

**FIXED INCOME CLEARING CORPORATION**  
**MORTGAGE-BACKED SECURITIES DIVISION**  
**CLEARING RULES**

**EFFECTIVE AS OF NOVEMBER 21, 2025**

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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.”

### **Acknowledgement Cutoff Time**

The term “Acknowledgement Cutoff Time” shall have the meaning given to that term in Section 9(b) of Rule 11.

### **Actual Deposit**

The term “Actual Deposit” shall have the meaning given that term in Section 4 of Rule 4.

### **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 (which shall include the 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.

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\* All products and services provided by the Corporation referenced in these Rules are either registered trademarks or servicemarks of, or trademarks or servicemarks of, The Depository Trust & Clearing Corporation or its affiliates. Other names of companies, products or services appearing in these Rules are the trademarks or servicemarks of their respective owners.

**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.

**Average RFD**

The term “Average RFD” shall have the meaning given that term in Section 7 of Rule 4.

**Backtesting Charge**

The term “Backtesting Charge” means an additional charge that may be added to a Clearing Member’s VaR Charge to mitigate exposures to the Corporation caused by settlement risks that may not be adequately captured by the Corporation’s portfolio volatility model. The Backtesting Charge may apply to Clearing Members that have 12-month trailing backtesting coverage below the 99 percent backtesting coverage target. The Backtesting Charge shall generally be equal to the Clearing Member’s third largest deficiency that occurred during the previous 12 months. The Corporation may in its discretion adjust such charge if the Corporation determines that circumstances particular to a Clearing Member’s settlement activity and/or market price volatility warrant a different approach to determining or applying such charge in a manner consistent with achieving the Corporation’s backtesting coverage target.

**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.

**Brokered Transaction**

The term “Brokered Transaction” means any 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”.

**CET1 Capital**

The term “CET1 Capital” means an entity’s common equity tier 1 capital, calculated in accordance with such entity’s regulatory and/or statutory requirements.

**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.

**Claimable Unit**

The term “Claimable Unit” means (a) for CPR Claims relating to pool allocations or substitutions for Pool Deliver Obligations that have been allocated after the Factor Release Date following the Contractual Settlement Date, the group of pools allocated between one Factor Release Date and the next Factor Release Date for a given TBA transaction and (b) for CPR Claims relating to pool substitutions for Pool Deliver Obligations that are a result of Pool Netting, the sum of a Clearing Member’s netting output generated from any given Pool Netting cycle that has the same trade terms, including TBA CUSIP Number, Contractual Settlement Date, price and buy/sell indicator.

**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 Fund Cash**

The term “Clearing Fund Cash” shall have the meaning given that term in Section 3a of Rule 4.

**Clearing Member**

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.



**Close of Business**

The term “Close of Business” means, with respect to a Business Day, 5:00 p.m. on such Business Day, unless otherwise determined by the Corporation as the result of delay in the close of Fedwire.

**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, Stipulated Trade, SBON 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.

**Corporate Contribution**

The term “Corporate Contribution” shall have the meaning given that term in Section 7a of Rule 4.

**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.

**CPR Claim**

The term “CPR Claim” shall have the meaning set forth in Section 10 of Rule 9.

**Credit Risk Rating Matrix**

The term “Credit Risk Rating Matrix” means a matrix of credit ratings of Members specified in Section 11 of Rule 3. The matrix is developed by the Corporation to evaluate the credit risk such Members pose to the Corporation and its Members and is based on

factors determined to be relevant by the Corporation from time to time, which factors are designed to collectively reflect the financial and operational condition of a Member. These factors include (i) quantitative factors, such as capital, assets, earnings, and liquidity, and (ii) qualitative factors, such as management quality, market position/environment, and capital and liquidity risk management.

### **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 Number**

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

## **Cybersecurity Confirmation**

The term “Cybersecurity Confirmation” means a written document provided to the Corporation by all Members and applicants for membership that confirms the existence of an information system cybersecurity program and includes the representations listed below.

Each Cybersecurity Confirmation shall (1) be on a form provided by the Corporation; (2) be signed by a designated senior executive of the Member or applicant who is authorized to attest to these matters; and (3) include the following representations, made with respect to the two years prior to the date of the Cybersecurity Confirmation:

1. The Member or applicant has defined and maintains a comprehensive cybersecurity program and framework that considers potential cyber threats that impact their organization and protects the confidentiality, integrity and availability requirements of their systems and information.
2. The Member or applicant has implemented and maintains a written enterprise cybersecurity policy or policies approved by senior management or the organization’s board of directors, and the organization’s cybersecurity framework is in alignment with standard industry best practices and guidelines, as indicated on the form of Cybersecurity Confirmation.
3. If using a third party service provider or service bureau(s) to connect or transact business or to manage the connection with the Corporation, the Member or applicant has an appropriate program to (a) evaluate the cyber risks and impact of these third-parties, and (b) review the third-party assurance reports.
4. The cybersecurity program and framework protect the segment of the Member’s or applicant’s system that connects to and/or interacts with the Corporation.
5. The Member or applicant has in place an established process to remediate cyber issues identified to fulfill the Member’s or applicant’s regulatory and/or statutory requirements.
6. The cybersecurity program’s and framework’s risk processes are updated periodically based on a risk assessment or changes to technology, business, threat ecosystem, and/or regulatory environment.
7. A comprehensive review of the Member’s or applicant’s cybersecurity program and framework has been conducted by one of the following:
  - The Member or applicant, if that organization has filed and maintains a current Certification of Compliance with the Superintendent of the New York State Department of Financial Services pursuant to 23 NYCRR 500;

- A regulator who assesses the program against a designated cybersecurity framework or industry standard, including those that are listed on the form of the Cybersecurity Confirmation and in an Important Notice issued by the Corporation from time to time;
- An independent external entity with cybersecurity domain expertise, including those that are listed on the form of the Cybersecurity Confirmation and in an Important Notice issued by the Corporation from time to time; and
- An independent internal audit function reporting directly to the board of directors or designated board of directors committee of the Member or applicant, such that the findings of that review are shared with these governance bodies.

### **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.

### **Declared Non-Default Loss Event**

The term “Declared Non-Default Loss Event” shall have the meaning given that term in Section 7 of Rule 4.

### **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.

### **Defaulting Member Event**

The term “Defaulting Member Event” shall have the meaning given that term in Section 7 of Rule 4.

### **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.

**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.

**Do Not Allocate**

The term “Do Not Allocate” means the process by which Clearing Members that have two or more Trade-for-Trade Transactions and/or SBON Trades with the same Par Amount, CUSIP Number and established date in the settlement cycle, may offset such transactions against one another.

**Do Not Allocate Transaction Adjustment Payment**

The term “Do Not Allocate Transaction Adjustment Payment” means the amount equal to the difference between the Settlement Price of the buy and sell TBA Obligation transactions multiplied by the contractual quantity. To differentiate between a buy and sell transaction, an indicator of -1 for a buy trade and +1 for a sell trade is multiplied by the contractual quantity of such trade.

**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.

**DTCC**

The term “DTCC” means The Depository Trust & Clearing Corporation.

## **DTCC Confidential Information**

The term “DTCC Confidential Information” shall mean all non-public information provided by DTCC and/or the Corporation that (i) is marked or otherwise identified in writing prior to disclosure to the recipient as confidential, (ii) is designated by DTCC or the Corporation as confidential, or (iii) the recipient knows or, under the circumstances surrounding disclosure, ought to reasonably know is confidential.

## **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**

The term “Eligible Clearing Fund Security” means an unmatured bond which is either an Eligible Clearing Fund Agency Security, an Eligible Clearing Fund Mortgage-Backed Security or an Eligible Clearing Fund Treasury 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 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”.

## **EPN Rules**

The term “EPN Rules” means the rules of the Corporation relating to the EPN Service, as amended from time to time.

**EPN Service**

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

**Event Period**

The term “Event Period” shall have the meaning given that term in Section 7 of Rule 4.

**Excess Adjusted Net Capital**

The term “Excess Adjusted Net Capital” means, as of a particular date, the amount equal to the difference between the adjusted net capital of a Futures Commission Merchant and the minimum adjusted net capital that such Futures Commission Merchant must have to comply with the requirements of 17 C.F.R. Section 1.17(a)(1) or (a)(2), or any successor rule or regulation thereto.

**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 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 Clearing Fund Deposit**

The term “Excess Clearing Fund Deposit” shall have the meaning given that term in Section 10 of Rule 4

**Excess Liquid Capital**

The term “Excess Liquid Capital” means, as of a particular date, the amount equal to the difference between the Liquid Capital of a Government Securities Broker or Government Securities Dealer and the minimum Liquid Capital that such Government Securities Broker or Government Securities Dealer must have to comply with the requirements of 17 C.F.R. Section 402.2(a), (b) and (c), or any successor rule or regulation thereto.

**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**

The term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

**Expanded Pool Net Transaction Adjustment Payment**

The term “Expanded Pool Net Transaction Adjustment Payment” means the amount equal to the difference between the System Price and the SBON Trade’s Settlement Price or Trade-for-Trade Transaction’s Settlement Price, as applicable, multiplied by the total current face of the pools used to satisfy such obligation, then divided by 100. To differentiate between a buy and sell transaction, an indicator of +1 for a buy trade and -1 for a sell trade would be multiplied by the total current face of the pools used to satisfy the obligation.

**Expanded Pool Netting**

The term “Expanded Pool Netting” means the netting process that captures pool allocations when a Clearing Member has missed the deadline established by the Corporation for the Pool Netting process.

**Factor Release Date**

The term “Factor Release Date” means, with respect to a pool, the date on which Fannie Mae, Freddie Mac or Ginnie Mae, as applicable, releases the factor that represents the percentage of the agency’s original balance that remains outstanding as of such date.

**Factor Update Adjustment Payment**

The term “Factor Update Adjustment Payment” means the amount equal to a factor update that adjusts the Settlement Value of Pool Deliver Obligations or Pool Receive Obligations, as applicable, that have settled.

**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.

**Fannie Mae**

The term “Fannie Mae” means the Federal National Mortgage Association.



## **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.

**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.

**FOMC**

The term “FOMC” means the Federal Open Market Committee as described on the website of the FRB.

**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.

**Freddie Mac**

The term “Freddie Mac” means the Federal Home Loan Mortgage Corporation.

## **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.

## **Futures Commission Merchant**

The term “Futures Commission Merchant” shall have the meaning set forth in the definitions section of the Commodity Exchange Act, except that no entity shall be deemed to be a Futures Commission Merchant for purposes of these Rules unless it is registered as such with the CFTC.

## **Ginnie Mae**

The term “Ginnie Mae” means the Government National Mortgage Association.

## **Government Securities Broker**

The term “Government Securities Broker” shall have the meaning given that term in Section 3(a)(43) of the Exchange Act, unless otherwise provided in these Rules.

## **Government Securities Dealer**

The term “Government Securities Dealer” shall have the meaning given that term in Section 3(a)(44) of the Exchange Act, unless otherwise provided in these Rules.

## **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 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 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 Securities Issuer Clearing Member**

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

### **Government Sponsored Enterprise**

The term “Government Sponsored Enterprise” shall mean Fannie Mae, Ginnie Mae, Federal Home Loan Banks, or Freddie Mac.

### **Guaranteed/Novated Obligations**

The term “Guaranteed/Novated Obligations” means obligations to deliver or receive a Security satisfying certain TBA criteria determined by the Corporation and the payment obligations related thereto.

### **Holiday**

The term “Holiday” means, with respect to the Holiday Charge, any day on which the Corporation is closed, but the day is not observed as a holiday by the Securities Industry and Financial Markets Association and the bond markets are open.

### **Holiday Charge**

The term “Holiday Charge” means an additional charge that may be added to Clearing Members’ VaR Charge on the Business Day prior to a Holiday. The Holiday Charge approximates the exposure that a Clearing Member’s trading activity on the applicable Holiday could pose to the Corporation. Since the Corporation cannot collect margin on the Holiday, the Holiday Charge is due on the Business Day prior to the Holiday.

The methodology for calculating a Holiday Charge shall be determined by the Corporation in advance of each applicable Holiday. The Holiday Charge approximates each Clearing Member’s Required Fund Deposit to address the exposure such Clearing Member’s trading activity on the applicable Holiday could pose to the Corporation. The Corporation shall have the discretion to calculate the Holiday Charge based on its assessment of market conditions at the time the Holiday Charge is calculated (such as, for example, significant market occurrences that could impact market price volatility). The Corporation shall inform Clearing Members of the methodology it will use to calculate the Holiday Charge by an Important Notice issued no later than 10 Business Days prior to the day on which the applicable Holiday Charge is applied. Examples of potential methodologies for the Holiday Charge may include, but shall not be limited to, time scaling of the VaR Charge or a stress scenario that reflects potential market price volatility on the Holiday.

### **Indemnified Person**

The term “Indemnified Person” shall have the meaning given to that term in Section 8 of Rule 3.

**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.

**Insured Credit Union**

The term “Insured Credit Union” shall have the meaning given to that term in Federal Credit Union Act.

**Insured Credit Union Clearing Member**

The term “Insured Credit Union 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.

## Intraday Mark-to-Market Charge

The term “Intraday Mark-to-Market Charge” means an additional charge that is collected from a Clearing Member (unless waived or altered by the Corporation per subsection (c) below) to mitigate the Corporation’s exposures that may arise due to intraday changes in the size, composition and constituent security prices of such Member’s portfolio. The Intraday Mark-to-Market Charge equals the difference between Mark-to-Market amounts already included in the Clearing Member’s Cash Settlement amounts and such Clearing Member’s current portfolio marked to the most recently observed System Price for such positions. The following apply with respect to the Intraday Mark-to-Market Charge:

- (a) The Intraday Mark-to-Market Charge applies to Clearing Members that experience an adverse intraday Mark-to-Market change that equals or exceeds (x) a certain threshold dollar amount (but not less than \$1,000,000) as determined by the Corporation from time to time as compared to the Clearing Member’s start-of-day Mark-to-Market requirement including, if applicable, any subsequently collected Mark-to-Market amount, and (y) a certain threshold percentage (but not less than 10 percent) as determined by the Corporation from time to time as compared to the daily VaR Charge (each of (x) and (y), a “Parameter” for purposes of this definition).
- (b) If certain market conditions occur, the Corporation may reduce the threshold dollar amount in Parameter (x) above (but not to less than \$250,000) and the threshold percentage in Parameter (y) above (but not to less than 5 percent) in applying the Intraday Mark-to-Market Charge to Clearing Members whose portfolios may present relatively greater risks to the Corporation on an overnight basis due to such market conditions. Examples of market conditions that the Corporation may consider with respect to applying this subsection (b) may include, but shall not be limited to, the occurrence of sudden large swings in an equity index in either direction and moves in U.S. Treasury yields and mortgage-backed security spreads outside of historically observed market moves.
- (c) The Corporation may waive the imposition of the Intraday Mark-to-Market Charge, or may decrease or increase the amount of the Intraday Mark-to-Market Charge, in circumstances where the Corporation determines that the adverse change to the Clearing Member’s Mark-to-Market and/or the breaches of the Parameters referred to in subsection (a) or as adjusted pursuant to subsection (b) or (c) do not accurately reflect the Corporation’s risk exposure to the Clearing Member’s intraday Mark-to-Market fluctuation. Examples of circumstances that the Corporation may consider with respect to the determination in the previous sentence, may include, but shall not be limited to, large Mark-to-Market fluctuations arising out of trade errors. Any decrease to such Intraday Mark-to-Market Charge shall not reduce the Clearing Member’s Required Fund Deposit below the amount reported to the Clearing Member at the start of day. Any increase to the Intraday Mark-to-Market Charge shall not cause the Intraday Mark-to-Market Charge to be greater than two times its calculated amount. All waivers and/or changes of the Intraday Mark-to-Market Charge shall be approved, documented and reviewed on a regular basis pursuant to the Corporation’s procedures.

## **Intraday VaR Charge**

The term “Intraday Var Charge” means an additional charge that is collected from a Clearing Member if the difference of (i) a Clearing Member’s VaR Charge collected pursuant to Rule 4 and (ii) such Clearing Member’s intraday VaR calculations exceeds a certain percentage threshold and dollar amount determined by FICC from time to time based on its regular review of margining methodologies.

The Corporation may determine not to collect an Intraday VaR Charge, or may decrease the amount of the Intraday VaR Charge, in circumstances where the Corporation determines that the volatility-based intraday exposure of the Clearing Member and/or the breaches of the threshold amount do not accurately reflect the Corporation’s risk exposure to the Clearing Member. Examples of circumstances that the Corporation may consider with respect to the determination in the previous sentence may include, but shall not be limited to, (i) changes in portfolio composition result in the threshold amount not being breached on a consistent or persistent basis, (ii) trades that will be offset by trades submitted later in the day, (iii) the threshold amount was breached due to the submission of erroneous trades that are being corrected, or (iv) the threshold amount was breached due to erroneous data inputs.

The Corporation may waive the collection of an Intraday VaR Charge in exigent circumstances if the Corporation determines (i) that such a waiver is necessary to protect the Corporation, its participants, investors and the public interest or (ii) it can effectively address the risk exposure presented by the Clearing Member without the collection of the Intraday VaR Charge.

Any waiver, reduction or determination not to collect an Intraday VaR Charge shall be approved, documented and reviewed on a regular basis pursuant to the Corporation’s procedures.

## **Legal Risk**

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

## **LEI**

The term “LEI” means a Legal Entity Identifier that is a 20-character reference code to uniquely identify legally distinct entities that engage in financial transactions based on the ISO 17442 standard developed by the International Organization for Standardization that satisfies the standards implemented by the Global Legal Entity Identifier Foundation.

## **Lender**

The term “Lender” shall have the meaning given that term in Section 11 of Rule 4.

**Liquid Capital**

The term “Liquid Capital” means, as of a particular date, the amount equal to the liquid capital of a Government Securities Broker or Government Securities Dealer as defined in 17 C.F.R. Section 402.2(d), or any successor rule or regulation thereto.

**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.

**Loss Allocation Cap**

The term “Loss Allocation Cap” shall have the meaning given that term in Section 7 of Rule 4.

**Loss Allocation Notice**

The term “Loss Allocation Notice” shall have the meaning given that term in Section 7 of Rule 4.

**Loss Allocation Withdrawal Notice**

The term “Loss Allocation Withdrawal Notice” shall have the meaning given that term in Section 7b of Rule 4.

**Margin Liquidity Adjustment Charge or MLA Charge**

The terms “Margin Liquidity Adjustment Charge” or “MLA Charge” mean, with respect to each Margin Portfolio, an additional charge applied to net unsettled positions of a Member. The MLA Charge shall be calculated daily and shall be included in each Member’s Required Fund Deposit.

For purposes of calculating this charge, net unsettled positions in TBA transactions, Specified Pool Trades and Stipulated Trades shall be included in one mortgage-backed securities asset group, which may be further categorized into subgroups by mortgage pool types.

