

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="23"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2014"/> - * <input type="text" value="09"/> Amendment No. (req. for Amendments *) <input type="text"/>
---	--	--

Filing by Fixed Income Clearing Corporation  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
---	---

**Description**

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

**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 \*  Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*  Fax

**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    
 By

(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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

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

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

Add Remove View

Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

Add Remove View

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

**Exhibit 5 - Proposed Rule Text**

Add Remove View

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

**Partial Amendment**

Add Remove View

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

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

(a) The proposed rule change is annexed hereto as Exhibit 5 and consists of amendments to the rules of the Government Securities Division (“GSD Rules”) of Fixed Income Clearing Corporation (“FICC” or “Corporation”) and the rules of the Mortgage-Backed Securities Division (“MBSD Rules”) of FICC (each of GSD and MBSD, a “Division” of FICC) regarding a default by the Corporation.

(b) Not applicable.

(c) Not applicable.

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

The proposed rule change was approved by the Risk Committee of the Board of Directors of FICC at a meeting duly called and held on August 20, 2014.

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

The purpose of this filing is to amend in certain respects the GSD Rules and the MBSD Rules regarding a default by the Corporation.

By way of background, in 2010, FICC received approval from the Securities and Exchange Commission (“SEC”) to amend the GSD Rules to add Rule 22B (the “GSD Corporation Default Rule”).<sup>1</sup> Certain technical clarifying changes to the GSD Corporation Default Rule were subsequently filed by FICC with the SEC for immediate effectiveness in 2011.<sup>2</sup>

The GSD Corporation Default Rule was originally added to the GSD Rules to make explicit the close out netting that would be applied to obligations between FICC and its members in the event that FICC becomes insolvent or otherwise defaults on its obligations to its members, and, in doing so, provide clarity to member firms in their application of balance sheet netting to their transactions at FICC under U.S. GAAP and in the calculation of their capital requirements on the basis of their net credit exposure to FICC under Basel Accord standards. A rule parallel to the GSD Corporation Default Rule was subsequently added as Rule 17A to the MBSD Rules<sup>3</sup> (the “MBSD Corporation Default Rule”, and together with the GSD Corporation Default Rule, the “Corporation Default Rules”).

There are three general types of default covered by the Corporation Default Rules: voluntary proceedings defaults, involuntary proceedings defaults and non-insolvency related defaults.

---

<sup>1</sup> See Securities Exchange Act Release No. 34-63038 (October 5, 2010), 75 FR 62899 (October 13, 2010) (SR-FICC-2010-04).

<sup>2</sup> See Securities Exchange Act Release No. 34-64004 (March 2, 2011), 76 FR 12782 (March 8, 2011) (SR-FICC-2011-02).

<sup>3</sup> See Securities Exchange Act Release No. 34-66550 (March 9, 2012), 77 FR 15155 (March 14, 2012) (SR-FICC-2008-01).

With respect to voluntary proceedings defaults, FICC would be considered in default under the current Corporation Default Rules immediately upon the dissolution of the Corporation, the voluntary institution of proceedings by the Corporation seeking a judgment of insolvency or bankruptcy or other similar relief or the voluntary presentation by the Corporation of a petition for its winding up or liquidation.

With respect to involuntary proceedings defaults, FICC would be considered in default under the current Corporation Default Rules on the 91<sup>st</sup> calendar day after the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding up or liquidation, or the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for all or substantially all of the Corporation's assets, where such judgment, order or appointment, as applicable, remains unstayed throughout the 90 calendar day grace period.

With respect to non-insolvency related defaults, FICC would, as a general matter, be considered in default under the current Corporation Default Rules on the 91<sup>st</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the GSD Rules or the MBSD Rules, respectively, where such failure remains unremedied throughout the 90 calendar day grace period. However, the current Corporation Default Rules exclude from the scope of what can be considered a non-insolvency related default of the applicable Division of FICC: (1) failure to satisfy obligations to members in wind-down and defaulting members; (2) the satisfaction of obligations by alternate means provided for under the applicable Division's Rules; (3) failure of the other Division of FICC to satisfy an obligation to a member; and (4) failure to satisfy obligations as a result of an operational, technological or administrative error or impediment, provided that the Corporation possesses sufficient funds or assets to satisfy the obligations. Moreover, the grace period can be extended beyond 90 calendar days under the current Corporation Default Rules in a non-insolvency related default situation where a payment or delivery deadline has been suspended under the applicable Division's Rules, in which case the 90 calendar day grace period would commence on the date the Corporation receives notice from a member of its failure to make an undisputed payment or delivery on the later due date determined pursuant to the suspension.

