

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 50	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2014 - * 11	Amendment No. (req. for Amendments *)
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"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <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 *).				
The purpose of this filing is to amend the GSD Rulebook and the MBSD Clearing Rules in order to (1) move the time of novation with respect to certain trades, (2) include rules to reflect existing processes, and (3) clarify certain rules to reflect current practices.				
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	<input type="text"/>	
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	12/02/2014	Managing Director and General Counsel		
By	Nikki Poulos	<input type="text"/>		
(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 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 Fixed Income Clearing Corporation (“FICC”) is proposing to (1) move the time of novation for netting eligible transactions submitted to the Government Securities Division (“GSD”) in accordance with the GSD Rulebook (“GSD Rules”) and for SBO-Destined Trades¹ submitted to the Mortgage-Backed Securities Division (“MBSD”) in accordance with the MBSD Clearing Rules (“MBSD Rules”) in order to provide members with additional legal certainty that FICC will be the legal counterparty with respect to their guaranteed trades for purposes of regulatory capital requirements, (2) include rules to reflect existing processes and (3) clarify certain rules to reflect current practices. The proposed changes are annexed hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization.

(a) The proposed changes were approved by the Risk Committee of the FICC Board of Directors on June 25, 2014.

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

(a) FICC is proposing to move the time of novation applicable to certain transactions submitted to the GSD and MBSD to earlier in the clearing process in order to provide members with additional legal certainty that FICC will be their legal counterparty with respect to their guaranteed trades for purposes of members’ regulatory capital requirements.

Currently, GSD and MBSD guarantee the settlement of a trade upon comparison, which generally occurs when FICC issues initial “output” to GSD netting members or MBSD clearing members, as applicable, indicating that their trades have compared,² provided that the trade meets the requirements of the GSD Rules or the MBSD Rules, as applicable.³ This means that FICC is responsible for settling the guaranteed trades, even if one of the members who submitted the trade becomes insolvent.

¹ The MBSD Rules define a “SBO-Destined Trade” as a to-be-announced (“TBA”) transaction in the clearing system intended for TBA Netting in accordance with the provisions of the Rules. MBSD Rule 1, Definitions. In a TBA transaction, members agree on a sale price, quantity, and the characteristics of the securities being sold, but they do not specify which particular securities will be delivered on the settlement date.

² In the case of GSD locked-in trades, comparison occurs upon receipt of the trade data submitted to FICC from the locked-in trade source. GSD Rule 6C.

³ See GSD Rule 11B and MBSD Rule 5.

Novation, which refers to the termination of delivery, receive and related payment obligations between the original parties to the contract and the replacement of such obligations with identical obligations between each party and FICC, currently does not occur until later in the clearing and settlement process than comparison. In GSD, novation currently occurs when subsequent “netting output” is issued to netting members (usually the day before settlement); in MBSD, novation currently occurs when subsequent “pool netting output” is issued to clearing members (usually the day before settlement).

Because there is a legal distinction between the concept of “guarantee” and “novation”, and this legal distinction may have a bearing on how members calculate their capital requirement, FICC proposes to move the time of novation (i.e. the point that FICC becomes the legal counterparty) so that it occurs at the time of the trade guarantee.

Time of Novation – Proposed Changes

FICC is proposing to revise the GSD Rules and MBSD Rules so that novation will occur at comparison for netting eligible transactions (for GSD) and SBO-Destined Trades (for MBSD). This means that, at the point of trade comparison, FICC will guarantee the settlement of the transactions (as it does today) and novate such transactions, becoming the legal counterparty to each submitting member with respect to such transactions.

Under the proposal, in the GSD, all netting eligible transactions that compare in accordance with the GSD Rules will novate at the point of comparison.

In the MBSD, only SBO-Destined Trades, all of which are included in the TBA Netting process and (pursuant to proposed Section 7 of Rule 8 which is being added to reflect a current requirement and current practice) must be submitted to the Pool Netting process,⁴ will novate at the point of comparison. Other types of transactions, including Trade-for-Trade Transactions⁵ and Specified Pool Trades,⁶ will continue to be guaranteed at comparison, as

⁴ The MBSD conducts two separate netting processes to consolidate settlement obligations and reduce the number of securities and the amount of cash that must be exchanged to settle transactions. TBA Netting is the process used to net SBO-Destined Trades that have compared in accordance to the MBSD Rules. TBA Netting is conducted before particular securities (“pools”) are identified to the SBO-Destined Trades. Pool Netting, which occurs after MBSD clearing members allocate pools to transactions, is the process used to aggregate and match offsetting pool delivery obligations submitted by MBSD clearing members to satisfy their settlement obligations. MBSD Rules 6 and 7. An MBSD clearing member may submit a transaction to Pool Netting even if such transaction was not submitted for TBA Netting.

⁵ The MBSD Rules define “Trade-for-Trade Transaction” as a TBA transaction submitted to FICC not intended for TBA Netting in accordance with the provisions of the Rules. MBSD Rule 1, Definitions.

⁶ The MBSD Rules define “Specified Pool Trades” as a trade in which all required pool data, including the pool number to be delivered on the contractual settlement date, are

they are today, but FICC will not novate such transactions at comparison. Instead, such transactions will be treated as they are today: (1) to the extent Trade-for-Trade Transactions are included in the Pool Netting process,⁷ FICC will novate such Transactions once the Pool Netting⁸ process is completed and (2) Specified Pool Trades, which are not included in the TBA Netting process nor the Pool Netting process, are not novated today (they settle outside of FICC between the submitting counterparties) and will continue to not be novated under the proposal.⁹

In order to effectuate this change in the time of novation as described above, the proposed rule change adds language to the GSD Rules (new Section 8 of Rule 5) and MBSD Rules (new Section 13 of Rule 5) that states that FICC will guarantee and now novate applicable transactions upon comparison, subject to the parameters set forth in the proposed rule change. Conforming changes are proposed to be made to GSD Rule 3A, GSD Rule 6B, GSD Rule 6C, GSD Rule 11, GSD Rule 14, GSD Rule 20, GSD Rule 21A, Rule 22B, MBSD Rule 6, MBSD Rule 8, MBSD Rule 10, MBSD Rule 11 and MBSD Rule 17A. In addition, the definition of “novation” in both Divisions’ Rule 1 is clarified to reflect that delivery, receive and related payment obligations between members will be terminated and replaced with identical obligations to and from FICC at the point in time that the trade is compared in accordance with the applicable Rules.

The proposed rule change also addresses the fact that in the MBSD today certain settlement obligations continue to be settled between the settlement counterparties and not vis-à-vis FICC; these are the obligations that were not included in the Pool Netting process pursuant to MBSD Rule 8 (Pool Netting). The present proposal does not change this existing process. However, because the present proposal introduces legal novation at comparison for certain MBSD transactions, the proposed rule changes (in Rule 5, Section 2) make clear that the settlement counterparties continue to settle with each other but do so on behalf of FICC for those transactions that are novated to FICC.

agreed upon by the clearing member at the time of execution. MBSD Rule 1, Definitions.

⁷ Trade-for-Trade Transactions that are not submitted to the Pool Netting process must be settled outside of FICC between the submitting counterparties.

⁸ As noted in SR-FICC-2008-01, a clearing member that has a trade that was matched with a stipulation (“stip trade”) would not submit such trade for Pool Netting. Pool Netting creates delivery obligations based off the net position of clearing members without regard to the original counterparty relationship. With a stip trade, the buyer and seller will want to ensure the receipt or delivery, as applicable, is maintained between themselves to ensure that the other party adheres to the stipulated terms. Securities Exchange Act Release No. 34-66550 (March 9, 2012), 77 FR 15155 (March 14, 2014) (SR-FICC-2008-01). Therefore, as with the current process, FICC does not expect to novate stip trades.

⁹ MBSD Rule 10.

The proposal to move the time of novation as noted above does not change FICC's risk. Because FICC currently guarantees eligible trades upon comparison, FICC already assumes responsibility for settling such trades at the point of comparison. Adding legal novation at the point of comparison does not increase FICC's obligations and therefore, does not require any changes to FICC's risk management processes. In addition, FICC is not proposing to change its operational processes.

