FIXED INCOME CLEARING CORPORATION
MORTGAGE-BACKED SECURITIES DIVISION
CLEARING RULES
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RULE 1 - DEFINITIONS

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified.

Account

The term "Account" means any account maintained by the Corporation on behalf of a Clearing Member. An Account maintained for a Member acting as a Dealer is referred to as a "Dealer Account," and an Account maintained for a Member acting as a Broker is referred to as a "Broker Account."

Affiliate

The term "Affiliate" shall have the meaning given that word in SEC Rule 405, promulgated under the authority of the Securities Act of 1933.

Aggregated Account

The term "Aggregated Account" means either a single Account linked to an aggregate ID or a set of Accounts linked to an aggregate ID for the processing of Transactions in the Clearing System. Pursuant to these Rules, Members’ Cash Settlement obligations and Mark-to-Market requirements are calculated on a net basis at the aggregate ID level.

Applicant Questionnaire

The term "Applicant Questionnaire" means the questionnaire required in Rule 2A to be completed and delivered to the Corporation by each applicant to become a Clearing Member.

Appropriate Regulatory Agency

The term "Appropriate Regulatory Agency" shall have the meaning given that term in Section 3(a)(34)(C) of the Exchange Act.

Bank Clearing Member

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

Board or Board of Directors

The terms "Board" or "Board of Directors" mean the Board of Directors of the Fixed Income Clearing Corporation or a committee thereof acting under delegated authority.
Broker

The term "Broker" means a Member that is in the business of buying and selling securities as agent on behalf of Dealers.

Broker Give-Up Date

The term "Broker Give-Up Date" means the date on which Dealers for which a Broker has acted in a Broker Give-Up Trade are substituted for the Broker.

Broker Give-Up Trade

The term "Broker Give-Up Trade" means an SBO-Destined Trade, Trade-for-Trade Transaction or Option Contract in which a Broker acting on behalf of selling and purchasing Dealers temporarily is identified in the applicable Reports initially made available by the Corporation as the Original Contra-Side Member with respect to each Dealer, with the Dealers to be substituted on the Broker Give-Up Date.

Brokered Transaction

The term "Brokered Transaction" means any “give-up” transaction calling for the delivery of an Eligible Security the data on which has been submitted to the Corporation by Members, to which transaction a Broker is a party.

Business Day

The term "Business Day" means any day on which the Corporation is open for business.

Cash Balance

The term "Cash Balance" means the net amount computed by the Corporation each Business Day with respect to each Aggregated Account pursuant to Rule 11.

Cash Settlement

The term "Cash Settlement" refers to the payment each Business Day by the Corporation to a Member or by a Member to the Corporation pursuant to Rule 11.

Cash Settling Bank Member

The term “Cash Settling Bank Member” means a bank, trust company or other entity specified in these Rules that has qualified pursuant to the provisions of these Rules and which is a party to an effective “Appointment of Cash Settling Bank and Cash Settling Bank Agreement” whereby the Cash Settling Bank undertakes to perform cash settlement services for the Member which also is a party thereto. The term “Cash Settling Bank Member” shall be used interchangeably with the term “Cash Settling Bank”.

CFTC

The term "CFTC" means the Commodity Futures Trading Commission.

CFTC-Recognized Clearing Organization

The term “CFTC-Recognized Clearing Organization” means a clearing organization that is affiliated with, or designated by, a contracts market or markets trading specific futures products, and is under the oversight of the CFTC.

Clearance Date

The term "Clearance Date" means the date on which the parties to a Transaction actually deliver and pay for Eligible Securities as reported to the Corporation, which may be a date other than the Contractual Settlement Date.

Clearance Difference Amount

The term "Clearance Difference Amount" means the dollar difference between the Settlement Value of a Pool Deliver Obligation or a Pool Receive Obligation and the actual value at which such Pool Deliver Obligation or Pool Receive Obligation was settled.

Clearing Agency

The term "Clearing Agency" shall have the meaning given it in Section 3(a)(23) of the Exchange Act.

Clearing Fund

The term "Clearing Fund" means the Clearing Fund established by the Corporation pursuant to these Rules, which shall be comprised of the aggregate of all Required Fund Deposits and all other deposits, including Cross-Guaranty Repayment Deposits.

Clearing Members

The term "Clearing Member” means any entity admitted into membership pursuant to Rule 2A.

Clearing Organization

The term “Clearing Organization” means a Clearing Agency, Derivatives Clearing Organization, CFTC-Recognized Clearing Organization, and/or Self-Regulatory Organization, and any other organization performing a similar function, whether or not regulated by the SEC or the CFTC, in which a Member is a member or participant.
Clearing System

The term "Clearing System" means the (i) System of services provided by the Corporation to Persons that are Members thereof, including Trade Comparison, TBA Netting, Pool Comparison Pool Netting, and settlement, as applicable, and (ii) operations carried out by the Corporation in the course of providing such services, as provided in these Rules.

Commodity Exchange Act

The term “Commodity Exchange Act” means the Commodity Exchange Act, as amended.

Compared Trade

The term "Compared Trade" means a trade the data on which has been compared or deemed compared pursuant to Rule 5 or Rule 7, as applicable.

Contractual Settlement Date

The term "Contractual Settlement Date" means, in the case of a Trade-for-Trade Transaction, Specified Pool Trade, SBO-Destined Trade, SBO Trade and Pool Net Settlement Position, the settlement date mutually agreed to by the parties to the Transaction.

Controlling Management

The term “Controlling Management” shall mean the Chief Executive Officer, the Chief Financial Officer, and the Chief Operations Officer, or their equivalents, of an applicant or Member.

Corporation

The term "Corporation" means the Fixed Income Clearing Corporation, the owner of the Mortgage-Backed Securities Division. Where these Rules refer to action taken by “the Corporation,” the term should be understood to mean the management of the Fixed Income Clearing Corporation, unless otherwise specified.

Coverage Charge

The term “Coverage Charge” means with respect to a Member’s Required Fund Deposit, an additional charge to bring the Member’s coverage to a targeted confidence level.
Credit Risk Rating Matrix

The term “Credit Risk Rating Matrix” refers to a matrix developed by the Corporation to rate a Member’s potential risk to the Corporation based on the Member’s financial condition, as determined by financial information required to be submitted by that Member and other relevant information.

Cross-Guaranty Agreement

The term “Cross-Guaranty Agreement” shall mean any netting contract, limited cross-guaranty, or similar agreement between the Corporation and (i) any Clearing Organization, or (ii) any other domestic or foreign clearinghouse, clearing association, clearing corporation or similar organization.

Cross-Guaranty Beneficiary Member

The term “Cross-Guaranty Beneficiary Member” shall have the meaning given to such term in Rule 32.

Cross-Guaranty Counterparty

The term “Cross-Guaranty Counterparty” shall mean any party, other than the Corporation, to a Cross-Guaranty Agreement.

Cross-Guaranty Defaulting Member

The term “Cross-Guaranty Defaulting Member” shall mean a Defaulting Member on account of which the Corporation makes or receives a Cross-Guaranty Payment.

Cross-Guaranty Payment

The term “Cross-Guaranty Payment” shall mean any payment, other than a Cross-Guaranty Repayment, that the Corporation makes or receives pursuant to a Cross-Guaranty Agreement.

Cross-Guaranty Repayment

The term “Cross-Guaranty Repayment” shall mean (i) any amount of a Cross-Guaranty Payment received by the Corporation that the Corporation (A) repays to a Cross-Guaranty Counterparty pursuant to a Cross-Guaranty Agreement or (B) pays over to a Defaulting Member or its legal representative pursuant to a court order or judgment or (ii) any amount of a Cross-Guaranty Payment made by the Corporation that the Corporation receives back from a Cross-Guaranty Counterparty pursuant to a Cross-Guaranty Agreement.
Cross-Guaranty Repayment Deposit

The term “Cross-Guaranty Repayment Deposit” shall mean the deposit to the Clearing Fund required to be made by a Cross-Guaranty Beneficiary Member pursuant to Section 4 of Rule 32.

CUSIP Average Price or CAP

The term "CUSIP Average Price" or "CAP" means, in the case of any SBON Trade, the average contract price as computed by the Corporation of all SBO-Destined Trades in the CUSIP number, as the case may be, that have been netted to produce the SBON Trade.

CUSIP Number

The term "CUSIP Number" means the Committee on Uniform Securities Identification Procedures identifying number for an Eligible Security.

Dealer

The term "Dealer" means a Member that is in the business of buying and selling Securities as principal, either directly or through a Broker.

Dealer Clearing Member

The term “Dealer Clearing Member” shall have the meaning set forth in Section 1 of Rule 2A.

Defaulting Member

The term “Defaulting Member” means a Member that is treated by the Corporation as insolvent and/or for which the Corporation has ceased to act pursuant to these Rules.

Delivery Date

The term “Delivery Date” means the earliest date on which pools can be delivered in satisfaction of a trade, as per mutual agreement between buyer and seller.

Derivatives Clearing Organization or “DCO”

The term “Derivatives Clearing Organization or “DCO” shall have the meaning given such term in Section 1a(9) of the Commodity Exchange Act.

Designated Examining Authority

The term "Designated Examining Authority" shall mean (1) in the case of a broker or dealer registered pursuant to Section 15 or 15C of the Exchange Act that belongs to only one Self-Regulatory Organization, such Self-Regulatory Organization, and (2) in the case of a broker or dealer registered pursuant to Section 15 or 15C of the Exchange Act that
belongs to more than one Self-Regulatory Organization, the Self-Regulatory Organization designated by the SEC pursuant to Section 17(d) of the Exchange Act as the entity with responsibility for examining such broker or dealer.

**Designee**

The term “Designee” means a service provider designated by a Member either orally or in writing to provide the Corporation with instructions on behalf of the Member.

**Deterministic Risk Component**

The term “Deterministic Risk Component” means with respect to the margin portfolio of a Clearing Member, the calculation equaling: (i) the Mark-to-Market Debit; minus (ii) the Mark-to-Market Credit; plus (iii) a cash obligation item debit; minus (iv) a cash obligation item credit; plus or minus (v) accrued principal and interest.

**Direct Transaction**

The term "Direct Transaction" means any Transaction calling for the delivery of an Eligible Security the data on which has been submitted to the Corporation by Members, that is not a Brokered Transaction.

**DK**

The term "DK" means a statement submitted to the Corporation by a Member that the Member "does not know" (i.e., denies the existence of) a Transaction reported to the Member by the Corporation.

**DTC**

The term “DTC” means The Depository Trust Company.

**DTC Settling Bank**

The term “DTC Settling Bank” means an entity that qualifies as a settling bank under DTC’s rules and has been approved as such by DTC.

**Eligible Clearing Fund Agency Security**

The term “Eligible Clearing Fund Agency Security” means a direct obligation of those U.S. agencies or government sponsored enterprises as the Corporation may designate from time to time, and that satisfies such criteria set forth in notices issued by the Corporation from time to time.
Eligible Clearing Fund Mortgage-Backed Security

The term “Eligible Clearing Fund Mortgage-Backed Security” means a mortgage-backed pass through obligation issued by those U.S. agencies or Government Sponsored Enterprises as the Corporation may designate from time to time, and that satisfies such criteria set forth in notices issued by the Corporation from time to time.

Eligible Clearing Fund Security


Eligible Clearing Fund Treasury Security

The term “Eligible Clearing Fund Treasury Security” means a direct obligation of the U.S. government that satisfies the criteria set forth in notices issued by the Corporation from time to time.

Eligible Letter of Credit

The term "Eligible Letter of Credit" means a letter of credit that:

(i) contains the unqualified commitment of such issuer to pay a specified sum of money upon demand (properly drawn under the letter of credit);

(ii) is irrevocable; and

(iii) is in a form, and contains such other terms and conditions, as may be required by the Corporation.

Eligible Security

The term "Eligible Security" means a Security that the Corporation has determined to be eligible for services provided by the Corporation in any System pursuant to these Rules. A security of an issuer that is listed on the Office of Foreign Assets Control (“OFAC”) list of specially designated nationals distributed by the U.S. Department of the Treasury, or of an issuer that is incorporated in a country that is on the OFAC list of countries subject to comprehensive sanctions, shall not be an “Eligible Security”.

End of Day Charge

The term “End of Day Charge” means with respect to each Clearing Member, the calculation equaling: (i) the VaR Charge; plus (ii) the Mark-to-Market Debit; minus (iii) the Mark-to-Market Credit; plus (iv) a cash obligation item debit; minus (v) a cash obligation item credit; plus or minus (vi) accrued principal and interest.
EPN Service

The term “EPN Service” means the Corporation's electronic pool notification service that enables EPN Users to electronically communicate pool information to other EPN Users, as described in the Corporation's EPN Rules and EPN procedures.

Excess Capital

The term “Excess Capital” means Excess Net Capital, net assets, or equity capital as applicable to a Clearing Member based on its type of regulation.

Excess Capital Differential

The term “Excess Capital Differential” means the amount by which a Member’s VaR Charge exceeds its Excess Capital.

Excess Capital Ratio

The term “Excess Capital Ratio” means the quotient, rounded to the nearest whole two decimal places, resulting from dividing the amount of a Member’s VaR Charge by the amount of its Excess Capital that it maintains.

Excess Net Capital

The term "Excess Net Capital" means, as of a particular date, the amount equal to the difference between the Net Capital of a broker or dealer and the minimum Net Capital such broker or dealer must have to comply with the requirements of SEC Rule 15c3-1(a), or any successor rule or regulation thereto.

Exchange Act


Fail

The term "Fail" means a Transaction the clearance of which has not occurred or has not been reported to the Corporation as having occurred on the Contractual Settlement Date, or expiration date, as applicable.

FATCA

The term “FATCA” means (i) the provisions of sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended, (the “Code”) that were implemented as part of The Foreign Account Tax Compliance Act (or any amendment thereto or successor sections thereof), and the related Treasury Regulations or other official interpretations thereof, as in effect from time to time, and (ii) the provisions of any intergovernmental agreement to implement The Foreign Account Tax Compliance Act as in effect from time
to time between the United States and the jurisdiction of the FFI Member’s (or applicant’s) residency.

**FATCA Certification**

The term “FATCA Certification” means an executed copy of the relevant tax form required by the Internal Revenue Service under FATCA, as in effect from time to time, that each Member (or applicant to become such) shall provide from time to time to the Corporation as set forth under these Rules.

**FATCA Compliance Date**

The term “FATCA Compliance Date” shall mean, as applicable, either (i) January 1, 2014, with respect to any FFI Member approved for membership by the Corporation on January 1, 2014 or thereafter (or, if the commencement of all FATCA withholding with respect to such FFI Members is delayed beyond January 1, 2014 under FATCA, two calendar months plus one day before such delayed effective date, or (ii) May 1, 2014, with respect to any FFI Member approved for membership by the Corporation at any time prior to January 1, 2014 (or, if the commencement of all FATCA withholding with respect to such FFI Members is delayed beyond July 1, 2014 under FATCA, two calendar months plus one day before such delayed effective date).

**FATCA Compliant**

The term “FATCA Compliant” or “FATCA Compliance” means, with respect to an FFI Member, that such FFI Member has qualified under such procedures promulgated by the Internal Revenue Service as are in effect from time to time to establish exemption from withholding under FATCA such that the Corporation will not be required to withhold under FATCA either (i) on “gross proceeds from the sale or other disposition of any property of a type which can produce interest or dividends from sources within the United States” within the meaning of Code section 1473(1)(A)(ii), as may be amended or re-codified from time to time or (ii) on interest, dividends, etc. from sources within the United States within the meaning of Code section 1473(1)(A)(i), as may be amended or re-codified from time to time in each case, paid to such FFI Member.

**Federal Funds Rate**

The term "Federal Funds Rate" means, for each Business Day, the rate reported as such in a publicly available source. If there is a dispute as to the Federal Funds Rate for a particular Business Day, it shall be settled by reference to the rate set forth in H. 15(519) for such Business Day opposite the caption "Federal Funds (Effective)." For this purpose, "H. 15(519)" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System.

**FFI Member**

The term “FFI Member” means any Person that is treated as a non-U.S. entity for U.S. federal income tax purposes. For the avoidance of doubt, FFI Member includes any Member that is a U.S. branch of an entity that is treated as a non-U.S. entity for U.S. federal income tax purposes.
FHLMC

The term "FHLMC" means the Federal Home Loan Mortgage Corporation.

FedWire

The term "FedWire" means the Federal Reserve Wire Transfer System for securities movements or for funds-only movements, as the context requires.

Financial Statements

The term "Financial Statements" means a balance sheet, statement of income and statement of changes in financial position and statement of changes in owner’s equity, in each case with accompanying notes.

Firm CUSIP Average Price (FCAP)

The term "Firm CUSIP Average Price" or "FCAP" means the average purchase or sale contract price of a Member's SBO-Destined Trades with a particular Original Contra-Side Member in a particular CUSIP number.

FNMA

The term “FNMA” means Fannie Mae.

Foreign Member

The term “Foreign Member” means a Foreign Person that is a Member. A Bank Clearing Member that participates in the Corporation through a branch or agency located in the U.S. which is regulated by a U.S. and/or state regulatory authority shall not be deemed to be a Foreign Member for purposes of the Corporation’s Rules and procedures.

Foreign Person

The term “Foreign Person” means a Person that is organized or established under the laws of a country other than the United States and does not include a Bank Clearing Member that participates in the corporation through a branch or agency located in the U.S. which is regulated by a U.S. and/or state regulatory authority.

FRB

The term “FRB” means the Board of Governors of the Federal Reserve System and each Federal Reserve Bank, as appropriate.
Fully Compared

The term "Fully Compared" means that trade input submitted by a Broker matches trade input submitted by each Dealer on whose behalf the Broker is acting in accordance with the Net Position Match Mode.

GNMA


Government Securities Division Funds-Only Settling Bank Member

The term “Government Securities Division Funds-Only Settling Bank Member” means an entity that qualifies as a funds-only settling bank member under the rules of the Government Securities Division and has been approved as such by the Corporation.

Government Securities Division

The term “Government Securities Division” means the division of the Fixed Income Clearing Corporation that provides clearing and other services related to transactions in U.S. Government securities and certain mortgage-backed securities.

Government Securities Division Member

The term “Government Securities Division Member” means a member who utilizes the services of the Government Securities Division.

Government Securities Issuer

The term “Government Securities Issuer” means an entity that issues “government securities”, as that term is defined in subparagraphs (A), (B) and (C) of Section 3(a)(42) of the Exchange Act.

Government Sponsored Enterprise

The term “Government Sponsored Enterprise” shall mean FNMA, GNMA, Federal Home Loan Banks, or the FHLMC.

Government Securities Issuer Clearing Member

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

The term "Insurance Company" shall have the meaning given that term in Section 2(a)(17) of the Investment Company Act of 1940, as amended.

Insurance Company Clearing Member

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

Interactive Submission Method

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

Inter-Dealer Broker

The term “Inter-Dealer Broker” means a Person which is in the business of buying and selling securities as agent on behalf of dealers and is registered under Section 15 or Section 15C of the Exchange Act.

Inter-Dealer Broker Clearing Member

The term “Inter-Dealer Broker Clearing Member” shall have the meaning given that term in Section 1 of Rule 2A.

Interested Person

The term "Interested Person" means a Member or an applicant for membership.

Legal Risk

The term “Legal Risk” shall have the meaning given that term in Section 2 of Rule 4.

Long Position

The term "Long Position" means a Member’s obligations with respect to the purchase of an Eligible Security or an Option Contract, as determined pursuant to these Rules.

Mark-to-Market

The term “Mark-to-Market” means the aggregate amount of a Member’s profits and losses calculated by the Corporation pursuant to Rule 4.
Mark-to-Market Credit

The term “Mark-to-Market Credit” means the amount of a Clearing Member’s Mark-to-Market if such amount represents a net profit.

Mark-to-Market Debit

The term “Mark-to-Market Debit” means the amount of a Clearing Member’s Mark-to-Market if such amount represents a net loss.

Member

The term "Member" means any entity accepted into membership in the Mortgage-Backed Securities Division.

Minimum Charge

The term “Minimum Charge” means the minimum amount of each Clearing Member’s Required Fund Deposit, as applicable, before application of special premiums and amounts applicable under these Rules.

Mortgage-Backed Securities Division

The term “Mortgage-Backed Securities Division” means the division of the Fixed Income Clearing Corporation that provides services related to mortgage-backed securities Transactions.

Multiple Batch Submission Method

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

Net Assets

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

Net Capital

The term "Net Capital" means, as of a particular date, the amount equal to the net capital of a broker or dealer as defined in SEC Rule 15c3-1(c)(2), or any successor rule or regulation thereto.
Net Position Match Mode

The term "Net Position Match Mode" refers to a method establishing parameters for the comparison of Transactions involving a Broker.

Net Worth

The term "Net Worth" means, as of a particular date, the amount equal to the excess of the assets of a Person over the liabilities of such Person, computed in accordance with generally accepted accounting principles, including liabilities that are subordinated to the claims of creditors pursuant to a satisfactory subordination agreement, as defined in Appendix D of 17 C.F.R. Section 240.15c3-1d or in 17 C.F.R. Section 402.2(d), as applicable.

Non-Member

The term "Non-Member" means any Person that is not a Member.

Notification of Settlement

The term "Notification of Settlement" means an instruction submitted to the Corporation by a purchasing or selling Clearing Member pursuant to these Rules reflecting settlement of an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade.

Novation

The term "Novation" means the termination of deliver, receive and related payment obligations between Members and the replacement of such obligations with identical obligations to and from the Corporation, pursuant to these Rules.

NSS

The term “NSS” means the National Settlement Service of the FRB.

Off-the Market Transaction

The term “Off-the-Market Transaction” means any of the following:

(1) A single Transaction that is:

   (i) greater than $1 million in Par Amount; and

   (ii) executed at a contract price that is either higher or lower (by a percentage amount determined by the Corporation based on factors such as market conditions) than the System Price for the underlying Eligible Security on trade date;
(2) A pattern of Transactions that, if looked at as a single transaction, would be encompassed by subsection (1) of this definition.

**Officer of the Corporation**

The term "Officer of the Corporation" means the Chairman of the Board, President, Managing Director, Vice President, Secretary, Assistant Secretary, Treasurer, or Assistant Treasurer of the Corporation.

**Open Commitment Report**

The term "Open Commitment Report" means the Report furnished by the Corporation to Members reflecting Members’ open commitments in the Clearing System.

**Option Contract**

The term "Option Contract" means an option to sell or buy a specified amount of Eligible Securities by or on a specified date to or from the other party to the contract against payment of the Strike Price. Upon exercise, a "Call Option Contract" entitles the purchaser to buy, and obligates the seller (writer) to sell, Eligible Securities for the Strike Price, whereas a "Put Option Contract" entitles the purchaser to sell, and obligates the seller (writer) to buy, Eligible Securities for the Strike Price.

**Original Contra-Side Member**

The term "Original Contra-Side Member" means a Member with whom a Member has entered into a contract for the purchase or sale of an Eligible Security or an Option Contract.

**Par Amount**

The term "Par Amount" means for Trade-for-Trade and SBO Transactions, Option Contracts and Pool Deliver and Pool Receive Obligations, the current face value of a Security to be delivered on the Contractual Settlement Date. With respect to Specified Pool Trades, “Par Amount” shall mean the original face value of a Security to be delivered on the Contractual Settlement Date.

**Partially Compared**

The term "Partially Compared" means that trade input submitted by a Broker matches trade input submitted by one but not both of the Dealers on whose behalf the Broker is acting in accordance with the Net Position Match Mode.

**Person**

The term "Person" means a partnership, corporation, limited liability company or other organization, entity, or individual.
Pool Comparison

The term “Pool Comparison” means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service, in accordance with Rule 7.

Pool Deliver Obligation

The term "Pool Deliver Obligation" means a Clearing Member's obligation to deliver Eligible Securities to the Corporation at the appropriate Settlement Value either in satisfaction of all or part of a Pool Net Short Position.

Pool Net Long Position

The term “Pool Net Long Position” means, with respect to each type of Eligible Security, the amount of Eligible Securities that a Clearing Member is obligated, pursuant to Rules 8 and 9, to receive from the Corporation.

Pool Net Price

The term “Pool Net Price” means the Settlement Price, not including accrued interest, established by the Corporation during the Pool Netting process for each Eligible Security.

Pool Net Settlement Position

The term “Pool Net Settlement Position” means either a Pool Net Short Position or a Pool Net Long Position, as the context requires.

Pool Net Short Position

The term “Pool Net Short Position” means, with respect to each type of Eligible Security, the amount of Eligible Securities that a Clearing Member is obligated, pursuant to Rules 8 and 9, to deliver to the Corporation.

Pool Netting

The term “Pool Netting” means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service in accordance with Rule 8.

Pool Receive Obligation

The term "Pool Receive Obligation" means a Clearing Member's obligation to receive Eligible Securities from the Corporation at the appropriate Settlement Value either in satisfaction of all or part of a Pool Net Long Position.
**Purchase and Sale Report**

The term "Purchase and Sale Report" means the Report furnished by the Corporation reflecting a Member’s Compared Trades in Eligible Securities.

**Registered Clearing Agency**

The term "Registered Clearing Agency" means a Clearing Agency that is registered as such with the SEC.

**Registered Investment Company**

The term "Registered Investment Company" means an investment company as such term is defined in Section 3 of the Investment Company Act of 1940, as amended.

**Registered Investment Company Clearing Member**

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

**Registered Securities Dealer**

The “Registered Securities Dealer” means a dealer registered with the SEC under Section 15 or 15 C of the Exchange Act.

**Report**

The term "Report" means any document, record, or other output prepared by the Corporation and made available to a Member in any format (including, but not limited to, machine-readable and print-image formats) or medium (including, but not limited to, print copy, magnetic tape, video display terminal, and interactive message formats) that provides information to such Member with regard to the services provided by, or the operations of, the Corporation.

**Reportable Event**

The term “Reportable Event” means an event that would effect a change in control of a Clearing Member or could have a substantial impact on such Member’s business and/or financial condition, including, but not limited to: (a) material organizational changes including mergers, acquisitions, changes in corporate form, name changes, changes in the ownership of a Member or its Affiliates, and material changes in management, (b) material changes in business lines, including new business lines undertaken, and (c) status as a defendant in litigation which could reasonably impact the Member’s financial condition or ability to conduct business.
**Required Fund Deposit**

The term “Required Fund Deposit” means the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to Rule 4.

**Required Fund Deposit Deadline**

The term "Required Fund Deposit Deadline" means the deadline set forth by the Corporation for such purpose in its procedures, unless the Corporation has issued a notice extending such deadline pursuant to these Rules.

**RTTM Compare Report**

The term “RTTM Compare Report” means the Report furnished by the Corporation as a result of real-time trade matching processing, reflecting a Clearing Member’s Compared Trades in Eligible Securities.

**RTTM Purchase and Sale Report**

The term “RTTM Purchase and Sale Report” means the Report furnished by the Corporation to Clearing Members reflecting Clearing Members’ Compared Trades that are Specified Pool Trades.

**Rules**

The term “Rules” means these Rules of the Mortgage-Backed Securities Division.

**SBO Contra-Side Member**

The term "SBO Contra-Side Member" means the Member with whom a Member is directed by the Corporation to settle an SBO Trade. An "SBON Contra-Side Member" is an SBO Contra-Side Member that is not an Original Contra-Side Member with respect to such SBO Trade. An "SBOO Contra-Side Member" is an SBO Contra-Side Member that is also an Original Contra-Side Member with respect to such SBO Trade.

**SBO-Destined Trade**

The term "SBO-Destined Trade" means a TBA transaction in the Clearing System intended for TBA Netting in accordance with the provisions of these Rules.

**SBO Market Differential**

The term "SBO Market Differential" means the amount computed pursuant to these Rules, reflecting the difference between Firm CUSIP Average Prices (in the case of an SBO Netted or SBO Net-Out Position) or between the CUSIP Average Price and the Firm CUSIP Average Price (in the case of an SBON Trade).
SBO Net-Open Position

The term "SBO Net-Open Position" means any SBO-Destined Trade that cannot be offset pursuant to these Rules.

SBO Net-Out Position

The term "SBO Net-Out Position" means the result of offsetting purchase and sale SBO-Destined Trades originally among different Original Contra-Side Members pursuant to these Rules.

SBO Netted Position

The term "SBO Netted Position" means the result of offsetting purchase and sale SBO-Destined Trades originally between the same Original Contra-Side Members pursuant to these Rules.

SBO Trade

The term "SBO Trade" means a settlement balance order that offsets an SBO Net Open Position pursuant to these Rules. A Member which has one or more "Long SBO Trades" in a particular CUSIP number is a net purchaser with respect to that CUSIP number, as the case may be; a Member which has one or more "Short SBO Trades" is a net seller. An SBO Trade may be either an SBON Trade or an SBOO Trade.

SBON Trade

The term "SBON Trade" means an SBO Trade which a Member is directed by the Corporation to settle with an SBON Contra-Side Member.

