

IMPORTANT NOTICE

Fixed Income Clearing Corporation



#: MBS067.11
Date: May 2, 2011
To: Mortgage-Backed Securities Division Clearing Participants
Subject: MBSD CCP Update

In consultation with its regulators, FICC has determined to launch (upon receipt of regulatory approval) the Mortgage-Backed Securities Division ("MBSD") as a central counterparty ("CCP") **on a stand-alone basis** and not concurrently with Portfolio Margining as had been previously proposed. Since this is a change to FICC's communications to member firms regarding the new operational and risk procedures being implemented with MBSD CCP launch, below is a summary of the changes that will be implemented for all members once MBSD receives CCP status:

- Trade guarantee at point of match
- Same day Notification of Settlement ("NOS")
- Same day settlement of Settlement Balance Order Market Differential ("SBOMD"). On the day of Contractual Settlement, Net Debit Cash Settlement (processed via NSS) will be collected at 10:00 AM EST, and Net Credit Cash Settlement (processed via NSS) will be paid at 2:45 PM EST.
- Inclusion of Coverage Component ("CC") and Margin Requirement Differential ("MRD") to the Clearing Fund calculation
- Expansion of TBA eligibility for pool netting for those firms that have passed pool netting conformance testing

Because Portfolio Margining will not be initiated with the launch of CCP:

- MBSD will continue to support one Clearing Fund deficiency call per day. As per existing procedures, Clearing Fund deficiency calls are required to be satisfied with eligible collateral by 9:30 AM EST.
- MBSD's existing clearing account and funds-only settlement arrangements will continue as they currently are.

In addition, FICC is planning to amend the MBSD CCP rule filing (SR-FICC 2008-01) that is currently pending with the Securities and Exchange Commission ("SEC") to provide for a Capped Contingency Liquidity Facility ("CCLF").¹ The objective of the CCLF is to ensure that FICC has alternative liquidity plans in place in the event of a default of a major firm. The CCLF will be rules-based and therefore deemed a committed facility. Attached please find a detailed proposed CCLF Service Description entitled: "Proposal for MBSD Capped Contingency Liquidity Facility" (the "Service Description"). A brief summary of the service is included below for your convenience.

¹ FICC will announce the submission of the formal amendment to the rule filing in a subsequent Important Notice.

Service Overview

After examining a number of possible models to ensure that MBSB, as a CCP, would have sufficient liquidity resources to cover the largest failure of a family of accounts, FICC developed the CCLF, which provides finality of settlement and allows firms to effectively manage their potential financing requirements with defined caps. The attached Service Description describes the circumstances under which the CCLF would be invoked, and delineates the service features.

Briefly summarized, CCLF will be invoked to facilitate a liquidation stemming from the default of a major firm where FICC's primary sources of funding are inadequate or unavailable (i.e., the repo markets are impaired). Once a CCLF event has been declared, member firms will be required to finance positions up to a defined cap that FICC has bound to the defaulting firm. The defined cap will be established by identifying each firm's largest potential liquidity need for a given period by reviewing its associated sell positions versus original buyers on a bilateral basis within CUSIP for that prescribed period of time.

Following this approach, FICC would advise firms to hold their deliveries to the insolvent member up to the defined cap until such time as FICC completes the associated trade liquidations and advises firms to make their deliveries. This will be accomplished by entering into repo transactions with the clearing corporation as defined in the attached Service Description.