Proposed Formalization of Existing Processes

In addition, the proposed rule changes formalize the following existing processes:

- As noted above, Section 7 of MBSD Rule 8 is added to state that all SBOO Trades and SBON Trades (i.e., SBO-Destined Trades after such trades have gone through TBA Netting) must be submitted to Pool Netting.
- MBSD Rules 15 and 16 are revised to clarify that, upon the insolvency of a member's original counterparty to a compared trade, such member cannot unilaterally modify its obligations with respect to transactions originally entered with such counterparty. In the MBSD Rules, because certain trades are not novated and will continue to not be novated under this proposal, FICC proposes to make clear that upon a cease to act with respect to a member by FICC, the solvent member to a compared trade with the defaulting member may not unilaterally act with respect to such trade.

These changes are not intended to change FICC's current operations or processes.

Proposed Clarification to Reflect Current Processes

In addition, the proposed rule changes clarify certain Rules to reflect actual practices and requirements as follows:

- MBSD Rule 17 is revised to clarify that when FICC ceases to act for a member, FICC may dispose of such member's Trade-for-Trade Transactions based upon their generic terms.

These changes are not intended to change FICC's current operations or processes.

Specific Proposed Changes

With respect to the GSD Rules, the proposed changes are as follows:

- The term "Interactive Submission Method" is revised to correct a typographical error.
- For clean-up and clarification purposes, the term "Novation" is revised to reflect that delivery, receive and related payment obligations between GSD netting members will be terminated and replaced with identical obligations to and from FICC at the point in time that the trade is compared in accordance to the GSD Rules.

- Rule 3A, Sections 2(i), 7(a), 7(d), 14(c), and 16(a) are revised to reflect that trades submitted by Sponsored Members¹⁰ will novate to FICC at the time that such trades receive FICC's guaranty of settlement.
- Rule 5 is revised to include a new Section 8 entitled "Novation and Guaranty of Compared Trades" which provides for the following: (1) compared trades that meet the requirements of the GSD Rules and were entered into in good faith will novate to FICC and FICC will guarantee the settlement for each such compared trade; (2) if a compared trade becomes uncomparing or cancelled, FICC's guaranty and novation of such trade will be reversed and cancelled; (3) if a compared trade is modified after novation and such modification does not cause the trade to become uncomparing, then the modification will cause a corresponding modification to the deliver, receive and related payment obligations between the GSD netting members and FICC; (4) at the time that a compared trade becomes novated, such trade ceases to be bound by any bilateral agreement between the parties with respect to the deliver, receive and related payment obligations, however, if the trade becomes uncomparing or is cancelled, such trade shall be governed by the bilateral agreement that governed the trade prior to the novation; and (5) if a right of substitution was established by the parties to a repurchase transaction, such right will continue and be recognized by FICC after novation.
- Rule 6B, Section 4 deletes the provision which states that an uncomparing trade will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.
- Rule 6C, Section 10 deletes the provision which states that a locked-in trade that becomes uncomparing will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.
- Rule 6C, Section 11 deletes the provision which states that a netting eligible auction purchase that becomes uncomparing will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.
- Rule 6C, Section 12 deletes the provision which states that a GCF Repo Transaction¹¹ that becomes uncomparing will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.

¹⁰ The term "Sponsored Member" means any Person that has been approved by the Corporation to be sponsored into membership by a Sponsoring member pursuant to Rule 3A. GSD Rule 1, Definitions.

¹¹ Pursuant to the GSD Rules, the term "GCF Repo Transaction" means a Repo Transaction involving generic CUSIP numbers the data on which are submitted to FICC on a locked-in-trade basis pursuant to the provisions of Rule 6C, for netting and settlement by FICC pursuant to the provisions of Rule 20. GSD Rule 1, Definitions.

- Rule 11, Section 6 is revised to reflect that (1) novation occurs at comparison; and (2) at netting, the previously novated deliver, receive and related payment obligations between the netting members and FICC will be terminated and replaced by net deliver, receive and related payment obligations as listed in the report made available by FICC to the netting members.
- Rule 11B is revised to correct typographical errors.
- Rule 14, Section 3 is revised to reflect that (1) novation occurs at comparison; and (2) at netting, the previously novated deliver, receive and related payment obligations between the netting members and FICC created by Forward Trades will be terminated and replaced by net deliver, receive and related payment obligations as listed in the report made available by FICC to the netting members.
- Rule 20, Section 5 is revised to reflect that with respect to GCF Repo® transactions, novation will occur at comparison in accordance with Rule 5, Section 8.
- Rule 21A is revised to incorporate the concept of novation.
- Rule 22B included a sentence providing that upon FICC's default, trades that had compared would be deemed novated. Because the GSD Rules are being revised to reflect that novation occurs at comparison, this sentence is no longer necessary. As a result, it is being deleted in connection with this proposal.

With respect to the MBSD Rules, the proposed changes are as follows:

- For clean-up and clarification purposes, the term "Novation" is revised to reflect that delivery, receive and related payment obligations between MBSD clearing members will be terminated and replaced with identical obligations to and from FICC in accordance with the MBSD Rules.
- The term "SBO Contra-Side Member" is revised to correct a typographical error.
- The term "SBO Net-Out Position" is revised to clarify that the term is used in connection with offsetting purchase and sale SBO-Destined Trades that were originally between different clearing members (but, once novated at comparison, are between such members and FICC).
- The term "SBO Net-Out Unit" is being deleted because this term is not used in the MBSD Rules.
- The term "SBO Netted Position" is revised to clarify that the term is used in connection with offsetting purchase and sale SBO-Destined Trades that were originally

between the same clearing members (but, once novated at comparison, are between such members and FICC).

- The term “SBON Trade” is revised to correct a typographical error.
- The term “SBOO Trade” is revised to correct a typographical error.
- Rule 5, Section 1 is revised to correct a typographical error.
- Rule 5, Section 2 is revised to reflect that (1) transactions that are not novated pursuant to this proposal (pursuant to new Section 13 of Rule 5 discussed below) and not netted and novated through the Pool Netting system will be settled directly between the Members; and (2) transactions novated pursuant to new Section 13 of Rule 5 and not thereafter netted through the Pool Netting system pursuant to Rule 8 will settle between Members on behalf of FICC.
- Rule 5, Section 12 is revised to correct a typographical error.
- Rule 5 includes a new Section 13 entitled “Novation” which states the following: (1) FICC will guarantee and novate SBO-Destined Trades that meet the requirement of the MBSD Rules and have been entered into in good faith; (2) FICC will not novate SBO-Destined Trades that are partially compared; (3) to the extent a partially compared SBO-Destined Trade becomes fully compared, FICC will novate such trade; (4) if a trade becomes uncomparated or cancelled, the guaranty and novation of such transaction shall be reversed; (5) at the time that an SBO-Destined Trade is novated to FICC, such trade shall cease to be bound by any bilateral agreement between the parties to the trade with respect to the deliver, receive and related payment obligations, however, if the trade becomes uncomparated or is cancelled, such trade shall be governed by the bilateral agreement that governs such trade prior to the novation.
- Rule 6, Sections 1(a), (b) and (c) are revised to take into account the fact that SBO-Destined Trades are novated upon comparison and are, therefore, legally between MBSD Clearing Members and FICC after comparison.
- Rule 8, Section 6 is revised to take into account the fact that SBO-Destined Trades are novated upon comparison and are, therefore, legally between MBSD Clearing Members and FICC after comparison.
- Rule 8 includes a new Section 7 which is entitled “Obligations to Submit SBOO and SBON Trades to Pool Netting”. This Section reflects a current requirement and current practice that clearing members are required to submit all SBOO trades and SBON trades (i.e., SBO-Destined Trades after such trades have gone through TBA Netting) for inclusion in the Pool Netting system.

