

## OMB APPROVAL

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Page 1 of \* 38

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No.\* SR - 2014 - \* 02

Amendment No. (req. for Amendments \*)

Filing by Fixed Income Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial \*



Amendment \*



Withdrawal



Section 19(b)(2) \*



Section 19(b)(3)(A) \*



Section 19(b)(3)(B) \*



Rule

Pilot



Extension of Time Period  
for Commission Action \*



Date Expires \*

☐ 19b-4(f)(1)

☐ 19b-4(f)(4)

☐ 19b-4(f)(2)

☐ 19b-4(f)(5)

☐ 19b-4(f)(3)

☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Security-Based Swap Submission pursuant  
to the Securities Exchange Act of 1934

Section 806(e)(1) \*



Section 806(e)(2) \*



Section 3C(b)(2) \*



Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



### Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

The purpose of this filing is to amend the GSD Rules regarding the GCF Repo service to adopt changes recommended by the Triparty Task Force.

### Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Donaldine

Last Name \* Temple

Title \* Vice President

E-mail \* dtemple@dtcc.com

Telephone \* (212) 855-3277

Fax (201) 533-6632

### Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 05/05/2014

Managing Director and General Counsel to FICC

By Nikki Poulos

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Persona Not Validated - 1398177138289,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information \***

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

**Exhibit 1 - Notice of Proposed Rule Change \***

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

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

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

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

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

Exhibit Sent As Paper Document

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**Exhibit 3 - Form, Report, or Questionnaire**

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

Exhibit Sent As Paper Document

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**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of Proposed Rule Change.**

- (a) The proposed rule change is annexed as Exhibit 5 and consists of modifications to the rules of the Government Securities Division (the “GSD”) of the Fixed Income Clearing Corporation (“FICC”).
- (b) Not applicable.
- (c) Not applicable.

**2. Procedures of the Self-Regulatory Organization.**

- (a) The Risk Committee of the Board of Directors approved the proposed rule change on June 15, 2011.

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

- (a) FICC is seeking the Commission’s approval to extend the current pilot program (the “2013 Pilot Program”) that is currently in effect for the GCF Repo® service.<sup>1</sup> FICC is requesting that the 2013 Pilot Program be extended for one year following the Commission’s approval of the present filing.<sup>2</sup>

By way of background, on July 12, 2011, FICC submitted a rule filing to the Commission (SR-FICC-2011-05) proposing to make certain changes to its GCF Repo service in order to comply with the recommendations that had been made by the Task Force on Triparty Reform (“TPR”), an industry group formed and sponsored by the Federal Reserve Bank of New York.<sup>3</sup> Because the GCF Repo service operates as a triparty mechanism, FICC was requested to incorporate changes to the GCF Repo service to align the service with the other TPR recommended changes for the overall triparty market.

The rule change described in SR-FICC-2011-05 was proposed to be run as a pilot program for one year starting from the date on which the filing was approved by the Commission (the “2011 Pilot Program”).<sup>4</sup> Throughout 2011 and the earlier half of 2012, FICC implemented a portion of the rule changes that were included in SR-FICC-2011-05. As the expiration date of the 2011 Pilot Program approached, FICC elected to have certain aspects of the 2011 Pilot Program

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<sup>1</sup> GCF Repo is a registered trademark of FICC/DTCC.

<sup>2</sup> If FICC determines to change the parameters of the service during the one-year Pilot Program extension period, it will submit a rule filing to the Commission. If FICC seeks to extend the Pilot Program beyond the one-year period or proposes to make the Pilot Program permanent, it will also submit a rule filing to the Commission.

<sup>3</sup> The main purpose of the TPR was to develop recommendations to address the risk presented by triparty repo transactions due to the current morning reversal or “unwind” process and to move to a process by which transactions are collateralized all day.

<sup>4</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011), 76 FR 54824 (September 2, 2011)(SR-FICC-2011-05).

continue, however, FICC also proposed to make certain modifications to the 2011 Pilot Program. As a result, on June 8, 2012, FICC submitted a rule filing for the 2012 Pilot Program (SR-FICC-2012-05).<sup>5</sup> On June 5, 2013, FICC then submitted a rule filing to extend the Pilot Program for an additional year (SR-FICC-2013-06).<sup>6</sup> Because the latest extension is now approaching its expiry date, FICC is seeking the Commission's approval to extend the Pilot Program for an additional year while the final phase of the tri-party reform is put into place.<sup>7</sup>

*Background: Description of the GCF Repo Service and History*

*(1) Creation of the GCF Repo Service*

The GCF Repo service allows GSD dealer members to trade general collateral repos<sup>8</sup> throughout the day without requiring intra-day, trade-for-trade settlement on a delivery-versus-payment (DVP) basis. The service allows the dealers to trade such general collateral repos, based on rate and term, throughout the day with inter-dealer broker netting members on a blind basis. Standardized, generic CUSIP numbers have been established exclusively for GCF Repo processing and are used to specify the acceptable type of underlying Fedwire book-entry eligible collateral, which includes Treasuries, Agencies and certain mortgage-backed securities.

The GCF Repo service was developed as part of a collaborative effort among GSCC (FICC's predecessor), its two clearing banks (The Bank of New York Mellon ("BNY") and JPMorgan Chase Bank, National Association ("Chase")) – and industry representatives. GSCC introduced the GCF Repo service on an *intra*-clearing bank basis in 1998.<sup>9</sup> Under the intrabank service, dealers could only engage in GCF Repo transactions with other dealers that cleared at the *same* clearing bank.

*(2) Creation of the Interbank Version of the GCF Repo Service*

In 1999, GSCC expanded the GCF Repo service to permit dealer participants to engage in GCF Repo trading on an *inter*-clearing bank basis, meaning that dealers using *different* clearing banks could enter into GCF Repo

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<sup>5</sup> Securities Exchange Release No. 34-67621 (August 8, 2012); 77 FR 48572 (August 14, 2012) (SR-FICC-2012-05)

<sup>6</sup> Securities Exchange Act Release No. 34-70068 (July 30, 2013) 78 FR 47453 (August 5, 2013) (SR-FICC-2013-06)

<sup>7</sup> The final phase includes the development of interactive messages for the interbank collateral substitution automation. If FICC determines to change the parameters of the service during the one-year Pilot Program extension period, it will submit a rule filing to the Commission. If FICC seeks to extend the Pilot Program beyond the one-year period or proposes to make the Pilot Program permanent, it will also submit a rule filing to the Commission.

<sup>8</sup> A general collateral repo is a repo in which the underlying securities collateral is nonspecific, general collateral whose identification is at the option of the seller. This is in contrast to a specific collateral repo.

<sup>9</sup> *See* Securities Exchange Act Release No. 34-40623 (October 30, 1998) 63 FR 59831 (November 5, 1998) (SR-GSCC-98-02).

transactions (on a blind brokered basis).<sup>10</sup> Because dealer members that participate in the GCF Repo service do not all clear at the same clearing bank, introducing the service as an interbank service necessitated the establishment of a mechanism to permit after-hours movements of securities between the two clearing banks to deal with the fact that GSCC would likely have unbalanced net GCF securities and cash positions within each clearing bank (that is, it is likely that at the end of GCF Repo processing each business day, the dealers in one clearing bank will be net funds borrowers, while the dealers at the other clearing bank will be net funds lenders). To address this issue, GSCC and its clearing banks established, and the Commission approved, a legal mechanism by which securities would “move” across the clearing banks without the use of the securities Fedwire.<sup>11</sup> (Movements of cash do not present the same issue because the cash Fedwire is open later than the securities Fedwire.) Therefore, at the end of the day, after the GCF net results are produced, securities are pledged via a tri-party-like mechanism and the interbank cash component is moved via Fedwire. In the morning, the pledges are unwound, that is, funds are returned to the net funds lenders and securities are returned to the net funds borrowers.

The following simplified example illustrates the manner in which the GCF Repo services works on an *interbank* basis:

Assume that Dealer B clears at BNY and Dealer C clears at Chase. Further assume that: (i) outside of FICC, Dealer B engages in a triparty repo transaction with Party X to obtain funds and seeks to invest such funds via a GCF Repo transaction, (ii) outside of FICC, Dealer C engages in a DVP repo with Party Y to buy securities and seeks to finance these securities via a GCF Repo transaction, and (iii) Dealer B and Dealer C enter into a GCF Repo transaction (on a blind basis via a GCF Repo broker) and submit the trade details to FICC.

At the end of “Day 1”, GCF Repo collateral must be allocated, i.e., Dealer B must receive the securities. However, the securities that Dealer B is to receive are at Chase and the securities Fedwire is closed. The after-hours movement mechanism permits the securities to be “sent” to Dealer B as follows: FICC will instruct Chase to allocate to a special FICC clearance account at Chase securities in an amount equal to the net short securities position.

