

Required fields are shown with yellow backgrounds and asterisks.

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"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input checked="" 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 *).

Amend the GSD Rulebook to Establish a Process to Address Liquidity Needs in Certain Situations in the GCF Repo and CCIT Services 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 * Kristen	Last Name * Lam
Title * Director and Assistant General Counsel	
E-mail * klam1@dtcc.com	
Telephone * (212) 855-5258	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 08/09/2019	Managing Director and Deputy General Counsel
By Nikki Poulos	
(Name *)	

 npoulos@dtcc.com

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 EFFS website.

Form 19b-4 Information *

Add Remove View

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

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

Add Remove View

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

Exhibit 5 - Proposed Rule Text

Add Remove View

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

Add Remove View

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 amendments to the FICC Government Securities Division (“GSD”) Rulebook (the “Rules”),¹ annexed hereto as Exhibit 5, to: (i) establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo Transaction² and CCIT Transaction³ activity (hereinafter “GCF Repo/CCIT activity”)⁴ and remove the current 6:00 p.m. Collateral Allocation Obligation⁵ deadline; (ii) establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member⁶ with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part); and (iii) make a clarification, certain technical changes and corrections, all as further described below.

¹ Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

² “GCF Repo Transaction” means a Repo Transaction involving Generic CUSIP Numbers the data on which are submitted to FICC on a Locked-In-Trade basis pursuant to the provisions of Rule 6C, for netting and settlement by FICC pursuant to the provisions of Rule 20. Rule 1, supra note 1.

³ “CCIT Transaction” means a transaction that is processed by FICC in the CCIT Service. Because the CCIT Service leverages the infrastructure and processes of the GCF Repo Service, a CCIT Transaction must be: (i) in a Generic CUSIP Number approved for the GCF Repo Service and (ii) between a CCIT Member and a Netting Member who participates in the GCF Repo Service where the CCIT Member is the cash lender in the transaction. Rule 1, supra note 1.

⁴ The GCF Repo Service is primarily governed by Rule 20 and enables Netting Members to trade general collateral finance repurchase agreement transactions based on rate, term, and underlying product throughout the day with brokers on a blind basis. The CCIT Service is governed by Rule 3B and enables tri-party repurchase agreement transactions in GCF Repo Securities between Netting Members that participate in the GCF Repo Service and institutional cash lenders (other than investment companies registered under the Investment Company Act of 1940, as amended). Rule 20 and Rule 3B, supra note 1.

⁵ “Collateral Allocation Obligation” means the obligation of a Netting Member to allocate securities or cash for the benefit of FICC to secure such Member’s GCF Net Funds Borrower Position. Rule 1, supra note 1.

⁶ “CCIT™” means Centrally Cleared Institutional Triparty. The terms “Centrally Cleared Institutional Triparty Member” and “CCIT Member” mean a legal entity other than a Registered Investment Company approved to participate in the FICC’s CCIT Service as a cash lender. Rule 1, supra note 1. Eligibility to become a CCIT Member is described in Section 2 of Rule 3B. Rule 3B, Section 2, supra note 1.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The filing of this advance notice with the Commission 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

Not applicable.

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

Not applicable.

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

Written comments relating to this proposal have not been solicited or received. FICC will notify the Securities and Exchange Commission (the "Commission") of any written comments received by 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

Not applicable.

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

Not applicable.

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

Nature of the Proposed Change

The proposed rule change would amend the Rules to: (i) establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity and remove the current 6:00 p.m. Collateral Allocation Obligation deadline; (ii) establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part); and (iii) make a clarification, certain technical changes and corrections, all as further described below.

- (i) **Proposed change to establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity and remove the current 6:00 p.m. Collateral Allocation Obligation deadline**

Securities Obligations (Collateral Allocation Obligations)

The Rules (Section 3 of Rule 20, the Schedule of GCF Timeframes and the Fee Structure) currently address a Netting Member's failure to satisfy its Collateral Allocation Obligation on a timely basis.⁷ Specifically, Section 3 of Rule 20 states that Collateral Allocation Obligations must be satisfied by a Netting Member within the timeframes established for such by FICC.⁸ The current deadline in the Schedule of GCF Timeframes for Netting Member allocation of collateral to satisfy securities obligations is 4:30 p.m.⁹ This 4:30 p.m. deadline is the first deadline by which Netting Members that have Collateral Allocation Obligations must allocate their securities collateral or be subject to a late fee of \$500 (the late fee is set forth in the Fee Structure of the Rules).¹⁰ In addition, the Schedule of GCF Timeframes includes a second deadline of 6:00 p.m. by which Netting Members that have Collateral Allocation Obligations must allocate their securities collateral; after 6:00 p.m., FICC will process such collateral allocations on a good faith basis only.¹¹ These provisions are mirrored in Section 3 of Rule 20,

⁷ Rule 20, Section 3, Schedule of GCF Timeframes, and Fee Structure, supra note 1. Collateral Allocation Obligations do not apply to CCIT Members because they can only be cash lenders in the CCIT Transactions.

⁸ Rule 20, Section 3, supra note 1.

⁹ Schedule of GCF Timeframes, supra note 1.

¹⁰ Fee Structure, supra note 1.

¹¹ Schedule of GCF Timeframes, supra note 1. Today, after 6:00 p.m., FICC will process collateral allocations on a good faith basis, namely if FICC is able to contact both affected Netting Members and such Netting Members agree to settle such transaction, then FICC and its GCF Clearing Agent Bank will settle such transaction.

which also references the “final cutoff” (i.e., the 6:00 p.m. deadline).¹² Section 3 of Rule 20 also provides FICC’s processing of such late allocations is on a good faith basis only.¹³ Furthermore, Section 3 of Rule 20 states that Netting Members that do not satisfy their Collateral Allocation Obligations by the close of the Fedwire Funds Service shall be deemed to have failed on such Position (the consequence of which shall be that such Netting Member would not be entitled to receive the funds borrowed, but shall owe interest on such funds amount).¹⁴

With respect to the foregoing regarding allocation of securities collateral on a timely basis, FICC proposes to establish 4:30 p.m. as the only deadline for Netting Member allocation of collateral.¹⁵ In other words, FICC proposes to remove the current second deadline (i.e., 6:00 p.m.) by which Netting Members that have Collateral Allocation Obligations must allocate their securities obligations. This proposed change would align the deadline for allocating securities obligations with the proposed deadline for satisfying cash obligations (i.e., 4:30 p.m. or one hour after the close of the Fedwire Securities Service reversals, if later). Netting Members typically have obligations to satisfy outside of FICC after the collateral allocations occur at FICC. FICC believes that all parties (including FICC) would benefit from securities settlement occurring by 4:30 p.m. This is because the more settlements that complete earlier, the more potential operational risk is removed from the market. Specifically, there is interconnectivity between the GCF Repo market and the tri-party market outside of FICC. The securities collateral that is used to settle GCF Repo positions can be subsequently used by Netting Members to complete tri-party transactions outside of FICC. Therefore, the earlier that securities settlement occurs in the GCF Repo Service, the less potential operational risk of incomplete tri-party transactions outside of FICC. Under the current Rules, the second deadline of 6:00 p.m. creates an environment of later settlement both at FICC and outside of FICC. Even though Netting Members are generally abiding by the 4:30 p.m. securities allocation deadline, FICC would like to address the possibility of later settlement by deleting the 6:00 p.m. deadline. Therefore, by imposing 4:30 p.m. as the only deadline, FICC believes it would be lowering potential operational risk in the market that could arise if Netting Members chose to avail themselves of the current 6:00 p.m. deadline. This risk is the risk of disorder if firms are attempting to fulfill GCF Repo settlement and tri-party transaction settlement at the same time later in the day. Under the proposal, FICC would continue to process collateral allocations after the 4:30 p.m. deadline on a good faith basis only (like it currently does for collateral allocations after the current 6:00 p.m. deadline). Netting Members would remain subject to the \$500 late fee if they do not meet the 4:30 p.m. deadline unless FICC determines, in its sole discretion, that

¹² Rule 20, Section 3, supra note 1.

¹³ Id.

¹⁴ Id.

¹⁵ See Schedule of GCF Timeframes, supra note 1. Currently, the Schedule of GCF Timeframes provides that the first deadline for collateral allocation is 4:30 p.m. or one hour after the close of the securities FedWire, if later. The reference regarding one hour after the FedWire close would remain, subject to a correction discussed below in Item 10(iii) of this filing.

failure to meet this timeframe is not primarily the fault of the Netting Member, as currently stated in Section IX of the Fee Structure. This determination would be made by FICC Product Management based on input from the GCF Clearing Agent Bank, internal FICC Operations staff and the Netting Member. The Netting Member would not be charged if the lateness is due to the GCF Clearing Agent Bank or FICC.

Cash Obligations

The Rules do not currently contain a deadline for a Netting Member's or CCIT Member's satisfaction of cash obligations in the GCF Repo Service and the CCIT Service. FICC proposes to establish 4:30 p.m. (or one hour after the close of the Fedwire Securities Service reversals, if later) as the deadline for a "Net Funds Payor" (as defined by this proposed rule change)¹⁶ to satisfy their cash obligations after which a late fee of \$500 would be imposed unless FICC determines that failure to meet this timeframe is not the fault of the Net Funds Payor. This determination would be made by FICC Product Management based on input from the GCF Clearing Agent Bank, internal FICC Operations staff and the Netting Member. The Net Funds Payor would not be charged if the lateness is due to the GCF Clearing Agent Bank or FICC. To encourage Netting Members and CCIT Members that are Net Funds Payors to satisfy their cash obligations by the 4:30 p.m. deadline, the proposed rule change would provide for progressive increases in the amount of the late fee for additional late occurrences. Specifically, the late fees would apply as follows: (a) \$500 for the first occurrence (within 30 calendar days), (b) \$1,000 for the second occurrence (within 30 calendar days), (c) \$2,000 for the third occurrence (within 30 calendar days), and (d) \$3,000 for the fourth occurrence (within 30 calendar days) or additional occurrences (within the 30 calendar days). The Rules currently set forth a late fee of \$500 for late securities settlement. As such, for late cash settlement, FICC is also proposing to establish \$500 as the initial late fee; however, as described above, there would be progressive increases in the amount of the late fee for additional late occurrences. FICC derived these amounts by starting with the equivalent late fee of \$500 that is currently imposed with respect to late securities settlement and then increased the late fee amounts to provide a disincentive effect.¹⁷

In addition, FICC proposes to establish additional late fees that would be imposed on Netting Members and CCIT Members that are Net Funds Payors that fail to make the required payment of cash by the close of the Fedwire Funds Service. Specifically, the following additional late fees would be imposed if cash obligations are not satisfied by the close of the Fedwire Funds Service (unless FICC determines that the failure to meet this timeframe is not primarily the fault of the Net Funds Payors¹⁸): (a) 100 basis points on the unsatisfied cash

¹⁶ FICC is proposing to add "Net Funds Payor" as a new definition as explained in Item 10(iii) below.

¹⁷ Because the deadline for cash settlement is newly proposed, FICC would like to provide a disincentive for cash lateness and, therefore, is proposing fee increases.

¹⁸ This determination would be made by FICC Product Management based on input from the GCF Clearing Agent Bank, internal FICC Operations staff and the Netting Member.

obligation amount for the first occurrence (within 90 calendar days),¹⁹ (b) 200 basis points on the unsatisfied cash obligation amount for the second occurrence (within 90 calendar days), (c) 300 basis points on the unsatisfied cash obligation amount for the third occurrence (within 90 calendar days), and (d) 400 basis points on the unsatisfied cash obligation amount for the fourth occurrence (within 90 calendar days) or additional occurrences (within the 90 calendar days). As there is no comparative data, FICC believes these amounts in this section represent reasonable and scaling incentives for Netting Members and CCIT Members that are Net Funds Payors to satisfy their cash obligations in a timely manner. The proposed late fees related to the 4:30 p.m. deadline are in flat dollar amounts whereas the proposed late fees related to cash obligations not being satisfied by the close of the Fedwire Funds Service are in basis points and based on the amount of unsettled cash obligations. FICC has structured its proposal in this way because the proposed late fees related to the 4:30 p.m. deadline would address lateness whereas the proposed late fee related to cash obligations not being satisfied by the close of the Fedwire Funds Service would charge for the amount of cash that was not settled.

- (ii) **Proposed change to establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part)**

Proposed Process

FICC is proposing to establish a process to address FICC's liquidity needs in situations in which a Netting Member or CCIT Member that is a Net Funds Payor, that is otherwise in good standing with FICC, is delayed or unable to satisfy (either in whole or in part) its GCF Repo/CCIT activity cash obligations.²⁰ The proposed process would not apply if FICC ceases to act for the Netting Member or CCIT Member, in which case the close-out rules would apply.²¹ Because settlement of GCF Repo/CCIT activity occurs late in the day, having an established

The Net Funds Payor would not be charged if the lateness is due to the GCF Clearing Agent Bank or FICC.

¹⁹ The late fee is based on the ACT/360 day count convention, where "ACT" represents the actual number of days in the period. For example, assuming a first occurrence unsatisfied cash obligation of \$100 million, the late fee would be $\$100 \text{ million} * 100/3600000 = \$2,777.78$. This example uses the first occurrence amount. This calculation would apply to the rest of the proposed late fees in this section.