SBOO Trade

The term "SBOO Trade" means an SBO Trade which a Member is directed by the Corporation to settle with an SBOO Contra-Side Member.

SEC

The term "SEC" means the Securities and Exchange Commission.
The Securities Industry and Financial Markets Association


Security

The term "Security" shall have the meaning given that term in the Exchange Act and the rules and regulations thereunder. The term "Securities" shall mean more than one Security.

Self-Regulatory Organization

The term "Self-Regulatory Organization" shall have the meaning given that term in Section 3(a)(26) of the Exchange Act. For purposes of these Rules, the term “Self-Regulatory Organization” shall also include foreign equivalents of those entities listed in Section 3(a)(26).

Settlement Agent

The term “Settlement Agent” means the bank or trust company that the Corporation may, from time to time, designate to act as its agent for purposes of interfacing with NSS for Cash Settlement pursuant to these Rules.

Settlement Price

The term "Settlement Price" means (a) in the case of a Trade-for-Trade Transaction, Specified Pool Trade or SBO-Destined Trade, the contractual settlement price agreed to by the parties; (b) in the case of an SBON Trade, the CUSIP Average Price; (c) in the case of an SBOO Trade, the Firm CUSIP Average Price, and (d) in the case of a Pool Deliver or Pool Receive Obligation, the Pool Net Price.

Settlement Value

The term "Settlement Value" means the amount in dollars equal to the Par Amount of each Eligible Security that comprises a Trade-for-Trade Transaction, a Specified Pool Trade, an SBO-Destined Trade, an SBOO Trade, an SBON Trade, a Pool Deliver Obligation, a Pool Receive Obligation, multiplied by the Settlement Price plus interest that has accrued with regard to each such Eligible Security up to the Business Day for which such dollar amount is calculated.

Short Position

The term "Short Position" means a Member's obligations with respect to the sale of an Eligible Security or an Option Contract, as determined pursuant to these Rules.
SIFMA Guidelines

The term "SIFMA Guidelines" means the guidelines for good delivery of Mortgage-Backed Securities as promulgated from time to time by The Securities Industry and Financial Markets Association.

Single Batch Submission Method

The term “Single Batch Submission Method” means a trade submission method that is used to submit a single batch of trade data to the Corporation at end of day pursuant to communications links, formats, timeframes, and deadlines established by the Corporation for such purpose.

Specified Pool Trade

The term “Specified Pool Trade” means a trade in which all required pool data, including the pool number to be delivered on the Contractual Settlement Date, are agreed upon by Members at the time of execution.

Statutory Disqualification

The term "Statutory Disqualification" shall have the meaning given that term in Section 3(a)(39) of the Exchange Act.

Strike Price

The term "Strike Price" means the price at which an option granted pursuant to an Option Contract may be exercised.

System

The term "System" means a set of specific services provided by the Corporation to Members which elect and are qualified to avail themselves of such services. The term encompasses the Clearing System, and any other System established from time to time.

System Price

The term “System Price” means the price for any trade or any Pool Deliver or Pool Receive Obligation not including accrued interest, established by the Corporation on each Business Day, based on current market information, for each Eligible Security.

System Value

The term “System Value” means the amount in dollars equal to the current face of each Eligible Security that comprises any trade or any Pool Deliver or Pool Receive Obligation multiplied by the System Price, plus, when applicable, interest that has accrued with regard to each such Eligible Security up to the Business Day for which such dollar amount is calculated.
TBA Comparison

The term “TBA Comparison” means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service in accordance with Rule 5.

TBA Netting

The term “TBA Netting” means the service provided to Clearing Members, as applicable, and the operations carried out by the Corporation in the course of providing such service in accordance with Rule 6.

TBA Obligations

The term “TBA Obligations” means SBO-Destined obligations and, with respect to Trade-for-Trade Transactions, settlement obligations generated by the Trade Comparison system.

Tier One Member

The term “Tier One Member” means a Clearing Member whose membership category has been designated as such by the Corporation pursuant to Rule 2A for loss allocation purposes.

Tier Two Member

The term “Tier Two Member” means a Clearing Member whose membership category has been designated as such by the Corporation pursuant to Rule 2A for loss allocation purposes.

Total Credit Cash Balance Figures

The term “Total Credit Cash Balance Figure” means the sum of the Cash Balances which are credits of the Members for which a Cash Settling Bank Member is acting.

Total Debit Cash Balance Figure

The term “Total Debit Cash Balance Figure” means the sum of the Cash Balances which are debits of the Members for which a Cash Settling Bank Member is acting.

Trade Comparison

The term “Trade Comparison” means the service provided to Clearing Members and the operations carried out by the Corporation in the course of providing such service, in accordance with Rule 5.
Trade-for-Trade Transaction

The term "Trade-for-Trade Transaction" means a TBA Transaction submitted to the Corporation not intended for TBA Netting in accordance with the provisions of these Rules.

Transaction

The term "Transaction" means a trade that is eligible for processing by the Corporation in accordance with these Rules.

Unmatched Margin Report

The term "Unmatched Margin Report" means the Report furnished by the Corporation to Dealers listing Transactions involving Brokers that have the uncomprared side of a partially matched trade and that will be included in the calculation of the Dealer’s Required Fund Deposit.

Unregistered Investment Pool

The term “Unregistered Investment Pool” means an entity primarily engaged in the business of investing, reinvesting, or trading securities that holds a pool of securities and/or other assets that meets the following criteria: (i) it is not registered as an investment company under the Investment Company Act of 1940, (ii) it does not register its securities offerings under the Securities Act of 1933, (iii) satisfies minimum net asset requirements and (iv) it has an investment advisor that is domiciled in the U.S. and that is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Unregistered Investment Pool Clearing Member

The term “Unregistered Investment Pool Clearing Member” shall have the meaning given that term in Section 1 of Rule 2A.

VaR Charge

The term “VaR Charge” means, with respect to each margin portfolio, a calculation of the volatility of specified net unsettled positions of a Member, as of the time of such calculation (with respect to the specified net unsettled positions as of the time of such calculation). Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Exchange Act. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such historical data as the Corporation deems reasonable, and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.
Watch List

The term “Watch List” refers to the list of Members being more closely monitored by the Corporation for any reason deemed necessary by the Corporation.
RULE 2 - MEMBERS

(a) The Corporation may make its services, or certain of its services, available to Persons which (i) apply for membership to the Corporation for the use of its services, (ii) meet the qualifications specified in these Rules, (iii) are approved by the Board, as applicable, and (iv) if required, have contributed to the Clearing Fund as provided in Rule 4.

(b) The Corporation shall have the following membership types:

(i) Clearing Members

(ii) Cash Settling Bank Members

With respect to item (ii) above, Cash Settling Bank Members shall be governed by Rule 3A.

(c) Only Members shall be entitled to settle contracts or other Transactions through the Corporation. Except for Brokers effecting Broker Give-Up Trades which have Fully Compared, a Member which processes, compares, settles or carries out through the Clearing System any contract or other Transaction for another Member, or a partnership, corporation or other organization, entity or person who is not a Member (hereinafter a non-Member), shall, so far as the rights of the Corporation and of other Members are concerned, be liable as principal. A non-Member who processes, compares, settles or carries out contracts or Transactions through a Member shall not possess any of the rights or benefits of a Member.

(d) All Clearing Members are required to be members of the Corporation’s EPN Service.
Section 1 - Eligibility for Membership: Clearing Members

Eligibility for Clearing Membership shall be as follows:

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

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

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

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

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

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

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

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

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

If any Person in categories (a) through (i) above is a Foreign Person, then it shall be eligible to become a Clearing Member if the Corporation, in its sole discretion, has determined that such Person maintains a presence in the United States, either directly or through a suitable agent, that both has available individuals fluent in English who are knowledgeable in the Foreign Person’s business and can assist the Corporation’s representatives as necessary, and ensures that the Foreign Person will be able to meet its data submission, settlement, and other obligations to the Corporation as a Member in a timely manner. The Person applying to become a Foreign Member must represent and certify to the Corporation that it is in compliance with the financial reporting and responsibility standards of its home country and, if it is a regulated entity, that it is regulated in its home country by a financial regulatory authority in the areas of maintenance of relevant books and records, regular inspections and examinations, and minimum capital standards, and make such other representations, certifications or assurances as the Corporation deems necessary to address jurisdictional and tax concerns. Without limiting the generality of the foregoing, the Corporation shall require each applicant that shall be an FFI Member to certify and periodically recertify to the Corporation that it is FATCA Compliant under such procedures as are set forth under FATCA, unless such requirements have been explicitly waived in writing by the Corporation, provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. In addition, as part of its membership application, each applicant that shall be an FFI Member must agree that it shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation as a result of its failing to be FATCA Compliant. The Corporation shall determine, in its sole discretion, which category of membership set forth above the Foreign Person shall be for purposes of these Rules. Except as with respect to FATCA, a Bank Clearing Member that participates in the Corporation through its U.S. branch or agency shall not be deemed a Foreign Member for purposes of the Corporation’s Rules and procedures, unless otherwise stated by the Corporation.

Section 2 - Membership Qualifications and Standards for Clearing Members

The Board may approve an application to become a Clearing Member by a Person that is eligible to apply to become a Clearing Member pursuant to this Rule upon a determination that such applicant meets the following requirements:
(a) Operational Capability - The applicant must be able to satisfactorily communicate with the Corporation, fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy, and conform to any condition and requirement that the Corporation reasonably deems necessary for its protection or that of its Members. The applicant agrees that it must fulfill, within the timeframes established by the Corporation, operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the continuing operational capability of the applicant.

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

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

(d) Disqualification Criteria - The Corporation has received no substantial information which would reasonably and adversely reflect on the applicant or its Controlling Management to such an extent that the applicant should be denied access to the services of the Corporation. The Corporation shall determine whether any of the following criteria should be the basis for denial of the membership application:

(i) the applicant is subject to Statutory Disqualification as defined in Section 3(a)(39) of the Securities Exchange Act of 1934, or an order of similar effect issued by a Federal or State banking authority, or other examining authority or regulator, including a non-U.S. examining authority or regulator;

(ii) the applicant or its Controlling Management has been responsible for: (A) making a misstatement of a material fact or has omitted to state a material fact to the Corporation in connection with its application to become a Member or thereafter, or (B) fraudulent acts or a violation of the Securities Act of 1933, the Exchange Act, the Government Securities Act of 1986, the Investment Company Act, the Investment Advisers Act or any rule or regulation promulgated thereunder;

(iii) the applicant or its Controlling Management has been convicted within the ten years preceding the filing of the application or at any time thereafter of (A) any criminal offense involving the purchase, sale or delivery of any security, or bribery, or burglary, or conspiracy to commit any offense referred to in this subparagraph (iii), (B) the larceny, theft, robbery, embezzlement, extortion, fraudulent conversion, fraudulent concealment, forgery or misappropriation of funds, securities or other property, (C) any violation of Sections 1341, 1342 or 1343 of Title 18, United States Code, or (D) any other criminal offense involving
breach of fiduciary obligation, or arising out of the conduct of business as a broker, dealer, investment company, adviser or underwriter, bank, trust company, fiduciary, insurance company or other financial institution;

(iv) the applicant or its Controlling Management has been permanently or temporarily enjoined or prohibited by order, judgment or decree of any court or other governmental authority of competent jurisdiction from acting as, or as a Person associated with or as an affiliated Person or employee of, a broker, dealer, investment company, advisor or underwriter, bank, trust company, fiduciary, insurance company, or other financial institution, or from engaging in or continuing any conduct or practice in connection with any such activity, or in connection with the purchase, sale or delivery of any security, and the enforcement of such injunction or prohibition has not been stayed; or

(v) the applicant has been expelled or suspended from or had its participation terminated by a national securities association or exchange registered under the Exchange Act, a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act, or a corporation that engages in clearance and settlement activities or a securities depository, or has been barred or suspended from being associated with any member of such an exchange, association, organization, corporation, or securities depository.

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

(e) Financial Responsibility - The applicant shall:

(i) have sufficient financial ability to make anticipated required deposits to the Clearing Fund as provided for in Rule 4 and anticipated Cash Settlement amounts as provided for in Rule 11, and to meet all of its other obligations to the Corporation in a timely manner; and

(ii) satisfy the following minimum financial requirements:

(A) for applicants whose Financial Statements are prepared in accordance with U.S. generally accepted accounting principles:

(1) if the applicant is applying to become a Bank Clearing Member, it must have a level of equity capital as of the end of the month prior to the effective date of its membership of at least $100 million, and its capital levels and ratios must meet the applicable minimum levels for such as required by its Appropriate Regulatory Agency (or, if the applicant's Appropriate Regulatory Agency does not specify any such minimum levels, such minimum levels as would be required if the
Member were a member bank of the Federal Reserve System and the Member's Appropriate Regulatory Agency were the Board of Governors of the Federal Reserve System);

(2) if the applicant is registered with the SEC pursuant to Section 15 or Section 15C of the Exchange Act and is applying to become a Dealer Clearing Member, it must have, as of the end of the calendar month prior to the effective date of its membership, (1) Net Worth of at least $25 million and (2) Excess Net Capital of at least $10 million;

(3) if the applicant is registered with the SEC pursuant to Section 15 or Section 15C of the Exchange Act and is applying to become an Inter-Dealer Broker Clearing Member, it must have, as of the end of the calendar month prior to the effective date of its membership, Excess Net Capital of at least $10 million;

(4) if the applicant is applying to become an Unregistered Investment Pool Clearing Member, it must have an investment advisor domiciled in the United States. The Unregistered Investment Pool applicant must have at least $250 million in Net Assets. An Unregistered Investment Pool that does not meet the $250 million Net Asset requirement, but has Net Assets of at least $100 million, shall be eligible for membership if the Unregistered Investment Pool’s investment advisor advises an existing Member and has assets under management of at least $1.5 billion. An Unregistered Investment Pool must have an investment advisor registered with the SEC.;

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

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

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

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

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

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

(D) for applicants whose financial statements are prepared in accordance with any other type of generally accepted accounting principles, the minimum financial requirements shall be seven times the requirements set forth in subsection (A) above.

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

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

The foregoing financial responsibility standards are only minimum requirements, and the Board, based upon the level of the anticipated positions and obligations of the applicant, the anticipated risk associated with the volume and types of Transactions the applicant proposes to process through the Corporation, and the overall financial condition of the applicant, may impose greater standards. If an applicant does not itself satisfy the above minimum capital requirements, the Board may include for such purposes the capital of an Affiliate of the applicant, if the Affiliate has delivered to the Corporation a guaranty, satisfactory in form and substance to the Board, of the obligations of the applicant to the Corporation.
Section 3 – Application Documents

Each applicant to become a Clearing Member shall, as required by the Corporation from time to time, complete and deliver to the Corporation an Applicant Questionnaire in such form as may be prescribed by the Corporation. An applicant seeking membership in the Clearing System shall also deliver to the Corporation the financial reports, other reports, opinions and other information as the Corporation requires.

Each applicant (as determined by the Corporation with regard to membership type) shall complete and deliver to the Corporation a FATCA Certification as part of its membership application.

If the Corporation determines that a legal opinion, or update thereto, submitted by an applicant indicates that the Corporation could be subject to Legal Risk as defined in Rule 4 with respect to such applicant, the Corporation shall have the right to take, and/or require the applicant to take, appropriate action(s) to mitigate such Legal Risk, including, but not limited to, requiring the applicant to post additional Clearing Fund as set forth in Rule 4.

Section 4 – Evaluation of Applicant

An application to become any type of Clearing Member shall first be reviewed by the Corporation. The Corporation shall recommend approval or disapproval of the application to the Board. Except as otherwise provided in this Rule 2A, Board approval of an application for membership shall constitute approval only of the type of membership specifically applied for.

In evaluating a membership application, the Corporation may:

(i) contact the applicant's Designated Examining Authority, Appropriate Regulatory Agency, primary regulatory authority, (the insurance regulator in the company's state of domicile in the case of an Insurance Company), or other examining authority or regulator, or any Self-Regulatory Organization of which the applicant is a Member and request from such authority or organization any records, reports, or other information that, in their judgment, may be relevant to the application;

(ii) examine the books, records, and operational procedures of, and inspect the premises of, the applicant as they may be related to the business to be conducted through the Corporation; and

(iii) take such other evidence or make such other inquiries as is necessary, including sworn or unsworn testimony, to ascertain relevant facts bearing upon the applicant's qualifications.

The Board shall approve an application to become a Clearing Member pursuant to this Rule only upon a determination that the applicant meets such standards of financial responsibility and operational capability as are set forth in this Rule. In addition, with regard to any applicant that shall be an FFI Member, such applicant must be FATCA Compliant.
Notwithstanding that an application to become a Clearing Member shall have been approved by the Board or the Corporation, as applicable, if a material change in condition of the applicant occurs which in the judgment of the Board or the Corporation could bring into question the applicant's ability to perform as a Member, and such material change becomes known to the Corporation prior to the applicant's commencing use of the Corporation's services, the Corporation shall have the right to stay commencement by the applicant of use of the Corporation's services until a reconsideration by the Board or the Corporation of the applicant's financial responsibility and operational capability can be completed. As a result of such reconsideration, the Board may determine to withdraw approval of an application to become a Member or condition the approval upon the furnishing of additional information or assurances.

Notwithstanding the provisions of this Rule, the Board or the Corporation may determine, after considering the facts and circumstances pertaining to an applicant, not to apply one or more of the qualifications or standards set forth in these Rules. If the Board determines that such qualification or standard shall not apply, it shall determine what, if any, limitation or restriction shall be placed on such applicant. Limitations and restrictions shall bear a reasonable relationship to the qualification or standard not applied to such applicant and may include, but are not limited to, an increased Clearing Fund requirement or a limitation on the applicant’s activities to be processed through the Corporation. Such determination shall only be made if the Board concludes that not applying such qualification or standard, and imposing such limitation or restriction, would not be against the best interests of the Corporation and its Members. In making such a determination, the Board may require the applicant to provide additional information or assurances. If the Board imposes a limitation or restriction pursuant to this provision, the Corporation shall promptly notify the SEC.

The Board may deny an application to become a Member upon the Corporation’s determination that it does not have adequate personnel, space, data processing capacity or other operational capability at that time to perform its services for the applicant without impairing the ability of the Corporation to provide services for its existing Members, to assure the prompt, accurate and orderly processing and settlement of securities Transactions or to otherwise carry out its functions; provided, however, that any such applications which are denied pursuant to this paragraph shall be approved as promptly as the capabilities of the Corporation permit.

Upon the Board’s denial of an application to become a Member pursuant to this Rule, the Corporation shall (1) furnish the applicant with a concise written statement setting forth the specific grounds under consideration upon which any such denial may be based and shall notify the applicant of its right to request a hearing, such request to be filed by the applicant with the Corporation pursuant to Rule 28, “Hearing Procedures” and (2) notify the SEC and the applicant’s Appropriate Regulatory Agency that the Board has denied the applicant’s application for membership.

Section 5 - Member Agreement

Each applicant to become a Clearing Member shall sign and deliver to the Corporation a Member Agreement whereby the applicant shall agree:

(a) to abide by the Rules of the Corporation and to be bound by all the provisions thereof;
(b) to pay to the Corporation in a timely manner the compensation provided for by the Rules of the Corporation for services rendered and such costs and fines as may be imposed in accordance with such Rules of the Corporation for the failure to comply therewith;

(c) to be bound by any amendment to the Rules of the Corporation with respect to any Transaction occurring subsequent to the time such amendment takes effect as fully as though such amendment were now a part of the Rules of the Corporation;

(d) to continue to be bound by the Rules of the Corporation, notwithstanding that it may have terminated its membership, as to all matters and Transactions occurring while it was a Member;

(e) to deliver to the Corporation or the settlement counterparty, as applicable, or receive from the Corporation or the settlement counterparty, as applicable, the securities underlying all trades that have been reported by the Corporation and all monies related thereto, in accordance with the Rules of the Corporation, and pay or deliver to the Corporation in a timely manner all amounts due pursuant to Rule 4 with regard to its Required Fund Deposit and any loss or liability allocated to it;

(f) that the determination of the Board as to any questions arising with regard to any payment, charge, fee, deposit, or fine to which it may be subject shall be final and conclusive, except as may be otherwise provided in these Rules; and

(g) to any other terms and conditions deemed by the Corporation to be necessary in order to protect itself and its Members, including all agreements, opinions of counsel, and legal and other documentation required by the Corporation.

These Rules and the procedures adopted from time to time by the Corporation shall be deemed incorporated in each contract processed through the Corporation. To the extent that the terms contained in any other agreement between Members are inconsistent with the provisions of these Rules or the procedures, these Rules and the Corporation’s procedures shall be controlling.

Section 6 – Confidentiality

Except as otherwise provided in Rule 22, “Release of Clearing Data,” any information furnished to the Corporation pursuant to this Rule shall be held in at least the same degree of confidence as may be required by law or the rules and regulations of the appropriate regulatory body having jurisdiction over the applicant or Member.
RULE 3 - ONGOING MEMBERSHIP REQUIREMENTS

Section 1 – Requirements

The qualifications and standards set forth in Rule 2A shall be continuing membership requirements. In addition, each Member shall comply with the ongoing requirements set forth below.

Section 2 - Reports by Clearing Members

Each Clearing Member shall submit to the Corporation the reports and other information set forth below and such other reports and information as the Corporation from time to time may reasonably require. Unless specifically set forth below, the time periods prescribed by the Corporation are set forth in the form of notices posted at the Corporation’s website and/or distributed by the Corporation from time to time. It shall be the Member’s responsibility to retrieve all notices daily from the website.

(a) a copy of the Member's annual audited Financial Statements for such fiscal year, certified without qualification by the Member's independent certified public accountants and prepared in accordance with generally accepted accounting principles; and

(b) if the Member is a broker or dealer registered under Section 15 or Section 15C of the Exchange Act, (i) a copy of the Member’s FOCUS Report or FOGS Report, as the case may be, submitted to its Designated Examining Authority, and (ii) any supplemental reports required to be filed with the SEC pursuant to SEC Rule 17a-11 or 17 C.F.R. Section 405.3;

(c) if the Member is a domestic bank or a trust company, a copy of the Member’s CALL Report submitted to its Appropriate Regulatory Agency and, to the extent not contained within such CALL Reports (or to the extent that CALL Reports are not required to be filed), information containing each of the Member’s capital levels and ratios, as such levels and ratios are required to be provided to the Member’s Appropriate Regulatory Agency (or, if such applicant's Appropriate Regulatory Agency does not require such information, as would be required to be provided, if such Member’s Appropriate Regulatory Agency were the Board of Governors of the Federal Reserve System);

(d) if the Member is a broker, dealer or bank established or organized in the United Kingdom and subject to regulation by the United Kingdom’s Financial Services Authority (or successor authority), a copy of its Financial Services Authority reports;

(e) if the Member is a Foreign Clearing Member other than one that is a broker, dealer or bank organized or established in the United Kingdom and regulated by the Financial Services Authority, financial information requested by the Corporation;

(f) if the Member is an Unregistered Investment Pool as defined in these Rules, a copy of the monthly certified statements of assets and liabilities on standard form signed by the Chief Financial Officer or equivalent of such Unregistered Investment Pool;
(g) if the Member is not within clauses (b) through (f), copies of the Member’s unaudited financial information as specified by the Corporation for such quarter;

(h) for any Member which has satisfied the financial requirements imposed by the Corporation pursuant to these Rules by means of a guaranty of its obligations by an Affiliate, Financial Statements and/or the reports or information of its parent company meeting the requirements specified in subparagraphs (a) through (g) of this Section 2, as applicable.

Moreover, any Member that has provided to the SEC any notice required pursuant to paragraph (e) of the SEC's Rule 15c3-1 shall notify the Corporation of the provision of such notice, and shall furnish the Corporation with a copy of such notice, by the close of business on the day that it so provides such notice to the SEC.

With respect to subsections (a) and (g) above, the Corporation may accept, in its sole discretion, consolidated Financial Statements or financial information prepared at a parent level.

In addition to the above, Clearing Members must submit to the Corporation, concurrently with their submission to the relevant regulator or similar authority, copies of any regulatory notifications required to be made when a Member’s capital levels or other financial requirements fall below prescribed levels. In addition, Members must submit to the Corporation, concurrently with their submission to the applicable regulator or similar authority, copies of such filings as determined by the Corporation from time to time, which Members are required to file pursuant to the Sarbanes-Oxley Act of 2002, and any amendments thereunder.

Moreover, Foreign Clearing Members who are regulated must submit to the Corporation, concurrently with their submission to the relevant regulator or similar authority, copies of any regulatory notifications required to be made when a Member does not comply with the financial reporting and responsibility standards set by its home country regulator. Foreign Clearing Members who are regulated must also notify the Corporation in writing within 2 business days of becoming subject to a disciplinary action by their home country regulator. All Foreign Clearing Members must submit, on an annual basis, within the timeframe required by guidelines issued by the Corporation, an updated opinion of outside counsel on home country law and, if applicable, other relevant non-domestic law, or a letter from their outside counsel indicating that there have been no material changes in home country law (and/or other applicable non-domestic law) since the date of issuance of the most recent opinion submitted to the Corporation.

At the request of the Corporation, if the Corporation is alerted to a change in circumstances or an issue of law that brings into question the reliability of a legal opinion submitted by a Foreign Clearing Member, such Member shall provide to the Corporation at the Corporation’s request an update of the legal opinion and/or a written status report on the Corporation’s rights under the relevant non-domestic law prior to the time at which an update of the legal opinion would be due pursuant to these Rules. The Foreign Clearing Member shall provide such update and/or status report in the format and within the timeframe requested by the Corporation.
If the Corporation determines that a legal opinion, or update thereto, submitted by a Member, indicates that the Corporation could be subject to Legal Risk (as defined in Rule 4) with respect to such Member, the Corporation shall have the right to take, and/or require the Member to take, appropriate action(s) to mitigate such Legal Risk, including, but not limited to, requiring the Member to post additional Clearing Fund as set forth in Rule 4.

Notwithstanding anything to the contrary in this Rule, if a Member qualifies for more than one category of Clearing System membership, the Corporation, in its sole discretion, may require that such Member provide those reports and other financial or other information required to be provided to the Corporation by Members of any of those membership categories for which such Member qualifies.

All information provided to the Corporation shall be in English (and if translated into English, the translation must be a fair and accurate English translation).

A Member that fails to submit the above listed information within the timeframes required by guidelines issued by the Corporation from time to time and in the manner requested, shall:

(i) be subject to a fine by the Corporation; and

(ii) until the required information is submitted to the Corporation, have a Clearing Fund deposit equal to the greater of either the sum of the normal calculation of its Required Fund Deposit plus $1,000,000, or 125 percent of the normal calculation of its Required Fund Deposit.

Section 3 – Confidentiality

Except as otherwise provided in Rule 22, “Release of Clearing Data,” any information furnished to the Corporation pursuant to this Rule shall be held in at least the same degree of confidence as may be required by law or the rules and regulations of the appropriate regulatory body having jurisdiction over the applicant or Member.

Section 4 - Application of Membership Standards

Notwithstanding the provisions of this Rule, the Board may determine, after considering the facts and circumstances pertaining to a Member, not to apply one or more of the qualifications or standards set forth in these Rules. If the Board determines that such qualification or standard shall not apply, the Board shall determine what, if any, limitation or restriction shall be placed on such Member. Limitations and restrictions shall bear a reasonable relationship to the qualification or standard not applied to such Member and may include, but are not limited to, an increased Clearing Fund requirement or a limitation on the Member’s activities processed through the Corporation. Such determination shall only be made if the Board concludes that not applying such qualification or standard, and imposing such limitation or restriction, would not be against the best interests of the Corporation and its Members. In making such a determination, the Board may require the Member to provide additional information or assurances. If the Board imposes a limitation or restriction pursuant to this provision, the Corporation shall promptly notify the SEC.
Section 5 – Operational Testing Requirements

The Corporation may, from time to time, require Members to fulfill, within the time frames established by the Corporation, certain operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the continuing operational capability of the Member. The Corporation may assess a fine or terminate the membership of any Member that does not fulfill any such operational testing and related reporting requirements within the time frames established by the Corporation.