FICC has established on its own books and records two “securities accounts” as defined in Article 8 of the New York Uniform Commercial Code, one in the name of Chase (“FICC Account for Chase”) and one in the name of BNY (“FICC Account for BNY”). The FICC Account for Chase is comprised of the securities in FICC’s special clearance account maintained by BNY (“FICC Special Clearance Account at BNY for Chase”), and the FICC Account for BNY is comprised of the securities in FICC’s special clearance account maintained by

<sup>10</sup> See Securities Exchange Act Release No. 34-41303 (April 16, 1999) 64 FR 20346 (April 26, 1999) (SR-GSCC-99-01).

<sup>11</sup> See *id.* for a detailed description of the clearing bank and FICC accounts needed to effect the after hour movement of securities.

Chase (“FICC Special Clearance Account at Chase for BNY”).<sup>12</sup> The establishment of these securities accounts by FICC in the name of the clearing banks enables the bank that is in the net long securities position to “receive” securities by pledge after the close of the securities Fedwire. Once the clearing bank has “received” the securities by pledge, it can credit them by book-entry to a FICC GCF Repo account at that clearing bank and then to the dealers that clear at that bank that are net long the securities in connection with GCF Repo trades.

In our example, Chase, as agent for FICC, will transmit to BNY a description of the securities in the FICC Special Clearance Account at Chase for BNY. Based on this description, BNY will transfer funds equal to the funds borrowed position to the FICC GCF Repo account at Chase. Upon receipt of the funds by Chase, Chase will release any liens it may have on the FICC Special Clearance Account at Chase for BNY, and FICC will release any liens it may have on FICC Account for BNY (both of these accounts being comprised of the same securities). BNY will credit the securities in the FICC Account for BNY to FICC’s GCF Repo account at BNY, and BNY will further credit these securities to Dealer B, who, as noted, is in a net long securities position. In the morning of “Day 2,” all securities and funds movements occurring on Day 1, are reversed (“unwind”).

*(3) Issues with Morning Unwind Process*

In 2003, FICC shifted the GCF Repo service back to intrabank status only.<sup>13</sup> By that time, the service had grown significantly in participation and volume. However, with the increase in use of the interbank service, certain payments systems risk issues arose from the inter-bank funds settlements related to the service, namely, the large interbank funds movement in the morning. FICC shifted the service back to intrabank status to enable management to study the issues presented and identify a satisfactory solution for bringing the service back to interbank status.

*(4) The NFE Filing and Restoration of Service to Interbank Status*

In 2007, FICC submitted a rule filing to address the issues raised by the interbank morning funds movement and return the GCF Repo service to interbank status (the “2007 NFE Filing”).<sup>14</sup> The 2007 NFE Filing addressed these issues by using a hold against a dealer’s “net free equity” (“NFE”) at the clearing bank to collateralize its GCF Repo cash obligation to FICC on an intraday basis.<sup>15</sup>

<sup>12</sup> FICC has appointed Chase as its agent to maintain FICC’s books and records with respect to the BNY securities account, and FICC has appointed BNY as its agent to maintain FICC’s books and records with respect to the Chase securities account.

<sup>13</sup> See Securities Exchange Act Release No. 34-48006 (June 10, 2003), 66 FR 35745 (June 16, 2003) (SR-FICC-2003-04).

<sup>14</sup> See Securities Exchange Act Release No. 34-57652 (April 11, 2008), 73 FR 20999 (April 17, 2008) (SR-FICC-2007-08).

<sup>15</sup> NFE is a methodology that clearing banks use to determine whether an account holder (such as a dealer) has sufficient collateral to enter a specific transaction. NFE allows the clearing bank to place a limit on its customer’s activity by calculating a value on the customer’s balances at the bank. Bank customers have the ability to monitor their NFE balance throughout the day.

The 2007 NFE Filing replaced the Day 2 morning unwind process with an alternate process, which is currently in effect. Specifically, in lieu of making funds payments, the interbank dealers grant to FICC a security interest in their NFE-related collateral equal to their prorated share of the total interbank funds amount. FICC, in turn, grants to the other clearing bank (that was due to receive the funds) a security interest in the NFE-related collateral to support the debit in the FICC account at the clearing bank. The debit in the FICC account (“Interbank Cash Amount Debit”) occurs because the dealers who are due to receive funds in the morning must receive those funds at that time in return for their release of collateral. The debit in the FICC account at the clearing bank gets satisfied during the end of day GCF Repo settlement process. Specifically, that day’s new activity yields a new interbank funds amount that will move at end of day—however, this amount gets netted with the amount that would have been due in the morning, thus further reducing the interbank funds movement. The NFE holds are released when the interbank funds movement is made at end of day. The 2007 NFE Filing did not involve any changes to the after-hours movement of securities occurring at the end of the day on Day 1. Using our simplified example:

On the morning of Day 2, Dealer C who needs to return funds in the unwind, instead of returning the funds in the morning, grants to FICC a security interest in Dealer C’s NFE-related collateral equal to its funds movement (we have assumed only one GCF Repo transaction took place in this simplified example). FICC, in turn, grants BNY (that was due to receive the funds) a security interest in the NFE-related collateral to support the debit in the FICC account at BNY. As noted above, the debit in FICC’s account at BNY arises because, under the current processing, Dealer B must receive its funds during the morning unwind. The FICC debit is then satisfied during the end of day GCF Repo settlement process.

As part of the 2007 NFE Filing, FICC imposed certain additional risk management measures with respect to the GCF Repo service. First, FICC imposed a collateral premium (called “GCF Premium Charge”) on the GCF Repo portion of the Clearing Fund deposits of all GCF participants to further protect FICC in the event of an intra-day default of a GCF Repo participant. FICC requires GCF Repo participants to submit a quarterly “snapshot” of their holdings by asset type to enable Risk Management staff to determine the appropriate Clearing Fund premium. Members who do not submit this required information by the deadlines established by FICC are subject to fine and an increased Clearing Fund premium, as with all other instances of late submission of required information.

Second, the 2007 NFE Filing addressed the situation where FICC becomes concerned about the volume of interbank GCF Repo activity. Such a concern might arise, for example, if market events were to cause dealers to turn to the GCF Repo service for increased funding at levels beyond normal processing. The 2007 NFE Filing provides FICC with the discretion to institute risk mitigation and



appropriate disincentive measures in order to bring GCF Repo levels to a comfortable level from a risk management perspective.<sup>16</sup>

2011 Pilot Program - Proposed Changes to the GCF Repo Service to Implement the TPR's Recommendations

In SR-FICC-2011-05, FICC proposed the following rule changes with respect to the GCF Repo service to address the TPR's Recommendations:

- (1) (a) To move the Day 2 unwind from 7:30 a.m. to 3:30 p.m., (b) to move the NFE process<sup>17</sup> from morning to a time established by the Corporation as announced by notice to all members<sup>18</sup>, (c) to move the cut-off time of GCF Repo submissions from 3:35 p.m. to 3:00 p.m., and (d) to move the cut-off time for dealer affirmation or disaffirmation from 3:45 p.m. to 3:00 p.m.
- (2) To establish rules for intraday GCF Repo collateral substitutions (i.e., SR-FICC-2011-05 stated that with respect to interbank GCF Repo transactions, the substitution process will only permit cash as an initial matter to accommodate current processing systems, however, as noted below, the substitution process will permit cash and/or securities).

During the term of the 2011 Pilot Program, FICC implemented the proposed changes referred to in subsections 1(c) and 1(d) above and during the term of the 2012 Pilot Program, FICC implemented the proposed changes referred to in subsections 1(a), 1(b) and 2 above.

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<sup>16</sup> Specifically, the 2007 NFE Filing introduced the term "GCF Repo Event", which will be declared by FICC if either of the following occurs: (i) the GCF interbank funds amount exceeds five times the average interbank funds amount over the previous ninety days for three consecutive days; or (ii) the GCF interbank funds amount exceeds fifty percent of the amount of GCF Repo collateral pledged for three consecutive days. FICC reviews these figures on a semi-annual basis to determine whether they remain adequate. FICC also has the right to declare a GCF Repo Event in any other circumstances where it is concerned about GCF Repo volumes and believes it is necessary to declare a GCF Repo Event in order to protect itself and its members. FICC will inform its members about the declaration of the GCF Repo Event via important notice. FICC will also inform the Commission about the declaration of the GCF Repo Event.