The asset groups and subgroups shall be set forth in a schedule that is published on the Corporation’s website. It shall be the Member’s responsibility to retrieve the schedule. The Corporation will provide Members with at a minimum 5 Business Days advance notice of any change to the schedule via an Important Notice.

The Corporation shall first calculate a measurement of market impact cost for net unsettled positions in each asset group/subgroup by using the directional market impact cost, which is a function of the net unsettled positions’ net directional market value. The net directional market value and the gross market value shall be divided by the average daily volumes of the securities in that asset group/subgroup over a lookback period.



The calculated market impact cost for net unsettled positions in each asset group/subgroup shall be compared to a portion of the VaR Charge that is allocated to that asset group/subgroup. If the ratio of the calculated market impact cost to a portion of the VaR Charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA Charge will be applied to that asset group/subgroup. If the ratio of these two amounts is equal to or less than this threshold, the MLA Charge will not be applied to that asset group/subgroup.

When applicable, an MLA Charge for each asset group/subgroup would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to a portion of the VaR Charge allocated to that asset group/subgroup exceeds the threshold, and (2) a portion of the VaR Charge allocated to that asset group/subgroup.

Each applicable MLA Charge for each asset group/subgroup shall be added together to result in one total MLA Charge.

The Corporation may apply a downward adjusting scaling factor based on the ratio of the calculated market impact cost to a portion of the VaR Charge to result in a final MLA Charge, where a higher ratio would trigger a larger downward adjustment of the MLA Charge and a lower ratio would trigger no downward adjustment of the MLA Charge.

### **Margin Proxy**

The term “Margin Proxy” means, with respect to each margin portfolio, an alternative volatility calculation for specified net unsettled positions of a Clearing Member, calculated using the historical market price changes of such benchmark TBA securities determined by the Corporation. The Margin Proxy would be applied by the Corporation as an alternative to the model-based volatility calculation of the VaR Charge for each Clearing Member’s margin portfolio. The Margin Proxy shall cover such range of historical market price moves and parameters as the Corporation from time to time deems appropriate.

### **Margin Transaction Adjustment Payment**

The term “Margin Transaction Adjustment Payment” means the TBA Transaction Adjustment Payment amount calculated by the Corporation for each Transaction to be collected or paid prior to the Contractual Settlement Date.

### **Margin Transaction Adjustment Payment Return**

The term “Margin Transaction Adjustment Payment Return” means the return of Margin Transaction Adjustment Payment for each Transaction that was collected or paid during the prior Cash Settlement.

### **Margin Transaction Adjustment Payment Return Interest**

The term “Margin Transaction Adjustment Payment Return Interest” means the overnight interest that accrued on the Margin Transaction Adjustment Payment for each Transaction that was collected or paid during the prior Cash Settlement.

**Mark Return**

The term “Mark Return” means the return of Mark-to-Market for each Transaction, and principal and interest related payments for each Fail, that was collected or paid during the prior Cash Settlement.

**Mark Return Interest**

The term “Mark Return Interest” means the overnight interest that accrued on the Mark Return for each Transaction that was collected or paid during the prior Cash Settlement.

**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.

**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 required deposit to the Clearing Fund with respect to each margin portfolio of a Clearing Member.

**Minimum Margin Amount**

The term “Minimum Margin Amount” means a minimum volatility calculation for specified net unsettled positions of a Clearing Member, calculated using the historical market price changes of such benchmark TBA securities determined by the Corporation. The Minimum Margin Amount shall cover such range of historical market price moves and parameters as the Corporation from time to time deems appropriate using a look-back period of no less than one year and no more than three years.

**Miscellaneous Adjustment Amount**

The term “Miscellaneous Adjustment Amount” means the net total of all miscellaneous cash-only amounts that, on a particular Business Day, are required to be paid by a Clearing Member to the Corporation and/or are entitled to be collected by a Clearing Member from the Corporation.

**Mortgage-Backed Securities Division or MBSD**

The term “Mortgage-Backed Securities Division” or “MBSD” 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.

**NCUA**

The term “NCUA” means the National Credit Union Administration.

**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.

**Novation**

The term “Novation” means the termination of deliver, receive and related payment obligations between Members and the replacement of such obligations with the Guaranteed/Novated 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, Executive Director, 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 Transactions, Stipulated Trades and SBON Trades, 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.

**Pool Settlement Position**

The term “Pool Settlement Position” means either a Pool Receive Obligation or a Pool Deliver Obligation, as the context requires.

**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 Clearing Agency Member**

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

**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 Attestation**

The term “Required Attestation” has the meaning assigned in Section 2a(e) of Rule 17.

## **Required Fund Deposit**

The term “Required Fund Deposit” means the amount of each Clearing Member’s required deposit to the Clearing Fund as determined by the Corporation pursuant to Section 2 of Rule 4 and other applicable Rules.

## **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.

## **Rules**

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

## **SBO**

The term “SBO” means the settlement balance orders that constitute the net positions of a Clearing Member as a result of the TBA Netting process. The resulting transactions from this TBA Netting process are identified as SBON Trades.

**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 Net Open Position**

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

**SBON Trade**

The term “SBON 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 SBON 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 SBON Trades” is a net seller. SBON Trades settle directly with the Corporation.

**SEC**

The term “SEC” means the Securities and Exchange Commission.

**Securities Industry and Financial Markets Association**

The term “Securities Industry and Financial Markets Association” (“SIFMA”) means the Securities Industry and Financial Markets Association or any successor organization.

**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 (and as referenced in the Federal Reserve Banks Operating Circular 12).



**Settlement Price**

The term “Settlement Price” means (a) in the case of a Trade-for-Trade Transaction, Specified Pool Trade, Stipulated Trade or SBO-Destined Trade, the Contractual settlement price agreed to by the parties; (b) in the case of an SBON Trade and unallocated TBAs that go through the process for determining the TBA Reprice Transaction Adjustment Payment, the System Price; and (c) 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 Specified Pool Trade, a Pool Deliver Obligation, or 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.

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, an SBO-Destined Trade, a Stipulated Trade, or an SBON Trade, multiplied by the Settlement Price.

**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, available at <https://www.sifma.org/resources/general/tba-market-governance/> under “Uniform Practices Manual.”

**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.

**Stipulated Trade**

The term “Stipulated Trade” means a trade in which allocated pools on the Contractual Settlement Date must satisfy certain trade parameters that are agreed upon by Clearing Members at the time of execution.

**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 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 or To-Be-Announced**

The term “TBA” or “To-Be-Announced” means a contract for the purchase or sale of a mortgage-backed security to be delivered at an agreed-upon future date because as of the transaction date, the seller has not yet identified certain terms of the contract, such as the pool number and number of pools, to the buyer.

**TBA Obligations**

The term “TBA Obligations” means SBO-Destined obligations, SBON Trades and Trade-for-Trade Transactions.

**TBA Reprice Transaction Adjustment Payment**

The term “TBA Reprice Transaction Adjustment Payment” means the amount equal to the difference between the TBA Obligation’s Settlement Price and the System Price, multiplied by the unallocated contractual quantity, and then divided by 100. To differentiate between a buy and sell transaction, an indicator of -1 for a sell trade and +1 for a buy trade is multiplied by the unallocated pool’s contractual quantity.

**TBA Transaction Adjustment Payment**

The term “TBA Transaction Adjustment Payment” means the amount equal to the difference between the SBO-Destined Trade’s Settlement Price and the System Price, multiplied by the contractual quantity of such trade, and then divided by 100. To differentiate between the buyer and seller of the transaction, an indicator of -1 for the buy trade and +1 for the sell trade is multiplied by the contractual quantity of such trade.

**Termination Date**

The term “Termination Date” shall have the meaning given that term in Section 14 of Rule 3.

**Tier 1 RBC Ratio**

The term “Tier 1 RBC Ratio” means the ratio of an entity’s tier 1 capital to its total risk-weighted assets, calculated in accordance with such entity’s regulatory and/or statutory requirements.

**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.

## **TMPG**

The term “TMPG” means the Treasury Market Practices Group as described on the website of the Federal Reserve Bank of New York.

## **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 intended for Pool Netting and Expanded Pool Netting, but 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.

## **UMBS**

The term “UMBS” means a single-class mortgage-backed security backed by fixed-rate mortgage loans on one to four unit (single-family) properties issued by either Fannie Mae or Freddie Mac which has the same characteristics (such as payment delay, pooling prefixes and minimum pool submission amounts) regardless of whether Fannie Mae or Freddie Mac is the issuer.

## **Unmatched Margin Report**

The term “Unmatched Margin Report” means the Report furnished by the Corporation to Dealers listing Transactions involving Brokers that have the uncomparing 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 Clearing 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. To the extent that the primary source of such historical data becomes unavailable for an extended period of time, the Corporation shall utilize the Margin Proxy as an alternative volatility calculation. In its assessment of volatility, the Corporation shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually. If the volatility calculation is lower than the VaR Floor then the VaR Floor will be utilized as such Clearing Member’s VaR Charge.

## **VaR Floor**

The term “VaR Floor” means, with respect to each margin portfolio, the greater of (i) the VaR Floor Percentage Amount and (ii) the Minimum Margin Amount.

## **VaR Floor Percentage Amount**

The term “VaR Floor Percentage Amount” means the sum of the absolute values of Long Positions and Short Positions, at market value, multiplied by a percentage designated by the Corporation that is no less than 0.05% and no greater than 0.30%. The Corporation shall determine the percentage within this range to be applied based on factors including but not limited to a review performed at least annually of the impact of the VaR Floor parameter at different levels within the range to the backtesting performance and to Clearing Members’ margin charges. The Corporation shall inform Clearing Members of

the applicable percentage utilized by the VaR Floor by an Important Notice issued no later than 10 Business Days prior to the implementation of such percentage.

### **Variance Transaction Adjustment Payment**

The term “Variance Transaction Adjustment Payment” means the amount equal to the difference between the SBON Trade’s Settlement Price or the Trade-for-Trade Transaction’s Settlement Price, as applicable, and the System Price, multiplied by the difference between the TBA Obligation and the allocated pools used in satisfaction of such trade, and then divided by 100. To differentiate between a buy and sell transaction, an indicator of -1 for a buy trade and +1 for a sell trade would be multiplied by the total variance amount.

### **Volatility Event Charge**

The term “Volatility Event Charge” means an additional charge that is collected from a Member to mitigate the Corporation’s exposures to market volatility that may arise from a scheduled event, such as the release of an economic indicator or a national election.

The Volatility Event Charge shall be assessed once a day, beginning on the day of the coverage period when one or more of the forward-looking market volatility indicators exceed the threshold(s) specified by the Corporation and ending on the day of the scheduled event. The coverage period shall generally include the two Business Days prior to, as well as the day of, a scheduled event; however, based on its assessment of the market volatility and/or backtesting coverage, the Corporation may elect to either extend or reduce the coverage period by one Business Day.

The Volatility Event Charge, with respect to each margin portfolio, shall be calculated by multiplying the VaR Charge of the margin portfolio by no less than 10 percent and no greater than 30 percent, as determined by the Corporation from time to time based on factors such as backtesting coverage and/or backtesting deficiencies.

The Corporation will provide Members with a list of applicable scheduled events, forwarding-looking market volatility indicators and associated thresholds, as well as any changes to the applicable VaR Charge percentage and coverage period via a quarterly Important Notice to be issued no less than one Business Day prior to the start of either the quarter or the coverage period of the first scheduled event in the quarter, whichever is earlier.

### **Voluntary Termination Notice**

The term “Voluntary Termination Notice” shall have the meaning given that term in Section 14 of Rule 3.

**Watch List<sup>π</sup>**

The term “Watch List” means, at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 6 or 7, as well as Members that, based on the Corporation’s consideration of relevant factors, including those set forth in Section 11(d) of Rule 3, are deemed by the Corporation to pose a heightened risk to the Corporation and its Members.

**Well Capitalized**

The term “Well Capitalized” shall have the meaning given that term in the capital adequacy rules and regulations of the Federal Deposit Insurance Corporation.

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<sup>π</sup> Being placed on the Watch List may result in Clearing Fund-related consequences as well as other consequences under these Rules. Please refer to the Interpretive Guidance with Respect to Watch List Consequences in this rulebook.

## 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 eligibility, qualifications and standards specified in these Rules, (iii) are approved by the Corporation or 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 Brokered Transactions 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.



## RULE 2A – INITIAL MEMBERSHIP REQUIREMENTS

### Section 1 – Eligibility for Membership: Clearing Members

Eligibility for each category of Clearing Member shall be as follows:

(a) Bank Clearing Member – 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) Dealer Clearing Member – 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) Inter-Dealer Broker Clearing Member – 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) Unregistered Investment Pool Clearing Member – A Person shall be eligible to apply 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 in the Clearing System has not been terminated, shall be an Unregistered Investment Pool Clearing Member.

(e) Government Securities Issuer Clearing Member – 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) Insurance Company Clearing Member – A Person shall be eligible to apply 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) Registered Clearing Agency Member – A Person shall be eligible to apply 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) Insured Credit Union Clearing Member – A Person shall be eligible to apply to become an Insured Credit Union Clearing Member if it is an Insured Credit Union in good standing with its primary regulator. An Insured Credit Union 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 Insured Credit Union Clearing Member.

(i) Registered Investment Company Clearing Member – 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.

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

If any Person in categories (a) through (j) 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 Foreign Person applying to become a Clearing 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 these Rules and the Corporation's procedures, unless otherwise stated by the Corporation.

## Section 2 – Membership Qualifications and Standards for Clearing Members

Subject to the limitations set forth in this Rule 2A, 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. Each applicant must have the successful completion of network and connectivity testing at the current FICC standards (the scope of such testing to be determined by the Corporation in its sole discretion).

(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) Bank Clearing Member

(1) If the applicant is a bank or a trust company chartered under the laws of the United States, or a State thereof, applying to become a Bank Clearing Member, it must (i) have CET1 Capital of at least \$500 million and (ii) be Well Capitalized; and

(2) If the applicant is a bank or trust company established or chartered under the laws of a non-U.S. jurisdiction and applying to become a Bank Clearing Member through its U.S. branch or agency, it must (i) have CET1 Capital of at least \$500 million, (ii) comply with the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any domestic systemically important bank (D-SIB) or global systemically important bank (G-SIB) buffer, if applicable) and capital ratios required by its home country regulator, or, if greater, with such minimum capital requirements or ratios required by the Basel Committee on Banking Supervision, and (iii) provide an attestation for itself, its parent bank and its parent bank holding company (as applicable) detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator.

(B) Dealer Clearing Member – If the applicant is registered with the SEC pursuant to Section 15 or 15C of the Exchange Act and is applying to become a Dealer Clearing Member, it must have (1) Net Worth of at least \$25 million, and (2) Excess Net Capital or an equivalent to Excess Net Capital (e.g., Excess Liquid Capital or Excess Adjusted Net Capital), depending on what the applicant is required to report on its regulatory filings, of at least \$10 million.

(C) Inter-Dealer Broker Clearing Member – If if the applicant is registered with the SEC pursuant to Section 15 or 15C of the Exchange Act and is applying to become an Inter-Dealer Broker

Clearing Member, it must have (1) Net Worth of at least \$25 million, and (2) Excess Net Capital or an equivalent to Excess Net Capital (e.g., Excess Liquid Capital or Excess Adjusted Net Capital), depending on what the applicant is required to report on its regulatory filings, of at least \$10 million.

(D) Unregistered Investment Pool Clearing Member

- 1) If the applicant is applying to become an Unregistered Investment Pool Clearing Member, it must have an investment advisor domiciled in the United States and registered with the SEC. An applicant that is an Unregistered Investment Pool must have Net Assets of at least \$250 million. An Unregistered Investment Pool that does not meet such Net Assets 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; and
- (2) In addition to the above, applicants that are Unregistered Investment Pools must obtain at least a "medium" rating on a qualitative assessment performed by the Corporation in which the Corporation will assess certain factors of the applicant, such as management, capital, strategy, 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 at which the responsibility for such factor exists at the applicant (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).

(E) Government Securities Issuer Clearing Member – If the applicant is applying to become a Government Securities Issuer Clearing Member, it must have equity capital of at least \$100 million.

(F) Insured Credit Union Clearing Member – If the applicant is applying to become an Insured Credit Union Clearing Member, it must have equity capital of at least \$100 million and be "well capitalized" as defined by the NCUA under 12 C.F.R. Part 702.

(G) Registered Investment Company Clearing Member – If the applicant is applying to become a Registered Investment Company Clearing Member, it must have Net Assets of at least \$100 million.

- (H) Foreign Member – If the applicant applying to become a Clearing Member is a Foreign Person, it must, at a minimum, satisfy its home country regulator’s minimum financial requirements, in addition to the following:
- (1) In the case of a Foreign Person that is a broker or dealer (and not applying to become a Dealer Clearing Member or Inter-Dealer Broker Clearing Member), it must have total equity capital of at least \$25 million; and
  - (2) In the case of a Foreign Person that is a bank or trust company established or chartered under the laws of a non-U.S. jurisdiction (and not applying to become a Bank Clearing Member through a U.S. branch or agency), it must (i) have CET1 Capital of at least \$500 million, (ii) comply with the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by its home country regulator, or, if greater, with such minimum requirements or ratios required by the Basel Committee on Banking Supervision and (iii) provide an attestation for itself and its parent bank holding company detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator.

The Corporation may, based on information provided by or concerning an applicant that is a Foreign Person, also assign minimum financial requirements for the applicant based on (i) how closely the applicant resembles an existing category of Clearing Member and (ii) the applicant’s risk profile, which assigned minimum financial requirements will be promptly communicated to, and discussed with, the applicant.

- (I) Other – If the applicant is not otherwise addressed in this Section 2(e)(ii), it must be in compliance with its regulator’s minimum financial requirements. The Corporation may, based on information provided by or concerning an applicant, also assign minimum financial requirements for the applicant based on (i) how closely the applicant resembles an existing category of Clearing Member and (ii) the applicant’s risk profile, which assigned minimum financial requirements will be promptly communicated to, and discussed with, the applicant.

The foregoing financial responsibility standards are only the minimum requirements. 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, in its sole discretion, impose heightened or different financial responsibility standards on any applicant. If an applicant does not itself satisfy the required minimum financial responsibility standards, the Board may include for such purposes the financial resources of the parent company of the applicant (including in the case of an applicant that is a U.S. branch or agency, its parent bank), if the parent company has delivered to the Corporation a guaranty, satisfactory in form and substance to the Board, of the obligations of the applicant to the Corporation.

(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.

### 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.

As part of its membership application, each applicant to become a Clearing Member shall obtain and provide to the Corporation an LEI.

As part of its membership application, each applicant (as determined by the Corporation with regard to membership type) shall complete and deliver to the Corporation (1) a FATCA Certification, and (2) a Cybersecurity Confirmation.

