

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of *	135	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2017 - * 005	Amendment No. (req. for Amendments *)
Filing by Fixed Income Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pilot	Extension of Time Period for Commission Action *	Date Expires *	Rule		
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934		
Section 806(e)(1) *	Section 806(e)(2) *	Section 3C(b)(2) *			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document				
<input type="checkbox"/>	<input type="checkbox"/>				
<b>Description</b>					
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).					
<input type="text" value="Proposed change to establish the Centrally Cleared Institutional Triparty Service."/>					
<b>Contact Information</b>					
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 *	Rosa	Last Name *	Chang		
Title *	Executive Director and Associate General Counsel				
E-mail *	rchang1@dtcc.com				
Telephone *	(212) 855-4985	Fax	<input type="text"/>		
<b>Signature</b>					
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	03/09/2017	Managing Director and Deputy 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.					
<input type="button" value="Persona Not Validated - 1459960765550."/>					

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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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**

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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**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

## 1. Text of Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is annexed hereto as Exhibit 5 and consists of proposed modifications to the Government Securities Division (“GSD”) Rulebook (“GSD Rules”)<sup>1</sup> that would (i) establish the “Centrally Cleared Institutional Triparty Service” or the “CCIT<sup>TM</sup> Service”<sup>2</sup> and thereby make central clearing available to the institutional tri-party repurchase agreement (“repo”) market<sup>3</sup> and (ii) make other amendments and clarifications to the GSD Rules.

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule changes to the GSD Rules to make central clearing available to the institutional tri-party repo market were approved by the Risk Committee of FICC’s Board of Directors (the “Board”) on May 20, 2016 and the Board’s Business, Technology and Operations Committee on June 14, 2016. The remaining proposed rule changes to the GSD Rules that are unrelated to the proposed CCIT service were approved by FICC management on March 8, 2017 pursuant to delegated authority from the Board.

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

### (a) Purpose

The proposed rule change would, among other things, make central clearing available to the institutional tri-party repo market through the proposed CCIT Service.

The proposed CCIT Service would allow the submission of tri-party repo transactions in GCF Repo<sup>®4</sup> Securities between Netting Members that participate in the GCF Repo Service<sup>5</sup>

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<sup>1</sup> Capitalized terms not defined herein are defined in the GSD Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

<sup>2</sup> CCIT is a trademark of The Depository Trust & Clearing Corporation. Pursuant to this filing, “Centrally Cleared Institutional Triparty Service” or “CCIT Service” would be defined as “the service offered by the Corporation to clear institutional triparty repurchase agreement transactions, as more fully described in Rule 3B.” Proposed GSD Rule 1, Definitions.

<sup>3</sup> The proposed rule changes with respect to the establishment of the proposed CCIT Service are reflected in proposed GSD Rule 3B, and conforming changes are proposed to GSD Rules 1, 2, 2A (Section 2), 4 (Sections 1a and 7), 5, 22C, 24, 30 and 49.

<sup>4</sup> GCF Repo is a registered trademark of FICC.

and institutional counterparties (other than investment companies registered under the Investment Company Act of 1940, as amended<sup>6</sup> (“RICs”)), where the institutional counterparties are the cash lenders in the transactions submitted to GSD. The proposed CCIT Service would create a new GSD limited service membership type for such institutional cash lenders, each referred to as a “Centrally Cleared Institutional Triparty Member” or “CCIT Member.”<sup>7</sup>

This filing also contains proposed rule changes that are not related to the proposed CCIT Service that provide specificity, clarity and additional transparency to the GSD Rules.

(i) **Background on the Proposed CCIT Service**

FICC believes that the tri-party repo market is critical to the stability of the U.S. financial system. The tri-party repo market creates market liquidity and price transparency for U.S. government and corporate securities, is interconnected with other payment clearing and settlement services that are central to the U.S. financial market, and serves as a critical source of funding for systemically important broker-dealers that make markets in U.S. government and corporate obligations.<sup>8</sup> At its peak in 2008, about \$2.8 trillion of securities were funded by tri-party repos.<sup>9</sup> Volumes shrank to \$1.6 trillion in the second half of the recent financial crisis and have been relatively steady around that level since then.<sup>10</sup> Nonetheless, FICC believes the tri-party repo market remains a critical source of funding for broker-dealers and an important cash management tool for institutional counterparties.

In response to the 2008 financial crisis, regulators asked tri-party repo market participants to identify ways to reduce reliance on intraday credit, make risk management practices more

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<sup>5</sup> Pursuant to this filing, “GCF Repo Service” would be defined as “the service offered by the Corporation to compare, net and settle GCF Repo Transactions.” Proposed GSD Rule 1, Definitions.

<sup>6</sup> 15 U.S.C. 80a-1 *et seq.*

<sup>7</sup> Pursuant to this filing, the term “Centrally Cleared Institutional Triparty Member” or “CCIT Member” would be defined as “a legal entity other than a Registered Investment Company approved to participate in the Corporation’s CCIT Service as a cash lender.” Proposed GSD Rule 1, Definitions.

<sup>8</sup> See Federal Reserve Bank of New York, Tri-Party Repo Infrastructure Reform, [https://www.newyorkfed.org/banking/tpr\\_infr\\_reform.html](https://www.newyorkfed.org/banking/tpr_infr_reform.html) (last visited Mar. 6, 2017).

<sup>9</sup> See A. Copeland et. al, *The Tri-Party Repo Market before the 2010 Reforms*, FEDERAL RESERVE BANK OF NEW YORK STAFF REPORT NO. 477 (Nov. 2010), [https://www.newyorkfed.org/medialibrary/media/research/staff\\_reports/sr477.pdf](https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr477.pdf).