<sup>17</sup> No other changes are being proposed to the NFE process that was in place by the 2007 NFE Filing; the risk management measures that were put in place by the 2007 NFE Filing remain in place with the present proposal.

<sup>18</sup> SR-FICC-2011-05 noted that the possible time range would be 8 a. m. to 1 p.m. to coincide with the collateral substitution mechanism that was being developed between FICC and its clearing banks. In rule filing SR-FICC-2012-05, FICC clarified that the 8:00 a.m. to 1:00 p.m. proposed time range in SR-FICC-2011-05 referred to the clearing bank hold on the FICC interest in the NFE (i.e., as part of the NFE process, FICC grants to the other clearing bank (that was due to receive the funds) a security interest in the NFE—related collateral to support the debit in the FICC account at the clearing bank). At present, given the move of the NFE process (as discussed in more detail below), this proposed time range has now moved from 8:00am to 3:30pm.



*(1) Proposed Change Regarding the Morning Unwind and Related Rule Changes*

The TPR recommended that the Day 2 unwind for all triparty transactions be moved from the morning to 3:30 p.m. The TPR made this recommendation in order to achieve the benefit of reducing the clearing banks' intraday exposure to the dealers. As stated, because the GCF Repo service is essentially a triparty mechanism, the TPR requested that FICC accommodate this time change. For the GSD rules, this necessitated a change to the GSD's "Schedule of GCF Timeframes." Specifically, the 7:30 a.m. time in the Schedule was deleted and the language therein was moved to a new time of 3:30 p.m.

Because the Day 2 unwind moved from the morning to 3:30 p.m. and because the NFE process established by the 2007 NFE Filing is tied to the moment of the unwind, the NFE process also was required to move. During 2012, when the systems processing for the tri-party reform effort continued on the part of the clearing banks, the unwind moved to 3:30 p.m. and the funds continued to move between the two clearing banks at 5:00 p.m.; the NFE hold which applies to dealers moved to between 3:30 p.m. and 5:00 p.m. Because the NFE process is a legal process and not an operational process, it is not reflected on the Schedule of GCF Timeframes and therefore no change to the Schedule was required to accommodate the move of the NFE process. A change was needed in Section 3 of GSD Rule 20 to delete the reference to the "morning" timeframe on Day 2 with respect to the NFE process and to add language referencing "at the time established by the Corporation."

*(2) Proposed Change Regarding Intraday GCF Repo Securities Collateral Substitutions*

As a result of the time change of the unwind (i.e., the reversal on Day 2 of collateral allocations established by FICC for each netting member's GCF net funds borrower positions and GCF net funds lender positions on Day 1) to 3:30 p.m., the provider of GCF Repo securities collateral in a GCF Repo transaction on Day 1 no longer has possession of such securities at the beginning of Day 2. Therefore, during Day 2 prior to the unwind of the Day 1 collateral allocations, the provider of GCF Repo securities collateral (in our simple example, Dealer C) needs a substitution mechanism for the return of its posted GCF Repo securities collateral in order to make securities deliveries for utilization of such securities in its business activities. (In our example, Dealer C may need to return the securities to Party Y depending upon the terms of their transaction.) In the 2012 Pilot Program, FICC established a substitution process for this purpose in conjunction with its clearing banks. The language for the substitution mechanism was added to Section 3 of GSD Rule 20. It provides that all requests for substitution for the GCF Repo securities collateral must be

submitted by the provider of the GCF Repo securities collateral (i.e., Dealer C) by the applicable deadline on Day 2 (the “substitution deadline”).<sup>19</sup>

#### Substitutions on Intraday GCF Repos

If the GCF Repo transaction is between dealer counterparties effecting the transaction through the same clearing bank (i.e., on an intra-clearing bank basis and in our example Dealer C and other dealers clearing at Chase), on Day 2 such clearing bank will process each substitution request of the provider of GCF Repo securities collateral (i.e., Dealer C) submitted prior to the substitution deadline promptly upon receipt of such request. The return of the GCF Repo securities collateral in exchange for cash and/or eligible securities of equivalent value can be effected by simple debits and credits to the accounts of the GCF Repo dealer counterparties at the clearing agent bank (i.e., in our example, Chase). Eligible securities for this purpose will be the same as what is currently permitted under the GSD rules for collateral allocations, namely, Comparable Securities,<sup>20</sup> (ii) Other Acceptable Securities,<sup>21</sup> or (iii) U.S. Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, substitution may be with Comparable Securities and/or cash only).

#### Substitutions on Interday GCF Repos

For a GCF Repo that was processed on an interday basis and to accommodate a potential substitution request, FICC initiates a debit of the securities in the account of the lender through the FICC GCF Repo accounts at the clearing bank of the lender and the FICC GCF Repo account at the clearing bank of the borrower (“Interday Movement”). This Interday Movement is done so that a borrower who elects to substitute collateral will have access to the collateral for which it is substituting. The Interday Movement occurs in the morning, though the clearing banks and FICC have the capability to have the Interday Movement occur at any point during the day up until 2:30 p.m. During the 2012 Pilot Program, FICC and the clearing banks implemented a change to unwind the intraday GCF Repo transactions at 3:30 p.m.

<sup>19</sup> As noted in SR-FICC-2012-05, FICC will establish such deadline prior to the implementation of the changes to this service in conjunction with the clearing banks and the Federal Reserve in light of market circumstances. As noted in Important Notice GOV088.12, once delivery has been made to GSD on the new obligations for that business day, no substitutions will be permitted for the remainder of the day.

<sup>20</sup> The GSD rules define “Comparable Securities” as follows: The term “Comparable Securities” means, with respect to a security or securities that are represented by a particular Generic CUSIP Number, any other security or securities that are represented by the same Generic CUSIP Number.

<sup>21</sup> The GSD rules define “Other Acceptable Securities” as follows:  
The term “Other Acceptable Securities” means, with respect to:  
(an) adjustable-rate mortgage-backed security or securities issued by Ginnie Mae, any fixed-rate mortgage-backed security or securities issued by Ginnie Mae, or (an) adjustable-rate mortgage-backed security or securities issued by either Fannie Mae or Freddie Mac: (a) any fixed-rate mortgage-backed security or securities issued by Fannie Mae and Freddie Mac, (b) any fixed-rate mortgage-backed security or securities issued by Ginnie Mae, or (c) any adjustable-rate mortgage-backed security or securities issued by Ginnie Mae.

In the example above, the GCF Repo securities collateral will be debited from the securities account of the receiver of the collateral (i.e., Dealer B) at its clearing bank (i.e., BNY), and from the FICC Account for BNY. If a substitution request is received by the clearing bank (i.e., Chase) of the provider of GCF Repo securities collateral, prior to the substitution deadline at a time specified in FICC's procedures,<sup>22</sup> that clearing bank will process the substitution request by releasing the GCF Repo securities collateral from the FICC GCF Repo account at Chase and crediting it to the account of the provider of GCF Repo securities collateral (i.e., Dealer C). All cash and/or securities substituted for the GCF Repo securities collateral being released will be credited to FICC's GCF Repo account at the clearing bank (i.e., Chase).

Simultaneously, with the debit of the GCF Repo securities collateral from the account at the clearing bank (i.e., BNY) of the original receiver of GCF Repo securities collateral (i.e., Dealer B), for purposes of making payment to the original receiver of securities collateral (i.e., Dealer B), such clearing bank will effect a cash debit equal to the value of the securities collateral in FICC's GCF Repo account at such clearing bank and will credit the account of the original receiver of securities collateral (i.e., Dealer B) at such clearing bank with such cash amount. (This is because when Dealer B is debited the securities, Dealer B must receive the funds.) In order to secure FICC's obligation to repay the balance in FICC's GCF Repo account at such clearing bank (i.e., BNY), FICC will grant to such clearing bank a security interest in the cash and/or securities substituted for the GCF securities collateral in FICC's GCF repo account at the other clearing bank (i.e., Chase).

Using the example from above, assume the Dealer C submits a substitution notification—it requires the securities collateral that has been pledged to Dealer B and will substitute cash and/or securities. BNY will debit the securities from Dealer B's account and the relevant liens will be released so that the securities are in FICC's account at Chase. Chase will credit the securities to Dealer C's account and the cash and/or securities that Dealer C uses for its collateral substitution will be credited by Chase to FICC's account at Chase. From Dealer B's perspective, when BNY debits the securities from Dealer B's account, Dealer B is supposed to receive the funds—but as noted, the funds are at Chase. BNY will credit the funds to Dealer B's account and debit FICC's account at BNY.

At this point in our example, FICC is running a credit at Chase and a debit at BNY. In order to secure FICC's debit at BNY, FICC will grant a security interest in the funds in the FICC account at Chase.