Next Steps

The following three documents are attached for review: 1) CCLF Service Description, 2) the proposed rule relating to CCLF which will be included in the MBSB CCP amended rule filing, and 3) a sample version of the Officers' Certificate. Once the amended MBSB CCP rule filing, which will include the attached CCLF rule, is published for comment by the Securities and Exchange Commission, FICC will send out the final version of the Officers' Certificate, which member firms will be required to sign reflecting their understanding of CCLF. MBSB CCP's implementation is dependent upon all firms signing and returning the Officers' Certificate. Please note that the attached Officers' Certificate is a draft copy only and not the version to be signed; since the approval of the Officers' Certificate must be coordinated with both an authorized signatory and finance officer of the member firm, FICC advises members to review the attached documents with the necessary individuals now to expedite the approval process once the final version is sent. Prior to launch, MBSB will provide member firms with their most recent capped liquidity amounts, as well as at least four weeks of parallel reporting to review the impact to Clearing Fund requirements resulting from the new methodology, i.e. inclusion of CC and MRD as components to the Clearing Fund. MBSB will also develop a training tool that further explains CCLF. This training tool will be available to firms via DTCC's website. Finally, firms will participate in a CCLF test program after MBSB CCP is launched.

FICC will continue to work with the regulators to seek approval for Portfolio Margining and will keep members apprised of developments on this front as well as CCP status. Questions relating to the CCLF can be directed to Michele Hillery at mhillery@dtcc.com or (212) 855-7475. For all other questions, please contact your Relationship Manager.

Proposal for MBSD Capped Contingency Liquidity Facility

Introduction

As a result of the MBSD liquidity study, designed to ascertain if MBSD as a CCP would have sufficient liquidity resources to cover the largest failure of a family of accounts, it was determined that the largest such potential requirement was \$49.2 billion USD (based on the largest firm/family Class-A settlement obligations on January 13th 2009).

The proposed process for covering this need was for FICC to employ its repo lines to secure funding in order to complete settlement of the insolvent member's long positions on settlement date. Through discussions with staff of the Securities & Exchange Commission, Federal Reserve Board of New York (the "Fed") and the Board of Governors of the Federal Reserve System (collectively, the "Regulators") it was determined that this proposed method was viewed as unsatisfactory since FICC's current repo lines are not "committed" facilities and, therefore, FICC does not meet the current CPSS/IOSCO standard for Central Counterparties. The Regulators urged FICC to find an alternative approach that would permit the MBSD CCP to meet the CPSS/IOSCO standards.

Background of Proposal

One of the alternatives FICC has explored is procuring a committed facility in the amount of our largest potential liquidity need. We have concluded that it is highly unlikely that a facility of that size could be readily procured and that, even if it were to be available, it would be prohibitively expensive. We believe that this expense would price mid-tier firms out of Central Clearing and therefore increase systemic risk. We also recognize that the funding of this committed line would be subject to the same systemic stress that our current repo facilities would face during the period following the insolvency of a major market participant.

After examining a number of possible models, FICC developed a solution that provides member firms with finality of settlement and allows firms to effectively manage their potential financing requirements with defined caps.

When reviewing the potential ways to fund the long positions of the insolvent family, it became apparent that the main sources of funding would have to be the members. This was true in either the utilization of the repo facilities, or the procurement of guaranteed lines of credit.

We also studied the assumptions used for the liquidity study, namely that we would need to finance the insolvent firm's long positions until they were liquidated, but would not make delivery of the firm's short positions until after we had procured the necessary securities in the market. This was the method used for the settlement of liquidated positions in the Lehman situation -- that is, we did not complete settlement of the short positions until we covered them in the market, but we bought in and financed the longs while liquidation occurred.

This proposed approach would involve instructing firms that are due to deliver MBS to FICC that are owed to the insolvent firm (i.e., positions that would then be liquidated) to hold those deliveries (or a portion of those securities) and await instruction as to when to make delivery. In the interim, FICC will provide finality of settlement by establishing offsetting repo transactions with those firms equal to the amount of the deliveries they are asked to hold. These repo transactions would remain open until such time that FICC completed the liquidation of the underlying obligations. At that point, FICC would advise firms to close the repo trade and deliver the bonds to complete settlement on the contractual settlement date of the liquidating trade. Since we would be receiving and delivering the securities on the same day, FICC would not have a liquidity need associated with this transaction. This would create a zero liquidity environment for the CCP for both the liquidation of long and short positions.