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 Clearing Member agrees:

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

Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each applicant and Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such applicant's or Member's obligations under these Rules or as otherwise required by applicable law. Each applicant and Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the applicant or Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

## RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS

### Section 1 – Requirements

The eligibility, qualifications and standards set forth in Rule 2A in respect of an applicant shall continue to be met upon an applicant's admission as a Member and at all times while a Member. 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 each fiscal year, certified without qualification by the Member's independent certified public accountants and prepared in accordance with generally accepted accounting principles;

(b) if the Member is a broker or dealer registered under Section 15 of the Exchange Act or a Government Securities Broker or Government Securities Dealer registered under Section 15C of the Exchange Act, (i) a copy of the Member's Financial and Operational Combined Uniform Single Report ("FOCUS Report") or Report on Finances and Operations of Government Securities Brokers and Dealers ("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 Exchange Act Rule 17a-11 or 17 C.F.R. Section 405.3;

(c) if the Member is a U.S. bank or trust company, a copy of the Member's Consolidated Report of Condition and Income ("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 Member'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 under the laws of a non-U.S. jurisdiction and subject to regulation by its home country regulator in such jurisdiction, a copy of any reports submitted to such home country regulator;

(e) if the Member is a Foreign Member other than one that is a broker, dealer or bank subject to regulation by its home country regulator in such jurisdiction, financial information as requested by the Corporation;

(f) if the Member is an Unregistered Investment Pool, 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 does not fall within clauses (b) through (f) above, copies of the Member's unaudited financial information as specified by the Corporation for each quarter; and

(h) for any Member that has satisfied the financial requirements imposed by the Corporation pursuant to these Rules by means of a guaranty of its obligations by a parent company (including, in the case of a Member that is a U.S. branch or agency, its parent bank), 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 Exchange Act 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.

In furtherance of the preceding paragraph, a Member that is a bank or trust company established or chartered under the laws of a non-U.S. jurisdiction (including a Bank Clearing Member that is a U.S. branch or agency) must (i) provide, no less than annually and upon request by the Corporation, an attestation for itself, its parent bank and its parent bank holding company (as applicable) detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator and (ii) notify the Corporation: (a) within two Business Days of any of their capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) or capital ratios falling below any minimum required by their home country regulator; and (b) within 15 calendar days of any such minimum capital requirement or capital ratio changing.

Moreover, Foreign Members that are regulated by their home country regulator and Bank Clearing Members that are U.S. branches or agencies of non-U.S. banks or trust companies 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 an entity does not comply with the financial reporting and responsibility standards set by their home country

regulator. Foreign Members that are regulated by their home country regulator and Bank Clearing Members that are U.S. branches or agencies of non-U.S. banks or trust companies must also notify the Corporation in writing within 2 Business Days of becoming subject to a disciplinary action by their home country regulator.

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.

In addition to all of the above, each Member shall complete and deliver to the Corporation a Cybersecurity Confirmation at least every two years, on a date that is set by the Corporation and following notice that is provided no later than 180 calendar days prior to such due date.

In addition, each Member shall maintain or upgrade their network technology, or communications technology or protocols on the systems that connect to the Corporation to the version being required and within the time periods as provided by Important Notice posted to the Corporation's website.

Each Member must have a current LEI on file with the Corporation at all times.<sup>1</sup>

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 or upgrade their network technology, or communications technology or protocols on the systems that connect to the Corporation to the version being required within the timeframes required by guidelines issued by the Corporation from time to time and in the manner requested, shall:

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<sup>1</sup> Members shall have 60 calendar days from the date that Members are notified by Important Notice to submit their LEIs. This footnote shall sunset at the end of the 60-calendar day period.

- (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

Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each applicant and Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such applicant's or Member's obligations under these Rules or as otherwise required by applicable law. Each applicant and Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the applicant or Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

### 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

(a) 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.

(b) The Corporation has established standards for designating those Members who shall be required to participate in annual business continuity and disaster recovery testing that the Corporation reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event that business continuity and disaster recovery plans are required to be activated. The standards shall take into account factors such as: (1) activity-based thresholds; (2) significant operational issues of the Member during the twelve months prior to the designation; and (3) past performance of the Member with respect to operational testing. The specific standards adopted by the Corporation and any updates or modifications thereto shall be published to Members and applied on a prospective basis.

Upon notification that the Member has been designated to participate in the annual business continuity and disaster recovery testing, as described above, Members shall be required to fulfill, within the timeframes established by the Corporation, certain 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.

#### 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, including, but not limited to, such information as the Corporation may request



regarding the businesses and operations of the Member and its risk management practices with respect to services of the Corporation utilized by the Member for another Person or Persons, 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, “Extension, Waiver or Suspension of Rules”, 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 Users that are not Clearing 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 agrees to indemnify the Corporation, its affiliates, and each of their respective shareholders, directors, officers, employees, agents and advisors (each, an “Indemnified Person”) for any loss, liability or expense sustained by the Indemnified Person 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) any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that 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 – Ongoing Monitoring

(a) All Members will be monitored and reviewed by the Corporation on an ongoing and periodic basis, which may include monitoring of news and market developments and review of financial reports and other public information.

(b) (i) A Member that is (A) a Bank Clearing Member that files the Call Report, (B) a Dealer Clearing Member or Inter-Dealer Broker Clearing Member that files the FOCUS Report or the equivalent with its regulator, or (C) a Bank Clearing Member that is a Foreign Person and that has audited financial data that is publicly available will be assigned a credit rating by the Corporation in accordance with the Credit Risk Rating Matrix. Such Member's credit rating will be reassessed each time the Member provides the Corporation with requested information pursuant to Section 6 of Rule 3, or as may be otherwise required under these Rules (including Section 11 of this Rule 3).

(ii) Because the factors used as part of the Credit Risk Rating Matrix may not identify all risks that a Member specified in paragraph (b)(i) of this Section 11 may present to the Corporation, the Corporation may, in its discretion, override such Member's credit rating derived from the Credit Risk Rating Matrix to downgrade the Member. This downgrading may result in the Member being placed on the Watch List based on relevant factors, including those set forth in paragraph (d) below. The Corporation may also take such additional actions with regard to the Member as are permitted by these Rules.

(c) Members other than those specified in paragraph (b)(i) of this Section 11 will not be assigned a credit rating by the Credit Risk Rating Matrix but may be placed on the Watch List based on relevant factors, including those set forth in paragraph (d) below, as the Corporation deems necessary to protect the Corporation and its Members.

(d) The factors to be considered by the Corporation under paragraphs (b)(ii) and (c) of this Section 11 include, but are not limited to, (i) news reports and/or regulatory observations that raise reasonable concerns relating to the Member, (ii) reasonable concerns around the Member's liquidity arrangements, (iii) material changes to the Member's organizational structure,

(iv) reasonable concerns of the Corporation about the Member's financial stability due to particular facts and circumstances, such as material litigation or other legal and/or regulatory risks, (v) failure of the Member to demonstrate satisfactory financial condition or operational capability or if the Corporation has a reasonable concern regarding the Member's ability to maintain applicable membership standards and (vi) failure of the Member to provide information required by the Corporation to assess risk exposure posed by the Member's activity (including information requested by the Corporation pursuant to Section 6 of this Rule 3).

(e) 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 the provisions of 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, 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 retain any Excess Clearing Fund Deposits of a Clearing Member that has been placed on the Watch List as provided in Section 10 of Rule 4.

(f) A Member being placed on the Watch List shall result in a more thorough monitoring of the Member's financial condition and/or operational capability, which could include, for example, on-site visits or additional due diligence information requests from the Corporation. In addition, the Corporation may require a Member placed on the Watch List to make more frequent financial disclosures, including, without limitation, interim and/or pro forma reports. Members that are subject to placement on the Watch List are also reported to the Corporation's management committees and regularly reviewed by a cross-functional team comprised of senior management of the Corporation. The Corporation may also take such additional actions with regard to any Member (including a Member placed on the Watch List) as are permitted by these Rules.

## 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.<sup>1</sup>

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<sup>1</sup> 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

### 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 a written notice of such termination ("Voluntary Termination Notice"). The Member shall specify in the Voluntary Termination Notice a desired date for its withdrawal from membership, which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Member to the Corporation as of the time such Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Voluntary Termination Notice from such Member. The Corporation's acceptance shall be evidenced by a notice to Members announcing the Member's termination and the effective date of the termination of the Member (hereinafter the

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otherwise reduce the margined position if timely submitted or an unexpected haircut or capital charge that does not fundamentally change its risk profile.

“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 Clearing Member’s open obligations. If any trade is submitted to the Corporation by such Clearing Member that is scheduled to settle on or after the Termination Date, such Clearing Member’s Voluntary Termination Notice will be deemed void, and the Clearing Member will remain subject to these Rules as if it had not given such Voluntary Termination Notice.

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 8 of Rule 4. If a Member is a Tier One Member and an Event Period were to occur after such Member has submitted its Voluntary Termination Notice but prior to the Termination Date, in order for such Member to benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4, the Member will need to comply with the provisions of Section 7b of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Voluntary Termination Notice previously submitted by the Member.



### RULE 3A – CASH SETTLING 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 9 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. Each applicant to become a Cash Settling Bank Member shall obtain and provide to the Corporation an LEI.

(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.

(v) All Cash Settling Bank Members that, in accordance with such entity's regulatory and/or statutory requirements, calculate a Tier 1 RBC Ratio must have a Tier 1 RBC Ratio equal to or greater than the Tier 1 RBC Ratio that would be required for such Cash Settling Bank to be Well Capitalized.

(d) Each Cash Settling Bank Member:

(i) agrees:

(1) to abide by these Rules 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;

(2) Each Cash Settling Bank Member shall maintain or upgrade their network technology, or communications technology or protocols on the systems that connect to the Corporation to the version being required and within the time periods as provided by Important Notice posted to the Corporation's website;

(3) to have a current LEI on file with the Corporation at all times; and<sup>1</sup>

(4) to be bound by any amendment to these Rules 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 these Rules.

(ii) shall sign and deliver to the Corporation:

(1) the "Appointment of Cash Settling Bank and Cash Settling Bank Agreement";

(2) the agreement(s) authorizing the Corporation's Settlement Agent to utilize NSS for cash settlement as the relevant FRB may require; and

(3) a Cybersecurity Confirmation.

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<sup>1</sup> Cash Settling Bank Members shall have 60 calendar days from the date that Cash Settling Bank Members are notified by Important Notice to submit their LEIs. This footnote shall sunset at the end of the 60-calendar day period.

(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.

(l) Each Cash Settling Bank shall complete and deliver to the Corporation a Cybersecurity Confirmation at least every two years, on a date that is set by the Corporation and following notice that is provided no later than 180 calendar days prior to such due date.

(m) In addition to the applicable provisions of these Rules where Cash Settling Bank Members are mentioned, the following Rules and any relevant schedules cited therein shall apply to Cash Settling Bank Members in the same manner as they apply to Members: Rule 17B, “Wind-down of the Corporation,” Rule 22, “Release of Clearing Data,” Rule 24, “Signatures,” Rule 27, “Rule Changes,” Rule 28, “Hearing Procedures,” Rule 29, “Governing Law and Captions,” Rule 30, “Limitations of Liability,” Rule 33, “Extension, Waiver or Suspension of Rules,” Rule 34, “Action by the Corporation,” Rule 35, “Notices,” Rule 36, “Interpretation of Terms,” Rule 37, “Interpretation of Rules,” Rule 38 “Disciplinary Proceedings,” Rule 40 “Market Disruption and Force Majeure” and Rule 40A “Systems Disconnect: Threat of Significant Impact to the Corporation’s Systems.”

## RULE 4 – CLEARING FUND AND LOSS ALLOCATION

### Section 1 – Required Fund Deposits

Each Clearing Member shall make and maintain on an ongoing basis a deposit to the Clearing Fund. The amount of each Clearing Member's required deposit shall be determined by the Corporation in accordance with this Rule and shall be referred to as the Required Fund Deposit. The timing of payment of the Required Fund Deposit shall be determined in accordance with the provisions of Section 9 of this Rule.

A Clearing Member may in its discretion maintain additional deposits at the Corporation, subject to any requirements the Corporation may establish for such excess amounts pursuant to Section 10 of this Rule. For purposes of these Rules, such additional deposits shall be deemed to be part of the Clearing Fund and the Clearing Member's Actual Deposit but shall not be deemed to be part of the Clearing Member's Required Fund Deposit. The Corporation shall not be required to segregate each Clearing Member's Actual Deposit, but shall maintain books and records concerning the assets that constitute each Clearing Member's Actual Deposit.

### Section 2 – Required Fund Deposit Requirements

#### (a) Long Positions and Short Positions

For purposes of this Rule 4 and Rule 11, 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 uncompleted 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.

(b) Each Business Day, each Clearing Member shall be required to make a Required Fund Deposit to the Clearing Fund equal to the following:

- (i) with respect to each margin portfolio of the Clearing Member, an amount equal to the greater of:
  - (A) the Minimum Charge and
  - (B) the sum of the VaR Charge and the amount equal to six days of interest for any Fail in the margin portfolio where the Clearing Member is a seller,

plus

- (ii) with respect to each Clearing Member, the sum of the following:
  - (A) 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,
  - (B) in the case of Clearing Member with backtesting deficiencies, the Backtesting Charge, if applicable,
  - (C) the Holiday Charge, if applicable, on the Business Day prior to a Holiday,
  - (D) an Intraday Mark-to-Market Charge, if applicable,
  - (E) an Intraday VaR Charge, if applicable,
  - (F) a Margin Liquidity Adjustment Charge, if applicable, and
  - (G) a Volatility Event Charge.

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 haircut method.

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 Minimum Charge for each margin portfolio of a Clearing Member shall be no less than \$100,000. The Minimum Charge for each margin portfolio 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 Pool Clearing Member shall be set at a minimum of 99%.

Once applicable charges described in this Rule 4 have been applied to a Clearing Member, 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.

(c) 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.

(d) 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 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, rule or regulation applicable to a Clearing Member, including 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.

(e) 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 Clearing 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; or
- (b) an open account indebtedness fully secured by Eligible Clearing Fund Securities.

A minimum of 40 percent of the Clearing Member's Required Fund Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.

The lesser of \$5,000,000 or 10 percent of the Required Fund Deposit, with a minimum of \$100,000, must be made and maintained in cash, with the remaining portion of the Required Fund Deposit to be made and maintained in the form specified in this Section 3.

### Section 3a – Calculation of Intraday VaR Charge and Intraday Mark-to-Market Charge

Pursuant to procedures established by the Corporation, the Corporation shall re-calculate intraday, each Business Day, at the times and frequencies established by the Corporation for this purpose, which times and frequencies shall be communicated to Clearing Members on the Corporation's public website, the amount of the Intraday VaR Charge and the Intraday Mark-to-Market Charge, as applicable, to each Clearing Member's margin portfolio based upon the open positions in such margin portfolio at a designated time intraday, for purposes of establishing whether a Clearing Member shall be required to make payment of an additional amount to its Required Fund Deposit, including when certain risk thresholds are breached or when the products cleared or markets served display elevated volatility. Such additional amounts shall be deemed part of the Member's Required Fund Deposit for all purposes under these Rules.

Examples of elevated volatility market conditions may include, but shall not be limited to, the occurrence of sudden swings in U.S. Treasury yields or mortgage-backed security spreads

outside of historically observed market moves and/or conditions contributing to intraday risk exposures to the Corporation that, in aggregate, materially exceed intraday risk exposures observed under normal market conditions.

The Corporation shall establish procedures for ongoing monitoring and collection of an amount calculated in respect of a Clearing Member's Intraday VaR Charge and Intraday Mark-to-Market Charge, including parameters regarding threshold amounts that require payment, and the form and time by which payment is required to be made to the Corporation, which parameters as well as payment form and time shall be communicated to Clearing Members on the Corporation's public website. The Corporation reserves the right to require a Clearing Member or Clearing Members generally to make additional Intraday VaR Charges or Intraday Mark-to-Market Charges if the Corporation determines it to be necessary to protect itself and its Clearing Members in response to factors such as market conditions or financial or operational capabilities affecting a Clearing Member or Clearing Members generally.

#### Section 3b – Special Provisions Relating to Deposits of Cash

Cash deposits to the Clearing Fund shall be paid to the Corporation in immediately available funds. The Corporation may invest any cash in the Clearing Fund, including (i) cash deposited by a Clearing Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, "Clearing Fund Cash") in accordance with the Clearing Agency Investment Policy adopted by the Corporation.

Each Clearing Member shall be entitled to any interest earned or paid on Clearing Fund cash deposits.

#### Section 3c – Special Provisions Relating to Deposits of Eligible Clearing Fund Securities

All Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be subject to a haircut and may be subject to a concentration limit. The Corporation shall determine the applicable haircuts and any concentration limits from time to time in accordance with its internal policy and governance process, based on factors determined to be relevant by the Corporation, which may include, for example, backtesting results and the Corporation's assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The haircuts and any concentration limits prescribed by the Corporation shall be set forth in a haircut schedule that is published on the Corporation's website. It shall be the Member's responsibility to retrieve the haircut schedule. The Corporation will provide Members with at a minimum one Business Day's advance notice of any change 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 the Corporation or to the Corporation's account at a financial institution designated by the Corporation. 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, less an applicable haircut. The Corporation has the right, in its discretion, to refuse to accept a particular type of Eligible Clearing Fund Security as a permissible form of Clearing Fund deposit.

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 Eligible Clearing Fund Securities from pledge and deposit, provided that the Clearing 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 prior to the close of the securities Fedwire on such day. Any interest on Eligible Clearing Fund 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 Clearing Member's cash deposits to the Clearing Fund, except in the event of a default by such Clearing Member on any obligations to the Corporation under these Rules, in which case the Corporation may exercise its rights under Section 6 of this Rule.

#### 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 Section 5 of Rule 32, each such Clearing Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Clearing Member's open account indebtedness or placed by a Clearing 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 this Rule and Rule 11 (collectively with any Eligible Letters of Credit issued on behalf of a Clearing Member in favor of the Corporation, the Clearing Member's "Actual Deposit"). The Corporation shall be entitled to exercise the rights of a pledgee under common law and a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such assets.

#### Section 5 – Use of Clearing Fund

The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including, without limitation, each Member's obligations with respect to any loss allocations as set forth in Section 7 of this Rule and any obligations arising from a Cross-Guaranty Agreement pursuant to Rule 32, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in Section 3b of this Rule.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the Close of Business on the 30th calendar day (or on the first Business Day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 7 of this Rule.

#### Section 6 – Application of Clearing Fund Deposits and Other Amounts to Defaulting Members’ Obligations

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 6. The Corporation shall apply any Clearing Fund deposits, Cash Settlement Amounts, funds-only payments amounts, and any other collateral or assets held by the Corporation securing such Defaulting Member’s obligations to the Corporation, and any proceeds of any of the foregoing. To the extent that a 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 Section 3(b) of Rule 32.