²⁰ Such delay could, for example, be due to operational issues experienced by the Net Funds Payor. If a Netting Member with a collateral obligation does not deliver its securities, FICC considers it a fail. However, if a Netting Member or CCIT Member with a cash obligation is unable to deliver its cash (and is in good standing), FICC intends to employ the proposed process.

²¹ See Rule 22A, supra note 1.

process to handle a non-default related liquidity need would benefit FICC and its members by improving FICC's ability to complete settlement and thereby reduce risk to FICC and the industry. This proposal would provide FICC with the tools to replace failed settlement with a financing transaction with FICC, as further described below.

FICC would first evaluate whether to recommend to the Board's Risk Committee that FICC cease to act for such Net Funds Payor. FICC would consider, but would not be limited to, the following factors in its evaluation: (i) the Net Funds Payor's current financial position, (ii) the amount of the outstanding payment, (iii) the cause of the late payment, (iv) current market conditions, and (v) the size of the potential overnight reverse repurchase transactions under the GCF Repo Allocation Waterfall MRAs (as defined below) on the GSD membership.²²

Pursuant to the proposal, once FICC determines that a Net Funds Payor is in good standing with GSD but is experiencing an issue, such as an operational issue, that may result in a late payment, partial payment or non-payment of its cash obligation on the settlement date, the following process would occur:

- In the case where the Net Funds Payor only satisfies part of its cash obligation, the GCF Clearing Agent Bank would settle the cash it received pursuant to such GCF Clearing Agent Bank's settlement algorithm (as is done today). The GCF Clearing Agent Bank has its own settlement algorithm, which would allocate the partial amount of cash received from the Net Funds Payor among the various Net Funds Receivers.²³
- FICC would evaluate whether FICC will provide liquidity (in the form of end-of-day borrowing of Clearing Fund cash ("EOD Clearing Fund Cash," which is a new definition proposed to be added by this filing) and/or GCF Clearing Agent Bank loans) to satisfy any remaining unsettled cash obligation of a Net Funds Payor on a pro rata basis based upon such Net Funds Receivers' percentage of the entire remaining amount of the unsettled cash obligation.
- FICC would first consider whether its GCF Clearing Agent Bank will provide overnight financing. Because FICC's overnight financing arrangements with its GCF Clearing Agent Bank are uncommitted, such arrangements are subject to the GCF Clearing Agent Bank's discretion. Financing extended by the GCF Clearing Agent Bank would use such bank's haircut schedule, and Clearing Fund securities

²² FICC already has the authority to cease to act for a member that does not fulfill an obligation to FICC and will continually evaluate throughout the proposed process whether FICC will cease to act.

²³ An example of how the satisfaction of a partial cash obligation may be allocated among the Net Funds Receivers is provided in the third paragraph under "Example" in this section of this filing.

would be used to satisfy the haircut.²⁴ FICC would not set a priority between the Clearing Fund cash and the overnight financing arrangements from its GCF Clearing Agent Bank (if any) because GSD's decision to use either or both resources would be influenced on a case-by-case basis by factors such as the specific circumstances, availability of a bank loan, market conditions, commercial considerations and ease of operational execution.²⁵

- FICC's use of EOD Clearing Fund Cash for this situation would be subject to certain internal limitations. Specifically, GSD would establish a cap on the amount of EOD Clearing Fund Cash that may be used for this purpose to the lesser of \$1 billion or 20 percent of available Clearing Fund Cash. GSD reviewed GCF and CCIT settlement activity for the period from July 2, 2018 through February 28, 2019 and noted that the average cash amount required across all 71 Members was between zero and \$23.7 billion. Over this period, there were 27 Members with no cash amount required and 18 Members with an average cash amount of less than \$1 billion. Therefore, FICC believes that the proposed cap would provide resources to facilitate settlement for a typical cash amount at a level that would not materially impact its liquidity resources in the event that there is a simultaneous need for liquidity both under the scenario this proposal is seeking to address and another Member-related default. GSD would not set a priority between Clearing Fund cash and overnight financing by the GCF Clearing Agent Bank (if any) because GSD's decision to use either or both resources would be influenced on a case-by-case basis by various factors, as described in the previous bullet.
- The cash amount that FICC would be able to raise from EOD Clearing Fund Cash and/or GCF Clearing Agent Bank loans would be applied to unsettled cash obligations of the Net Funds Receivers on a pro rata basis. The pro-rata would be based upon the percentage of each Net Fund Receiver's unsettled obligation versus the total amount of all unsettled obligations.
- For example, assume the unsettled obligations totaled \$1 billion and the liquidity raised is \$800 million. In this case, FICC would instruct the GCF Clearing Agent Bank(s) to apply the liquidity amount (\$800 million) to the remaining unsettled GCF Repo/CCIT obligations. Assume there are two Net Funds Receivers with unsettled obligations (one Netting/CCIT Member is short \$600 million and the other is short \$400 million). In this case, the first Net Funds Receiver would receive 60 percent of the \$800 million (\$480 million) and the second Net Funds Receiver would receive 40 percent of the \$800 million (\$320 million). The

²⁴ See Rule 4, Section 5, supra note 1.

²⁵ The specific circumstances that FICC would consider are the time of day and the size of the shortfall. Regarding the market conditions, FICC would consider whether there are stress events occurring in the market. With respect to commercial considerations, FICC would consider the current loan rates.

remaining unfunded \$200 million would be distributed via overnight reverse repurchase transactions.²⁶

- To the extent that the amount from the application of the Clearing Fund cash and overnight financing arrangement (if any) is insufficient to cover the outstanding cash obligations, FICC would enter into overnight repurchase agreements with Net Funds Receivers that are in unsettled Net Funds Receiver Positions. These repos would be done pursuant to the “GCF Repo Allocation Waterfall MRA” (as proposed to be added by this filing) and would be Rules-based.
- FICC would notify each unsettled Net Funds Receiver at the GCF Clearing Agent Bank that did not satisfy its cash obligation, and each such Net Funds Receiver would be required to enter into an overnight reverse repurchase agreement at the applicable Generic CUSIP Number with FICC. The amount of such reverse repurchase agreement would be at the remaining unsettled amount per Net Funds Receiver. Therefore, amounts received by FICC from these overnight reverse repurchase agreements would be used to satisfy remaining unsettled cash obligations.
- Such reverse repurchase agreements would be entered into pursuant to the terms of a 1996 SIFMA Master Repurchase Agreement,²⁷ which would be incorporated into the Rules, subject to specific changes set forth in the Rules. Such reverse repurchase transactions would be overnight trades at a market rate.²⁸ The associated overnight interest of the reverse repurchase agreement would be debited from the Net Funds Payor that did not satisfy its cash obligation and credited to the affected Net Funds Receivers in the funds-only settlement process as a Miscellaneous Adjustment Amount.²⁹
- Any resulting costs incurred by the Net Funds Receivers would be debited from the Net Funds Payor whose shortfall raised the need for the reverse repurchase agreement. The Net Funds Receivers requesting compensation in this regard would need to submit a formal claim to FICC. Upon review and approval by FICC, the Net Funds Receiver would receive a credit that would be processed in

²⁶ All pro-ration calculations would be rounded to the nearest million unless a smaller denomination is required to complete settlement.

²⁷ The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement is available at <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>.

²⁸ The market rate would be the overnight par weighted average rate at the Generic CUSIP Number level.

²⁹ See Rule 13, Section 1(m) and Rule 3B, Section 13(a)(ii), supra note 1.

the funds-only settlement process as a Miscellaneous Adjustment Amount.³⁰ The debit of the Net Funds Payor would be processed in the same way.

- Unless FICC has restricted the Member's access to services pursuant to Rule 21 or Rule 21A or has ceased to act for the Member pursuant to Rule 21 or Rule 21A, the Net Funds Payor shall be permitted to continue to submit activity to FICC.

Example

The following example illustrates the application of the proposed rule changes described above:

Assume that Dealer A has a cash payment obligation for \$100 million and Dealers B, C, D and E are in GCF Net Funds Receiver Positions for \$25 million each. Assume further that by 4:30 p.m., Dealer A satisfies only \$60 million of its cash obligation thereby leaving \$40 million outstanding. Dealer A would be subject to a late fee of \$500.

The GCF Clearing Agent Bank satisfies transactions based upon its own settlement algorithms. As such, assume that the \$60 million was settled as follows: (i) \$25 million was settled with Dealer B, (ii) \$10 million was settled with Dealer C, (iii) \$25 million was settled with Dealer D, and (iv) \$0 was settled with Dealer E.

As such, \$40 million remains unfunded. Assume FICC uses its liquidity resources (EOD Clearing Fund Cash and financing arrangements with the GCF Clearing Agent Bank (if available)) and is only able to raise \$30 million. Dealer A would be responsible for the financing costs incurred by FICC. The \$30 million borrowed by FICC would be prorated among the Netting Members in GCF Net Funds Receiver Positions that still have unsettled obligations. In this example, Dealer C has an unsettled obligation of \$15 million and Dealer E has an unsettled obligation of \$25 million. The proration calculation would be the percentage of the dealer's unsettled obligation versus the entire unsettled amount. In Dealer C's case, the \$15 million unsettled amount is 38 percent of the \$40 million total unsettled amount and in Dealer E's case, the \$25 million unsettled amount is 62 percent of the \$40 million. Dealer C would receive 38 percent of the \$30 million that was raised by FICC (i.e., \$11,400,000), and Dealer E would receive 62 percent of the \$30 million that was raised by FICC (i.e., \$18,600,000).

At this point, \$10 million remains unsettled. This is the amount that would need to be satisfied using overnight reverse repos under the GCF Repo Allocation Waterfall MRA and would be distributed between the two remaining unsettled amounts with Dealer C (i.e., \$3,600,000) and Dealer E (i.e., \$6,400,000). FICC would notify these dealers and initiate the GCF Repo Allocation Waterfall MRA requirement with each of them. Dealer A would be subject to a late fee for failing to settle by the close of the Fedwire Funds Service. Such late fee of 100 basis points would be calculated based on the \$40 million that Dealer A did not fund. In

30

Id.

addition, the reverse repurchase agreements would be overnight trades at a market rate;³¹ the associated overnight interest of the reverse repurchase agreement would be debited from Dealer A and credited to Dealers C and E in funds-only settlement. If Dealers C and/or E incurred any damages from the cost of securing alternate financing, FICC would determine if such costs are sufficiently demonstrated and would charge Dealer A for such costs to the extent that they do not include special, consequential, or punitive damages.

Throughout the foregoing process, Dealer A is subject to disciplinary action, up to and including termination of its GSD membership. Moreover, FICC retains its right to cease to act for Dealer A.

(iii) Clarification, Technical Changes and Corrections

FICC proposes to make a clarification to Section 3 of Rule 20 by adding a descriptive parenthetical regarding net-of-net settlement.

FICC also proposes to make a technical change to the title of the “Schedule of GCF Timeframes,” which would be amended to “Schedule of GCF Repo Timeframes” to enhance accuracy. References to “Schedule of GCF Timeframes” in Section 3 of Rule 20 would also be updated to “Schedule of GCF Repo Timeframes.”

FICC also proposes to make a correction by revising the language in “Late Fee Related to GCF Repo Transactions” in Section IX (Late Fees) of the Fee Structure from “Fedwire reversals” to “Fedwire Securities Service reversals.” FICC also proposes to revise “securities FedWire” to “Fedwire Securities Service reversals” in the Schedule of GCF Timeframes to be consistent with the proposed change in “Late Fee Related to GCF Repo Transactions” in Section IX (Late Fees) of the Fee Structure. FICC also proposes to revise the title from “Late Fee Related to GCF Repo Transactions” to “Late Fees Related to GCF Repo Transactions.” FICC believes these proposed changes would enhance consistency, clarity, and accuracy.

FICC also proposes to update the current references to “dealer,” “dealers,” or “GCF Counterparties (“dealers”)” in the “Schedule of GCF Timeframes” and “Fee Structure” to “Netting Member” or “Netting Members” for additional clarity and consistency because the GCF Repo Service is not only available to Dealer Netting Members and FICC believes that the references to “dealers” may cause confusion.

In addition, FICC proposes to update the descriptions for 3:00 p.m. and 3:30 p.m. in the Schedule of GCF Timeframes to correct certain descriptions that appear to have been reversed in error. Specifically, the description for 3:00 p.m. currently states that collateral allocations begin. However, collateral allocations actually begin at 3:30 p.m. and therefore, FICC proposes to correct this error by deleting the reference to collateral allocations beginning in the 3:00 p.m. description and adding a reference to the 3:30 p.m. description that would state that collateral allocations begin. Furthermore, the current 3:00 p.m. description states that notifications by FICC to banks and dealers of final positions occurs at this time, which is incorrect. There is not a strict established time for notifications by FICC to Members of final positions. FICC believes

³¹ Supra note 28.

that it is reasonably and fairly implied that output would follow the cut-off for trade submission and therefore, does not believe the phrase “notification by FICC to banks and dealers of final positions” is necessary in the Schedule of GCF Timeframes. As such, FICC proposes to correct this error by deleting the reference to notifications by FICC to banks and dealers of final positions from the 3:00 p.m. description.