In order to more closely align FICC's Corporation Default Rules with those of its peer central counterparties and to facilitate the participation of market participants, including registered investment companies, in FICC's services by providing members with further legal certainty regarding their rights with respect to a default by the Corporation, FICC is proposing to modify the Corporation Default Rules as described below.

With respect to voluntary proceedings defaults, FICC is proposing to add as an additional type of voluntary proceeding default under the Corporation Default Rules the voluntary making by FICC of a general assignment for the benefit of creditors.

With respect to involuntary proceedings defaults, FICC is proposing to eliminate the 90 calendar day grace period such that FICC would be considered in an involuntary proceedings default immediately upon the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding up or liquidation, or the appointment of a receiver, trustee or other similar official for FICC or substantially all of FICC's assets, provided that such receiver, trustee or other similar official is appointed pursuant to the federal securities laws, particularly Section 19(i) of the Securities Exchange Act of 1934 (the "Act"), or Title II of the Dodd-Frank

## Wall Street Reform and Consumer Protection Act.

With respect to non-insolvency related defaults, FICC is proposing to reduce the grace period from 90 to 7 calendar days such that FICC would, as a general matter, be considered in a non-insolvency related default on the 8<sup>th</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the GSD Rules or the MBSD Rules, respectively, provided that such failure remains unremedied throughout the 7 calendar day grace period. FICC is also proposing to remove the provisions of the Corporation Default Rules that provide for a potential extension of the grace period in a non-insolvency default situation where the deadline for a payment or delivery obligation of the Corporation has been suspended by the Corporation under the applicable Division's Rules, as well as the provisions of the Corporation Default Rules that exclude from the scope of what can be considered a non-insolvency related default the failure of the Corporation to satisfy obligations based on an operational, technological or administrative error or impediment.

FICC is also proposing to add language to the definition of a "Corporation Default" in order to clarify that no other provision of the applicable Division's Rules, including FICC's authority under GSD Rule 42 (Suspension of Rules) and MBSD Rule 33 (Suspension of Rules in Emergency Circumstances), respectively, can override the definition of "Corporation Default" included in the Corporation Default Rules.

### Proposed GSD Rule Changes.

FICC is proposing to amend GSD Rule 22B – "Corporation Default" as follows:

Clause (b) is revised to clarify that no other provision of GSD's Rules, including FICC's authority under GSD Rule 42 (Suspension of Rules), can override the definition of "Corporation Default" included in GSD Rule 22B.

Clause (b)(i) is revised to reduce the grace period for a non-insolvency Corporation Default from 90 to 7 calendar days such that FICC would be considered in a non-insolvency Corporation Default on the 8<sup>th</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the GSD Rules, provided that such failure remains unremedied throughout the 7 calendar day grace period and that none of the exclusions enumerated in subclauses (A), (B) and (C) from the scope of what is considered a non-insolvency Corporation Default are applicable.

Clause (b)(i) is also revised to remove subclause (D), which currently provides for a potential extension of the grace period in a non-insolvency Corporation Default where a payment or delivery deadline has been suspended under GSD Rule 42, in which case the grace period would commence on the date the Corporation receives notice from a member of its failure to make an undisputed payment or delivery on the later due date determined pursuant to the suspension.

Clause (b)(i) is further revised to remove subclause (E), which currently excludes from the definition of a non-insolvency Corporation Default the failure of the Corporation to satisfy obligations based on an operational, technological or administrative error or impediment.

Clause (b)(ii)(B) is revised to add the voluntary making by FICC of a general assignment for the benefit of creditors as a type of voluntary Corporation Default for purposes of the GSD

## Corporation Default Rule.

Clause (b)(ii)(C) is revised to eliminate the 90 calendar day grace period for an involuntary Corporation Default such that FICC would be considered in an involuntary Corporation Default immediately upon the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding-up or liquidation.