While the trades would still be guaranteed to settle, we would direct the settlement to occur in conjunction with liquidation, i.e., over a short period of days. Firms would finance the long positions established by the repo transactions awaiting FICC's final liquidation utilizing the lines they have in place for repo, bank loan, or potentially the Federal Reserve Bank Discount Window (the "Fed Window"). As part of our discussion with the Regulators, it was pointed out that in a market stress scenario, firms might have to come to the Fed Window. The Regulators preferred this scenario as the sourcing of funds would be done by those firms that are eligible for and have established privileges at the Fed Window.

FICC believes that this new alternative would solve the issue of available liquidity and address the concerns raised by the Regulators without creating any undue financial burden on our membership: Capped Contingency Liquidity Facility.

Proposed Model – Capped Contingency Liquidity Facility (CCLF)

FICC's primary sources of liquidity in the event of a default will be its clearing fund cash deposit and its existing repo agreements with dealers and brokers.

CCLF provides various mechanisms to allow FICC firms the ability to effectively manage their potential liquidity needs in the event of an actual default of a firm / family. A study was performed to define, on a month-by-month basis for each A day, the largest single funding need for each firm, with the understanding that A day constitutes the largest settlement date of the month. The largest funding need was defined by examining each firm's sell positions vs. original buyers on a bilateral netted basis within CUSIP. The largest sell /buyer relationship was

defined as the “largest” potential funding need for that seller. Then each seller’s “maximum” funding need was defined by taking the highest monthly funding need over the time period examined. This maximum number identified the possible worst case scenario for each selling firm.

One of the goals of the CCLF is to set expectations for firms in order to allow them to manage their potential liquidity needs in the event of a major default. In order to accomplish this, FICC examined the maximum amounts for each firm. In order to establish the maximum amounts for each firm, two models were developed, one for firms that are banks or have bank affiliates and a second model for firms that do not have bank affiliates.

How It Will Work

In the event a default occurs and the repo markets are not functioning, FICC will issue an Important Notice announcing it is invoking CCLF. CCLF will be written into the revised MBS CCP rules.

FICC Operations will then issue a CCLF Operations report to each member firm (available in RTTM Report Center) identifying delivery obligations bound to the defaulting firm. Firms will be responsible to fund settlement obligations vs. FICC that were bound to the defaulting firm up to their defined cap amount. Securities deliveries up to each firm’s defined cap amount would be suppressed by the member firm or returned by FICC.

Operationally, firms would then pair off fails with FICC and set up reverse repos vs. FICC for the amount they are funding. The repos would be closed out once FICC liquidated the position with a new buyer. FICC will advise member firms when to deliver the securities to FICC at the original obligation amounts. FICC would apply haircuts to the repos and make members whole by forwarding them cash or securities on a free-of-payment basis.

The positions funded by the member firms would continue to be guaranteed by FICC.

For those firms that are banks or have bank affiliates:

- FICC will conduct a study every six months and define each firm’s largest liquidity requirement for each of the prior six months on the respective “A” days.
- The largest liquidity amount will be defined by identifying each firm’s sell positions vs. every other MBS member (at the family level) on a bilateral net basis within a TBA CUSIP.
- FICC will then establish each firm’s maximum amount (i.e., the highest liquidity requirement over the past six “A” days).
- Based on the overall study, FICC will define an adjustable percentage amount (ex. 60%) and multiply the percentage amount against the maximum amount to establish each firm’s capped amount.

- Deliveries bound to the defaulting firm in excess of a firm's defined cap amount would be taken in on a DVP basis by FICC. FICC will seek to fund these deliveries via its clearing fund cash deposits.
- In the event that FICC clearing fund cash deposits are not sufficient to cover obligations for firms with deliveries in excess of their defined caps, FICC will seek to fund itself by routing these securities to other member firms under their defined caps (i.e., those firms that did not have securities bound to the defaulting firm or firms where their total deliveries did not exceed their cap amounts). This redistribution of securities from FICC will be in the form of a repo transaction.