If the Corporation applies a Defaulting Member’s Clearing Fund deposits as permitted by this Rule, the Corporation may take any and all actions with respect to the Defaulting Member’s Actual Deposit, including the assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate.

#### Section 7 – Loss Allocation Waterfall, Off-the-Market Transactions

For the purposes of this Rule, the following terms shall have the following meanings:

“Defaulting Member” shall mean a Member for which the Corporation has ceased to act pursuant to Rule 14 or Rule 16.

“Defaulting Member Event” shall mean the determination by the Corporation to cease to act for a Member pursuant to Rule 14 or Rule 16.

“Declared Non-Default Loss Event” shall mean the determination by the Board of Directors that a loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner.

Each Member shall be obligated to the Corporation for the entire amount of any loss or liability incurred by the Corporation arising out of or relating to any Defaulting Member Event with respect to such Member. To the extent that such loss or liability is not satisfied pursuant to Section 6 of this Rule 4, the Corporation shall apply a Corporate Contribution thereto and charge the remaining amount of such loss or liability ratably to other Members, as further provided below.

If the Corporation incurs a loss or liability arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation shall address the loss or liability as follows:

The Corporation shall apply the Corporate Contribution to losses and liabilities that arise out of or relate to one or more Defaulting Member Events and/or Declared Non-Default Loss Events that occur within an Event Period. If losses and liabilities with respect to such Event Period remain unsatisfied following application of the Corporate Contribution, the Corporation shall allocate such losses and liabilities to Members, subject to the requirements and limitations below.

If the loss or liability with respect to an Event Period results from one or more Defaulting Member Events, the Corporation shall determine the amount of such loss or liability that is attributable to Tier One Members and the amount of such loss or liability that is attributable to Tier Two Members. If the loss or liability with respect to an Event Period results from one or more Declared Non-Default Loss Events, the amount of such loss or liability shall be attributable to Tier One Members. Tier Two Members shall not be subject to loss allocation with respect to Declared Non-Default Loss Events.

To the extent that a loss or liability of the Corporation is determined by the Corporation to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction.

No loss allocation under this Rule shall constitute a waiver of any claim the Corporation may have against a Member for any losses or liabilities, including, without limitation, any loss or liability to which the Member is subject under these Rules. If the Corporation allocates losses or liabilities pursuant to this Rule and subsequently recovers amounts against such allocated losses or liabilities, in whole or in part, the net amount of the recovery shall be credited to the Persons, including the Corporation, against whom the losses were charged in proportion to the amounts charged against them.

### **Tier One Members**

Defaulting Member Events and/or Declared Non-Default Loss Events that occur within a period of ten (10) Business Days (an “Event Period”) shall be grouped together for purposes of applying the limits on loss allocation set forth in this Rule.

In the case of a Defaulting Member Event, an Event Period begins on the day the Corporation notifies Members that it has ceased to act for the Defaulting Member (or the next Business Day, if such day is not a Business Day).

In the case of a Declared Non-Default Loss Event, an Event Period begins on the day that the Corporation notifies Members of the Declared Non-Default Loss Event (or the next Business Day, if such day is not a Business Day), which notification shall be issued promptly following any such determination. If a subsequent Defaulting Member Event or Declared Non-Default Loss Event occurs during an Event Period, any losses or liabilities arising out of or relating to any such subsequent event shall be resolved as losses or liabilities that are part of the same Event Period, without extending the duration of such Event Period.

Each Tier One Member that is a Tier One Member on the first day of an Event Period shall be obligated to pay its pro rata share of losses and liabilities arising out of or relating to each Defaulting Member Event (other than a Defaulting Member Event with respect to which it is the Defaulting Member) and each Declared Non-Default Loss Event occurring during the Event Period. Any Tier One Member for which the Corporation ceases to act on a non-Business Day, triggering an Event Period that commences on the next Business Day, shall be deemed to be a Tier One Member on the first day of that Event Period.

A loss allocation “round” means a series of loss allocations relating to an Event Period, the aggregate amount of which is limited by the sum of the Loss Allocation Caps of affected Tier One Members (a “round cap”). When the aggregate amount of losses allocated in a round equals the round cap, any additional losses relating to the applicable Event Period would be allocated in one or more subsequent rounds, in each case subject to a round cap for that round. The Corporation may continue the loss allocation process in successive rounds until all losses from the Event Period are allocated among Tier One Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule.

Each loss allocation shall be communicated to Tier One Members by the issuance of a notice that advises the Tier One Members of the amount being allocated to them (“Loss Allocation Notice”). Each Tier One Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) Business Days preceding the first day of the applicable Event Period or such shorter period of time that the Tier One Member has been a Tier One Member (each Tier One Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Tier One Members subject to loss allocation in such round.

Each Loss Allocation Notice shall specify the relevant Event Period and the round to which it relates. The first Loss Allocation Notice in any first, second, or subsequent round shall expressly state that such Loss Allocation Notice reflects the beginning of the first, second, or subsequent round, as the case may be, and that each Tier One Member in that round has five (5) Business Days from the issuance of such first Loss Allocation Notice for the round to notify the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, and thereby benefit from its Loss Allocation Cap. The “Loss Allocation Cap” of a Tier One Member shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period and (y) its Average RFD.

After a first round of loss allocations with respect to an Event Period, only Tier One Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 7b of this Rule shall be subject to further loss allocation with respect to that Event Period.

For purposes of calculating the pro rata share of losses and liabilities and the Loss Allocation Cap pursuant to the previous paragraph, the Corporation shall not count toward a Tier One Member’s Required Fund Deposit any increased Clearing Fund deposit that the Tier One Member may be subject to pursuant to Section 2(e) of this Rule.

Tier One Members shall pay to the Corporation the amount specified in any first round Loss Allocation Notice on the second Business Day after the Corporation issues any such notice.

Tier One Members shall pay to the Corporation the amount specified in any subsequent round Loss Allocation Notice on the second Business Day after the Corporation issues such notice, unless the Tier One Member has timely notified (or will timely notify) the Corporation of its election to withdraw from membership with respect to a prior loss allocation round, pursuant to Section 7b of this Rule.

To the extent that a Tier One Member's Loss Allocation Cap exceeds the Tier One Member's Required Fund Deposit on the first day of the applicable Event Period, the Corporation may, in its discretion, retain any excess amounts on deposit from the Tier One Member, up to the Tier One Member's Loss Allocation Cap.

If a Tier One Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Tier One Member as a Defaulting Member that has failed to satisfy an obligation in accordance with Section 6 of this Rule.

If a Tier One Member notifies the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, the Tier One Member shall comply with the provisions of Section 7b of this Rule. If, after notifying the Corporation of its election to withdraw from membership pursuant to Section 7b of this Rule, the Tier One Member fails to comply with the provisions of Section 7b of this Rule, its notice of withdrawal shall be deemed void and any further losses resulting from the applicable Event Period may be allocated against it as if it had not given such notice.

A Tier One Member that elects to withdraw pursuant to Section 7b of this Rule shall not be eligible to re-apply to become a Clearing Member unless, prior to submitting such application, it makes the payment(s) to the Corporation that would have been due pursuant to Section 7 of this Rule as if the Tier One Member had not withdrawn, together with interest on that amount at the average of the Federal Funds Rate plus one percent, calculated from the date on which the Event Period began.

## **Tier Two Members**

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

If a Tier Two Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Tier Two Member as a Defaulting Member that has failed to satisfy an obligation in accordance with Section 6 of this Rule.

#### Section 7a – Corporate Contribution

For any loss allocation pursuant to Section 7 of this Rule, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation's corporate contribution to losses or liabilities that are incurred by the Corporation with respect to an Event Period ("Corporate Contribution") shall be an amount that is equal to fifty (50) percent of the amount calculated by the Corporation in respect of its General Business Risk Capital Requirement as of the end of the calendar quarter immediately preceding the Event Period. The Corporation's General Business Risk Capital Requirement, as defined in its Clearing Agency Policy on Capital Requirements, is, at a minimum, equal to the regulatory capital that the Corporation is required to maintain in compliance with Rule 17Ad-22(e)(15) under the Exchange Act. If the Corporate Contribution is applied by the Corporation against a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporate Contribution for any subsequent Event Periods occurring during the two hundred fifty (250) Business Days thereafter shall be reduced to the remaining unused portion of the Corporate Contribution amount that applied for the first Event Period. The Corporation shall notify Members of any such reduction to the Corporate Contribution. The Corporation shall maintain one Corporate Contribution, the amount of which is available to both the Government Securities Division and the Mortgage-Backed Securities Division, and would be applied against a loss or liability in either Division in the order in which such loss or liability occurs. In the event of a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, attributable to only one Division, the Corporate Contribution shall be applied to that Division up to the amount then available. If a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, occurs simultaneously at both Divisions, the Corporate Contribution shall be applied to the respective Division in the same proportion that the aggregate Average RFDs of all members in that Division bears to the aggregate Average RFDs of all members in both Divisions.

Nothing in these Rules shall prevent the Corporation from voluntarily applying amounts greater than the Corporate Contribution against any loss or liability of the Corporation, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, if the Board of Directors, in its sole discretion, believes such to be appropriate under the factual situation existing at the time.

#### Section 7b – Withdrawal Following Loss Allocation

If a Tier One Member timely notifies the Corporation of its election to withdraw from membership in respect of a loss allocation round as set forth in Section 7 of this Rule ("Loss Allocation Withdrawal Notice"), the Tier One Member shall:

- (i) specify in the Loss Allocation Withdrawal Notice an effective date for its withdrawal from membership, which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Tier One Member to the Corporation, unless otherwise approved by the Corporation; and



- (ii) as of the time of such Tier One Member's submission of the Loss Allocation Withdrawal Notice to the Corporation, cease submitting transactions to the Corporation for processing, clearance or settlement, unless otherwise approved by the Corporation.

A Tier One Member that withdraws in compliance with the requirements of this section shall nevertheless remain obligated for its pro rata share of losses and liabilities with respect to any Event Period for which it is otherwise obligated hereunder; however, its aggregate obligation shall be limited to the amount of its Loss Allocation Cap (as fixed in the round for which it withdrew).

If the Tier One Member fails to comply with the requirements in this section, its Loss Allocation Withdrawal Notice will be deemed void, and the Tier One Member will remain subject to further loss allocations pursuant to Section 7 of this Rule as if it had not given such Loss Allocation Withdrawal Notice.

#### Section 8 – Return of Members' Clearing Fund Deposits

If a Member gives notice to the Corporation of its election to withdraw from membership, the Member's Actual Deposit in the form of (i) cash or securities shall be returned to it within thirty (30) calendar days and (ii) Eligible Letters of Credit shall be returned to it within ninety (90) calendar days, after all of its transactions have settled and all matured and contingent obligations to the Corporation for which the Member was responsible while a Member have been satisfied.

Notwithstanding 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 Repayment that the Corporation may be obligated to make under any relevant Cross-Guaranty Agreement.

#### Section 9 – Initial Required Fund Deposit and Changes in Members' Required Fund Deposits

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

A Clearing Member must increase the amount of its deposit to the Clearing Fund (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 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 4. If there is an increase in a Clearing Member's Required Fund Deposit, at the time the increase becomes effective, the Clearing Member's obligations to the Corporation shall be determined in accordance with the increased Required Fund Deposit whether or not the Clearing Member has satisfied such increased amount.

If the Corporation applies a Clearing Member's Clearing Fund deposits as permitted pursuant to this Rule, the Corporation may take any and all actions with respect to the Clearing Member's Actual Deposit, including assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate. If such application results in any deficiency in the Clearing Member's Required Fund Deposit, the Clearing Member shall immediately replenish it. If the Clearing Member fails to do so, the Corporation may take disciplinary action against such Clearing Member pursuant to Rule 14 or Rule 38. Any disciplinary action that the Corporation takes pursuant to Rule 14 or Rule 38 or the voluntary or involuntary cessation of membership shall not affect the Clearing Member's obligations to the Corporation or any remedy to which the Corporation may be entitled under applicable law.

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 Clearing Member or Clearing 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 10 – Excess Clearing Fund Deposits

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 such Member of such excess. Subject to the Corporation's rights under these Rules to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member such amount of its excess cash on deposit (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value on the day of such withdrawal) as the Member requests. Notwithstanding the foregoing, 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 in the near future may reasonably be expected to be materially different than those of the recent past 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 Section 4 of Rule 32.

The provisions of this section shall not limit the rights or remedies of the Corporation as provided in Section 6 of Rule 3.

#### 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 Actual Deposits and any proceeds thereof for the purpose of securing loans made to the Corporation (the party making such loan to the Corporation hereinafter referred to as the “Lender”); provided that the proceeds of such loans are used for a purpose permissible under Section 3 and Section 5 of this Rule. Such loans shall be on terms and conditions deemed necessary or advisable by the Corporation (including collateralization thereof) 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 and Eligible Letters of Credit (if any) were pledged to or deposited with the Corporation. Notwithstanding the above, the Corporation shall remain obligated to each such Member to return, and to allow substitution for or withdrawal of, cash, and Eligible Clearing Fund Securities, and Eligible Letters of Credit (if any) pledged or deposited by such Member as a Clearing Fund deposit, or otherwise to collateralize such Member’s obligations to the Corporation, under the circumstances and within the timeframes specified in these Rules. In the event of any conflict or inconsistency between this Rule 4 and any agreement between the Corporation and any Member, this Rule 4 shall govern and prevail.

#### 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 uncomparing, and/or (3) has been deleted from the Trade Comparison system.

The Corporation shall guarantee the settlement of Guaranteed/Novated Obligations 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 uncomparing, 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.

### 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 ensure 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.

#### Section 6 – Match Modes

Each Dealer's Transactions in Eligible Securities in a CUSIP Number involving a Broker shall be governed by the 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 – [RESERVED]

#### 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 Open Commitment Report and the 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 uncompleted 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 5. 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 to the Corporation 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 each of the buying and selling counterparties and the Corporation, respectively, with respect to SBO-Destined Trades, Trade-for-Trade Transactions, Specified Pool Trades and Stipulated 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, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable, 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

the Guaranteed/Novated Obligations 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, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable, and their replacement with the Guaranteed/Novation Obligations to and from the Corporation in accordance with these Rules.

(b) Notwithstanding subsection (a) of this Section 13, an SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable, that is Partially Compared shall not be novated to the Corporation. At such time as any SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable, that is Partially Compared becomes Fully Compared, such Fully Compared SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction shall be novated to the Corporation and the Corporation shall guarantee the settlement of the Guaranteed/Novated Obligations for each such Fully Compared SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction. 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, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable, and their replacement with the Guaranteed/Novated Obligations to and from the Corporation in accordance with these Rules.

(c) If a trade becomes uncomparing 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, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable, is novated to the Corporation, such SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction shall cease to be bound by any bilateral agreement between the parties to such SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction with respect to the delivery, receive and related payment obligations. If an SBO-Destined Trade, Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction becomes uncomparing 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. The TBA Netting system will generate SBON Trades. The Settlement Price of an SBON Trade shall be the System Price.

To the extent that any of the Clearing Member's purchase or sale Transactions cannot be offset (SBO Net Open Positions), the Corporation shall assign the Clearing Member one or more SBON Trades offsetting such SBO Net Open Positions.

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 AND OBLIGATIONS

### Section 1 – Pool Allocation and the Pool Comparison System

The Pool Comparison system is a system for comparing pools that have been allocated in satisfaction of open TBA Obligations. Clearing Members are required to notify the Corporation of the pools that will be allocated to satisfy open TBA Obligations and open Stipulated Trade obligations recorded in the Clearing System. Clearing Members with TBA Obligations and Stipulated Trade obligations are also required to submit pool details to the Corporation. Pool details for Stipulated Trade obligations are required in order for Pool Settlement Positions to be established pursuant to Section 4 below. Pool details for TBA Obligations are required in order for such pools to be processed through the Pool Netting system pursuant to Rule 8. In the event that a Clearing Member does not submit pool details by the deadline established by the Corporation, the Corporation will submit such pool details on behalf of the Clearing Member.

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 each contraside to the Corporation 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.

### 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 by a Clearing Member that is affirmed by the Corporation 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.

### Section 3 – Do Not Allocate Process for TBA Obligations

A Clearing Member may request that the Corporation offset two or more TBA Obligations with the same Par Amount, CUSIP Number and established date in the settlement cycle. Such Clearing Member shall submit this request by providing appropriate instructions to the Corporation in accordance with the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Upon the Corporation's receipt and verification of this request, the Clearing Member's designated TBA Obligations will be offset and such Clearing Member's number of open TBA Obligations will be reduced.

If a Clearing Member determines that it would like to cancel its request to have its TBA Obligations offset through the Do Not Allocate process, the Clearing Member shall submit a cancellation request by providing appropriate instructions to the Corporation pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Upon the Corporation's acceptance of the cancellation request, such Clearing Member would be required to allocate pools in accordance with this Rule to the previously designated TBA Obligations.

#### Section 4 – Pool Settlement Positions for Stipulated Trades

(a) Pool Settlement Positions

On each Business Day, for each Eligible Security, the Corporation will establish a Pool Settlement Position for eligible pools of a Clearing Member with the same Delivery Date and Contractual Settlement Date. All Pool 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.

(b) Allocation of Pool Deliver Obligations and Pool Receive Obligations

On each Business Day, for Eligible Securities, the Corporation will establish Pool Deliver Obligations and Pool Receive Obligations based on the pool information transmitted from the Clearing Members to the Corporation. 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.

(c) Substitutions

With regard to any Pool Deliver Obligation, a Clearing Member may substitute the underlying pool that comprises such Pool 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.

(d) Termination of Guaranteed/Novated Obligations and Replacement with Pool Deliver Obligations and Pool Receive Obligations

Pool 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, the related Guaranteed/Novated Obligations between such Clearing Member and the Corporation are terminated and replaced by the Pool Deliver Obligations, Pool Receive Obligations and related payment obligations listed in the Report.

#### Section 5 – Pool Deliver Obligations and Pool Receive Obligations for Specified Pool Trades

The Corporation will establish Pool Deliver Obligations and Pool Receive Obligations for Specified Pool Trades. Such obligations shall be consistent with the trade data that the Clearing Member has submitted to the Corporation. Obligations shall be established on the Business Day prior to the Delivery Date.

## RULE 8 – POOL NETTING AND EXPANDED POOL NETTING SYSTEMS

### 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 2A – 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.

### Section 2B – Eligibility for Expanded Pool Netting

A pool that is not allocated by the deadline established by the Corporation for Pool Netting shall be included in the Expanded Pool Netting process. The Expanded Pool Netting process will occur on each Business Day prior to the established SIFMA settlement date (for purposes of this Rule 8, hereinafter referred to "Exp Day").