<sup>10</sup> See Federal Reserve Bank of New York, Tri-Party Repo Volume, [https://www.newyorkfed.org/data-and-statistics/data-visualization/tri-party-repo/index.html#interactive/volume/collateral\\_value](https://www.newyorkfed.org/data-and-statistics/data-visualization/tri-party-repo/index.html#interactive/volume/collateral_value) (last visited Mar. 6, 2017).

robust to a broad range of events, and take steps to reduce the risk that a dealer's default could prompt destabilizing fire sales<sup>11</sup> of its collateral by its lenders, with the goal of enhancing the tri-party repo market's ability to navigate stressed market conditions by implementing solutions that help mitigate risk and better safeguard the U.S. financial market.

Currently, FICC provides central clearing to a portion of the tri-party repo market. Specifically, GSD's GCF Repo Service provides central clearing to sell-side entities, such as dealers that enter into tri-party repo transactions in GCF Repo Securities with each other.<sup>12</sup> There is currently no U.S. clearing organization that novates tri-party repos between sell-side firms and institutional counterparties.

FICC believes that central clearing of eligible tri-party repo transactions between GSD Netting Members and institutional counterparties through the proposed CCIT Service would help to safeguard the tri-party repo market in a number of ways. For example, the proposed CCIT Service would permit institutional firms that are eligible to participate in FICC as CCIT Members to benefit from FICC's guaranty of completion of settlement of their eligible tri-party repo transactions with Netting Members. FICC believes this would mitigate the risk of a large-scale exit by these institutional firms from the U.S. financial market in a stress scenario and therefore lower the risk of a liquidity drain in such a scenario. Specifically, to the extent institutional firms would otherwise be engaging in the same type of eligible tri-party repo trading activity outside of a central counterparty, having such activity novated to FICC and subject to FICC's guaranty of completion of settlement would reduce the risk that such institutional firms discontinue such trading activity in a Netting Member default situation.

Similarly, FICC believes that broadening the pool of tri-party repos eligible for central clearing at FICC through the proposed CCIT Service to institutional activity as well as sell-side activity would also reduce the potential for market disruption from fire sales by virtue of FICC's ability to centralize and control the liquidation of the portfolio of a defaulted Netting Member. Specifically, in a Netting Member default situation, the more institutional firms participate in FICC as CCIT Members, the more trading activity with the defaulted Netting Member could be centrally liquidated in an orderly manner by FICC rather than by individual counterparties in potential fire sale conditions.

Moreover, FICC believes that the proposed CCIT Service would decrease settlement and operational risk in the U.S. tri-party repo market as more tri-party repos for a greater number of Members would be eligible to be netted and subject to guaranteed settlement, novation, and independent risk management through FICC.

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<sup>11</sup> Fire sale risk is the risk of rapid asset sales of securities held by cash lenders when a dealer defaults. This rapid sale has the potential to create a market crisis because cash lenders are likely to sell large amounts of securities in a short period of time, which could dramatically reduce the price of such securities that such lenders are looking to sell.

<sup>12</sup> According to FICC's data, during 2016, the average daily dollar value of compared GCF Repo Transactions was approximately \$114 billion.

Depending on the nature of their GSD-cleared portfolios and the purposes for which Netting Members borrow cash from institutional tri-party money lenders through the proposed CCIT Service, the proposed CCIT Service would also provide Netting Members with the potential for more efficient use of collateral.<sup>13</sup> Novation of tri-party repo borrowing activity to FICC through the proposed CCIT Service may also afford Netting Members the ability to offset on their balance sheets their obligations to FICC on CCIT Transactions against their obligations to FICC on other eligible FICC-cleared activity, as well as take lesser capital charges than would be required to the extent they engaged in the same borrowing activity outside of a central counterparty.<sup>14</sup> By potentially alleviating balance sheet and capital constraints on their Netting Member counterparties, participation in FICC as CCIT Members may afford eligible institutional firms increased lending capacity and income.

(ii) **Detailed Description of the Proposed Rule Changes Related to the Proposed CCIT Service**

**A. Proposed Changes to GSD Rule 1 (Definitions)**

FICC is proposing to amend the “Applicant Questionnaire” definition to delete the reference to “Rule 2” because this questionnaire is not mentioned in GSD Rule 2; however, it is mentioned in other GSD Rules, including, but not limited to, proposed GSD Rule 3B. In light of the fact that proposed GSD Rule 3B would provide that references to a “Member” in other GSD Rules would not apply to CCIT Members unless specifically noted as such in proposed GSD Rule 3B or in such other GSD Rules, FICC is also proposing to amend the “Applicant Questionnaire” definition to specifically refer to CCIT Members.

FICC is proposing to add the following defined terms, which relate to the proposed CCIT Service: “CCIT,” “CCIT Account,” “CCIT Daily Repo Interest,” “CCIT MRA Account,” “CCIT Transaction,” “Centrally Cleared Institutional Triparty Member or CCIT Member,” “Centrally Cleared Institutional Triparty Service or CCIT Service,” “Joint Account,” “Joint Account Submitter” and “Joint Account Submitter Agreement.”

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<sup>13</sup> The potential for more efficient use of collateral by Netting Members relates to the fact that, to the extent they borrow cash today via tri-party repo, Netting Members are required to collateralize their tri-party cash lenders, typically to a 102 percent haircut for GSD eligible securities. See SIFMA, US Repo Market Fact Sheet 2016, p. 3, <https://www.sifma.org/WorkArea/DownloadAsset.aspx?id=8589961606> (last visited Mar. 6, 2017). Such collateral is separate and apart from the Clearing Fund that Netting Members are required to post to FICC to support their sell-side activity in the same asset classes. If a Netting Member’s tri-party borrowing activity were novated to FICC through the proposed CCIT Service, its Clearing Fund requirement to FICC could potentially be reduced to the extent it has offsetting cash lending activity within GSD.

<sup>14</sup> Netting Members interested in such relief should discuss this matter with their accounting and regulatory capital experts.

FICC is proposing to amend the definition of “Contract Value” to refer to a CCIT Transaction. FICC is also proposing to make a grammatical correction to this definition.

FICC is proposing to amend the definition of “Controlling Management” in order to incorporate concepts that apply to CCIT Members and Registered Investment Company Netting Members and applicants to become such.