- Rule 10, Section 2 is revised to clarify that clearing members are required to submit a notification of settlement for SBO Trades that are novated at comparison and processed through the TBA Netting system but that are not thereafter submitted to the Pool Netting system.
 - Rule 11, Section 1 is revised to take into account the fact that SBO Trades are novated upon comparison and are, therefore, legally between MBSD Clearing Members and FICC after comparison.
 - Rule 15 is revised to clarify the current process with respect to transactions submitted to and compared by FICC, whereby in the event a member's original counterparty goes insolvent, such member cannot unilaterally modify its obligations with respect to transactions originally entered with such counterparty.
 - Rule 16 is revised to clarify the current process with respect to transactions submitted to and compared by FICC, whereby in the event a member's original counterparty goes insolvent, such member cannot unilaterally modify its obligations with respect to transactions originally entered with such counterparty.
 - Rule 17, Section 2 is revised to clarify the current process, whereby when FICC ceases to act for a clearing member, such member's Trade-for-Trade Transactions¹² may be disposed of based upon their generic terms such as agency, product, coupon rate and maturity. The other changes are typographical corrections.
 - Rule 17A is revised to clarify that in the event of FICC's default, novation is deemed to have occurred with respect to all transactions at the time such transactions are compared, whether or not such transactions are SBO-Destined Trades that would otherwise have been novated at comparison. The other changes to this provision are grammatical corrections.
- (b) The proposed rule changes are consistent with the requirements of Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because by moving novation for trades that enter GSD's Netting system and MBSD's TBA Netting system, they clarify FICC's responsibilities to its members and remove potential uncertainty that previously existed due to a mismatch between the time of guaranty and the time of novation. Such clarity facilitates the prompt and accurate clearance and settlement of securities transactions and assures the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.

As noted above, FICC guarantees (and is therefore responsible for) the settlement of trades upon comparison. Nonetheless, currently FICC does not become the members' legal

¹² Including "stip" trades and any other TBA transactions not intended for TBA Netting.

counterparty with respect to compared trades until the relevant netting output is issued to such members (usually the day before settlement). FICC understands that as members (or their advisors) analyze member netting rights with respect to transactions cleared through FICC for purposes of regulatory capital requirements, it is beneficial for members that FICC become the legal counterparty at the point its guarantee attaches.

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 that is not necessary or appropriate. The proposed changes will apply to eligible transactions that are submitted to GSD's Netting system and MBSD's TBA Netting system.

Item 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.

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) or Section 19(b)(7)(D).

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) 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 – Text of the proposed rule change.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-_____ ; File No. SR-FICC-2014-11]

[DATE]

SELF-REGULATORY ORGANIZATIONS; Fixed Income Clearing Corporation; Proposed Rule Change to amend the Government Securities Division Rulebook and the Mortgage Backed Securities Clearing Rules in order to move the time of novation with respect to certain trades, include rules to reflect existing processes, and clarify certain rules to reflect current practices.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4,² notice is hereby given that on _____, Fixed Income Clearing Corporation (“FICC”) 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. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

FICC is proposing to (1) move the time of novation for netting eligible transactions submitted to the Government Securities Division (“GSD”) in accordance with the GSD Rulebook (“GSD Rules”) and for SBO-Destined Trades³ submitted to the Mortgage-Backed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The MBSD Rules define a “SBO-Destined Trade” as a to-be-announced (“TBA”) transaction in the clearing system intended for TBA Netting in accordance with the

Securities Division (“MBSD”) in accordance with the MBSD Clearing Rules (“MBSD Rules”) in order to provide members with additional legal certainty that FICC will be the legal counterparty with respect to their guaranteed trades for purposes of regulatory capital requirements, (2) include rules to reflect existing processes, and (3) clarify certain rules to reflect current practices.

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. 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) Purpose

FICC is proposing to move the time of novation applicable to certain transactions submitted to the GSD and MBSD to earlier in the clearing process in order to provide members with additional legal certainty that FICC will be their legal counterparty with respect to their guaranteed trades for purposes of members’ regulatory capital requirements.

provisions of the Rules. MBSD Rule 1, Definitions. In a TBA transaction, members agree on a sale price, quantity, and the characteristics of the securities being sold, but they do not specify which particular securities will be delivered on the settlement date.

Currently, GSD and MBSD guarantee the settlement of a trade upon comparison, which generally occurs when FICC issues initial “output” to GSD netting members or MBSD clearing members, as applicable, indicating that their trades have compared,⁴ provided that the trade meets the requirements of the GSD Rules or the MBSD Rules, as applicable.⁵ This means that FICC is responsible for settling the guaranteed trades, even if one of the members who submitted the trade becomes insolvent.

Novation, which refers to the termination of delivery, receive and related payment obligations between the original parties to the contract and the replacement of such obligations with identical obligations between each party and FICC, currently does not occur until later in the clearing and settlement process than comparison. In GSD, novation currently occurs when subsequent “netting output” is issued to netting members (usually the day before settlement); in MBSD, novation currently occurs when subsequent “pool netting output” is issued to clearing members (usually the day before settlement).

Because there is a legal distinction between the concept of “guarantee” and “novation”, and this legal distinction may have a bearing on how members calculate their capital requirement, FICC proposes to move the time of novation (i.e. the point that FICC becomes the legal counterparty) so that it occurs at the time of the trade guarantee.

Time of Novation – Proposed Changes

⁴ In the case of GSD locked-in trades, comparison occurs upon receipt of the trade data submitted to FICC from the locked-in trade source. GSD Rule 6C.

⁵ See GSD Rule 11B and MBSD Rule 5.

FICC is proposing to revise the GSD Rules and MBSB Rules so that novation will occur at comparison for netting eligible transactions (for GSD) and SBO-Destined Trades (for MBSB). This means that, at the point of trade comparison, FICC will guarantee the settlement of the transactions (as it does today) and novate such transactions, becoming the legal counterparty to each submitting member with respect to such transactions.

Under the proposal, in the GSD, all netting eligible transactions that compare in accordance with the GSD Rules will novate at the point of comparison.

In the MBSB, only SBO-Destined Trades, all of which are included in the TBA Netting process and (pursuant to proposed Section 7 of Rule 8 which is being added to reflect a current requirement and current practice) must be submitted to the Pool Netting process,⁶ will novate at the point of comparison. Other types of transactions, including Trade-for-Trade Transactions⁷ and Specified Pool Trades,⁸ will continue to be guaranteed at comparison, as they are today, but

⁶ The MBSB conducts two separate netting processes to consolidate settlement obligations and reduce the number of securities and the amount of cash that must be exchanged to settle transactions. TBA Netting is the process used to net SBO-Destined Trades that have compared in accordance to the MBSB Rules. TBA Netting is conducted before particular securities (“pools”) are identified to the SBO-Destined Trades. Pool Netting, which occurs after MBSB clearing members allocate pools to transactions, is the process used to aggregate and match offsetting pool delivery obligations submitted by MBSB clearing members to satisfy their settlement obligations. MBSB Rules 6 and 7. An MBSB clearing member may submit a transaction to Pool Netting even if such transaction was not submitted for TBA Netting.

⁷ The MBSB Rules define “Trade-for-Trade Transaction” as a TBA transaction submitted to FICC not intended for TBA Netting in accordance with the provisions of the Rules. MBSB Rule 1, Definitions.

⁸ The MBSB Rules define “Specified Pool Trades” as a trade in which all required pool data, including the pool number to be delivered on the contractual settlement date, are agreed upon by the clearing member at the time of execution. MBSB Rule 1, Definitions.

FICC will not novate such transactions at comparison. Instead, such transactions will be treated as they are today: (1) to the extent Trade-for-Trade Transactions are included in the Pool Netting process,⁹ FICC will novate such Transactions once the Pool Netting¹⁰ process is completed and (2) Specified Pool Trades, which are not included in the TBA Netting process nor the Pool Netting process, are not novated today (they settle outside of FICC between the submitting counterparties) and will continue to not be novated under the proposal.¹¹

In order to effectuate this change in the time of novation as described above, the proposed rule change adds language to the GSD Rules (new Section 8 of Rule 5) and MBSD Rules (new Section 13 of Rule 5) that states that FICC will guarantee and now novate applicable transactions upon comparison, subject to the parameters set forth in the proposed rule change. Conforming changes are proposed to be made to GSD Rule 3A, GSD Rule 6B, GSD Rule 6C, GSD Rule 11, GSD Rule 14, GSD Rule 20, GSD Rule 21A, Rule 22B, MBSD Rule 6, MBSD Rule 8, MBSD Rule 10, MBSD Rule 11 and MBSD Rule 17A. In addition, the definition of “novation” in both Divisions’ Rule 1 is clarified to reflect that delivery, receive and related payment obligations

⁹ Trade-for-Trade Transactions that are not submitted to the Pool Netting process must be settled outside of FICC between the submitting counterparties.

