisputed interest payment obligation owing to the Sponsored Member on an open Sponsored Member Trade, and that such obligation would continue to accrue in favor of the Sponsored Member for the duration of the seven (7) day period. Specifically, FICC is proposing to include in the proposed new subsection (a) to Section 17 of GSD Rule 3A language that makes it clear that FICC would be responsible for satisfying any undisputed payment or delivery obligation required to be made by FICC to a Sponsored Member under the GSD Rules, including, but not limited to, any undisputed interest payment obligation that accrues in favor of a Sponsored Member on a Sponsored Member Trade that has been subject to Novation pursuant to the GSD Rules but has not yet settled and for which FICC has received notice

¹⁴ See Section (a) of GSD Rule 22B. Supra note 3.

from such Sponsored Member of FICC's failure to make, when due, such undisputed interest payment to such Sponsored Member within the meaning of Section (b)(i) of GSD Rule 22B.

GSD Rule 22B (Corporation Default)

FICC is proposing to amend the wording of the third sentence of Section (a) of GSD Rule 22B to provide greater clarity regarding the close out netting process upon a Corporation Default. Specifically, FICC is proposing to delete a reference to Section 2(a) of GSD Rule 22A in that sentence and modify the reference to Section 2(b) of GSD Rule 22A to specifically refer to Section 2(b)(i) of GSD Rule 22A.

FICC is proposing to delete the reference to Section 2(a) of GSD Rule 22A in the third sentence of Section (a) of GSD Rule 22B because this reference is unnecessary and potentially confusing to GSD Members. The reference to Section 2(a) of GSD Rule 22A is meant to set forth Transactions that would not be subject to the close out netting process in the event of a Corporation Default by referring (by way of analogy) to Transactions that FICC would not close out in the event FICC ceases to act for a GSD Member. However, Section (a) of GSD Rule 22B already contains a statement that makes it clear which Transactions are subject to the close out netting process in the event of a Corporation Default: "all Transactions which have been subject to Novation pursuant to these [GSD] Rules" ¹⁵ Therefore, the reference to Section 2(a) of GSD Rule 22A is not necessary and potentially confusing to GSD Members, and FICC proposes to delete it from the third sentence of Section (a) of GSD Rule 22B.

¹⁵ See Section (a) of GSD Rule 22B. Supra note 3.

In addition, FICC is proposing to modify the reference to Section 2(b) of GSD Rule 22A in the third sentence of Section (a) of GSD Rule 22B to specifically refer to Section 2(b)(i) of GSD Rule 22A. Section (a) of GSD Rule 22B provides, in relevant part, that “the Board shall determine a single net amount owed by or to each Member ... by applying the close out...procedures of Section 2(a) and (b) of [GSD] Rule 22A”¹⁶ The reference to the entirety of Section 2(b) of GSD Rule 22A could cause confusion for GSD Members. This is because only subsection (i) of Section 2(b) of GSD Rule 22A, which speaks specifically to final net settlement positions, is relevant in the context of GSD Rule 22B. The rest of Section 2(b) of GSD Rule 22A is not relevant. Therefore, FICC is proposing to amend the reference to point specifically to Section 2(b)(i) of GSD Rule 22A.

FICC is also proposing to delete the “, to the extent applicable,” and “and application” language from the third sentence of Section (a) of GSD Rule 22B. FICC is proposing to delete the “, to the extent applicable,” language because Section 2(b)(i) of GSD Rule 22A would always be applicable for purposes of the Board determining a single net amount owed by or to each Member under GSD Rule 22B after a Corporation Default has occurred. Likewise, FICC is proposing to streamline the wording of the third sentence of Section (a) of GSD Rule 22B by deleting the “and application” language because it is extraneous wording that is unnecessary and not relevant in the context of Section 2(b)(i) of GSD Rule 22A.

Lastly, FICC is proposing a change to the third sentence of Section (a) of GSD Rule 22B to make it clear that, although GSD Rule 22B would apply to Sponsored

¹⁶ Id.

Members pursuant to this proposal, the loss allocation provisions of GSD Rule 4 (Clearing Fund and Loss Allocation) referenced in GSD Rule 22B would not apply to Sponsored Members. Specifically, FICC is proposing a clarifying change in that sentence to add “, to the extent such provisions are otherwise applicable to such Member” following the reference in that sentence to the loss allocation provisions in GSD Rule 4. This proposed change is consistent with Section 12(a) of GSD Rule 3A, which provides that Sponsored Members are not obligated for allocations, pursuant to GSD Rule 4, of loss or liability incurred by FICC.

2. Statutory Basis

FICC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes this proposal is consistent with Section 17A(b)(3)(F) of the Act¹⁷ and Rule 17Ad-22(e)(23)(i),¹⁸ as promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to “promote the prompt and accurate clearance and settlement of securities transactions.”¹⁹ FICC believes that the proposed rule change to apply GSD Rule 22B to Sponsored Members in the same manner as it applies to all other GSD Members would help to ensure that all GSD Members are subject to a common, transparent legal framework in a Corporation Default situation. Having a common, transparent legal framework in a Corporation Default situation would facilitate an orderly close out netting

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

¹⁸ 17 CFR 240.17Ad-22(e)(23)(i).