FICC is proposing to amend the definition of “GCF Net Funds Borrower Position” to refer to CCIT Transactions and to add an explicit definition for the term “GCF Net Funds Borrower.”

FICC is proposing to amend the definition of “GCF Net Funds Lender Position” to refer to CCIT Members and CCIT Transactions and to include an explicit definition for the term “GCF Net Funds Lender,” which would include a Netting Member or a CCIT Member, as applicable.

FICC is proposing to amend the definition of “GCF Net Settlement Position” and “GCF Repo Security” to refer to CCIT Transactions.

FICC is proposing to include “GCF Repo Service” as a defined term in order to facilitate the drafting of proposed GSD Rule 3B, which covers the proposed CCIT Service.

FICC is proposing to amend the definitions of “Invoice Amount,” “Member,” “Miscellaneous Adjustment Amount” and “Net Assets” to refer to a CCIT Member.

FICC is also proposing to amend the definition of a “Tier Two Member” (previously referred to in the GSD Rules as a “Tier Two Netting Member”) to include a CCIT Member.

***B. Proposed Changes to GSD Rule 2 (Members)***

FICC is proposing to amend GSD Rule 2 (Members) to include CCIT Members as a membership type and to make conforming changes that accommodate this inclusion.

***C. Proposed Changes to GSD Rule 2A (Initial Membership Requirements)***

FICC is proposing to amend Section 2 of GSD Rule 2A (Initial Membership Requirements) to make conforming changes to accommodate the revised term “Tier Two Member.”

***D. Proposed GSD Rule 3B (Centrally Cleared Institutional Triparty Service)***

FICC is proposing to add GSD Rule 3B, entitled “Centrally Cleared Institutional Triparty Service.” This new rule would govern the proposed CCIT Service and would be comprised of 17 sections, each of which is described immediately below.

Proposed GSD Rule 3B, Section 1 (General)

Section 1 of proposed GSD Rule 3B would be a general provision regarding the GSD Rules applicable to CCIT Members and to Netting Members that participate in the proposed CCIT Service.

Section 1 of proposed GSD Rule 3B would establish that CCIT Members would be governed by proposed GSD Rule 3B, and that references to the term “Member” in other GSD Rules would not apply to CCIT Members unless specifically noted as such in proposed GSD Rule 3B or in such other GSD Rules. Section 1 of proposed GSD Rule 3B would also make clear that a Netting Member must be a participant of the GCF Repo Service in order to be a counterparty to a CCIT Member in a CCIT Transaction and that, in addition to the GSD Rules governing Netting Members, Netting Members that submit CCIT Transactions would also be subject to the provisions of proposed GSD Rule 3B and other GSD Rules applicable to CCIT Transactions.

Proposed GSD Rule 3B, Section 2 (Eligibility for Membership: CCIT Member)

Section 2 of proposed GSD Rule 3B would establish the initial membership eligibility requirements for applicants that wish to become CCIT Members.

Under Section 2 of proposed GSD Rule 3B, a legal entity would be eligible to apply to become a CCIT Member if it satisfies the following requirements: (i) financial responsibility and ability to pay anticipated fees pursuant to the GSD Rules, including having minimum Net Assets<sup>15</sup> of \$100 million, or a prescribed multiplier of \$100 million in the case of applicants whose financial statements are prepared other than in accordance with U.S. generally accepted accounting principles;<sup>16</sup> (ii) operational capability (applicable to a Joint Account Submitter, if relevant) to communicate with FICC and fulfill anticipated commitments to and meet other operational requirements of FICC; (iii) provision of an opinion of counsel acceptable to FICC that the GSD Rules would be enforceable against such applicant if it were to become a CCIT Member; and (iv) provision of an opinion of counsel (if required by FICC in its sole discretion) acceptable to FICC that, in the event FICC were to cease to act for the applicant after such

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<sup>15</sup> Pursuant to the GSD Rules, the term “Net Assets” means “the difference between the total assets and the total liabilities of a Netting Member.” GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members. With respect to a CCIT Member applicant, the determination as to whether the applicant satisfies the minimum Net Asset requirement under Section 2 of proposed GSD Rule 3B would be based on financial disclosures provided by the applicant as part of the membership application process.

<sup>16</sup> FICC may impose greater standards on the applicant based upon the level of the anticipated positions and obligations of the applicant, the anticipated risk associated with the volume and types of transactions the applicant proposes to process through FICC and the overall financial condition of the applicant. Proposed GSD Rule 3B, Section 2.



applicant becomes a CCIT Member, FICC would be able to exercise the remedies described in the GSD Rules.

In addition, FICC would have the sole discretion to determine whether the applicability of any enumerated Disqualification Criteria (as set forth in Section 2 of proposed GSD Rule 3B) should be the basis for denial of the membership application.

Section 2 of proposed GSD Rule 3B also states that FICC would retain the right to deny membership to an applicant if FICC becomes aware of any factor or circumstance about the applicant or its Controlling Management<sup>17</sup> which may affect the suitability of that particular applicant as a Member of GSD. Further, applicants would be required to inform FICC as to any member of their Controlling Management that is or becomes subject to Statutory Disqualification.

Section 2 of proposed GSD Rule 3B also includes provisions that would allow CCIT Members to be represented by a Joint Account.<sup>18</sup>

In the market today, some institutional cash lenders submit trades as a “joint account” rather than at the individual legal entity level. This means that two or more institutional cash lenders create a joint account and have a submitter (such as their agent lender) conduct the trading on their behalf. The proposed rule changes would accommodate this structure and would provide that two or more approved CCIT Members may be represented by a Joint Account Submitter,<sup>19</sup> provided that the applicable CCIT Members enter into a Joint Account Submitter Agreement with FICC. This agreement would permit CCIT Transactions to be submitted through a Joint Account on behalf of the CCIT Members. If FICC terminates a Joint Account Submitter Agreement, such Joint Account Submitter would no longer be permitted to represent the CCIT Members in the Joint Account. Each such CCIT Member would then be required to

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<sup>17</sup> Pursuant to this filing, the term “Controlling Management” would be revised to mean “the Chief Executive Officer, the Chief Financial Officer, and the Chief Operations Officer, or their equivalents, of an applicant or Member or such other individuals or entities with direct or indirect control over the applicant or Member; provided that with respect to a Registered Investment Company Netting Member or an applicant to become a Registered Investment Company Netting Member, the term ‘Controlling Management’ shall include the investment manager.” Proposed GSD Rule 1, Definitions.