Section 6 - General Continuance Standards

A Member shall promptly inform the Corporation, both orally and in writing, if it no longer is in compliance with any of the relevant qualifications and standards for admission to membership set forth in Rule 2A and in this Rule, including whether it is subject to any of the criteria set forth in subsection (d) of Section 2 of Rule 2A. Notification must take place within two business days from the date on which the Member first learns of its non-compliance. The Corporation may assess a fine against any Member who fails to so notify the Corporation. In addition, a Member shall notify the Corporation within two business days of learning of an investigation or proceeding to which it is or is becoming subject that would cause the Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in Rule 2A and this Rule. Notwithstanding the previous sentence, the Member shall not be required to notify the Corporation if doing so would cause the Member to violate an applicable law, rule or regulation. If, with respect to any type of Member: (a) it fails to maintain the relevant standards and qualifications for admission to membership, including but not limited to minimum capital standards and operational testing and related reporting requirements imposed by the Corporation from time to time; (b) it violates any Rule of the Corporation or other agreement with the Corporation; (c) it fails to satisfy in a timely manner any obligation to the Corporation; (d) there is a Reportable Event relating to such Member; or (e) the Corporation otherwise deems it necessary or advisable, in order to protect the Corporation, its other Members, or its creditors or investors, to safeguard securities and funds in the custody or control of the Corporation, or to promote the prompt and accurate processing, clearance or settlement of securities Transactions, the Corporation will undertake appropriate action to determine the status of the Member and its continued eligibility. In addition, the Corporation may review the financial responsibility and operational capability of the Member to the extent provided in these Rules and otherwise require from the Member additional reporting of its financial or operational condition at such intervals and in such detail as the Corporation shall determine, and shall make a determination as to whether such Member should be placed on the Watch List by the Corporation consistent with the provisions of Section 11 of this Rule. The Corporation may also, in its sole discretion, if it believes it necessary to protect itself and its Members, require a Member to deliver to the Corporation a guaranty of an Affiliate of the Member, satisfactory in form and substance to the Corporation, of the obligations of the Member to the Corporation.

Furthermore, a Clearing Member must submit to the Corporation written notice of any Reportable Event at least 90 calendar days prior to the effective date of such Reportable Event.
unless the Member demonstrates that it could not have reasonably done so, and provided notice, both orally and in writing, to FICC as soon as possible.

Beginning on the FATCA Compliance Date, each FFI Member shall inform the Corporation, both orally and in writing, if it (i) undergoes a change in circumstance that would affect its FATCA Certification or (ii) otherwise has reason to know that it is not, or will not be, FATCA Compliant, in each case, within two days of knowledge thereof.

The Corporation shall assess a fine against any Clearing Member who fails to so notify the Corporation.

In addition, if the Corporation has reason to believe that a Member may fail to comply with any of these Rules, it may require the Member to provide it, within such timeframe, in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Member shall not, in fact, violate any of these Rules. Notwithstanding the previous sentence, each Member, or any applicant to become such, shall furnish to the Corporation such adequate assurances of its financial responsibility and operational capability as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation and its Members, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities Transactions. Upon the request of a Member or applicant, or otherwise, the Corporation may choose to confer with the Member or applicant before or after requiring it to furnish adequate assurances pursuant to this Rule.

Adequate assurances of financial responsibility or operational capability of a Member or applicant to become such, as may be required by the Corporation pursuant to these Rules, may include, but shall not be limited to, as appropriate under the context of the Member’s use of the Corporation’s services:

(i) restrictions or modifications on the Member’s use of any or all of the Corporation’s services (whether generally, or with respect to certain Transactions);

(ii) additional reporting by the Member of its financial or operational condition at such intervals and in such detail as the Corporation shall determine;

(iii) increased Required Fund Deposits and/or a requirement to post its Required Fund Deposit in proportions of cash, Eligible Clearing Securities and Eligible Letters of Credit different from those permitted under Rule 4; or

(iv) prohibitions on the Member from withdrawing Clearing Fund on deposit in excess of its Required Fund Deposit.

With respect to item (iii) above, such increased or modified Required Fund Deposits may, at the discretion of the Corporation, be required to be deposited by the Member with the Corporation on the same Business Day on which the Corporation requests additional assurances from such Member.
In the event that a Member fails to maintain the relevant requirements of any of these Rules, the Corporation may, pursuant to these Rules, either cease to act for the Member or terminate its membership, unless the Member requests that such action not be taken and the Corporation, in its sole discretion, determines that, depending upon the specific circumstances and the record of the Member, it is appropriate instead to establish for such Member a time period (the "Noncompliance Time Period"), the length of which shall be determined by the Corporation during which the Member must resume compliance with such requirements. In the event that the Member is unable to satisfy such requirements within the Noncompliance Time Period, the Corporation may, pursuant to these Rules, either cease to act for the Member or terminate its membership. If the Corporation takes any action pursuant to this paragraph, it shall promptly file with its records and with the SEC a full report of such actions, and the reasons thereof.

Notwithstanding anything to the contrary in this Section, if the Corporation, in its sole discretion, determines that a Clearing Member's financial condition has significantly deteriorated during a Noncompliance Time Period, the Corporation immediately may, pursuant to these Rules, either cease to act for the Member or terminate its membership.

Section 7 - Specific Continuance Standards

In the event that Financial Statements or other information submitted pursuant to this Rule indicate that a Member has ceased to meet the requirements of these Rules, the Corporation, unless the Corporation has determined to cease to act for the Member pursuant to Rule 17, “Procedures for When the Corporation Ceases to Act,” shall, for a period beginning on the day on which it fell below such level and continuing until the 90th calendar day after the later of the date on which it returned to compliance with such standard or the Corporation’s discovery of the applicable violation, increase the Member’s Required Fund Deposit to the greater of either the sum of the normal calculation of the Member’s Required Fund Deposit plus $1,000,000, or 125 percent of the normal calculation of the Required Fund Deposit.

For purposes of applying a premium to the Required Fund Deposit of a Member that falls below its minimum financial requirements as set forth in this section, the Corporation shall begin to assess such a premium on the date on which the Corporation becomes aware of the applicable violation.

If the Corporation takes any action pursuant to this Section, it shall promptly report such action, and the reasons thereof, to the Board, at its next regularly scheduled meeting, or sooner if deemed appropriate by the Corporation.

Notwithstanding the Corporation taking any action pursuant to this Section 7 the Corporation shall not be restricted from exercising its right at any time to cease to act for the Member pursuant to Rule 17, “Procedures for When the Corporation Ceases to Act”.

Section 8 - Compliance with Rules, Procedures and Applicable Laws

(i) General
Subject to the provisions of Rule 33, “Suspension of Rules in Emergency Circumstances”, the use of the facilities of the Corporation by a Member shall constitute such Member’s agreement with the Corporation and with all other Members to be bound by the provisions of, and by any action taken or order issued by the Corporation pursuant to, these Rules and any amendment thereto, and to such procedures as the Corporation may adopt from time to time. In addition, in connection with its use of the Corporation’s services, a Member must comply with all applicable laws, including applicable laws relating to securities, taxation, and money laundering, as well as sanctions administered and enforced by the Office of Foreign Assets Control (“OFAC”).

(ii) OFAC

As part of their compliance with OFAC sanctions regulations, all Members agree not to conduct any transaction or activity through MBSD which it knows to violate sanctions administered and enforced by OFAC.

Members subject to the jurisdiction of the U.S., with the exception of EPN Only Members, are required to periodically confirm that the Member has implemented a risk-based program reasonably designed to comply with applicable OFAC sanctions regulations. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a fine.

(iii) FATCA

Beginning on the FATCA Compliance Date, each FFI Member must agree not to conduct any transaction or activity through the Corporation if such FFI Member is not FATCA Compliant, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific FFI Member, provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.

All FFI Members are required, as applicable under FATCA, to certify and periodically recertify to the Corporation that they are FATCA Compliant by providing to the Corporation a FATCA Certification. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a fine, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific FFI Member, provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.

An FFI Member shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation as a result of such FFI Member failing to be FATCA Compliant.

Section 9- Books and Records

A Member’s books and records, insofar as they relate to Transactions processed through the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation upon reasonable prior notice and during the Member's normal business hours. The Corporation shall be furnished with all such information about the Member's business and
Transactions as it may require; provided that (i) the aforesaid rights of the Corporation shall be subject to any applicable laws or rules or regulations of regulatory bodies having jurisdiction over the Member which relate to the confidentiality of records, and (ii) if the Member ceases membership, the Corporation shall have no right to inspect the Member's books and records or to require information relating to Transactions wholly subsequent to the time when the Member ceases membership.

Section 10 – Accounts

The Corporation shall maintain, for each Clearing Member participating in the Clearing System, one or more Accounts and one or more Aggregates for the processing of eligible Transactions, as requested by the Clearing Member and approved by the Corporation.

Each Account maintained for a Clearing Member in the Clearing System will be identified as either a Dealer Account or a Broker Account. A Clearing Member acting as a Dealer may process Transactions in the Clearing System only through Dealer Accounts, and a Clearing Member acting as a Broker may process Transactions in the Clearing System only through Broker Accounts.

Each Account shall, unless the Corporation determines otherwise, be treated as if it were maintained for a separate Member. Without limiting the generality of the foregoing, a Member may be required to pay separate fees for the maintenance of each Account and the Member may be required to make separate deposits to the Clearing Fund for each Aggregated Account.

A Member having more than one Aggregated Account in the Clearing System may elect, subject to the Corporation’s discretion, to have the Corporation net its total Required Fund Deposit requirements for each Aggregated Account or across all Aggregated Accounts.

A Member having one or more Accounts in the Clearing System may elect, in the manner specified by the Corporation from time to time, and subject to contra-side approval, to have the Corporation transfer one or more of its trades pursuant to procedures set forth by the Corporation from time to time (i) from one Member Account to another Account of the same Member; (ii) from one Member Account to an Account of a different Member; (iii) from one trade type to another trade type within an Account; or (iv) from one Aggregated Account to another Aggregated Account of the same Member.

With respect to the maintenance of multiple Accounts as permitted by these Rules, the Corporation may, in its sole discretion, at any time and without prior notice to a Member (but being obligated to give notice to the Member as soon as possible thereafter) and whether or not the Member is in default of its obligations to the Corporation, apply margin deposits made by the Member pursuant to its obligations under one of its Accounts as necessary to ensure that the Member meets all of its obligations as to the Corporation under the additional Accounts, and otherwise exercise all rights to offset and net any obligations among any or all of the Accounts.

Section 11 - Watch List

(a) A Clearing Member that is a domestic bank, broker-dealer or Unregistered Investment Pool will be monitored and may be placed on the Watch List based on that Member’s
rating as determined by the Credit Risk Rating Matrix. Such Members may also be placed on the
Watch List, at the Corporation’s discretion, based on failure to comply with operational
standards and requirements.

(b) All other categories of Clearing Members may be monitored for financial and/or
operational factors as the Corporation deems necessary to protect the Corporation and its
Members from undue risk. These Members will not be assigned a rating from the Credit Risk
Rating Matrix; however, they may be included on the Watch List at the Corporation’s discretion.

(c) The Corporation may require a Clearing Member that has been placed on the
Watch List, to make and maintain a deposit to the Clearing Fund over and above the amount
determined in accordance with Rule 4 (which additional deposit shall constitute a portion of the
Clearing Member's Required Fund Deposit) or such higher amount as the Board may deem
necessary for the protection of the Corporation or other Members, which higher amount may
include, but is not limited to including, additional payments or deposits in any form to offset
potential risk to the Corporation and its Members arising from activity submitted by such
Member. The Corporation may also deny a Member’s right to withdraw amounts the Member
has in excess of its Required Fund Deposit.

(d) Placement on the Watch List shall result in a more thorough monitoring of the
Member’s financial and/or operational condition, as applicable, and activities by the Corporation.
The Corporation may require Members placed on the Watch List to make more frequent
financial disclosures, possibly including interim and/or pro forma reports.

(e) The Corporation shall have the right to place a Member with an Excess Capital
Ratio of 0.5 or greater on the Watch List if the Corporation, in its sole discretion, deems such
action necessary to protect itself and its Members. If such placement on the Watch List occurs,
the Corporation will require the Clearing Member to provide it with assurances satisfactory to
the Corporation that the Clearing Member is and shall continue to be able to fulfill its obligations
to the Corporation, and may obtain from or exchange with any other Clearing Organization
margin information as specified in Rule 22, “Release of Clearing Data.”

(f) A Clearing Member shall be placed on the Watch List if the Corporation takes
any action to seek additional assurances of financial responsibility or operational capability
against such Member pursuant to Section 6 of this Rule.

A Clearing Member shall continue to be included on the Watch List until the condition(s)
that resulted in its placement on the Watch List have improved to the point where the
condition(s) are no longer present or a determination is made by the Corporation that close
monitoring is no longer warranted.

Section 12 – Excess Capital Premium

If a Clearing Member maintains an Excess Capital Ratio greater than 1.0, then the
Corporation may require the Clearing Member to make and maintain an additional deposit to the
Clearing Fund in an amount equal to the product of its Excess Capital Differential multiplied by
its Excess Capital Ratio. Any such additional deposit required by the Corporation shall be considered included as part of the Clearing Member’s Required Fund Deposit.

The Corporation also will reserve the right to: (i) collect an amount less than the Excess Capital Premium (including no premium) based on specific circumstances and (ii) return all or a portion of the Excess Capital Premium (or such lesser amount) if it believes that the Clearing Member’s risk profile does not require the maintenance of that amount.1

Section 13 - Ceasing to Maintain an Account

A Clearing Member may cease to maintain any Account with the Corporation by providing the Corporation with 10 days written notice of such cessation; however, the Corporation, in its discretion, may accept such cessation within a shorter notice period. Such cessation will not be effective until accepted by the Corporation. The Corporation’s acceptance shall be evidenced by a notice to all Members announcing the Member’s cessation and the effective date of the cessation of the Member’s Account; provided, however, that no cessation of an Account shall be effective until the Member has made arrangements satisfactory to the Corporation for the payment of any unpaid Cash Settlement obligations with respect to such Account, and no cessation of an Account maintained for a Member shall be effective until the Member has made arrangements satisfactory to the Corporation for the handling of Transactions in such Account open at the time of such cessation. Upon its ceasing to maintain an Account, the Member shall be entitled to a refund of its deposits to the Clearing Fund applicable to such Account upon satisfaction of the conditions specified below.

Whenever a Member definitively ceases to be such or to maintain any Account or Aggregated Account, the amount of its deposits to the Clearing Fund or its deposits with respect to the Account or Aggregated Account that it will no longer maintain shall be returned to it, but not until all amounts chargeable against its deposits on account of Transactions made while it was a Member have been deducted and, in the case of a Member, all of its commitments in any Account or Aggregated Account in the Clearing System which are open at the time it ceases to be a Member or to maintain such Account or Aggregated Account have been closed or, with the approval of the Corporation, another Member has been substituted on each such commitment. Notwithstanding anything else contained herein, the Corporation may retain an amount equal to any Cross-Guaranty Repayment Deposit of any Member until such time as the Corporation determines that such Member is no longer liable to the Corporation under Rule 32, “Cross Guaranty Agreements,” to reimburse the Corporation for any Cross-Guaranty Repayment that the Corporation may be obligated to make under any relevant Cross-Guaranty.

Section 14 - Voluntary Termination

A Member may elect to terminate its membership in the Clearing System by providing the Corporation with 10 days written notice of such termination; however, the Corporation, in its discretion, may accept such termination within a shorter notice period. Such termination will not be effective until accepted by the Corporation. The Corporation’s acceptance shall be evidenced

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1 FICC has identified the following guidelines, which are intended to be illustrative, but not limited, where the premium will not be imposed: management will look to see whether the premium results from unusual or non-recurring circumstances where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member’s late submission of trade data for comparison that would otherwise reduce the margined position if timely submitted or an unexpected haircut or capital charge that does not fundamentally change its risk profile.
by a notice to Members announcing the Member’s termination and the effective date of the termination of the Member (hereinafter the “Termination Date”). As of the Termination Date, a Clearing Member that terminates its membership in the Clearing System shall no longer be eligible to submit to the Corporation data on trades unless the Board determines otherwise in order to ensure an orderly liquidation of the Member's open obligations. A Member's voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to Transactions submitted to the Corporation before the Termination Date. The return of the Member’s Clearing Fund deposit shall be governed by Section 10 of Rule 4.

Section 15 - Indemnification

Clearing Members shall indemnify the Corporation against any loss, reasonable cost or expense, damage or liability arising out of the performance, non-performance or misperformance of such duties except to the extent that the Corporation's conduct violated the standard of care set forth in Rule 30, “Limitations of Liability”. In the event that any loss, cost, expense, damage or liability with respect to which the Corporation is entitled to indemnification pursuant to this Section 15 is attributable to one or more identifiable Clearing Members, an assessment shall be made against such Clearing Members. In the event that any such loss, cost, expense, damage or liability cannot be attributed to one or more identifiable Clearing Members, an assessment shall be made against Clearing Members generally in proportion to their relative usage of the facilities of the Corporation (based on fees for services) during the period in which such loss, cost, expense, damage or liability was incurred. The assessment in the immediately preceding sentence shall be subject to Section 7(g) of Rule 4.
RULE 3A - CASH SETTLEMENT BANK MEMBERS

(a) Each Clearing Member shall be required to appoint a Cash Settling Bank to perform the Member’s Cash Settlement obligations via the process set forth in Section 4 of Rule 11. A Member must at all times have a Cash Settling Bank validly appointed and acting on its behalf. The Member and the Cash Settling Bank shall execute an “Appointment of Cash Settling Bank and Cash Settling Bank Agreement”.

(b) The following entities shall be eligible to become Cash Settling Bank Members and to act as Cash Settling Banks for Members:

(i) A bank or trust company that is a DTC Settling Bank may apply to become a Cash Settling Bank Member by signing the agreements described in subsection (d) below.

(ii) A Government Securities Division Funds-Only Settling Bank Member may apply to become a Cash Settling Bank Member by signing the agreements described in subsection (d) below.

(iii) A Member that is a bank, trust company or other entity that has direct access to a relevant FRB and the NSS may apply to become a Cash Settling Bank Member by signing the agreements described in subsection (d) below.

(iv) A bank or trust company that does not fall into (i) through (iii) and has direct access to a relevant FRB and the NSS may apply to become a Cash Settling Bank Member by submitting the requisite application, signing the agreements described in subsection (d) below and submitting such other information required by the Corporation. The Corporation shall approve an application to become a Cash Settling Bank Member pursuant to this subsection (iv) only upon a determination by the Corporation that the applicant meets the standards of financial responsibility and operational capability as the Corporation may require for this purpose as specified in important notices issued by the Corporation.

(c) On an ongoing basis:

(i) Cash Settling Bank Members approved as such pursuant to subsection (b)(i) above shall be required to maintain their status as a DTC Settling Bank or re-apply under subsections (b)(ii), (b)(iii) or (b)(iv).

(ii) Cash Settling Bank Members approved as such pursuant to subsection (b)(ii) above must maintain their status as a Government Securities Division Funds-Only Settling Bank Member or re-apply under subsections (b)(i), (b)(iii) or (b)(iv).

(iii) Cash Settling Bank Members approved as such pursuant to subsection (b)(iii) above must maintain their status as a Member or re-apply under subsections (b)(i), (b)(ii) or (b)(iv).
(iv) Cash Settling Bank Members approved as such pursuant to subsection (b)(iv) above must maintain the financial responsibility and operational capability standards as the Corporation may require pursuant to subsection (b)(iv) above. If required by the Corporation, such Cash Settling Bank Members shall submit the financial and other information (if applicable) specified by the Corporation in notices issued by the Corporation from time to time. Such information must be submitted within the timeframes specified in guidelines issued by the Corporation from time to time.

(d) Each applicant in subsections (b)(i) through (b)(iv) shall sign and deliver to the Corporation:

(i) a membership agreement whereby the bank or trust company shall agree to:

(1) abide by the Rules of the Corporation applicable to Cash Settling Bank Members and to be bound by all provisions thereof and that the Corporation shall have all the rights and remedies contemplated by the Rules; and

(2) be bound by any amendment to the Rules of the Corporation with respect to any transaction occurring subsequent to such time such amendment takes effect as fully as though such amendment were now a part of the Rules of the Corporation.

(ii) the “Appointment of Cash Settling Bank and Cash Settling Bank Agreement”; and

(iii) the agreement(s) authorizing the Corporation’s Settlement Agent to utilize NSS for cash settlement as the relevant FRB may require.

(e) Notwithstanding that an applicant qualifies under subsection (b) above, if a material change in condition of the applicant occurs which could bring into question the entity’s ability to perform as a Cash Settling Bank, and such material change becomes known to the Corporation prior to the applicant commencing as a Cash Settling Bank Member, the Corporation shall have the right to stay commencement of the applicant acting as a Cash Settling Bank until a reconsideration of the applicant’s financial responsibility and/or operational capability (if applicable) can be completed. As a result of such reconsideration, the Corporation may determine to withdraw approval or condition the approval upon the furnishing of additional information or assurances.

(f) Before denying an application to become a Cash Settling Bank Member pursuant to this Rule, the Corporation shall furnish the applicant with a concise written statement setting forth the specific grounds under consideration upon which any such denial may be based and shall notify the applicant of its right to request a hearing to determine whether the application should be denied, such request to be filed by the applicant pursuant to Rule 28, “Hearing Procedures” of these Rules within five days of the applicant’s receipt of such notice from the Corporation.
(g) A Cash Settling Bank shall not terminate its status as a Cash Settling Bank and shall not terminate its representation of a Member without having given 10 Business Days advance written notice thereof to the Corporation; however, the Corporation, in its discretion, may accept such termination within a shorter notice period. Such termination will not be effective until accepted by the Corporation. The affected Members must appoint new Cash Settling Banks prior to the termination.

(h) Based on its judgment that adequate cause exists to do so, the Corporation may at any time terminate an entity’s membership status as a Cash Settling Bank Member and its right to act as a Cash Settling Bank.

(i) A Cash Settling Bank’s books and records, insofar as they relate to the Corporation’s cash settlement process, shall be open to the inspection of the duly authorized representatives of the Corporation upon reasonable prior notice and during the Cash Settling Bank’s normal business hours.

(j) Each Cash Settling Bank shall comply in all material respects with all applicable laws, including applicable laws relating to securities, taxation and money laundering in connection with its acting as a Cash Settling Bank.

(k) Each Cash Settling Bank shall fulfill, within the timeframe established by the Corporation, any operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation from time to time to ensure the continuing operational capability of the Cash Settling Bank.

RULE 4–CLEARING FUND AND LOSS ALLOCATION

Section 1 - General

Each Clearing Member shall make, and maintain so long as such Member is a Clearing Member, a deposit to the Clearing Fund at no less than the minimum required level set forth in this Rule (the "Required Fund Deposit"). Deposits to the Clearing Fund shall be held by the Corporation or its designated agents to be applied as provided in this Rule. The timing of payment of the Required Fund Deposit shall be determined in accordance with the provisions of Section 8 of this Rule. The term “Transactions” as used in this Rule 4 includes Pool Receive Obligations, Pool Deliver Obligations, TBA Obligations and Specified Pool Trades.

If a Member’s Required Fund Deposit is charged as a result of a Clearing Fund loss solely attributable to that Member such Member shall promptly replenish the deficit in its Required Fund Deposit.

Section 2 – Required Fund Deposit

(a) Mark-to-Market -- Computation of profit or loss.

The Corporation shall separately compute profit or loss for each Transaction in each Account maintained by a Clearing Member as follows:

(i) A Transaction other than an Option Contract shall be deemed to produce a profit or loss based on:

(aa) the direction of the Transaction (i.e., based on whether the Transaction results in a Long Position or a Short Position for the Member); and

(bb) the difference between the Transaction’s Settlement Value and its System Value.

(ii) An Option Contract shall be deemed to produce a profit or loss based on:

(aa) the direction of the Option Contract (i.e., based on whether the Member bought or sold the Option Contract, resulting in a Long Position or a Short Position for the Member);

(bb) the nature of the Option Contract (which can be either a Call Option Contract or a Put Option Contract);

(cc) the difference between the Option Contract’s Strike Price and the System Value of the underlying Eligible Security; and

(dd) the expiration date of the Option Contract.
The net amount of profits and/or losses computed for each Clearing Member pursuant to this Section 2(a) of Rule 4 shall be reported in the Member's daily Open Commitment Report.

Notwithstanding anything to the contrary above, on any Business Day, any Mark-to-Market amount may be collected on an intra-day basis, with payment having to be made by the affected Member within one hour after the Corporation has provided such Member with notification that payment of such amount is due that same day (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York). Such intra-day Mark-to-Market amount shall be based upon certain parameter breaks defined by the Corporation from time to time, including changes to a Member’s position size and composition and price changes on the constituent securities. Qualitative factors including, but not limited to, Watch List status and internal rating will also be considered in the application of intraday Mark-to-Market charges. Such intra-day payment(s) shall be made as instructed by the Corporation.

(b) Long Positions and Short Positions

For purposes of Section 2(a) of Rule 4 above, Members' Long Positions and Short Positions shall be determined as follows:

(i) In the case of a Transaction between Dealers not involving a Broker:

(aa) The Dealer listed on an Open Commitment Report as the purchaser of an Eligible Security or the purchaser of an Option Contract shall be deemed to have a Long Position; and

(bb) The Dealer listed on an Open Commitment Report as the seller of an Eligible Security or the seller (writer) of an Option Contract shall be deemed to have a Short Position.

(ii) In the case of a Transaction involving a Broker:

(aa) If the Transaction is Fully Compared:

(1) the Dealer listed on its Open Commitment Report as the purchaser of an Eligible Security shall be deemed to have a Long Position;

(2) the Dealer listed on its Open Commitment Report as the seller of an Eligible Security shall be deemed to have a Short Position; and

(3) the Broker shall be deemed to have neither a Long Position nor a Short Position.

(bb) If the Transaction has not compared:

(1) Neither of the Dealers nor the Broker shall be deemed to have a Long Position or a Short Position.
(cc) If the Transaction is Partially Compared:

(1) The Dealer with respect to which the Transaction has compared shall be deemed:

   (i) to have a Long Position in any Eligible Security of which it is listed in its Open Commitment Report to be the purchaser; and

   (ii) to have a Short Position in any Eligible Security of which it is listed in its Open Commitment report to be the seller;

(2) If the Dealer with respect to which the Transaction has not compared and has not submitted a DK of the Transaction as reflected on its Unmatched Margin Report

   (i) the Dealer shall be deemed to have a Long Position as the purchaser of Eligible Securities or a Short Position as the seller of Eligible securities with respect to uncompared Transactions;

   (ii) the Broker shall be deemed to have neither a Long Position nor a Short Position.

(3) If the Dealer with respect to which the Transaction has not compared has submitted a DK of the Transaction as reflected on its Unmatched Margin Report:

   (i) such Dealer shall be deemed to have neither a Long Position nor a Short Position; and

   (ii) the Broker shall be deemed to have a Short Position or Long Position corresponding to the Long Position or Short Position of the Dealer with respect to which the Transaction has compared.

(c) Each Business Day, each Clearing Member shall be required to make a Required Fund Deposit to the Clearing Fund equal to the greater of: (i) the Minimum Charge, or (ii) the End of Day Charge; plus the sum of the following:

(i) the VaR Charge

plus

(ii) the Coverage Charge

plus
(iii) the amount of the Deterministic Risk Component

plus

(iv) a margin requirement differential which considers intra-day portfolio variations and potential for a late margin deficit satisfaction or for a failure to satisfy a margin deficit

plus

(v) an additional payment ("special charge") from such Member as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time.

The Corporation shall have the discretion not to apply the VaR calculation(s) to net unsettled positions in classes of securities where volatility is less amenable to statistical analysis. In lieu of such calculations the component required with respect to such Transactions shall instead be determined based on a historic index volatility model.

The Corporation shall take into account the VaR confidence level applicable to the Member in calculating the VaR Charge. The assumptions used in the VaR model will be set forth in the Corporation’s procedures.

The Clearing Fund requirement of an Unregistered Investment Pool Clearing Member shall be no less than $1 million and the targeted confidence level assumption used for calculating VaR Charge shall be set at a minimum of 99.5%, which is half a percentage higher than the target assumption of the Corporation. The targeted confidence level assumption used for calculating VaR Charge for non-Unregistered Investment Pools shall be set at a minimum of 99%.

Once applicable minimum Clearing Fund amounts have been applied, the Corporation shall apply any applicable additional payments, charges and premiums set forth in these Rules.

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

The Corporation shall have the right to adjust any components of the calculation of a Member’s Required Fund Deposit as set forth in this Section 2. The Corporation shall apply Clearing Fund requirements to each Clearing Member within each membership type on a consistent and non-discriminatory basis.
(d) The lesser of $5,000,000 or 10 percent of the Total Amount arrived at above, with a minimum of $100,000, must, be made and maintained in cash, with the remaining portion of the Total Amount to be made and maintained in the form specified in Section 3 of this Rule.

(e) The initial Required Fund Deposit of each Clearing Member shall be set by the Corporation based upon the expected nature and level of such Member's activity.

(f) Notwithstanding anything to the contrary in this Rule, the Corporation may require a Clearing Member to make and maintain a higher Required Fund Deposit than the amount calculated as noted above, if the Corporation determines that such higher Required Fund Deposit is necessary to protect the Corporation and its Members from the risk (the “Legal Risk”) that the Corporation, as a result of a law applicable to a Clearing Member’s insolvency or bankruptcy, may be delayed or prohibited from: (i) accessing any portion of the Clearing Member’s Required Fund Deposit, (ii) netting, closing out or liquidating Transactions, or setting off obligations, or taking any other action contemplated by these Rules or (iii) otherwise exercising its rights pursuant to these Rules.