Clause (b)(ii)(D) is similarly revised to eliminate the 90 calendar day grace period after the involuntary appointment of a receiver, trustee or other similar official for FICC or substantially all of FICC's assets, but is also revised to eliminate the references to an administrator, provisional liquidator, conservator or custodian being appointed and provide that a receiver, trustee or other similar official must be appointed pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act in order for such appointment to be considered an involuntary Corporation Default.

### Proposed MBSD Rule Changes.

FICC is proposing to amend the MBSD Rule 17A – “Corporation Default” as follows:

Clause (b) is revised to clarify that no other provision of MBSD's Rules, including FICC's authority under MBSD Rule 33 (Suspension of Rules in Emergency Circumstances), can override the definition of “Corporation Default” included in MBSD Rule 17A.

Clause (b)(i) is revised to reduce the grace period for a non-insolvency Corporation Default from 90 to 7 calendar days such that FICC would be considered in a non-insolvency Corporation Default on the 8<sup>th</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the MBSD Rules, provided that such failure remains unremedied throughout the 7 calendar day grace period and that none of the exclusions enumerated in subclauses (A), (B) and (C) from the scope of what is considered a non-insolvency Corporation Default are applicable.

Clause (b)(i) is also revised to remove subclause (D), which currently provides for a potential extension of the grace period in a non-insolvency Corporation Default where a payment or delivery deadline has been suspended under MBSD Rule 33, in which case the grace period would commence on the date the Corporation receives notice from a member of its failure to make an undisputed payment or delivery on the later due date determined pursuant to the suspension.

Clause (b)(i) is further revised to remove subclause (E), which currently excludes from the definition of a non-insolvency Corporation Default the failure of the Corporation to satisfy obligations based on an operational, technological or administrative error or impediment.

Clause (b)(ii)(B) is revised to add the voluntary making by FICC of a general assignment for the benefit of creditors as a type of voluntary Corporation Default for purposes of the MBSD Corporation Default Rule.

Clause (b)(ii)(C) is revised to eliminate the 90 calendar day grace period for an involuntary Corporation Default such that FICC would be considered in an involuntary Corporation Default immediately upon the judgment of insolvency or bankruptcy or the entry of an order for relief (or

similar order) for FICC's winding-up or liquidation.

Clause (b)(ii)(D) is similarly revised to eliminate the 90 calendar day grace period after the involuntary appointment of a receiver, trustee or other similar official for FICC or substantially all of FICC's assets, but is also revised to eliminate the references to an administrator, provisional liquidator, conservator or custodian being appointed and provide that a receiver, trustee or other similar official must be appointed pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act in order for such appointment to be considered an involuntary Corporation Default.

(b) The proposed rule change is consistent with Section 17A of the Act and the rules and regulations promulgated thereunder because it will promote the prompt and accurate clearance and settlement of securities transactions in that it will provide FICC members with further legal certainty regarding their rights with respect to a default by the Corporation and, thereby, enable market participants, including registered investment companies, to avail themselves of the benefits of clearing through FICC.

**Item 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 because it relates to changes to the Corporation Default Rules that would apply equally to all members of each Division of FICC.

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

**Item 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.

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

Not applicable.

**Item 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.

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

Not applicable.

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

Not applicable.

**Item 11. Exhibits**

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable

Exhibit 5 – Proposed Changes to the GSD Rules and the MBSD Rules.



**EXHIBIT 1A**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2014-09]

[DATE]

**SELF-REGULATORY ORGANIZATIONS;** Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend the Rules of the Government Securities Division and the Mortgage-Backed Securities Division regarding the default of Fixed Income Clearing Corporation.

---

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, 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 primarily by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change consists of amendments to the rules of the Government Securities Division (“GSD Rules”) of FICC and the rules of the Mortgage-Backed Securities Division (“MBSD Rules”) of FICC (each of GSD and MBSD, a “Division” of FICC) regarding a default by the Corporation.

**II. Clearing Agency’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.

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

**A. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(i) The purpose of this filing is to amend in certain respects the GSD Rules and the MBSD Rules regarding a default by the Corporation.