<sup>18</sup> Pursuant to this filing, “Joint Account” would be defined as “two or more CCIT Members represented by a Joint Account Submitter.” Proposed GSD Rule 1, Definitions.

<sup>19</sup> Pursuant to this filing, the term “Joint Account Submitter” would be defined as “an authorized entity that (i) is acting as agent for two or more CCIT Members that are trading and submitting CCIT Transactions as a Joint Account and (ii) has been appointed by each such CCIT Member pursuant to a Joint Account Submitter Agreement.” Proposed GSD Rule 1, Definitions.

assume the duties of the Joint Account Submitter or appoint a new Joint Account Submitter subject to the requirements of the GSD Rules.

*Proposed GSD Rule 3B, Section 3 (Membership Application Process to Become a CCIT Member)*

Section 3 of proposed GSD Rule 3B would establish the membership application process that would be required of each applicant to become a CCIT Member.

Under Section 3 of proposed GSD Rule 3B, each applicant would be required to complete all documents and it or its Joint Account Submitter, as applicable, would be required to fulfill, within the timeframes established by FICC, any operational testing requirements and related reporting requirements that may be imposed by FICC to ensure the operational capability of the applicant. In addition, each applicant would be required to complete and deliver a FATCA Certification to FICC, and if the applicant is an FFI Member,<sup>20</sup> the applicant would also be required to certify and periodically recertify that it is FATCA Compliant, unless such requirements have been explicitly waived in writing by FICC, and no such waiver would be issued if it would cause FICC to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. The applicant would also be required to indemnify FICC as a result of its failing to be FATCA Compliant. Section 3 of proposed GSD Rule 3B would also provide for confidential treatment of information furnished to FICC pursuant to proposed GSD Rule 3B.

In connection with FICC's evaluation of an applicant, FICC would be able to: (i) if applicable, contact the applicant's primary regulatory authority, other examining authority or regulator, or any self-regulatory organization of which the applicant is a member and request from such authority or organization any records, reports or other information that, in their judgment, may be relevant to the application; (ii) examine the books, records and operational procedures of, and inspect the premises of, the applicant or its Controlling Management as they may be related to the business to be conducted through GSD; and (iii) take such other evidence or make such other inquiries as is necessary, including sworn or unsworn testimony, to ascertain relevant facts bearing upon the applicant's qualifications.

Section 3 of proposed GSD Rule 3B would make clear that, notwithstanding that FICC has approved an application to become a CCIT Member, if a material change in the condition of the applicant or its Controlling Management were to occur, which in the judgment of FICC could bring into question the applicant's ability to perform as a CCIT Member, and such material change were to become known to FICC prior to the applicant's commencing use of GSD's services, FICC would have the right to stay commencement of the applicant's use of GSD's

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<sup>20</sup> Pursuant to GSD Rule 1, the term "FFI Member" means "any Person that is treated as a non-U.S. entity for U.S. federal income tax purposes." For the avoidance of doubt, the term FFI Member also includes "any Member that is a U.S. branch of an entity that is treated as a non-U.S. entity for U.S. federal income tax purposes." GSD Rules, supra note 1.

services until a reconsideration by FICC of the applicant's financial responsibility and operational capability could be completed. As a result of such reconsideration, FICC could determine to withdraw approval of an application to become a CCIT Member or condition the approval upon the furnishing of additional information or assurances.

Section 3 of proposed GSD Rule 3B would also state that FICC could deny an application to become a CCIT Member upon FICC's determination that FICC does not have adequate personnel, space, data processing capacity, or other operational capability at that time to perform its services for the applicant without impairing the ability of FICC to provide services for its existing Members (including CCIT Members), to assure the prompt, accurate, and orderly processing and settlement of securities transactions or to otherwise carry out its functions; provided, however, that any such applications which are denied pursuant to this provision would be approved as promptly as the capabilities of FICC permit.

Upon FICC's denial of an application to become a CCIT Member, FICC would furnish the applicant with a concise written statement setting forth the specific grounds under consideration upon which any such denial may be based and would notify the applicant of its right to request a hearing, such request to be filed by the applicant with FICC pursuant to GSD Rule 37 (Hearing Procedures).

*Proposed GSD Rule 3B, Section 4 (Membership Agreement)*

Section 4 of proposed GSD Rule 3B would govern the agreements that CCIT Member applicants would be required to sign and deliver to FICC.

Section 4 of proposed GSD Rule 3B would describe the terms of the membership agreement that every CCIT Member applicant would be required to execute with FICC and, in the case of CCIT Member applicants that intend to participate in the proposed CCIT Service through a Joint Account, this section would require that such applicants also execute a Joint Account Submitter Agreement with FICC. This section would also specify the rights, obligations, and liability that a CCIT Member that participates in the proposed CCIT Service would have vis-à-vis its Joint Account Submitter, as well as the conditions under which FICC would be able to terminate the Joint Account Submitter Agreement. It should be noted that the Joint Account Submitter in its capacity as such would not be a Member.

*Proposed GSD Rule 3B, Section 5 (On-going Membership Requirements)*

Section 5 of proposed GSD Rule 3B would establish on-going membership requirements and would make clear that the initial eligibility qualifications and standards for CCIT membership would be continuing membership requirements. Additional on-going membership requirements would also apply to CCIT Members as described below.