(g) Notwithstanding anything to the contrary in this Rule, the Corporation may require a Clearing Member’s Clearing Fund deposit to be in proportions of cash, Eligible Clearing Fund Securities and Eligible Letters of Credit that the Corporation determines to be necessary to protect itself and its Members from Legal Risk. In addition, the Corporation may take all necessary action to mitigate Legal Risk, including, but not limited to, requiring the Member to post additional Clearing Fund as set forth in this Section 2 of Rule 4.

Notwithstanding anything to the contrary in this Rule, on any Business Day, any VaR Charge may be collected on an intra-day basis, with payment having to be made by the affected Member within one hour after the Corporation has provided such Member with notification that payment of such amount is due that same day (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York). Such intra-day VaR Charge amount shall be based upon certain parameter breaks defined by the Corporation from time to time, including changes to a Member’s position size and composition and price changes on the constituent securities. Qualitative factors including, but not limited to, Watch List status and internal rating will also be considered in the application of intraday VaR Charge. Such intra-day payment(s) shall be made as instructed by the Corporation.

Section 3 - Form of Deposit

Subject to the provisions of Section 2 of this Rule 4 governing the computation of a Member’s Required Fund Deposit, and the limitations of this Section 3, Section 3a and Section 3b, a Clearing Member's deposits to the Clearing Fund may be in the form of:

(a) cash; and

(b) an open account indebtedness fully secured by Eligible Clearing Fund Securities.
The lesser of $5,000,000 or 10 percent of the deposit made to the Clearing Fund must be made and maintained in cash. A minimum of 40 percent of the Member’s Required Fund Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.

Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Clearing Member may substitute and/or withdraw securities from pledge and deposit, provided that the Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour or less prior to the close of the securities FedWire on such Day. Any interest on securities deposited by a Clearing Member to secure a Clearing Fund open account indebtedness that is received by the Corporation shall be credited to the Member's cash deposits to the Clearing Fund, except in the event of a default by a Member in payment of any of its obligations to the Corporation, in which case the Corporation may first liquidate such securities and apply all or a portion thereof, including any interest thereon, as provided in Section 7 of this Rule.

Section 3a - Special Provisions Relating to Deposits of Cash

Cash deposits to the Clearing Fund shall be paid to the Corporation in immediately available funds. Cash contained in the Clearing Fund may be partially or wholly invested by the Corporation, in its sole discretion, for the account of the Clearing Fund in debt obligations of the U.S. Government or those U.S. Government Agencies and instrumentalities of the United States guaranteed by the U.S. Government subject to reverse repurchase agreements ("repo"). Clearing Fund cash may also be partially or wholly invested for its accounts in direct purchases of: (1) U.S. Treasury Bills, Bonds or Notes, (2) Certificates of Deposit or similar deposits of FDIC insured banks ("CDs"), or (3) 2a-7 Money Market Mutual Funds rated AAA- or better and to the extent not so invested shall be deposited by the Corporation in its name in a depository(commercial bank account) consistent with its Investment Policy. Investment income, if any, on cash deposits shall be paid to Members at such intervals, in such manner and in such amounts as the Corporation from time to time may determine.

Section 3b - Special Provisions Relating to Deposits of Eligible Clearing Fund Securities

(a) Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities, respectively, in excess of 25 percent of the Member’s Required Fund Deposit will be subject to an additional haircut equal to twice the percentage as specified in the haircut schedule.

(b) No more than 20 percent of a Member’s Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer and no Member may post as eligible collateral Eligible Clearing Fund Agency Securities of which it is the issuer.
(c) A Member may post as eligible collateral Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such collateral will be subject to a premium haircut as specified in the haircut schedule.

Eligible Clearing Fund Securities that are used to secure an open account indebtedness must be pledged to the Corporation on such terms and conditions as it may require, and be delivered to either the Corporation or to a depository institution approved by the Corporation that shall hold the securities on the Corporation's behalf. The valuation of such Eligible Clearing Fund Securities shall be at current market value, which shall be determined by the Corporation not less frequently than on a daily basis. All Eligible Clearing Fund Securities shall be subject to a haircut set forth in these Rules. The Corporation has the right, in its discretion, to refuse to accept a particular type or types of Eligible Clearing Fund Security as Clearing Fund deposit.

Section 4 - Lien

As security for any and all obligations and liabilities of a Clearing Member to the Corporation, including without limitation, any obligation of a Cross-Guaranty Defaulting Member to reimburse the Corporation pursuant to Rule 32 or any obligation of a Cross-Guaranty Beneficiary Member to reimburse the Corporation pursuant to Rule 32, each such Member grants to the Corporation a first priority perfected security interest in all assets and property placed by a Member in the possession of the Corporation (or its agents acting on its behalf), including all securities and cash on deposit with the Corporation or its agents pursuant to these Rules. The Corporation shall be entitled to its rights as a pledgee under common law and as a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such collateral.

Section 5 - Use of Deposits and Payments

The use of the Clearing Fund deposits and assets and property on which the Corporation has a lien shall be limited to satisfaction of losses or liabilities of the Corporation, including Cross-Guaranty Payments and Cross-Guaranty Repayments made by the Corporation pursuant to Cross-Guaranty Agreements, arising from the failure of a Defaulting Member to satisfy an obligation to the Corporation, the failure of a Cross-Guaranty Defaulting Member to satisfy an obligation to a Cross-Guaranty Counterparty, or otherwise incident to the clearance and settlement business of the Corporation with respect to losses and liabilities to meet unexpected or unusual requirements for funds that represent a small percentage of the Clearing Fund, and to provide the Corporation with a source of collateral both to meet its temporary financing needs (through an appropriate financing method determined by the Corporation in its sole discretion) for any financing that is obtained by the Corporation to hold securities pending settlement, to ensure the satisfaction of Members’ settlement obligations and to meet unexpected or unusual requirements for funds that represent a small percentage of the Clearing Fund. If the Corporation pledges, hypothecates, encumbers, borrows, or applies any part of the Clearing Fund deposits, or other collateral that it has received from Members to satisfy, in whole or in part, any liability, obligation, or liquidity requirement, for more than 30 days, the Corporation, at the close of business on the thirtieth day (or on the first Business Day thereafter), shall consider the amount used to meet such financing as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with Section 7 of this Rule. Whenever the Clearing Fund is charged for any
reason other than to satisfy a clearing loss attributable to a Member solely from that Member’s
Clearing Fund deposit, each Member will be provided the reasons for the charge.

If a loss or liability incurred by the Corporation is allocated to a Member pursuant to
Section 7 of this Rule, a Member that is a Cross-Guaranty Defaulting Member incurs an
obligation to reimburse the Corporation pursuant to Rule 32, or a Member that is a Cross-
Guaranty Beneficiary Member incurs an obligation to reimburse the Corporation pursuant to
Rule 32, the Corporation may apply the portion of the Member’s deposit to the Clearing Fund
necessary to satisfy such allocation obligation. In this regard, the Corporation may apply any
cash, draw against any letters of credit, and liquidate any securities deposited by the Member,
and may do any or all of the foregoing whether or not the Corporation has ceased to act for the
Member.

Section 6 – [RESERVED FOR FUTURE USE]

Section 7 - Allocation of Loss or Liability Incurred by the Corporation

Any loss or liability incurred by the Corporation as the result of the failure of a
Defaulting Member to fulfill its obligations to the Corporation shall be satisfied as set forth in
this Section 7 of this Rule 4:

(a) First, by application of any Clearing Fund deposits, Cash Settlement Amounts,
funds-only payment amounts, and any other collateral held by the Corporation securing such
Member’s obligations to the Corporation;

(b) Second, if the Defaulting Member is a Cross-Guaranty Defaulting Member, the
Corporation shall apply any amounts available under a Cross-Guaranty Agreement either upon
receipt or the time described in Rule 32;

(c) In the event there is any loss or liability incurred by the Corporation in respect of
the Mortgage-Backed Securities Division remaining after application of paragraph (a) above
(any such loss or liability, a “Remaining Loss”), the Corporation shall apply an amount of up to
25% of the existing retained earnings of the Corporation, or such higher amount as the Board of
Directors shall determine. Notwithstanding the foregoing, to the extent that a loss or liability is
determined by the Corporation to arise in connection with an Off-the-Market Transaction, it shall
be allocated directly and entirely to the Member that submitted the data on the Off-the-Market
Transaction to the Corporation;

d) If there is any Remaining Loss after application of paragraph (c) above, the
Corporation shall determine the amount of such loss that is attributable to Tier One Members.

To the extent there is a Remaining Loss attributable to Tier One Members, the
Corporation shall assess the Required Fund Deposit maintained by each such Member an amount
of up to $50,000, in an equal basis per Tier One Member.

To the extent there is a Tier Two Remaining Loss, the Tier Two Remaining Loss shall be
allocated to Tier Two Members based upon their trading activity with the Defaulting Member
that resulted in a loss. The Corporation shall assess such loss against the Tier Two Members
ratably based upon their loss as a percentage of the entire amount of the Remaining Loss attributable to Tier Two Members. Tier Two Members with a bilateral liquidation profit will not be allocated any portion of the Remaining Loss attributable to Tier Two Remaining Loss.

(e) If there is any Remaining Loss attributable to Tier One Members after application of paragraph (d) above, it shall be allocated among Tier One Members, ratably, in accordance with the amount of each Tier One Member’s respective Required Fund Deposit and based on the average daily level of such deposit over the prior twelve months (or such shorter period as may be available in the case of a Member which has not maintained a deposit over such time period) (such amount, the Member’s “Average Required Clearing Fund Deposit”).

(f) Any loss or liability incurred by the Corporation incident to its clearance and settlement business arising from the failure of a Clearing Member to pay to the Corporation an allocation made pursuant to the preceding subsections of this Section or arising other than from a Remaining Loss (hereinafter, an "Other Loss"), shall be allocated among Tier One Members, ratably, in accordance with the respective amounts of their Average Required Clearing Fund Deposits.

(g) The entire amount of the Required Fund Deposit of any Clearing Member at the time that the Corporation incurred an applicable Remaining Loss or Other Loss may be used to satisfy any amount allocated against a Member as a result of such Remaining Loss or Other Loss. If notification is provided to a Member that an allocation has been made against a Member pursuant to this Rule and that application of the Member's Required Fund Deposit is not sufficient to satisfy such obligation to make payment to the Corporation, the Member shall (i) deliver to the Corporation by the Close of Business on the next Business Day, or by the Close of Business on the Business Day of issuance of the notification if so determined by the Corporation, that amount which is necessary to eliminate any such deficiency, except that (ii) with regard to an allocation arising from any Remaining Loss allocated by the Corporation pursuant to subsection (e) of this Section 7 and any Other Loss, such Member may instead provide by the Close of Business on the Business Day on which such payment is due the Corporation written notice to the Corporation, pursuant to Section 13 of Rule 3, of its election to terminate its membership in the Corporation. If such Member elects to terminate its membership in the Corporation, its liability for an allocation arising from such Remaining Loss and Other Loss shall be limited to the amount of its Required Fund Deposit for the Business Day on which the notification of such allocation is provided to the Member. If such Member does not elect to terminate its membership in the Corporation, its liability for an allocation arising from such Remaining Loss and Other Loss shall be satisfied in the same manner as described in subsection (e) of this Section 7 with respect to such Other Loss.

A Member that elects to terminate its membership pursuant to alternative (ii) of the above paragraph in lieu of being liable to pay an additional assessment amount above its Required Fund Deposit shall not be eligible to re-apply to become a Clearing Member unless, prior to submitting such application, it makes the payment to the Corporation provided for in alternative (i) of the above paragraph, together with interest on that amount at the average of the Federal Funds Rate plus one percent, calculated from the date on which the Remaining Loss or Other Loss was
incurred by the Corporation until the date of such payment. If a Clearing Member elects to terminate its membership pursuant to alternative (ii) of the above paragraph, or if the Member fails to take any action, the Corporation will promptly make an additional assessment against the remaining Tier One to cover the amount not paid by the Clearing Member that made such election to terminate its membership.

(h) If a Remaining Loss or Other Loss occurs, the Corporation shall promptly notify each Member, and the SEC, of the amount involved and the reasons therefor. Any disciplinary action that the Corporation takes, or the voluntary or involuntary cessation of membership by a Clearing Member subsequent to the occurrence of the Remaining Loss or Other Loss, shall not, except as otherwise provided in this Rule, affect the obligations of the Clearing Member to the Corporation under this Rule or the procedures thereof, or affect any remedy to which the Corporation may be entitled. If a Remaining Loss or Other Loss charged to Members is afterward recovered by the Corporation in whole or in part, the net amount of the recovery shall be credited or paid to those Persons, other than a Defaulting Member or other Person who caused in whole or part such Loss, including the Corporation, against whom the loss was charged, in proportion to the amounts paid by them, whether or not they are still Members.

(i) For purposes of calculating the allocations in this Section 7 that are based upon a Member’s Average Required Fund Deposit, a Clearing Member that is subject to an increased Required Fund Deposit pursuant to provisions of this Rule regarding special charges or such other premium applied pursuant to these Rules shall be deemed to have an Average Required Clearing Fund Deposit amount without such increases being taken into account.

Section 8 - Timing of Payment of Deposit

The initial Required Fund Deposit of a Clearing Member shall be required to be deposited into the Clearing Fund by the close of business on the Business Day immediately prior to the Business Day on which each such Person becomes a Clearing Member in accordance with the Corporation’s procedures.

A Member must increase the amount of its Required Fund Deposit (by the deposit of cash, Eligible Securities, and/or Eligible Letters of Credit subject to the requirements of this Rule) by the Required Fund Deposit Deadline on any Business Day that such Clearing Member’s actual deposit to the Clearing Fund is less than its Required Fund Deposit as set forth in the Report listing such subject to the conditions included in Section 3 of this Rule.

The Corporation retains the discretion to extend the Required Fund Deposit Deadline on any Business Day if there are operational or system difficulties that would reasonably prevent Members from satisfying Required Fund Deposit deficits by the time specified in the Corporation’s procedures.

Notwithstanding the foregoing, the Corporation may require a Member or Members generally to deposit additional amounts to their Clearing Fund on an intraday basis if the Corporation believes such action is necessary in order to protect itself and its Members.
Section 9 - Return of Deposits and Payments

The Corporation shall determine with such frequency as it shall from time to time specify, whether the amount deposited by a Member in the Clearing Fund is in excess of its Required Fund Deposit (hereinafter, “Excess Clearing Fund Deposit”). On any day that the Corporation has determined that an Excess Clearing Fund Deposit exists with respect to any Member, the Corporation will, in the form and manner determined by the Corporation, notify each Member of such excess. Upon the request of a Member, in the form and manner determined by the Corporation, the Corporation shall cause to be returned to each such Member cash on deposit (in excess of the minimum amount of cash the Member is required to maintain in the Clearing Fund), and/or Eligible Clearing Fund Securities (valued at their current market value, including accrued interest as of the end of the Business Day prior to such withdrawal), in an aggregate amount equal to such excess or such lesser amount as the Member may request; provided, however, that, any return of excess will be done in such a way that the remaining Clearing Fund on deposit meets the requirements of this Rule. In addition, at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned if the Member has an outstanding payment obligation to the Corporation, if the Corporation determines that the Member's anticipated Cash Settlement obligations, Pool Net Obligations or Transactions over the next 90 calendar days may reasonably be expected to be materially different than during the prior 90 calendar days, or if the Member is on the Watch List.

In addition, the return of an Excess Clearing Fund Deposit amount to any Member is subject to the following limitations: (1) such return of Excess Clearing Fund Deposit shall not be done in a manner that would cause the Member to violate any other Section of these Rules; and (2) Excess Clearing Fund Deposit shall not be returned to a Member to the extent that such return would reduce the amount of the Member’s Cross-Guaranty Repayment Deposit to the Clearing Fund below the amount to be maintained by the Member pursuant to Rule 32, “Cross Guaranty Agreements.”

Section 10 - Ceasing to be a Member

If a Clearing Member gives notice to the Corporation pursuant to these Rules of its election to terminate its membership in the Clearing System, the Member's deposits to the Clearing Fund shall be returned to it when the Corporation is satisfied that all of the Member’s obligations arising under these Rules have been satisfied. However, the Corporation in its discretion may return Clearing Fund amounts to a Member notwithstanding any obligations such Member may have to the Corporation, provided such obligations are de minimis. Any obligation of a Member to the Corporation pursuant to this Rule that is unsatisfied at the time it ceases to be a Member shall not be affected by such cessation.

Notwithstanding the previous paragraph or anything else contained in these Rules, the Corporation may retain an amount equal to any Cross-Guaranty Repayment Deposit of any Member until such time as the Corporation determines that such Member is no longer liable to the Corporation under Rule 32, “Cross Guaranty Agreements” to reimburse the Corporation for any Cross-Guaranty that the Corporation may be obligated to make under any relevant Cross-Guaranty Agreement.
Section 11 - Corporation's Authority to Pledge and Assign

In furtherance of the rights of the Corporation pursuant to these Rules, the Corporation shall have full power and authority to pledge, repledge, hypothecate, transfer, create a security interest in, or assign any and all: (i) cash deposits, (ii) securities, repurchase agreements, deposits or other instruments in which cash deposits of Members are invested, and (iii) any securities or letters of credit pledged or deposited by any Member to secure an open account indebtedness to the Clearing Fund or otherwise to collateralize its obligations to the Corporation or in the possession of the Corporation, for the purpose of securing loans made to the Corporation or other obligations incurred by the Corporation, in each case incident to the clearance and settlement business of the Corporation. Such loans or obligations shall be on terms and conditions deemed necessary or advisable by the Corporation in its sole discretion, and may be in amounts greater, and extend for periods of time longer, than the obligations, if any, of any Member to the Corporation for which such property was pledged to or deposited with the Corporation. Notwithstanding the above, the Corporation shall remain obligated to each Member to return, and to allow substitution for or withdrawal of, cash, securities, and letters of credit pledged or deposited by a Member as Clearing Fund deposit or to secure an open account indebtedness to the Clearing Fund, or otherwise to collateralize such Member's obligations to the Corporation, under the circumstances and within the timeframes specified in these Rules.

Section 12 – Clearance and Settlement Business of the Corporation

For purposes of this Rule 4, references to the clearance and settlement business of the Corporation shall include its business as a Securities Intermediary.
RULE 5 – TRADE COMPARISON

Section 1 - General

Trade comparison, which consists of the reporting, validating, and matching by the Corporation of the long and short sides of a Transaction to ensure that the details of such trades are in agreement between the parties, is the first step in the clearance and settlement process for these Transactions.

Trade data may be entered via any means permitted by the Corporation, and must include such identifying detail as the Corporation may require. As trade data are submitted to the Corporation, the Corporation shall generate output indicating that such trade data: (1) is compared, (2) is uncompared, and/or (3) has been deleted from the Trade Comparison system.

The Corporation shall guarantee the settlement of a Transaction the data on which were submitted for Trade Comparison at the time at which the comparison of such trade occurs pursuant to Section 11 of this Rule, as long as the trade meets the requirements of these Rules and was entered into in good faith. This guaranty shall no longer be in effect if the Transaction becomes uncompared, is cancelled, or settles pursuant to these Rules.

Section 2 – General Responsibilities of Members in the Trade Comparison System

Trade data submitted to the Corporation by a Clearing Member shall be submitted in the form and manner, and in accordance with the time schedules, prescribed by, or pursuant to, these Rules or otherwise set forth by the Corporation from time to time.

The symbol corresponding to the name of a Clearing Member printed, stamped or written on any form, document or other item issued by it pursuant to this Rule shall be deemed to have been adopted by it as its signature and shall be valid and binding upon it in all respects as though it had manually affixed its signature to such form, document or other item.

Each Clearing Member shall promptly review each Report it receives from the Corporation pursuant to this Rule. Any errors, omissions, or similar problems noted by a Clearing Member with respect to a Report must be promptly reported to the Corporation.

Any Transactions the data on which are submitted to the Corporation by a Clearing Member pursuant to these Rules which are not novated pursuant to Section 13 of this Rule and not netted and novated through the Pool Netting system pursuant to Rule 8 shall be settled directly between the Members. Any Transaction that is novated pursuant to Section 13 of this Rule and not thereafter netted through the Pool Netting system pursuant to Rule 8 shall be settled on behalf of the Corporation between Clearing Members that are parties to offsetting Transactions with the Corporation (i.e., the Transaction shall settle between each Clearing Member and its SBO Contra-Side Member).
Section 3 – Trade Submission Communication Methods

Trade data may be submitted to the Corporation using the Interactive Submission Method, the Multiple Batch Submission Method, or the Single Batch Submission Method.

Section 4 - Trade Input

The Corporation shall utilize a system of two-sided trade input under which it shall be the duty of both the selling and the purchasing Clearing Members to submit to the Corporation such information in such form and at such time concerning each Transaction in Eligible Securities, as the Corporation may specify from time to time. In the case of Transactions involving a Broker:

(a) trade input in the form required by the Corporation from time to time submitted by each Dealer on whose behalf the Broker is acting shall identify the Broker as the Dealer's Original Contra-Side Member and specify the contract price payable to or by the Dealer, net of commission; and

(b) trade input in the form required by the Corporation from time to time submitted by the Broker shall identify the Dealers on whose behalf the Broker is acting and specify the contract price, the commission payable to the Broker, the amount of the commission and the identity of the Dealer responsible for payment of the commission.

Each Clearing Member shall use its best efforts to insure that all trade input submitted to the Corporation is accurate in all respects. The Corporation shall have no responsibility for the inaccuracy of any information submitted by any Clearing Member to the Corporation or to any other Clearing Member or for the failure of any Clearing Member to timely submit any information required to be submitted to the Corporation or to any other Clearing Member.

Any Clearing Member which fails to submit to the Corporation trade input at the time, in the form, and containing the information required by the Corporation from time to time shall be subject to the imposition of the fee set forth in the Corporation’s fee schedule.

Section 5 - Procedure for Trade Comparison

The Corporation shall determine, in the following manner, whether the information submitted pursuant to this Rule compares.

(a) For Transactions in Eligible Securities in any CUSIP Number between Dealers, trade input shall be deemed to be compared if both parties to the Transaction have submitted trade input that matches as required by the Corporation’s procedures.

(b) For Transactions in Eligible Securities in any CUSIP Number involving a Broker acting on behalf of two Dealers, trade input for any Transaction shall be deemed to be:

(i) Fully Compared if the trade input submitted by the Broker matches the trade input submitted by each Dealer on whose behalf the Broker is acting; and
(ii) Partially Compared if the trade input submitted by the Broker matches trade input submitted by one but not both of the Dealers on whose behalf the Broker is acting(s).

Section 6 – Match Modes

The following Net Position Match Mode shall govern the comparison of each Dealer's Transactions in Eligible Securities in a CUSIP number involving a Broker:

a) Net Position Match Mode in which trade input that matches in all other respects will be compared only if the aggregate Par Amount for one or more Transactions in Eligible Securities reported to have been sold or purchased by the Dealer equals the aggregate Par Amount for one or more Transactions reported by the Broker.

Notwithstanding the foregoing, the Corporation will first attempt to compare each Transaction using the exact mode, in which trade input that matches in all other respects will be compared if the Par Amount of Eligible Securities reported to have been sold or purchased by the Dealer for a particular transaction is identical to the Par Amount for a particular transaction reported by the Broker and will apply the Net Position Match Mode only to the extent necessary to effect a comparison.

Section 7 – Broker Give-Up Trades

Any Broker identified in any Fully Compared Transaction as the Original Contra-Side Member with respect to both selling and purchasing Dealers will be deleted from the records of the Corporation and the Dealers will be substituted (i.e., "given up") as the Original Contra-Side Members after a period elected by the Broker or prescribed by the Corporation from time to time, but in any event (a) in the case of SBO-Destined Trades, prior to TBA netting, and (b) in the case of Trade-for-Trade Transactions prior to the Contractual Settlement Date.

Section 8 - Binding Nature of Comparisons

Comparisons generated by the Corporation through the Trade Comparison system shall constitute the trade comparison for all trades in Eligible Securities for which Clearing Members have submitted data and which the Corporation has identified as Compared Trades. Each comparison generated by the Corporation as to any Compared Trade as reported by the RTTM Compare Report, the RTTM Purchase and Sale Report and the Purchase and Sale Report (to the extent information is not contained in the RTTM Purchase and Sale Report) shall each constitute the confirmation of the Transaction information contained therein and shall evidence a valid, binding and enforceable contract in respect of such Compared Trade. Any confirmations, comparison or other documentary evidence of any such Compared Trade, other than the comparison generated by the Corporation, shall not affect the existence or terms and conditions of such a valid, binding and enforceable contract in respect of such Compared Trade and the Corporation shall be entitled to rely upon such Reports for all purposes under the Rules.
In case of a Fully Compared or Partially Compared transaction involving a Broker, each Dealer as to which the Transaction has compared shall be bound by such contract. In the case of a Partially Compared Transaction involving a Broker, unless the Dealer as to which the Transaction has not compared submits a DK of the Transaction in accordance with these Rules, such Dealer shall be responsible for Clearing Fund deposits with respect to such Transaction and may be responsible for such Transaction in accordance with Section 2 of Rule 17 “Procedures For When the Corporation Ceases to Act.”

If trade input with respect to a Transaction in Eligible Securities involving a Broker has not compared or has Partially Compared, the Dealer(s) for which trade input has not compared will be furnished a Report noting such uncomprared or Partially Compared Transaction. The Dealer may then either affirm the Transaction or submit a DK of the Transaction as described in Section 9 of this Rule 4. Unless the Dealer receiving the Unmatched Margin Report submits a DK of such transaction in accordance with the Corporation’s procedures, the Total Required Fund Deposit shall be payable by the Dealer with respect to such Transaction pursuant to these Rules, the same as if such transaction had been listed in such Dealer's Open Commitment Report.

Section 9 – Cancellation and Modification of Trade Data by Members

If the Clearing Member determines that a transaction has not taken place, the Clearing Member shall (a) delete any trade input information previously submitted by it in error or (b) if the Clearing Member did not previously submit trade input information, submit a DK of such transaction. If the Clearing Member determines that the transaction has taken place, the Clearing Member shall affirm the transaction, correct trade input or settlement information previously submitted in error, or submit trade input information not previously submitted. If a transaction is compared, it will thereafter be reflected in a Report transmitted by the Corporation to the Clearing Member.

A Clearing Member that has submitted to the Corporation trade data that have not been compared may cancel or DK such data by providing appropriate instructions to the Corporation, pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Trade data that has been submitted against a Clearing Member that the Clearing Member affirms will be deemed compared.

Trade data submitted for Trade Comparison that have been compared may be cancelled from the Trade Comparison system upon receipt by the Corporation of appropriate instructions, submitted pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose, from both Clearing Members that submitted data on the trade.

Section 10 – Modification of Trade Data by the Corporation

The Corporation may unilaterally modify trade data submitted by Members if the Corporation becomes aware of any changes to the transaction which invalidate the original terms upon which it was submitted or compared.
Section 11 – Timing of Comparison

The comparison of trade data submitted to the Corporation for Trade Comparison shall be deemed to have occurred at the point in time at which the Corporation issues an output to the Clearing Members on both sides of the transaction indicating that such trade data have been compared.

Section 12 – Obligations

Trade data submitted for comparison through the Trade Comparison system will, once matched, constitute settlement obligations, between the buying and selling counterparties, with respect to Trade-for-Trade Transactions and Specified Pool Trades.

Settlement obligations with respect to trade data submitted for TBA trades that are SBO-Destined Trades shall be established at the time at which the Corporation has both completed its SBO-processing for the preparation of such Reports and has released such Reports to the Corporation’s data output facility or facilities, unless the Corporation has notified such Clearing Member on such Business Day of a delay in the Corporation’s making available such Reports or output to the Member.

Section 13 – Novation

(a) Each SBO-Destined Trade that meets the requirements of these Rules and was entered into in good faith shall be novated to the Corporation and the Corporation shall guarantee the settlement of each such Trade at the time at which comparison of such Trade occurs pursuant to Section 11 of this Rule. Such Novation shall consist of the termination of the deliver, receive and related payment obligations between the Clearing Members with respect to the SBO-Destined Trade and their replacement with identical obligations to and from the Corporation in accordance with these Rules.

(b) Notwithstanding subsection (a) of this Section 13, an SBO-Destined Trade that is Partially Compared shall not be novated to the Corporation. At such time as any SBO-Destined Trade that is Partially Compared becomes Fully Compared, such Fully Compared SBO-Destined Trade shall be novated to the Corporation and the Corporation shall guarantee the settlement of each such Fully Compared SBO-Destined Trade. Such Novation shall consist of the termination of the deliver, receive and related payment obligations between the Clearing Members with respect to the Fully Compared SBO-Destined Trade and their replacement with identical obligations to and from the Corporation in accordance with these Rules.

(c) If a trade becomes uncompared or is cancelled pursuant to these Rules, the Novation of such transaction shall be reversed, cancelling the deliver, receive, and related payment obligations between the Corporation and the applicable Clearing Members created by such Novation.