Furthermore, in connection with the proposed changes described herein, FICC also proposes to revise four relevant defined terms that indicate whether a Netting Member’s obligation is a cash obligation or a securities obligation with respect to GCF Repo/CCIT activity (i.e., “GCF Net Funds Borrower Position,” “GCF Net Funds Borrower,” “GCF Net Funds Lender Position,” and “GCF Net Funds Lender”). In addition, FICC would add two new defined terms (i.e., “Net Funds Payor Position” and “Net Funds Receiver Position”) to distinguish the foregoing defined terms from a Netting Member’s or CCIT Member’s *after* net-of-net settlement.³²

Specifically, there are currently four relevant defined terms that indicate whether a Netting Member’s obligation is a cash obligation or a securities obligation with respect to GCF Repo/CCIT activity. These terms are: “GCF Net Funds Borrower Position,”³³ “GCF Net Funds Borrower,” “GCF Net Funds Lender Position,”³⁴ and “GCF Net Funds Lender.” With respect to CCIT Members, which are only permitted to initiate transactions as cash lenders for submission to GSD, the applicable definitions are “GCF Net Funds Lender Position” and “GCF Net Funds Lender.” The four existing terms represent a Netting Member’s and CCIT Member’s position

³² A Netting Member’s or CCIT Member’s obligation prior to net-of-net settlement describes such Netting Member’s or CCIT Member’s obligation for that particular Business Day. A Netting Member’s or CCIT Member’s obligation *after* net-of-net settlement describes such Netting Member’s or CCIT Member’s obligation after its obligation from the previous Business Day has been netted with its obligation for that particular Business Day.

³³ The term “GCF Net Funds Borrower Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member has borrowed as the net result of its outstanding GCF Repo Transactions and CCIT Transactions and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member is obligated, pursuant to Rule 20, to allocate to the Corporation to secure such borrowing (such Netting Member holding a GCF Net Funds Borrower Position, a “GCF Net Funds Borrower”). See Rule 1, supra note 1.

³⁴ The term “GCF Net Funds Lender Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member or CCIT Member has lent as the result of its outstanding GCF Repo Transactions or its outstanding CCIT Transactions, as applicable, and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member or CCIT Member, as applicable, is entitled, pursuant to Rule 20, to be allocated for its benefit to secure such loan (such Netting Member or CCIT Member holding a GCF Net Funds Lender Position, a “GCF Net Funds Lender”). See Rule 1, supra note 1.

with respect to GCF Repo/CCIT activity that is processed by GSD on a particular Business Day *prior to* net-of-net settlement³⁵ and the proposed rule change would add language in the definitions of “GCF Net Funds Borrower Position” and “GCF Net Funds Lender Position” to make this clear.

To distinguish the foregoing from a Netting Member’s or CCIT Member’s position *after* net-of-net settlement, FICC proposes to amend Rule 1 (Definitions) to add two new defined terms, “Net Funds Payor Position” and “Net Funds Receiver Position” with two additional defined terms embedded within these definitions, “Net Funds Payor” and “Net Funds Receiver,” respectively. These defined terms would represent a Netting Member’s and CCIT Member’s, as applicable, position in GCF Repo/CCIT activity *as a result of* net-of-net settlement. Specifically, as a result of net-of-net settlement, a Netting Member or CCIT Member may be either in a cash debit position (i.e., in a “Net Funds Payor Position” or a “Net Funds Payor”) or cash credit position (i.e., in a “Net Funds Receiver Position” or a “Net Funds Receiver”).³⁶

(iv) Implementation Timeframe

Subject to no objection to this advance notice filing and the approval of the related proposed rule change (the “Proposed Rule Change”)³⁷ by the Commission, FICC would implement the proposed changes no later than 60 days after the later of the approval of the Proposed Rule Change and no objection to this advance notice filing by the Commission. FICC would announce the effective date of the proposed changes by Important Notice posted to its website.

Expected Effect on Risks to the Clearing Agency, its Participants and the Market

FICC believes that the proposed rule change described in Item 10(i) above to establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity and remove the current 6:00 p.m. Collateral Allocation deadline would help lower the

³⁵ Net-of-net settlement is described in Section 3 of Rule 20 and the proposal would add a parenthetical to clarify that such applicable paragraph in this section refers to net-of-net settlement, as described further below.

³⁶ Even though CCIT Members can only initiate cash lending transactions, they could be Net Funds Receivers. For example, assume that on Monday, a CCIT Member entered into a CCIT Transaction to lend \$125 million and on Tuesday, the same CCIT Member entered into a CCIT Transaction to lend \$50 million in the same Generic CUSIP Number. On Tuesday, after net-of-net settlement, the CCIT Member would be in a Net Funds Receiver Position of \$75 million.

³⁷ On August 9, 2019, FICC filed this advance notice filing as a proposed rule change (SR-FICC-2019-004) with the Commission pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 15 U.S.C. 78s(b)(1), and Rule 19b-4 thereunder, 17 CFR 240.19b-4. A copy of the Proposed Rule Change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

potential operational risk of incomplete tri-party transactions outside of FICC. As described above, FICC believes that all parties (including FICC) would benefit from securities settlement occurring by 4:30 p.m. because the more settlements that complete earlier, the more potential operational risk is removed from the market. Specifically, FICC believes having securities settlement occur by 4:30 p.m. would lower the risk of disorder that could arise if firms are attempting to fulfill GCF Repo settlement and tri-party transaction settlement at the same time later in the day. There is interconnectivity between the GCF Repo market and the tri-party market outside of FICC, so the securities collateral that is used to settle GCF Repo positions can be subsequently used by Netting Members to complete tri-party transactions outside of FICC. FICC believes the current second deadline of 6:00 p.m. for allocation of securities collateral creates an environment of later settlement both at FICC and outside of FICC. FICC believes that it would be lowering potential operational risk in the market (i.e., the risk of disorder) that could arise if Members chose to avail themselves of the current 6:00 p.m. deadline. FICC believes that timely settlement at FICC would help with timely completion of onward processing outside of FICC.

FICC also proposes to establish a deadline for a Netting Member's or CCIT Member's satisfaction of cash obligations in the GCF Repo Service and the CCIT Service. As described above, for late cash settlement, the initial late fee would be \$500 and would progressively increase for additional late occurrences. In addition, FICC would also impose additional late fees on Netting Members and CCIT Members that are Net Funds Payors that fail to make the required payment of cash by the close of the Fedwire Funds Service. Because the deadline for cash settlement is newly proposed, FICC would like to provide a disincentive for cash lateness, and therefore, is proposing fee increases for repeated late occurrences in satisfying cash obligations. FICC believes that the proposed deadline for satisfaction of cash obligations and the associated late fees would mitigate the risk of later settlement by incenting Netting Members and CCIT Members to meet their settlement obligations on a more timely basis, which would better enable FICC to settle on a timely basis.

FICC believes that the proposed rule change described in Item 10(ii) above to establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part) would benefit FICC and its members. FICC believes that because settlement of GCF Repo/CCIT activity occurs late in the day, having an established process to handle non-default related liquidity would improve FICC's ability to complete settlement and thereby reduce risk to FICC and the industry.

Management of Identified Risks

FICC believes that that the proposed changes described in Item 10(i) above are designed to help FICC manage the potential operational risk (i.e., the risk of disorder) of incomplete tri-party transactions outside of FICC. FICC believes that, removing the 6:00 p.m. deadline and establishing 4:30 p.m. as the deadline for securities settlement, it would encourage Members to complete more settlements earlier and thereby, lower potential operational risk from the market.

FICC believes that the proposed changes described in Item 10(i) above to establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity are designed to help FICC manage the risk of later settlement. FICC believes that the proposed new deadline and the related increasing late fees would provide an incentive for Netting Members and CCIT Members to meet their cash settlement obligations on a more timely basis, which in turn, would better enable FICC to complete settle on a timely basis.

FICC believes that the proposed changes described in Item 10(ii) above are designed to help FICC manage its risks by establishing a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part). This proposed process would provide a process for FICC to raise liquidity to complete settlement. By better enabling FICC to complete settlement by providing FICC with a process to raise liquidity, FICC and its members would be less likely to be faced with the uncertainty of unsettled obligations and the risks related thereto. As such, FICC believes this proposed process would better enable FICC to better manage its risk related to the uncertainty of unsettled obligations and later settlement.

Consistency with the Clearing Supervision Act

FICC believes that the proposed rule change would be consistent with Section 805(b) 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”).³⁸ The objectives and principles of Section 805(b) of the Clearing Supervision Act are to promote robust risk management, promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system.³⁹

FICC believes that the proposed changes described in Item 10(i) regarding securities collateral above are designed to promote robust risk management, promote safety and soundness, and support the stability of the broader financial system. FICC believes that all parties (including FICC) would benefit from securities settlement occurring by 4:30 p.m. This is because the more settlements that complete earlier, the more potential operational risk is removed from the market. Specifically, there is interconnectivity between the GCF Repo market and the tri-party market outside of FICC. The securities collateral that is used to settle GCF Repo positions can be subsequently used by Netting Members to complete tri-party transactions outside of FICC. Therefore, the earlier that securities settlement occurs in the GCF Repo Service, the less potential operational risk of incomplete tri-party transactions outside of FICC. Under the current Rules, the second deadline of 6:00 p.m. creates an environment of later settlement both at FICC and outside of FICC. Even though Netting Members are generally abiding by the 4:30 p.m. securities allocation deadline, FICC would like to address the possibility of later settlement by deleting the 6:00 p.m. deadline. Therefore, by imposing 4:30 p.m. as the only deadline, FICC believes it would be lowering potential operational risk in the

³⁸ 12 U.S.C. 5464(b).

³⁹ Id.

market that could arise if Netting Members chose to avail themselves of the current 6:00 p.m. deadline. This risk is the risk of disorder if firms are attempting to fulfill GCF Repo settlement and tri-party transaction settlement at the same time later in the day. As such, FICC believes the proposed change to remove the 6:00 p.m. deadline for securities settlement would promote robust risk management by lessening the potential operational risk of incomplete tri-party transactions outside of FICC and also promote the safety and soundness and support the stability of the broader financial market by lessening the risk of disorder if firms are attempting to fulfill GCF Repo settlement and tri-party transactions settlement at the same time later in the day.

FICC also believes that the proposed changes described in Item 10(i) above to establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity are designed to help promote robust risk management, promote safety and soundness, and support the stability of the broader financial system. Specifically, FICC believes the proposed deadline and associated late fees are designed to promote robust risk management by helping FICC manage the risk of later settlement because FICC believes that the proposed new deadline and the related increasing late fees would provide an incentive for Netting Members and CCIT Members to meet their cash settlement obligations on a more timely basis, which in turn, would better enable FICC to complete settle on a timely basis. FICC believes that having settlement complete on a timely basis would promote safety and soundness and also support the stability of the broader financial system by lessening the potential operational risk of incomplete settlement.

FICC believes that the proposed changes described in Item 10(ii) above are designed to promote robust risk management, promote safety and soundness, and support the stability of the broader financial market. FICC believes this proposed process is designed to promote robust risk management because the proposed process would enable FICC to mitigate the risks related to the uncertainty of unsettled obligations and later settlement in certain circumstances. FICC would be able to mitigate these risks because the proposed process is designed to provide FICC with liquidity in certain circumstances (i.e., where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part)). FICC believes having a proposed process to provide FICC with liquidity in the circumstances described above would better enable FICC to complete timely settlement. In turn, timely settlement would promote safety and soundness by providing FICC's members with certainty as to the completion of their transactions that were submitted to FICC. Furthermore, timely settlement at FICC would support the stability of the broader financial system by aiming to avoid the market disruption that could occur if FICC cannot settle. Timely settlement at FICC demonstrates to the market that parties' rights and obligations vis-à-vis settlement have been completed and therefore, promotes certainty and stability.

FICC also believes that the proposed conforming and technical changes described above are designed to provide clear and coherent Rules regarding GCF Repo transactions for Netting Members and CCIT Members. FICC believes that clear and coherent Rules would enhance the ability of FICC and its Netting Members and CCIT Members to more effectively plan for, manage, and address the risks related to GCF Repo transactions. As such, FICC believes that the conforming and technical changes are designed to promote robust risk management, consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

FICC believes the proposal would be consistent with Rule 17Ad-22(e)(7)(i), (ii), and (viii), as promulgated under the Act, for the reasons described below.⁴⁰

Rule 17Ad-22(e)(7)(i) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by maintaining 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.⁴¹ FICC believes that the proposal would be consistent with Rule 17Ad-22(e)(7)(i) because the GCF Repo Allocation Waterfall MRA would help FICC maintain sufficient liquid resources to settle the same-day cash obligations of a Netting Member or CCIT Member that is otherwise in good standing with FICC but (i) is delayed in satisfying its cash obligation related to its GCF Repo/CCIT activity or (ii) does not fulfill, or only partially fulfills, such cash obligation.⁴² FICC believes that the proposal would be consistent with Rule 17Ad-22(e)(7)(i) because the GCF Repo Allocation Waterfall MRA would be sized based on the actual liquidity need which would help FICC maintain sufficient liquid resources to settle the cash obligations of a Netting Member.⁴³ The GCF Repo Allocation Waterfall MRA would be a committed arrangement, and all transactions entered into pursuant to the GCF Allocation Waterfall MRA are designed to be readily available to meet the cash obligations owed to Netting Members.