Each CCIT Member would be required to submit the following to FICC: (i) disclosure on at least an annual basis regarding such CCIT Member's Net Assets, and (ii) any financial statements the CCIT Member makes publicly available. In addition, each CCIT Member would be required to submit such other reports, financial, and other information as FICC from time to time may reasonably require. The time periods prescribed for submission of required disclosure would be set forth in notices posted to FICC's website and/or distributed by FICC from time to

time. It would be the CCIT Member's responsibility to retrieve all notices daily from FICC's website.

In addition, a CCIT Member would be required to submit written notice of any CCIT Reportable Event<sup>21</sup> at least 90 calendar days prior to the effective date of such CCIT Reportable Event, unless the CCIT Member demonstrates that it could not have reasonably done so, and provides notice, both orally and in writing, to FICC as soon as possible.

CCIT Members that are FFI Members would also be subject to FATCA-related reporting requirements.

Section 5 of proposed GSD Rule 3B would provide that a CCIT Member that fails to submit required information within the prescribed timeframes and in the manner requested by FICC would be subject to the applicable fines noted under "Failure to Timely Provide Financial and Related Information" and "Reportable Events—Fine for Failure of Timely Notification," as applicable, in the *Fine Schedules* of the GSD Rules.

FICC could, from time to time, require CCIT Members or their Joint Account Submitters, as applicable, to fulfill certain operational testing requirements and related reporting requirements to ensure the continuing operational capability of the CCIT Members. FICC would assess a fine or terminate the membership of any CCIT Member that does not fulfill any such operational testing and related reporting requirements within the timeframes established by FICC. If a Joint Account Submitter does not fulfill any such operational testing and related reporting requirements within the timeframes established by FICC, FICC could terminate the Joint Account Submitter Agreements for any or all CCIT Members that such Joint Account Submitter represents.

A CCIT Member would also be required to promptly inform FICC, both orally and in writing, if it no longer is in compliance with any of the relevant qualifications and standards for admission to membership set forth in proposed GSD Rule 3B. Notification would be required within two Business Days from the date on which the CCIT Member first learns of its non-compliance. FICC would assess a \$1,000.00 fine against any CCIT Member that fails to notify FICC. In addition, a CCIT Member would be required to notify FICC within two Business Days of learning that an investigation or proceeding to which it is or is becoming the subject of would cause the CCIT Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in proposed GSD Rule 3B. However, the CCIT Member

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<sup>21</sup> Proposed GSD Rule 3B would define a "CCIT Reportable Event" as "(i) an event that would, after giving effect thereto, cause a material change in the control, ownership or management of the CCIT Member, or that could have a material impact on such CCIT Member's business and/or financial condition; (ii) material changes in the CCIT Member's business lines, including new business lines undertaken; or (iii) any litigation which could reasonably be anticipated to have a material negative effect on the CCIT Member's financial condition or ability to conduct business." Proposed GSD Rule 3B, Section 5(c).

would not be required to notify FICC if doing so would cause the CCIT Member to violate an applicable law, rule, or regulation.

If with respect to a CCIT Member: (i) the CCIT Member fails to maintain the relevant standards and qualifications for admission to membership, including, but not limited to, minimum capital standards, operational testing, and related reporting requirements imposed by FICC from time to time; (ii) the CCIT Member violates any GSD Rule or other agreement with FICC; (iii) the CCIT Member fails to satisfy in a timely manner any obligation to FICC; (iv) there is any CCIT Reportable Event relating to such Member; or (v) FICC otherwise deems it necessary or advisable, in order to (a) protect FICC, its Members (including CCIT Members), or its creditors or investors; (b) safeguard securities and funds in the custody or control of FICC or for which FICC is responsible; or (c) promote the prompt and accurate processing, clearance or settlement of securities transactions, FICC would undertake appropriate action to determine the status of the CCIT Member and its continued eligibility. In addition, FICC could review the financial responsibility and operational capability of the CCIT Member and/or its Controlling Management to the extent provided in the GSD Rules and otherwise require from the CCIT Member additional reporting of its financial or operational condition at such intervals and in such detail as FICC determines, and would make a determination as to whether such CCIT Member should be placed on the Watch List by FICC consistent with the provisions of Section 5 of proposed GSD Rule 3B (described below).

In addition, if FICC has reason to believe that a CCIT Member may fail to comply with any of the GSD Rules, FICC could require the CCIT Member to provide FICC, within such timeframe, in such detail, and pursuant to such manner as FICC determines, with assurances in writing of a credible nature that the CCIT Member shall not, in fact, violate the GSD Rules. Each CCIT Member, or any applicant to become such, would be required to furnish to FICC such adequate assurances of the CCIT Member's financial responsibility and operational capability as FICC could at any time or from time to time deem necessary or advisable in order to (i) protect FICC, its Members (including CCIT Members), or its creditors or investors; (ii) safeguard securities and funds in the custody or control of FICC or for which FICC is responsible; or (iii) promote the prompt and accurate processing, clearance or settlement of securities transactions. Upon the request of a CCIT Member or applicant to become such, FICC could choose to confer with the CCIT Member or applicant before or after requiring it to furnish adequate assurances pursuant to this proposed GSD Rule 3B.

Adequate assurances of financial responsibility or operational capability of a CCIT Member or applicant to become such, as could be required by FICC pursuant to proposed GSD Rule 3B, could include, but would not be limited to, as appropriate in the context of the CCIT Member's use of GSD's services: (i) imposing restrictions or modifications on the CCIT Member's use of GSD's services (whether generally, or with respect to certain transactions); or (ii) requiring additional reporting by the CCIT Member of its financial or operational condition at such intervals and in such detail as FICC determines.