(d) At the time an SBO-Destined Trade is novated to the Corporation, such SBO-Destined Trade shall cease to be bound by any bilateral agreement between the parties to such SBO-Destined Trade with respect to the delivery, receive and related payment obligations. If an SBO-Destined Trade becomes uncompared or is cancelled pursuant to these Rules, such trade
shall be governed by the same bilateral agreement that governed the trade before it was novated to the Corporation.
RULE 6 – TBA NETTING

Section 1 – Netting

Each Clearing Member's SBO-Destined Trades in each Account in the TBA Netting system (other than SBO-Destined Trades that have been converted to Trade-for-Trade Transactions as provided in this Rule) shall be netted by CUSIP number on a monthly basis in the following manner:

(a) The Corporation shall offset a Clearing Member’s purchase and sale Transactions that had the same Original Contra-Side Member (SBO Netted Positions). The SBO Contra-Side Member for an SBO Netted Position shall be the Original Contra-Side Member.

(b) To the extent that any purchase or sale Transactions cannot be offset as described in subsection (a) above, the Corporation shall offset the Clearing Member’s purchase and sale Transactions that had any of its Original Contra-Side Members (SBO Net-Out Positions).

(c) To the extent that any of the Clearing Member’s purchase or sale Transactions cannot be offset as described in subsections (a) and (b) above (SBO Net Open Positions), the Corporation shall assign the Clearing Member one or more SBO Trades offsetting such SBO Net Open Positions. To the maximum extent practicable, the Clearing Member’s SBO Contra-Side Members shall be one or more of its Original Contra-Side Members. Any remaining SBO Trades shall be SBON Trades and shall have as SBO Contra-Side Members one or more other Members who are non-Original Contra-Side Members.

The Settlement Price of an SBOO Trade shall be the Firm CUSIP Average Price (FCAP), representing the average purchase or sale contract price of the Member's SBO-Destined Trades with the Original Contra-Side Member in the TBA CUSIP as determined in accordance with this Rule 6. The Settlement Price of an SBON Trade shall be the CUSIP Average Price (CAP), representing the average contract price as computed by the Corporation of all SBO-Destined Trades in the TBA CUSIP that have been netted to produce the SBON Trade.

Prior to netting as described in this Rule, any SBO-Destined Trade that remains Partially Compared shall be converted to a Trade-for-Trade Transaction.

Section 2 - Receipt of TBA Netting Output

On each Business Day, Reports shall be deemed to have been made available by the Corporation to a Clearing Member at the time at which the Corporation has both completed its processing for the preparation of such Reports and has released such Reports to the Corporation's data output facility or facilities, unless the Corporation has notified such Clearing Member on such Business Day of a delay in the Corporation's making available such Reports or output to the Member.

The inability of a Clearing Member, because of automation problems that it incurs or for any other reason, to receive a Report that has been made available to it by the Corporation shall
not excuse or otherwise affect such Clearing Member's obligations pursuant to these Rules. A Clearing Member shall be obligated to accept Reports from the Corporation in the format and within the timeframes specified in guidelines issued by the Corporation from time to time.

Section 3 - Responsibility for Third Party Actions

No improper or unauthorized action, or failure to act, of a third party acting on behalf of a Clearing Member (including, but not limited to, a service bureau) shall excuse or otherwise affect such Clearing Member's obligations pursuant to this Rule.

Section 4 - Obligation to Inform the Corporation

Each Clearing Member shall be obligated to inform the Corporation of the following:

(a) difficulty in providing, or inability to provide, data input to the Corporation, or difficulty in receiving, or inability to receive, Reports from the Corporation, in the manner, or within the timeframes, that such Member ordinarily inputs or receives such information;

(b) the receipt by such Clearing Member from the Corporation of a Report that it believes contains erroneous information, omits material information, or has any other type of problem; and,

(c) potential difficulty in satisfying, or inability to satisfy, in a timely manner any of its obligations with respect to the delivery or receipt of securities, or the payment of monies, that arise pursuant to these Rules.

The Clearing Member shall inform the Corporation promptly after the occurrence of any event specified above.

Section 5 – Obligation to Submit

Each Clearing Member must submit to the Corporation for processing through the Corporation transactions with other Clearing Members in all securities that are netting-eligible pursuant to these Rules and such procedures as the Corporation may establish from time to time and as thereafter specified in an Important Notice to the Clearing Members.
RULE 7: POOL COMPARISON

Section 1 – Pool Comparison

The Pool Comparison system is a system for comparing pools that have been allocated in satisfaction of open TBA Obligations. Clearing Members allocating pools to satisfy open TBA Obligations recorded in the Clearing System are required to submit pool details to the Corporation in order for such pools to be processed through the Pool Netting system pursuant to Rule 8.

In order for the Corporation to process data for Pool Comparison, the Corporation must receive data from the long and short sides of the allocated pool submission in the format and within the timeframes specified in guidelines issued by the Corporation from time to time. For a Pool Comparison to be generated by the Corporation, there must be an exact match of all required match data submitted by each contra-party as required by the Corporation’s procedures. Notwithstanding the previous sentence, if the price submitted by the settlement counterparties matches within the tolerance of decimal places specified by the Corporation in its procedures, but does not match beyond such decimal place, the Corporation shall apply the Settlement Price.

Items identified as uncompared by the Corporation reflect pool data submitted by a Clearing Member for which the counterparty Clearing Member either did not submit data or did not submit data which matched in all respects, except as otherwise provided in these Rules. Comparison requested (advisory) data represents trades submitted by a Clearing Member against its counterparty.

Section 2 – Cancellation and Modification of Data by Clearing Members

A Clearing Member that has submitted to the Corporation data for Pool Comparison that have not been compared may modify, cancel or DK such data by providing appropriate instructions to the Corporation, pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Pool data submitted against a Clearing Member that is affirmed by the Clearing Member will be deemed compared.

Data submitted for Pool Comparison that have been compared may be cancelled from the Pool Comparison system, by either the selling or buying Original Contra-Side Member, upon receipt by the Corporation of appropriate instructions, submitted pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose.
RULE 8- POOL NETTING SYSTEM

Section 1—General

Pool Netting is a system for aggregating and matching offsetting allocated pools submitted by Clearing Members to satisfy: (i) settlement obligations associated with Trade-for-Trade Transactions and (ii) settlement obligations resulting from the TBA Netting system.

Each Business Day, the Corporation will calculate and report to each Clearing Member each Pool Net Settlement Position of such Member. With respect to each such Pool Net Settlement Position, the Corporation will report to the Member the extent to which the Member is obligated to deliver Eligible Securities to the Corporation and/or to receive Eligible Securities from the Corporation in accordance with each such Pool Net Settlement Position.

Section 2 – Eligibility for Pool Netting

A pool is eligible for Pool Netting if it meets all of the following requirements:

(a) the pool has been compared by the Corporation pursuant to Rule 7;

(b) the pool is assigned to a TBA Obligation generated pursuant to these Rules; and

(c) the pool meets the criteria set forth in the Corporation’s procedures for inclusion in Pool Netting.

Notwithstanding the foregoing, the Corporation may, in its sole discretion, exclude any pools from the Pool Netting system by Clearing Member or by pool. Pools not meeting the eligibility requirements for Pool Netting are required to be settled bilaterally with the settlement counterparties and are subject to the requirements of Rule 10 with respect to Notification of Settlement.

Section 3 – Calculation of Pool Net Settlement Positions

On each Business Day, for each Eligible Security in the Pool Netting system, the Corporation will establish a Pool Net Settlement Position for eligible pools of a Clearing Member with the same Delivery Date and Contractual Settlement Date, comparing the aggregate Par Amount of each long obligation in an Eligible Security by the Clearing Member (hereinafter, the “Long Total”) and each short obligation in an Eligible Security by the Clearing Member (hereinafter, the “Short Total”). If the Long Total exceeds the Short Total, the resulting difference will constitute the Pool Net Long Position. If the Short Total exceeds the Long Total, the resulting difference will constitute the Pool Net Short Position. All Pool Net Settlement Positions shall be reported by CUSIP Number by the Corporation in a Report issued and made available each Business Day to each Clearing Member.
Section 4—Allocation of Pool Deliver and Pool Receive Obligations

On each Business Day, the Corporation will establish Pool Deliver Obligations and Pool Receive Obligations as necessary to accomplish the settlement of Pool Net Settlement Positions. Pool Deliver Obligations and Pool Receive Obligations shall be allocated by the Corporation on an equitable basis to Clearing Members with corresponding Pool Receive Obligations and Pool Deliver Obligations that involve Eligible Securities with the same CUSIP Number. A single Pool Net Settlement Position may result in the establishment of more than one Pool Deliver Obligation or Pool Receive Obligation in an Eligible Security. Each Pool Deliver Obligation and each Pool Receive Obligation of a Clearing Member shall be listed in the Report that will be issued on each Business Day to each Clearing Member.

Section 5—Substitutions

With regard to any Pool Deliver Obligation, a Clearing Member may substitute the underlying pool that comprises such Pool Net Settlement Position by providing appropriate instructions to the Corporation, pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Members with a Pool Receive Obligation that has been substituted are required to accept the substituted pools from the Corporation in accordance with the Corporation’s procedures.

Section 6—Novation of Obligations

Pool Net Settlement Positions and resultant Pool Deliver Obligations and Pool Receive Obligations of a Clearing Member, either as originally established by the Corporation or as may be adjusted by the Corporation as the result of a correction of compared data made pursuant to these Rules, shall be fixed at the time the Report of such Positions and Obligations is made available by the Corporation to the Member. At that time, all deliver, receive and related payment obligations (a) between such Clearing Member and the Corporation, for SBO Trades, or (b) between Members, for other Transactions, that were created by compared pools that comprise a Pool Net Settlement Position or Positions are terminated and replaced by the Pool Deliver Obligations, Pool Receive Obligations and related payment obligations for such Members that are listed in the Report. The associated TBA Obligations of netted pools will be terminated and replaced with Pool Deliver Obligations, Pool Receive Obligations or cash obligations as established by the Corporation in the applicable Report.

Section 7—Obligation to Submit SBOO and SBON Trades to Pool Netting

Each Clearing Member must submit to the Corporation for inclusion in Pool Netting each SBOO and SBON Trade to which such Clearing Member is a party.
RULE 9 – POOL SETTLEMENT WITH THE CORPORATION

Section 1 – General

On each Business Day, each Pool Deliver Obligation and Pool Receive Obligation shall be settled at the Settlement Value reported on such Business Day for such obligation. Pool Deliver Obligations of a Clearing Member generated by the Pool Netting system must be satisfied by delivery of the appropriate Eligible Securities from a clearing bank or banks designated by the Clearing Member for such purpose to a clearing bank or banks designated by the Corporation for such purpose. Pool Receive Obligations of a Member must be satisfied by receipt of the appropriate Eligible Securities by a clearing bank or banks designated by the Clearing Member for such purpose from a clearing bank or banks designated by the Corporation for such purpose.

All deliveries of Eligible Securities in satisfaction of Pool Deliver Obligations, and all receipts of Eligible Securities in satisfaction of Pool Receive Obligations, must be made against simultaneous payment or receipt in Federal funds at the Settlement Value for each such Obligation for the Business Day of such delivery or receipt.

All deliveries of Eligible Securities in satisfaction of Pool Deliver Obligations shall be identified by standard industry delivery codes indicating a new origination delivery. Reversal codes shall not be used to identify any delivery of securities to the Corporation without the express prior permission of the Corporation.

Pool settlements shall occur pursuant to the timeframes and settlement cycles established by the Corporation.

Section 2 - Designation of Clearing Banks

The Corporation shall notify each Person, no later than ten Business Days prior to its becoming a Clearing Member, of the clearing bank or banks that the Corporation will use to deliver Eligible Securities to Clearing Members and to receive Eligible Securities from Clearing Members, and of the types of Eligible Securities that each such clearing bank will so deliver and receive. Thereafter, the Corporation shall notify each Clearing Member of any change in the Corporation's designation of the clearing bank or banks that will act on the Corporation's behalf, or in the product that any such clearing bank is designated to deliver or to receive, no later than ten Business Days prior to the effective date of such change.

A Person must notify the Corporation, in such manner as the Corporation may prescribe, no later than ten Business Days prior to its becoming a Clearing Member, of the clearing bank or banks that it has designated to act on its behalf, pursuant to this Rule, in the delivery of Eligible Securities to the Corporation and in the receipt of Eligible Securities from the Corporation. Each Clearing Member must notify the Corporation of any change in such designation, no later than ten Business Days prior to the effective date of such change. Such designation is subject to the Corporation's determination, in its reasonable judgment, that such clearing bank (a) has and will maintain access to FedWire, (b) has and will maintain the operational capability to interact
satisfactorily with the clearing banks that act on behalf of the Corporation, and (c) has agreed to act on behalf of such Clearing Member in accordance with this Rule.

Section 3 - Instructions to Clearing Banks

On each Business Day, the Corporation shall make available to each Clearing Member a Report that provides information that the Corporation deems sufficient to enable such Clearing Member to be able to settle its Pool Net Settlement Positions on such Business Day. Each such Clearing Member, based on the information provided in such Report, shall promptly provide appropriate instructions to its clearing bank or banks to deliver to the Corporation on that Business Day as provided in these Rules, and/or to receive from the Corporation on that Business Day as provided in these Rules, on behalf of the Clearing Member, Eligible Securities of specified types and amounts, against payment or receipt at the appropriate Settlement Value, exactly as set forth in such Report.

Section 4 - Partial Deliveries

In its sole discretion, the Corporation may accept a delivery from a Clearing Member with a Pool Net Short Position of only a portion of the Eligible Securities that comprise such Pool Net Short Position. The Corporation will do so only upon obtaining the consent of a Clearing Member or Members with a Pool Net Long Position or Positions comprised of Eligible Securities with the same CUSIP number to a receipt by the Clearing Member or Members from the Corporation of a like amount of such securities. If a partial delivery of Eligible Securities by a Clearing Member is accepted by the Corporation, the remaining securities that were not delivered to the Corporation will constitute a Fail.

Section 5 - Financing Costs

If a Clearing Member with a Pool Net Short Position delivers Eligible Securities to the Corporation and the Corporation is unable to redeliver such securities on the same Business Day to a Clearing Member or Members with Pool Net Long Positions in such securities and, as a result, the Corporation incurs costs, expenses, or charges related to financing such securities (hereinafter, the "financing costs"), the Clearing Members that had settlement obligations in the applicable Eligible Securities (applied at the issuer level and not the CUSIP level) shall be obligated to pay, or to reimburse the Corporation, for such financing costs. Such payment or reimbursement of financing costs shall be allocated by the Corporation pro rata, based on the value of the settlement obligations in those Securities of each such Clearing Member as provided in the procedures. Notwithstanding the above, if the Corporation, in its sole discretion, determines that a Clearing Member has, without good cause, caused the Corporation to incur financing costs, the Corporation shall notify the Clearing Member of such determination, and such Clearing Member (hereinafter, the "Late Delivering Member") shall be obligated to pay for, or to reimburse the Corporation for, the entire amount of any financing costs incurred by the Corporation on or after the date of such notification as the result of a delivery of Eligible Securities made by the Late Delivering Member to the Corporation pursuant to this Rule, until the Board determines that such is no longer appropriate. A Late Delivering Member also may be subject to fine by the Corporation, if the Corporation determines that such is appropriate in order to promote an orderly settlement process.
Notwithstanding the above, if the Corporation, as the result of a violation by a Clearing Member of the Rules, is obligated to obtain overnight financing for securities, the Clearing Member shall be obligated to pay for, or to reimburse the Corporation for, the entire amount of any financing cost incurred by the Corporation.

Section 6 - Obligation to Receive Securities

If the Corporation has, in accordance with this Rule, delivered Eligible Securities to a Clearing Member with a Pool Net Long Position, such Clearing Member shall be obligated to accept delivery of all such securities at the Settlement Value for the Pool Receive Obligation or Pool Receive Obligations that comprise such Position. If such Clearing Member fails to do so (hereinafter, the "Non-Receiving Member"), it shall be obligated to pay, or to reimburse the Corporation for, all costs, expenses, and charges incurred by the Corporation as the result thereof, and it may be subject to a fine by the Corporation if the Corporation, in its sole discretion, determines that such failure to accept securities was done without good cause.

The Corporation may, but shall have no obligation to, accept receipt, and otherwise shall return, Eligible Securities delivered to it that either are securities that have not been designated by Report to be delivered to the Corporation on such Business Day (hereinafter, the "Exception Securities") or are securities (hereinafter, the "Mispriced Securities") that have been delivered to it at other than the appropriate Settlement Value for the Pool Deliver Obligation or Pool Deliver Obligations composed by such Eligible Securities. If a Clearing Member makes such a delivery to the Corporation (hereinafter, an "Exception Delivery"), such Member shall pay, or reimburse the Corporation, for any costs, expenses, and charges incurred by the Corporation as the result of such Exception Delivery, and such Clearing Member may be subject to fine by the Corporation if the Corporation, in its sole discretion, determines that the Clearing Member (hereinafter, the "Exception Delivering Member") has, on a frequent basis without good cause, made Exception Deliveries to the Corporation.

If the Corporation accepts an Exception Delivery of Exception Securities, the Exception Delivering Member shall be deemed to have loaned such Exception Securities to the Corporation, and such Exception Securities shall constitute a Pool Net Long Position of such Member. The Corporation shall, as soon as practicable, redeliver to such Member a like amount of Eligible Securities with the same CUSIP number, with such redelivery to be made at the Settlement Value of the Pool Receive Obligation or Pool Receive Obligations composed by such Eligible Securities as of the Business Day on which the Exception Delivery was made. If the Corporation accepts an Exception Delivery of Mispriced Securities, an appropriate Clearance Difference Amount adjustment shall be made, pursuant to Rule 11, between the Corporation and the Member that made such Exception Delivery. Until redelivery of such Exception Securities, the Corporation shall have all of the incidents of ownership of the Exception Securities, including both the right to transfer such Exception Securities and the right to pledge, repledge, assign or create a security interest in such Exception Securities to secure financing obtained by the Corporation to receive or carry such Exception Securities or for any other purpose.

Section 7 - Obligation to Facilitate Financing

If the Corporation deems it appropriate, in its sole discretion, in order to obtain financing necessary for the provision of the securities settlement services contemplated by these Rules,
including, without limitation, fail financing of securities positions arising out of the delivery by Clearing Members to the Corporation of Eligible Securities, the Corporation may: (i) create, and each Clearing Member shall not take any action to adversely affect the creation of, such security interests in Eligible Securities in favor of any entity or entities, including any depository institution, from which the Corporation, in its sole discretion, deems it necessary or desirable to obtain and maintain such financing and/or (ii) enter into repurchase Transactions involving Eligible Securities with any Clearing Member or clearing bank, and each Clearing Member shall not take any action to adversely affect such repurchase Transactions. Any such financing obtained by the Corporation may be on terms and conditions deemed necessary or advisable by the Corporation in its sole discretion. Any such security interests or repurchase transaction obligations created by the Corporation in or with respect to any Eligible Securities may be to obtain an amount greater, and may extend for a period of time longer, than the obligation of any Clearing Member to the Corporation relating to such Eligible Securities. Notwithstanding the above, the Corporation shall remain obligated to make delivery to Clearing Members of Eligible Securities under the circumstances and within the timeframes specified in these Rules.

Section 8 - Relationship with Clearing Banks

No improper or unauthorized action, or failure to act, by a clearing bank acting on behalf of a Clearing Member shall excuse or otherwise affect the obligations of a Clearing Member to the Corporation pursuant to these Rules.

Section 9 - Definition of "Good Cause"

As used in this Rule, "good cause" means a causal event or occurrence that the Corporation, in its sole discretion, determines to have been beyond the reasonable control of a Clearing Member; depending upon the specific circumstances, this may include an extended failure of FedWire or the inability of a clearing bank acting on behalf of a Clearing Member or the Corporation to gain access to FedWire.
RULE 10 - NOTIFICATION OF SETTLEMENT

Section 1 – Settlement Obligations

Except as the selling and purchasing Clearing Members in a Trade-for-Trade Transaction may otherwise agree, pools that are not eligible for processing through the Pool Netting system will settle bilaterally with their original allocation counterparty at the Settlement Price established by the Corporation.

For purposes of complying with procedures for notifications, settlements and reclamations specified in the SIFMA Guidelines, the delivering and receiving Clearing Members shall be deemed Dealers.

Section 2 - Notification of Settlement

Upon clearance of a Specified Pool Trade or an SBO Trade or a Trade-for Trade Transaction not novated by the Corporation pursuant to Rule 8 above (including an SBO Trade novated pursuant to Rule 5 and not thereafter novated by the Corporation pursuant to Rule 8 above), and within the timeframes established by the Corporation from time to time, each of the delivering and the receiving Clearing Members shall promptly submit to the Corporation, in the manner specified in the procedures, a Notification of Settlement of the Eligible Securities delivered or received by the Clearing Member.

If the Corporation receives a Notification of Settlement with respect to an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade from both the delivering and the receiving Member and the information submitted by the Members compares within dollar tolerances determined by the Corporation from time to time, either with respect to the entire SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or a portion thereof), the Corporation shall reflect clearance of such SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof) in each Member's Purchase and Sale Report. The SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof with respect to which information compares) will subsequently be deleted from the delivering and the receiving Member's respective Open Commitment Reports.

If the Corporation receives a Notification of Settlement with respect to an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade from both the delivering and the receiving Members but the information submitted by the Members does not compare within dollar tolerances determined by the Corporation pursuant to these Rules or compares only in part, or if only one Member submits a Notification of Settlement, the Corporation shall so indicate in the applicable report distributed to each Member. Until such time as the Member submitting incorrect information submits a correction, or, if only one Member submitted a Notification of Settlement, the information is deleted by that Member or the other Member submits a Notification of Settlement with information that compares, the SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof with respect to which information does not compare) will continue to be reflected on each Member's Open Commitment Report and will remain subject to Required Fund Deposit requirements as computed pursuant to these Rules.
On the last Business Day of each month, in every instance where a Clearing Member’s open TBA Obligation falls below an established par amount threshold (as specified by the Corporation in its procedures or in an Important Notice), the Corporation will mark such trade as fully settled.
RULE 11 – CASH SETTLEMENT

Section 1 – SBO Market Differential

On the established date in the settlement cycle for each Eligible Security, the Corporation will determine whether any Aggregated Account in the Clearing System has a net positive or negative SBO Market Differential. Any net negative SBO Market Differential will be charged against the Member’s Cash Balance for such Aggregated Account on the Contractual Settlement Date, and any net positive SBO Market Differential will be credited to the Member’s Cash Balance for such Aggregated Account on the Contractual Settlement Date. The SBO Market Differential is calculated as follows:

(a) for each of its SBO Netted Positions, the difference (positive or negative) between the FCAPs for its purchases and the FCAPs for its sales; plus or minus

(b) for each of its SBO Net-Out Positions, the difference (positive or negative) between the FCAPs for its purchases and the FCAPs for its sales; plus or minus

(c) for each of its SBO Net Open Positions that is offset by an SBON Trade, the difference (positive or negative) between the Member's FCAP for its purchase or sale transaction originally with the Original Contra-Side Member and the CAP for its SBON Trade.

Section 2 – Net Pool Transaction Adjustment Payment

The Corporation shall compute a Pool Transaction Adjustment Payment for each trade that is eligible for the Pool Netting process as follows.

The Pool Transaction Adjustment Payment shall be an amount equal to the difference between the Pool Net Price that was established during the allocated pool’s Pool Netting process and the compared pools Settlement Price, multiplied by the contractual quantity.

The sum of all Pool Transaction Adjustment Payments that have been calculated for a Member during a given Pool Netting process will constitute such Member’s Net Pool Transaction Adjustment Payment, which can be positive or negative. On the first Business Day that follows the calculation of a Member’s Net Pool Transaction Adjustment Payment, any negative Net Pool Transaction Adjustment Payment will be charged against the Member’s Cash Balance for such Aggregated Account and any positive Net Pool Transaction Adjustment Payment will be credited to the Member’s Cash Balance for such Aggregated Account.

Section 3 - Computation of Cash Balance for Each Account

Each Business Day, the Corporation shall compute a Cash Balance for each applicable Account, which for Clearing Members shall be a net positive or negative amount equal to:
(a) the positive or negative amount of any SBO Market Differential computed for such Account pursuant to Section 1 of this Rule; plus or minus

(b) the positive or negative amount of any Net Pool Transaction Adjustment Payment amount; plus or minus

(c) the positive or negative amount of any Principal and Interest payments required as a result of the clearance of Deliver and Receive Obligations which are not eligible for processing through FedWire (Fail Tracking/Interim Accounting) Securities Service Automated Claims Adjustment Process (ACAP); plus

(d) in the case of a Broker, any commissions that the Corporation, at such intervals as are prescribed by the Corporation from time to time, determines are due the Broker as a result of Transactions effected by the Broker on behalf of purchasing and selling Dealers; or minus

(e) in the case of a Dealer effecting Transactions through a Broker, any commissions that the Corporation, at such intervals as are prescribed by the Corporation from time to time, determines are due the Broker with respect to such Transactions; minus

(f) if applicable, the amount of any charges for services rendered with respect to such Account pursuant to Rule 18; minus

(g) the amount of any fines, billing fees, charges for financing costs or interest imposed by the Corporation or other charges for services rendered by the Corporation, with respect to such Account pursuant to these Rules; or plus

(h) if applicable, the amount of interest payable by the Corporation with respect to such Account pursuant to Section 1 and Section 6 of this Rule; plus or minus

(i) the positive or negative value of any Clearance Difference Amount.

Section 4 - Netting of Cash Balances for Aggregated Accounts

Each Business Day, the Corporation shall net the positive or negative Cash Balance for each Account in an Aggregated Account to produce a single Cash Settlement amount for such Aggregated Account.

Section 5 - Cash Settlement

At such time and in such manner as is specified by the Corporation from time to time, any Member with a net negative Cash Balance for any Aggregated Account shall pay to the Corporation the amount of such negative Cash Balance, and the Corporation shall pay to any Member with a positive Cash Balance for any Aggregated Account the amount of such positive Cash Balance. The payments referred to in the previous sentence shall be done through the Cash Settling Banks pursuant to the following process:
(a) At such time and in such manner as specified by the Corporation from time to
time, the Corporation shall make available to each Member and to the Cash Settling Bank
Member acting on behalf of the Member a Report stating the Cash Settlement amount that is
either to be paid from such Member to the Corporation on the scheduled due date for the
payment of debits or to be collected by such Member on the scheduled due date for the payment
of credits. The Cash Settling Bank Member shall also receive the Cash Settlement amounts of all
of the Members for which it is acting, its Total Debit Cash Balance Figure and its Total Credit
Cash Balance Figure.

(b) By the deadline established by the Corporation as announced in notices issued by
the Corporation, the Cash Settling Banks, without exception, must acknowledge to the
Corporation via the designated terminal system their Total Debit Cash Balance Figures and Total
Credit Cash Balance Figures and (1) their intention to settle with the Corporation such Figures
by the applicable deadlines, or (2) their refusal to settle for one or more particular Members. Notwithstanding the foregoing, a Cash Settling Bank that is a Member and settles solely for its
own account may opt to not acknowledge its Cash Settlement amount.

(c) If the Cash Settling Bank sends refusal messages which result in a revised Total
Debit Cash Balance Figure and/or Total Credit Cash Balance Figure, it must send a message to
the Corporation immediately after the refusal message acknowledging the new amount(s) and its
intention to settle the new Total Debit Cash Balance Figure and/or Total Credit Cash Balance
Figure by the payment deadline.

(d) A Cash Settling Bank that cannot send an acknowledgement or refusal message to
the Corporation due to an operational issue may telephone its instructions to the Corporation’s
Operations area to the number specified in the Corporation’s notices.

(e) A refusal to settle by the Cash Settling Bank for a particular Member is a refusal
to settle all accounts of the Member for which the Cash Settling Bank is acting. The Cash
Settling Bank cannot refuse to settle only some of the accounts of the Member if the Member has
multiple accounts at the Corporation for which the Cash Settling Bank is acting.

(f) If the Cash Settling Bank does not acknowledge, or sends a refusal regarding, the
Member’s Cash Settlement amount that is a debit or if the Bank acknowledges the amount but
then does not settle the payment, the Member shall remain obligated, pursuant to the Rules, to
pay such Cash Settlement amount by the payment deadline and shall do so by causing such
payment to be made to the depository institution designated by the Corporation from time to time
to receive such payment.

(g) A Cash Settling Bank with a Total Debit Cash Balance Figure that has sent an
acknowledgement to the Corporation must settle such amount pursuant to the process set forth
herein by the payment deadline established by the Corporation on the Corporation’s time
schedules posted on its website.

(h) DTC provides the Corporation with services with respect to the Corporation’s
Cash Settlement process as described herein and in accordance with the Rules. DTC will act as
Settlement Agent (as that term is used in the relevant FRB’s Operating Circular 12 and in these
Rules) for the Corporation and for the Corporation’s Cash Settling Banks with respect to the FRB’s NSS, as the means of effecting Cash Settlement.