For substitutions that occur with respect to GCF Repo transactions that were processed on an inter-clearing bank basis, FICC and the clearing banks

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<sup>22</sup> Rule filing SR-FICC-2012-05 noted that this timeframe would also be established in consultation with the clearing banks and the Federal Reserve. At that time, the parties were considering whether to have the substitution process be accomplished in two batches during the day depending upon the time of submission of the notifications for substitution. The clearing banks, however, developed a real-time substitution mechanism for both tri-party and GCF collateral making batch processing unnecessary.

permit cash and/or securities for the substitutions. The proposed rule change provided FICC with flexibility in this regard by referring to FICC's procedures.

As noted above, each of the above-referenced changes were approved in connection with SR-FICC-2011-05<sup>23</sup>, SR-FICC-2012-05<sup>24</sup> and SR-FICC-2013-06<sup>25</sup>. FICC proposes to extend the pilot program reflecting these changes for an additional one year. The changes referenced above are reflected in Exhibit 5.

(b) The proposed rule change is consistent with the Securities and Exchange Act of 1934, as amended (the "Act") and the rules and regulations promulgated thereunder because it will align the GCF Repo service with recommendations being made by the TPR to address risks in the triparty market overall and therefore will serve to further safeguard the securities and funds for which FICC is responsible.

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

FICC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

6. **Extension of Time Period for Commission Action.**

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

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

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<sup>23</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011) 76 FR 54824 (September 2, 2011)

<sup>24</sup> Securities Exchange Act Release No. 34-67277 (June 20, 2012) 77 FR 38108 (June 26, 2012)

<sup>25</sup> Securities Exchange Act Release No. 34-70068 (July 30, 2013) 78 FR 47453 (August 5, 2013)

(d) Not applicable

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.**

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

(e) Not applicable.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable

(e) Not applicable.

**Exhibits**

Exhibit 1 – Not applicable.

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

Exhibit 2 - Not applicable.

Exhibit 3 - Not applicable.

Exhibit 4 - Not applicable.

Exhibit 5 - Text of the proposed rule change and modifications to other provisions affected thereby.

**EXHIBIT 1A**

**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-\_\_\_\_\_ ; File No. SR-FICC-2014-02]**

**[DATE]**

**SELF-REGULATORY ORGANIZATIONS;** Fixed Income Clearing Corporation; Proposed Rule Change to the Government Securities Division Rules in connection with the GCF Repo® service.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 15 U.S.C. 78s(b)(1), notice is hereby given that on \_\_\_\_\_, the Fixed Income Clearing Corporation (“FICC” or the “Corporation”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule changes consist of modifications to the Rulebook of the Government Securities Division (“GSD”) in connection with the GCF Repo® service<sup>1</sup>.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, FICC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below.

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<sup>1</sup> GCF Repo is a registered trademark of FICC/DTCC.

FICC has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of such statements.

**A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.**

(i) FICC is seeking the Commission's approval to extend the current pilot program (the "2013 Pilot Program") that is currently in effect for the GCF Repo® service. FICC is requesting that the 2013 Pilot Program be extended for one year following the Commission's approval of the present filing.<sup>2</sup>

By way of background, on July 12, 2011, FICC submitted a rule filing to the Commission (SR-FICC-2011-05) proposing to make certain changes to its GCF Repo service in order to comply with the recommendations that had been made by the Task Force on Triparty Reform ("TPR"), an industry group formed and sponsored by the Federal Reserve Bank of New York.<sup>3</sup> Because the GCF Repo service operates as a triparty mechanism, FICC was requested to incorporate changes to the GCF Repo service to align the service with the other TPR recommended changes for the overall triparty market.

The rule change described in SR-FICC-2011-05 was proposed to be run as a pilot program for one year starting from the date on which the filing was approved by the Commission (the "2011 Pilot Program").<sup>4</sup> Throughout 2011 and the earlier half of 2012, FICC implemented a portion of the rule changes that were included in SR-FICC-2011-05. As the

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<sup>2</sup> If FICC determines to change the parameters of the service during the one-year Pilot Program extension period, it will submit a rule filing to the Commission. If FICC seeks to extend the Pilot Program beyond the one-year period or proposes to make the Pilot Program permanent, it will also submit a rule filing to the Commission.

<sup>3</sup> The main purpose of the TPR was to develop recommendations to address the risk presented by triparty repo transactions due to the current morning reversal or "unwind" process and to move to a process by which transactions are collateralized all day.

<sup>4</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011), 76 FR 54824 (September 2, 2011)(SR-FICC-2011-05).



expiration date of the 2011 Pilot Program approached, FICC elected to have certain aspects of the 2011 Pilot Program continue, however, FICC also proposed to make certain modifications to the 2011 Pilot Program. As a result, on June 8, 2012, FICC submitted a rule filing for the 2012 Pilot Program (SR-FICC-2012-05).<sup>5</sup> On June 5, 2013, FICC then submitted a rule filing to extend the Pilot Program for an additional year (SR-FICC-2013-06)<sup>6</sup>. Because the latest extension is now approaching its expiry date, FICC is seeking the Commission's approval to extend the Pilot Program for an additional year while the final phase of the tri-party reform is put into place.<sup>7</sup>

*Background: Description of the GCF Repo Service and History*

*(1) Creation of the GCF Repo Service*

The GCF Repo service allows GSD dealer members to trade general collateral repos<sup>8</sup> throughout the day without requiring intra-day, trade-for-trade settlement on a delivery-versus-payment (DVP) basis. The service allows the dealers to trade such general collateral repos, based on rate and term, throughout the day with inter-dealer broker netting members on a blind basis. Standardized, generic CUSIP numbers have been established exclusively for GCF Repo processing and are used to specify the acceptable type of underlying Fedwire book-entry eligible collateral, which includes Treasuries, Agencies and certain mortgage-backed securities.

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<sup>5</sup> Securities Exchange Release No. 34-67621 (August 8, 2012); 77 FR 48572 (August 14, 2012) (SR-FICC-2012-05)

<sup>6</sup> Securities Exchange Act Release No. 34-70068 (July 30, 2013) 78 FR 47453 (August 5, 2013) (SR-FICC-2013-06)

<sup>7</sup> The final phase includes the development interactive messages for the interbank collateral substitution automation. If FICC determines to change the parameters of the service during the one-year Pilot Program extension period, it will submit a rule filing to the Commission. If FICC seeks to extend the Pilot Program beyond the one-year period or proposes to make the Pilot Program permanent, it will also submit a rule filing to the Commission.

<sup>8</sup> A general collateral repo is a repo in which the underlying securities collateral is nonspecific, general collateral whose identification is at the option of the seller. This is in contrast to a specific collateral repo.

The GCF Repo service was developed as part of a collaborative effort among GSCC (FICC’s predecessor), its two clearing banks (The Bank of New York Mellon (“BNY”) and JPMorgan Chase Bank, National Association (“Chase”)) – and industry representatives. GSCC introduced the GCF Repo service on an *intra*-clearing bank basis in 1998.<sup>9</sup> Under the intrabank service, dealers could only engage in GCF Repo transactions with other dealers that cleared at the *same* clearing bank.

(2) Creation of the Interbank Version of the GCF Repo Service

In 1999, GSCC expanded the GCF Repo service to permit dealer participants to engage in GCF Repo trading on an *inter*-clearing bank basis, meaning that dealers using *different* clearing banks could enter into GCF Repo transactions (on a blind brokered basis).<sup>10</sup> Because dealer members that participate in the GCF Repo service do not all clear at the same clearing bank, introducing the service as an interbank service necessitated the establishment of a mechanism to permit after-hours movements of securities between the two clearing banks to deal with the fact that GSCC would likely have unbalanced net GCF securities and cash positions within each clearing bank (that is, it is likely that at the end of GCF Repo processing each business day, the dealers in one clearing bank will be net funds borrowers, while the dealers at the other clearing bank will be net funds lenders). To address this issue, GSCC and its clearing banks established, and the Commission approved, a legal mechanism by which securities would “move” across the clearing banks without the use of the securities Fedwire.<sup>11</sup>

<sup>9</sup> See Securities Exchange Act Release No. 34-40623 (October 30, 1998) 63 FR 59831 (November 5, 1998) (SR-GSCC-98-02).

<sup>10</sup> See Securities Exchange Act Release No. 34-41303 (April 16, 1999) 64 FR 20346 (April 26, 1999) (SR-GSCC-99-01)..

<sup>11</sup> See *id.* for a detailed description of the clearing bank and FICC accounts needed to effect the after-hour movement of securities.