Rule 17Ad-22(e)(7)(ii) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by holding qualifying liquid resources⁴⁴ sufficient to meet

⁴⁰ 17 CFR 240.17Ad-22(e)(7)(i), (ii), and (viii).

⁴¹ 17 CFR 240.17Ad-22(e)(7)(i).

⁴² Id.

⁴³ Id.

⁴⁴ “Qualifying liquid resources” means, for any covered clearing agency, the following, in each relevant currency: (i) Cash held either at the central bank of issue or at creditworthy commercial banks; (ii) Assets that are readily available and convertible into cash through prearranged funding arrangements, such as: (A) Committed arrangements without material adverse change provisions, including (1) Lines of credit; (2) Foreign exchange swaps; and (3) Repurchase agreements; or (B) Other prearranged funding arrangements determined to be highly reliable even in extreme but plausible market conditions by the board of directors of the covered clearing agency following a review conducted for this purpose not less than annually; and (iii) Other assets that are readily available and eligible for pledging to (or conducting other appropriate forms of transactions with) a relevant

the minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i) in each relevant currency for which the covered clearing agency has payment obligations owed to clearing Members.⁴⁵ FICC believes that the proposed rule change would be consistent with Rule 17Ad-22(e)(7)(ii) because the GCF Repo Allocation Waterfall MRA would be a committed arrangement,⁴⁶ and all transactions entered into pursuant to the GCF Repo Allocation Waterfall MRA are designed to be readily available to meet the cash obligations owed to Netting Members.⁴⁷

Rule 17Ad-22(e)(7)(viii) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by addressing foreseeable liquidity shortfalls that would not be covered by the covered clearing agency's liquid resources and seek to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations.⁴⁸ FICC believes that the proposed rule change would be consistent with Rule 17Ad-22(e)(7)(viii) because the GCF Repo Allocation Waterfall MRA would be a committed arrangement that would be available to avoid unwinding, revoking, or delaying same-day settlement obligations. All transactions entered into pursuant to the GCF Repo Allocation Waterfall MRA are designed to be readily available to settle same-day cash obligations owed to non-defaulting Netting Members in instances where existing resources (i) may not be readily available after 4:30 p.m. to permit timely settlement or (ii) are maintained primarily to settle the outstanding transactions in the event of a default of a Member and its entire affiliated family.⁴⁹

central bank, if the covered clearing agency has access to routine credit at such central bank in a jurisdiction that permits said pledges or other transactions by the covered clearing agency. 17 CFR 240.17Ad-22(a)(14).

⁴⁵ 17 CFR 240.17Ad-22(e)(7)(ii).

⁴⁶ See 17 CFR 240.17Ad-22(a)(14).

⁴⁷ Id.

⁴⁸ 17 CFR 240.17Ad-22(e)(7)(viii).

⁴⁹ Id.

11. Exhibits

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[____]; File No. SR-FICC-2019-801)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Advance Notice to Amend the GSD Rulebook to Establish a Process to Address Liquidity Needs in Certain Situations in the GCF Repo and CCIT Services and Make Other Changes

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 (“Act”),² notice is hereby given that on August __, 2019, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the advance notice SR-FICC-2019-801 (“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 August 9, 2019, FICC filed this Advance Notice as a proposed rule change (SR-FICC-2019-004) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4 thereunder, 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 the FICC Government Securities Division ("GSD") Rulebook (the "Rules")⁴ to: (i) establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo Transaction⁵ and CCIT Transaction⁶ activity (hereinafter "GCF Repo/CCIT activity")⁷ and remove the current 6:00 p.m. Collateral Allocation Obligation⁸ deadline; (ii) establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member⁹ with a

⁴ Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

⁵ "GCF Repo Transaction" means a Repo Transaction involving Generic CUSIP Numbers the data on which are submitted to FICC on a Locked-In-Trade basis pursuant to the provisions of Rule 6C, for netting and settlement by FICC pursuant to the provisions of Rule 20. Rule 1, supra note 4.

⁶ "CCIT Transaction" means a transaction that is processed by FICC in the CCIT Service. Because the CCIT Service leverages the infrastructure and processes of the GCF Repo Service, a CCIT Transaction must be: (i) in a Generic CUSIP Number approved for the GCF Repo Service and (ii) between a CCIT Member and a Netting Member who participates in the GCF Repo Service where the CCIT Member is the cash lender in the transaction. Rule 1, supra note 4.

⁷ The GCF Repo Service is primarily governed by Rule 20 and enables Netting Members to trade general collateral finance repurchase agreement transactions based on rate, term, and underlying product throughout the day with brokers on a blind basis. The CCIT Service is governed by Rule 3B and enables tri-party repurchase agreement transactions in GCF Repo Securities between Netting Members that participate in the GCF Repo Service and institutional cash lenders (other than investment companies registered under the Investment Company Act of 1940, as amended). Rule 20 and Rule 3B, supra note 4.

⁸ "Collateral Allocation Obligation" means the obligation of a Netting Member to allocate securities or cash for the benefit of FICC to secure such Member's GCF Net Funds Borrower Position. Rule 1, supra note 4.

⁹ "CCITTM" means Centrally Cleared Institutional Triparty. The terms "Centrally Cleared Institutional Triparty Member" and "CCIT Member" mean a legal entity other than a Registered Investment Company approved to participate in the FICC's CCIT Service as a cash lender. Rule 1, supra note 4. Eligibility to

net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part); and (iii) make a clarification, certain technical changes and corrections, all as further described 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

Written comments relating to this proposal have not been solicited or received.

FICC will notify the Commission of any written comments received by FICC.

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

Nature of the Proposed Change

The proposed rule change would amend the Rules to: (i) establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity and remove the current 6:00 p.m. Collateral Allocation Obligation deadline; (ii) establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in

become a CCIT Member is described in Section 2 of Rule 3B. Rule 3B, Section 2, supra note 4.

good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part); and (iii) make a clarification, certain technical changes and corrections, all as further described below.

- (i) **Proposed change to establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity and remove the current 6:00 p.m. Collateral Allocation Obligation deadline**

Securities Obligations (Collateral Allocation Obligations)

The Rules (Section 3 of Rule 20, the Schedule of GCF Timeframes and the Fee Structure) currently address a Netting Member's failure to satisfy its Collateral Allocation Obligation on a timely basis.¹⁰ Specifically, Section 3 of Rule 20 states that Collateral Allocation Obligations must be satisfied by a Netting Member within the timeframes established for such by FICC.¹¹ The current deadline in the Schedule of GCF Timeframes for Netting Member allocation of collateral to satisfy securities obligations is 4:30 p.m.¹² This 4:30 p.m. deadline is the first deadline by which Netting Members that have Collateral Allocation Obligations must allocate their securities collateral or be subject to a late fee of \$500 (the late fee is set forth in the Fee Structure of the Rules).¹³ In addition, the Schedule of GCF Timeframes includes a second deadline of 6:00 p.m. by which Netting Members that have Collateral Allocation Obligations must allocate their

¹⁰ Rule 20, Section 3, Schedule of GCF Timeframes, and Fee Structure, supra note 4. Collateral Allocation Obligations do not apply to CCIT Members because they can only be cash lenders in the CCIT Transactions.

¹¹ Rule 20, Section 3, supra note 4.

¹² Schedule of GCF Timeframes, supra note 4.

¹³ Fee Structure, supra note 4.

securities collateral; after 6:00 p.m., FICC will process such collateral allocations on a good faith basis only.¹⁴ These provisions are mirrored in Section 3 of Rule 20, which also references the “final cutoff” (i.e., the 6:00 p.m. deadline).¹⁵ Section 3 of Rule 20 also provides FICC’s processing of such late allocations is on a good faith basis only.¹⁶ Furthermore, Section 3 of Rule 20 states that Netting Members that do not satisfy their Collateral Allocation Obligations by the close of the Fedwire Funds Service shall be deemed to have failed on such Position (the consequence of which shall be that such Netting Member would not be entitled to receive the funds borrowed, but shall owe interest on such funds amount).¹⁷

With respect to the foregoing regarding allocation of securities collateral on a timely basis, FICC proposes to establish 4:30 p.m. as the only deadline for Netting Member allocation of collateral.¹⁸ In other words, FICC proposes to remove the current second deadline (i.e., 6:00 p.m.) by which Netting Members that have Collateral Allocation Obligations must allocate their securities obligations. This proposed change

¹⁴ Schedule of GCF Timeframes, supra note 4. Today, after 6:00 p.m., FICC will process collateral allocations on a good faith basis, namely if FICC is able to contact both affected Netting Members and such Netting Members agree to settle such transaction, then FICC and its GCF Clearing Agent Bank will settle such transaction.

¹⁵ Rule 20, Section 3, supra note 4.

¹⁶ Id.

¹⁷ Id.

¹⁸ See Schedule of GCF Timeframes, supra note 4. Currently, the Schedule of GCF Timeframes provides that the first deadline for collateral allocation is 4:30 p.m. or one hour after the close of the securities FedWire, if later. The reference regarding one hour after the FedWire close would remain, subject to a correction discussed below in Item II(B)(iii) of this filing.

would align the deadline for allocating securities obligations with the proposed deadline for satisfying cash obligations (i.e., 4:30 p.m. or one hour after the close of the Fedwire Securities Service reversals, if later). Netting Members typically have obligations to satisfy outside of FICC after the collateral allocations occur at FICC. FICC believes that all parties (including FICC) would benefit from securities settlement occurring by 4:30 p.m. This is because the more settlements that complete earlier, the more potential operational risk is removed from the market. Specifically, there is interconnectivity between the GCF Repo market and the tri-party market outside of FICC. The securities collateral that is used to settle GCF Repo positions can be subsequently used by Netting Members to complete tri-party transactions outside of FICC. Therefore, the earlier that securities settlement occurs in the GCF Repo Service, the less potential operational risk of incomplete tri-party transactions outside of FICC. Under the current Rules, the second deadline of 6:00 p.m. creates an environment of later settlement both at FICC and outside of FICC. Even though Netting Members are generally abiding by the 4:30 p.m. securities allocation deadline, FICC would like to address the possibility of later settlement by deleting the 6:00 p.m. deadline. Therefore, by imposing 4:30 p.m. as the only deadline, FICC believes it would be lowering potential operational risk in the market that could arise if Netting Members chose to avail themselves of the current 6:00 p.m. deadline. This risk is the risk of disorder if firms are attempting to fulfill GCF Repo settlement and tri-party transaction settlement at the same time later in the day. Under the proposal, FICC would continue to process collateral allocations after the 4:30 p.m. deadline on a good faith basis only (like it currently does for collateral allocations after the current 6:00 p.m. deadline). Netting Members would remain subject to the \$500 late fee if they do not

meet the 4:30 p.m. deadline unless FICC determines, in its sole discretion, that failure to meet this timeframe is not primarily the fault of the Netting Member, as currently stated in Section IX of the Fee Structure. This determination would be made by FICC Product Management based on input from the GCF Clearing Agent Bank, internal FICC Operations staff and the Netting Member. The Netting Member would not be charged if the lateness is due to the GCF Clearing Agent Bank or FICC.

Cash Obligations

The Rules do not currently contain a deadline for a Netting Member's or CCIT Member's satisfaction of cash obligations in the GCF Repo Service and the CCIT Service. FICC proposes to establish 4:30 p.m. (or one hour after the close of the Fedwire Securities Service reversals, if later) as the deadline for a "Net Funds Payor" (as defined by this proposed rule change)¹⁹ to satisfy their cash obligations after which a late fee of \$500 would be imposed unless FICC determines that failure to meet this timeframe is not the fault of the Net Funds Payor. This determination would be made by FICC Product Management based on input from the GCF Clearing Agent Bank, internal FICC Operations staff and the Netting Member. The Net Funds Payor would not be charged if the lateness is due to the GCF Clearing Agent Bank or FICC. To encourage Netting Members and CCIT Members that are Net Funds Payors to satisfy their cash obligations by the 4:30 p.m. deadline, the proposed rule change would provide for progressive increases in the amount of the late fee for additional late occurrences. Specifically, the late fees would apply as follows: (a) \$500 for the first occurrence (within 30 calendar

¹⁹ FICC is proposing to add "Net Funds Payor" as a new definition as explained in Item II(B)(iii) below.

days), (b) \$1,000 for the second occurrence (within 30 calendar days), (c) \$2,000 for the third occurrence (within 30 calendar days), and (d) \$3,000 for the fourth occurrence (within 30 calendar days) or additional occurrences (within the 30 calendar days). The Rules currently set forth a late fee of \$500 for late securities settlement. As such, for late cash settlement, FICC is also proposing to establish \$500 as the initial late fee; however, as described above, there would be progressive increases in the amount of the late fee for additional late occurrences. FICC derived these amounts by starting with the equivalent late fee of \$500 that is currently imposed with respect to late securities settlement and then increased the late fee amounts to provide a disincentive effect.²⁰

In addition, FICC proposes to establish additional late fees that would be imposed on Netting Members and CCIT Members that are Net Funds Payors that fail to make the required payment of cash by the close of the Fedwire Funds Service. Specifically, the following additional late fees would be imposed if cash obligations are not satisfied by the close of the Fedwire Funds Service (unless FICC determines that the failure to meet this timeframe is not primarily the fault of the Net Funds Payors²¹): (a) 100 basis points on the unsatisfied cash obligation amount for the first occurrence (within 90 calendar days),²² (b) 200 basis points on the unsatisfied cash obligation amount for the second

²⁰ Because the deadline for cash settlement is newly proposed, FICC would like to provide a disincentive for cash lateness and, therefore, is proposing fee increases.