By way of background, in 2010, FICC received approval from the Securities and Exchange Commission (“SEC”) to amend the GSD Rules to add Rule 22B (the “GSD Corporation Default Rule”).<sup>3</sup> Certain technical clarifying changes to the GSD Corporation Default Rule were subsequently filed by FICC with the SEC for immediate effectiveness in 2011.<sup>4</sup>

The GSD Corporation Default Rule was originally added to the GSD Rules to make explicit the close out netting that would be applied to obligations between FICC and its members in the event that FICC becomes insolvent or otherwise defaults on its obligations to its members, and, in doing so, provide clarity to member firms in their application of balance sheet netting to their transactions at FICC under U.S. GAAP and in the calculation of their capital requirements on the basis of their net credit exposure to FICC under Basel Accord standards. A rule parallel to the GSD Corporation Default Rule was subsequently added as Rule 17A to the MBSD Rules<sup>5</sup> (the “MBSD Corporation Default Rule”, and together with the GSD Corporation Default Rule, the “Corporation Default Rules”).

---

<sup>3</sup> See Securities Exchange Act Release No. 34–63038 (October 5, 2010), 75 FR 62899 (October 13, 2010) (SR–FICC–2010–04).

<sup>4</sup> See Securities Exchange Act Release No. 34–64004 (March 2, 2011), 76 FR 12782 (March 8, 2011) (SR–FICC–2011–02).

<sup>5</sup> See Securities Exchange Act Release No. 34–66550 (March 9, 2012), 77 FR 15155 (March 14, 2012) (SR–FICC–2008–01).

There are three general types of default covered by the Corporation Default Rules: voluntary proceedings defaults, involuntary proceedings defaults and non-insolvency related defaults.

With respect to voluntary proceedings defaults, FICC would be considered in default under the current Corporation Default Rules immediately upon the dissolution of the Corporation, the voluntary institution of proceedings by the Corporation seeking a judgment of insolvency or bankruptcy or other similar relief or the voluntary presentation by the Corporation of a petition for its winding up or liquidation.

With respect to involuntary proceedings defaults, FICC would be considered in default under the current Corporation Default Rules on the 91<sup>st</sup> calendar day after the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding up or liquidation, or the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for all or substantially all of the Corporation's assets, where such judgment, order or appointment, as applicable, remains unstayed throughout the 90 calendar day grace period.

With respect to non-insolvency related defaults, FICC would, as a general matter, be considered in default under the current Corporation Default Rules on the 91<sup>st</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the GSD Rules or the MBSD Rules, respectively, where such failure remains unremedied throughout the 90 calendar day grace period. However, the current Corporation Default Rules exclude from the scope of what can be considered a non-insolvency related default of the applicable Division of FICC: (1) failure to satisfy obligations to members in wind-down and defaulting members; (2) the satisfaction of obligations by alternate means provided for under the applicable Division's Rules; (3) failure of the other Division of FICC to

satisfy an obligation to a member; and (4) failure to satisfy obligations as a result of an operational, technological or administrative error or impediment, provided that the Corporation possesses sufficient funds or assets to satisfy the obligations. Moreover, the grace period can be extended beyond 90 calendar days under the current Corporation Default Rules in a non-insolvency related default situation where a payment or delivery deadline has been suspended under the applicable Division's Rules, in which case the 90 calendar day grace period would commence on the date the Corporation receives notice from a member of its failure to make an undisputed payment or delivery on the later due date determined pursuant to the suspension.

In order to more closely align FICC's Corporation Default Rules with those of its peer central counterparties and to facilitate the participation of market participants, including registered investment companies, in FICC's services by providing members with further legal certainty regarding their rights with respect to a default by the Corporation, FICC is proposing to modify the Corporation Default Rules as described below.

With respect to voluntary proceedings defaults, FICC is proposing to add as an additional type of voluntary proceeding default under the Corporation Default Rules the voluntary making by FICC of a general assignment for the benefit of creditors.

With respect to involuntary proceedings defaults, FICC is proposing to eliminate the 90 calendar day grace period such that FICC would be considered in an involuntary proceedings default immediately upon the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding-up or liquidation, or the appointment of a receiver, trustee or other similar official for FICC or substantially all of FICC's assets, provided that such receiver, trustee or other similar official is appointed pursuant to the federal securities laws, particularly Section 19(i) of the Act, or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

With respect to non-insolvency related defaults, FICC is proposing to reduce the grace period from 90 to 7 calendar days such that FICC would, as a general matter, be considered in a non-insolvency related default on the 8<sup>th</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the GSD Rules or the MBSD Rules, respectively, provided that such failure remains unremedied throughout the 7 calendar day grace period. FICC is also proposing to remove the provisions of the Corporation Default Rules that provide for a potential extension of the grace period in a non-insolvency default situation where the deadline for a payment or delivery obligation of the Corporation has been suspended by the Corporation under the applicable Division's Rules, as well as the provisions of the Corporation Default Rules that exclude from the scope of what can be considered a non-insolvency related default the failure of the Corporation to satisfy obligations based on an operational, technological or administrative error or impediment.