(Movements of cash do not present the same issue because the cash Fedwire is open later than the securities Fedwire.) Therefore, at the end of the day, after the GCF net results are produced, securities are pledged via a tri-party-like mechanism and the interbank cash component is moved via Fedwire. In the morning, the pledges are unwound, that is, funds are returned to the net funds lenders and securities are returned to the net funds borrowers.

The following simplified example illustrates the manner in which the GCF Repo services works on an *interbank* basis:

Assume that Dealer B clears at BNY and Dealer C clears at Chase. Further assume that: (i) outside of FICC, Dealer B engages in a triparty repo transaction with Party X to obtain funds and seeks to invest such funds via a GCF Repo transaction, (ii) outside of FICC, Dealer C engages in a DVP repo with Party Y to buy securities and seeks to finance these securities via a GCF Repo transaction, and (iii) Dealer B and Dealer C enter into a GCF Repo transaction (on a blind basis via a GCF Repo broker) and submit the trade details to FICC.

At the end of “Day 1”, GCF Repo collateral must be allocated, i.e., Dealer B must receive the securities. However, the securities that Dealer B is to receive are at Chase and the securities Fedwire is closed. The after-hours movement mechanism permits the securities to be “sent” to Dealer B as follows: FICC will instruct Chase to allocate to a special FICC clearance account at Chase securities in an amount equal to the net short securities position.

FICC has established on its own books and records two “securities accounts” as defined in Article 8 of the New York Uniform Commercial Code, one in the name of

Chase (“FICC Account for Chase”) and one in the name of BNY (“FICC Account for BNY”). The FICC Account for Chase is comprised of the securities in FICC’s special clearance account maintained by BNY (“FICC Special Clearance Account at BNY for Chase”), and the FICC Account for BNY is comprised of the securities in FICC’s special clearance account maintained by Chase (“FICC Special Clearance Account at Chase for BNY”).<sup>12</sup> The establishment of these securities accounts by FICC in the name of the clearing banks enables the bank that is in the net long securities position to “receive” securities by pledge after the close of the securities Fedwire. Once the clearing bank has “received” the securities by pledge, it can credit them by book-entry to a FICC GCF Repo account at that clearing bank and then to the dealers that clear at that bank that are net long the securities in connection with GCF Repo trades.

In our example, Chase, as agent for FICC, will transmit to BNY a description of the securities in the FICC Special Clearance Account at Chase for BNY. Based on this description, BNY will transfer funds equal to the funds borrowed position to the FICC GCF Repo account at Chase. Upon receipt of the funds by Chase, Chase will release any liens it may have on the FICC Special Clearance Account at Chase for BNY, and FICC will release any liens it may have on FICC Account for BNY (both of these accounts being comprised of the same securities). BNY will credit the securities in the FICC Account for BNY to FICC’s GCF Repo account at BNY, and BNY will further credit these securities to Dealer B, who, as noted, is in a net long securities position. In the morning of “Day 2,” all securities and funds movements occurring on Day 1, are reversed (“unwind”).

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<sup>12</sup> FICC has appointed Chase as its agent to maintain FICC’s books and records with respect to the BNY securities account, and FICC has appointed BNY as its agent to maintain FICC’s books and records with respect to the Chase securities account.

(3) Issues with Morning Unwind Process

In 2003, FICC shifted the GCF Repo service back to intrabank status only.<sup>13</sup> By that time, the service had grown significantly in participation and volume. However, with the increase in use of the interbank service, certain payments systems risk issues arose from the inter-bank funds settlements related to the service, namely, the large interbank funds movement in the morning. FICC shifted the service back to intrabank status to enable management to study the issues presented and identify a satisfactory solution for bringing the service back to interbank status.

(4) The NFE Filing and Restoration of Service to Interbank Status

In 2007, FICC submitted a rule filing to address the issues raised by the interbank morning funds movement and return the GCF Repo service to interbank status (the “2007 NFE Filing”).<sup>14</sup> The 2007 NFE Filing addressed these issues by using a hold against a dealer’s “net free equity” (“NFE”) at the clearing bank to collateralize its GCF Repo cash obligation to FICC on an intraday basis.<sup>15</sup>

The 2007 NFE Filing replaced the Day 2 morning unwind process with an alternate process, which is currently in effect. Specifically, in lieu of making funds payments, the interbank dealers grant to FICC a security interest in their NFE-related collateral equal to their prorated share of the total interbank funds amount. FICC, in turn, grants to the other clearing bank (that was due to receive the funds) a security interest in

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<sup>13</sup> See Securities Exchange Act Release No. 34-48006 (June 10, 2003), 66 FR 35745 (June 16, 2003) (SR-FICC-2003-04).

<sup>14</sup> See Securities Exchange Act Release No. 34-57652 (April 11, 2008), 73 FR 20999 (April 17, 2008) (SR-FICC-2007-08).

<sup>15</sup> NFE is a methodology that clearing banks use to determine whether an account holder (such as a dealer) has sufficient collateral to enter a specific transaction. NFE allows the clearing bank to place a limit on its customer’s activity by calculating a value on the customer’s balances at the bank. Bank customers have the ability to monitor their NFE balance throughout the day.

the NFE-related collateral to support the debit in the FICC account at the clearing bank. The debit in the FICC account ( “Interbank Cash Amount Debit”) occurs because the dealers who are due to receive funds in the morning must receive those funds at that time in return for their release of collateral. The debit in the FICC account at the clearing bank gets satisfied during the end of day GCF Repo settlement process. Specifically, that day’s new activity yields a new interbank funds amount that will move at end of day—however, this amount gets netted with the amount that would have been due in the morning, thus further reducing the interbank funds movement. The NFE holds are released when the interbank funds movement is made at end of day. The 2007 NFE Filing did not involve any changes to the after-hours movement of securities occurring at the end of the day on Day 1. Using our simplified example:

On the morning of Day 2, Dealer C who needs to return funds in the unwind, instead of returning the funds in the morning, grants to FICC a security interest in Dealer C’s NFE-related collateral equal to its funds movement (we have assumed only one GCF Repo transaction took place in this simplified example). FICC, in turn, grants BNY (that was due to receive the funds) a security interest in the NFE-related collateral to support the debit in the FICC account at BNY. As noted above, the debit in FICC’s account at BNY arises because, under the current processing, Dealer B must receive its funds during the morning unwind. The FICC debit is then satisfied during the end of day GCF Repo settlement process.

As part of the 2007 NFE Filing, FICC imposed certain additional risk management measures with respect to the GCF Repo service. First, FICC imposed a collateral premium (called “GCF Premium Charge”) on the GCF Repo portion of the

Clearing Fund deposits of all GCF participants to further protect FICC in the event of an intra-day default of a GCF Repo participant. FICC requires GCF Repo participants to submit a quarterly “snapshot” of their holdings by asset type to enable Risk Management staff to determine the appropriate Clearing Fund premium. Members who do not submit this required information by the deadlines established by FICC are subject to fine and an increased Clearing Fund premium, as with all other instances of late submission of required information.

Second, the 2007 NFE Filing addressed the situation where FICC becomes concerned about the volume of interbank GCF Repo activity. Such a concern might arise, for example, if market events were to cause dealers to turn to the GCF Repo service for increased funding at levels beyond normal processing. The 2007 NFE Filing provides FICC with the discretion to institute risk mitigation and appropriate disincentive measures in order to bring GCF Repo levels to a comfortable level from a risk management perspective.<sup>16</sup>

*2011 Pilot Program - Proposed Changes to the GCF Repo Service to Implement the TPR’s Recommendations*

In SR-FICC-2011-05, FICC proposed the following rule changes with respect to the GCF Repo service to address the TPR’s Recommendations:

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Specifically, the 2007 NFE Filing introduced the term “GCF Repo Event”, which will be declared by FICC if either of the following occurs: (i) the GCF interbank funds amount exceeds five times the average interbank funds amount over the previous ninety days for three consecutive days; or (ii) the GCF interbank funds amount exceeds fifty percent of the amount of GCF Repo collateral pledged for three consecutive days. FICC reviews these figures on a semi-annual basis to determine whether they remain adequate. FICC also has the right to declare a GCF Repo Event in any other circumstances where it is concerned about GCF Repo volumes and believes it is necessary to declare a GCF Repo Event in order to protect itself and its members. FICC will inform its members about the declaration of the GCF Repo Event via important notice. FICC will also inform the Commission about the declaration of the GCF Repo Event.



(1) (a) To move the Day 2 unwind from 7:30 a.m. to 3:30 p.m., (b) to move the NFE process<sup>17</sup> from morning to a time established by the Corporation as announced by notice to all members<sup>18</sup>, (c) to move the cut-off time of GCF Repo submissions from 3:35 p.m. to 3:00 p.m., and (d) to move the cut-off time for dealer affirmation or disaffirmation from 3:45 p.m. to 3:00 p.m.