For example, Dealer A's largest single sell amount (maximum) is \$ 10 billion, utilizing a 60% rate, Dealer A's liquidity contribution would be \$6 billion. That would be their defined liquidity contribution in the event another member defaulted and the CCP needed to finance the insolvent member's longs for the duration of the liquidation process. The \$6B amount would be that firm's defined liquidity contribution for the next six months and will be utilized in the event another member defaulted and the CCP needed to finance the insolvent member's longs for the duration of the liquidation process. Each firm in this category will have its revised capped amounts distributed to it every six months.

For those firms that do not have bank affiliates:

- Every month FICC would conduct a liquidity study for member firms based on the prior month's "A" day data. Based on the prior month data, FICC will determine each firm's largest liquidity requirement which is defined by identifying each firm's sell positions vs. every other MBSD member (at the family level) on a bilateral net basis within a TBA CUSIP. The largest such position is that firm's highest for that month.
- FICC will then establish each firm's maximum amount equal to the prior month's highest number.
- These member firms will not have a predefined percentage amount so, if a member's maximum amount over the prior "A" day was \$1B, that amount will represent the firm's capped amount.
- Each firm in this category will have its maximum (capped) number provided to it each month.
- Deliveries bound to the defaulting firm in excess of the defined cap amount would be taken in on a DVP basis by FICC.
- Firms in this category will also not be subject to the redistribution of securities. So, in the event CCLF is invoked, firms with non-bank affiliates will only be required to finance the securities bound to the defaulting member, not their largest amount.

By establishing the defined capped liquidity amounts for each firm, FICC will effectively establish a defined amount that firms can utilize as part of their liquidity planning needs. The total outstanding amounts of the defined liquidity needs for each member per the analysis, will exceed the worst possible case scenario FICC may require in the event of the largest firm/family defaulting.

In addition, to achieve finality of settlement and to assist firms in managing their potential financing needs, FICC will book repo trades with firms against the bonds they are financing up to their defined liquidity contribution.

Analysis

The chart below illustrates the proposed funding analysis. For the six month study period, the largest monthly funding need (resulting from the largest buyer defaulting) for FICC is defined as “Max Buyer”. Then based on the configurable funding percentage logic defined above, applied against the corresponding family seller utilizing various defined percentages the chart depicts the overall percentage of the required funding amount covered with each defined limit of 40%, 50% and 60%;

Values in Billions

Date	Max Buyer \$	\$ Raised w/ Limits @ 40%	% Covered w/ Limits @ 40%	\$ Raised w/ Limits @ 50%	% Covered w/ Limits @ 50%	\$ Raised w/ Limits @ 60%	% Covered w/ Limits @ 60%
Jan '09	\$62.6	\$37.1	59.3%	\$43.4	69.3%	\$49.5	79.2%
Feb '09	\$51.9	\$41.1	79.4%	\$45.1	87.1%	\$46.6	90.0%
Mar '09	\$57.5	\$37.6	65.5%	\$41.8	72.7%	\$45.9	79.9%
Apr '09	\$69.8	\$41.5	59.5%	\$47.8	68.5%	\$52.9	75.8%
May '09	\$60.8	\$33.3	54.8%	\$38.1	62.7%	\$42.7	70.3%
Jun '09	\$47.9	\$31.8	66.5%	\$36.3	75.8%	\$40.4	84.5%

Benefits of CCLF Facility Model

We think that this proposal offers several distinct advantages to the industry over the structuring of committed lines, as detailed below.

Established Caps

This mechanism provides firms with a defined predetermined number that they can manage against in terms of providing liquidity when needed. This amount is defined as sales a firm has against the insolvent member and for which it subsequently is asked to hold its deliveries for up to its pre-defined cap or an amount (no greater than its maximum).

Repo Transactions

The amounts defined above will be processed via a repo trade against FICC as counterparty until such time that FICC has liquidated the underlying bonds. This feature will allow firms to close out any obligations against FICC and achieve a finality of settlement via a repo vs. FICC to adequately reflect the financing transaction. The repo will subsequently be closed when FICC's liquidation agent liquidates the bonds and the underlying firms deliver the bonds back to FICC to close out the repo transaction.