Section 5 of proposed GSD Rule 3B would provide that in the event that a CCIT Member fails to satisfy the relevant requirements of any GSD Rules, FICC would cease to act for the CCIT Member, unless the CCIT Member requests that such action not be taken and FICC determines that it is appropriate instead to establish a time period (the "Noncompliance Time

Period”), which would be no longer than 30 calendar days (unless otherwise determined by FICC), during which the CCIT Member would be required to resume compliance with such requirements. In the event that the CCIT Member is unable to satisfy such requirements within the Noncompliance Time Period, FICC would cease to act for the CCIT Member. If FICC takes any cease to act action pursuant to this provision, it would be required to promptly file with its records and with the Commission a full report of such actions, and the reasons thereof. Notwithstanding anything to the contrary in Section 5 of proposed GSD Rule 3B, if FICC, in its sole discretion, determines that a CCIT Member’s financial condition has significantly deteriorated during a Noncompliance Time Period, FICC could immediately cease to act for the CCIT Member.

Section 5 of proposed GSD Rule 3B would require that CCIT Members and their Joint Account Submitters, as applicable, comply with all applicable laws, including applicable laws relating to securities, taxation and money laundering, as well as global sanctions regulations in connection with their use of GSD’s services. As part of their compliance with global sanctions regulations, all CCIT Members and their Joint Account Submitters would be prohibited from conducting any transaction or activity through FICC which they know to violate global sanctions regulations. CCIT Members subject to the jurisdiction of the U.S. would be required to periodically confirm that they and their Joint Account Submitters, as applicable, have implemented a risk-based program reasonably designed to comply with applicable sanctions regulations issued by the Office of Foreign Assets Control. Failure to do so in the manner and timeframes set forth by FICC from time to time would result in a \$5,000.00 fine.

Section 5 of proposed GSD Rule 3B would also prohibit a CCIT Member that is an FFI Member from conducting CCIT Transactions or activity through FICC if such CCIT Member is not FATCA Compliant, unless such requirement has been explicitly waived in writing by FICC with respect to the specific CCIT Member. In addition, CCIT Members that are FFI Members would be required, as applicable under FATCA, to certify and periodically recertify to FICC that they are FATCA Compliant by providing to FICC a FATCA Certification. Failure to do so in the manner and timeframes set forth by FICC from time to time would result in a fine, unless such requirement has been explicitly waived in writing by FICC with respect to the specific CCIT Member. Nevertheless, no waiver would be issued if it would cause FICC to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. A CCIT Member that is an FFI Member would also be required to indemnify FICC for losses, liabilities, or expenses sustained by FICC as a result of such CCIT Member failing to be FATCA Compliant.

Section 5 of proposed GSD Rule 3B would also provide that a CCIT Member and its Controlling Management’s books and records, insofar as they relate to such CCIT Member’s transactions processed through FICC, would be required to be open to the inspection of the duly authorized representatives of FICC upon reasonable prior notice and during the CCIT Member’s or its Controlling Management’s normal business hours. Each CCIT Member would be required to furnish to FICC all such information about the CCIT Member’s and its Controlling Management’s business and transactions as FICC may require; provided that (i) the aforesaid rights of FICC would be subject to any applicable laws, rules, or regulations of regulatory bodies having jurisdiction over the CCIT Member or its Controlling Management that relate to the confidentiality of records; and (ii) if the CCIT Member ceases membership, FICC would have no

right to inspect the CCIT Member's or its Controlling Management's books and records or to require information relating to transactions wholly subsequent to the time when the CCIT Member ceases membership.

Section 5 of proposed GSD Rule 3B would also provide that a CCIT Member could be monitored for financial and/or operational factors as FICC deems necessary to protect FICC and its Members from undue risk. CCIT Members would not be assigned a rating from the Credit Risk Rating Matrix; however, they could be included on the Watch List at FICC's discretion. Placement on the Watch List would result in a more thorough monitoring of the CCIT Member's financial and/or operational condition, as applicable, and activities by FICC. FICC could require CCIT Members placed on the Watch List to make more frequent financial disclosures, possibly including interim and/or pro forma reports. A CCIT Member would be placed on the Watch List if FICC takes any action against such CCIT Member pursuant to Section 5(f) of proposed GSD Rule 3B. A CCIT Member would continue to be included on the Watch List until the condition(s) that resulted in its placement on the Watch List improved to the point where the condition(s) are no longer present or a determination is made by FICC that close monitoring is no longer warranted.

*Proposed GSD Rule 3B, Section 6 (Voluntary Termination)*

Section 6 of proposed GSD Rule 3B would establish the requirements regarding a CCIT Member's election to voluntarily terminate its GSD membership.

A CCIT Member would be permitted to elect to terminate its membership by providing FICC with 10 Business Days' written notice of such termination; however, FICC, in its discretion, could accept such termination within a shorter notice period. FICC's acceptance, which would be no later than 10 Business Days after receipt of the written notice, would be evidenced by a notice to Members (including CCIT Members) announcing the CCIT Member's termination and the effective date of the termination of the CCIT Member (the "Termination Date"). As of the Termination Date, a CCIT Member that terminates its membership in GSD would no longer be eligible or required to submit to FICC data on trades and would no longer be eligible to have its trade data submitted by a Joint Account Submitter, unless the Board determines otherwise in order to ensure an orderly liquidation of the CCIT Member's positions. Section 6 of proposed GSD Rule 3B would provide that a CCIT Member's voluntary termination of membership would not affect its obligations to FICC, or the rights of FICC, with respect to transactions submitted to FICC before the Termination Date.

*Proposed GSD Rule 3B, Section 7 (Loss Allocation Obligations of CCIT Members)*

CCIT Members would only be permitted to participate in the proposed CCIT Service as cash lenders, and FICC would have a perfected security interest in each CCIT Member's underlying repo securities. In the event that a CCIT Member defaults or becomes insolvent, FICC would obtain and deliver the underlying repo securities to the Netting Member with whom the defaulted CCIT Member had open CCIT Transactions. As a result of FICC's perfected security interest, CCIT Members would not present market risk because FICC would not be required to take market action in order to obtain the underlying repo securities. In light of the

foregoing, FICC believes it is appropriate from a risk management perspective not to require a Required Fund Deposit from CCIT Members.

However, FICC does propose to establish loss allocation obligations for CCIT Members, and Section 7 of proposed GSD Rule 3B would set forth such obligations.