(2) To establish rules for intraday GCF Repo collateral substitutions (i.e., SR-FICC-2011-05 stated that with respect to interbank GCF Repo transactions, the substitution process will only permit cash as an initial matter to accommodate current processing systems, however, as noted below, the substitution process will permit cash and/or securities).

During the term of the 2011 Pilot Program, FICC implemented the proposed changes referred to in subsections 1(c) and 1(d) above and during the term of the 2012 Pilot Program, FICC implemented the proposed changes referred to in subsections 1(a), 1(b) and 2 above.

(1) *Proposed Change Regarding the Morning Unwind and Related Rule Changes*

The TPR recommended that the Day 2 unwind for all triparty transactions be moved from the morning to 3:30 p.m. The TPR made this recommendation in order to

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<sup>17</sup> No other changes are being proposed to the NFE process that was in place by the 2007 NFE Filing; the risk management measures that were put in place by the 2007 NFE Filing remain in place with the present proposal.

<sup>18</sup> SR-FICC-2011-05 noted that the possible time range would be 8 a. m. to 1 p.m. to coincide with the collateral substitution mechanism that was being developed between FICC and its clearing banks. In rule filing SR-FICC-2012-05, FICC clarified that the 8:00 a.m. to 1:00 p.m. proposed time range in SR-FICC-2011-05 referred to the clearing bank hold on the FICC interest in the NFE (i.e., as part of the NFE process, FICC grants to the other clearing bank (that was due to receive the funds) a security interest in the NFE—related collateral to support the debit in the FICC account at the clearing bank). At present, given the move of the NFE process (as discussed in more detail below), this proposed time range has now moved from 8:00am to 3:30pm.

achieve the benefit of reducing the clearing banks' intraday exposure to the dealers. As stated, because the GCF Repo service is essentially a triparty mechanism, the TPR requested that FICC accommodate this time change. For the GSD rules, this necessitated a change to the GSD's "Schedule of GCF Timeframes." Specifically, the 7:30 a.m. time in the Schedule was deleted and the language therein was moved to a new time of 3:30 p.m.

Because the Day 2 unwind moved from the morning to 3:30 p.m. and because the NFE process established by the 2007 NFE Filing is tied to the moment of the unwind, the NFE process also was required to move. During 2012, when the systems processing for the tri-party reform effort continued on the part of the clearing banks, the unwind moved to 3:30 p.m. and the funds continued to move between the two clearing banks at 5:00 p.m.; the NFE hold which applies to dealers moved to between 3:30 p.m. and 5:00 p.m. Because the NFE process is a legal process and not an operational process, it is not reflected on the Schedule of GCF Timeframes and therefore no change to the Schedule was required to accommodate the move of the NFE process. A change was needed in Section 3 of GSD Rule 20 to delete the reference to the "morning" timeframe on Day 2 with respect to the NFE process and to add language referencing "at the time established by the Corporation."

(2) *Proposed Change Regarding Intraday GCF Repo Securities Collateral Substitutions*

As a result of the time change of the unwind (i.e., the reversal on Day 2 of collateral allocations established by FICC for each netting member's GCF net funds borrower positions and GCF net funds lender positions on Day 1) to 3:30 p.m., the

provider of GCF Repo securities collateral in a GCF Repo transaction on Day 1 no longer has possession of such securities at the beginning of Day 2. Therefore, during Day 2 prior to the unwind of the Day 1 collateral allocations, the provider of GCF Repo securities collateral (in our simple example, Dealer C) needs a substitution mechanism for the return of its posted GCF Repo securities collateral in order to make securities deliveries for utilization of such securities in its business activities. (In our example, Dealer C may need to return the securities to Party Y depending upon the terms of their transaction.) In the 2012 Pilot Program, FICC established a substitution process for this purpose in conjunction with its clearing banks. The language for the substitution mechanism was added to Section 3 of GSD Rule 20. It provides that all requests for substitution for the GCF Repo securities collateral must be submitted by the provider of the GCF Repo securities collateral (i.e., Dealer C) by the applicable deadline on Day 2 (the “substitution deadline”).<sup>19</sup>

#### Substitutions on Intrabank GCF Repos

If the GCF Repo transaction is between dealer counterparties effecting the transaction through the same clearing bank (i.e., on an intra-clearing bank basis and in our example Dealer C and other dealers clearing at Chase), on Day 2 such clearing bank will process each substitution request of the provider of GCF Repo securities collateral (i.e., Dealer C) submitted prior to the substitution deadline promptly upon receipt of such request. The return of the GCF Repo securities collateral in exchange for cash and/or

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As noted in SR-FICC-2012-05, FICC will establish such deadline prior to the implementation of the changes to this service in conjunction with the clearing banks and the Federal Reserve in light of market circumstances. As noted in Important Notice GOV088.12, once delivery has been made to GSD on the new obligations for that business day, no substitutions will be permitted for the remainder of the day.

eligible securities of equivalent value can be effected by simple debits and credits to the accounts of the GCF Repo dealer counterparties at the clearing agent bank (i.e., in our example, Chase). Eligible securities for this purpose will be the same as what is currently permitted under the GSD rules for collateral allocations, namely, Comparable Securities,<sup>20</sup> (ii) Other Acceptable Securities,<sup>21</sup> or (iii) U.S. Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, substitution may be with Comparable Securities and/or cash only).

#### Substitutions on Interbank GCF Repos

For a GCF Repo that was processed on an interbank basis and to accommodate a potential substitution request, FICC initiates a debit of the securities in the account of the lender through the FICC GCF Repo accounts at the clearing bank of the lender and the FICC GCF Repo account at the clearing bank of the borrower (“Interbank Movement”). This Interbank Movement is done so that a borrower who elects to substitute collateral will have access to the collateral for which it is substituting. The Interbank Movement occurs in the morning, though the clearing banks and FICC have the capability to have the Interbank Movement occur at any point during the day up until 2:30 p.m. During the

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<sup>20</sup> The GSD rules define “Comparable Securities” as follows: The term “Comparable Securities” means, with respect to a security or securities that are represented by a particular Generic CUSIP Number, any other security or securities that are represented by the same Generic CUSIP Number.

<sup>21</sup> The GSD rules define “Other Acceptable Securities” as follows:  
The term “Other Acceptable Securities” means, with respect to:  
(an) adjustable-rate mortgage-backed security or securities issued by Ginnie Mae, any fixed-rate mortgage-backed security or securities issued by Ginnie Mae, or (an) adjustable-rate mortgage-backed security or securities issued by either Fannie Mae or Freddie Mac: (a) any fixed-rate mortgage-backed security or securities issued by Fannie Mae and Freddie Mac, (b) any fixed-rate mortgage-backed security or securities issued by Ginnie Mae, or (c) any adjustable-rate mortgage-backed security or securities issued by Ginnie Mae.

2012 Pilot Program, FICC and the clearing banks implemented a change to unwind the intrabank GCF Repo transactions at 3:30 p.m.

In the example above, the GCF Repo securities collateral will be debited from the securities account of the receiver of the collateral (i.e., Dealer B) at its clearing bank (i.e., BNY), and from the FICC Account for BNY. If a substitution request is received by the clearing bank (i.e., Chase) of the provider of GCF Repo securities collateral, prior to the substitution deadline at a time specified in FICC's procedures,<sup>22</sup> that clearing bank will process the substitution request by releasing the GCF Repo securities collateral from the FICC GCF Repo account at Chase and crediting it to the account of the provider of GCF Repo securities collateral (i.e., Dealer C). All cash and/or securities substituted for the GCF Repo securities collateral being released will be credited to FICC's GCF Repo account at the clearing bank (i.e., Chase).

Simultaneously, with the debit of the GCF Repo securities collateral from the account at the clearing bank (i.e., BNY) of the original receiver of GCF Repo securities collateral (i.e., Dealer B), for purposes of making payment to the original receiver of securities collateral (i.e., Dealer B), such clearing bank will effect a cash debit equal to the value of the securities collateral in FICC's GCF Repo account at such clearing bank and will credit the account of the original receiver of securities collateral (i.e., Dealer B) at such clearing bank with such cash amount. (This is because when Dealer B is debited the securities, Dealer B must receive the funds.) In order to secure FICC's obligation to repay the balance in FICC's GCF Repo account at such clearing bank (i.e., BNY), FICC

<sup>22</sup>

Rule filing SR-FICC-2012-05 noted that this timeframe would also be established in consultation with the clearing banks and the Federal Reserve. At that time, the parties were considering whether to have the substitution process be accomplished in two batches during the day depending upon the time of submission of the notifications for substitution. The clearing banks, however, developed a real-time substitution mechanism for both tri-party and GCF collateral making batch processing unnecessary.

will grant to such clearing bank a security interest in the cash and/or securities substituted for the GCF securities collateral in FICC's GCF repo account at the other clearing bank (i.e., Chase).