### Section 3 – Calculation of Pool Net Settlement Positions

On each Business Day, for each Eligible Security in the Pool Netting system, and on each Exp Day, for each Eligible Security in the Expanded 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 or each ExP Day, as applicable, to each Clearing Member.

#### Section 4 – Allocation of Pool Deliver and Pool Receive Obligations

On each Business Day, for Eligible Securities processed by Pool Netting, and on each ExP Day, for Eligible Securities processed by Expanded Pool Netting, 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 – Termination of Guaranteed/Novated Obligations and Replacement with Pool Deliver Obligations and Pool Receive 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, the related Guaranteed/Novated Obligations between such Clearing Member and the Corporation are terminated and replaced by the Pool Deliver Obligations, Pool Receive Obligations and related payment obligations listed in the Report.

#### Section 7 – Obligation to Submit Trade-for-Trade Transactions and SBON Trades to Pool Netting

Each Clearing Member must submit to the Corporation for inclusion in Pool Netting each Trade-for-Trade Transaction 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.

#### Section 10 – CPR Claims

If a Clearing Member with a Pool Deliver Obligation allocates or substitutes the Pool Deliver Obligation after the Factor Release Date with pools that pay down at a faster rate from the average pay-down rate for pools of the same type and coupon as the pools in the Pool Deliver Obligation, the Clearing Member with a Pool Receive Obligation with respect to such pools may submit a conditional prepayment rate claim (“CPR Claim”) to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation from time to time.

CPR Claims submitted to the Corporation will be reviewed by the Corporation to determine eligibility for compensation in accordance with SIFMA Guidelines and these Rules. Each CPR Claim will be evaluated by the Corporation to validate that (i) the Claimable Unit with respect to the CPR Claim meets the criteria for fast paying pools as set forth in SIFMA Guidelines, (ii) the CPR Claim amount is \$10,000 or greater, unless the CPR Claim is a re-transmittal of a CPR Claim, in which case, (a) if the CPR Claim relates to an allocation of pools effected after the Factor Release Date following the Contractual Settlement Date and/or substitution of related pools, the amount is \$500 or greater or (b) if the CPR Claim relates to a substitution of pools allocated prior

to the Factor Release Date following the Contractual Settlement Date, the amount is \$5,000 or greater and (iii) 90% of the Clearing Member's Claimable Unit has settled. If the Corporation determines eligibility for compensation with respect to the CPR Claim in accordance with SIFMA Guidelines and these Rules, the Corporation will verify compensation quantity in accordance with SIFMA Guidelines calculation methodology and process associated credits and debits to the Clearing Members as set forth in these Rules. If a CPR Claim is determined to be invalid, the Corporation will notify the Clearing Member initiating the CPR Claim that the CPR Claim has been rejected.

The Corporation maintains the right to re-transmit CPR Claims and collect from delivering counterparties with no minimum denomination requirement. CPR Claims may be apportioned to more than one participant. CPR Claims may be comprised of both debits and credits. Cash adjustments relating to CPR Claims will be processed as a cash obligation pursuant to Section 7 of Rule 11. The Corporation will process all CPR Claims on the Class "B" settlement date in the month following the month the Corporation has re-transmitted the CPR Claim to the counterparties.

The Corporation shall not guaranty CPR Claims payments in the event of a default (i.e., if a Clearing Member does not pay a CPR Claim debit, any Clearing Member due to receive the corresponding CPR Claim credit will have the amount of the credit reduced pro-rata by the defaulting Clearing Member's unpaid amount).

RULE 10 – [RESERVED]

## RULE 11 – CASH SETTLEMENT

### Section 1 – TBA Transaction Adjustment Payment

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 TBA Transaction Adjustment Payment. Any net negative TBA Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account on the Contractual Settlement Date, and any net positive TBA Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account on the Contractual Settlement Date.

### Section 2A – 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 2B – Expanded Pool Net Transaction Adjustment Payment

The Corporation shall compute an Expanded Pool Net Transaction Adjustment Payment for each TBA Obligation included in the Expanded Pool Netting process.

The sum of all Expanded Pool Net Transaction Adjustment Payments that have been calculated for a Member during a given Expanded Pool Netting process will constitute such Member's Expanded Pool Net Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's Expanded Pool Net Transaction Adjustment Payment, any negative Expanded Pool Net Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive Expanded Pool Net Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

### Section 3 – Do Not Allocate Transaction Adjustment Payment

The Corporation shall compute a Do Not Allocate Transaction Adjustment Payment for TBA Obligations that have been offset through the Do Not Allocate process.

The sum of all Do Not Allocate Transaction Adjustment Payments that have been calculated for a Member during a given Do Not Allocate process will constitute such Member's Do Not Allocate Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's Do Not Allocate Transaction Adjustment Payment, any negative Do Not Allocate Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive Do Not Allocate Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

#### Section 4 – TBA Reprice Transaction Adjustment Payment

The Corporation shall compute a TBA Reprice Transaction Adjustment Payment for the repriced TBA Obligations that remain unallocated after the deadline established by the Corporation.

The sum of all TBA Reprice Transaction Adjustment Payments that have been calculated for a Member during a given TBA Reprice process will constitute such Member's TBA Reprice Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's TBA Reprice Transaction Adjustment Payment, any negative TBA Reprice Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive TBA Reprice Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

#### Section 5 – Variance Transaction Adjustment Payment

The Corporation shall compute a Variance Transaction Adjustment Payment to capture the difference of the TBA Obligation and the current face of the pools allocated in satisfaction of the obligation. Pursuant to the Chapter 8 in the SIFMA Guidelines, TBA trades are allowed a variance on all TBA transactions equal to plus or minus 0.01% of the dollar amount of the transaction agreed to by the parties.

The sum of all Variance Transaction Adjustment Payments that have been calculated for a Member during a given Pool Netting and Expanded Pool Netting process will constitute such Member's Variance Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's Variance Transaction Adjustment Payment, any negative Variance Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive Variance Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

#### Section 6 – Factor Update Adjustment Payment

The Corporation shall compute a Factor Update Adjustment Payment in the event that updated pool factor information is released after the clearing bank's settlement of a pool. This update would cause a cash differential that will require a debit to the seller and a credit to the buyer.

## Section 7 – 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.

- (a) A Transaction other than an Option Contract shall be deemed to produce a profit or loss based on:
  - (i) 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
  - (ii) the difference between the Transaction's Settlement Value and its System Value.
- (b) An Option Contract shall be deemed to produce a profit or loss based on:
  - (i) 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);
  - (ii) the nature of the Option Contract (which can be either a Call Option Contract or a Put Option Contract);
  - (iii) the difference between the Option Contract's Strike Price and the System Value of the underlying Eligible Security; and
  - (iv) the expiration date of the Option Contract.

The net amount of profits and/or losses computed for each Clearing Member pursuant to this Section 7 of Rule 11 shall be made available on a Report to Clearing Members one or more times on each Business Day, which is either to be paid from such Clearing Member to the Corporation on such Business Day or to be collected by such Clearing Member from the Corporation on such Business Day.

## Section 8a – 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 TBA Transaction Adjustment Payment 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; plus or minus
- (c) the positive or negative amount of any Expanded Pool Net Transaction Adjustment Payment; plus or minus



- (d) the positive or negative amount of any Do Not Allocate Transaction Adjustment Payment; plus or minus
- (e) the positive or negative amount of any TBA Reprice Transaction Adjustment Payment; plus or minus
- (f) the positive or negative amount of any Variance Transaction Adjustment Payment; plus or minus
- (g) the positive or negative amount of any Factor Update Adjustment Payment; plus or minus
- (h) the positive or negative amount of any Margin Transaction Adjustment Payment; plus or minus
- (i) the positive or negative amount of any Margin Transaction Adjustment Payment Return; plus or minus
- (j) the positive or negative amount of any Margin Transaction Adjustment Payment Return Interest; plus or minus
- (k) the positive or negative amount of any Mark-to-Market; plus or minus
- (l) the positive or negative amount of any accrued principal and interest payments required for any Fail; plus or minus
- (m) the positive or negative amount of net value of the Mark Return; plus or minus
- (n) the positive or negative of any Mark Return Interest; plus or minus
- (o) 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
- (p) 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
- (q) 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
- (r) if applicable, the amount of any charges for services rendered with respect to such Account pursuant to Rule 18; minus

- (s) 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
- (t) if applicable, the amount of interest payable by the Corporation with respect to such Account pursuant to Section 1 and Section 10 of this Rule; plus or minus
- (u) the positive or negative value of any Clearance Difference Amount; plus or minus
- (v) if applicable, the positive or negative amount of any credits or debits processed by the Corporation pursuant to any valid CPR Claim; plus or minus
- (w) Miscellaneous Adjustment Amount from TBA Clearing (MIS); plus or minus
- (x) Miscellaneous Adjustment Amount from Pool Netting (MSC); plus or minus
- (y) Miscellaneous Adjustment Amount from EPN (MSE).

#### Section 8b – 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 9 – 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 Acknowledgement Cutoff Time, 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, or (2) their refusal to settle for one or more particular Members. The Acknowledgement Cutoff Time shall be the later of: (i) 30 minutes after the Cash Settling Bank has been notified that such payment is due, or (ii) 30 minutes prior to the payment deadlines established by the Corporation. Notwithstanding the foregoing, a Cash Settling Bank that is a

Member and settles solely for its own account may not refuse to settle for itself but may opt to not acknowledge its Cash Settlement amount; if such Cash Settling Bank chooses to opt out, it shall not be subject to subsections (k) and (l) below.

(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 Settlement Agent 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. This new Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure shall be subject to subsection (k) below.

(d) 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.

(e) 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.

(f) 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.

(g) 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 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.

(h) 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 Settlement Agent.

(i) The Settlement Agent uses the most recent contact information provided by the Cash Settling Bank to the Settlement Agent. Each Cash Settling Bank must ensure that it maintains up-to-date and accurate contact details with the Settlement Agent on an ongoing basis when previously provided contact details are no longer accurate, to facilitate the Settlement Agent's ability to contact a Cash Settling Bank regarding settlement issues.

(j) 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.

(k) If a Cash Settling Bank does not, by the Acknowledgement Cutoff Time, either: (i) affirmatively acknowledge its Total Debit Cash Balance Figure and Total Credit Cash Balance Figure or (ii) notify the Settlement Agent that it refuses to settle for one or more Members for which it is the designated Cash Settling Bank, then, at the Acknowledgement Cutoff Time, the Cash Settling Bank is deemed to have acknowledged its Total Debit Cash Balance Figure and Total Credit Cash Balance Figure. If the amount is a Total Debit Cash Balance Figure, then the Cash Settling Bank's FRB account will be charged; if the amount is a Total Credit Cash Balance Figure, then the Cash Settling Bank's FRB account will be credited. This subsection (k) does not apply to a Cash Settling Bank that settles solely for its own account and opts not to acknowledge its Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure.

(l) The Settlement Agent will attempt to contact the Cash Settling Bank if no acknowledgement or notice of a refusal to settle on behalf of one or more Members for which it is designated as the Cash Settling Bank is received by the Acknowledgement Cutoff Time. If (x) the Settlement Agent is able to contact the Cash Settling Bank, and (y) the Cash Settling Bank notifies the Settlement Agent that it cannot, at that time, acknowledge or refuse its Total Debit Cash Balance Figure and Total Credit Cash Balance Figure, then the Cash Settling Bank will not be deemed to have acknowledged its Total Debit Cash Balance Figure and Total Credit Cash Balance Figure. If the Cash Settling Bank cannot be reached, the Cash Settling Bank will be deemed to have acknowledged its Total Debit Cash Balance Figure and Total Credit Cash Balance Figure.

The Corporation may exclude a Cash Settling Bank's balance from the NSS file if the Cash Settling Bank (i) does not acknowledge its Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure by the Acknowledgement Cutoff Time, or does not acknowledge its new Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure pursuant to subsection (c) above by the Acknowledgement Cutoff Time; and (ii) is not deemed to have acknowledged its Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure or new Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure pursuant to subsection (c) above because it has notified Settlement Agent that it is unable to affirmatively acknowledge its Total Debit Cash Balance Figure and/or Total Credit Cash Balance Figure or refuses to settle on behalf of a Member.

This subsection (l) does not apply to a Cash Settling Bank that settles solely for its own account and opts to not acknowledge its Total Debit Cash Figure and/or Total Credit Cash Balance Figure.

(m) 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 Settlement Agent prior to the Acknowledgement Cutoff Time. 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.

(n) If the Cash Settling Bank's account at the FRB has insufficient funds, the Settlement Agent 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.

(o) 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.

(p) 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.

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

(r) 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 be treated as a loss that is otherwise incident to the clearance and settlement business of the Corporation and allocated accordingly pursuant to Section 7 of Rule 4.

(s) 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 10 – 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 Deliver 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 Deliver 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) 1 percent or (b) 2 percent per annum minus the target level for the federal funds rate that is effective at 5 p.m. EST on the preceding Business Day, capped at 2 percent per annum. 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 the FOMC specifies a target range in lieu of a target level, the lower limit of the target range announced by the FOMC would be used in the calculation of the fails charge. Further, if the FOMC were to terminate its policy of specifying or announcing a target level or range for the federal funds rate, then the rate that is used for the calculation of the fails charge would be a successor rate and source recommended by the TMPG.

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 target level for the federal funds 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, (ii) the Corporation received a substitution of a Pool Deliver 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 or (iii) the Corporation received an allocation of a TBA Obligation of Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae and the Corporation is unable to deliver such obligations by the specified cut-off time in the SIFMA 48-Hour Rule to be eligible for the specified SIFMA Contractual Settlement Date, 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.

### RULE 13 – PROVISIONS REGARDING THE EXPIRATION OR EXERCISE OF OPTIONS

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, the Corporation shall cease to act for the insolvent Member, as detailed in Rule 17, “Procedures for When the Corporation Ceases to Act.”

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) **[Reserved]**

(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.

(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) **[Reserved]**

(g) In the event of a Clearing Member’s default, the Corporation may settle any Pool Deliver Obligation or Pool Receive Obligation with the Defaulting Clearing Member or any other Clearing Member as though the termination and replacement described in Section 6 of Rule 8 had not occurred.

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
- (iii) 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.
- (d) On each Business Day, the Corporation shall make a liquidity funding report available to each Clearing Member. Each Clearing Member's report shall include the following: (i) the Clearing Member's Defined Capped Liquidity Amount and (ii) other information concerning historical CCLF requirements. This liquidity funding report shall be provided for informational purposes only. In the event that the Corporation declares a CCLF Event, Clearing Members shall be required to enter into CCLF Transactions up to their Defined Capped Liquidity Amount as calculated by the Corporation.
- (e) On at least an annual basis, or upon demand by the Corporation, each Clearing Member shall attest that its Defined Capped Liquidity Amount has been incorporated into its liquidity plans (such attestation, the "Required Attestation"). The Required Attestation must be signed by two authorized officers of the Clearing Member (or otherwise be satisfactory in form and substance to the Corporation) and contain the following certifications: (1) such officers have read and understand the Rules; (2) the Clearing Member's Defined Capped Liquidity Amount has been incorporated into the Clearing Member's liquidity planning; (3) the Clearing Member acknowledges and agrees that its Defined Capped Liquidity Amount may be changed pursuant to Section 2a(c) of this Rule or otherwise upon ten (10) Business Days' Notice; (4) the Clearing

Member will incorporate any changes to its Defined Capped Liquidity Amount into its liquidity planning; and (5) the Clearing Member shall, through periodic discussions with its financing sources and other methods, continually reassess its liquidity plans and related operational plans, including in the event of any changes to such Clearing Member's Defined Capped Liquidity Amount, to ensure such Clearing Member's ability to meet its Defined Capped Liquidity Amount.

(f) The Corporation may require Clearing Members to provide certain acknowledgements to the Corporation, in such form and at such times as the Corporation may determine from time to time, concerning the Clearing Member's understanding of and ability to meet its Capped Contingency Liquidity Facility obligations. Such written acknowledgements include, but are not limited to, an acknowledgement from each Clearing Member whose Capped Contingency Liquidity Facility obligations increase by an amount exceeding certain thresholds established by the Corporation following any ad hoc resizing of the Capped Contingency Liquidity Facility confirming such Clearing Member's ability to meet the increased obligation. The Corporation will inform Clearing Members of any such required acknowledgements, including specific thresholds for any required acknowledgement, by Important Notice.

### 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 (interpreted in all such cases as if each Member were a Defaulting Member) and taking into account the loss allocation provisions in Rule 4. For purposes of this Rule 17A and notwithstanding any other provision to the contrary, Pool Deliver Obligations and Pool Receive Obligations shall be established with respect to all Transactions, 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, 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 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 “terminat[ion], liquidat[ion], accelerat[ion], and nett[ing]” of obligations.

## RULE 17B – WIND-DOWN OF THE CORPORATION

**[Changes to this Rule, as amended by File Nos. SR-DTC-2025-016, SR-FICC-2025-022 and SR-NSCC-2025-015, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes became effective upon filing with the SEC but have not yet been implemented. On December 15, 2025, these changes will be implemented, and this legend will be automatically removed from this Rule.]**

### Section 1. Defined Terms

(a) For purposes of this Rule 17B:

“Bridge Entity” has the meaning given to such term in the definition of “Transferee” in this Section 1(a).

“Business” means the Critical Services and any Non-Critical Services of the Corporation included in a Transfer.

“Comparability Period” means a period of time following the Transfer, to be agreed between the Corporation and a Transferee, during which the Business transferred from the Corporation to the Transferee shall be operated by the Transferee in a manner comparable to the manner in which the Business was previously operated by the Corporation, as more specifically set forth in Section 9 of this Rule 17B.

“Corporation Default Rule” means Rule 17A of the Clearing Rules of the Mortgage-Backed Securities Division of the Corporation.

“Critical Services” means the services of the Corporation described in the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation and the rules, procedures and other regulations of the Government Securities Division of the Corporation that have been identified as critical services in the Recovery and Wind-down Plan.

“Delinquent Member” means a Member that is delinquent in the performance of any of its obligations to the Corporation (as determined by the Corporation).

“Eligible Member” means a Member other than a Non-Eligible Member.

“Failover Entity” has the meaning given to such term in the definition of “Transferee” in this Section 1(a).

“Guaranteed Transaction” means a transaction that is processed through the facilities of the Mortgage-Backed Securities Division of the Corporation that has been subject to Novation.

“Last Settlement Date” has the meaning given to such term in Section 2(c)(3) of this Rule 17B.

“Last Transaction Acceptance Date” has the meaning given to such term in Section 2(c)(2) of this Rule 17B.



“Limited Member” means a user of the EPN Service of the Mortgage-Backed Securities Division of the Corporation that does not use any other services of the Mortgage-Backed Securities Division of the Corporation or a user of the EPN Service of the Mortgage-Backed Securities Division of the Transferee that does not use any other services of the Mortgage-Backed Securities Division of the Transferee, as the context requires.