¹⁰ As noted in SR-FICC-2008-01, a clearing member that has a trade that was matched with a stipulation (“stip trade”) would not submit such trade for Pool Netting. Pool Netting creates delivery obligations based off the net position of clearing members without regard to the original counterparty relationship. With a stip trade, the buyer and seller will want to ensure the receipt or delivery, as applicable, is maintained between themselves to ensure that the other party adheres to the stipulated terms. Securities Exchange Act Release No. 34-66550 (March 9, 2012), 77 FR 15155 (March 14, 2014) (SR-FICC-2008-01). Therefore, as with the current process, FICC does not expect to novate stip trades.

¹¹ MBSD Rule 10.

between members will be terminated and replaced with identical obligations to and from FICC at the point in time that the trade is compared in accordance with the applicable Rules.

The proposed rule change also addresses the fact that in the MBSD today certain settlement obligations continue to be settled between the settlement counterparties and not vis-à-vis FICC; these are the obligations that were not included in the Pool Netting process pursuant to MBSD Rule 8 (Pool Netting). The present proposal does not change this existing process. However, because the present proposal introduces legal novation at comparison for certain MBSD transactions, the proposed rule changes (in Rule 5, Section 2) make clear that the settlement counterparties continue to settle with each other but do so on behalf of FICC for those transactions that are novated to FICC.

The proposal to move the time of novation as noted above does not change FICC's risk. Because FICC currently guarantees eligible trades upon comparison, FICC already assumes responsibility for settling such trades at the point of comparison. Adding legal novation at the point of comparison does not increase FICC's obligations and therefore, does not require any changes to FICC's risk management processes. In addition, FICC is not proposing to change its operational processes.

Proposed Formalization of Existing Processes

In addition, the proposed rule changes formalize the following existing processes:

- As noted above, Section 7 of MBSD Rule 8 is added to state that all SBOO Trades and SBON Trades (i.e., SBO-Destined Trades after such trades have gone through TBA Netting) must be submitted to Pool Netting.

- MBSD Rules 15 and 16 are revised to clarify that, upon the insolvency of a member's original counterparty to a compared trade, such member cannot unilaterally modify its obligations with respect to transactions originally entered with such counterparty. In the MBSD Rules, because certain trades are not novated and will continue to not be novated under this proposal, FICC proposes to make clear that upon a cease to act with respect to a member by FICC, the solvent member to a compared trade with the defaulting member may not unilaterally act with respect to such trade.

These changes are not intended to change FICC's current operations or processes.

Proposed Clarification to Reflect Current Processes

In addition, the proposed rule changes clarify certain Rules to reflect actual practices and requirements as follows:

- MBSD Rule 17 is revised to clarify that when FICC ceases to act for a member, FICC may dispose of such member's Trade-for-Trade Transactions based upon their generic terms.

These changes are not intended to change FICC's current operations or processes.

Specific Proposed Changes

With respect to the GSD Rules, the proposed changes are as follows:

- The term "Interactive Submission Method" is revised to correct a typographical error.
- For clean-up and clarification purposes, the term "Novation" is revised to reflect that delivery, receive and related payment obligations between GSD netting members will be terminated and replaced with identical obligations to and from FICC at the point in time that the trade is compared in accordance to the GSD Rules.

- Rule 3A, Sections 2(i), 7(a), 7(d), 14(c), and 16(a) are revised to reflect that trades submitted by Sponsored Members¹² will novate to FICC at the time that such trades receive FICC's guaranty of settlement.
- Rule 5 is revised to include a new Section 8 entitled "Novation and Guaranty of Compared Trades" which provides for the following: (1) compared trades that meet the requirements of the GSD Rules and were entered into in good faith will novate to FICC and FICC will guarantee the settlement for each such compared trade; (2) if a compared trade becomes uncomparing or cancelled, FICC's guaranty and novation of such trade will be reversed and cancelled; (3) if a compared trade is modified after novation and such modification does not cause the trade to become uncomparing, then the modification will cause a corresponding modification to the deliver, receive and related payment obligations between the GSD netting members and FICC; (4) at the time that a compared trade becomes novated, such trade ceases to be bound by any bilateral agreement between the parties with respect to the deliver, receive and related payment obligations, however, if the trade becomes uncomparing or is cancelled, such trade shall be governed by the bilateral agreement that governed the trade prior to the novation; and (5) if a right of substitution was established by the parties to a repurchase transaction, such right will continue and be recognized by FICC after novation.
- Rule 6B, Section 4 deletes the provision which states that an uncomparing trade will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.

¹² The term "Sponsored Member" means any Person that has been approved by the Corporation to be sponsored into membership by a Sponsoring member pursuant to Rule 3A. GSD Rule 1, Definitions.

- Rule 6C, Section 10 deletes the provision which states that a locked-in trade that becomes uncomparated will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.
- Rule 6C, Section 11 deletes the provision which states that a netting eligible auction purchase that becomes uncomparated will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.
- Rule 6C, Section 12 deletes the provision which states that a GCF Repo Transaction¹³ that becomes uncomparated will cease to be guaranteed by FICC because this concept is now covered in Rule 5, Section 8.
- Rule 11, Section 6 is revised to reflect that (1) novation occurs at comparison; and (2) at netting, the previously novated deliver, receive and related payment obligations between the netting members and FICC will be terminated and replaced by net deliver, receive and related payment obligations as listed in the report made available by FICC to the netting members.
- Rule 11B is revised to correct typographical errors.
- Rule 14, Section 3 is revised to reflect that (1) novation occurs at comparison; and (2) at netting, the previously novated deliver, receive and related payment obligations between the netting members and FICC created by Forward Trades will be terminated and replaced by net deliver, receive and related payment obligations as listed in the report made available by FICC to the netting members.

¹³ Pursuant to the GSD Rules, the term "GCF Repo Transaction" means a Repo Transaction involving generic CUSIP numbers the data on which are submitted to FICC on a locked-in-trade basis pursuant to the provisions of Rule 6C, for netting and settlement by FICC pursuant to the provisions of Rule 20. GSD Rule 1, Definitions.

- Rule 20, Section 5 is revised to reflect that with respect to GCF Repo® transactions, novation will occur at comparison in accordance with Rule 5, Section 8.
- Rule 21A is revised to incorporate the concept of novation.
- Rule 22B included a sentence providing that upon FICC’s default, trades that had compared would be deemed novated. Because the GSD Rules are being revised to reflect that novation occurs at comparison, this sentence is no longer necessary. As a result, it is being deleted in connection with this proposal.

With respect to the MBSD Rules, the proposed changes are as follows:

- For clean-up and clarification purposes, the term “Novation” is revised to reflect that delivery, receive and related payment obligations between MBSD clearing members will be terminated and replaced with identical obligations to and from FICC in accordance with the MBSD Rules.
- The term “SBO Contra-Side Member” is revised to correct a typographical error.
- The term “SBO Net-Out Position” is revised to clarify that the term is used in connection with offsetting purchase and sale SBO-Destined Trades that were originally between different clearing members (but, once novated at comparison, are between such members and FICC).
- The term “SBO Net-Out Unit” is being deleted because this term is not used in the MBSD Rules.
- The term “SBO Netted Position” is revised to clarify that the term is used in connection with offsetting purchase and sale SBO-Destined Trades that were originally between the same clearing members (but, once novated at comparison, are between such members and FICC).
- The term “SBON Trade” is revised to correct a typographical error.
- The term “SBOO Trade” is revised to correct a typographical error.