Using the example from above, assume the Dealer C submits a substitution notification—it requires the securities collateral that has been pledged to Dealer B and will substitute cash and/or securities. BNY will debit the securities from Dealer B's account and the relevant liens will be released so that the securities are in FICC's account at Chase. Chase will credit the securities to Dealer C's account and the cash and/or securities that Dealer C uses for its collateral substitution will be credited by Chase to FICC's account at Chase. From Dealer B's perspective, when BNY debits the securities from Dealer B's account, Dealer B is supposed to receive the funds—but as noted, the funds are at Chase. BNY will credit the funds to Dealer B's account and debit FICC's account at BNY.

At this point in our example, FICC is running a credit at Chase and a debit at BNY. In order to secure FICC's debit at BNY, FICC will grant a security interest in the funds in the FICC account at Chase.

For substitutions that occur with respect to GCF Repo transactions that were processed on an inter-clearing bank basis, FICC and the clearing banks permit cash and/or securities for the substitutions. The proposed rule change provided FICC with flexibility in this regard by referring to FICC's procedures.

As noted above, each of the above-referenced changes were approved in connection with SR-FICC-2011-05<sup>23</sup>, SR-FICC-2012-05<sup>24</sup> and SR-FICC-2013-06<sup>25</sup>. FICC proposes to extend the pilot program reflecting these changes for an additional one year. The changes referenced above are reflected in Exhibit 5.

(ii) The proposed rule change is consistent with the Securities and Exchange Act of 1934, as amended (the “Act”) and the rules and regulations promulgated thereunder because it will align the GCF Repo service with recommendations being made by the TPR to address risks in the triparty market overall and therefore will serve to further safeguard the securities and funds for which FICC is responsible.

**B. Self-Regulatory Organization's Statement on Burden on Competition.**

FICC does not believe that the proposed rule change will have any negative impact, or impose any burden, on competition.

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

Written comments relating to the proposed rule changes have not yet been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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

(a) Not applicable.

(b) Not applicable.

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<sup>23</sup> Securities Exchange Act Release No. 34-65213 (August 29, 2011) 76 FR 54824 (September 2, 2011)  
<sup>24</sup> Securities Exchange Act Release No. 34-67277 (June 20, 2012) 77 FR 38108 (June 26, 2012)  
<sup>25</sup> Securities Exchange Act Release No. 34-70068 (July 30, 2013) 78 FR 47453 (August 5, 2013)



- (c) Not applicable.
- (d) Not applicable.
- (e) Not applicable.

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

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

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

**IV. Solicitation of Comments**

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

**Electronic Comments**

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or
- send an e-mail to [rule-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File Number SR-FICC-2014-02 on the subject line.

**Paper Comments**

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File Number SR-FICC- 2014-02. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C 552, will be available for inspection and copying in the Commission's Public Reference Room Section 100 F Street, NE, Washington DC 20549-1090. Copies of such filing also will be available for inspection and copying at the principal office of FICC. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submission should refer to the File Number SR-FICC-2014-02 and should be submitted on or before \_\_\_\_\_.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>26</sup>

Elizabeth M. Murphy  
Secretary

<sup>26</sup>

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17 CFR 200.30-3(a)(12)

EXHIBIT 5

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

**Underlined, bold text** indicates text proposed to be added in this proposed rule change

~~**Strikethrough, bold text**~~ indicates text proposed to be deleted in this proposed rule change

**RULE 1 – DEFINITIONS**

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**GCF Collateral Excess Account**

**The term “GCF Collateral Excess Account” means an account established by a GCF Custodian Bank in the name of the Corporation to hold securities it credits to the GCF Securities Account the Corporation establishes for another GCF Clearing Agent Bank.**

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**RULE 20 - SPECIAL PROVISIONS FOR GCF REPO TRANSACTIONS**

**Section 1 - General**

The netting and settlement obligations of the Corporation and each Netting Member regarding GCF Repo Transactions are subject to the special provisions of this Rule, and such provisions supersede any conflicting provisions of any other Rule.

**Section 2 - Netting**

On each Business Day, the Corporation shall net all of a Netting Member's GCF Repo Transactions in a particular Generic CUSIP Number. GCF Repo Transactions shall be netted only with other GCF Repo Transactions. On each Business Day, for each separate Generic CUSIP Number, the Corporation shall establish a GCF Net Settlement Position for the outstanding GCF Repo Transactions of a Netting Member, by comparing the aggregate par value amount of each GCF Repo Transaction in which the Netting

Member is a lender of cash and a borrower of securities or cash collateral (hereinafter, the "Cash Lender Total") and each GCF Repo Transaction in which the Netting Member is a borrower of cash and a lender of securities or cash collateral (hereinafter, the "Cash Borrower Total"). If the Cash Lender Total exceeds the Cash Borrower Total, the resulting difference will constitute a GCF Net Funds Lender Position. If the Cash Borrower Total exceeds the Cash Lender Total, the resulting difference will constitute the GCF Net Funds Borrower Position. All GCF Net Settlement Positions shall be reported, by Generic CUSIP Number, by the Corporation promptly to each Netting Member.

Except as otherwise provided for in this Rule, GCF Net Settlement Positions shall be treated by the Corporation in the same manner as all other Net Settlement Positions for purposes of these Rules.

### Section 3 - Collateral Allocation

On each Business Day, the Corporation shall establish collateral allocation requirements for each of a Netting Member's GCF Net Funds Borrower Positions and GCF Net Funds Lender Positions such that: (a) for every GCF Net Funds Borrower Position, the Netting Member shall have a Collateral Allocation Obligation equal to such Position, and (b) for every GCF Net Funds Lender Position, the Netting Member shall have a Collateral Allocation Entitlement equal to such Position. Collateral Allocation Obligations must be satisfied by a Netting Member within the timeframes established for such by the Corporation by notice to all Members. If a Netting Member in a GCF Net Funds Borrower Position does not satisfy its consequent Collateral Allocation Obligation by the final cutoff for such allocation as set forth in the Schedule of GCF Timeframes, it shall be deemed to have failed on such Position, the consequence of which shall be that the Member shall not be entitled to receive the funds borrowed, but shall owe interest on such funds amount. In addition, the Corporation shall process Collateral Allocation Obligations that are submitted after 6:00 p.m. New York time on a good faith basis only.

A Netting Member that has, on a particular Business Day ("Day 1"), a Collateral Allocation Obligation, may satisfy such Obligation by posting with the Corporation, pursuant to these Rules: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations must be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash.

Every Collateral Allocation Entitlement and Collateral Allocation Obligation that is established by the Corporation on Day 1 shall be reversed on the next Business Day ("Day 2"), within a timeframe for such established by the Corporation.

**During Day 2 (within the timeframes established by the Corporation by notice to all Members), a Netting Member that posted with the Corporation securities in satisfaction of its Collateral Allocation Obligation on Day 1 may substitute for any securities so delivered on Day 1 cash, or (i) Comparable Securities, (ii) Other Acceptable Securities, or (iii) U.S. Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been**

**traded (except where such traded securities are U.S. Treasury bills, substitution may be with Comparable Securities and/or cash). All requests for substitutions must be made by the substitution deadline established by the Corporation and announced to Members by Important Notice from time to time.**

A Netting Member that had, on Day 1, a Collateral Allocation Entitlement shall have the obligation on Day 2 to return to the Corporation the securities or cash collateral that it received on Day 1 and the right to receive back from the Corporation the funds that it paid on Day 1. Notwithstanding the foregoing, if the Netting Member is not able, due to reasons beyond its control and despite exercising best efforts, to return on Day 2 the securities it received on Day 1, the Netting Member may return: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations must be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash. The Corporation shall charge such Netting Member for any actual damages directly suffered by the other Netting Member as a result of not receiving back the same securities, and shall remit any amounts received to the other Netting Member. Such damages must be sufficiently demonstrated to the satisfaction of the Corporation and may not include special, consequential or punitive damages. A Netting Member that had, on Day 1, a Collateral Allocation Obligation shall have the obligation on Day 2 to return to the Corporation the funds that it received on Day 1 and the right to receive back from the Corporation the securities or cash collateral that it posted on Day 1 subject to the provisions of the second sentence of this paragraph.