FICC is also proposing to add language to the definition of a "Corporation Default" in order to clarify that no other provision of the applicable Division's Rules, including FICC's authority under GSD Rule 42 (Suspension of Rules) and MBSD Rule 33 (Suspension of Rules in Emergency Circumstances), respectively, can override the definition of "Corporation Default" included in the Corporation Default Rules.

#### **Proposed GSD Rule Changes**

FICC is proposing to amend GSD Rule 22B – "Corporation Default" as follows:

Clause (b) is revised to clarify that no other provision of GSD's Rules, including FICC's authority under GSD Rule 42 (Suspension of Rules), can override the definition of "Corporation Default" included in GSD Rule 22B.

Clause (b)(i) is revised to reduce the grace period for a non-insolvency Corporation Default from 90 to 7 calendar days such that FICC would be considered in a non-insolvency

Corporation Default on the 8<sup>th</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the GSD Rules, provided that such failure remains unremedied throughout the 7 calendar day grace period and that none of the exclusions enumerated in subclauses (A), (B) and (C) from the scope of what is considered a non-insolvency Corporation Default are applicable.

Clause (b)(i) is also revised to remove subclause (D), which currently provides for a potential extension of the grace period in a non-insolvency Corporation Default where a payment or delivery deadline has been suspended under GSD Rule 42, in which case the grace period would commence on the date the Corporation receives notice from a member of its failure to make an undisputed payment or delivery on the later due date determined pursuant to the suspension.

Clause (b)(i) is further revised to remove subclause (E), which currently excludes from the definition of a non-insolvency Corporation Default the failure of the Corporation to satisfy obligations based on an operational, technological or administrative error or impediment.

Clause (b)(ii)(B) is revised to add the voluntary making by FICC of a general assignment for the benefit of creditors as a type of voluntary Corporation Default for purposes of the GSD Corporation Default Rule.

Clause (b)(ii)(C) is revised to eliminate the 90 calendar day grace period for an involuntary Corporation Default such that FICC would be considered in an involuntary Corporation Default immediately upon the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding-up or liquidation.

Clause (b)(ii)(D) is similarly revised to eliminate the 90 calendar day grace period after the involuntary appointment of a receiver, trustee or other similar official for FICC or substantially all of FICC's assets, but is also revised to eliminate the references to an

administrator, provisional liquidator, conservator or custodian being appointed and provide that a receiver, trustee or other similar official must be appointed pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act in order for such appointment to be considered an involuntary Corporation Default.

**Proposed MBSD Rule Changes**

FICC is proposing to amend the MBSD Rule 17A – “Corporation Default” as follows:

Clause (b) is revised to clarify that no other provision of MBSD’s Rules, including FICC’s authority under MBSD Rule 33 (Suspension of Rules in Emergency Circumstances), can override the definition of “Corporation Default” included in MBSD Rule 17A.

Clause (b)(i) is revised to reduce the grace period for a non-insolvency Corporation Default from 90 to 7 calendar days such that FICC would be considered in a non-insolvency Corporation Default on the 8<sup>th</sup> calendar day after it receives notice from a member of its failure to make an undisputed payment or delivery to such member that is required under the MBSD Rules, provided that such failure remains unremedied throughout the 7 calendar day grace period and that none of the exclusions enumerated in subclauses (A), (B) and (C) from the scope of what is considered a non-insolvency Corporation Default are applicable.

Clause (b)(i) is also revised to remove subclause (D), which currently provides for a potential extension of the grace period in a non-insolvency Corporation Default where a payment or delivery deadline has been suspended under MBSD Rule 33, in which case the grace period would commence on the date the Corporation receives notice from a member of its failure to make an undisputed payment or delivery on the later due date determined pursuant to the suspension.