- Rule 5, Section 1 is revised to correct a typographical error.
- Rule 5, Section 2 is revised to reflect that (1) transactions that are not novated pursuant to this proposal (pursuant to new Section 13 of Rule 5 discussed below) and not netted and novated through the Pool Netting system will be settled directly between the Members; and (2) transactions novated pursuant to new Section 13 of Rule 5 and not thereafter netted through the Pool Netting system pursuant to Rule 8 will settle between Members on behalf of FICC.
- Rule 5, Section 12 is revised to correct a typographical error.
- Rule 5 includes a new Section 13 entitled “Novation” which states the following: (1) FICC will guarantee and novate SBO-Destined Trades that meet the requirement of the MBSD Rules and have been entered into in good faith; (2) FICC will not novate SBO-Destined Trades that are partially compared; (3) to the extent a partially compared SBO-Destined Trade becomes fully compared, FICC will novate such trade; (4) if a trade becomes uncomparred or cancelled, the guaranty and novation of such transaction shall be reversed; (5) at the time that an SBO-Destined Trade is novated to FICC, such trade shall cease to be bound by any bilateral agreement between the parties to the trade with respect to the deliver, receive and related payment obligations, however, if the trade becomes uncomparred or is cancelled, such trade shall be governed by the bilateral agreement that governs such trade prior to the novation.
- Rule 6, Sections 1(a), (b) and (c) are revised to take into account the fact that SBO-Destined Trades are novated upon comparison and are, therefore, legally between MBSD Clearing Members and FICC after comparison.
- Rule 8, Section 6 is revised to take into account the fact that SBO-Destined Trades are novated upon comparison and are, therefore, legally between MBSD Clearing Members and FICC after comparison.

- Rule 8 includes a new Section 7 which is entitled “Obligations to Submit SBOO and SBON Trades to Pool Netting”. This Section reflects a current requirement and current practice that clearing members are required to submit all SBOO trades and SBON trades (i.e., SBO-Destined Trades after such trades have gone through TBA Netting) for inclusion in the Pool Netting system.
- Rule 10, Section 2 is revised to clarify that clearing members are required to submit a notification of settlement for SBO Trades that are novated at comparison and processed through the TBA Netting system but that are not thereafter submitted to the Pool Netting system.
- Rule 11, Section 1 is revised to take into account the fact that SBO Trades are novated upon comparison and are, therefore, legally between MBSD Clearing Members and FICC after comparison.
- Rule 15 is revised to clarify the current process with respect to transactions submitted to and compared by FICC, whereby in the event a member’s original counterparty goes insolvent, such member cannot unilaterally modify its obligations with respect to transactions originally entered with such counterparty.
- Rule 16 is revised to clarify the current process with respect to transactions submitted to and compared by FICC, whereby in the event a member’s original counterparty goes insolvent, such member cannot unilaterally modify its obligations with respect to transactions originally entered with such counterparty.
- Rule 17, Section 2 is revised to clarify the current process, whereby when FICC ceases to act for a clearing member, such member’s Trade-for-Trade Transactions¹⁴ may be disposed of

¹⁴ Including “stip” trades and any other TBA transactions not intended for TBA Netting.

based upon their generic terms such as agency, product, coupon rate and maturity. The other changes are typographical corrections.

- Rule 17A is revised to clarify that in the event of FICC’s default, novation is deemed to have occurred with respect to all transactions at the time such transactions are compared, whether or not such transactions are SBO-Destined Trades that would otherwise have been novated at comparison. The other changes to this provision are grammatical corrections.

(ii) Statutory Basis

The proposed rule changes are consistent with the requirements of Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (the “Act”), and the rules and regulations thereunder, because by moving novation for trades that enter GSD’s Netting system and MBSD’s TBA Netting system, they clarify FICC’s responsibilities to its members and remove potential uncertainty that previously existed due to a mismatch between the time of guaranty and the time of novation. Such clarity facilitates the prompt and accurate clearance and settlement of securities transactions and assures the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.

As noted above, FICC guarantees (and is therefore responsible for) the settlement of trades upon comparison. Nonetheless, currently FICC does not become the members’ legal counterparty with respect to compared trades until the relevant netting output is issued to such members (usually the day before settlement). FICC understands that as members (or their advisors) analyze member netting rights with respect to transactions cleared through FICC for purposes of regulatory capital requirements, it is beneficial for members that FICC become the legal counterparty at the point its guarantee attaches.

B. Clearing Agency’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 that is not necessary or appropriate. The proposed changes will apply to eligible transactions that are submitted to GSD's Netting system and MBSB's TBA Netting system.

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 changes 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 Number SR-FICC-2014-11 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-2014-11. 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 copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on its website, <http://www.dtcc.com/legal/sec-rule-filings.aspx>. 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 submissions should refer to File Number SR-FICC-2014-11 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Secretary

¹⁵ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Bold and double underlined text indicates proposed additions

~~Strikethrough bold text~~ indicates proposed deletions

Italicized underlined text indicates proposed additions contained in rule filings pending with the Commission

~~Shaded strikethrough text~~ indicates proposed deletions contained in rule filings pending with the Commission

FIXED INCOME CLEARING CORPORATION
GOVERNMENT SECURITIES DIVISION RULEBOOK

* * * *

RULE 1 – DEFINITIONS

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

* * * *

Interactive Submission Method

The term “Interactive Submission Method” means a trade submission method that is used to submit data on individual trades to the Corporation immediately after trade execution pursuant to communications links, formats, timeframes, and deadlines established by the Corporation for such purpose. The Interactive Submission Method **includes** is a computer-to-computer interface, where the trade is fed to the Corporation’s computer directly from the submitter’s computer.

* * * *

Novation

The term "Novation" means the ~~action by the Corporation, taken pursuant to Section 6 of Rule 11, Section 3 of Rule 14, with respect to GCF Repo Transactions, Section 5 of Rule 20, or with respect to collateral substitutions in connection with Repo Transactions with Rights of Substitution, Section 4 of Rule 18, to terminate~~ **termination of** deliver,

receive, and related payment obligations between Netting Members and ~~replace them~~ the replacement of such with similar obligations with identical obligations to and from the Corporation, pursuant to Section 8 of Rule 5.

* * * *

RULE 3A—SPONSORING MEMBERS AND SPONSORED MEMBERS

* * * *

Section 2 – Qualifications of Sponsoring Members, the Application Process and Continuance Standards

* * * *

(i) A Sponsoring Member may voluntarily elect to terminate its status as a Sponsoring Member, with respect to all Sponsored Members or with respect to one or more Sponsored Members from time to time, by providing the Corporation with 30 calendar days written notice of such termination; however, the Corporation, in its discretion, may accept such termination within a shorter notice period. Such termination will not be effective until accepted by the Corporation. The Corporation's acceptance shall be evidenced by a notice to all Members announcing the termination of the Sponsoring Member's status as such with respect to the Sponsored Member(s) as to which the Sponsoring Member has terminated such status (the "Former Sponsored Members") and the effective date of such termination (hereinafter the "Sponsoring Member Termination Date"). As of the Sponsoring Member Termination Date, the Sponsoring Member shall no longer be eligible to submit trades on behalf of its Former Sponsored Members and each of its Former Sponsored Members shall cease to be a Sponsored Member unless it is the Sponsored Member of another Sponsoring Member. A Sponsoring Member's voluntary termination of its status as such, in whole or in part, shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Trades submitted to the Corporation before the applicable Sponsoring Member Termination Date. Any Sponsored Member Trades which have received the Corporation's guaranty of settlement and been novated to the Corporation shall continue to be processed and guaranteed by the Corporation.

* * * *

Section 7 – The Netting System, **Novation** and Guaranty of Settlement

(a) The Sponsored Member Trades of each Sponsored Member shall be ~~netted and~~ novated and netted in the same manner as set forth in Section 8 of Rule 5 and Sections 1, 4 and 6 of Rule 11 for Netting Member trades as long as such Sponsored Member Trades meet the requirements of Section 2 of Rule 11. Net Settlement Positions per CUSIP shall be calculated for each Sponsored Member in the same manner set forth in Rule 11 for Netting Members. The Sponsoring Member shall act as processing agent for performing all functions and receiving Reports and information set forth in Rule 11 on behalf of its Sponsored Members. The Corporation's provision of such Reports and information to the Sponsoring Member shall

constitute satisfaction of the Corporation's obligations to provide such Reports and information to the affected Sponsored Members.

(b) Net Settlement Positions of Sponsored Members that are comprised in whole or in part of Sponsored Member Trades that are Locked-In Trades shall be treated by the Corporation in the same manner as all other Net Settlement Positions.