(i) Cash Settling Banks must settle their Total Debit Cash Balance Figures and their Total Credit Cash Balance Figures via the FRB’s NSS. The Settlement Agent will send a pre-advice to each Cash Settling Bank, notifying it that the Settlement Agent is about to send its NSS transmission to the FRB. NSS will allow the Corporation’s Settlement Agent to instruct the relevant FRB to debit or credit, as applicable, the Cash Settling Bank’s account at the FRB by the requisite amount.

(j) If a Cash Settling Bank is experiencing extenuating circumstances and, as a result, needs to opt out of NSS for one Business Day, the Cash Settling Bank must notify the Corporation’s Operations area prior to the acknowledgement deadline. The Member shall remain obligated, pursuant to the Rules, to pay its Cash Settlement amount that is a debit by the payment deadline and shall do so by causing such payment to be made to the depository institution designated by the Corporation from time to time to receive such payment.

(k) If the Cash Settling Bank’s account at the FRB has insufficient funds, DTC will receive notification from the FRB that the account was not debited. The affected Member(s) must then promptly wire the requisite funds to the depository institution designated by the Corporation for this purpose by the payment deadline.

(l) In the event a Cash Settling Bank fails to settle in the manner and at the time prescribed by the Corporation, due to insolvency or other cause, each Member represented by that Cash Settling Bank shall be obligated to the Corporation for its Cash Settlement amount and such payment must be made by the payment deadline; however, if the Corporation has made payment to the failed Cash Settling Bank the Corporation shall have no obligation to any Member for a Cash Settlement amount that is a credit.

(m) Members must remain at all times in compliance with the Rules, notwithstanding any circumstances related to their Cash Settling Bank or NSS. A Member must at all times be prepared to wire payment to the depository institution designated by the Corporation for this purpose if the Member’s Cash Settlement amount is not satisfied via the NSS process. If the Corporation does not receive a Member’s Cash Settlement amount that is a debit by the payment deadline, the Member shall be subject to the applicable fine and any other disciplinary consequences under these Rules.

(n) Each Cash Settling Bank shall monitor its FRB account to ensure accuracy of debits and credits made through the NSS process.

(o) Under FRB Operating Circular No. 12, FICC’s Settlement Agent has certain processing responsibilities in allocating an indemnity claim made by an FRB as a result of processing the Corporation’s cash settlement via NSS. The Corporation shall apportion the entirety of such liability to the Member or Members for whom the Cash Settling Bank to which the indemnity claim relates was acting. Such liability for each applicable Member shall be in proportion to the amount of such Members’ Cash Settlement amounts on the Business Day in question. If for any reason such allocation is not sufficient to fully satisfy the FRB indemnity.
claim, then the remaining loss shall treated as an “Other Loss” as defined by Rule 4 and allocated accordingly.

(p) No improper or unauthorized action, or failure to act, by a Cash Settling Bank or on behalf of a Member shall excuse or otherwise affect such Member’s obligations to the Corporation pursuant to this Rule.

Section 6 – Failure to Pay

If a Member fails to pay when due its Cash Settlement obligation with respect to any Account or Aggregated Account, the Corporation shall:

(a) impose a fine in such amount as the Corporation may determine, plus interest at a rate determined from time to time by the Corporation; and

(b) charge the amount of the unpaid Cash Settlement obligation against the Member’s deposits to the Clearing Fund or to any Account or Aggregated Account of the Member.
RULE 12 FAILS CHARGE

The Corporation will apply the fails charge described herein to transactions in Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

The fails charge applies to failing Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. If a Clearing Member does not satisfy a pool delivery obligation to the Corporation of Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae on a particular Business Day, the Corporation shall apply a debit charge on the funds amount associated with the Clearing Member’s failed position (the “fails charge”). If a Clearing Member fails to receive a pool delivery obligation from the Corporation of Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae on a particular Business Day, the Corporation shall credit the Clearing Member in the amount of the fails charge.

The fails charge shall be the product of the (i) funds associated with a failed position and (ii) the greater of (a) 0 percent or (b) 2 percent per annum minus the fed funds target rate that is effective at 5 p.m. EST on the preceding business day. The fails charge accrues each calendar day. However, the fails charge will not apply to TBA and pool level round robins (i.e., a circular series of transactions between multiple parties where there is no ultimate long and short position to be settled) if each affected Clearing Member in the round robin provides the Corporation with the required information to resolve the trade.

If fails accrue at a particular fails charge and the fails charge changes, the existing fails will keep the original accrual and new fails will be subject to the new rate. When there is a substitution of the underlying pool, fails charges will be calculated pursuant to the above formula using (in the formula) the fed funds target rate for each day of the substitution period beginning on the contractual Settlement Date.

In the event that the Corporation is the failing party because (i) the Corporation received Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae too near the close of Fedwire for redelivery or for any other reason or (ii) the Corporation received a substitution of a pool delivery obligation of Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae too near the specified cut-off time in the SIFMA 48-Hour Rule for same day redelivery of securities or for any other reason, the fails charge will be distributed pro rata to the Clearing Members based upon usage of the Mortgage-Backed Securities Division’s services.

Each business day, the Corporation shall provide reports reflecting fails charge amounts to Clearing Members and will generate a consolidated monthly report at month end for those Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae that were settled during the month. Clearing Members with a net debit (i.e., the fails charge amounts owed by the Clearing Member exceed the fails charge amounts it is owed) shall be required to pay such net amount in respect of those delivery obligations that have settled the previous month and which are reflected in the previous month’s consolidated month end report by the Class “B” payable date (as established by SIFMA Guidelines) of the month following settlement in conjunction with other cash movements. The fails charge funds received by the Corporation will then be used to pay members with fail net credits.
The Corporation shall not guaranty fails charge proceeds in the event of a default (i.e., if the defaulting Clearing Member does not pay its fails charge, Clearing Members due to receive fails charge proceeds will have those proceeds reduced pro-rata by the defaulting Clearing Member's unpaid amount).

The Board shall have the right, in its sole discretion, to revoke application of the charge if industry events or practices warrant such revocation.
On the expiration or exercise date of any Option Contract as reported to the Corporation as required by these Rules, both the selling and the purchasing Members shall submit a cancellation of the Option Contract to the Corporation and, in the case of exercise, unless both parties to the Option Contract otherwise agree, submit trade input with respect to the purchase or sale of the Eligible Securities subject to such Option Contract in accordance with the provisions of these Rules. Until both Members submit a cancellation, the Corporation shall continue to show the Option Contract on the Members' Open Commitment Reports and shall continue to require Required Fund Deposits with respect thereto as provided in Rule 4, “Clearing Fund and Loss Allocation.”
RULE 14 - RESTRICTIONS ON ACCESS TO SERVICES

Section 1 - Cause for Action by the Corporation

Based upon the judgment of the Board that adequate cause exists to do so, or as otherwise provided for in Rule 3, the Corporation may, at any time, upon providing notice to the Member, suspend a Member from any service provided by the Corporation either with respect to a particular Transaction or Transactions or with respect to Transactions generally, or prohibit or limit such Member with respect to access to services offered by the Corporation in the event that:

(a) the Member has been and is expelled or suspended from any regulatory or self-regulatory organization;

(b) the Member is in default of any delivery of funds or securities to the Corporation;

(c) the Member is in such financial or operating difficulty that the Corporation has determined, in its discretion, that such action is necessary for the protection of the Corporation, its participants, creditors, or investors;

(d) the Member has failed to perform any of its obligations to the Corporation arising under these Rules or under the Corporation’s procedures or has materially violated any Rule or procedure of, or any agreement with, the Corporation;

(e) the Member has failed to make to the Corporation, on a timely basis, any required payment, or deposit or delivery provided for in these Rules or in the Corporation’s procedures, including any fee, fine other charge, and a delivery of securities;

(f) the Board has determined that the Member is no longer in compliance with any provision of (i) the admission standards provided in Rule 2A that would be applicable to it if it were an applicant for membership, including consideration of the disqualification criteria contained in Rule 2A, or (ii) the continuance standards provided in Rule 3 applicable to it, including any operational testing and related reporting requirements and including consideration of the disqualification criteria contained in Rule 2A;

(g) the Board has reasonable grounds to believe that the Member, or its Controlling Management has been responsible for fraudulent or dishonest conduct or breach of fiduciary duty or has made a material misstatement or omitted to state a material fact in any statement to the Corporation or to any officer or employee of the Corporation in connection with its application to become a Member, or thereafter, in connection with any transaction processed or service furnished by the Corporation;

(h) such Member has failed to comply with any financial or operational requirement of the Corporation.
(i) the Board has reasonable grounds to believe that the Member is in or is approaching significant financial or operational difficulty or otherwise will be unable to meet its obligations to the Corporation;

(j) the Corporation has reasonable grounds to believe that such Member is subject to a Statutory Disqualification; or

(k) the Board otherwise has reasonable grounds to believe that such suspension, prohibition or limitation is necessary either for the protection of the Corporation or any of the other Members or to facilitate the orderly and continuous performance of the Corporation's services.

The Board may determine that adequate cause for suspension, prohibition or limitation does not exist, either unconditionally or on an appropriate temporary or other conditional basis, if the Board determines that any standard specified in this Section, as applied to a Member or, its Controlling Management is unduly or disproportionately severe or that the conduct of such Member or its Controlling Management has been such as not to make it against the interests of the Corporation, other Members, or the public for the Corporation to continue to act for such Member.

Section 2 – Restriction on Access or Suspension

Before the Corporation suspends a Member with respect to a particular Transaction or Transactions or prohibits or limits such Member’s access to services offered by the Corporation pursuant to this Rule, the Corporation shall notify such Member as soon as practicable that it has taken such action, and such notice shall set forth the specific grounds under consideration upon which any suspension, prohibition or limitation of access may be based and shall contain notice to the Member of its right to request a hearing, pursuant to Rule 28, “Hearing Procedures.” Any such hearing requested pursuant to Rule 28 shall be held as promptly as possible after such statement is furnished. If the Corporation takes any action pursuant to this Section, it shall notify the SEC as soon as practicable.

Section 3 – Summary Suspension

Notwithstanding Section 2 of this Rule, the Board may summarily suspend a Member with respect to a particular transaction(s) or Transactions generally or summarily prohibit or a limit a Member’s access to services offered by the Corporation in the event that the Member meets one or more of the criteria in (a), (b) or (c) of Section 1 of this Rule and the Corporation determines, in its discretion, that such action is necessary for the protection of the Corporation or its members.

In the event that any Member has been summarily suspended, the Corporation may cease to act for such Member in accordance with Rule 17, except as otherwise provided by these Rules. Any summary action which may be taken by the Board pursuant to this Section may instead be taken by one or more designees of the Board in the event that a quorum of the Board is unable to meet, provided that any summary action taken by one or more designees must be confirmed by the Board within 3 business days.
Any Member that has been summarily suspended or whose access has been summarily prohibited or limited pursuant to this Section shall be promptly furnished a written statement of the grounds for the decision and shall be notified of its right to request a hearing pursuant to Rule 28, except that the request for a hearing must be in writing and filed within 2 business days of receipt from the Corporation of such statement. Any such hearing requested pursuant to Rule 28 shall be held as promptly as possible after the Corporation has taken summary action against the Member pursuant to this Rule.

Section 4 - Action by the Corporation

Any action taken by the Corporation pursuant to this Rule may include, but shall not be limited to, any one or more of the following actions:

(a) ceasing to act for the Member pursuant to Rule 17;
(b) limiting or excluding the Member’s participation in one or more Transactions or services which are available to the Member.

Section 5 - Rights and Remedies

After the Corporation has taken action pursuant to this Rule with respect to a Member with respect to either a particular Transaction or Transactions generally, the Corporation shall nevertheless have the same rights and remedies in respect of any monies or securities due from such Member, or any liability incurred as the result of such Member's action, or on behalf of such Member, as though the Corporation had not taken such action.

Section 6 - Report of Actions

A written report of any actions taken by the Corporation pursuant to this Rule, and the reasons therefore, shall be promptly made and filed with the SEC and with the Corporation's records.
RULE 15 – WIND-DOWN OF A MEMBER

When a Member notifies the Corporation that it intends to wind down its activities, the Corporation may, in its sole discretion, in order to protect itself and its participants, determine that such Member is a “Wind-Down Member”. In that event and, without limiting any other rights of the Corporation under these Rules and the Corporation’s procedures, the Corporation may impose conditions on, or take actions with respect to, the Wind-Down Member as provided below.

As soon as practicable after the Corporation determines that a Member is a Wind-Down Member, the Corporation shall notify the Wind-Down Member, all other Members and the SEC of such determination.

The Corporation may, in its discretion, impose conditions on, or take actions with respect to, the Wind-Down Member as appropriate to mitigate risk the Corporation perceives may be presented by the Wind-Down Member, including but not limited to, the following:

(i) Permitting the Wind-Down Member to submit to the Corporation only transactions that serve to support the wind-down;

(ii) Permitting the Wind-Down Member to continue use of one or more of the Corporation’s services, notwithstanding that it may not meet some or all of the financial or operational requirements for continuance as a Member;

(iii) Restricting or modifying the Wind-Down Member’s use of any or all of the Corporation’s services (whether generally, or with respect to certain Transactions);

(iv) Requiring additional assurances of the financial responsibility or operational capability of the Wind-Down Member through, for example, submission of a guaranty of the Wind-Down Member’s obligations to the Corporation by an entity acceptable to the Corporation and/or additional reporting by the Wind-Down Member;

(v) Agreeing to complete one or more trades to which the Wind-Down Member is a party prior to the time the Corporation’s guaranty otherwise would become effective pursuant to these Rules;

(vi) Requiring the Wind-Down Member to post increased Clearing Fund deposits and/or to post its Clearing Fund deposit in proportions of cash, Eligible Securities and Eligible Letters of Credit different from those permitted under Rule 4;

(vii) Prohibiting the Wind-Down Member from withdrawing Clearing Fund on deposit in excess of its Total Required Fund Deposit; or

(viii) Calculating the Total Required Fund Deposit of the Wind-Down Member in a manner different from that provided in Rule 4, in order to more appropriately reflect the
risk presented by the Wind-Down Member to the Corporation, such as, for example, not applying certain components of the calculation; or

(ix) Liquidating by buying-in or selling-out, as applicable, any open positions of the Wind-Down Member, for the benefit of such Wind-Down Member with any profit or loss resulting therefrom being debited or credited, as applicable, to the settlement account of the Wind-Down Member.

If the Corporation takes, or mandates, any action pursuant to this Rule, the Corporation shall, as soon as practicable thereafter, notify the SEC and such other Members as it deems proper due to the nature of such action, and shall inform Members as to whether the Corporation shall relieve Members from the loss allocation obligations of Section 7 of Rule 4 with respect to Transactions that Members enter into with the Wind-Down Member.

Notwithstanding the foregoing, the Corporation shall not be restricted from exercising any of its rights in these Rules or in any agreements between itself and the Member at any time, including the Corporation’s right at any time to cease to act for the Wind-Down Member pursuant to these Rules.

Otherwise than pursuant to these Rules, no Member shall act to modify its obligations under Transactions with the Wind-Down member.
RULE 16 - INSOLVENCY OF A MEMBER

Section 1 - Obligation to Inform of Insolvency

A Member that (a) fails to perform any of its material contracts, obligations or agreements, (b) determines that it will be unable to perform any of its material contracts, obligations or agreements or (c) is insolvent, shall immediately notify the Corporation orally and in writing of such. Until a Member has so notified the Corporation, the Member, by submitting to the Corporation trade data with regard to Transactions to which such Member is a party, shall be deemed to represent and warrant that it is able to perform, and has not failed to perform, its material contracts and obligations, and is not insolvent.

Section 2 - Determination of Insolvency

A Member shall be treated by the Corporation in all respects as insolvent:

(i) upon receipt of the notice specified in Section 1 of this Rule, provided, however, that a Member may not be treated as insolvent in the event such Member (without being deemed to have admitted its liability thereunder) provides or posts a bond, indemnity, or guaranty from a third party that the Board, in its sole discretion, deems satisfactory to ensure the performance of the Member's obligations;

(ii) in the event that the Member is determined to be insolvent by the Board, or by any Designated Examining Authority, Appropriate Regulatory Agency, or other examining authority or regulator with jurisdiction over such Member or any Self-Regulatory Organization or other self-regulatory organization that such Member is a member of;

(iii) if the Member is a member of the Securities Investor Protection Corporation, in the event that a court of competent jurisdiction finds that the Member meets any one of the conditions set forth in clauses (A), (B), (C), or (D) of Section 5(b)(1) of the Securities Investor Protection Act of 1970;

(iv) in the event of the entry or the making of a decree or order by a court, regulator or other supervisory authority of competent jurisdiction (A) adjudging the Member as bankrupt or insolvent, (B) approving as properly filed a petition seeking reorganization, arrangement, liquidation, dissolution, adjustment or composition of or in respect of the Member under the Bankruptcy Code or any other applicable Federal, State or other U.S. or non-U.S. law, including any bankruptcy, insolvency, reorganization, liquidation, dissolution, or similar law, (C) appointing a receiver, custodian, liquidator, provisional liquidator, administrator, provisional administrator, assignee, trustee, sequestrator (or other similar official) for the Member or for any substantial part of its property, (D)
ordering the winding up or liquidation of its affairs, or (E) consenting to the institution by the Member of proceedings to be adjudicated as a bankrupt or insolvent; or

(v) in the event of the filing by the Member of a petition, or any case or proceeding, seeking reorganization or relief under the Bankruptcy Code or any other applicable Federal, State or other U.S. or non-U.S. law, including any bankruptcy, insolvency, reorganization, liquidation, dissolution, or similar law, or the consent by the Member to the filing of any such petition, case or proceeding or to the appointment of a receiver, custodian, liquidator, assignee, trustee, sequestrator or other similar official for the Member or for any substantial part of its property, or the making by the Member of an assignment for the benefit of its creditors, or the admission by the Member in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Member in furtherance of any such action.

Section 3 – Ceasing to Act for the Member

Except as otherwise may be determined by the Board in any particular case, from and after the time the Corporation ceases to act for a Member, the following shall apply:

Otherwise than pursuant to these Rules, no Member shall act to modify its obligations under Transactions with the insolvent Member.
RULE 17 – PROCEDURES FOR WHEN THE CORPORATION CEASES TO ACT

Section 1 – Notification

When the Corporation has ceased to act for a Member, it shall provide Members and the SEC with notice stating the Corporation’s decision to cease to act for the Member. The Corporation may provide in such notice or a subsequent notice the steps to be taken as well as how Transactions shall be affected.

Section 2 – Action by the Corporation – Close-Out Procedure

Except as otherwise may be determined by the Board in any particular case, from and after the time the Corporation ceases to act for a Member, the following shall apply:

(a) Notwithstanding anything to the contrary in these Rules, trades to which the Member is a party the data on which have been submitted to the Corporation that have not been deemed Fully Compared or Partially Compared upon receipt by the Corporation pursuant to these Rules or that have not been reported by the Corporation to Members as Fully Compared or Partially Compared, shall not be part of the close out process described in this Section 2, unless otherwise determined by the Corporation in order to promote an orderly settlement.

(b) Not later than the time specified by the Corporation in its procedures or in an Important Notice, all Clearing Members that have open settlement obligations pursuant to these Rules with the Defaulting Member as settlement counterparty shall be required to submit Notifications of Settlement with respect to such obligations that have in fact been settled but for which the Corporation has not yet been provided with Notifications of Settlement. Except for loss allocations against Members in accordance with Section 7 of Rule 4, a Member that follows the foregoing procedures shall not have any liability to the Corporation with respect to such settlement obligations.

(c) In the event that the Member’s counterparty to any transaction is a Broker, the following shall apply:

(i) If the transaction is Fully Compared, the Dealers on whose behalf the Broker was acting shall be substituted for such Broker.

(ii) If the transaction is Partially Compared:

(A) the Dealer with respect to which the transaction has compared shall be responsible for the transaction;

(B) if the Dealer with respect to which the transaction has not compared has not submitted a DK of the transaction as reflected on its Unmatched Margin Report, such Dealer shall likewise be responsible for the transaction; and
(C) if the Dealer with respect to which the transaction has not compared has submitted a DK of the transaction as reflected on its Unmatched Margin Report, the Broker shall be treated for all purposes as a principal in such transaction in accordance with these Rules.

(d) All long and short settlement obligations of the Member, with the exception of those obligations associated with Option Contracts, outstanding at the time the Corporation ceases to act for the Member that have been reported by the Corporation to Members pursuant to these Rules shall be assumed by the Corporation and closed out by (i) for each Eligible Security with a distinct CUSIP Number, establishing a final net settlement obligation (hereinafter, the "Final Net Settlement Obligation") that shall be equal to the net of all outstanding deliver and receive obligations of the Member in each Security, and (ii) buying, borrowing, or reversing in or selling, lending or repoing out the Securities deliverable by or to such insolvent Member, and/or borrowing or lending monies, in order to close out the Final Net Settlement Obligations established for each Security. Pool Net Deliver and Receive Obligations may be disposed of based upon the generic terms of the underlying TBA transaction from which the obligation was created.

(e) With respect to the disposition of Option Contracts, those that are deemed by the Corporation to be “out of the money” will be canceled; those deemed by the Corporation to be “in the money” shall be settled in cash based upon the difference between the last System Price at the time the Corporation ceases to act for the Member and the Strike Price.

(f) Specified Pool Trades may be disposed of as if they did not contain a specified pool (i.e., the Trade will be disposed of based on its generic trade terms such as agency, product, coupon rate and maturity).

(g) Trade-for-Trade Transactions may be disposed of based upon their generic terms (i.e., agency, product, coupon rate and maturity).

This close-out procedure shall be completed as promptly as practicable after the Corporation has given notice pursuant to Section 1 of this Rule of the Corporation’s determination to cease to act, unless the Board determines that the immediate close out of Obligations in a security may be disadvantageous to the Corporation or may promote a disorderly market in that security, in which case the Corporation may suspend the operation of this close-out provision until such later time as is determined by the Board, except that the Board may not suspend the operation of such close-out procedure for a period longer than 30 calendar days without the approval of such by the SEC. If, in the aggregate, the close-out of all of the Final Net Settlement Obligations established for a Member results in the Corporation incurring any loss or liability, such loss or liability shall be allocated as provided in Rule 4. If, in the aggregate, the close-out of all of the Final Net Settlement Obligations established for a Member results in a profit to the Corporation (after the Corporation has fulfilled its obligations under any Cross-Guaranty Agreements), such profit shall be credited to the Member, or to a duly-appointed legal representative of the Member.
Subsequent to the close-out of a Member’s Positions, the Corporation shall in accordance with these Rules, ensure the settlement of all obligations that would have arisen had the Corporation not ceased to act, in accordance with the terms of the Transactions that comprise such obligations, subject to the provisions of this Section 2.

If the Corporation takes any action pursuant to this Section, it shall promptly notify the SEC.

Section 2a. Capped Contingency Liquidity Facility

(a) In order to finance the Corporation’s obligations in respect of certain Pool Deliver Obligations in accordance with paragraph (b) below, the September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (without the referenced annexes, other than in the case of any Clearing 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 Clearing Member, as Buyer (the “CCLF MRA”); provided that, notwithstanding anything else set forth in the CCLF MRA: (i) Transactions (as defined in the CCLF 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 (as defined in the CCLF MRA) shall be transferred in accordance with procedures set forth by the Corporation in its sole discretion, (iv) any and all notices, statements, demands or other communications under the CCLF MRA shall be given by a party to the other in accordance with the notice provisions set forth in the Rules, (v) so long as the Clearing Member is a Member of the Corporation, the CCLF MRA may only be terminated by the Corporation, (vi) Section 19(a) of the CCLF MRA shall be amended by adding at the end thereof 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” and (vii) Section 19(b) of the CCLF MRA shall be amended by adding at the end thereof before the period “, and a right to terminate, liquidate or accelerate as described in Section 5390(c)(8)(A) and (C) of Title 12 of the United States Code, as amended”.

(b) Once the Corporation has ceased to act for a Clearing Member pursuant to Rule 17 and determined, in its sole discretion, that the procedures below are necessary to address certain of the Corporation’s liquidity needs, the Corporation may declare a Capped Contingency Liquidity Facility Event (a “CCLF Event”). Upon the Corporation’s declaration of a CCLF Event, the following shall occur:

(i) The Corporation shall issue an Important Notice to all Clearing Members informing them of the CCLF Event with respect to the Defaulting Member and advising Clearing Members to review their most recent funding liquidity reports to determine their respective maximum funding obligations;

(ii) The Corporation shall determine (x) which Clearing Members had Pool Deliver Obligations to the Corporation that were destined for the Defaulting Member (each such Clearing Member, an “Affected Member”) and (y) the obligations of the Corporation to such Affected Member in respect of which the Corporation needs financing (such Affected Member’s “Financing Amount”);
(iii) The Corporation shall notify each Affected Member of the amount and description of the Eligible Securities to which the Corporation’s Financing Amount relates (such Affected Member’s “Financed Securities”) and whether such Affected Member is to deliver any such Financed Securities to the Corporation;

(iv) The Corporation shall initiate repurchase transactions under the terms and conditions of the CCLF MRA with each Affected Member having a purchase price equal to such Affected Member’s Financing Amount, but in no event in excess of such Affected Member’s Defined Capped Liquidity Amount (each such repurchase transaction, a “Transaction” (as defined in the CCLF MRA));

(v) If an Affected Member’s Financing Amount would exceed its Defined Capped Liquidity Amount (such Affected Member’s remaining amount, its “Remaining Financing Amount”), the Corporation will seek to fund such Affected Member’s Remaining Financing Amount through the Corporation’s Clearing Fund cash deposits. In the event that the Corporation’s Clearing Fund cash deposits are not sufficient to cover the Remaining Financing Amount, the Corporation will advise (A) all other Affected Members whose Financing Amount is less than their Defined Capped Liquidity Amount, and (B) all other Clearing Members that have not otherwise entered into repurchase transactions with the Corporation in connection with CCLF Events exceeding their Defined Capped Liquidity Amount, except in each case, for Clearing Members referenced in subsection (c)(ii) below, of the existence and amount of such Remaining Financing Amount. The Corporation shall initiate Transactions under the terms and conditions of the CCLF MRA with each Clearing Member described in subclauses (A) and (B) above with a purchase price equal to all or a portion of the Remaining Financing Amount, but in no event in excess of such Clearing Member’s Defined Capped Liquidity Amount (after taking account all Transactions in connection with any and all existing CCLF Events). The Corporation shall allocate the Remaining Financing Amount and initiate Transactions among the Clearing Members described in subclauses (A) and (B) above in accordance with such procedures as the Corporation in its sole discretion shall determine and which shall be designed to mitigate any disruption caused by the declaration of the CCLF Event;

(vi) Each Transaction initiated by the Corporation pursuant to paragraphs (iv) and (v) of this Rule shall remain open until such time that the Corporation has entered into an agreement for the liquidation of the Financed Securities (a “Liquidating Trade”); and

(vii) Upon the Corporation’s execution of the Liquidating Trade, the Corporation shall notify each Clearing Member party to a Transaction initiated by the Corporation pursuant to paragraphs (iv) and (v) of this Rule of the Corporation’s termination of such Transaction and shall instruct each such Clearing Member to deliver the related securities to the Corporation in order to complete settlement on the contractual settlement date of the Liquidating Trade.
All Delivery Obligations in respect of Financed Securities shall be deemed satisfied by operation of this Rule and settlement of any original transaction between the Corporation and any Affected Member shall be final notwithstanding that the Financed Securities are not required to be delivered to the Corporation in connection with such original transaction by the Affected Member who is a buyer in a repurchase transaction (such delivery being netted against delivery to the buyer under the CCLF MRA).

(c) For purposes of this Section, “Defined Capped Liquidity Amount” is the maximum amount that a Clearing Member shall be required to fund during a CCLF Event. The Defined Capped Liquidity Amount will be established as follows:

(i) For those Clearing Members that are eligible for and that have established borrowing privileges at the Federal Reserve Discount Window or for those Clearing Members who have an affiliate that is eligible for and has established borrowing privileges at the Federal Reserve Discount Window, the Corporation will conduct a study every six (6) months, or such other time period that the Corporation shall determine from time to time as specified in Important Notices to its Members, to determine each Clearing Member’s largest liquidity requirement for the applicable time period based on a Clearing Member’s sell positions versus other Clearing Members at the family level on a bilateral net basis within a TBA CUSIP. Based on the overall study, the Corporation will define an adjustable percentage as determined by the Corporation from time to time as specified in Important Notices to its Members and multiply that percentage amount against the maximum amount to establish each Clearing Member’s Defined Capped Liquidity Amount; and

(ii) For those Clearing Members that are ineligible for or have not established borrowing privileges at the Federal Reserve Discount Window and do not have an affiliate that is eligible for or has established borrowing privileges at the Federal Reserve Discount Window, the Corporation will conduct a study every month, or such other time period that the Corporation shall determine from time to time as specified in Important Notices to its Members, to determine each Clearing Member’s largest liquidity requirement for the applicable time period based on a Clearing Member’s sell positions versus other Clearing Members at the family level on a bilateral net basis within a TBA CUSIP. The Clearing Member’s largest liquidity requirement for the past month, adjusted in each case of a CCLF Event to be no greater than the actual Pool Delivery Obligation to the Defaulted Member, will represent the Clearing Member’s Defined Capped Liquidity Amount. Clearing Members in this category will not be required to finance any Remaining Financing Amount as described in subsection (b)(v) above.