²¹ This determination would be made by FICC Product Management based on input from the GCF Clearing Agent Bank, internal FICC Operations staff and the Netting Member. The Net Funds Payor would not be charged if the lateness is due to the GCF Clearing Agent Bank or FICC.

²² The late fee is based on the ACT/360 day count convention, where “ACT” represents the actual number of days in the period. For example, assuming a first occurrence unsatisfied cash obligation of \$100 million, the late fee would be \$100 million * 100/3600000 = \$2,777.78. This example uses the first occurrence

occurrence (within 90 calendar days), (c) 300 basis points on the unsatisfied cash obligation amount for the third occurrence (within 90 calendar days), and (d) 400 basis points on the unsatisfied cash obligation amount for the fourth occurrence (within 90 calendar days) or additional occurrences (within the 90 calendar days). As there is no comparative data, FICC believes these amounts in this section represent reasonable and scaling incentives for Netting Members and CCIT Members that are Net Funds Payors to satisfy their cash obligations in a timely manner. The proposed late fees related to the 4:30 p.m. deadline are in flat dollar amounts whereas the proposed late fees related to cash obligations not being satisfied by the close of the Fedwire Funds Service are in basis points and based on the amount of unsettled cash obligations. FICC has structured its proposal in this way because the proposed late fees related to the 4:30 p.m. deadline would address lateness whereas the proposed late fee related to cash obligations not being satisfied by the close of the Fedwire Funds Service would charge for the amount of cash that was not settled.

- (ii) **Proposed change to establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part)**

Proposed Process

FICC is proposing to establish a process to address FICC's liquidity needs in situations in which a Netting Member or CCIT Member that is a Net Funds Payor, that is otherwise in good standing with FICC, is delayed or unable to satisfy (either in whole or

amount. This calculation would apply to the rest of the proposed late fees in this section.

in part) its GCF Repo/CCIT activity cash obligations.²³ The proposed process would not apply if FICC ceases to act for the Netting Member or CCIT Member, in which case the close-out rules would apply.²⁴ Because settlement of GCF Repo/CCIT activity occurs late in the day, having an established process to handle a non-default related liquidity need would benefit FICC and its members by improving FICC's ability to complete settlement and thereby reduce risk to FICC and the industry. This proposal would provide FICC with the tools to replace failed settlement with a financing transaction with FICC, as further described below.

FICC would first evaluate whether to recommend to the Board's Risk Committee that FICC cease to act for such Net Funds Payor. FICC would consider, but would not be limited to, the following factors in its evaluation: (i) the Net Funds Payor's current financial position, (ii) the amount of the outstanding payment, (iii) the cause of the late payment, (iv) current market conditions, and (v) the size of the potential overnight reverse repurchase transactions under the GCF Repo Allocation Waterfall MRAs (as defined below) on the GSD membership.²⁵

Pursuant to the proposal, once FICC determines that a Net Funds Payor is in good standing with GSD but is experiencing an issue, such as an operational issue, that may

²³ Such delay could, for example, be due to operational issues experienced by the Net Funds Payor. If a Netting Member with a collateral obligation does not deliver its securities, FICC considers it a fail. However, if a Netting Member or CCIT Member with a cash obligation is unable to deliver its cash (and is in good standing), FICC intends to employ the proposed process.

²⁴ See Rule 22A, supra note 4.

²⁵ FICC already has the authority to cease to act for a member that does not fulfill an obligation to FICC and will continually evaluate throughout the proposed process whether FICC will cease to act.

result in a late payment, partial payment or non-payment of its cash obligation on the settlement date, the following process would occur:

- In the case where the Net Funds Payor only satisfies part of its cash obligation, the GCF Clearing Agent Bank would settle the cash it received pursuant to such GCF Clearing Agent Bank's settlement algorithm (as is done today). The GCF Clearing Agent Bank has its own settlement algorithm, which would allocate the partial amount of cash received from the Net Funds Payor among the various Net Funds Receivers.²⁶
- FICC would evaluate whether FICC will provide liquidity (in the form of end-of-day borrowing of Clearing Fund cash ("EOD Clearing Fund Cash," which is a new definition proposed to be added by this filing) and/or GCF Clearing Agent Bank loans) to satisfy any remaining unsettled cash obligation of a Net Funds Payor on a pro rata basis based upon such Net Funds Receivers' percentage of the entire remaining amount of the unsettled cash obligation.
- FICC would first consider whether its GCF Clearing Agent Bank will provide overnight financing. Because FICC's overnight financing arrangements with its GCF Clearing Agent Bank are uncommitted, such arrangements are subject to the GCF Clearing Agent Bank's discretion. Financing extended by the GCF Clearing Agent Bank would use such bank's haircut schedule, and Clearing Fund securities would be used to satisfy the haircut.²⁷ FICC would not set a priority between the Clearing Fund cash and the overnight financing arrangements from its GCF Clearing Agent Bank (if any) because GSD's decision to use either or both resources would be influenced on a case-by-case basis by factors such as the specific circumstances, availability of a bank loan, market conditions, commercial considerations and ease of operational execution.²⁸
- FICC's use of EOD Clearing Fund Cash for this situation would be subject to certain internal limitations. Specifically, GSD would establish a cap on the amount of EOD Clearing Fund Cash that may be used for this purpose

²⁶ An example of how the satisfaction of a partial cash obligation may be allocated among the Net Funds Receivers is provided in the third paragraph under "Example" in this section of this filing.

²⁷ See Rule 4, Section 5, supra note 4.

²⁸ The specific circumstances that FICC would consider are the time of day and the size of the shortfall. Regarding the market conditions, FICC would consider whether there are stress events occurring in the market. With respect to commercial considerations, FICC would consider the current loan rates.

to the lesser of \$1 billion or 20 percent of available Clearing Fund Cash. GSD reviewed GCF and CCIT settlement activity for the period from July 2, 2018 through February 28, 2019 and noted that the average cash amount required across all 71 Members was between zero and \$23.7 billion. Over this period, there were 27 Members with no cash amount required and 18 Members with an average cash amount of less than \$1 billion. Therefore, FICC believes that the proposed cap would provide resources to facilitate settlement for a typical cash amount at a level that would not materially impact its liquidity resources in the event that there is a simultaneous need for liquidity both under the scenario this proposal is seeking to address and another Member-related default. GSD would not set a priority between Clearing Fund cash and overnight financing by the GCF Clearing Agent Bank (if any) because GSD's decision to use either or both resources would be influenced on a case-by-case basis by various factors, as described in the previous bullet.

- The cash amount that FICC would be able to raise from EOD Clearing Fund Cash and/or GCF Clearing Agent Bank loans would be applied to unsettled cash obligations of the Net Funds Receivers on a pro rata basis. The pro-ration would be based upon the percentage of each Net Fund Receiver's unsettled obligation versus the total amount of all unsettled obligations.
- For example, assume the unsettled obligations totaled \$1 billion and the liquidity raised is \$800 million. In this case, FICC would instruct the GCF Clearing Agent Bank(s) to apply the liquidity amount (\$800 million) to the remaining unsettled GCF Repo/CCIT obligations. Assume there are two Net Funds Receivers with unsettled obligations (one Netting/CCIT Member is short \$600 million and the other is short \$400 million). In this case, the first Net Funds Receiver would receive 60 percent of the \$800 million (\$480 million) and the second Net Funds Receiver would receive 40 percent of the \$800 million (\$320 million). The remaining unfunded \$200 million would be distributed via overnight reverse repurchase transactions.²⁹
- To the extent that the amount from the application of the Clearing Fund cash and overnight financing arrangement (if any) is insufficient to cover the outstanding cash obligations, FICC would enter into overnight repurchase agreements with Net Funds Receivers that are in unsettled Net Funds Receiver Positions. These repos would be done pursuant to the "GCF Repo Allocation Waterfall MRA" (as proposed to be added by this filing) and would be Rules-based.

²⁹ All pro-ration calculations would be rounded to the nearest million unless a smaller denomination is required to complete settlement.

- FICC would notify each unsettled Net Funds Receiver at the GCF Clearing Agent Bank that did not satisfy its cash obligation, and each such Net Funds Receiver would be required to enter into an overnight reverse repurchase agreement at the applicable Generic CUSIP Number with FICC. The amount of such reverse repurchase agreement would be at the remaining unsettled amount per Net Funds Receiver. Therefore, amounts received by FICC from these overnight reverse repurchase agreements would be used to satisfy remaining unsettled cash obligations.
- Such reverse repurchase agreements would be entered into pursuant to the terms of a 1996 SIFMA Master Repurchase Agreement,³⁰ which would be incorporated into the Rules, subject to specific changes set forth in the Rules. Such reverse repurchase transactions would be overnight trades at a market rate.³¹ The associated overnight interest of the reverse repurchase agreement would be debited from the Net Funds Payor that did not satisfy its cash obligation and credited to the affected Net Funds Receivers in the funds-only settlement process as a Miscellaneous Adjustment Amount.³²
- Any resulting costs incurred by the Net Funds Receivers would be debited from the Net Funds Payor whose shortfall raised the need for the reverse repurchase agreement. The Net Funds Receivers requesting compensation in this regard would need to submit a formal claim to FICC. Upon review and approval by FICC, the Net Funds Receiver would receive a credit that would be processed in the funds-only settlement process as a Miscellaneous Adjustment Amount.³³ The debit of the Net Funds Payor would be processed in the same way.
- Unless FICC has restricted the Member's access to services pursuant to Rule 21 or Rule 21A or has ceased to act for the Member pursuant to Rule 21 or Rule 21A, the Net Funds Payor shall be permitted to continue to submit activity to FICC.

³⁰ The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement is available at <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>.

³¹ The market rate would be the overnight par weighted average rate at the Generic CUSIP Number level.

³² See Rule 13, Section 1(m) and Rule 3B, Section 13(a)(ii), supra note 4.

³³ Id.

Example

The following example illustrates the application of the proposed rule changes described above:

Assume that Dealer A has a cash payment obligation for \$100 million and Dealers B, C, D and E are in GCF Net Funds Receiver Positions for \$25 million each. Assume further that by 4:30 p.m., Dealer A satisfies only \$60 million of its cash obligation thereby leaving \$40 million outstanding. Dealer A would be subject to a late fee of \$500.

The GCF Clearing Agent Bank satisfies transactions based upon its own settlement algorithms. As such, assume that the \$60 million was settled as follows:

(i) \$25 million was settled with Dealer B, (ii) \$10 million was settled with Dealer C, (iii) \$25 million was settled with Dealer D, and (iv) \$0 was settled with Dealer E.

As such, \$40 million remains unfunded. Assume FICC uses its liquidity resources (EOD Clearing Fund Cash and financing arrangements with the GCF Clearing Agent Bank (if available)) and is only able to raise \$30 million. Dealer A would be responsible for the financing costs incurred by FICC. The \$30 million borrowed by FICC would be prorated among the Netting Members in GCF Net Funds Receiver Positions that still have unsettled obligations. In this example, Dealer C has an unsettled obligation of \$15 million and Dealer E has an unsettled obligation of \$25 million. The proration calculation would be the percentage of the dealer's unsettled obligation versus the entire unsettled amount. In Dealer C's case, the \$15 million unsettled amount is 38 percent of the \$40 million total unsettled amount and in Dealer E's case, the \$25 million unsettled amount is 62 percent of the \$40 million. Dealer C would receive 38 percent of the \$30 million that was raised by FICC (i.e., \$11,400,000), and Dealer E would receive 62 percent of the \$30 million that was raised by FICC (i.e., \$18,600,000).

At this point, \$10 million remains unsettled. This is the amount that would need to be satisfied using overnight reverse repos under the GCF Repo Allocation Waterfall MRA and would be distributed between the two remaining unsettled amounts with Dealer C (i.e., \$3,600,000) and Dealer E (i.e., \$6,400,000). FICC would notify these dealers and initiate the GCF Repo Allocation Waterfall MRA requirement with each of them. Dealer A would be subject to a late fee for failing to settle by the close of the Fedwire Funds Service. Such late fee of 100 basis points would be calculated based on the \$40 million that Dealer A did not fund. In addition, the reverse repurchase agreements would be overnight trades at a market rate;³⁴ the associated overnight interest of the reverse repurchase agreement would be debited from Dealer A and credited to Dealers C and E in funds-only settlement. If Dealers C and/or E incurred any damages from the cost of securing alternate financing, FICC would determine if such costs are sufficiently demonstrated and would charge Dealer A for such costs to the extent that they do not include special, consequential, or punitive damages.

Throughout the foregoing process, Dealer A is subject to disciplinary action, up to and including termination of its GSD membership. Moreover, FICC retains its right to cease to act for Dealer A.