(c) Fail Net Settlement Positions per CUSIP shall be calculated at the level of the Sponsoring Member Omnibus Account in the same way as they are calculated for Netting Members pursuant to Rule 11. At the request of the Corporation, the Sponsoring Member shall inform the Corporation as to the manner in which the Sponsoring Member allocates a Fail Net Settlement Position among its Sponsored Members.

(d) The Corporation's guaranty of settlement shall apply to Sponsored Member Trades **and such trades shall be novated** in the same manner in which ~~it applies to~~ trades of Netting Members **are novated and settlement is guaranteed** pursuant to **Section 5 of Rule 11B8**.

* * * *

Section 14—Restrictions on Access to Services by a Sponsoring Member

* * * *

(c) If the Corporation ceases to act for a Sponsoring Member in its capacity as a Sponsoring Member, Rule 22A shall apply and the Corporation shall decline to accept or process data from the Sponsoring Member on Sponsored Member Trades and the Corporation shall cease to act for all of the Sponsored Members of the affected Sponsoring Member. If the Corporation suspends the Sponsoring Member or ceases to act for the Sponsoring Member, the Corporation shall decline to accept or process data from the Sponsoring Member on Sponsored Member Trades and shall suspend the Sponsored Members of the affected Sponsoring Member for so long as and to the extent that the Corporation is ceasing to act for the Sponsoring Member. Any Sponsored Member Trades which have received the Corporation's guaranty of settlement **and been novated to the Corporation** shall continue to be processed and guaranteed by the Corporation.

* * * *

Section 16—Insolvency of a Sponsoring Member

(a) A Sponsoring Member shall be obligated to inform the Corporation that it is insolvent or that it will be unable to perform any of its material contracts, obligations or agreements in the same manner as required by Section 1 of Rule 22 for other Members. A Sponsoring Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 22 for other Members. Sections 3 and 4 of Rule 22 shall apply, in the same manner in which such Sections apply to other Members, in the case where the Corporation treats a Sponsoring Member as insolvent.

(b) In the event that the Corporation determines to treat a Sponsoring Member as insolvent, the Corporation shall, ~~as soon as practicable after the Time of Insolvency (as defined in Rule 22),~~ *cease to act for the insolvent Sponsoring Member and* decline to accept or process data from the Sponsoring Member, including Sponsored Member Trades, and the Corporation shall terminate the membership of all of the insolvent's Sponsored Members unless they are the Sponsored Members of another Sponsoring Member. Any Sponsored Member Trades which have received the Corporation's guaranty of settlement **and been novated to the Corporation** shall continue to be processed and guaranteed by the Corporation. The Corporation, in its sole discretion, shall determine whether to close-out the affected Sponsored Member Trades and/or permit the Sponsored Members to complete their settlement.

* * * *

RULE 5 - COMPARISON SYSTEM

* * * *

Section 8 – ~~Reserved~~ Novation and Guaranty of Compared Trades

(a) Each Compared Trade that meets the requirements of Section 2 of Rule 11 and was entered into in good faith shall be novated to the Corporation and the Corporation shall guarantee the settlement of each such Compared Trade at the time at which comparison of such Compared Trade occurs pursuant to Rules 6A, 6B or 6C. Such Novation shall consist of the termination of the deliver, receive and related payment obligations between the Netting Members with respect to the Compared Trade (including, if such Compared Trade is a Repo Transaction, any Right of Substitution established by the parties) and their replacement with identical obligations to and from the Corporation in accordance with these Rules.

(b) If a trade becomes uncomparing or is cancelled pursuant to these Rules, the Novation and the Corporation's guaranty of settlement of such transaction shall be reversed, cancelling the deliver, receive, and related payment obligations between the Corporation and the applicable Netting Members created by such Novation. If a Compared Trade is modified pursuant to these Rules after Novation and such modification does not cause such trade to become uncomparing, such modification shall cause a corresponding modification to the deliver, receive and related payment obligations of the relevant Netting Members to and from the Corporation.

(c) At the time a Compared Trade is novated to the Corporation, such Compared Trade shall cease to be bound by any bilateral agreement between the parties to such Compared Trade with respect to the delivery, receive and related payment obligations. If a Compared Trade becomes uncomparing or is cancelled pursuant to these Rules, such trade shall be governed by the same bilateral agreement that governed the trade before it was novated to the Corporation.

(d) If a Right of Substitution was established by the parties to a Repo Transaction, such Right of Substitution shall continue and be recognized by the Corporation after Novation.

* * * *

RULE 6B – DEMAND COMPARISON

* * * *

Section 4—DK Notices

A Member may transmit a DK Notice to the Corporation with respect to a Demand Trade that has been submitted to the Corporation on the Member's behalf and which the Member believes is invalid or incorrect. The receipt of a DK Notice by the Corporation with respect to a Demand Trade in the form and manner, and within the applicable timeframe for such, as established by the Corporation, shall cause the trade to become uncomparated ~~and the Corporation's guaranty with respect to such trade, if in effect, shall cease to be in effect~~. A Member who does not submit a DK Notice with respect to a Demand Trade remains responsible for such Trade under these Rules.

A Member that transmitted a DK Notice erroneously with respect to a trade submitted for Demand Comparison may withdraw the DK Notice in order to enable comparison. Such withdrawal of a DK Notice must be made in the form and manner, and within the applicable timeframe for such, as established by the Corporation for such purpose.

* * * *

RULE 6C - LOCKED-IN COMPARISON

* * * *

Section 10 - Modification and Cancellation of Data

A Locked-In Trade Source that has submitted to the Corporation trade data may have such data cancelled from the Comparison System, or may modify such data, by providing appropriate instructions to the Corporation, in the format and subject to the time schedules required by the Corporation.

A cancellation of a Locked-In Trade by a Locked-In Trade Source in response to a DK Notice submitted by a Member, as provided in the preceding paragraph or as provided below shall cause the trade to become uncomparated ~~and the Corporation's guaranty with respect to such trade, if in effect, shall cease to be in effect~~.

If the Locked-In Trade Source from which a Locked-In Trade derives is a party to such Locked-In Trade, the data on the Locked-In Trade may be cancelled from the Comparison System, or may be modified, only by the provision to the Corporation of appropriate instructions from the Locked-In Trade Source.

If the Locked-In Trade Source from which a Locked-In Trade derives is not a party to such Locked-In Trade, the data on the Locked-In Trade may be cancelled from the Comparison System, or modified, upon receipt by the Corporation, in the format and subject to the time schedules required by the Corporation, of appropriate, matching instructions from each Member that is, or is submitting on behalf of a party to such Locked-In Trade, and such matching instructions shall supersede any instructions to the contrary received by the Corporation from the Locked-In Trade Source.

This Section shall not apply to Netting-Eligible Auction Purchases or GCF Repo Transactions. The cancellation and modification of data regarding such Auction Purchases are governed by the provisions of Section 11 of this Rule. The affirmation, cancellation and modification of data regarding GCF Repo Transactions are governed by the provisions of Section 12 of this Rule.

Notwithstanding anything to the contrary in this Section, the Corporation shall have the authority, in order to correct or avoid an error, to unilaterally modify, add, or cancel data on any Locked-In Trade.

Section 11 – Modification and Cancellation of Data on Netting-Eligible Auction Purchases and Related When Issued Transactions

A Federal Reserve Bank that has submitted data regarding a Netting-Eligible Auction Purchase to the Corporation may have such data cancelled from the Comparison System or may modify such data, by providing appropriate instructions to the Corporation. If a Federal Reserve Bank instructs the Corporation to cancel or modify data regarding a Netting-Eligible Auction Purchase, the Corporation shall promptly make available, in its Comparison System output, the cancellation or modification to the Member that made such Auction Purchase.

In addition, a Member that has made a Netting-Eligible Auction Purchase in connection with a Treasury Department auction may request, through the Corporation, that the appropriate Federal Reserve Bank cancel or modify the data regarding such Auction Purchase. The Corporation shall make such a Member-requested cancellation or modification to its Comparison System, only if it receives instructions from a Federal Reserve Bank to do so.