Member Balance Sheet Usage

While having our members engage in committed facilities would have an impact on their balance sheets, potentially preventing them from engaging in other lending, this proposal would have no balance sheet impact until the point where there is an actual member failure. At that point, the impact would be limited to that amount that the member had to finance in anticipation of liquidation, so that usage would be sized to the particular event, rather than the potential worst case scenario. It would also only impact the firms who had in fact caused the liquidity need. Saying this, it would in all probability also spread the financing need among multiple firms rather than concentrating it among a small number of firms.

Industry Costs

The CCLF proposal would have no cost to the industry; there is no commitment fee to pay. At the point where there is a failure and firms are asked to finance their own positions, they would be reimbursed for their financing costs by FICC. These costs would become part of the liquidation P&L, as they would if FICC had done the financing. If there are sufficient resources to pay for these costs, there would be no expense to the members; if there is a shortfall, the costs would become part of the loss allocation, borne by all members.

Operational Risk

This proposal would minimize the movement of securities. We feel that it creates far less operational risk than any of the other approaches considered. In the “committed lines” approach, FICC would be accepting delivery of all long positions. We would then have to instruct the firms involved with the facility to receive in many securities later in the day to collateralize the line. We would not have certainty over the size or identity of these MBS until after most of the settlements had occurred for the day. We would also have to set up the deliveries for these items. This process would be subject to human error, and could cause disruption to the firms providing the financing.

In contrast, under the CCLF approach, we would promptly instruct firms which items they would not be delivering to us. They would already know these securities, and would have much more time to secure their funding and certainty as to the identity of the securities to be used. Recognizing that there may be unusual stress in the market on this day, the additional time provided by this method could be crucial.

The CCLF approach is consistent with the existing practice, and represents an approach with which members are fully familiar. Other approaches would involve new procedures that haven’t been tested and, under any circumstances, would represent special events that would be outside the industry norm, with all of the risks that would involve.

Adherence to IOSCO Regulatory Recommendations

If approved, the CCLF proposal would further insure that MBSD can take timely action to contain liquidity pressures and continue to meet its obligations, as outlined in IOSCO Recommendation 6, “Default Procedures.” The facility provides MBSD an additional contingency option if liquidity arrangements (bank loans and repo facilities) were unavailable and a member default resulted in the depletion of the aggregate Clearing Fund. Further, since the facility will be incorporated into the MBSD legal framework, it will be transparent to its members and enforceable in an insolvency.

Clearing Bank Concentration

Since all of the Primary Dealers – the most likely firms to try to engage in a committed facility -- clear at the Bank of New York Mellon and JPM Chase, there could be a concentration of liquidity usage at the two banks. This would particularly be the case if a repo market dislocation did occur on the day that we called in the lines. By having all members finance their respective portions of the insolvent member’s long position that they were due to deliver, we would have dispersion of the financing beyond the clearing banks since we have firms that do utilize other clearing banks or even self-clear with the Fed.

Optionality of the Process

FICC proposes to use the CCLF process in the event it is not able to procure its own financing via its existing repo agreements. In the event of a smaller liquidation, FICC could choose to accept the deliveries and fund them with cash on hand. Again, this flexibility would allow us to proceed in the most cost-effective way for the industry, while not unnecessarily tying up member firms' resources.

Next Steps

FICC continues to work with the regulators to implement MBSD CCP. Firms will receive an updated version of the proposed rule changes to the MBSD CCP rule filing as it relates to CCLF. Other key steps include:

Attestation

FICC will modify its current rule filing for MBSD CCP to incorporate CCLF as part of its rules. The regulators will then post the rule filing for comment as we move forward. As part of the process, each firm will be asked to sign an Officer's Certificate to ensure that the member firm understands CCLF and, should FICC declare a CCLF event, the member agrees to contribute up to its defined liquidity contribution cap and, in accordance with the requirements under the Rules, enter into repurchase agreements with FICC. In addition, member firms will attest to the fact that they will incorporate this amount into their liquidity planning, and will continually reassess their liquidity plans and any related operational procedures. Firms will be required to return this document prior to MBSD CCP going live.