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

of obligations between FICC and the GSD Members in the event that a Corporation Default occurs. An orderly close out netting of obligations between FICC and the GSD Members would provide clarity and certainty to market participants in a time of distress regarding their rights and obligations and the rights and obligations of FICC. Clarity and certainty of the rights and obligations of market participants as well as rights and obligations of FICC would in turn promote the prompt and accurate clearance and settlement of securities transactions. Therefore, FICC believes that the proposed rule change to apply GSD Rule 22B to Sponsored Members in the same manner as it applies to all other GSD Members is consistent with Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(23)(i) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures.²⁰ FICC believes that the proposed rule changes to (i) amend the third sentence of Section (a) of GSD Rule 22B by (A) deleting the unnecessary and potentially confusing reference to Section 2(a) of GSD Rule 22A and (B) modifying the reference to Section 2(b) of GSD Rule 22A to specifically refer to Section 2(b)(i) of GSD Rule 22A, and (ii) make clarifying and/or technical changes in GSD Rule 3A and GSD Rule 22B, would ensure that the GSD Rules remain clear and accurate to GSD Members. Having clear and accurate GSD Rules would facilitate GSD Members' understanding of those rules and provide GSD Members with increased predictability and certainty regarding their obligations. As such, FICC believes that these proposed rule changes are consistent with Rule 17Ad-22(e)(23)(i) under the Act.

²⁰ 17 CFR 240.17Ad-22(e)(23)(i).

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

FICC believes that the proposed rule change to apply GSD Rule 22B to Sponsored Members could have an impact on competition. This is because the proposed change to apply GSD Rule 22B to Sponsored Members would (i) provide for the immediate termination upon a Corporation Default of all Transactions to which a Sponsored Member is a party and which have been subject to Novation pursuant to GSD Rules but have not yet settled and (ii) require a Sponsored Member to provide FICC with a 7-day period under the circumstances described in Section (b)(i) of GSD Rule 22B before such termination can occur. FICC believes this proposed rule change could both promote competition and burden competition. The proposed rule change to apply GSD Rule 22B to Sponsored Members could promote competition by ensuring that GSD Members are subject to a common, transparent legal framework in a Corporation Default. Applying the close out netting process and the 7-day period requirement to Sponsored Members in the same manner as they apply to all other GSD Members would help ensure that, in the unlikely event that FICC becomes insolvent or defaults in its obligations to GSD Members, all GSD Members follow the same procedures in closing out their positions and netting them against FICC's obligations to the GSD Members. Requiring that all GSD Members follow the same procedures in closing out their positions in a Corporation Default would help promote competition because all GSD Members would be treated alike during a stressed market condition. Conversely, the proposed rule change to apply GSD Rule 22B to Sponsored Members could burden competition by subjecting the Sponsored Members to the close out netting process and the 7-day period requirement. However, FICC believes any burden on competition that is created by this

proposed rule change would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.²¹

FICC believes any burden on competition that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be necessary in furtherance of the purposes of the Act²² because the GSD Rules are required to be designed to “promote the prompt and accurate clearance and settlement of securities transactions.”²³ As described above, the proposed rule change to apply GSD Rule 22B to Sponsored Members would help to ensure that all GSD Members are subject to a common, transparent legal framework in a Corporation Default. Having a common, transparent legal framework in a Corporation Default situation would facilitate an orderly close out netting of obligations between FICC and the GSD Members in the event that a Corporation Default occurs. An orderly close out netting of obligations between FICC and the GSD Members would provide clarity and certainty to market participants in a time of distress regarding their rights and obligations and the rights and obligations of FICC. Clarity and certainty of the rights and obligations of market participants as well as the rights and obligations of FICC would in turn promote the prompt and accurate clearance and settlement of securities transactions. Therefore, FICC believes any burden that is created by the proposed rule change to apply GSD Rule 22B to Sponsored

²¹ 15 U.S.C. 78q-1(b)(3)(I).

²² Id.

²³ 15 U.S.C. 78q-1(b)(3)(F).

Members would be necessary in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.²⁴

FICC also believes any burden on competition that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be appropriate in furtherance of the purposes of the Act.²⁵ As described above, the proposed rule change to apply GSD Rule 22B to Sponsored Members would subject Sponsored Members to the close out netting process and the 7-day period requirement. Subjecting Sponsored Members to the close out netting process would facilitate an orderly close out netting of obligations between FICC and all GSD Members (including the Sponsored Members) in the event that a Corporation Default occurs. Requiring Sponsored Members to provide FICC with a 7-day period under the circumstances described in Section (b)(i) of GSD Rule 22B would help to avoid a systemic disruption under such circumstances. Therefore, FICC believes any burden that is created by the proposed rule change to apply GSD Rule 22B to Sponsored Members would be appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.²⁶

FICC does not believe that the proposed rule changes to (i) amend the third sentence of Section (a) of GSD Rule 22B by (A) deleting the unnecessary and potentially confusing reference to Section 2(a) of GSD Rule 22A and (B) modifying the reference to Section 2(b) of GSD Rule 22A to specifically refer to Section 2(b)(i) of GSD Rule 22A, and (ii) make clarifying and/or technical changes in GSD Rule 3A and GSD Rule 22B,

²⁴ 15 U.S.C. 78q-1(b)(3)(I).