Clause (b)(i) is further revised to remove subclause (E), which currently excludes from the definition of a non-insolvency Corporation Default the failure of the Corporation to satisfy

obligations based on an operational, technological or administrative error or impediment.

Clause (b)(ii)(B) is revised to add the voluntary making by FICC of a general assignment for the benefit of creditors as a type of voluntary Corporation Default for purposes of the MBSD Corporation Default Rule.

Clause (b)(ii)(C) is revised to eliminate the 90 calendar day grace period for an involuntary Corporation Default such that FICC would be considered in an involuntary Corporation Default immediately upon the judgment of insolvency or bankruptcy or the entry of an order for relief (or similar order) for FICC's winding-up or liquidation.

Clause (b)(ii)(D) is similarly revised to eliminate the 90 calendar day grace period after the involuntary appointment of a receiver, trustee or other similar official for FICC or substantially all of FICC's assets, but is also revised to eliminate the references to an administrator, provisional liquidator, conservator or custodian being appointed and provide that a receiver, trustee or other similar official must be appointed pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act in order for such appointment to be considered an involuntary Corporation Default.

(ii) The proposed rule is consistent with Section 17A(b)(3)(F)<sup>6</sup> of the Act and the rules and regulations promulgated thereunder because it will promote the prompt and accurate clearance and settlement of securities transactions in that it will provide FICC members with further legal certainty regarding their rights with respect to a default by the Corporation and, thereby, enable market participants, including registered investment companies, to avail themselves of the benefits of clearing through FICC.

**B. Clearing Agency's Statement on Burden on Competition**

---

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).



FICC does not believe that the proposed rule change will have any impact, or impose any burden, on competition because it relates to changes to the Corporation Default Rules that would apply equally to all members of each Division of FICC.

**C. Clearing Agency'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.

**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 such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the 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. Please include File No. SR-FICC-2014-09 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2014-09. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. 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-2014-09 and should be submitted on or before [insert 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>7</sup>

Secretary

---

<sup>7</sup> 17 CFR 200.30-3(a)(12).

## EXHIBIT 5

**Bold underlined text** indicates proposed additions

~~Strikethrough bold text~~ indicates proposed deletions

# FIXED INCOME CLEARING CORPORATION GOVERNMENT SECURITIES DIVISION RULEBOOK

\* \* \* \* \*

## RULE 22B – CORPORATION DEFAULT

### Corporation Default

(a) If a "Corporation Default" occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated and the Board shall determine a single net amount owed by or to each Member with respect to such Transactions by applying the close out and application procedures of Sections 2(a) and (b) of Rule 22A and Sections 7(a) through (c) of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member) taking into account the other provisions in these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member. For purposes of this Rule 22B and notwithstanding any other provision to the contrary, Novation is deemed to occur and Deliver Obligations and Receive Obligations established with respect to all Transactions at the time at which the data submitted in respect of such Transactions is compared and constitutes a Compared Trade. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. For the avoidance of doubt, nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Mortgage-Backed Securities Division or any other Cross-Guaranty Counterparty.

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

(i) Failure by the Corporation to make, when due, any undisputed payment or delivery to a Member required to be made by it under these Rules and such failure is not remedied within **790** days after notice of such failure is given to the Corporation by the affected Member; *provided* that this clause (i) shall not apply to (A) obligations of the Corporation to Wind-Down Members, Defaulting Members or Members for whom the Corporation has otherwise ceased to act pursuant to Rule 22A; (B) any payment or delivery which the Corporation satisfies by alternate means as provided in these Rules; **or** (C) any obligation of the Corporation that is not a payment or delivery obligation of the

Government Securities Division to a Member under these Rules; ~~(D) any payment or delivery the deadline of which has been suspended pursuant to Rule 42, until such time as the suspension is no longer in effect and failure of the Corporation with respect thereto remains unremedied for 90 days following notice of failure to pay or deliver on the later due date determined pursuant to the suspension; or (E) any payment or delivery required to be made to a Member where such payment or delivery is not made solely as a result of an operational technological or administrative error or impediment and the Corporation possesses sufficient funds or assets to satisfy such payment or delivery obligation;~~ or