CCLF Testing

FICC will be seeking to ensure that all members understand the process to the greatest extent possible. As part of its pilot program, FICC will conduct a test amongst the pilot firms in November. These tests will then be extended to all member firms at a date to be defined by FICC after regulatory approval for MBSD CCP has been received and the program is in full production.

Conclusion

It is FICC's position that the CCLF process outlined here gives the best possible process for member firms that provides finality of settlement, a defined cap for potential liquidity needs that provides a level of predictability for firms to manage potential liquidity needs to facilitate a liquidation encompassing a major firm. This proposal also does not impose excessive costs or balance sheet constraints on the member community. We feel that it will force the firms to finance the portion of the liquidity need that they themselves cause, while not changing the nature of, or the protection that, the guaranty of settlement provides.

This process will also be fairer to midsize or institutional members as it will not force them to subsidize fees being paid to the larger firms.

And finally, we believe that this proposal addresses the concerns articulated by the Regulators. Namely, we will be eliminating our direct dependence on the repo market for funding, we will be procuring funding from the member community and, most importantly, if funding from the Fed Window is needed, the requests will be coming from the institutions with whom the Fed is currently set up to deal.

[MEMBER NAME]

OFFICERS' CERTIFICATE

I, _____, _____, and I,
(name) (title)
_____, _____,¹ each of
(name) (title)
_____, a _____ [relevant entity] (the "Member"),
(company) (state)

hereby certify that we are authorized signers of the Member and on behalf of the Member, we are authorized and empowered to certify to the following:

1. Capitalized terms used herein and not otherwise defined shall be defined in accordance with the Fixed Income Clearing Corporation ("FICC") Mortgage-Backed Securities Division Clearing Rules (the "Rules");
2. We have read and we understand [Important Notice XXX-XX dated XXX, 2010], including the rules related to the Capped Contingency Liquidity Event that are described and referenced to therein, and in our opinion we have made, or have caused to be made under our supervision, such examination or investigation as is necessary to enable us to express an informed opinion as to the matters referred to herein;
3. We hereby certify that the Member (choose one):
 - is eligible for and has established borrowing privileges at the Federal Reserve Bank Discount Window;
 - has an affiliate that is eligible for and has established borrowing privileges at the Federal Reserve Bank Discount Window for the Member; or
 - is ineligible for or has not established borrowing privileges at the Federal Reserve Bank Discount Window either directly or through an affiliate.
4. We hereby certify that the Member will (a) incorporate an amount at least equal to its Defined Capped Liquidity Amount into its liquidity planning, and (b) will continually reassess its liquidity plans and related operational plans and procedures, including periodic discussions with its financing sources, in each case, to ensure its ability to meet

¹ Note: At least one Authorized Signatory must be on FICC's list of authorized signers previously provided by the Member to FICC, and at least one Authorized Signatory must have oversight authority over the Member's funding policy and liquidity planning.

This certificate is provided for informational purposes only. FICC will provide the final certificate to Participants for completion at a later date.

any funding obligations incurred as a result of FICC's declaration of a Capped Contingency Liquidity Event; and

5. Should FICC declare a Capped Contingency Liquidity Event, the Member will finance amounts set forth by notice from FICC up to its Defined Capped Liquidity Amount, in accordance with the requirements under the Rules, by entering into repurchase transactions with FICC pursuant to the terms and conditions of the Rules and the 1996 SIFMA Master Repurchase Agreement (without referenced annexes, except, in the case of a Member that is a Registered Investment Company, Annex VII) incorporated by reference therein.

In WITNESS WHEREOF, we have hereunto set our hands this ____ day of _____,
2011.

By: _____

Name:

Title:

By: _____

Name:

Title:

Section 2a. Capped Contingency Liquidity Facility¹

(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 16 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

¹ This rule remains subject to the approval of the Securities and Exchange Commission.

- 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 into 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.