Section 3 - Report of Actions

A written report of the actions taken by the Corporation pursuant to this Rule, and the reasons therefore, shall be promptly made and filed with the SEC and with the Corporation's records.
RULE 17A – CORPORATION DEFAULT

(a) If a "Corporation Default" occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated and the Board shall determine a single net amount owed by or to each Member with respect to such Transactions by applying the close out and application procedures in Section 2 of Rule 17 and Section 7 of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member) taking into account the other provisions in these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member. For purposes of this Rule 17A and notwithstanding any other provision to the contrary, Novation is deemed to occur and Pool Deliver Obligations and Pool Receive Obligations established with respect to all Transactions, whether or not such Transactions are SBO-Destined Trades, at the time at which the data submitted in respect of such Transactions are compared and such Transactions constitute Compared Trades. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members’ and any other creditors’ claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. Nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Government Securities Division or any other Cross-Guaranty Counterparty.

(b) Notwithstanding anything to the contrary in the Rules, the following events shall constitute a Corporation Default:

(i) Failure by the Corporation to make, when due, any undisputed payment or delivery to a Member required to be made by it under these Rules and such failure is not remedied within 7 days after notice of such failure is given to the Corporation by the affected Member; provided that this clause (i) shall not apply to (A) obligations of the Corporation to Wind-Down Members, Defaulting Members or Members for whom the Corporation has otherwise ceased to act pursuant to Rule 17, (B) any payment or delivery which the Corporation satisfies by alternate means as provided in these Rules, or (C) any obligation of the Corporation that is not a payment or delivery obligation of the Mortgage-Backed Securities Division to a Member under these Rules; or

(ii) The Corporation (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (B) institutes a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or presents a petition for its winding-up or liquidation or makes a general assignment for the benefit of creditors; (C) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation and, in each case, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the
making of an order for its winding-up or liquidation; or (D) seeks or becomes subject to the appointment of a receiver, trustee, or other similar official pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act for it or for all or substantially all its assets.

(c) Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991:

The Corporation and the Clearing Members intend that these Rules be interpreted in relation to certain terms (identified below) that are defined in the Federal Deposit Insurance Corporation Act of 1991 (“FDICIA”), as amended, as follows:

The Mortgage-Backed Securities Division of the Corporation is a “clearing organization”;

Any obligation of a Clearing Member or the Corporation to make any payments to the other is a “covered clearing obligation” and a “covered contractual payment obligation”;

An entitlement of a Clearing Member or the Corporation to receive a payment from the other is a “covered contractual payment entitlement”;

The Corporation and each Member is a “member” of the “clearing organization”;

The amount by which the covered contractual payment entitlements of a Clearing Member or the Corporation exceed the covered contractual payment obligations of such Member or the Corporation after netting pursuant to Rule 17 or this Rule 17A is its “net entitlement”;

The amount by which the covered contractual payment obligations of a Clearing Member or the Corporation exceed the covered contractual payment entitlements of such Member or the Corporation after netting under a netting pursuant to Rule 17 or this Rule 17A is its “net obligation”; and

These Rules, together with all other agreements between the Corporation and a Clearing Member, are a “netting contract”, the margin, Clearing Fund and other provisions of these Rules granting an interest in any funds or property of a member to the Corporation constitute a “security agreement or arrangement or other credit enhancement” relating to such netting contract and the close-out process in Rule 17 or this Rule 17A constitutes the “termination, liquidation, acceleration, and netting” of obligations.
RULE 18 - CHARGES FOR SERVICES RENDERED

Section 1

Members shall pay such fees and charges to the Corporation as shall be specified by the Corporation and approved by the Board of Directors on a reasonable and non-discriminatory basis.

Section 2

A Member may be charged for any unusual expenses caused directly or indirectly by such Member, including but without limitation, the cost of producing records pursuant to a court order or other legal process in any litigation or other legal proceeding to which such Member is a party or in which such records relating to such Member are so required to be produced, whether such production is required at the instance of such Member, or of any other party other than the Corporation.
RULE 19 - BILLS RENDERED

Pursuant to such timeframes that the Corporation shall set forth from time to time, the Corporation will render bills to Members which may reflect adjustments to prior bills, for charges on account of the actual business of a prior month, and for fines imposed during any month. Unless otherwise permitted by the Corporation, for each Member, payment of such bill is due upon its receipt, and each Member shall be obligated to pay the amount of the bill in accordance with timeframes set forth by the Corporation as a part of satisfying its Cash Settlement obligation.
RULE 20 - ADMISSION TO PREMISES OF THE CORPORATION, POWERS OF ATTORNEY, ETC.

No person will be permitted to enter the premises of the Corporation as the representative of any Member unless he has first been approved by the Corporation and has been issued such credentials as the Corporation may from time to time prescribe and such credentials have not been canceled or revoked. Such credentials must be shown on demand, and may limit the portions of the premises to which access is permitted thereunder. Any credentials issued pursuant to this Rule may be revoked at any time by the Corporation in its discretion, and prompt notice of such revocation shall be given to the employer of the person whose credentials have been so revoked.

Any Member shall, if any person in its employ to whom any credentials have been issued pursuant to this Rule or to whom a power of attorney or other authorization has been given to act for it in connection with the work of the Corporation shall for any reason cease to be so employed, give to the Corporation immediate notice in writing of such termination of employment and if any such power of attorney or other authorization is otherwise revoked or canceled, shall likewise give to the Corporation immediate notice in writing of such revocation or cancellation. All credentials issued pursuant to this Rule shall be immediately surrendered to the Corporation upon their revocation by the Corporation or by the employer or upon the termination of the employment of the holder thereof.

Unless revoked by the Corporation, all credentials, authorizations, and powers of attorney issued pursuant to this Rule or in connection with the work of the Corporation shall remain in full force and effect until the Corporation shall have received written notice of the revocation thereof or of the termination of the holder's employment.
RULE 21 - FORMS

In connection with any Transactions or matters handled through, with or by the Corporation under or pursuant to the Rules, such forms of lists, notices and other documents shall be used as the Corporation may from time to time prescribe, and additions to, changes in and elimination of any such forms may be made by the Corporation at any time in its discretion. In addition, any information required to be delivered to the Corporation by use of any such forms may be delivered by the use of any media as shall be prescribed by the Corporation from time to time.
RULE 22 - RELEASE OF CLEARING DATA

(a) Absent valid legal process or as provided elsewhere in this Rule, the Corporation will only release Clearing Data relating to Transactions of a particular Member to: (i) such Member, (ii) the Securities and Exchange Commission, or the FRB for market surveillance purposes.

(b) The Corporation, in its sole discretion, may release Clearing Data relating to Transactions of Members to regulatory organizations and self-regulatory organizations, as defined in the Securities Exchange Act of 1934, as amended, or other comparable Federal or State statutes, as well as to Clearing Organizations affiliated with or designated by contract markets trading specific futures products under the oversight of the Commodity Futures Trading Commission. Provided, however, that nothing in this Rule shall prevent the Corporation from releasing Clearing Data to others, provided that such data shall be in a form as to prevent the disclosure, whether patently or in easily discernible format, of proprietary and/or confidential financial, operational or trading data of a particular Member or inappropriately arranged groups of Members.

(c) With respect to the foregoing, the release of any Clearing Data shall be conditioned upon either (i) a written request, or (ii) the execution of a written agreement with the Corporation, whichever is appropriate in the Corporation's discretion and the Corporation, in its discretion, shall establish the conditions under which such data shall be released and the fees, if any, to be paid for such data.

(d) The term "Clearing Data" shall mean, for the purposes of this Rule, transaction data which is received by the Corporation in the clearance and/or settlement processes of the Corporation, or such data, reports or summaries thereof, which may be produced as a result of processing such transaction data.

(e) The foregoing notwithstanding, this Rule is not intended to, nor shall it be deemed to be in contravention, or a limitation, of the Corporation's obligations, as a self-regulatory organization, to cooperate and share data with other regulatory and self-regulatory organizations for regulatory purposes.

(f) Notwithstanding anything to the contrary in this Rule, the Corporation may release Clearing Data to The Securities Industry and Financial Markets Association in connection with its collection fees on behalf of The Securities Industry and Financial Markets Association pursuant to these Rules, provided that the Corporation: (1) provides Clearing Data only to the extent necessary to facilitate the collection of fees on behalf of The Securities Industry and Financial Markets Association, and (2) obtains, in a form and manner required by the Corporation, the agreement of The Securities Industry and Financial Markets Association to maintain the confidentiality of any Clearing Data provided by the Corporation to it.
RULE 23 - LISTS TO BE MAINTAINED

The Corporation shall maintain a list of all Members, which list shall be made available to a Member upon request.
RULE 24 - SIGNATURES

The Corporation may, at its option, in lieu of relying on an original signature, rely on a signature as if it were (and the signature shall be considered and have the same effect as) a valid and binding original signature in the following circumstances: if such signature is transmitted, recorded or stored by any electronic, optical, or similar means (including but not limited to telecopy, imaging, xeroxing, electronic mail, electronic data interchange, telegram, or telex).
RULE 25 - INSURANCE

The Corporation shall use its best efforts to maintain, or arrange for the maintenance by the Corporation of such insurance, including fidelity bonds, in such amounts and having such coverage regarding the business of the Corporation, as the Board shall deem appropriate. The insurance policies or contracts pursuant to which such insurance is provided shall be open to the inspection of the Members at the offices of the Corporation during regular business hours on Business Days. If the Corporation shall materially reduce the amount or coverage of any such insurance or the persons providing such insurance shall notify the Corporation of a material reduction in the amount of coverage thereof, the Corporation shall promptly notify each Member and the SEC thereof stating the effective date of such reduction.
Section 1 – Financial Reports

As soon as practicable after the end of each calendar year, the Corporation shall provide to Members financial statements of the Corporation\(^2\) audited and covered by a report prepared by independent public accountants for such calendar year. The Corporation shall undertake to provide such financial statements and report to Members within 60 days following the close of the Corporation’s fiscal year. The Corporation’s financial statements will be prepared in accordance with Generally Accepted Accounting Principles and will include the following:

(a) balance of the Clearing Fund and the breakdown of the Clearing Fund balance between the various forms of contributions to the Clearing Fund (i.e., cash and secured open account indebtedness);

(b) types and amounts of investments made of the cash balance;

(c) the amount, if any, charged to the Clearing Fund during the year in excess of a defaulting Member’s Clearing Fund contribution; and

(d) any other charge to the Clearing Fund during the year not directly related and chargeable to a specific participant’s Fund contribution.

The Corporation shall also provide to Members unaudited financial statements of the Corporation within 30 days following the close of the Corporation’s fiscal quarter for each of the first three calendar quarters of each calendar year. Unaudited financial statements for the Corporation’s fourth quarter of each calendar year will be provided to Members within 60 days following the close of the Corporation’s fiscal year. Quarterly financial statements will at the minimum consist of:

(a) a statement of financial position as of the end of the most recent fiscal quarter and as of the end of the corresponding period of the preceding fiscal year;

(b) a statement of cash flows for the period between the end of the last fiscal year and the end of the most recent fiscal quarter and for the corresponding period of the preceding fiscal year; and

(c) a statement of results of operations, which may be condensed, for the most recent fiscal quarter and for the period between the end of the last fiscal year and the end of the most recent fiscal quarter and for the corresponding periods of the preceding fiscal year.

\(^2\) The Corporation’s financial statements will be unconsolidated with any other entity, including DTCC.
Section 2 - Internal Accounting Control Reports

A study and evaluation of the Corporation’s system of internal accounting control with respect to the safeguarding of participants’ assets, prompt and accurate clearance and settlement of securities transactions, and the reliability of related records shall be conducted annually by independent public accountants. Such study and evaluation shall be conducted in accordance with the standards established by the American Institute of Certified Public Accountants and shall be made available to all Members within a reasonable time upon receipt from the Corporation’s independent accountants.
RULE 27 - RULE CHANGES

The Corporation shall promptly notify all Members of any proposal it has made to change, revise, add or repeal any Rule, and of the text or a brief description of the proposed Rule and its purpose and effect. Members may submit to the Corporation for its consideration their comments with respect to any such proposal and such comments shall be filed with the Corporation's records and copies thereof delivered to the SEC.
RULE 28 - HEARING PROCEDURES

Section 1 - General

An Interested Person may, when permitted by these Rules, request a hearing pursuant to Section 2 or Section 3 of this rule, as applicable, by filing with the Secretary of the Corporation, within five Business Days from the date on which the Corporation informed it of an action or proposed action of the Corporation with respect to the Interested Person a written request for a hearing setting forth (a) the action or proposed action of the Corporation with respect to which the hearing is requested and (b) the name of the representative of the Interested Person who may be contacted with respect to the hearing. Within seven Business Days after the Interested Person files such written request with the Corporation, or two Business Days in the case of action taken against the Interested Person pursuant to Rule 14, “Restrictions on Access to Services,” or Rule 17, “Procedures for When the Corporation Ceases to Act,” the Interested Person shall submit to the Corporation a clear and concise written statement setting forth with particularity the action or proposed action of the Corporation with respect to which the hearing is requested, the basis for objection to such action, whether the Interested Person intends to attend the hearing and whether the Interested Person chooses to be represented by counsel at the hearing. If the written statement contests the Corporation’s determination that the Interested Person has violated a Rule or procedure, the statement must specifically admit or deny each violation alleged and detail the reasons why the Rules or procedures alleged to have been violated are being contested. Any alleged violation not specifically denied shall constitute an admission to that violation. The Corporation may deny the statement if it fails to set forth a prima facie basis for contesting the violation. The failure of the Interested Person to file the written request referred to above within the time period required by these Rules and/or the failure of the Interested Person to submit the written statement within the time period specified above will be deemed to be an election to waive the right to a hearing. The Corporation shall notify the Interested Person in writing of the date, place and hour of the hearing at least five Business Days prior to the hearing (unless the parties agree to waive the five Business Day requirement).

If the Corporation has assessed a fine against a Member, and an Interested Person desires to dispute the fine and complies with the requirements described above regarding filing a written request for a hearing and a written statement, the Corporation shall automatically conduct a review of the disputed fine. The Corporation may examine the written statement submitted by the Interested Person and/or arrange a meeting with the Interested Person to discuss the disputed fine. If the Corporation determines to waive the fine, it shall inform the Board of its determination and its reasons thereof. The Board may, in its discretion, determine to reinstate any fine waived by the Corporation. If the Corporation determines not to waive the fine as a result of the review process, the Interested Person shall be entitled to a hearing before a panel of the relevant committee of the Board pursuant to Section 2 or Section 3 of this Rule. The Corporation shall advise the Interested Person of the result of the review process.
Section 2 - Minor Rule Violations

A hearing requested in connection with a violation of the Rules of the Corporation for which a fine may be assessed against the Interested Person in an amount not to exceed $5,000 (a “Minor Rule Violation”), shall be held before a panel of three officers of the Corporation (a “Minor Violation Panel”). The members of the Minor Violation Panel shall select one of their numbers to be the chairman, and the chairman shall be the person in charge of the conduct of the hearing. At the hearing, an officer of the Corporation shall present the case against the Interested Person. The Interested Person shall have an opportunity to be heard and may be represented by counsel. A record shall be kept of the hearing and the costs associated with the hearing may, in the discretion of the Corporation, be charged in whole or in part to the Interested Person if the decision is adverse to the Interested Person. The Minor Violation Panel shall provide the Interested Person with a written statement of its decision no later than 10 business days after the conclusion of the hearing. If the decision of the Minor Violation Panel is adverse to the Interested Person, the Interested Person may request a further hearing under Section 3 of this Rule by filing a written request with the Secretary of the Corporation within five Business Days of receipt of such written statement. The Corporation shall notify the Interested Person of the date, time and place of the hearing at least five business days prior to the hearing. The failure of the Interested Person to submit the written request within the required time period shall be deemed an election to waive the right to any further hearing.

A Minor Rule Violation as defined in this Rule shall be deemed a minor rule violation within the meaning of Rule 19d-1(c)(2) under the Securities Exchange Act of 1934, as amended (the “Act”), and this Rule shall be deemed a “plan” within the meaning thereof. The action imposed by the Corporation shall not be considered "final" for purposes of paragraph (c) (1) of Rule 19d - 1 of the Act in any instance in which the fine is in an amount that does not exceed $2,500, imposed against an Interested Person that is not a Member, and with respect to which the Interested Person does not seek an adjudication pursuant to Section 3 of this Rule 28.

Section 3 - Hearings

A hearing on any matter not covered by Section 2 of this Rule, or a further hearing requested pursuant to Section 2 shall be before a panel (hereinafter the "Board Panel") of three individuals drawn from members of the Board of Directors or their designees. The members of the Panel shall be selected by the Chairman of the Board.

Notwithstanding the above, the Panel shall not include any individual representing the Interested Person against which the proposed action is to be taken, nor any person who had responsibility for the action or proposed action of the Corporation as to which the hearing relates.

At the hearing, the Interested Person shall be afforded an opportunity to be heard and may be represented by counsel if the Interested Person has so elected pursuant to Section 1 of this Rule. A record shall be kept of the hearing, and the cost associated with the hearing may, in the discretion of the Panel, be charged in whole or in part to the Interested Person in the event that the decision at the hearing is adverse to the Interested Person.

Section 4 - Hearing Procedure
The Panel shall advise the Interested Person of its decision and the specific grounds upon which the decision is based, within ten Business Days after the conclusion of the hearing. If the decision of the Panel shall have been to impose a disciplinary sanction on the Interested Person in accordance with Rule 38 or to affirm any action previously taken against the Interested Person pursuant to Rule 14 or Rule 17, a notice of decision setting forth (a) any act or practice in which the Interested Person has been found to have engaged, or which the Interested Person has been found to have omitted, (b) the specific provision(s) of the Rules of the Corporation or of the Member's agreements with the Corporation which any such act or practice or omission to act has been deemed to violate, and (c) the sanction imposed and the reasons thereof shall be furnished to the Interested Person. A copy of the Panel’s notice of decision shall also be furnished to the Chairman of the Board.

Section 5 - Reversal or Modification of Panel Decisions

Decisions of the Panel are final, but the Board of Directors may in its discretion modify any sanction or reverse any decision of the Panel that is adverse to the Interested Person.

The reversal or modification by the Board of Directors of any action previously taken against the Interested Person pursuant to these Rules shall not invalidate the acts of the Corporation or its officers or directors taken prior to such reversal or modification.

Section 6 - Finality of Corporation Action

Any action or proposed action of the Corporation as to which an Interested Person has the right to request a hearing shall be deemed final and effective (a) when the Interested Person stipulates to the taking of such action by the Corporation, (b) upon the expiration of the applicable time period provided in these Rules for the filing of a written request for a hearing or a written statement pursuant to Section 1 of this Rule, or (c) if a hearing has been held pursuant to Section 3 of this Rule, when the Corporation gives notice to the Interested Person of the Panel's decision.

Section 7 - Alternative Procedures

The Corporation may at any time establish procedures for a hearing not otherwise provided for by these Rules with respect to any action or proposed action of the Corporation.
Rule 29 – Governing Law and Captions

Section 1 – Governing Law

The Rules, and the rights and obligations under the Rules, shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts executed and performed therein.

Section 2 - Captions

Captions to any Rules are for information and guidance only, are not part of any Rule and are to be given no consideration in applying or construing any Rules.
RULE 30 - LIMITATIONS OF LIABILITY

Section 1 – Reliance of the Corporation upon Instructions Containing Errors

The Corporation may accept or rely upon any information or instruction given to the Corporation by a Member including wire transmission, physical delivery or delivery by other means of information or instructions recorded on magnetic tape or other media or of facsimile copies of information or instructions, in a form acceptable to the Corporation and in accordance with the Rules, which reasonably is understood by the Corporation to have been delivered to the Corporation by the Member.

The Corporation may accept and rely upon any information or instruction given to the Corporation by a Member, or a Designee on behalf of the Member (each hereinafter referred to as the "Agent"), including wire transmission, physical delivery or delivery by other means of information or instructions, in a form acceptable to the Corporation and in accordance with the Rules, which reasonably is understood by the Corporation to have been delivered to the Corporation by the Agent, and the Corporation shall be entitled to act pursuant to any such information or instruction as though such information or instruction had been received from the Member for which the Agent is acting.

Any Member delivering information or instructions as provided above, or on whose behalf an Agent shall deliver information or instructions as provided above, even though they may be inaccurate or not authentic, shall indemnify the Corporation, and any of its employees, officers, directors, shareholders, agents, Members, who may sustain any loss, liability or expense as a result of (a) any act done in reliance upon the authenticity of any information or instruction received by the Corporation, (b) the inaccuracy of the information contained therein or (c) effecting Transactions in reliance upon such information or instruction, against any such loss, liability or expense.

Notwithstanding the foregoing, the Corporation will not act upon any such information or instruction purporting to have been given by a Member or an Agent commencing no later than one Business Day after the Corporation receives written notice from the Member that the Corporation shall not accept such information or instructions until no later than one Business Day after the Member shall withdraw such notice.

Section 2 – Limitation on Liability of the Corporation for the Obligations of Affiliated Entities

(a) Notwithstanding any affiliation between the Corporation and any other entity, including another clearing agency, except as otherwise expressly provided by written agreement between the Corporation and such other entity:

(i) the Corporation shall not be liable for any obligations of such other entity nor shall any fund or any other assets of the Corporation be available to such other entity (or any person claiming through such other entity) for any purpose, and no Member shall assert against the Corporation any claim based upon any obligations of any other entity to such Member; and
(ii) such other entity shall not be liable for any obligations of the Corporation nor shall any fund or any other assets of such other entity be available to the Corporation (or any person claiming through the Corporation) for any purpose, and no Member shall assert against such other entity any claim based upon any obligations of the Corporation to such Member.

(b) Notwithstanding the Corporation being the owner of both the Mortgage-Backed Securities Division and the Government Securities Division,

(i) the Mortgage-Backed Securities Division shall not be liable for any obligations of the Government Securities Division nor shall the Clearing Fund or other assets of the Mortgage-Backed Securities Division be available to the Government Securities Division or any Government Securities Division Member for any purpose (except as provided in Rule 32, “Cross-Guaranty Agreements”) and no Government Securities Division Member shall assert against the Mortgage-Backed Securities Division any claim based upon any obligations of the Government Securities Division to such Government Securities Division Member; and

(ii) the Government Securities Division shall not be liable for any obligations of the Mortgage-Backed Securities Division nor shall the Clearing Fund or other assets of the Government Securities Division be available to the Mortgage-Backed Securities Division or any Mortgage-Backed Securities Division Member for any purpose (except as provided in Rule 32, “Cross-Guaranty Agreements”), and no Mortgage-Backed Securities Division Member shall assert against the Government Securities Division any claim based upon the obligations of the Mortgage-Backed Securities Division to such Mortgage-Backed Securities Division Member.

Section 3 – Limitation on Liability of the Corporation

Notwithstanding any other provision in the Rules:

(a) The Corporation will not be liable for any action taken, or any delay or failure to take any action, hereunder or otherwise to fulfill the Corporation’s obligations to its Members, other than for losses caused directly by the Corporation’s gross negligence, willful misconduct, or violation of Federal securities laws for which there is a private right of action. Under no circumstances will the Corporation be liable for the acts, delays, omissions, bankruptcy, or insolvency, of any third party, including, without limitation, any depository, custodian, sub-custodian, clearing or settlement system, transfer agent, registrar, data communication service or delivery service (“Third Party”), unless the Corporation was grossly negligent, engaged in willful misconduct, or in violation of Federal securities laws for which there is a private right of action in selecting such Third Party; and

(b) Under no circumstances will the Corporation be liable for any indirect, consequential, incidental, special, punitive or exemplary loss or damage (including, but not
limited to, loss of business, loss of profits, trading losses, loss of opportunity and loss of use) howsoever suffered or incurred, regardless of whether the Corporation has been advised of the possibility of such damages or whether such damages otherwise could have been foreseen or prevented.

Section 4 – No Right To Set Off

No Member shall be entitled to set off against any liability to the Corporation any liability that the Corporation may have to such Member pursuant to this Rule.
Section 1

Every Member shall designate a representative of the Member authorized in the name of the Member to sign all instruments, to correct errors and to perform such other duties as may be required under these Rules and to transact all business requisite in connection with the operations of the Corporation which representative shall be capable of taking such action in a manner consistent with the daily time schedules and other requirements established by or pursuant to these Rules. If the representative of the Member is not a general partner in the Member's Corporation or is not an officer of the Member's corporation, such representative shall, in the case of a firm, be authorized to act by written power of attorney, or in the case of a corporation, by resolution by the board of directors of such corporation. Such power of attorney or resolution, as the case may be, shall be in such form approved by the corporation.

Members shall file with the Corporation the signatures of the members of their firms or the officers of their corporations and of the representatives of such firms or corporations who are authorized to sign checks, agreements, receipts, orders and other papers necessary for conducting business with the Corporation together with the powers of attorney or other instruments giving such authority.

Each Member shall be allotted a number which must appear on the face of all forms used by it in connection with the operations of the Corporation.

Section 2

A Member may appoint one or more persons as its agent(s) with respect to all contracts or Transactions compared through or by the Corporation and all matters relating thereto, provided that such appointment has been consented to by the Corporation and is evidenced by such appointments, authorizations, certifications and other agreements in such form as may be required by the Corporation.

Section 3

The Corporation may, in its discretion, require Members to provide appropriate staff in their offices during specified hours on non-Business Days when such is deemed necessary by the Corporation to insure the integrity of its systems and/or for the protection of the Corporation.
RULE 32 - CROSS GUARANTY AGREEMENTS

Section 1 – Authority

The Corporation may, from time to time, enter into one or more Cross-Guaranty Agreements.

In determining its available net resources pursuant to a Cross-Guaranty Agreement, the Corporation shall first offset the available net resources of the Government Securities Division and the Mortgage-Backed Securities Division.

Section 2 – Cross-Guaranty Defaulting Member Obligations

In addition to a Member’s other obligations to the Corporation under these Rules, a Cross-Guaranty Defaulting Member on account of which the Corporation has made a Cross-Guaranty Payment shall be obligated to the Corporation for the amount of such Cross-Guaranty Payment less the amount of any Cross-Guaranty Repayment received by the Corporation in respect thereof.

Section 3 - Application of Cross-Guaranty Payments

The Corporation shall, in its sole discretion, either:

(a) apply any Cross-Guaranty Payment received by the Corporation on account of a Cross-Guaranty Defaulting Member: (1) to the unpaid obligations of such Cross-Guaranty Defaulting Member to the Corporation and (2) to reduce the assessments made or that otherwise would be made against other Members (each, a “Cross-Guaranty Beneficiary Member”) pursuant to Section 7 of Rule 4; or

(b) retain any Cross-Guaranty Payment received by the Corporation and not apply such Cross-Guaranty Payment to reduce any assessments against other Members pursuant to Section 7 of Rule 4 until the Corporation determines that the Corporation is no longer liable for any Cross-Guaranty Repayment, at which point the Cross-Guaranty Payment shall be treated as an amount that has been recovered pursuant to Section 7(i) of Rule 4.

Section 4 - Cross-Guaranty Repayment Deposits

Unless and to the extent the Corporation otherwise determines, (a) in addition to the other deposits to the Clearing Fund, a Cross-Guaranty Beneficiary Member shall be required to make a deposit to the Clearing Fund (a “Cross-Guaranty Repayment Deposit”) in an amount equal to the amount of the reduction in the assessment made or that otherwise would have been made against such Cross-Guaranty Beneficiary Member if the Corporation had not received a Cross-Guaranty Payment on account of a Cross-Guaranty Defaulting Member and (b) such Cross-Guaranty Repayment Deposit shall be maintained by such Cross-Guaranty Beneficiary Member for so long as the Corporation determines that the Corporation may be liable for a Cross-Guaranty Repayment and that such Cross-Guaranty Beneficiary Member may therefore be liable to the Corporation pursuant to Section 5 of this Rule.
In the event that the Corporation is required to make a Cross-Guaranty Repayment and it does not have a sufficient amount of Cross-Guaranty Repayment Deposits to cover the liability, the Corporation shall treat the shortfall as an “Other Loss” pursuant to Section 7 of Rule 4.