If an Interbank Pledging Member owes a Prorated Interbank Cash Amount to the Corporation on ~~the morning of~~ Day 2 **at a time established by the Corporation**, the Interbank Pledging Member, as security for any and all obligations and liabilities of such Interbank Pledging Member in respect of such Member's Prorated Interbank Cash Amount, hereby grants to the Corporation a perfected security interest in all NFE-Related Collateral, subject to no lien created by or through the Interbank Pledging Member except any such lien in favor of the GCF Clearing Agent Bank maintaining any NFE-Related Account. Each Member hereby authorizes each GCF Clearing Agent Bank with which any NFE-Related Collateral is maintained to agree to act on entitlement orders or other instructions of the Corporation or its designee with respect to such NFE-Related Collateral and to monitor such property and its value on behalf of the Corporation pursuant to such arrangements as the Corporation deems advisable.

The Corporation shall be entitled to its rights as a pledgee under common law and as a secured party under Articles 8 of the New York Uniform Commercial Code with respect to the NFE-Related Collateral. The Corporation shall be entitled to create a security interest in the NFE-Related Collateral in favor of a GCF Clearing Agent Bank as security for the Interbank Cash Amount Debit. In addition, the Corporation shall be entitled to (x) engage the services of the bank or other financial institution at which any NFE-Related Account is maintained to (A) manage, monitor and liquidate any NFE-Related Collateral on behalf of the Corporation and (B) obtain from such bank or other financial institution a liquidity facility or other financing arrangement pursuant to which

the Corporation can incur indebtedness for the purpose of satisfying the Interbank Cash Amount Debit and (y) create a security interest in any such NFE-Related Collateral in favor of such bank as security for any facility or financing arrangement referred to in the foregoing subclause.

Notwithstanding anything to the contrary in these Rules, on any particular Business Day, the Corporation, in its sole discretion, may increase the amount of a Netting Member's Collateral Allocation Obligation by as much as ten percent of such Obligation.

For purposes of this Rule 20, the reference to "U.S. Treasury bills, notes or bonds" shall not include Treasury Inflation-Protected Securities or Separate Trading of Registered Interest and Principal Securities.

#### Section 3a – GCF Repo Event

(a) Corporation shall declare a GCF Repo Event if either of the following occurs: (i) the GCF interbank funds amount exceeds five times the average interbank funds amount over the previous ninety days for three consecutive days; or (ii) the GCF interbank funds amount exceeds fifty percent of the amount of GCF Repo collateral pledged for three consecutive days. The Corporation may declare a GCF Repo Event under any other circumstances where the Corporation believes, in its sole discretion, that it would be prudent to monitor GCF Repo activity against the GCF Repo Event Parameter and/or impose the GCF Repo Event Clearing Fund Premium and the GCF Repo Event Carry Charge. The Corporation shall inform GCF Repo Counterparties of the declaration of the GCF Repo Event via Important Notice and shall also inform the SEC.

(b) Upon declaration of a GCF Repo Event by the Corporation, a GCF Repo Counterparty shall be subject, on a daily basis, to a GCF Repo Event Clearing Fund Premium and a GCF Repo Event Carry Charge, unless the Corporation determines that such measures are not necessary to decrease GCF Repo activity levels or to protect the Corporation and its Members.

#### Section 4 - Right of Substitution

A Netting Member that has, on a particular Business Day, a Collateral Allocation Obligation, may satisfy such Obligation by posting with the Corporation, pursuant to these Rules: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations may be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash, regardless of the type of collateral that it had previously posted in connection with such Obligation.

#### Section 5 - Novation

GCF Net Settlement Positions and resultant Collateral Allocation Entitlements and Collateral Allocation Obligations, either as originally established by the Corporation

or as may be adjusted by the Corporation as the result of a modification of data made pursuant to these Rules, shall be fixed at the time the Report of such Positions, Entitlements, and Obligations is made available by the Corporation to the Member. At that time, all deliver, receive, and related payment and collateral allocation obligations between Netting Members that were created by the GCF Repo Transactions that comprise a GCF Net Settlement Position or Positions are terminated and replaced by the Collateral Allocation Entitlements and Collateral Allocation Obligations and related payment obligations for such Members that are listed in the Report.

**Section 6 - Authority of the Corporation to Act on Behalf of a GCF-Authorized Inter-Dealer Broker**

If, as the result of a data submission error, a GCF-Authorized Inter-Dealer Broker has a GCF Net Settlement Position, the Corporation shall have the authority to borrow cash and/or securities and/or enter into repurchase transactions for cash or securities with a Netting Member or Clearing Agent Bank to fulfill the obligations of such GCF-Authorized Inter-Dealer Broker attendant to the incurring of such Position. If the Corporation takes such action, such GCF-Authorized Inter-Dealer Broker shall be liable to it for any costs incurred.

**Section 7 – Establishment and Maintenance of GCF Securities Accounts**

Each GCF Securities Account which the Corporation establishes in the name of a GCF Clearing Agent Bank shall be a “securities account” for purposes of Section 8-501 of the NYUCC. Any security that the Corporation credits to a GCF Securities Account shall be a “financial asset” as defined in Section 8-102(a)(9) of the NYUCC. The Corporation shall be a Securities Intermediary with respect to each GCF Securities Account. The GCF Clearing Agent Bank for which a GCF Securities Account is established shall be the Entitlement Holder with respect to the securities in such GCF Securities Account, and any credit of securities to a GCF Securities Account in the name of a Clearing Agent Bank, as agent for customers, shall create in favor of such Clearing Agent Bank a Security Entitlement with respect to such Securities; however, no security Entitlement in any securities shall exist in favor of any Clearing Agent Bank until the Corporation has credited such securities to such Clearing Agent Bank’s GCF Securities Account on the Corporation’s books and records.

Each GCF Securities Account shall be used exclusively to hold Eligible Netting Securities in connection with the netting and settlement of GCF Repo Transactions. GCF Securities Accounts may not contain cash.

Securities that the Corporation credits to a GCF Securities Account shall be held in a GCF Collateral Excess Account.

The Corporation may utilize one or more GCF Custodian Banks to serve as its agent to create and maintain the Corporation’s books and records with respect to a GCF Securities Account, to deliver records with respect to the GCF Securities Account to the Entitlement Holder, and to otherwise act as its agent with respect to the GCF Securities Account.



The Corporation's duties and obligations with respect to a GCF Securities Account shall be subject to the Securities Account Agreement entered into between the Corporation and the Entitlement Holder.

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#### **SCHEDULE OF GCF TIMEFRAMES**

**(all times are New York City times)**

- 7:00 a.m.** FICC begins to accept from GCF-Authorized Inter-Dealer Brokers ("brokers") data on GCF Repo Transactions -- Brokers must submit data on a GCF Repo Transaction that they are a party to within five minutes of execution of such Transaction
- ~~**7:30 a.m.** GCF Counterparties ("dealers") must, through their clearing bank, return collateral to the FICC account to accomplish the reversal of the previous Business Day's GCF Net Settlement Positions~~
- 7:30 a.m. – 2:30 p.m.** Collateral that was lent interbank is returned to the FICC account at the clearing bank of the lender of securities collateral to facilitate substitutions in the event of a request by the lender
- 10:00 a.m.** Dealers must begin affirming or disaffirming GCF Repo Transactions within one half hour of receipt of data on such transactions from FICC
- 10:30 a.m.** Deadline for dealer affirmation or disaffirmation of all GCF Repo Transactions that they are a party to that are executed prior to 10 a.m.
- 1:00 p.m.** For GCF Repo Transactions executed after 1:00 p.m., dealers must affirm or disaffirm GCF Repo Transactions within ten minutes of their receipt of data on such transactions from FICC
- ~~**3:3500 p.m.** Cutoff for GCF Repo Transaction data submission from brokers to FICC including dealer trade affirmation or disaffirmation -- all unaffirmed trades automatically affirmed by FICC -- notification by FICC to banks and dealers of final positions -- collateral allocations begin~~
- ~~**3:45 p.m.** Cutoff for dealer trade affirmation or disaffirmation -- all unaffirmed trades automatically affirmed by FICC -- notification by FICC to banks and dealers of final positions -- collateral allocations begin~~
- 3:30 p.m.** GCF Counterparties ("dealers") must, through their clearing bank, return collateral to the FICC account to accomplish the reversal of the previous Business Day's GCF Net Settlement Positions

- 4:30 p.m.\*** First deadline for dealer allocation of collateral to satisfy obligations, after which a late fee will be imposed
- 6:00 p.m.** Second deadline for dealer allocation of collateral to satisfy obligations, after which FICC shall process Collateral Allocation Obligations on a good faith basis only

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\* Or one hour after the close of the securities FedWire, if later.