In particular, Section 7 of proposed GSD Rule 3B provides that Section 7 of GSD Rule 4 (Clearing Fund and Loss Allocation), which covers loss allocation generally, would apply to CCIT Members as Tier Two Members. Section 7 of proposed GSD Rule 3B and Section 7 of GSD Rule 4, together, would provide that CCIT Members would be responsible for the total amount of loss allocated to them. With respect to CCIT Members with a Joint Account Submitter, loss allocation would be calculated at the Joint Account level and then applied pro rata to each CCIT Member within the Joint Account based on the trade settlement allocation instructions. If, at the time FICC calculates loss allocation, the trade settlement allocation instructions to the individual CCIT Member level have not yet been received by FICC, the CCIT Members in the Joint Account would be required to provide the allocation to FICC within the timeframes set by FICC in its discretion.

*Proposed GSD Rule 3B, Section 8 (Obligations Under Rule 4 Regarding Netting Members That Participate in the CCIT Service)*

Section 8 of proposed GSD Rule 3B would establish the applicability of GSD Rule 4 (Clearing Fund and Loss Allocation) to Netting Members with respect to their CCIT Transactions.

Section 8 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 4 would apply to the CCIT Service activity of Netting Members in the same manner that such provisions apply to Netting Members' GCF Repo Transaction activity.

*Proposed GSD Rule 3B, Section 9 (Trade Submission and the Comparison System)*

Section 9 of proposed GSD Rule 3B would establish trade submission and comparison requirements for CCIT Transactions.

With respect to trade submission, Section 9 of proposed GSD Rule 3B would permit CCIT Members (whether submitting individually or through a Joint Account) to submit only CCIT Transactions to FICC. FICC would leverage its existing GCF Repo Service infrastructure and operations to process CCIT Transactions, subject to certain differences given the nature of the CCIT Transactions and certain industry conventions applicable to such transactions, which FICC wishes to accommodate in its processing. CCIT Transactions would be required to be in Generic CUSIP Numbers approved by FICC for the GCF Repo Service.

Each CCIT Member would be required to maintain two accounts at the GCF Clearing Agent Bank(s) at which Netting Members with whom the CCIT Member enters into CCIT Transactions maintain accounts. CCIT Members acting through a Joint Account would be required to cause the Joint Account Submitter to maintain two accounts for the Joint Account activity at the GCF Clearing Agent Bank(s) at which the Netting Members with whom the CCIT Members enter into CCIT Transactions maintain accounts. One account at each such GCF



Clearing Agent Bank would be designated for the CCIT Member's activity with FICC, and the second account would be designated for purposes of the committed liquidity facility to which the CCIT Member would be subject. This facility is described in Section 14 of proposed GSD Rule 3B.

With respect to trade comparison, Section 9 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 5 (Comparison System) would apply to CCIT Transactions, subject to the following: (i) "Member," when used in GSD Rule 5 (Comparison System), would include a CCIT Member or a Joint Account Submitter acting on behalf of a CCIT Member, as applicable; (ii) with respect to Section 3 (Trade Submission Communication Methods) of GSD Rule 5, CCIT Transactions could only be submitted using the Interactive Submission Method or FICC's web interface; and (iii) with respect to Section 4 (Submission Size Alternatives) of GSD Rule 5, CCIT Transactions would be required to be submitted exactly as executed.

Also with respect to trade comparison, FICC would permit CCIT Transactions to be submitted for either Bilateral Comparison or Locked-In Comparison. Currently, in the GCF Repo Service (which the CCIT Service would be leveraging), transactions are submitted for Locked-In Comparison. Because institutional tri-party repo transactions are typically transacted on a bilateral basis, FICC wishes to accommodate this convention and allow CCIT Transactions to be submitted for either Bilateral Comparison or Locked-In Comparison.

Section 9 of proposed GSD Rule 3B would provide that GSD Rule 6A (Bilateral Comparison) would govern the comparison of CCIT Transactions that are submitted for Bilateral Comparison, subject to the following:

(i) "Member," when used in GSD Rule 6A, would include a CCIT Member or a Joint Account Submitter acting on behalf of a CCIT Member, as applicable;

(ii) with respect to Section 1 (General) of GSD Rule 6A, the *Schedule of Required and Other Data Submission Items for GCF Repo Transactions* would apply to CCIT Transactions. The *Schedule of Required Match Data* and the *Schedule of Money Tolerances* would not apply to CCIT Transactions. With respect to the *Schedule of Required and Other Data Submission Items for GCF Repo Transactions*, the fields requiring Broker information would not apply; and

(iii) with respect to Section 2 (Submission Method Requirements) of GSD Rule 6A, CCIT Transactions could only be submitted using the Interactive Submission Method or FICC's web interface.

Section 9 of proposed GSD Rule 3B would provide that the following provisions of GSD Rule 6C (Locked-In Comparison) would govern the comparison of CCIT Transactions that are submitted on a Locked-In Trade basis: Section 1 (General), Section 2 (Authorizations of Transmission to and Receipt by the Corporation of Data on Locked-In Trades), the first sentence in Section 4 (Submission Requirements), Section 5 (GCF Repo Transactions), Section 7 (Reporting of Locked-In Trades), Section 8 (Discretion to not Accept Data), Section 9 (Binding Nature of Comparison System Output on Locked-In Trades), Section 12 (Affirmation, Cancellation and Modification Requirements for Data on GCF Repo Transactions) and Section

13 (Timing of Comparison). For purposes of the application of these provisions to CCIT Transactions, CCIT Transactions would be treated as GCF Repo Transactions. “Member,” when used in applicable parts of GSD Rule 6C, would include a CCIT Member or, as applicable, a Joint Account Submitter acting on behalf of a CCIT Member.