Section 5 - Cross-Guaranty Beneficiary Member Obligations

Unless and to the extent the Corporation otherwise determines, (a) if the Corporation makes a Cross-Guaranty Repayment in respect of any Cross-Guaranty Payment, the appropriate Cross-Guaranty Beneficiary Members shall be obligated to reimburse the Corporation for such Cross-Guaranty Repayment pro rata their Cross-Guaranty Repayment Deposits up to the full amount of such Cross-Guaranty Repayment Deposits, and (b) the Corporation shall be entitled to apply the deposits of such Cross-Guaranty Beneficiary Members to the Clearing Fund in satisfaction of such obligation to reimburse the Corporation.
RULE 33 - SUSPENSION OF RULES IN EMERGENCY CIRCUMSTANCES

The time fixed by these Rules, the procedures or any regulations issued by the Corporation for the doing of any act or acts may be extended or the doing of any act or acts required by these Rules, the procedures or any regulations issued by the Corporation may be waived or any provision of these Rules, the procedures or any regulations issued by the Corporation may be suspended by the Board of Directors or by any Officer of the Corporation having a rank of Managing Director or higher whenever, in its or his judgment, (i) an emergency exists and (ii) such extension, waiver or suspension is necessary for the Corporation to continue to facilitate the prompt and accurate clearance and settlement of securities transactions and to provide its services in a safe and sound manner.

The Corporation shall notify the SEC within two (2) hours of its determination to extend, waive or suspend the rules, procedures or regulation issued by the Corporation (but no later than 1 hour before the close of the Federal Reserve Banks’ Fedwire Funds Service if such determination related to the extension of time for settlement and is made on a settlement day). A written report of any such extension, waiver or suspension stating the pertinent facts, the identity of the person or persons who authorized such extension, waiver or suspension, the nature of the emergency, and the reason such extension, waiver or suspension was deemed necessary for the Corporation to continue to facilitate the prompt and accurate clearance and settlement of securities transactions and to provide its services in a safe and sound manner, shall be submitted as soon as practicable (but no later than 3 calendar days after implementation of the extension, waiver or suspension) to the Commission, shall be retained in the Corporation's records and shall be available for inspection by any Member during regular business hours on business days.

Any such extension, waiver or suspension may continue in effect after the event or events giving rise thereto for no more than 30 calendar days after the date thereof unless the Corporation shall have submitted a proposed rule change with the Securities and Exchange Commission seeking approval of such extension, waiver or suspension during the 30-day period, in which case the extension, waiver, or suspension may continue in effect until the Securities and Exchange Commission approves or disapproves the proposed rule change filed by the Corporation. Notwithstanding the foregoing, in no event shall the extension, waiver or suspension continue in effect if after the Corporation notifies the Securities and Exchange Commission of such action, the Securities and Exchange Commission staff notifies the Corporation in writing that it objects to such extension, waiver or suspension.
RULE 34 - ACTION BY THE CORPORATION

Where action by the Board of Directors is required by these Rules, the Corporation may act, to the fullest extent permitted by law, by the Chairman of the Board, the President or Managing Director or Vice President or by such other Person or Persons, whether or not employed by the Corporation, as may be designated by the Board of Directors from time to time.
RULE 35 - NOTICES

Section 1 - Notice to an Interested Person

Any notice pursuant to these Rules from the Corporation to an Interested Person shall be sufficiently served on such Interested Person if the notice is in writing, and is mailed to the Interested Person's office address, is sent via electronic mail to the Interested Person’s electronic mail address or is transmitted by facsimile machine to a facsimile machine located either in the Interested Person's office or elsewhere as designated by such Interested Person. Any notice to an Interested Person, if mailed, shall be deemed to have been given when deposited in the United States Postal Service, with postage thereon prepaid, directed to the Interested Person at its office address, and if sent via electronic mail, shall be deemed given when routed to the electronic mail address of the Interested Person. Any notice to an Interested Person, if transmitted by facsimile machine as provided above, shall be deemed to have been given when such transmission is verified on the facsimile machine of the Corporation as having been transmitted.

Notwithstanding anything in these Rules to the contrary, the Corporation may distribute notices to all Interested Persons by posting such notices on the Corporation’s website. The Corporation shall deem a notice delivered once such notice is successfully posted to the website.

Section 2 - Notice to the Corporation

Any notice from an Interested Person to the Corporation shall be sufficiently served on the Corporation if the notice is in writing and is delivered, mailed, or transmitted by facsimile machine to the Corporation at its principal place of business, Attention: Secretary, or such other place as the Corporation designates. Any such notice to the Corporation shall be deemed to have been given when received.

Section 3 - Notice by the Corporation of Certain Actions

Any notice required to be given by the Corporation pursuant to Rule 14, Rule 16, or Rule 38, shall set forth the specific grounds under consideration upon which any action taken by the Corporation pursuant to such Rule or Rules may be based and shall contain notice to the Member of its right to request a hearing, such request to be filed by such Member with the Corporation pursuant to Rule 28.
RULE 36 - INTERPRETATION OF TERMS

Notwithstanding the use of words such as "collateral", "purchase", "secure", and "sell", and other words derived from those words, which reflect terminology commonly used in the market for transactions of the kind processed by the Corporation under these Rules, the use of such words in these Rules, or in agreements entered into by the Corporation with Members pursuant to these Rules, shall not be deemed to affect the intent of the Members as to their characterization of such transactions in agreements entered into by the Members with one another or with third parties in respect of such transactions.
RULE 37 - INTERPRETATION OF RULES

The Board of Directors of the Corporation or any Committee thereof or their designee(s) shall have the authority to interpret the Rules of the Corporation. Interpretations of the Board of Directors or any Committee thereof or their designee(s) shall be final and conclusive.
RULE 38 - DISCIPLINARY PROCEEDINGS

Section 1 - General

The Corporation may discipline any Member for a violation of any provision of the Rules of the Corporation or such Member's agreements with the Corporation, for any error, delay or other conduct that constitutes an abuse or misuse of the Corporation's processes or otherwise is detrimental to the operations of the Corporation, or for not providing adequate facilities for such Member's business with the Corporation, by termination of membership, ceasing to act for the Member, other limitation of or restriction on activities, functions and operations, fine, censure or any other fitting sanction.

Section 2 - Role of the Board

The Board of Directors shall be responsible for overseeing the process of addressing rules violations and other detrimental conduct. Management of the Corporation shall be responsible for presenting to the Board actions of a Member or Members that, in their opinion, constitute a rules violation or detrimental conduct, for the Board’s determination as to what, if any, disciplinary action is appropriate. Any such presentation shall be made as soon as practicable after the action deemed by management to constitute a rules violation or detrimental conduct has occurred.

The imposition of any disciplinary action involving ceasing to act or termination of membership shall require Board approval.

Section 3 - Major and Minor Offenses

If the Board determines that a Member has committed a rules violation or an act of detrimental conduct, it shall classify the act as either major or minor in nature. Major offenses generally shall require a finding of either misconduct involving the funds or securities settlement obligations of a Member pursuant to these Rules or a deliberate act of fraud or misconduct of a Member. In addition, repeated offenses by a Member of a minor nature may cause the Member to be deemed to have committed a major offense.

A Member committing a major offense may be subject to disciplinary action up to and including termination of its membership. At a minimum, after a determination has been made by the Board that a major offense has been committed by a Member, a letter shall be sent by the Corporation to the Member informing it of its commission of offense and requiring that a written explanation be provided to the Corporation as to why the offense occurred and the actions taken and/or to be taken by the Member to ensure that the offense will not reoccur. Representatives of the Member may be required to appear before the Board to provide such explanation.

A Member committing a minor offense shall be subject to a fine or other disciplinary action, except for ceasing to act or termination of membership. Moreover, after a determination has been made by the Board that a minor offense has been committed by a Member, a letter shall be sent to the Member informing it of its commission of the offense.
Section 4 - Notification to a Member

Before imposing any disciplinary sanction on a Member pursuant to this Rule, the Corporation shall notify such Member of the type of disciplinary sanction being imposed, the reasons for the imposition of the disciplinary sanction (which shall include a description of the action of the Member deemed to constitute a rules violation or detrimental conduct), the effective date of such action, and its right to a hearing to contest the imposition of the action. The Corporation may, in its discretion, take any disciplinary action authorized by these Rules against a Member immediately upon providing the notification to the Member required in this Section. Upon the Corporation’s decision to take such action, the Corporation shall notify the SEC and the Member’s Appropriate Regulatory Agency.
RULE 39 – DTCC SHAREHOLDERS AGREEMENT

Section 1 – Certain Definitions

For purposes of this Rule 39:

“DTCC” means The Depository Trust & Clearing Corporation, the holder of all of the capital stock of the Corporation.

“Shareholders Agreement” means the Shareholders Agreement of DTCC, dated as of November 4, 1999, as hereto for or hereafter amended and restated.

“Common Shares” has the meaning given to such term in the Shareholders Agreement.

“Mandatory Purchaser Participant” has the meaning given to such term in the Shareholders Agreement.

“Voluntary Purchaser Participant” has the meaning given to such term in the Shareholders Agreement.

Section 2 - Clearing Members

As a condition to its use of the services and facilities of the Mortgage-Backed Securities Division of the Corporation, a Clearing Member (other than any central securities depository, Federal Reserve bank, central counterparty, or Registered Investment Company) shall be required to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement. For purposes of the Shareholders Agreement, a Clearing Member (other than any central securities depository, Federal Reserve bank, central counterparty, or Registered Investment Company) shall be a Mandatory Purchaser Participant.

Clearing Members that are Registered Investment Companies shall be permitted (but not required) to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement. For purposes of the Shareholders Agreement, a Clearing Member that is a Registered Investment Company shall be a Voluntary Purchaser Participant.

Section 3 - Certain Other Matters

The Corporation shall execute and deliver the Shareholders Agreement as attorney in fact for a Member that purchases Common Shares pursuant to Section 2 of this Rule if such Member is not already a party to the Shareholders Agreement. In addition, the Corporation may on behalf of DTCC pursuant to the Shareholders Agreement, without duplication of payment, (A) debit a Member for any amount payable by the Member to DTCC for Common Shares purchased by the

3 This Section 2 of Rule 38 will not become effective until approved by a majority of holders of DTCC Common Shares.
Member and (B) credit a Member for any amount payable by DTCC to the Member for Common Shares sold by the Member.

Clearing Members that are Registered Investment Companies shall be permitted (but not required) to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement. For purposes of the Shareholders Agreement, a Clearing Member that is a Registered Investment Company shall be a Voluntary Purchaser Participant.
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<td>Fannie Mae/Freddie Mac</td>
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<td>4. Self-issued MBS**</td>
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* Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25 percent of a Clearing Member’s required Clearing Fund deposit will be subject to a haircut that is twice the amount of the percentage noted in the
haircut schedule. Eligibility requirements will be announced by the Corporation from time to time.

** A Clearing Member may deposit Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such securities will be subject to a premium haircut. This haircut shall be 14% as an initial matter. If a Clearing Member also exceeds the 25% concentration limit, the haircut shall be 21%.
I. **FEES**

**Important Note:** It is the MBSD’s policy to retain only those revenues necessary to fund current costs, enhancements and on-going development work for the benefit of its members and appropriate retained earnings as directed by the FICC Board of Directors.

As such, the FICC Board may determine to apply periodic discounts or surcharges to certain MBSD fees consistent with the financial performance of the MBSD.

**Account Maintenance**

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<tr>
<td>Primary/Secondary Account</td>
<td>$ 50/Mo./each</td>
</tr>
<tr>
<td>Option Account</td>
<td>$ 50/Mo./each</td>
</tr>
</tbody>
</table>

**Aggregate Maintenance**

<table>
<thead>
<tr>
<th>Category</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Aggregate</td>
<td>No Charge</td>
</tr>
<tr>
<td>Each Additional Aggregate</td>
<td>$ 35/Mo./each</td>
</tr>
</tbody>
</table>

**Communication Fees**

<table>
<thead>
<tr>
<th>Category</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to migrate from legacy</td>
<td>Cost*</td>
</tr>
<tr>
<td>networks to SMART and/or SFTI</td>
<td></td>
</tr>
</tbody>
</table>

*The entire cost of supporting the legacy network connections will be allocated among remaining users pro rata.

**Development Fee**

**Trade Processing**

<table>
<thead>
<tr>
<th>Trade Event</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give-up Trade Creates</td>
<td>$ .20/side</td>
</tr>
<tr>
<td>Unmatched Trade Deletes</td>
<td>$ 1.00/side</td>
</tr>
<tr>
<td>Trade Cancels</td>
<td>$ 1.00/side</td>
</tr>
<tr>
<td>Change Terms</td>
<td>$ 1.00/side</td>
</tr>
<tr>
<td>DK and Modify</td>
<td>No Charge</td>
</tr>
</tbody>
</table>

4 Trades which are matched and canceled within the same processing pass are exempt from Trade Processing fees.
Processing Fees

Trade Input Non-Compliance $500/month/Account

Surcharge for Submission Method (Effective April 1, 2006)

At the end of a month, and with respect to each Participant account, a Participant that submits any trade data to the Corporation during that month using a single batch or multi-batch method shall be subject to a surcharge as follows:

(a) Single batch submitters shall be subject to a 50 percent surcharge (with a minimum of $500) on their post discount trade recording fees as recorded on their monthly bill, and

(b) Multi-batch submitters shall be subject to a 20 percent surcharge (with a minimum of $500) on their post discount trade recording fees as recorded on their monthly bill.

The MBSD will reserve the right to waive the surcharges for a particular Participant if it determines that the Participant’s classification as a single or multi-batch user in a particular month is due to a non-recurring system or operational problem. Surcharge revenues will be paid through to individual interactive messaging and terminal service submitters pro rata, based upon such submitters’ ratio of trade recording fees to system-wide trade recording fees.

Development Fee

As of January 1, 2015 and every month thereafter for three (3) consecutive years, a development fee will be assessed to each single entity Clearing Member and family of Clearing Members, as applicable, in accordance with the tiered development fees established below. Each single entity Clearing Member will be charged the tiered development fee and each Clearing Member within a family will be charged a portion of the tiered development fee. FICC will collect this development fee from each Clearing Member through the cash settlement process.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 $20,000/mo.</td>
<td>Tier 1 $18,000/mo.</td>
<td>Tier 1 $18,000/mo.</td>
</tr>
<tr>
<td>Tier 2 $10,000/mo.</td>
<td>Tier 2 $8,000/mo.</td>
<td>Tier 2 $8,000/mo.</td>
</tr>
<tr>
<td>Tier 3 $6,000/mo.</td>
<td>Tier 3 $4,000/mo.</td>
<td>Tier 3 $4,000/mo.</td>
</tr>
<tr>
<td>Tier 4 $1,000/mo.</td>
<td>Tier 4 $1,000/mo.</td>
<td>Tier 4 $1,000/mo.</td>
</tr>
</tbody>
</table>
Tier 1 represents single entity Clearing Members and families of Clearing Members, as applicable, that have generated fees over $1,000,000.00.

Tier 2 represents single entity Clearing Members and families of Clearing Members, as applicable, that have generated fees in the amount of $250,000.00 to $999,999.99.

Tier 3 represents single entity Clearing Members and families of Clearing Members, as applicable, which have generated fees in the amount of $100,000.00 to $249,999.99.

Tier 4 represents single entity Clearing Members and families of Clearing Members, as applicable that have generated fees under $100,000.00.

**Broker Commission Collection/Audit Trail**  
No Charge

In addition to the above, FICC may also bill Participants for, and include on the Participants’ billing statements, fees and charges which may be imposed on such Participants by third parties such as: (a) other subsidiaries of The Depository Trust & Clearing Corporation; (b) self-regulatory organizations and other securities industry organizations or entities of which such Participant is a member, where such third party has represented to FICC that it has an agreement with the Participant allowing the Participant’s payment of such fees and charges; and (c) other organizations and entities which provide services or equipment to Participants which are integral to services provided by FICC. Any amounts so collected will be remitted to the entity imposing such fee or charge.

Such fees and charges may include those of companies that identify themselves as being an affiliate of the Participant. Participants should check their billing statements, which shall reflect all such charges, and report any problems to FICC immediately.
# II. FINES

**Late Satisfaction of Participants Fund Margin Deficit***

<table>
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<tr>
<th>Deficiency Amount</th>
<th>First Occasion</th>
<th>Second Occasion</th>
<th>Third Occasion</th>
<th>Fourth Occasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $100M</td>
<td>**</td>
<td>$ 100</td>
<td>$ 200</td>
<td>$ 500</td>
</tr>
<tr>
<td>Greater than $100M to</td>
<td>**</td>
<td>300</td>
<td>600</td>
<td>1,500</td>
</tr>
<tr>
<td>$900 M</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater than $900 M to</td>
<td>**</td>
<td>600</td>
<td>1,200</td>
<td>3,000</td>
</tr>
<tr>
<td>$1.7 MM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater than $1.7 MM to</td>
<td>**</td>
<td>900</td>
<td>1,800</td>
<td>4,500</td>
</tr>
<tr>
<td>$2.5 MM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater than $2.5 MM</td>
<td>**</td>
<td>1,000</td>
<td>2,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

* Overnight failures are also subject to interest charges.

**Notes:

M = one thousand

MM = one million

** First occasions result in a warning letter issued to the Member.

The number of occasions is determined over a moving three-month period beginning with the first occasion.

If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.

A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member’s fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.
### Late Payment of Cash Obligation Item

<table>
<thead>
<tr>
<th>Amount</th>
<th>First Occasion</th>
<th>Second Occasion</th>
<th>Third Occasion</th>
<th>Fourth Occasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 to $100M</td>
<td>$100</td>
<td>$200</td>
<td>$500</td>
<td>$1,000</td>
</tr>
<tr>
<td>Greater than $100M to $900M</td>
<td>300</td>
<td>600</td>
<td>1,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Greater than $900M to $1.7 MM</td>
<td>600</td>
<td>1,200</td>
<td>3,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Greater than $1.7 MM to $2.5 MM</td>
<td>900</td>
<td>1,800</td>
<td>4,500</td>
<td>9,000</td>
</tr>
<tr>
<td>Greater than $2.5 MM</td>
<td>1,000</td>
<td>2,000</td>
<td>5,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

M=one thousand  
MM= one million

1. Each instance of a late payment of a cash obligation item is deemed to be a separate occasion. Such latenesses are combined, regardless of type, to determine the number of occasions.

2. The number of occasions is determined over a moving three-month period beginning with the 1st occasion.

3. If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.

4. A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member’s fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.
Failure to Timely Provide Financial and Related Information

<table>
<thead>
<tr>
<th>Request For Information*</th>
<th>First Occasion</th>
<th>Second Occasion</th>
<th>Third Occasion</th>
<th>Fourth Occasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports/Information**</td>
<td>$300</td>
<td>$600</td>
<td>$1,500</td>
<td>***</td>
</tr>
</tbody>
</table>

* Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

** For purposes of this Fine Schedule, Reports/Information shall mean the financial and regulatory information required to be submitted to the Corporation pursuant to the Rules, Procedures, Important Notices or notices on the Corporation’s website.

*** Fourth or more occasion fines will be determined by the Corporation with the concurrence of the Board of Directors.

If the Member’s late submission applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

Business Continuity Testing for Top Tier Firms – Fines for Failure to Test

Fine for failure to complete annual testing requirement: $10,000
Fine for failure to complete testing for two successive years: $20,000

General Continuance Standards-Fine for Failure to Notify of Falling out of Compliance

Fine for failure to notify $1,000

If the Member’s failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies. Where the Member is a
participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

**Reportable Events-Fine for Failure of Timely Notification**

Fine for failure to timely notify $5,000

If the Member’s failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

**Failure to Confirm OFAC Program**

<table>
<thead>
<tr>
<th>Fine Name</th>
<th>Amount(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to confirm OFAC Program</td>
<td>$5,000.00</td>
</tr>
</tbody>
</table>
FICC MORTGAGE-BACKED SECURITIES DIVISION
SCHEDULE OF CHARGES DEALER ACCOUNT GROUP

I. FEES

Important Note: It is the MBSD’s policy to retain only those revenues necessary to fund current costs, enhancements and on-going development work for the benefit of its members and appropriate retained earnings as directed by the FICC Board of Directors.

As such, the FICC Board may determine to apply periodic discounts or surcharges to certain MBSD fees consistent with the financial performance of the MBSD.

Account Maintenance

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option Account</td>
<td>$50/Mo./each</td>
</tr>
<tr>
<td>Trade Assignment Account</td>
<td>$50/Mo./each</td>
</tr>
</tbody>
</table>

Aggregate Maintenance

<table>
<thead>
<tr>
<th>Aggregate Type</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Aggregate</td>
<td>No Charge</td>
</tr>
<tr>
<td>Each Additional Aggregate</td>
<td>$35/Mo./each</td>
</tr>
</tbody>
</table>

Communication Fees

| Failure to migrate from legacy networks to SMART and/or SFTI | Cost* |

*The entire cost of supporting the legacy network connections will be allocated among remaining users pro rata.
### Trade Processing\(^3\)

<table>
<thead>
<tr>
<th>SBO Destined Trades</th>
<th>Par Value Millions/Mo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creates</td>
<td></td>
</tr>
<tr>
<td>01-2,500</td>
<td>$1.93/MM</td>
</tr>
<tr>
<td>2,501-5,000</td>
<td>$1.77/MM</td>
</tr>
<tr>
<td>5,001-7,500</td>
<td>$1.60/MM</td>
</tr>
<tr>
<td>7,501-10,000</td>
<td>$1.49/MM</td>
</tr>
<tr>
<td>10,001-12,500</td>
<td>$1.32/MM</td>
</tr>
<tr>
<td>12,501&amp; over</td>
<td>$1.14/MM</td>
</tr>
<tr>
<td>TBA Netting Balance Orders (SBOO/SBON)</td>
<td>$0.75MM</td>
</tr>
<tr>
<td>Unmatched Trade Deletes</td>
<td>$1.00/side</td>
</tr>
<tr>
<td>Trade Cancels</td>
<td>$4.00/side</td>
</tr>
<tr>
<td>Trade Netting Converts</td>
<td>$1.00/side</td>
</tr>
<tr>
<td>DK and Modify</td>
<td>No Charge</td>
</tr>
<tr>
<td>Trade-for-Trade (Including Specified Pool Trades)</td>
<td></td>
</tr>
<tr>
<td>Trade Creates</td>
<td>$1.00/MM</td>
</tr>
<tr>
<td>Unmatched Trade Deletes</td>
<td>$1.00/side</td>
</tr>
<tr>
<td>Trade Cancels</td>
<td>$4.00/side</td>
</tr>
<tr>
<td>DK and Modify</td>
<td>No Charge</td>
</tr>
<tr>
<td>Option Trades</td>
<td></td>
</tr>
<tr>
<td>Trade Creates</td>
<td>$1.00/MM</td>
</tr>
<tr>
<td>Unmatched Trade Deletes</td>
<td>$1.00/side</td>
</tr>
<tr>
<td>Trade Cancels</td>
<td>$4.00/side</td>
</tr>
<tr>
<td>DK and Modify</td>
<td>No Charge</td>
</tr>
</tbody>
</table>

---

3 Trades which are matched and canceled within the same processing pass are exempt from Trade Processing fees.
**Pool Netting Fees**

- Matched Pool Instruct (per side) $0.60
- CDR Pool Instruct Fee $0.20
- Cancel of Matched Pool Instruct $0.40
- Post Net Subs $0.20
- MBSD Bank Allocation Fee Calculated monthly based on MBSD bank clearance fees*

**Financing Charges Associated with Pool Netting:**

For each other Pool Netting Member, a pass-through charge calculated on a percentage of the total of all such costs incurred by the Corporation, allocated by agency product, which percentage is calculated as follows:

\[
\frac{\text{Total dollar value of deliver and receive obligations of such Pool Netting Member in such agency product}}{\text{Total dollar value of deliver and receive obligations of all Pool Netting Members in such agency product}}
\]

Notwithstanding the above, if, after providing to a Pool Netting Member appropriate notice and opportunity to be heard, the Corporation determines that such Pool Netting Member has, on a recurring basis and without good cause, caused the Corporation to incur financing costs, such Member will be obligated to pay for the entire amount of any financing costs incurred by the Corporation as the result of deliveries by such Member to the Corporation.

**Processing Fees**

- Trade Input Non-Compliance $500/month/Account

* The monthly fee will be calculated based on the bank fee allocated to MBSD divided by the number of compared Pool Instructs.
Notification of Settlement

SBO Trades

- NOS Creates: No Charge
- NOS Deletes: $1.00/side
- NOS DK and Modify: No Charge

Trade-for-Trade

- NOS Creates: No Charge
- NOS Deletes: $1.00/side
- NOS DK and Modify: No Charge

Processing Fees

- Delinquent DK’s: $150/day
- Delinquent Deletes, Affirms, Matches: $150/day

Surcharge for Submission Method (Effective April 1, 2006)

At the end of a month, and with respect to each Participant account, a Participant that submits any trade data to the Corporation during that month using a single batch or multi-batch method shall be subject to a surcharge as follows:

(a) Single batch submitters shall be subject to a 50 percent surcharge (with a minimum of $500) on their post discount trade recording fees as recorded on their monthly bill, and

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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000/mo.</td>
<td>Tier 1</td>
<td>$18,000/mo.</td>
<td>Tier 2</td>
<td>$8,000/mo.</td>
<td>Tier 3</td>
<td>$4,000/mo.</td>
<td>Tier 4</td>
</tr>
<tr>
<td>$10,000/mo.</td>
<td>Tier 2</td>
<td>$8,000/mo.</td>
<td>Tier 3</td>
<td>$4,000/mo.</td>
<td>Tier 4</td>
<td>$1,000/mo.</td>
<td>Tier 4</td>
</tr>
<tr>
<td>$6,000/mo.</td>
<td>Tier 3</td>
<td>$4,000/mo.</td>
<td>Tier 4</td>
<td>$1,000/mo.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
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Tier 2 represents single entity Clearing Members and families of Clearing Members, as applicable, that have generated fees in the amount of $250,000.00 to $999,999.99.

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**Broker Commission Collection/Audit Trail**

No Charge

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### II. FINES

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<th>Second Occasion</th>
<th>Third Occasion</th>
<th>Fourth Occasion</th>
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</thead>
<tbody>
<tr>
<td>Up to $100M</td>
<td>**</td>
<td>$100</td>
<td>$200</td>
<td>$500</td>
</tr>
<tr>
<td>Greater than $100M to $900M</td>
<td>**</td>
<td>300</td>
<td>600</td>
<td>1,500</td>
</tr>
<tr>
<td>Greater than $900 M to $1.7 MM</td>
<td>**</td>
<td>600</td>
<td>1,200</td>
<td>3,000</td>
</tr>
<tr>
<td>Greater than $1.7 MM to $2.5MM</td>
<td>**</td>
<td>900</td>
<td>1,800</td>
<td>4,500</td>
</tr>
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<td>Greater than $2.5 MM</td>
<td>**</td>
<td>1,000</td>
<td>2,000</td>
<td>5,000</td>
</tr>
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* Overnight failures are also subject to interest charges.

Notes:

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** First occasions result in a warning letter issued to the Member.

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<tr>
<td>Greater than $100M to $900M</td>
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</tr>
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<td>Greater than $900M to $1.7 MM</td>
<td>600</td>
<td>1,200</td>
<td>3,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Greater than $1.7 MM to $2.5MM</td>
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<td>1,800</td>
<td>4,500</td>
<td>9,000</td>
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<tr>
<td>Greater than $2.5 MM</td>
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<td>2,000</td>
<td>5,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

M=one thousand
MM= one million

(1) Each instance of a late payment of a cash obligation item is deemed to be a separate occasion. Such latenesses are combined, regardless of type, to determine the number of occasions.

(2) The number of occasions is determined over a moving three-month period beginning with the 1st occasion.

(3) If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.

(4) A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member’s fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.

Failure to Timely Provide Financial and Related Information

<table>
<thead>
<tr>
<th>Request For Information*</th>
<th>First Occasion</th>
<th>Second Occasion</th>
<th>Third Occasion</th>
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<tbody>
<tr>
<td>Reports /Information **</td>
<td>$300</td>
<td>$600</td>
<td>$1,500</td>
<td>***</td>
</tr>
</tbody>
</table>

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* Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

** For purposes of this Fine Schedule, Reports/Information shall mean the financial and regulatory information required to be submitted to the Corporation pursuant to the Rules, Procedures, Important Notices or notices on the Corporation’s website.

*** Fourth or more occasion fines will be determined by the Corporation with the concurrence of the Board of Directors.

If the Member’s late submission applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

** Business Continuity Testing for Top Tier Firms – Fines for Failure to Test

Fine for failure to complete annual testing requirement: $10,000
Fine for failure to complete testing for two successive years: $20,000

** General Continuance Standards – Fine for Failure to Notify of Falling out of Compliance

Fine for failure to notify $1,000

If the Member’s failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.
Reportable Events-Fine for Failure of Timely Notification

Fine for failure to timely notify $5,000

If the Member’s failure to notify applies to more than one DTCC clearing agency subsidiary, the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

Failure to Confirm OFAC Program

<table>
<thead>
<tr>
<th>Fine Name</th>
<th>Amount(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to confirm OFAC Program</td>
<td>$5,000.00</td>
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</tbody>
</table>