(ii) The Corporation (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (B) institutes a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or presents a petition for its winding-up or liquidation or makes a general assignment for the benefit of creditors; (C) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation and, in each case, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation ~~and the judgment or order with respect thereto remains unstayed for a period of at least 90 days from the issue thereof~~; or (D) seeks or becomes subject to the appointment of an ~~administrator, provisional liquidator, conservator,~~ receiver, trustee, ~~custodian~~ or other similar official pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act for it or for all or substantially all its assets; ~~provided that in the case that such appointment is not sought by the Corporation, such appointment remains unstayed for a period of at least 90 days from the issue thereof.~~

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

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

The Government Securities Division of the Corporation is a "clearing organization";

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

An entitlement of a Netting Member or the Corporation to receive a payment from the other is a "covered contractual payment entitlement";

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

The amount by which the covered contractual payment entitlements of a Netting Member or the Corporation exceed the covered contractual payment obligations of such Member or the Corporation after netting pursuant to Rule 22A or this Rule 22B is its “net entitlement”;

The amount by which the covered contractual payment obligations of a Netting Member or the Corporation exceed the covered contractual payment entitlements of such Member or the Corporation after netting under a netting pursuant to Rule 22A or this Rule 22B is its “net obligation”; and

These Rules, together with all other agreements between the Corporation and a Netting Member, are a “netting contract”, the margin, Clearing Fund and other provisions of these Rules granting an interest in any funds or property of a member to the Corporation constitute a “security agreement or arrangement or other credit enhancement” relating to such netting contract and the close-out process in Rule 22A or this Rule 22B constitutes the “terminat[ion], liquidat[ion], accelerat[ion], and nett[ing]” of obligations.

\* \* \* \* \*

## **FIXED INCOME CLEARING CORPORATION MORTGAGE-BACKED SECURITIES DIVISION RULEBOOK**

\* \* \* \* \*

### **RULE 17A – CORPORATION DEFAULT**

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

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

(i) Failure by the Corporation to make, when due, any undisputed payment or delivery to a Member required to be made by it under these Rules and such failure is not remedied within ~~790~~ days after notice of such failure is given to the Corporation by the affected Member; *provided* that this clause (i) shall not apply to (A) obligations of the Corporation to Wind-Down Members, Defaulting Members or Members for whom the Corporation has otherwise ceased to act pursuant to Rule 17, (B) any payment or delivery which the Corporation satisfies by alternate means as provided in these Rules, or (C) any obligation of the Corporation that is not a payment or delivery obligation of the Mortgage-Backed Securities Division to a Member under these Rules, ~~(D) any payment or delivery the deadline of which has been suspended pursuant to Rule 33, until such time as the suspension is no longer in effect and failure of the Corporation with respect thereto remains unremedied for 90 days following notice of failure to pay or deliver on the later due date determined pursuant to the suspension; or (E) any payment or delivery required to be made to a Member where such payment or delivery is not made solely as a result of an operational technological or administrative error or impediment and the Corporation possesses sufficient funds or assets to satisfy such payment or delivery obligation;~~ or

(ii) The Corporation (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (B) institutes a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or presents a petition for its winding-up or liquidation or makes a general assignment for the benefit of creditors; (C) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation and, in each case, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation ~~and the judgment or order with respect thereto remains unstayed for a period of at least 90 days from the issue thereof;~~ or (D) seeks or becomes subject to the appointment of an ~~administrator, provisional liquidator, conservator,~~ receiver, trustee, ~~custodian~~ or other similar official pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act for it or for all or substantially all its assets, ~~provided that in the case that such appointment is not sought by the Corporation, if such appointment remains unstayed for a period of at least 90 days from the issue thereof.~~

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

The Corporation and the Clearing Members intend that these Rules be interpreted in relation to certain terms (identified below) that are defined in the Federal Deposit Insurance Corporation

Act of 1991 (“FDICIA”), as amended, as follows:

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

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

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

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

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

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

These Rules, together with all other agreements between the Corporation and a Clearing Member, are a “netting contract”, the margin, Clearing Fund and other provisions of these Rules granting an interest in any funds or property of a member to the Corporation constitute a “security agreement or arrangement or other credit enhancement” relating to such netting contract and the close-out process in Rule 17 or this Rule 17A constitutes the “terminat[ion], liquidat[ion], accelerat[ion], and nett[ing]” of obligations.