(iii) Clarification, Technical Changes and Corrections

FICC proposes to make a clarification to Section 3 of Rule 20 by adding a descriptive parenthetical regarding net-of-net settlement.

FICC also proposes to make a technical change to the title of the “Schedule of GCF Timeframes,” which would be amended to “Schedule of GCF Repo Timeframes” to

³⁴ Supra note 31.

enhance accuracy. References to “Schedule of GCF Timeframes” in Section 3 of Rule 20 would also be updated to “Schedule of GCF Repo Timeframes.”

FICC also proposes to make a correction by revising the language in “Late Fee Related to GCF Repo Transactions” in Section IX (Late Fees) of the Fee Structure from “Fedwire reversals” to “Fedwire Securities Service reversals.” FICC also proposes to revise “securities FedWire” to “Fedwire Securities Service reversals” in the Schedule of GCF Timeframes to be consistent with the proposed change in “Late Fee Related to GCF Repo Transactions” in Section IX (Late Fees) of the Fee Structure. FICC also proposes to revise the title from “Late Fee Related to GCF Repo Transactions” to “Late Fees Related to GCF Repo Transactions.” FICC believes these proposed changes would enhance consistency, clarity, and accuracy.

FICC also proposes to update the current references to “dealer,” “dealers,” or “GCF Counterparties (“dealers”)” in the “Schedule of GCF Timeframes” and “Fee Structure” to “Netting Member” or “Netting Members” for additional clarity and consistency because the GCF Repo Service is not only available to Dealer Netting Members and FICC believes that the references to “dealers” may cause confusion.

In addition, FICC proposes to update the descriptions for 3:00 p.m. and 3:30 p.m. in the Schedule of GCF Timeframes to correct certain descriptions that appear to have been reversed in error. Specifically, the description for 3:00 p.m. currently states that collateral allocations begin. However, collateral allocations actually begin at 3:30 p.m. and therefore, FICC proposes to correct this error by deleting the reference to collateral allocations beginning in the 3:00 p.m. description and adding a reference to the 3:30 p.m. description that would state that collateral allocations begin. Furthermore, the current

3:00 p.m. description states that notifications by FICC to banks and dealers of final positions occurs at this time, which is incorrect. There is not a strict established time for notifications by FICC to Members of final positions. FICC believes that it is reasonably and fairly implied that output would follow the cut-off for trade submission and therefore, does not believe the phrase “notification by FICC to banks and dealers of final positions” is necessary in the Schedule of GCF Timeframes. As such, FICC proposes to correct this error by deleting the reference to notifications by FICC to banks and dealers of final positions from the 3:00 p.m. description.

Furthermore, in connection with the proposed changes described herein, FICC also proposes to revise four relevant defined terms that indicate whether a Netting Member’s obligation is a cash obligation or a securities obligation with respect to GCF Repo/CCIT activity (i.e., “GCF Net Funds Borrower Position,” “GCF Net Funds Borrower,” “GCF Net Funds Lender Position,” and “GCF Net Funds Lender”). In addition, FICC would add two new defined terms (i.e., “Net Funds Payor Position” and “Net Funds Receiver Position”) to distinguish the foregoing defined terms from a Netting Member’s or CCIT Member’s *after* net-of-net settlement.³⁵

Specifically, there are currently four relevant defined terms that indicate whether a Netting Member’s obligation is a cash obligation or a securities obligation with respect to GCF Repo/CCIT activity. These terms are: “GCF Net Funds Borrower

³⁵ A Netting Member’s or CCIT Member’s obligation prior to net-of-net settlement describes such Netting Member’s or CCIT Member’s obligation for that particular Business Day. A Netting Member’s or CCIT Member’s obligation *after* net-of-net settlement describes such Netting Member’s or CCIT Member’s obligation after its obligation from the previous Business Day has been netted with its obligation for that particular Business Day.

Position,”³⁶ “GCF Net Funds Borrower,” “GCF Net Funds Lender Position,”³⁷ and “GCF Net Funds Lender.” With respect to CCIT Members, which are only permitted to initiate transactions as cash lenders for submission to GSD, the applicable definitions are “GCF Net Funds Lender Position” and “GCF Net Funds Lender.” The four existing terms represent a Netting Member’s and CCIT Member’s position with respect to GCF Repo/CCIT activity that is processed by GSD on a particular Business Day *prior to* net-of-net settlement³⁸ and the proposed rule change would add language in the definitions of “GCF Net Funds Borrower Position” and “GCF Net Funds Lender Position” to make this clear.

To distinguish the foregoing from a Netting Member’s or CCIT Member’s position *after* net-of-net settlement, FICC proposes to amend Rule 1 (Definitions) to add

³⁶ The term “GCF Net Funds Borrower Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member has borrowed as the net result of its outstanding GCF Repo Transactions and CCIT Transactions and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member is obligated, pursuant to Rule 20, to allocate to the Corporation to secure such borrowing (such Netting Member holding a GCF Net Funds Borrower Position, a “GCF Net Funds Borrower”). See Rule 1, supra note 4.

³⁷ The term “GCF Net Funds Lender Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member or CCIT Member has lent as the result of its outstanding GCF Repo Transactions or its outstanding CCIT Transactions, as applicable, and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member or CCIT Member, as applicable, is entitled, pursuant to Rule 20, to be allocated for its benefit to secure such loan (such Netting Member or CCIT Member holding a GCF Net Funds Lender Position, a “GCF Net Funds Lender”). See Rule 1, supra note 4.

³⁸ Net-of-net settlement is described in Section 3 of Rule 20 and the proposal would add a parenthetical to clarify that such applicable paragraph in this section refers to net-of-net settlement, as described further below.

two new defined terms, “Net Funds Payor Position” and “Net Funds Receiver Position” with two additional defined terms embedded within these definitions, “Net Funds Payor” and “Net Funds Receiver,” respectively. These defined terms would represent a Netting Member’s and CCIT Member’s, as applicable, position in GCF Repo/CCIT activity *as a result of* net-of-net settlement. Specifically, as a result of net-of-net settlement, a Netting Member or CCIT Member may be either in a cash debit position (i.e., in a “Net Funds Payor Position” or a “Net Funds Payor”) or cash credit position (i.e., in a “Net Funds Receiver Position” or a “Net Funds Receiver”).³⁹

(iv) Implementation Timeframe

Subject to no objection to this Advance Notice and the approval of the related proposed rule change (the “Proposed Rule Change”)⁴⁰ by the Commission, FICC would implement the proposed changes no later than 60 days after the later of the approval of the Proposed Rule Change and no objection to this Advance Notice by the Commission. FICC would announce the effective date of the proposed changes by Important Notice posted to its website.

Expected Effect on Risks to the Clearing Agency, its Participants and the Market

FICC believes that the proposed rule change described in Item II(B)(i) above to establish a new deadline and associated late fees for satisfaction of net cash obligations in

³⁹ Even though CCIT Members can only initiate cash lending transactions, they could be Net Funds Receivers. For example, assume that on Monday, a CCIT Member entered into a CCIT Transaction to lend \$125 million and on Tuesday, the same CCIT Member entered into a CCIT Transaction to lend \$50 million in the same Generic CUSIP Number. On Tuesday, after net-of-net settlement, the CCIT Member would be in a Net Funds Receiver Position of \$75 million.

⁴⁰ Supra note 3.

GCF Repo/CCIT activity and remove the current 6:00 p.m. Collateral Allocation deadline would help lower the potential operational risk of incomplete tri-party transactions outside of FICC. As described above, FICC believes that all parties (including FICC) would benefit from securities settlement occurring by 4:30 p.m. because the more settlements that complete earlier, the more potential operational risk is removed from the market. Specifically, FICC believes having securities settlement occur by 4:30 p.m. would lower the risk of disorder that could arise if firms are attempting to fulfill GCF Repo settlement and tri-party transaction settlement at the same time later in the day. There is interconnectivity between the GCF Repo market and the tri-party market outside of FICC, so the securities collateral that is used to settle GCF Repo positions can be subsequently used by Netting Members to complete tri-party transactions outside of FICC. FICC believes the current second deadline of 6:00 p.m. for allocation of securities collateral creates an environment of later settlement both at FICC and outside of FICC. FICC believes that it would be lowering potential operational risk in the market (i.e., the risk of disorder) that could arise if Members chose to avail themselves of the current 6:00 p.m. deadline. FICC believes that timely settlement at FICC would help with timely completion of onward processing outside of FICC.

FICC also proposes to establish a deadline for a Netting Member's or CCIT Member's satisfaction of cash obligations in the GCF Repo Service and the CCIT Service. As described above, for late cash settlement, the initial late fee would be \$500 and would progressively increase for additional late occurrences. In addition, FICC would also impose additional late fees on Netting Members and CCIT Members that are Net Funds Payors that fail to make the required payment of cash by the close of the

Fedwire Funds Service. Because the deadline for cash settlement is newly proposed, FICC would like to provide a disincentive for cash lateness, and therefore, is proposing fee increases for repeated late occurrences in satisfying cash obligations. FICC believes that the proposed deadline for satisfaction of cash obligations and the associated late fees would mitigate the risk of later settlement by incenting Netting Members and CCIT Members to meet their settlement obligations on a more timely basis, which would better enable FICC to settle on a timely basis.

FICC believes that the proposed rule change described in Item II(B)(ii) above to establish a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part) would benefit FICC and its members. FICC believes that because settlement of GCF Repo/CCIT activity occurs late in the day, having an established process to handle non-default related liquidity would improve FICC's ability to complete settlement and thereby reduce risk to FICC and the industry.

Management of Identified Risks

FICC believes that that the proposed changes described in Item II(B)(i) above are designed to help FICC manage the potential operational risk (i.e., the risk of disorder) of incomplete tri-party transactions outside of FICC. FICC believes that, removing the 6:00 p.m. deadline and establishing 4:30 p.m. as the deadline for securities settlement, it would encourage Members to complete more settlements earlier and thereby, lower potential operational risk from the market.

FICC believes that the proposed changes described in Item II(B)(i) above to establish a new deadline and associated late fees for satisfaction of net cash obligations in

GCF Repo/CCIT activity are designed to help FICC manage the risk of later settlement. FICC believes that the proposed new deadline and the related increasing late fees would provide an incentive for Netting Members and CCIT Members to meet their cash settlement obligations on a more timely basis, which in turn, would better enable FICC to complete settle on a timely basis.

FICC believes that the proposed changes described in Item II(B)(ii) above are designed to help FICC manage its risks by establishing a process to provide liquidity to FICC in situations where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part). This proposed process would provide a process for FICC to raise liquidity to complete settlement. By better enabling FICC to complete settlement by providing FICC with a process to raise liquidity, FICC and its members would be less likely to be faced with the uncertainty of unsettled obligations and the risks related thereto. As such, FICC believes this proposed process would better enable FICC to better manage its risk related to the uncertainty of unsettled obligations and later settlement.

Consistency with the Clearing Supervision Act

FICC believes that the proposed rule change would be consistent with Section 805(b) of the Clearing Supervision Act.⁴¹ The objectives and principles of Section 805(b) of the Clearing Supervision Act are to promote robust risk management, promote

⁴¹ 12 U.S.C. 5464(b).

safety and soundness, reduce systemic risks, and support the stability of the broader financial system.⁴²

FICC believes that the proposed changes described in Item II(B)(i) regarding securities collateral above are designed to promote robust risk management, promote safety and soundness, and support the stability of the broader financial system. FICC believes that all parties (including FICC) would benefit from securities settlement occurring by 4:30 p.m. This is because the more settlements that complete earlier, the more potential operational risk is removed from the market. Specifically, there is interconnectivity between the GCF Repo market and the tri-party market outside of FICC. The securities collateral that is used to settle GCF Repo positions can be subsequently used by Netting Members to complete tri-party transactions outside of FICC. Therefore, the earlier that securities settlement occurs in the GCF Repo Service, the less potential operational risk of incomplete tri-party transactions outside of FICC. Under the current Rules, the second deadline of 6:00 p.m. creates an environment of later settlement both at FICC and outside of FICC. Even though Netting Members are generally abiding by the 4:30 p.m. securities allocation deadline, FICC would like to address the possibility of later settlement by deleting the 6:00 p.m. deadline. Therefore, by imposing 4:30 p.m. as the only deadline, FICC believes it would be lowering potential operational risk in the market that could arise if Netting Members chose to avail themselves of the current 6:00 p.m. deadline. This risk is the risk of disorder if firms are attempting to fulfill GCF Repo settlement and tri-party transaction settlement at the same time later in the day. As such, FICC believes the proposed change to remove the 6:00

⁴²

Id.

p.m. deadline for securities settlement would promote robust risk management by lessening the potential operational risk of incomplete tri-party transactions outside of FICC and also promote the safety and soundness and support the stability of the broader financial market by lessening the risk of disorder if firms are attempting to fulfill GCF Repo settlement and tri-party transactions settlement at the same time later in the day.

FICC also believes that the proposed changes described in Item II(B)(i) above to establish a new deadline and associated late fees for satisfaction of net cash obligations in GCF Repo/CCIT activity are designed to help promote robust risk management, promote safety and soundness, and support the stability of the broader financial system.