“Limited Member Agreement” means the form of agreement between a Limited Member and the Corporation or between a Limited Member and the Transferee, as the context requires, providing, *inter alia*, for the Limited Member to be bound by the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation or the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, as applicable to such Limited Member.

“Member” means a Member of the Mortgage-Backed Securities Division of the Corporation (other than a Limited Member or Cash Settling Bank Member) or a Member of the Mortgage-Backed Securities Division of the Transferee (other than a Limited Member or Cash Settling Bank Member), as the context requires.

“Member Agreement” means the form of agreement between a Member and the Corporation or between a Member and the Transferee, as the context requires, providing, *inter alia*, for the Member to be bound by the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation or the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, as applicable to such Member.

“Non-Critical Services” means the services of the Corporation described in the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation and the rules, procedures and other regulations of the Government Securities Division of the Corporation other than the Critical Services.

“Non-Eligible Member” means a Member that is a Delinquent Member or Withdrawing Member.

“Recovery and Wind-down Plan” means the plan for the recovery and orderly wind-down of the Corporation necessitated by credit losses, liquidity shortfalls, losses from general business risk or any other losses, adopted by the Corporation pursuant to Rule 17Ad-22(e)(3)(ii) under the Exchange Act.

“Recovery Plan” means the portion of the Recovery and Wind-down Plan addressing recovery.

“Risk Reducing Transaction” means a Guaranteed Transaction that offsets one or more other Guaranteed Transactions, and thereby reduces the potential exposure of the Corporation with respect to such Guaranteed Transactions.

“Rules and Procedures” means the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation or the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, as the context requires.

“Settling Bank” means a Cash Settling Bank or Cash Settling Bank Member for Members of the Mortgage-Backed Securities Division of the Corporation or a Cash Settling Bank or Cash Settling Bank Member for Members of the Mortgage-Backed Securities Division of the Transferee, as the context requires.

“Settling Bank Agreement” means the form of agreement between a Settling Bank and the Corporation or between a Settling Bank and the Transferee, as the context requires, providing, *inter alia*, for the Settling Bank to be bound by the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation or the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, as applicable to such Settling Bank.

“Third Party Entity” has the meaning given to such term in the definition of “Transferee” in this Section 1(a).

“Transfer” means a transfer of the Business of the Corporation pursuant to the Wind-down Plan.

“Transferee” means an entity to which the Business of the Corporation is transferred pursuant to the Wind-down Plan, and may include (i) a failover entity established by DTCC (a “Failover Entity”), (ii) a then-existing or newly-established third party entity (a “Third Party Entity”) or (iii) a bridge entity formed to operate the Business on an interim basis (a “Bridge Entity”). The Transferee shall be an entity that is legally, financially and operationally qualified to continue to operate the Business that is to be transferred from the Corporation to the Transferee.

“Transferee Documents” means the Rules and Procedures, Member Agreement, Limited Member Agreement and Settling Bank Agreement of the Mortgage-Backed Securities Division of the Transferee.

“Transfer Notice” has the meaning given to such term in Section 3 of this Rule 17B.

“Transfer Time” has the meaning given to such term in Section 2(c)(1) of this Rule 17B.

“Wind-down Plan” means the portion of the Recovery and Wind-down Plan addressing wind-down.

“Withdrawing Member” means a Member of the Mortgage-Backed Securities Division of the Corporation that has given notice to the Corporation of its election to withdraw as a Member but that, at the Transfer Time, has not yet ceased to be a Member (as determined by the Corporation).

(b) Capitalized terms that are used in this Rule 17B but not defined in Section 1(a) above shall have the meanings given to such terms in other Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation.

## Section 2. Initiation of Wind-down Plan

(a) The Board of Directors may authorize the initiation of the Wind-down Plan and a transfer of the Business from the Corporation to a Transferee if the Board of Directors determines, in the exercise of its business judgment and subject to its fiduciary duties:

- (1) that the application of some or all of the recovery tools set forth in the Recovery Plan, necessitated by credit losses, liquidity shortfalls, losses from general business risk or any other losses:
  - (A) has not restored the Corporation to viability as a going concern, able to continue to provide its Critical Services to Members and Limited Members of the Mortgage-Backed Securities Division of the Corporation and Government Securities Division Members in a safe and efficient manner; or
  - (B) will not likely restore the Corporation to viability as a going concern, able to continue to provide its Critical Services to Members and Limited Members of the Mortgage-Backed Securities Division of the Corporation and Government Securities Division Members in a safe and efficient manner; and
- (2) that the implementation of the Wind-down Plan and a Transfer of the Business from the Corporation to a Transferee is in the best interests of the Corporation, its shareholders and creditors, Members and Limited Members of the Mortgage-Backed Securities Division of the Corporation, Government Securities Division Members and the US financial markets.

(b) The Board of Directors shall identify:

- (1) the Critical Services and any Non-Critical Services that shall be transferred from the Corporation to the Transferee at the Transfer Time; and
- (2) any Non-Critical Services that shall not be transferred from the Corporation to the Transferee.

The Critical Services and any Non-Critical Services that are transferred from the Corporation to the Transferee at the Transfer Time shall be provided by the Transferee following the Transfer Time. Any Non-Critical Services that are not transferred from the Corporation to the Transferee shall be terminated at the Transfer Time.

(c) The Board of Directors shall establish:

- (1) the date and time (the “Transfer Time”) of the Transfer;
- (2) the last day that transactions may be submitted to the Mortgage-Backed Securities Division of the Corporation for processing (the “Last Transaction Acceptance Date”); and

- (3) the last day that transactions submitted to the Mortgage-Backed Securities Division of the Corporation for processing will be settled (the “Last Settlement Date”).

The Mortgage-Backed Securities Division of the Corporation shall not accept any transactions (i) for processing after the Last Transaction Acceptance Date or (ii) which have a Contractual Settlement Date that occurs after the Last Settlement Date. All transactions to be processed and/or settled after the Transfer Time shall be submitted to the Mortgage-Backed Securities Division of the Transferee in accordance with the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, and the Corporation shall have no responsibility for such transactions.

(d) To the extent that the Board of Directors deems it to be practicable based on the available resources of the Corporation, the Board of Directors may provide for pending transactions to be run off and settled prior to the Transfer Time, with the objective of facilitating the settlement of transactions in the ordinary course. In furtherance of this objective, so long as a Corporation Default has not occurred, the Board of Directors may provide for how such transactions accepted by the Mortgage-Backed Securities Division of the Corporation on or prior to the Last Transaction Acceptance Date shall be processed and settled, including:

- (1) whether such transactions must be Risk Reducing Transactions; and
- (2) whether such transactions will be processed (i) in the ordinary course or (ii) in accordance with any special or exception processing procedures that will apply through the close of business on the Last Settlement Date.

### Section 3. Notice of Transfer of the Business

If the Board of Directors determines to implement a Transfer of the Business from the Corporation to a Transferee in accordance with this Rule 17B and the terms and conditions of the Wind-down Plan, the Corporation shall, in such manner as may be provided by the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation and subject to any required regulatory or judicial approval or consent:

(a) provide Members, Limited Members and Settling Banks with a notice (a “Transfer Notice”) setting forth:

- (1) the decision taken by the Board of Directors to Transfer the Business from the Corporation to the Transferee and a brief statement of the reasons therefor;
- (2) the name of the Transferee and basic information about the Transferee;
- (3) a description of the material financial and operational terms of the Transfer;

- (4) the (i) Transfer Time, (ii) Last Transaction Acceptance Date and (iii) Last Settlement Date;
- (5) a summary of the matters described in Sections 4 through 8 of this Rule 17B;
- (6) a list setting forth (i) which Members are Eligible Members and (ii) which Members are Non-Eligible Members; and
- (7) a list setting forth (i) the Critical Services and any Non-Critical Services that will be transferred from the Corporation to the Transferee at the Transfer Time and (ii) any Non-Critical Services that will not be transferred from the Corporation to the Transferee; and

(b) make available to Members, Limited Members and Settling Banks a copy of the Transferee Documents.

No delay or failure on the part of the Corporation to provide a Transfer Notice or make available a copy of the Transferee Documents to any Member, Limited Member or Settling Bank shall alter the timing or effectiveness of the Transfer. The Corporation shall also furnish the Transfer Notice and a copy of the Transferee Documents to its regulators.

#### Section 4. Transfer of Members, Limited Members and Settling Banks

Prior to the Transfer Time, the Corporation shall enter into arrangements with a Transferee that is a Failover Entity, or shall use commercially reasonable efforts to enter into arrangements with a Transferee that is a Third Party Entity or Bridge Entity, providing in either case that, at the Transfer Time, by operation of this Rule 17B and with no further action required by any party:

(a) each Eligible Member of the Mortgage-Backed Securities Division of the Corporation shall become (i) a Member of the Mortgage-Backed Securities Division of the Transferee and (ii) a party to a Member Agreement with the Transferee;

(b) each Limited Member of the Mortgage-Backed Securities Division of the Corporation shall become (i) a Limited Member of the Mortgage-Backed Securities Division of the Transferee and (ii) a party to a Limited Member Agreement with the Transferee; and

(c) each Settling Bank for Members of the Mortgage-Backed Securities Division of the Corporation shall become (i) a Settling Bank for Members of the Mortgage-Backed Securities Division of the Transferee and (ii) a party to a Settling Bank Agreement with the Transferee.

#### Section 5. Status of Members, Limited Members and Settling Banks

Prior to the Transfer Time, the Corporation shall enter into arrangements with a Transferee that is a Failover Entity, or shall use commercially reasonable efforts to enter into arrangements with a Transferee that is a Third Party Entity or Bridge Entity, providing in either case that, from and after the Transfer Time:

(a) An Eligible Member of the Mortgage-Backed Securities Division of the Corporation that has become a Member of the Mortgage-Backed Securities Division of the Transferee shall have all of the rights and be subject to all of the obligations of a Member set forth in the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, including the legal, financial, operational and collateral requirements of the Mortgage-Backed Securities Division of the Transferee applicable to such Member.

(b) A Limited Member of the Mortgage-Backed Securities Division of the Corporation that has become a Limited Member of the Mortgage-Backed Securities Division of the Transferee shall have all of the rights and be subject to all of the obligations of a Limited Member set forth in the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, including the operational requirements of the Mortgage-Backed Securities Division of the Transferee applicable to such Limited Member.

(c) A Settling Bank for Members of the Mortgage-Backed Securities Division of the Corporation that has become a Settling Bank for Members of the Mortgage-Backed Securities Division of the Transferee shall have all of the rights and be subject to all of the obligations of a Settling Bank set forth in the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee, including the operational requirements of the Mortgage-Backed Securities Division of the Transferee applicable to such Settling Bank.

#### Section 6. Right of Non-Eligible Members to Apply to the Transferee

Nothing contained in this Rule 17B shall preclude a Non-Eligible Member of the Mortgage-Backed Securities Division of the Corporation from applying after the Transfer Time to become a Member of the Mortgage-Backed Securities Division of the Transferee in accordance with such eligibility requirements and procedures as may be prescribed by the Transferee, but such Non-Eligible Member shall not have the benefit of the automatic admission arrangements provided in Section 4(a) of this Rule 17B.

#### Section 7. Right to Withdraw from the Transferee

Nothing contained in this Rule 17B shall:

(a) preclude an Eligible Member of the Mortgage-Backed Securities Division of the Corporation that has become a Member of the Mortgage-Backed Securities Division of the Transferee pursuant to Section 4(a) of this Rule 17B from electing to withdraw as a Member from the Mortgage-Backed Securities Division of the Transferee at any time after the Transfer Time, subject to the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee;

(b) preclude a Limited Member of the Mortgage-Backed Securities Division of the Corporation that has become a Limited Member of the Mortgage-Backed Securities Division of the Transferee pursuant to Section 4(b) of this Rule 17B from electing to withdraw as a Limited Member from the Mortgage-Backed Securities Division of the Transferee at any time after the Transfer Time, subject to the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee; or

(c) preclude a Settling Bank for Members of the Mortgage-Backed Securities Division of the Corporation that has become a Settling Bank for Members of the Mortgage-Backed Securities Division of the Transferee pursuant to Section 4(c) of this Rule 17B from electing to withdraw as a Settling Bank from the Mortgage-Backed Securities Division of the Transferee at any time after the Transfer Time, subject to the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee.

#### Section 8. Disposition of Pending Transactions

At the Transfer Time, any pending transactions shall be treated as provided in the Corporation Default Rule.

#### Section 9. Certain Ex Ante Matters

Prior to the Transfer Time, the Corporation shall enter into arrangements with a Transferee that is a Failover Entity, or shall use commercially reasonable efforts to enter into arrangements with a Transferee that is a Third Party Entity or Bridge Entity, providing in either case that, with respect to the Critical Services and any Non-Critical Services that are transferred from the Corporation to the Transferee, for at least the duration of the Comparability Period, in order to facilitate a smooth Transfer of the Business from the Corporation to the Transferee:

(a) the Rules and Procedures, Member Agreement, Limited Member Agreement and Settling Bank Agreement of the Mortgage-Backed Securities Division of the Transferee shall be comparable in substance and effect to the Rules and Procedures, Member Agreement, Limited Member Agreement and Settling Bank Agreement of the Mortgage-Backed Securities Division of the Corporation;

(b) the rights and obligations of Members, Limited Members and Settling Banks under the Rules and Procedures of the Mortgage-Backed Securities Division of the Transferee shall be comparable in substance and effect to the rights and obligations of Members, Limited Members and Settling Banks under the Rules and Procedures of the Mortgage-Backed Securities Division of the Corporation; and

(c) the Critical Services and any Non-Critical Services provided by the Transferee shall be provided in a manner that is comparable in substance and effect to the manner in which such Critical Services and Non-Critical Services were provided by the Corporation.

#### Section 10. Subordination of Claims

In the event of any insolvency of the Corporation following the commencement of any Event Period (as defined in Rule 4 of the Clearing Rules of the Mortgage-Backed Securities Division of the Corporation), the unsecured claims (if any) of Members of the Mortgage-Backed Securities Division of the Corporation that failed to pay or perform any obligation to the Corporation or elected to withdraw as Members from and after such time shall (i) rank *pari passu* with each other and (ii) be subordinate to the claims of other unsecured creditors of the Corporation.

## Section 11. Further Assurances; Additional Powers; Miscellaneous Matters

(a) Members, Limited Members and Settling Banks of the Mortgage-Backed Securities Division of the Corporation shall assist and cooperate with the Corporation to effectuate any Transfer of the Business from the Corporation to a Transferee, including without limitation (i) by complying with the terms and conditions of this Rule 17B and their obligations hereunder and (ii) by providing the Corporation and the Transferee with such financial and operational information as they may request. The Corporation may provide to a Transferee any financial and operational information it has with respect to Members, Limited Members and Settling Banks of the Mortgage-Backed Securities Division of the Corporation as may be necessary and appropriate to effectuate an orderly Transfer of the Business from the Corporation to the Transferee.

(b) The Corporation may take such other actions and enter into such other arrangements (on behalf of itself and Members, Limited Members and Settling Banks of the Mortgage-Backed Securities Division of the Corporation) as may be necessary and appropriate to effectuate an orderly Transfer of the Business from the Corporation to a Transferee, and otherwise accomplish the purposes of the Wind-down Plan.

(c) As a condition to receiving, and by virtue of accepting, the continuing benefits of being Members, Limited Members and Settling Banks of the Mortgage-Backed Securities Division of the Corporation, such Members, Limited Members and Settling Banks (i) hereby expressly agree to the arrangements set forth in this Rule 17B relating to their becoming Members, Limited Members and Settling Banks, as the case may be, of the Mortgage-Backed Securities Division of the Transferee in the circumstances described herein and (ii) hereby expressly grant to the Corporation an irrevocable power of attorney to execute and deliver on their behalf such documents and instruments as the Transferee may request for this purpose. As Members, Limited Members and Settling Banks of the Mortgage-Backed Securities Division of the Corporation, such Members, Limited Members and Settling Banks are subject to the Rules and Procedures.

(d) No actions taken or omitted to be taken by the Corporation pursuant to this Rule 17B shall be deemed to constitute a default by the Corporation in the performance of any of its other obligations to Members, Limited Members and Settling Banks pursuant to any other Rules and Procedures.

(e) The Corporation shall have no liability to any Members, Limited Members or Settling Banks for any actions taken or omitted to be taken by the Corporation pursuant to this Rule 17B.

(f) The Corporation shall have no liability to any third parties, including any customers or clients of any Members, Limited Members or Settling Banks, for any actions taken or omitted to be taken by the Corporation pursuant to this Rule 17B.

(g) In connection with the Transfer of the Business from the Corporation to the Transferee, (i) the Corporation shall assign all of its Member Agreements, Limited Member Agreements and Settling Bank Agreements to the Transferee and (ii) the Transferee shall assume such Member Agreements, Limited Member Agreements and Settling Bank Agreements.



(h) All rights of the Corporation that are not assigned to the Transferee in connection with the Transfer of the Business from the Corporation to the Transferee, including any claims of the Corporation against Members, Limited Members and Settling Banks arising at any time prior to the Transfer Time, shall remain rights of the Corporation, enforceable by the Corporation in accordance with their terms and subject to applicable law (including insolvency law).

(i) All obligations and liabilities of the Corporation that are not assigned to and assumed by the Transferee in connection with the Transfer of the Business from the Corporation to the Transferee shall remain obligations and liabilities of the Corporation, enforceable against the Corporation in accordance with their terms and subject to applicable law (including insolvency law).

(j) In the event of any conflict between the provisions of this Rule 17B and any other Rules and Procedures, the provisions of this Rule 17B shall prevail.

## 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 to gain entry to the Corporation's premises, must be prominently displayed while on said premises, 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

With respect to any and all agreements and other documents entered into between a Member and the Corporation, or otherwise delivered to or from the Corporation pursuant to these Rules, the use of an electronic signature shall have the same validity and effect as the use of a signature affixed by hand.



## 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.

RULE 26 – FINANCIAL REPORTS AND  
INTERNAL ACCOUNTING CONTROL REPORTS

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<sup>1</sup> 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.

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<sup>1</sup> 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 and Registered Clearing Agencies 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, by posting such proposal on its website. Members and Registered Clearing Agencies 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

These Rules, and all agreements and other documents entered into between a Member and the Corporation, or otherwise delivered to or from the Corporation pursuant to these Rules, and the rights and obligations thereunder, shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts executed and performed therein, unless otherwise expressly provided.

### 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.

## RULE 31 – GENERAL PROVISIONS

### Section 1

Every Member shall appoint a representative of the Member that is duly authorized in the name of and on behalf 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.

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 ensure 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 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 a loss incurred as a result of a Defaulting Member Event to be allocated 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 – EXTENSION, WAIVER OR SUSPENSION OF RULES

### Section 1 – Powers of the Corporation

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, such extension, waiver or suspension is reasonable and appropriate.