Freddie Mac, once it has submitted data regarding a Netting-Eligible Auction Purchase to the Corporation, may have such data deleted from the Comparison System, or may correct such data, by providing appropriate instructions to the Corporation. If Freddie Mac instructs the Corporation to delete or correct data regarding a Netting-Eligible Auction Purchase, the Corporation shall promptly make available, in its Comparison System output, the deletion or correction to the Member that made such Auction Purchase. In addition, a Member that has made a Netting-Eligible Auction Purchase in connection with a Freddie Mac auction may request, through the Corporation, that Freddie Mac delete or correct the data regarding such Auction Purchase. The Corporation shall make such a Member-requested deletion or correction to its Comparison System only if it receives instructions from Freddie Mac to do so.

Any cancellation of a Netting-Eligible Auction Purchase pursuant to this section shall cause the Netting Eligible Auction Purchase to become uncomparated ~~and the Corporation's guaranty with respect to such trade, if in effect, shall cease to be in effect.~~

The Corporation shall have the right to unilaterally modify, add or cancel data on any When Issued Transaction, in the event (i) a Treasury Department auction or a Freddie Mac auction is cancelled or indefinitely postponed, (ii) the original Issue Date (settlement date) of a Treasury Department auction or a Freddie Mac auction is changed, (iii) the original maturity date for a security auctioned or to be auctioned in a Treasury Department auction or a Freddie Mac auction is changed, (iv) the original issuance amount in a Treasury Department auction or a Freddie Mac auction is reduced, (v) a security auctioned in a Treasury Department auction or a Freddie Mac auction that is the subject of a When Issued Transaction is not issued, or (vi) any event occurs with respect to a Treasury auction or a Freddie Mac auction that creates an obligation to substitute securities or otherwise alter the terms of the trade pursuant to guidelines published by The Securities Industry and Financial Markets Association.

Notwithstanding anything to the contrary in this Section, the Corporation shall have the authority, in order to correct or avoid an error, to unilaterally modify, add, or cancel data on any Netting-Eligible Auction Purchase (subject to the terms and conditions agreed to by the Corporation and the Treasury Department or Freddie Mac, as applicable, regarding Auction Purchases).

Notwithstanding anything to the contrary in this Section, in the event that a security auctioned in a Treasury Department auction or a Freddie Mac auction is not issued, the Corporation shall have the authority to unilaterally modify, add, or cancel data on any Netting-Eligible Auction Purchase involving that security (subject to the terms and conditions agreed to by the Corporation and the Treasury Department or Freddie Mac, as applicable, regarding Auction Purchases).

Section 12 - Affirmation, Cancellation, and Modification Requirements for Data on GCF Repo Transactions

Upon receipt by the Corporation of data on a GCF Repo Transaction, the Corporation shall promptly provide each of the two GCF Counterparties with such data. Each GCF Counterparty shall have the obligation to review such data, and either affirm or disaffirm such data, within the timeframe, and pursuant to procedures, established by the Corporation for such purpose. If a GCF Counterparty affirms such data within the timeframe established by the Corporation for such purpose, the Transaction shall remain compared by the Corporation. If a GCF Counterparty disaffirms such data within the timeframe established by the Corporation for such purpose, the Transaction shall be canceled and deleted by the Corporation.

If a GCF Counterparty does not either affirm or disaffirm such data within the timeframe established by the Corporation for such purpose, such GCF Counterparty shall be deemed to have affirmed such data. Should a GCF Repo Transaction be affirmed in this manner, the GCF-Authorized Broker that submitted data on such GCF Repo Transaction nonetheless shall have an ongoing obligation to the GCF-Counterparty to respond promptly to such GCF-Counterparty's inquiries regarding trade data errors, and to act in good faith to promptly resolve any such alleged errors.

During the time period between receipt by the Corporation of data on a GCF Repo Transaction and its affirmation pursuant to the above paragraph, such data may be unilaterally cancelled by either: (a) the GCF Inter-Dealer Broker as regards either or both sides of the Repo

Transaction, or (b) a GCF Counterparty as regards the side of the Repo Transaction involving it and the GCF-Authorized Inter-Dealer Broker.

After data on a GCF Repo Transaction has been affirmed, such data may be cancelled only by the combined action of the GCF Inter-Dealer Broker and a GCF Counterparty as regards their side of the Repo Transactions; one of the two parties must request a cancellation and the other must approve such request.

Any data input field on an unaffirmed GCF Repo Transaction may be modified unilaterally by a GCF-Authorized Inter-Dealer Broker. A GCF Counterparty may not modify any data on a GCF Repo Transaction except for the external reference number that has been assigned to such Transaction by the Corporation. If a GCF Counterparty modifies the external reference number that has been assigned to a GCF Repo Transaction by the Corporation, such action shall be the equivalent of an affirmation of the Transaction by such GCF Counterparty.

Notwithstanding anything to the contrary in this Section, the Corporation shall have the authority, in order to correct or avoid an error, to unilaterally correct, add, or cancel data on a GCF Repo Transaction.

Any cancellation of a GCF Repo Transaction pursuant to this section shall cause the GCF Repo Transaction to become uncomparad ~~and the Corporation's guaranty with respect to such trade, if in effect, shall cease to be in effect.~~

* * * *

RULE 11 - NETTING SYSTEM

* * * *

Section 6 – ~~Novation~~ Netting of Obligations

Net Settlement Positions and resultant Deliver Obligations and Receive Obligations of a Netting Member, either as originally established by the Corporation or as may be adjusted by the Corporation as the result of a correction of compared data made pursuant to these Rules, shall be fixed at the time the Report of such Positions and Obligations is made available by the Corporation to ~~the~~ Netting Member, as provided in Section 10 of this Rule. At that time, all deliver, receive, and related payment obligations between such Netting ~~Members~~ Member and the Corporation that were created by the trades, novated pursuant to Section 8 of Rule 5, and that comprise a Net Settlement Position or Positions are terminated and replaced by the Deliver Obligations, Receive Obligations, and related payment obligations for such Members that are listed in the Report.

Notwithstanding anything to the contrary in the above paragraph, if a Right of Substitution was established by the parties to a Repo Transaction, such Right of Substitution shall continue, and be recognized by the Corporation, after the ~~Corporation's Novation netting~~ of obligations pursuant to the Repo Transaction above paragraph.

* * * *

RULE 11B – GUARANTY OF SETTLEMENT

(a) The Corporation shall guarantee the settlement of a trade the data on which were submitted for Bilateral Comparison, Demand Comparison, or Locked-In Comparison at the time at which the comparison of such trade occurs pursuant to Rules 6A, 6B, ~~and or~~ 6C, respectively, as long as the trade meets the requirements of Section 2 of Rule 11 and was entered into in good faith.

(b) The Corporation's guaranty referred to in ~~subsections~~ subsection (a) ~~and (b)~~ above shall mean the Corporation's obligation to include the trade in calculating a Net Settlement Position and to novate the deliver, receive, and payment obligations that were created by the trade pursuant to these Rules. The Corporation's guaranty of settlement of an individual trade applies only to the settlement of that trade as it exists as part of a Net Settlement Position.

(c) The Corporation's guaranty referred to in subsections (a) and (b) above shall no longer be in effect if the trade becomes uncomparared, is cancelled, or settles pursuant to these Rules.

* * * *

RULE 14 - FORWARD TRADES

* * * *

Section 3 – ~~Novation~~ Netting

Forward Net Settlement Positions of a Netting Member, either as originally established by the Corporation or as may be adjusted by the Corporation as the result of a correction of compared data made pursuant to these Rules, shall be fixed at the time the Report of such Positions is made available by the Corporation to ~~the~~ a Netting Member, as provided in Section 10 of Rule 11. At that time, all deliver, receive, and related payment obligations between such Netting ~~Members~~ Member and the Corporation that were created by the Forward Trades, novated by the Corporation pursuant to Section 8 of Rule 5, and that comprise each Forward Net Settlement Position are terminated and replaced by the Deliver Obligations, Receive Obligations, and related payment obligations that will be established and reported by the Corporation with respect to each such Position on and, as applicable, after the Scheduled Settlement Day for such Positions.