²⁵ Id.

²⁶ Id.

would have an impact on competition.²⁷ These changes would simply provide specificity, clarity and additional transparency within the GSD Rules and not affect GSD Members' rights and obligations. As such, FICC believes that these proposed rule changes would not have any impact on competition.

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

FICC reviewed the proposed rule change with its Sponsoring Members in order to benefit from their expertise on the Sponsored Members. Written comments relating to this proposed rule change have not been received from the Sponsoring Members or any other person. FICC will notify the Commission of any written comments received by FICC.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

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

²⁷

Id.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2018-008 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-2018-008. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2018-008 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁸

Secretary

²⁸ 17 CFR 200.30-3(a)(12).

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

TEXT OF PROPOSED RULE CHANGE

indicates proposed added language

indicates proposed deleted language

indicates proposed added language in connection with a separate proposal that has not yet been approved (SR-FICC-2017-022, filed on December 18, 2017 and amended on June 28, 2018; and SR-FICC-2017-806, filed on December 18, 2017 and amended on June 28, 2018 and July 6, 2018, respectively)

indicates proposed deleted language in connection with a separate proposal that has not yet been approved (SR-FICC-2017-022, filed on December 18, 2017 and amended on June 28, 2018; and SR-FICC-2017-806, filed on December 18, 2017 and amended on June 28, 2018 and July 6, 2018, respectively)

RULE 3A – SPONSORING MEMBERS AND SPONSORED MEMBERS

* * * *

Section 17 – Other Applicable Rules, Schedules, Interpretations and Statements

For purposes of the Rules, Schedules, Interpretations and Statements of Policy referenced in this section, Sponsoring Members and/or Sponsored Members, in their respective capacities as such, shall be “Members.”

(a) Rule 22B (Corporation Default) shall apply to Sponsored Members.

For the avoidance of doubt, the Corporation shall be responsible for satisfying any undisputed payment or delivery obligation required to be made by it to a Sponsored Member under these Rules, including, but not limited to, any undisputed interest payment obligation that accrues in favor of a Sponsored Member on a Sponsored Member Trade that has been subject to Novation pursuant to these Rules but has not yet settled and for which the Corporation has received notice from such Sponsored Member of the Corporation’s failure to make, when due, such undisputed interest payment to such Sponsored Member within the meaning of Section (b)(i) of Rule 22B.

(ab) Rule 27 (Admission to Premises of the Corporation, Powers of Attorney, Etc.), Rule 28 (Forms), Rule 29 (Release of Clearing Data), Rule 30 (Lists to be Maintained), Rule 31 (Distribution Facilities), Rule 32 (Signatures), Rule 33 (Procedures), Rule 34 (Insurance), Rule 35 (Financial Reports), Rule 36 (Rule Changes), Rule 37 (Hearing Procedures), Rule 38 (Governing Law and Captions), Rule 39 (Limitations of Liability), Section 3 of Rule 40 (General Provisions), Rule 41 (Cross-Guaranty Agreements), Rule 42 (Suspension of Rules), Rule 44 (Action by the Corporation), Rule 45 (Notices), Rule 46 (Interpretation of Terms), Rule 47 (Interpretation of Rules), and Rule 48 (Disciplinary Proceedings) shall apply to, or with respect to, Sponsored Members and Sponsoring Members.

(bc) All Schedules that are cited in, or pertain to, the Rules cited in this Rule 3A as applying to Sponsoring Members and/or Sponsored Members shall apply to Sponsored Members and Sponsoring Members.

(ed) Any Statements of Policy or Interpretations contained in these Rules shall apply to Sponsoring Members and Sponsored Members unless expressly stated otherwise.

* * * *

RULE 22B – CORPORATION DEFAULT

Corporation Default

(a) If a “Corporation Default” occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated. Each relevant Member shall thereupon promptly take such market action as is commercially reasonable under the circumstances to effect a close out of any outstanding positions. Each Member will report the results of its market action to the Board and the Board shall determine a single net amount owed by or to each Member with respect to such positions, ~~to the extent applicable,~~ by applying the close out ~~and application~~ procedures of Sections 2(a) and (b)(i) of Rule 22A [(interpreted in all such cases as if each Member were a Defaulting Member)] and [Sections 7(a) through (e) of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member)] taking into account the [other loss allocation] provisions in [these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member Rule 4], to the extent such provisions are otherwise applicable to such Member. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members’ and any other creditors’ claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. For the avoidance of doubt, nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Mortgage-Backed Securities Division or any other Cross-Guaranty Counterparty.

* * * *