Specifically, FICC believes the proposed deadline and associated late fees are designed to promote robust risk management by helping FICC manage the risk of later settlement because FICC believes that the proposed new deadline and the related increasing late fees would provide an incentive for Netting Members and CCIT Members to meet their cash settlement obligations on a more timely basis, which in turn, would better enable FICC to complete settle on a timely basis. FICC believes that having settlement complete on a timely basis would promote safety and soundness and also support the stability of the broader financial system by lessening the potential operational risk of incomplete settlement.

FICC believes that the proposed changes described in Item II(B)(ii) above are designed to promote robust risk management, promote safety and soundness, and support the stability of the broader financial market. FICC believes this proposed process is designed to promote robust risk management because the proposed process would enable FICC to mitigate the risks related to the uncertainty of unsettled obligations and later

settlement in certain circumstances. FICC would be able to mitigate these risks because the proposed process is designed to provide FICC with liquidity in certain circumstances (i.e., where a Netting Member or CCIT Member with a net cash obligation in GCF Repo/CCIT activity, that is otherwise in good standing, is either (1) delayed in satisfying or (2) unable to satisfy its cash obligation (in whole or in part)). FICC believes having a proposed process to provide FICC with liquidity in the circumstances described above would better enable FICC to complete timely settlement. In turn, timely settlement would promote safety and soundness by providing FICC's members with certainty as to the completion of their transactions that were submitted to FICC. Furthermore, timely settlement at FICC would support the stability of the broader financial system by aiming to avoid the market disruption that could occur if FICC cannot settle. Timely settlement at FICC demonstrates to the market that parties' rights and obligations vis-à-vis settlement have been completed and therefore, promotes certainty and stability.

FICC also believes that the proposed conforming and technical changes described above are designed to provide clear and coherent Rules regarding GCF Repo transactions for Netting Members and CCIT Members. FICC believes that clear and coherent Rules would enhance the ability of FICC and its Netting Members and CCIT Members to more effectively plan for, manage, and address the risks related to GCF Repo transactions. As such, FICC believes that the conforming and technical changes are designed to promote robust risk management, consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

FICC believes the proposal would be consistent with Rule 17Ad-22(e)(7)(i), (ii), and (viii), as promulgated under the Act, for the reasons described below.⁴³

Rule 17Ad-22(e)(7)(i) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by maintaining 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.⁴⁴

FICC believes that the proposal would be consistent with Rule 17Ad-22(e)(7)(i) because the GCF Repo Allocation Waterfall MRA would help FICC maintain sufficient liquid resources to settle the same-day cash obligations of a Netting Member or CCIT Member that is otherwise in good standing with FICC but (i) is delayed in satisfying its cash obligation related to its GCF Repo/CCIT activity or (ii) does not fulfill, or only partially fulfills, such cash obligation.⁴⁵ FICC believes that the proposal would be consistent with Rule 17Ad-22(e)(7)(i) because the GCF Repo Allocation Waterfall MRA would be sized based on the actual liquidity need which would help FICC maintain sufficient liquid resources to settle the cash obligations of a Netting Member.⁴⁶ The GCF Repo

⁴³ 17 CFR 240.17Ad-22(e)(7)(i), (ii), and (viii).

⁴⁴ 17 CFR 240.17Ad-22(e)(7)(i).

⁴⁵ Id.

⁴⁶ Id.

Allocation Waterfall MRA would be a committed arrangement, and all transactions entered into pursuant to the GCF Allocation Waterfall MRA are designed to be readily available to meet the cash obligations owed to Netting Members.

Rule 17Ad-22(e)(7)(ii) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by holding qualifying liquid resources⁴⁷ sufficient to meet the minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i) in each relevant currency for which the covered clearing agency has payment obligations owed to clearing Members.⁴⁸ FICC believes that the proposed rule change would be consistent with Rule 17Ad-22(e)(7)(ii) because the GCF Repo Allocation Waterfall MRA would be a committed arrangement,⁴⁹ and all transactions

⁴⁷ “Qualifying liquid resources” means, for any covered clearing agency, the following, in each relevant currency: (i) Cash held either at the central bank of issue or at creditworthy commercial banks; (ii) Assets that are readily available and convertible into cash through prearranged funding arrangements, such as: (A) Committed arrangements without material adverse change provisions, including (1) Lines of credit; (2) Foreign exchange swaps; and (3) Repurchase agreements; or (B) Other prearranged funding arrangements determined to be highly reliable even in extreme but plausible market conditions by the board of directors of the covered clearing agency following a review conducted for this purpose not less than annually; and (iii) Other assets that are readily available and eligible for pledging to (or conducting other appropriate forms of transactions with) a relevant central bank, if the covered clearing agency has access to routine credit at such central bank in a jurisdiction that permits said pledges or other transactions by the covered clearing agency. 17 CFR 240.17Ad-22(a)(14).

⁴⁸ 17 CFR 240.17Ad-22(e)(7)(ii).

⁴⁹ See 17 CFR 240.17Ad-22(a)(14).

entered into pursuant to the GCF Repo Allocation Waterfall MRA are designed to be readily available to meet the cash obligations owed to Netting Members.⁵⁰

Rule 17Ad-22(e)(7)(viii) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by addressing foreseeable liquidity shortfalls that would not be covered by the covered clearing agency's liquid resources and seek to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations.⁵¹ FICC believes that the proposed rule change would be consistent with Rule 17Ad-22(e)(7)(viii) because the GCF Repo Allocation Waterfall MRA would be a committed arrangement that would be available to avoid unwinding, revoking, or delaying same-day settlement obligations. All transactions entered into pursuant to the GCF Repo Allocation Waterfall MRA are designed to be readily available to settle same-day cash obligations owed to non-defaulting Netting Members in instances where existing resources (i) may not be readily available after 4:30 p.m. to permit timely settlement or (ii) are maintained primarily to settle the outstanding transactions in the event of a default of a Member and its entire affiliated family.

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

⁵⁰ Id.

⁵¹ 17 CFR 240.17Ad-22(e)(7)(viii).

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-2019-801 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-2019-801. 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. 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-2019-801 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 proposed added language

~~Bolded, strikethrough text~~ indicates proposed deleted language

**FIXED INCOME CLEARING CORPORATION
GOVERNMENT SECURITIES DIVISION RULEBOOK**

RULE 1 – DEFINITIONS

[Changes to this Rule 1, as amended by File Nos. SR-FICC-2019-004 and SR-FICC-2019-801, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-004.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-801.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on a date that is no later than 60 days after the later of the approval of SR-FICC-2019-004 and no objection to SR-FICC-2019-801 by the SEC. Once effective, this legend will automatically be removed from this Rule 1.]

* * *

Affected Netting/CCIT Member

The term “Affected Netting/CCIT Member” shall have the meaning given to such term in Section 3b of Rule 20.

* * *

EOD Clearing Fund Cash

The term “EOD Clearing Fund Cash” shall have the meaning given to such term in Section 3 of Rule 20.

* * *

GCF Net Funds Borrower Position

The term “GCF Net Funds Borrower Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member has borrowed as the net result of its outstanding GCF Repo Transactions and CCIT Transactions **on a particular Business Day** and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member is obligated, pursuant to Rule 20, to allocate to the Corporation to secure such borrowing (such Netting Member holding a GCF Net Funds Borrower Position, a “GCF Net Funds Borrower”). **The GCF Net Funds Borrower Position shall represent a Netting Member’s position with respect to GCF Repo Transaction and CCIT Transaction activity processed by the Corporation on a particular Business Day prior to net-of-net settlement that occurs pursuant to the applicable paragraph of Section 3 of Rule 20.**

GCF Net Funds Lender Position

The term “GCF Net Funds Lender Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member or CCIT Member has lent as the result of its outstanding GCF Repo Transactions or its outstanding CCIT Transactions, as applicable, **on a particular Business Day** and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member or CCIT Member, as applicable, is entitled, pursuant to Rule 20, to be allocated for its benefit to secure such

loan (such Netting Member or CCIT Member holding a GCF Net Funds Lender Position, a “GCF Net Funds Lender”). **The GCF Net Funds Lender Position shall represent a Netting Member’s or CCIT Member’s position, as applicable, with respect to GCF Repo Transaction and CCIT Transaction activity, as applicable, processed by the Corporation on a particular Business Day prior to net-of-net settlement that occurs pursuant to the applicable paragraph of Section 3 of Rule 20.**

* * *

GCF Repo Allocation Waterfall MRA

The term “GCF Repo Allocation Waterfall MRA” shall have the meaning given to such term in Section 3b of Rule 20.

* * *

Net Funds Payor Position

The term “Net Funds Payor Position” means, with respect to a particular Generic CUSIP Number, the funds amount equal to the difference between the previous Business Day’s GCF Net Settlement Position (which includes CCIT Transaction activity as applicable) and the current Business Day’s GCF Net Settlement Position (which includes CCIT Transaction activity as applicable), where the difference results in a cash obligation for the Netting Member or CCIT Member after net-of-net settlement occurs pursuant to the applicable paragraph of Rule 20 (such Netting Member or CCIT Member holding a Net Funds Payor Position, a “Net Funds Payor”).

Net Funds Receiver Position

The term “Net Funds Receiver Position” means, with respect to a particular Generic CUSIP Number, the funds amount equal to the difference between the previous Business Day’s GCF Net Settlement Position (which includes CCIT Transaction activity as applicable) and the current Business Day’s GCF Net Settlement Position (which includes CCIT Transaction activity as applicable), where the difference results in a cash credit for the Netting Member or CCIT Member after net-of-net settlement occurs pursuant to the applicable paragraph of Rule 20 (such Netting Member or CCIT Member holding a Net Funds Receiver Position, a “Net Funds Receiver”).

* * *

**RULE 3B – CENTRALLY CLEARED INSTITUTIONAL
TRIPARTY SERVICE**

[Changes to this Rule 3B, as amended by File Nos. SR-FICC-2019-004 and SR-FICC-2019-801, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-004.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-801.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on a date that is no later than 60 days after the later of the approval of SR-FICC-2019-004 and no objection to SR-FICC-2019-801 by the SEC. Once effective, this legend will automatically be removed from this Rule 3B.]

* * *

Section 9 – Trade Submission and the Comparison System

* * *

(f) The Schedule of GCF **Repo** Timeframes shall apply to CCIT Transactions (whether submitted for Bilateral Comparison or Locked-In Comparison) and CCIT Members shall be subject to any applicable late fees (applied at the Joint Account level if applicable) noted in the Corporation’s Fee Structure for failure to meet applicable deadlines. CCIT Members shall be subject to all consequences for not meeting the deadlines in the Schedules noted in Rule 20 (Special Provisions for GCF Repo Transactions) in the same way as such consequences apply to Netting Members.

* * *

Section 11 – Netting System and Settlement of CCIT Transactions

(a) Rule 20 (Special Provisions for GCF Repo Transactions) shall apply to the netting and settlement obligations of the Corporation and each party to a CCIT Transaction in the same way in which such provisions apply to GCF Repo Transactions subject to the following:

(i) when used, “Netting Member” **or “Affected Netting/CCIT Member”** shall include a CCIT Member or, as applicable, a Joint Account;

(ii) CCIT Members (whether acting individually or through a Joint Account) shall always be GCF Net Funds Lenders;

* * *

RULE 20 - SPECIAL PROVISIONS FOR GCF REPO TRANSACTIONS

[Changes to this Rule 20, as amended by File Nos. SR-FICC-2019-004 and SR-FICC-2019-801, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-004.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-801.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on a date that is no later than 60 days after the later of the approval of SR-FICC-2019-004 and no objection to SR-FICC-2019-801 by the SEC. Once effective, this legend will automatically be removed from this Rule 20.]

* * *

Section 3 - Collateral Allocation and Cash Obligations Associated with Collateral Allocation Entitlements

On each Business Day, the Corporation shall establish collateral allocation requirements for each of a Netting Member's GCF Net Funds Borrower Positions and GCF Net Funds Lender Positions such that: (a) for every GCF Net Funds Borrower Position, the Netting Member shall have a Collateral Allocation Obligation equal to such Position, and (b) for every GCF Net Funds Lender Position, the Netting Member shall have a Collateral Allocation Entitlement equal to such Position. Collateral Allocation Obligations and cash obligations associated with Collateral Allocation Entitlements must be satisfied by a Netting Member within the timeframes established for such by the Corporation in the Schedule of GCF Repo Timeframes~~by notice to all Members~~. If a Netting Member ~~in a GCF Net Funds Borrower Position~~ does not satisfy its consequent Collateral Allocation Obligation by the final cutoff applicable deadline for such allocation as set forth in the Schedule of GCF Repo Timeframes, such Netting Member shall be subject to a late fee. In addition, the Corporation shall process Collateral Allocation Obligations that are submitted after the applicable deadline on a good faith basis only. If the Netting Member does not satisfy its consequent Collateral Allocation Obligation, such Netting Member ~~it~~ shall be deemed to have failed on such Position, the consequence of which shall be that the Member shall not be entitled to receive the funds borrowed, but shall owe interest on such funds amount. ~~In addition, the Corporation shall process Collateral Allocation Obligations that are submitted after 6:00 p.m. New York time on a good faith basis only. If a Net Funds Payer does not satisfy its cash obligations by the applicable deadline set forth in the Schedule of GCF Repo Timeframes, such Net Funds Payer shall be subject to a late fee. If the Net Funds Payer does not satisfy its cash obligation by the close of the Fedwire Funds Service, it shall be subject to an additional late fee and shall be required to satisfy any outstanding cash obligation promptly upon the opening of the Fedwire Funds Service the next Business Day. Failure to do so may result in disciplinary action, including termination of membership.~~

If on any Business Day, at the time set forth in the Schedule of GCF Repo Timeframes, a Netting Member's Collateral Allocation Obligation from the previous Business Day is greater than the value of the securities and cash delivered by such Netting Member to satisfy such Collateral Allocation Obligation, then such Netting Member shall deliver to the Corporation additional (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been traded (except where

such traded securities are U.S. Treasury bills, such Collateral Allocation Obligations must be satisfied with the posting of Comparable Securities and/or cash only) and/or (iv) cash such that the total value of the securities and cash delivered by such Netting Member to satisfy such Collateral Allocation Obligation is greater than or equal to such Collateral Allocation Obligation. Such additional securities and/or cash must be delivered to the Corporation within the timeframe set forth in the Schedule of GCF **Repo** Timeframes.