Notwithstanding anything to the contrary in the above paragraph, if a Right of Substitution was established by the parties to a Repo Transaction, such Right of Substitution shall continue, and be recognized by the Corporation, after the ~~Corporation's Novation netting~~ of obligations pursuant to the Repo Transaction above paragraph.

* * * *

RULE 20 - SPECIAL PROVISIONS FOR GCF REPO TRANSACTIONS

* * * *

Section 5 – Novation Netting

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~~ **a Netting** Member. At that time, all deliver, receive, and related payment and collateral allocation obligations between **such** Netting **Members** **Member and the Corporation** that were created by the GCF Repo Transactions, **novated by the Corporation pursuant to Section 8 of Rule 5, and** 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.

* * * *

RULE 21A – WIND-DOWN OF A NETTING MEMBER

* * * *

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

- (i) Permitting the Wind-Down Member to submit to the Corporation only transactions that serve to support the wind-down;
- (ii) Permitting the Wind-Down Member to continue use of one or more of the Corporation's services, notwithstanding that it may not meet some or all of the financial or operational requirements for continuance as a Netting Member;
- (iii) Restricting or modifying the Wind-Down Member's use of any or all of the Corporation's services (whether generally, or with respect to certain transactions);
- (iv) Requiring additional assurances of the financial responsibility or operational capability of the Wind-Down Member through, for example, submission of a guaranty of the Wind-Down Member's obligations to the Corporation by an entity acceptable to the Corporation and/or additional reporting by the Wind-Down Member;
- (v) Agreeing to complete one or more trades to which the Wind-Down Member is a party prior to the time the ~~Corporation's guaranty~~ **Corporation** otherwise

would ~~become effective~~ novate and guarantee the settlement of such trade pursuant to these Rules;

- (vi) Requiring the Wind-Down Member to post increased Clearing Fund deposits and/or to post its Required Fund Deposit in proportions of cash, Eligible Netting Securities and Eligible Letters of Credit different from those permitted under Rule 4;
- (vii) Prohibiting the Wind-Down Member from withdrawing Clearing Fund on deposit in excess of its Required Fund Deposit; or
- (viii) Calculating the Required Fund Deposit of the Wind-Down Member in a manner different from that provided in Rule 4, in order to more appropriately reflect the risk presented by the Wind-Down Member to the Corporation, such as, for example, not applying certain components of the Required Fund Deposit calculation; or
- (ix) Liquidating by buying-in or selling-out, as applicable, any open positions of the Wind-Down Member, for the benefit of such Wind-Down Member with any profit or loss resulting therefrom being debited or credited, as applicable, to the settlement account of the Wind-Down Member

* * * *

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.

* * * *

FIXED INCOME CLEARING CORPORATION
MORTGAGE-BACKED SECURITIES DIVISION
CLEARING RULES

RULE 1 - DEFINITIONS

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

* * * *

Novation

The term "Novation" means the ~~action by the Corporation, taken pursuant to these Rules, to terminate~~ termination of deliver, receive, and related payment obligations between Members and ~~replace them~~ the replacement of such obligations with **similar identical** obligations to and from the Corporation, pursuant to these Rules.

* * * *

SBO Contra-Side Member

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

* * * *

SBO Net-Out Position

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

SBO Net-Out Unit

~~The term "SBO Net-Out Unit" means an SBO-Destined purchase transaction and an SBO-Destined sale transaction that have been offset through TBA Netting between non-original countersides in accordance with the provisions of these Rules.~~

SBO Netted Position

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

SBON Trade

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

SBOO Trade

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

* * * *

RULE 5 – TRADE COMPARISON

Section 1 - General

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

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

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

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

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

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

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

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

* * * *

Section 12 – Obligations

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

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

* * * *

Section 13 – Novation

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

(b) Notwithstanding subsection (a) of this Section 13, an SBO-Destined Trade that is Partially Compared shall not be novated to the Corporation. At such time as any SBO-Destined Trade that is Partially Compared becomes Fully Compared, such Fully Compared SBO-Destined Trade shall be novated to the Corporation and the Corporation shall guarantee the settlement of each such Fully Compared SBO-

Destined Trade. Such Novation shall consist of the termination of the deliver, receive and related payment obligations between the Clearing Members with respect to the Fully Compared SBO-Destined Trade and their replacement with identical obligations to and from the Corporation in accordance with these Rules.

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

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

RULE 6 – TBA NETTING

Section 1 – Netting

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

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

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

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

~~between the Clearing Member~~ and shall have as SBO Contra-Side Members one or more other Members who are non-Original Contra-Side Members.

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

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

* * * *

RULE 8- POOL NETTING SYSTEM

* * * *

Section 6 – Novation of Obligations

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

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

Each Clearing Member must submit to the Corporation for inclusion in Pool Netting each SBOO and SBON Trade to which such Clearing Member is a party.

* * * *

RULE 10 - NOTIFICATION OF SETTLEMENT

* * * *

Section 2 - Notification of Settlement

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

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

If the Corporation receives a Notification of Settlement with respect to a SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade from both the delivering and the receiving Members but the information submitted by the Members does not compare within dollar tolerances determined by the Corporation pursuant to these Rules or compares only in part, or if only one Member submits a Notification of Settlement, the Corporation shall so indicate in the applicable report distributed to each Member. Until such time as the Member submitting incorrect information submits a correction, or, if only one Member submitted a Notification of Settlement, the information is deleted by that Member or the other Member submits a Notification of Settlement with information that compares, the SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof with respect to which information does not compare) will continue to be reflected on each Member's Open Commitment Report and will remain subject to Required Fund Deposit requirements as computed pursuant to these Rules.

With respect to Specified Pool Trades:

On the last Business Day of each month, in every instance where a Clearing Member's open TBA Obligation falls below an established par amount threshold (as specified by the Corporation in its procedures or in an Important Notice), the Corporation will mark such trade as fully settled.

RULE 11 – CASH SETTLEMENT

Section 1 – SBO Market Differential

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

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

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

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

* * * *

Section 5 - Cash Settlement

At such time and in such manner as is specified by the Corporation from time to time, any Member with a net negative Cash Balance for any Aggregated Account shall pay to the Corporation the amount of such negative Cash Balance, and the Corporation shall pay to any Member with a positive Cash Balance for any Aggregated Account the amount of such positive Cash Balance. The payments referred to in the previous sentence shall be done through the Cash Settling Banks pursuant to the following process:

* * * *

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

* * * *

RULE 15 – WIND-DOWN OF A MEMBER

* * * *

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

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

Otherwise than pursuant to these Rules, no Member shall act to modify its obligations under Transactions with the Wind-Down Member.

* * * *

RULE 16 - INSOLVENCY OF A MEMBER

* * * *

Section 4.3 – Ceasing to Act for the Member

Except as otherwise may be determined by the Board in any particular case, *from and after the time* the Corporation shall, ~~as soon as practicable after the Time of Insolvency or the Cut Off Time, as applicable,~~ cease to act for a the Member, *the following shall apply as detailed below:*

Otherwise than pursuant to these Rules, no Member shall act to modify its obligations under Transactions with the insolvent Member.

RULE 17 – PROCEDURES FOR WHEN THE CORPORATION CEASES TO ACT

* * * *

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

Except as otherwise may be determined by the Board in any particular case, the Corporation shall, as soon as practicable after the Time of Insolvency or the Cut-Off Time, as applicable, cease to act for the Member, as detailed below:

* * * *

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

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

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

* * * *

RULE 17A – CORPORATION DEFAULT

(a) If a "Corporation Default" occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated and the Board shall determine a single net amount owed by or to each Member with respect to such Transactions by applying the close out and application procedures in Section 2 of Rule 17 and Section 7 of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member) taking into account the other provisions in these Rules relating to loss allocation, including in the event that any

Member is a Defaulting Member. For purposes of this Rule 17A and notwithstanding any other provision to the contrary, Novation is deemed to occur and Pool Deliver Obligations and Pool Receive Obligations established with respect to all Transactions, whether or not such Transactions are SBO-Destined Trades, at the time at which the data submitted in respect of such Transactions ~~is~~ are compared and such Transactions constitute ~~constitutes a~~ Trade ~~Trades~~. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. Nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Government Securities Division or any other Cross-Guaranty Counterparty.

* * * *