The phrase “reasonable and appropriate,” for the purposes of this Rule 33, generally refers to, without limitation, any extension, waiver or suspension of these Rules, the procedures or any such regulations, by the Corporation, to prevent, correct, mitigate, alleviate, or otherwise address an event, situation, or happening that if left unaddressed may result in a failure to satisfy a requirement of these Rules, the procedures or any such regulations; *provided* that this Rule 33 may not be used by the Corporation to circumvent its regulatory obligations or as a substitute for the authority provided in Rule 40 in the event of a Market Disruption Event. In determining whether to exercise its authority under this Rule 33, the Corporation will consider its obligation to facilitate the prompt and accurate clearance and settlement of securities transactions, to safeguard securities and funds which are in its custody or control, and, in general, to protect investors and the public interest.

### Section 2 – Documentation

A written report of any such extension, waiver or suspension (other than an extension of time of less than eight hours) stating the pertinent facts, the identity of the person or persons who authorized such extension, waiver or suspension and the reason such extension, waiver or suspension was deemed reasonable and appropriate, shall be promptly made and filed with the Corporation’s records and shall be available for inspection by any Member during regular business hours on Business Days.

### Section 3 – Duration

Any such extension, waiver or suspension may continue in effect after the event or events giving rise thereto but shall not continue in effect for more than 60 calendar days after the date thereof unless it shall be approved by the Board of Directors within such period of 60 calendar days.

#### 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 Executive Director 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 sufficiently delivered once such notice is successfully posted to the website, and it is the responsibility of the Interested Persons to retrieve notices daily from the Corporation's 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 or mailed to the Corporation at its principal place of business, Attention: Secretary, or such other place as the Corporation designates, with a copy of the notice sent by electronic mail to the General Counsel's Office of the Corporation at [gcocontractnotices@dtcc.com](mailto:gcocontractnotices@dtcc.com). 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 their designee(s) shall have the authority to interpret the Rules of the Corporation. Interpretations of the Board of Directors 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 heretofore 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<sup>2</sup>

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

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<sup>2</sup> 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.

## RULE 40 – MARKET DISRUPTION AND FORCE MAJEURE

### Section 1. Market Disruption Events

On the happening of any one or more of the events or circumstances set out below (each a “Market Disruption Event”) which, in any case, is likely to materially affect or has materially affected the business, operations, safeguarding of securities or funds, or physical functions of the Corporation, including performance by the Corporation of any obligations under the Rules and the procedures and other regulations (“Procedures”) of the Corporation, the Corporation shall be entitled to take such action as is set out in this Rule 40:

(a) a general suspension or limitation of trading on the New York Stock Exchange, NASDAQ, or any other exchange or market relevant to the pricing or trading of securities cleared and settled through the Corporation;

(b) the declaration of a trading or banking moratorium in the United States or New York State;

(c) any international organization, the government of any nation, state, or territory, or any institution or agency thereof, or any self-regulatory organization taking action of a nature likely to affect the normal course of business, including performance by the Corporation of obligations under the Rules and Procedures;

(d) the unavailability, failure, malfunction, overload, or restriction (whether partial or total) of any payment, bank transfer or wire, or securities settlement system;

(e) the unavailability, failure, malfunction, overload, or restriction (whether partial or total) of any cash or securities depository, custodian or clearing bank, or any material variation of such depository’s, custodian’s or clearing bank’s processing or turnaround times, whether or not occasioned by action of such depository, custodian or clearing bank; or

(f) any Force Majeure, which shall include (without limitation) any terrorist or other criminal action, war or hostilities between any nations, national emergency, riot, civil unrest, acts of God or the public enemy, fire or other casualty, flood, accident, disaster (including any nuclear, atomic, environmental, or natural disaster), sabotage, bomb threat, labor dispute, embargo, the unavailability, failure, malfunction, or restriction of communication, computer, or data processing systems or facilities, or of software or technology, cyber attack, lack of transportation facilities, interruption (whether partial or total) of power supplies or other utility or service, or any event, situation, or circumstance beyond the reasonable control of the parties (whether or not similar to any of the foregoing), including those imminent or threatened.

### Section 2. Powers of the Corporation

If the Board of Directors or any officer of the Corporation listed below determines, in its, his, or her judgment that there is a Market Disruption Event, the Corporation shall be entitled to act (or refrain from acting) as prescribed in Section 3 of this Rule 40. To the extent practicable, the determination of the existence of a Market Disruption Event, and the actions to be taken in



response thereto, shall be made by the Board of Directors at a meeting where a quorum is present and acting. However, if the Corporation is unable to convene a Board meeting promptly and timely in such event, then such determination may be made by either the Chief Executive Officer, the Chief Financial Officer, the Group Chief Risk Officer, the Chief Information Officer, the Head of Clearing Agency Services, or the General Counsel, or by any management committee on which all of the foregoing officers serves (an “Officer Market Disruption Event Action”), provided that the Corporation shall convene a Board meeting as soon as practicable thereafter (and in any event within 5 Business Days following such determination) to ratify, modify or rescind such Officer Market Disruption Event Action.

### Section 3. Authority to take Actions

Upon the determination that there is a Market Disruption Event, the Corporation shall be entitled, during the pendency of such Market Disruption Event, to:

- (a) suspend the provision of any or all services of the Corporation; and
- (b) take, or refrain from taking, or require Members (whether or not they are affected by the Market Disruption Event) to take or refrain from taking, any and all action which the Corporation considers appropriate to prevent, address, correct, mitigate or alleviate the event and facilitate the continuation of services as may be practicable, and, in that context, issue instructions to Members.

### Section 4. Notifications

- 4.1 Each Member shall notify the Corporation immediately upon becoming aware of any Market Disruption Event.
- 4.2 The Corporation shall promptly notify Members of any action the Corporation takes or intends to take pursuant to Section 3 of this Rule 40.
- 4.3 The Corporation shall attempt to consult with officials of the SEC prior to the Corporation taking any action pursuant to Section 3 of this Rule 40; provided, however, that the authority contained herein shall not be conditioned by such consultation.

The Corporation shall advise the SEC as soon as practicable by telephone, and confirmed in writing, of any action taken by the Corporation pursuant to Section 3 of this Rule 40, and a record of such writing shall be promptly made and filed with the Corporation’s records and shall be available for inspection by any Member during regular business hours on Business Days.

The Corporation shall also advise the SEC as soon as practicable by telephone, and confirmed in writing, at such time it determines that there is no longer a Market Disruption Event and the Corporation terminates the actions taken by the Corporation pursuant to Section 3 of this Rule 40. A record of such writing shall be promptly made and filed with the Corporation’s records

and shall be available for inspection by any Member during regular business hours on Business Days.

#### Section 5. Certain Miscellaneous Matters

(a) Without limiting any other provisions in the Rules and Procedures concerning limitations on liability, none of the Corporation, its directors, officers, employees, agents, or contractors shall be liable to a Member or any other person (including any customer or client thereof) for:

- (i) any failure, hindrance, interruption or delay in performance in whole or in part of the obligations of the Corporation under the Rules or Procedures, if that failure, hindrance, interruption or delay arises out of or relates to a Market Disruption Event; or
- (ii) any loss, liability, damage, cost or expense arising from or relating in any way to any actions taken, or omitted to be taken, pursuant to this Rule 40.

(b) The power of the Corporation to take any action pursuant to this Rule 40 also includes the power to repeal, rescind, revoke, amend, or vary any such action.

(c) The powers of the Corporation pursuant to this Rule 40 shall be in addition to, and not in derogation of, authority granted elsewhere in the Rules and Procedures to take action as specified therein.

(d) In the event of any conflict between the provisions of this Rule 40 and any other Rules or Procedures, the provisions of this Rule 40 shall prevail.

## RULE 40A – PARTICIPANT SYSTEM DISRUPTION

### Section 1 – Definitions

For purposes of this Rule 40A, the following terms shall have the following meanings:

“Best Practices” means policies, procedures, practices or similar standards and guidelines that are reasonably designed and consistent with then current financial-sector cybersecurity standards issued by an authoritative body that is a U.S. governmental entity or agency, an association of a U.S. governmental entity or agency, or a widely recognized industry organization.

“DTCC Systems” means the systems, equipment and technology networks of DTCC, the Corporation and/or any Affiliates of DTCC or the Corporation, whether owned, leased, or licensed, and including software, hardware, applications, devices, IP addresses, or other addresses or accounts used in connection with such systems, equipment and technology networks, to provide the services set forth in these Rules, or otherwise used to transact business or connect with DTCC, the Corporation, or any Affiliates of DTCC or the Corporation.

“DTCC Systems Participant” means any Member, Clearing Member, or Cash Settling Bank Member that connects with DTCC Systems either directly or indirectly via a Third-Party Provider.

“Major System Event” means a Participant System Disruption that has or is reasonably anticipated to, for example, disrupt, degrade, cause a delay in, interrupt or otherwise alter the normal operation of DTCC Systems; result in unauthorized access to DTCC Systems; result in the loss of control of, disclosure of, or loss of DTCC Confidential Information; or cause a strain on, loss of, or overall threat to the Corporation’s resources, functions, security or operations.

“Participant System Disruption” means an incident resulting from the unintended or unauthorized access to, or the malfunction or corruption (whether partial or total) of one or more systems, of a DTCC Systems Participant or its Third-Party Provider, connected to DTCC Systems.

“Third-Party Cybersecurity Firm” means a firm that, in the Corporation’s reasonable judgement, (A) (i) is well-known and reputable; (ii) is not the subject DTCC Systems Participant, or an Affiliate or a Third-Party Provider of the subject DTCC Systems Participant; (iii) is experienced in financial-sector cybersecurity; and (iv) employs Best Practices; or (B) is otherwise determined to be a Third-Party Cybersecurity Firm by the Corporation.

“Third-Party Provider” means an Affiliate of any Member, Limited Member, or Sponsored Member, or a third-party service provider, service bureau or other similar entity, that connects to DTCC Systems on behalf of or for the benefit of a DTCC Systems Participant.

### Section 2 – Notifications of a Participant System Disruption

(a) Any DTCC Systems Participant experiencing a Participant System Disruption shall notify the Corporation of such in writing, immediately, but no later than two hours after experiencing the disruption.

(b) Notification provided pursuant to paragraph (a) of this Section 2 shall, at a minimum, include all of the following information, and any such information unconfirmed or otherwise unknown shall be identified by the DTCC Systems Participant as “Unknown”:

- (i) *Legal Entities.* A complete list of the legal entity names of the DTCC Systems Participant and any of its Third-Party Providers experiencing or otherwise affected or potentially affected by the Participant System Disruption.
- (ii) *Contact Information.* A list of persons – with their corresponding titles, primary email addresses and phone numbers, and, if those primary email addresses and phone numbers are associated with the systems that are the subject of the Participant System Disruption, alternate email addresses and phone numbers – who are authorized to act on behalf of the subject DTCC Systems Participant regarding the Participant System Disruption.
- (iii) *Participant System Disruption Details.*
  - (1) Event Type – the type of Participant System Disruption, for example, an insider threat, phishing attack, MITM attack, privilege escalation, denial of service, external threat, malware, unauthorized access, ransomware, compromised user account, SQL injections, brute force attack, system compromise, supply chain attacks (as each term is commonly understood by cybersecurity professionals in the financial sector), or other – if other, please explain.
  - (2) Event Effect – perceived, anticipated, or known effect of the Participant System Disruption, for example, loss of communication, data corruption, security breach, or other – if other, please explain.
  - (3) Start Date – date and time when the Participant System Disruption began.
  - (4) End Date – date and time when the Participant System Disruption ended, if applicable.
  - (5) Discovery Date – date and time when the Participant System Disruption was first identified.
  - (6) Scope – scope of the Participant System Disruption, including, but not limited to, a list of each affected or likely affected system or data, including DTCC Systems and data, the degree of such affect, and any supporting evidence of such.
  - (7) Notices – whether any formal or informal notices or information regarding the Participant System Disruption was made public and, if so, provide a copy of such notices or information.

### Section 3 – Declaration of a Major System Event

(a) Upon becoming aware of a Participant System Disruption, the Corporation will consider whether such Participant System Disruption meets the definition of a Major System Event. The existence of a Major System Event shall be declared by two or more members of the Corporation's senior most management committee, in their reasonable judgment.

(b) Upon declaration of a Major System Event, the Corporation shall be entitled to act (or refrain from acting) pursuant to Section 4 of this Rule 40A to help address, correct, mitigate or alleviate any and all risks presented to the Corporation by or related to the Major System Event. Action taken will be in consideration of the risks presented to the Corporation, including, but not limited to, the risks enumerated in the definition of a Major System Event, based on the facts and circumstances, including, but not limited to, information provided pursuant to Section 2 of this Rule 40A.

(c) Following declaration of a Major System Event, the Corporation shall promptly notify the Board, members of the Corporation's senior most management committee that did not declare such Major System Event, and the SEC of such declaration.

(d) The Corporation shall provide the Board an update on the status of the Major System Event and any action taken pursuant to this Rule 40A on the earlier of 45 calendar days from the date of declaration of the Major System Event or the next scheduled Board meeting, or more frequently following material changes to the status of a Major System Event.

### Section 4 – Authority to Take Action and Required Cooperation

(a) During or in connection with a Major System Event, the Corporation may:

- (i) disconnect from all DTCC Systems any and all connections of the subject DTCC Systems Participant;
- (ii) suspend any and all transmissions, communications, or access between DTCC Systems and the subject DTCC Systems Participant; or
- (iii) take, or refrain from taking, or require the subject DTCC Systems Participant to take or refrain from taking, any and all action that the Corporation considers appropriate to help address, correct, mitigate or alleviate the Major System Event and, as appropriate and practical, facilitate the continuation of services, which may include issuing instructions to the subject DTCC Systems Participant and requiring such DTCC Systems Participant to act on such instructions.

(b) The Corporation shall promptly notify the subject DTCC Systems Participant of any disconnection, suspension, or other material action the Corporation takes with respect to such DTCC Systems Participant pursuant to this Section 4. Notwithstanding any action taken pursuant to this Section 4, the subject DTCC Systems Participant must continue to meet its obligations to the Corporation and comply with these Rules.

(c) The subject DTCC Systems Participant shall cooperate fully and completely with, and to the reasonable satisfaction of, the Corporation in all matters relating to the Major System Event, including, but not limited to, (i) conducting timely investigations and inquiries, as the Corporation believes reasonably necessary, with respect to any known or unknown information relating to the Participant System Disruption; (ii) promptly notifying the Corporation of any material changes, updates, or new information learned regarding the Participant System Disruption; and (iii) promptly providing any documentation or information requested by the Corporation, unless not legally permitted to do so, regarding or related to the Participant System Disruption.

#### Section 5 – Reconnection Requirements

(a) A DTCC Systems Participant that was the subject of action pursuant to Section 4(a) of this Rule 40A must provide to the Corporation the following, prior to the Corporation reestablishing connectivity of the DTCC Systems Participant to DTCC Systems (“Reconnection”):

- (i) a detailed, comprehensive, and auditable report, from a Third-Party Cybersecurity Firm, or summary of such report, that includes:
  - (1) a timeline of the Participant System Disruption, including all material actions, events, and decisions taken for or relating to the Participant System Disruption;
  - (2) a description of the Participant System Disruption and an explanation of how such disruption was corrected and resolved;
  - (3) root cause analysis of the Participant System Disruption;
  - (4) confirmation that any issues identified by the Third-Party Cybersecurity Firm as severe, critical, or moderate, or comparable categorizations, have been resolved;
  - (5) confirmation of normal or intended operation of the subject systems, including, but not limited to, the return or replacement of key systems and datastores to pre-Participant System Disruption resilience, in a safe, secure, and proper manner for at least 72 hours;
  - (6) a description of short- and long-term preventive monitoring and detection recommendations from the Third-Party Cybersecurity Firm; and
  - (7) any other information reasonably requested to be included by the Corporation.
- (ii) an attestation from a member of the board of directors, a senior executive officer, or other member of senior management of the subject DTCC Systems Participant (“Participant Officer”) that:

- (1) the Third-Party Cybersecurity Firm's report is, to the best of the Participant Officer's knowledge, accurate and complete;
  - (2) all short-term preventive monitoring and detection controls recommended by the Third-Party Cybersecurity Firm have been implemented;
  - (3) all medium- and long-term preventive monitoring and detection controls recommended by the Third-Party Cybersecurity Firm will be promptly implemented;
  - (4) the Participant Officer recommends Reconnection to DTCC Systems; and
  - (5) the DTCC Systems Participant will continue to oversee the full and complete remediation of any and all open action items regarding the Participant System Disruption, will continue to monitor the subject systems, and will immediately, but no later than two hours, notify the Corporation of any evidence that indicates or may indicate the continuation of the Participant System Disruption or the existence of a new Participant System Disruption.
- (iii) an executed indemnity to the reasonable satisfaction and judgement of the Corporation in consideration of the facts and circumstances.

(b) In addition to the requirements set forth in paragraph (a) of this Section 5, upon the Corporation's request, the subject DTCC Systems Participant shall promptly provide any missing or additional documentation or information and take, to the Corporation's reasonable satisfaction, any action including, but not limited to, permitting an onsite validation of the subject DTCC Systems Participant by a second Third-Party Cybersecurity Firm.

#### Section 6 – Reconnection Testing and Approval

(a) Prior to any Reconnection pursuant to paragraph (b) of this Section 6, the subject DTCC Systems Participant shall demonstrate, as applicable, to the Corporation's reasonable satisfaction, that it:

- (i) can operate in a test environment, including, but not limited to, sending and receiving messages and transactions;
- (ii) can replay or resubmit previously submitted messages or transactions;
- (iii) can reverse or void previously submitted messages or transactions;
- (iv) can confirm the integrity of messages and transactions;
- (v) has alternative communication methods with the Corporation to facilitate the exchange of messages, transactions, and reports; and

- (vi) can complete any other such requirements as are reasonably requested by the Corporation.

(b) Reconnection of a DTCC Systems Participant shall be approved by two or more members of the Corporation's senior most management committee, in their reasonable judgement, after (1) the Corporation has received all required information, pursuant to Section 5 of this Rule 40A, in form and substance satisfactory to the Corporation, and (2) the requirements of paragraph (a) of this Section 6 have been satisfied, as applicable.

#### Section 7 – Certain Miscellaneous Matters

(a) Without limiting any other provisions in these Rules concerning limitations on liability, neither the Corporation, its Affiliates, nor its or their directors, officers, employees, agents, or contractors shall be liable to any DTCC Systems Participant or any customer or client thereof for:

- (i) any failure, hindrance, interruption or delay in performance in whole or in part of the obligations of the Corporation under these Rules, if that failure, hindrance, interruption or delay arises out of or relates to a Participant System Disruption, Major System Event, or any action or inaction pursuant to this Rule 40A; or
- (ii) any loss, liability, damage, cost or expense arising from or relating in any way to any advice, request, requirement, instruction, action or inaction pursuant to this Rule 40A.