If a Net Funds Payor who is otherwise in good standing with the Corporation does not satisfy its cash obligation or only satisfies a portion of its cash obligation within the timeframe established for such by the Corporation in the Schedule of GCF Repo Timeframes, the Corporation shall proceed as follows:

(i) **The Corporation shall first consider whether the GCF Clearing Agent Bank of the Net Funds Payor who failed to satisfy its cash obligation will provide overnight financing and/or whether the Corporation shall use an end-of-day borrowing of Clearing Fund cash in an amount up to the lesser of \$1 billion or 20 percent (20%) of available Clearing Fund Cash (“EOD Clearing Fund Cash”). The Corporation shall not set a priority between the use of EOD Clearing Fund Cash and uncommitted financing from the GCF Clearing Agent Bank. Any cash from these resources shall be applied to the unsettled cash entitlements of the Net Funds Receivers on a pro rata basis. The pro-ration will be based upon the percentage of each Net Fund Receiver’s unsettled obligation versus the total amount of all unsettled cash obligations.**

(ii) **If an unsettled cash obligation still remains, Net Funds Receivers with unsettled positions at the GCF Clearing Agent Bank of the Net Funds Payor who did not fulfill its cash obligation shall be required to enter into overnight reverse repurchase agreements under the GCF Repo Allocation Waterfall MRA as described in Section 3b of this Rule. The amount of such reverse repurchase agreement shall be at the remaining unsettled amount per Net Funds Receiver.**

The associated overnight interest of the reverse repurchase agreements will be debited from the Net Funds Payor and credited to the applicable Net Funds Receivers in the Funds-Only Settlement process as a Miscellaneous Adjustment Amount.

Any resulting costs incurred by the Corporation and/or the Net Funds Receivers from the implementation of any actions pursuant to clause (i) or (ii) above would be debited from the Net Funds Payor whose shortfall caused the liquidity need. The Net Funds Receivers requesting compensation in this regard would be required to provide proof of commercially reasonable expenses and would need to submit a formal claim to the Corporation. Upon approval by the Corporation, the Net Funds Receiver would receive a credit that would be processed in the Funds-Only Settlement process as a Miscellaneous Adjustment Amount. The debit for the Net Funds Payor would be processed in the same way.

Unless the Corporation has restricted the Member's access to services pursuant to Rule 21 or Rule 21A or has ceased to act for the Member pursuant to Rule 21 or Rule 21A, the Net Funds Payor shall be permitted to continue to submit activity to the Corporation.

* * *

Every Collateral Allocation Entitlement and Collateral Allocation Obligation that is established by the Corporation on a particular Business Day shall be netted on the next Business Day with such day's Collateral Allocation Entitlement and/or Collateral Allocation Obligation, within a timeframe for such established by the Corporation (**referred to as net-of-net settlement**).

* * *

Section 3b - Obligation of Net Funds Receivers to Enter into Overnight Reverse Repurchase Agreements with the Corporation

If a Net Funds Payor satisfies only a portion of its cash obligation or does not satisfy any of its cash obligation and/or the Corporation is only able to raise a portion of the unsettled cash amount or is not able to raise any of the unsettled cash amount to cover such cash obligation, the Net Funds Receivers at the GCF Clearing Agent Bank of the Net Funds Payor who did not fulfill its obligation (the "Affected Netting/CCIT Members") shall be required to enter into overnight reverse repurchase agreements with the Corporation, as described herein, on the Generic CUSIP Number for which such Net Funds Payor failed to fulfill its cash obligation. The amount of such reverse repurchase agreement shall be at the remaining unsettled amount per Affected Netting/CCIT Member.

The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (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 Affected Netting/CCIT Member, as Buyer (the "GCF Repo Allocation Waterfall MRA"); provided that, notwithstanding anything else in the GCF Repo Allocation Waterfall MRA:

(i) **Transactions (for purposes of this Section 3b, as defined in the GCF Repo Allocation Waterfall MRA) shall only be initiated by the Corporation in accordance with this Rule,**

(ii) **all Transactions shall be terminable only by demand of the Corporation and in accordance with this Rule,**

(iii) **all Securities (for purposes of this Section 3b, as defined in the GCF Repo Allocation Waterfall MRA) shall be transferred in the Corporation's sole discretion,**

(iv) **any and all notices, statements, demands or other communications under the GCF Repo Allocation Waterfall MRA shall be given by a party to the other in accordance with the notice provisions set forth in the Rules,**

(v) so long as the Affected Netting/CCIT Member is a Netting Member or CCIT Member, as applicable, of the Corporation, the GCF Repo Allocation Waterfall MRA may only be terminated by the Corporation,

(vi) there shall be no Events of Default (as defined in the GCF Repo Allocation Waterfall MRA) with respect to the Seller other than a Corporation Default,

(vii) it shall be an “Event of Default” with respect to Buyer under a GCF Repo Allocation Waterfall MRA if the Corporation ceases to act for the relevant Affected Netting/CCIT Member,

(viii) Section 19(a) of the GCF Repo Allocation Waterfall MRA shall be amended by adding at the end thereof and before the period “, and this Agreement and each Transaction is of a type set forth in Section 5390(c)(8)(D) of Title 12 of the United States Code, as amended,”

(ix) Section 19(b) of the GCF Repo Allocation Waterfall 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.”

Once the Corporation has determined that it will require financing in order to satisfy a cash obligation to a Netting Member or CCIT Member in a Net Funds Receiver Position, it shall notify each Affected Netting/CCIT Member of the principal amount of the relevant Generic CUSIP Number subject to the applicable overnight reverse repurchase transaction (the “Financed Securities”) and the corresponding purchase price (the “Financing Amount”). Upon notification by the Corporation, the Corporation shall initiate such overnight reverse repurchase transactions with Affected Netting/CCIT Members under the terms and conditions of the GCF Repo Allocation Waterfall MRA.

All Collateral Allocation 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 the Affected Netting/CCIT Member shall be final notwithstanding that the Financed Securities are not required to be allocated for the benefit of the Corporation in connection with the original transaction by the Affected Netting/CCIT Member who is a buyer in a reverse repurchase transaction (such Collateral Allocation Obligation being netted against delivery to the buyer under the GCF Repo Allocation Waterfall MRA).

* * *

SCHEDULE OF GCF REPO TIMEFRAMES
(all times are New York City times)

[Changes to this Schedule, as amended by File Nos. SR-FICC-2019-004 and SR-FICC-2019-801, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-004.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-801.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on a date that is no later than 60 days after the later of the approval of SR-FICC-2019-004 and no objection to SR-FICC-2019-801 by the SEC. Once effective, this legend will automatically be removed from this Schedule.]

- 7:00 a.m.** FICC begins to accept from GCF-Authorized Inter-Dealer Brokers (“brokers”) data on GCF Repo Transactions – Brokers must submit data on a GCF Repo Transaction that they are a party to within five minutes of executions of such Transaction.
- 7:30 a.m. –
2:30 p.m.** Collateral that was lent interbank is returned to the FICC account at the clearing bank of the lender of securities collateral to facilitate substitutions in the event of a request by such lender.
- 9:00 a.m.** Deadline for Netting Members to deliver additional securities or cash such that value of such securities and cash equals or exceeds Collateral Allocation Obligations from previous Business Day.
- 10:00 a.m.** **Netting Members**~~Dealers~~ must begin affirming or disaffirming GCF Repo Transactions within one half hour of receipt of data on such transactions from FICC
- 10:30 a.m.** Deadline for dealer affirmation or disaffirmation of all GCF Repo Transactions that they are a party to that are executed prior to 10 a.m.
- 1:00 p.m.** For GCF Repo Transactions executed after 1:00 p.m., **Netting Members**~~dealers~~ must affirm or disaffirm GCF Repo Transactions within ten minutes of their receipt of data on such transactions from FICC.
- 3:00 p.m.** Cutoff for GCF Repo Transaction data submission from brokers to FICC including dealer trade affirmation or disaffirmation – all unaffirmed trades automatically affirmed by FICC. ~~—notification by FICC to banks and dealers of final positions~~
~~—collateral allocations begin.~~
- 3:30 p.m.** Every Collateral Allocation Entitlement and Collateral Allocation Obligation that was established by the Corporation on the previous Business Day shall be netted with the current Business Day’s Collateral Allocation Obligation and/or Collateral Allocation Entitlement; **Netting Members**~~GCF Counterparties (“dealers”)~~ shall have the obligation to settle such new net settlement amounts. **Collateral allocations begin.**

4:30 p.m.* ~~First deadline~~**Deadline** for ~~Netting Member~~**dealer** allocation of collateral to satisfy obligations, after which a late fee will be imposed and after which FICC shall process Collateral Allocation Obligations on a good faith basis only. Deadline for Net Funds Payers to satisfy their cash obligations, after which a late fee will be imposed.

~~6:00 p.m.~~ ~~Second deadline for dealer allocation of collateral to satisfy obligations, after which FICC shall process Collateral Allocation Obligations on a good faith basis only~~

* Or one hour after the close of the ~~securities FedWire~~Fedwire Securities Service reversals, if later.

FEE STRUCTURE*

(effective ~~July 2, 2018~~[Insert Implementation Date (as defined below)])

[Changes to this Fee Structure, as amended by File Nos. SR-FICC-2019-004 and SR-FICC-2019-801, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-004.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/FICC/SR-FICC-2019-801.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on a date that is no later than 60 days after the later of the approval of SR-FICC-2019-004 and no objection to SR-FICC-2019-801 by the SEC (the "Implementation Date"). Once effective, this legend will automatically be removed from this Fee Structure, and FICC will insert the Implementation Date as the effective date and remove the brackets and bracketed language in the parenthetical above.]

* * *

IX. LATE FEES

* * *

Late Fees Related to GCF Repo Transactions

On any particular business day, if a Netting Memberdealer does not make the required collateral allocation by the later of 4:30 p.m. (New York time) or 1 hour after the actual close of Fedwire Securities Service reversals, the Netting Memberdealer shall be subject to a late fee of \$500.00, unless the Corporation determines, in its sole discretion, that the failure to meet this timeframe is not primarily the fault of the Netting Memberdealer. This determination would be made by the Corporation based on input from the GCF Repo Clearing Agent Bank and the Netting Member.

On any particular business day, if a Net Funds Payer does not make the required payment of cash by the later of 4:30 p.m. (New York time) or 1 hour after the actual close of Fedwire Securities Service reversals, the Net Funds Payer shall be subject to a late fee as shown on the table below, unless the Corporation determines that the failure to meet this timeframe is not primarily the fault of the Net Funds Payer.

* Fees stated to apply to CCIT Members shall be applied at the Joint Account level for CCIT Members participating through a Joint Account.

<u>Late Fee for Net Funds Payors</u>	<u>1st Occurrence (within 30 calendar days)</u>	<u>2nd Occurrence (within 30 calendar days)</u>	<u>3rd Occurrence (within 30 calendar days)</u>	<u>4th Occurrence (within 30 calendar days) or additional occurrences (within the 30 calendar days)</u>
<u>After 4:30 p.m.</u>	<u>\$500</u>	<u>\$1,000</u>	<u>\$2,000</u>	<u>\$3,000</u>

On any particular business day, if a Net Funds Payor does not make the required payment of cash by the close of the Fedwire Funds Service, the Net Funds Payor shall be subject to a late fee as shown on the table below, unless the Corporation determines that the failure to meet this timeframe is not primarily the fault of the Net Funds Payor. This determination would be made by the Corporation based on input from the GCF Repo Clearing Agent Bank and the Net Funds Payor.

<u>Late Fee for Net Funds Payors</u>	<u>1st Occurrence (within 90 calendar days)</u>	<u>2nd Occurrence (within 90 calendar days)</u>	<u>3rd Occurrence (within 90 calendar days)</u>	<u>4th Occurrence (within 90 calendar days) or additional occurrences (within the 90 calendar days)</u>
<u>After Close of Fedwire Funds Service</u>	<u>100 basis points on the unsatisfied cash obligation amount</u>	<u>200 basis points on the unsatisfied cash obligation amount</u>	<u>300 basis points on the unsatisfied cash obligation amount</u>	<u>400 basis points on the unsatisfied cash obligation amount</u>

* * *