(b) The power of the Corporation to take any action pursuant to this Rule 40A, or to request or require any action, documentation, or information pursuant to this Rule 40A, also includes the power to waive, repeal, rescind, revoke, amend, or vary any such action, request, or requirement in consideration of the facts and circumstances.

(c) The powers of the Corporation pursuant to this Rule 40A shall be in addition to, and not in limitation of, any authority granted elsewhere in these Rules to act as specified therein.

(d) All information related to or regarding a Major System Event and all acts pursuant to this Rule 40A shall be considered DTCC Confidential Information pursuant to these Rules.

(e) Failure of a DTCC Systems Participant to comply with the requirements of this Rule 40A may subject the DTCC Systems Participant to any and all disciplinary action permitted under these Rules, including, without limitation, the Corporation's right to cease to act pursuant to Rules 14 and 17. A DTCC Systems Participant that has authorized another party, such as a Third-Party Provider, to access and use DTCC Systems will be responsible for such authorized party's compliance with the requirements of this Rule 40A and any compliance failure by that authorized party will be deemed to be a failure of the authorizing DTCC Systems Participant.



**FICC MORTGAGE-BACKED SECURITIES DIVISION  
SCHEDULE OF CHARGES BROKER ACCOUNT GROUP**

**I. FEES**

**Rebate Policy:**

The Corporation may, in its discretion, provide Clearing Members with a rebate of its excess net income, where “excess net income” shall mean income of either the Corporation or related to one business line of the Corporation after application of expenses, capitalization costs, and applicable regulatory requirements.

All rebates shall be approved by the Board of Directors of the Corporation. In determining whether a rebate is appropriate, the Board would consider one or more of the following, as appropriate: the Corporation’s regulatory capital requirements, anticipated expenses, investment needs, anticipated future expenses with respect to improvement or maintenance of FICC’s operations, cash balances, financial projections, and appropriate level of shareholders’ equity.

In the event the Board determines a rebate is appropriate, it shall determine a rebate period and a rebate payment date. Clearing Members maintaining membership during all or a portion of the applicable rebate period and on the rebate payment date shall be eligible for the rebate.

Rebates shall be applied to all eligible Clearing Members on a pro-rata basis based on such Members’ gross fees paid to the Corporation within the applicable rebate period, excluding pass-through fees and interest earned on cash deposits to the Clearing Fund. Rebates shall be applied to eligible Clearing Members’ invoices on the rebate payment date as either a reduction in fees owed or, if fees owed are lower than the allocated rebate amount, a payment of such difference. Rebate amounts may be adjusted for miscellaneous charges and discounts.

**Account Maintenance**

Primary/Secondary Account	\$ 50/Mo./each
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**Aggregate Maintenance**

Single Aggregate	No Charge
Each Additional Aggregate	\$ 35/Mo./each

**Administrative Fees**

The Corporation will charge network fees related to SMART connectivity.

### **Trade Processing<sup>3</sup>**

Trade Creates	\$ .40/side
Unmatched Trade Deletes	\$ 1.00/side
Trade Cancels	\$ 1.00/side
Change Terms	\$ 1.00/side

### **Processing Fees**

Trade Date Input Non-Compliance	\$1,000/month/Account
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### **Clearing Fund Maintenance Fee**

On a monthly basis, the Clearing Member shall be charged, in arrears, a fee calculated as the product of (A) 0.085% and (B) the average of each Clearing Member's Required Fund Deposit in the Clearing Fund, as of the end of each day, for the month, multiplied by the number of days for that month and divided by 360.

### **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.

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<sup>3</sup> Trades which are matched and canceled within the same processing pass are exempt from Trade Processing fees.

### **Non-U.S. Membership Applicant Foreign Legal Opinion Fee**

- (a) For the initial applicant (“Initial Applicant”) organized in a given non-U.S. jurisdiction (“Jurisdiction of Organization”) to apply for membership, if the applicant does not otherwise terminate its application in accordance with (c) below: The lesser of (i) a maximum estimated charge (“Maximum Estimated Charge”) and (ii) the actual costs charged to the Corporation by outside counsel providing a legal opinion in form and substance satisfactory to the Corporation regarding the laws of the Jurisdiction of Organization.
- (b) For each subsequent applicant organized in the applicable Jurisdiction of Organization (“Subsequent Non-U.S. Applicant”), if the Subsequent Non-U.S. Applicant does not otherwise terminate its application in accordance with (c) below: an amount equal to the fee charged to the Initial Applicant from the Jurisdiction of Organization, as determined in accordance with (a) above.
- (c) The Non-U.S. Membership Applicant Foreign Legal Opinion Fee is non-refundable regardless of the outcome of the application process (i.e., approval, disapproval or expiration); however, an applicant will not be charged a Non-U.S. Membership Applicant Foreign Legal Opinion Fee if it terminates its application in writing within five (5) Business Days of being notified in writing by the Corporation of the Maximum Estimated Charge (for an Initial Applicant) or fee amount (for a Subsequent Non-U.S. Applicant), as applicable.
- (d) If the applicant does not terminate its application in accordance with (c) above, then the applicant will be billed the applicable fee amount as determined by the Corporation in accordance with the above, with full payment due within ten (10) Business Days of receipt of an invoice from the Corporation, including payment instructions.

## II. FINES

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

Deficiency Amount	First Occasion	Second Occasion	Third Occasion	Fourth Occasion
Up to \$100M	**	\$100	\$200	\$500
Greater than \$100M to \$900M	**	300	600	1,500
Greater than \$900M to \$1.7MM	**	600	1,200	3,000
Greater than \$1.7MM to \$2.5MM	**	900	1,800	4,500
Greater than \$2.5MM	**	1,000	2,000	5,000

\* 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**

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

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 1<sup>st</sup> 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**

<b>Request For Information*</b>	<b>First Occasion</b>	<b>Second Occasion</b>	<b>Third Occasion</b>	<b>Fourth Occasion</b>
Reports/Information**	\$300	\$600	\$1,500	***

\* 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**

<b>Fine Name</b>	<b>Amount(s)</b>
Failure to confirm OFAC Program	\$5,000.00

### **Failure to Maintain or Upgrade Network Technology, or Communications Technology or Protocols**

<b>Fine Name</b>	<b>Amount(s)</b>
Failure to maintain or upgrade technology	\$5,000

**FICC MORTGAGE-BACKED SECURITIES DIVISION  
SCHEDULE OF CHARGES DEALER ACCOUNT GROUP**

**I. FEES**

**Rebate Policy:**

The Corporation may, in its discretion, provide Clearing Members with a rebate of its excess net income, where “excess net income” shall mean income of either the Corporation or related to one business line of the Corporation after application of expenses, capitalization costs, and applicable regulatory requirements.

All rebates shall be approved by the Board of Directors of the Corporation. In determining whether a rebate is appropriate, the Board would consider one or more of the following, as appropriate: the Corporation’s regulatory capital requirements, anticipated expenses, investment needs, anticipated future expenses with respect to improvement or maintenance of FICC’s operations, cash balances, financial projections, and appropriate level of shareholders’ equity.

In the event the Board determines a rebate is appropriate, it shall determine a rebate period and a rebate payment date. Clearing Members maintaining membership during all or a portion of the applicable rebate period and on the rebate payment date shall be eligible for the rebate.

Rebates shall be applied to all eligible Clearing Members on a pro-rata basis based on such Members’ gross fees paid to the Corporation within the applicable rebate period, excluding pass-through fees and interest earned on cash deposits to the Clearing Fund. Rebates shall be applied to eligible Clearing Members’ invoices on the rebate payment date as either a reduction in fees owed or, if fees owed are lower than the allocated rebate amount, a payment of such difference. Rebate amounts may be adjusted for miscellaneous charges and discounts.

**Account Maintenance**

Option Account	\$ 50/Mo./each
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**Aggregate Maintenance**

Single Aggregate	No Charge
Each Additional Aggregate	\$ 35/Mo./each

**Administrative Fees**

The Corporation will charge network fees related to SMART connectivity.



### **Trade Processing<sup>3</sup>**

SBO Destined Trades		Par Value Millions/Mo.
Trade Creates	01 - 2,500,000,000	\$2.36/MM
	2,500,000,001 - 7,500,000,000	\$1.86/MM
	7,500,000,001 - 12,500,000,000	\$1.64/MM
	12,500,000,001 - 300,000,000,000	\$1.40/MM
	300,000,000,001 and over	\$1.37/MM
TBA Netting Balance Orders (SBON)		\$1.20/MM
Unmatched Trade Deletes		\$1.00/side
Trade Cancels		\$4.00/side
Trade Netting Converts		\$1.00/side

### **Trade-for-Trade Transactions, Specified Pool Trades, and Stipulated Trades**

Trade Creates	\$1.37/MM
Unmatched Trade Deletes	\$1.00/side
Trade Cancels	\$4.00/side

### **Option Trades**

Trade Creates	\$1.18/MM
Unmatched Trade Deletes	\$1.00/side
Trade Cancels	\$4.00/side

### **Do Not Allocate Process**

DNA Request	\$1.50/MM
DNA Request Cancel (per DNA request)	\$4.00

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<sup>3</sup> 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)	\$1.20
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 *

## BNY Daylight Overdraft Fees on Securities Settlement Obligations:

For each Clearing Member at The Bank of New York Mellon (“BNY”), a pass-through fee will be charged, calculated as a percentage of the total of all such costs incurred by the Corporation. This percentage is calculated on a monthly basis as follows:

(Total dollar value of Pool Deliver Obligations and Pool Receive Obligations  
of such Clearing Member at BNY)

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(Total dollar value of Pool Deliver Obligations and Pool Receive Obligations  
in all Dealer Accounts at BNY)

## 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:

Total dollar value of deliver and receive obligations of  
such Pool Netting Member in such agency product

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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

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

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 Date Input Non-Compliance	\$1,000/month/Account
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### **Clearing Fund Maintenance Fee**

On a monthly basis, the Clearing Member shall be charged a fee, in arrears, calculated as the product of (A) 0.085% and (B) the average of each Clearing Member's Required Fund Deposit in the Clearing Fund, as of the end of each day, for the month, multiplied by the number of days for that month and divided by 360.

<b>Broker Commission Collection/Audit Trail</b>	No Charge
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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.

### **Non-U.S. Membership Applicant Foreign Legal Opinion Fee**

- (a) For the initial applicant ("Initial Applicant") organized in a given non-U.S. jurisdiction ("Jurisdiction of Organization") to apply for membership, if the applicant does not otherwise terminate its application in accordance with (c) below: The lesser of (i) a maximum estimated charge ("Maximum Estimated Charge") and (ii) the actual costs charged to the Corporation by outside counsel providing a legal opinion in form and substance satisfactory to the Corporation regarding the laws of the Jurisdiction of Organization.
- (b) For each subsequent applicant organized in the applicable Jurisdiction of Organization ("Subsequent Non-U.S. Applicant"), if the Subsequent Non-U.S.

Applicant does not otherwise terminate its application in accordance with (c) below: an amount equal to the fee charged to the Initial Applicant from the Jurisdiction of Organization, as determined in accordance with (a) above.

- (c) The Non-U.S. Membership Applicant Foreign Legal Opinion Fee is non-refundable regardless of the outcome of the application process (i.e., approval, disapproval or expiration); however, an applicant will not be charged a Non-U.S. Membership Applicant Foreign Legal Opinion Fee if it terminates its application in writing within five (5) Business Days of being notified in writing by the Corporation of the Maximum Estimated Charge (for an Initial Applicant) or fee amount (for a Subsequent Non-U.S. Applicant), as applicable.
- (d) If the applicant does not terminate its application in accordance with (c) above, then the applicant will be billed the applicable fee amount as determined by the Corporation in accordance with the above, with full payment due within ten (10) Business Days of receipt of an invoice from the Corporation, including payment instructions.

## II. FINES

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

Deficiency Amount	First Occasion	Second Occasion	Third Occasion	Fourth Occasion
Up to \$100M	**	\$100	\$200	\$500
Greater than \$100M to \$900 M	**	300	600	1,500
Greater than \$900 M to \$1.7MM	**	600	1,200	3,000
Greater than \$1.7MM to \$2.5MM	**	900	1,800	4,500
Greater than \$2.5MM	**	1,000	2,000	5,000

\* 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

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

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 1<sup>st</sup> 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**

<b>Request For Information*</b>	<b>First Occasion</b>	<b>Second Occasion</b>	<b>Third Occasion</b>	<b>Fourth Occasion</b>
Reports/Information **	\$300	\$600	\$1,500	***

\* 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**

<b>Fine Name</b>	<b>Amount(s)</b>
Failure to confirm OFAC Program	\$5,000.00

### **Failure to Maintain or Upgrade Network Technology, or Communications Technology or Protocols**

<b>Fine Name</b>	<b>Amount(s)</b>
Failure to maintain or upgrade technology	\$5,000



## INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

Being placed on the Watch List may result in Clearing Fund-related consequences under the Rules:

### *A. Clearing Fund-Related Consequences*

#### 1. Additional Clearing Fund Deposits

Pursuant to Section 11(e) of Rule 3, 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 the provisions of Rule 4 or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members.

The determination of whether a Clearing Member that is on the Watch List should be subject to an additional Clearing Fund deposit is based on factors determined to be relevant by the Corporation from time to time, including:

- a. the overall financial condition and financial stability or volatility of the Clearing Member, which may include a review of the Clearing Member's credit rating history and outlook;
- b. the liquidity arrangement, if any, of the Clearing Member;
- c. the Clearing Fund requirement history, transaction volume trends, simulated close-out results, stress test results, backtest results and outstanding positions of the Clearing Member;
- d. adverse news reports and/or regulatory concerns relating to the Clearing Member; and
- e. any additional concerns relating to the financial or operational condition of the Clearing Member.

Additionally, pursuant to Section 3(a) of Rule 4, the Corporation may impose (i) an Intraday Mark-to-Market Charge on a Clearing Member that experiences an adverse Intraday Mark-to-Market change or (ii) an Intraday VaR Charge on a Clearing Member that experiences a change in its VaR Charge as calculated by FICC throughout the day that, among other things, exceeds certain thresholds. The thresholds may be set by the Corporation based on a Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or its Watch List status.

#### 2. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 10 of Rule 4, the Corporation may retain some or all of the Excess Clearing Fund Deposit of a Member who is on the Watch List. Nonetheless, the Corporation generally does not retain the Excess Clearing Fund Deposit of a Watch List Member unless the Member fails to pay the Required Fund Deposit within the required timeframes established by the

Corporation, or if the Corporation has a concern that the Member will not be able to satisfy its obligation to the Corporation.

### 3. Non-Waiver of Minimal Clearing Fund Payment

Pursuant to Section 2(b) of Rule 4, a Member is not required to make any payment to its Clearing Fund on a given day if the difference between the amount of the 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, provided that the Member is not on the Watch List. As such, Members that are on the Watch List must satisfy all margin calls for their respective Clearing Funds regardless of the amount.

## INTERPRETIVE GUIDANCE WITH RESPECT TO SETTLEMENT FINALITY

### 1. *Interpretive Guidance With Respect to Settlement Finality – Cash Settlement*

The point of finality for Cash Settlement by the Corporation is defined by the Federal Reserve Bank Operating Circular 12,<sup>4</sup> which governs NSS processing by the FRB. The Corporation and each Member's Cash Settling Bank is a "Settler" and together are in a "Settlement Arrangement" (each term as defined in Operating Circular 12) for purposes of Cash Settlement.<sup>5</sup> DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB.<sup>6</sup> Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.<sup>7</sup> The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler's Master Account is debited by the FRB,<sup>8</sup> and, for credits, the time at which the Settler's Master Account is credited by the FRB.<sup>9</sup>

Therefore, the point of finality with respect to Cash Settlement by the Corporation is the point at which each of the Master Accounts for the Corporation and the Cash Settling Banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

### 2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations.*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of the Corporation's designated clearing bank for each Member whose designated clearing bank for such settlement is the same as the Corporation's designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as the Corporation's designated clearing bank.

#### (a) *Point of Finality on the Books of the Corporation's Clearing Bank.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of the Corporation's clearing bank is the point at which the Corporation's clearing bank has acted upon a settlement instruction from the Corporation.

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<sup>4</sup> As promulgated from time to time by the FRB, available at <https://www.frb.services.org> (hereinafter, "Operating Circular 12").

<sup>5</sup> See defined terms set forth in Operating Circular 12.

<sup>6</sup> See id.

<sup>7</sup> See id. See also definition of "Master Account" in Federal Reserve Banks Operating Circular 1, as promulgated from time to time by the FRB, available at <https://www.frb.services.org> (hereinafter, "Operating Circular 1").

<sup>8</sup> See description of posting debit balances set forth in Operating Circular 12.

<sup>9</sup> See description of posting credit balances set forth in Operating Circular 12.

Pursuant to the agreement between the Corporation and the Corporation's clearing bank, a settlement instruction is an instruction by the Corporation to the clearing bank in respect of settlement that: (1) (a) instructs the clearing bank to direct delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (2) (a) instructs the clearing bank to direct payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the Corporation's account.

The Corporation's clearing bank has acted upon such instructions when the clearing bank (i) (a) directs delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (ii) (a) directs payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the Corporation's account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of the Corporation's clearing bank is when each of the accounts held by the Corporation and the Members at the clearing bank for purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by the Corporation.

*(b) Point of Finality on the Fedwire System.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7,<sup>10</sup> which governs book entry security account maintenance and transfers. The Corporation's clearing bank and each Member's clearing bank is a "Participant" and maintains a "Securities Account" and a "Master Account" with the FRB (each term as defined in Operating Circular 7).<sup>11</sup> Operating Circular 7 provides that all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender's and Receiver's Securities Accounts and, in case of Transfer Against Payment, their corresponding Master Accounts.<sup>12</sup> For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by the Corporation and each Member to deliver and receive

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<sup>10</sup> Federal Reserve Banks Operating Circular 7, as promulgated from time to time by the FRB, available at <https://www.frb services.org> (hereinafter, "Operating Circular 7").

<sup>11</sup> See defined terms set forth in Operating Circular 7 and Operating Circular 1.

<sup>12</sup> See description of finality set forth in Operating Circular 7.

securities and related funds on behalf of the Corporation and each Member, respectively, are the Senders and Receivers described in Operating Circular 7.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by the Corporation and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by the Corporation.<sup>13</sup>

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<sup>13</sup> Each Business Day, the Corporation makes available to each Member a Report that provides settlement information that the Corporation deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. Rule 9, Section 3.

## **BY-LAWS AND RESTATED CERTIFICATE OF INCORPORATION**

The By-Laws of the Corporation and the Restated Certificate of Incorporation of the Corporation are incorporated by reference.