Section 9 of proposed GSD Rule 3B states that the *Schedule of GCF Timeframes* would apply to CCIT Transactions (whether submitted for Bilateral Comparison or Locked-In Comparison) and CCIT Members would be subject to any applicable late fees (applied at the Joint Account level if applicable) noted in the *Fee Structure* for failure to meet applicable deadlines. CCIT Members would be subject to all consequences for not meeting the deadlines in the schedules noted in GSD Rule 20 (Special Provisions for GCF Repo Transactions) in the same manner that such consequences apply to Netting Members.

*Proposed GSD Rule 3B, Section 10 (Forward Trades)*

Section 10 of proposed GSD Rule 3B would apply to CCIT Transactions that are Forward Trades.

Section 10 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 14 (Forward Trades) would apply to CCIT Transactions in the same way such provisions apply to GCF Repo Transactions.

*Proposed GSD Rule 3B, Section 11 (Netting System and Settlement of CCIT Transactions)*

Section 11 of proposed GSD Rule 3B would govern the netting and settlement of CCIT Transactions.

Section 11 of proposed GSD Rule 3B would provide that GSD Rule 20 (Special Provisions for GCF Repo Transactions) would apply to the netting and settlement obligations of FICC and each party to a CCIT Transaction in the same manner in which such provisions apply to GCF Repo Transactions, subject to the following: (i) when used, “Netting Member” would include a CCIT Member or, as applicable, a Joint Account; (ii) CCIT Members (whether acting individually or through a Joint Account) would always be GCF Net Funds Lenders; (iii) CCIT Members would not be Interbank Pledging Members;<sup>22</sup> (iv) CCIT Members would not be initiators of requests for collateral substitutions but would be the recipients of such collateral substitutions;<sup>23</sup> and (v) the CCIT Transaction activity of Netting Members would be netted with

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<sup>22</sup> Interbank processing is not a feature of the CCIT Service because CCIT Members would be required to have accounts at each GCF Clearing Agent Bank at which Netting Members with whom the CCIT Members enter into CCIT Transactions maintain accounts. The net cash requirement for each account would be settled at the applicable bank, thereby eliminating the need for interbank processing.

<sup>23</sup> Because CCIT Members would be cash lenders in CCIT Transactions, they would not initiate collateral substitutions, as collateral substitution is a market practice initiated by cash borrowers in repo transactions.

such Netting Members' GCF Repo Service activity for one net obligation per GCF Repo Service Generic CUSIP Number.

Section 11 of proposed GSD Rule 3B would also provide that on each Business Day, CCIT Members submitting CCIT Transactions through a Joint Account would be required to cause their Joint Account Submitter to submit the trade settlement allocation with respect to trades settled by the Joint Account during that Business Day.

In the event that FICC ceases to act for a CCIT Member, FICC would need to obtain the underlying securities collateral to avoid having to take market action to purchase such securities. To address this concern, Section 11 of proposed GSD Rule 3B would provide that each CCIT Member grants to FICC a security interest in the underlying securities as security for the CCIT Member's performance of its obligations under each CCIT Transaction. Section 11 of proposed GSD Rule 3B would further provide that in the event a CCIT Transaction were re-characterized as a loan, the securities delivered to the CCIT Member would be deemed pledged to such Member as security for the performance of FICC's obligations. In such circumstances, FICC would not be considered to have a security interest in the securities but as owning the securities. In addition, Section 11 of proposed GSD Rule 3B would provide that if FICC ceases to act for a CCIT Member, FICC could instruct the relevant GCF Clearing Agent Bank to deliver to FICC the Eligible Securities that the CCIT Member is obligated to return to FICC against payment by FICC of the Contract Value.

*Proposed GSD Rule 3B, Section 12 (Compared Trades)*

Section 12 of proposed GSD Rule 3B would establish FICC's guaranty of settlement of CCIT Transactions.

Section 12 of proposed GSD Rule 3B would provide that GSD Rule 11B (Guaranty of Settlement) would apply to CCIT Transactions that are Compared Trades.

*Proposed GSD Rule 3B, Section 13 (Funds-Only Settlement)*

Section 13 of proposed GSD Rule 3B would establish the funds-only settlement obligations that would apply to CCIT Members and to Netting Members that are parties to CCIT Transactions.

FICC proposes that CCIT Members would have Funds-Only Settlement Amount obligations as set forth in GSD Rule 13 (Funds-Only Settlement), and that GSD Rule 13 would apply in its entirety to CCIT Members in the same manner as it applies to Netting Members, except that only the following components of Section 1 (General) of GSD Rule 13 would apply to CCIT Members: (i) the Invoice Amount,<sup>24</sup> and (ii) the Miscellaneous Adjustment Amount.<sup>25</sup>

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<sup>24</sup> Pursuant to the GSD Rules, the term "Invoice Amount" means "all fee amounts due and owing from a Netting Member to the Corporation on a particular Business Day." GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members.

FICC proposes to not collect/pay the remaining funds-only settlement components included in Section 1 of GSD Rule 13 from/to CCIT Members in order to align with current market practice for institutional cash lenders in the tri-party repo market. Such modified approach to the funds-only settlement process would be appropriate for FICC to take with respect to CCIT Members in light of the fact that no market action would be required by FICC in the event of a CCIT Member's default due to the perfected security interest FICC would have in such CCIT Member's underlying repo securities.

For Netting Members that are parties to CCIT Transactions, FICC proposes that the Invoice Amount, the Miscellaneous Adjustment Amount, and the Transaction Adjustment Payment components of Section 1 of GSD Rule 13 would apply (inclusive of their CCIT Transactions) in the same manner that such components are currently applied to their GSD funds-only settlement obligations.

However, the GCF Interest Rate Mark and Interest Rate Mark components of Section 1 of GSD Rule 13 would apply in a different manner with respect to Netting Members' CCIT Transactions than such components are currently applied to their GSD funds-only settlement obligations. Specifically, if the GCF Interest Rate Mark funds-only settlement component (for a CCIT Transaction for which the Start Leg has settled) or the Interest Rate Mark funds-only settlement component (for a CCIT Transaction that is a Forward Trade, during such CCIT Transaction's Forward-Starting Period) result in a debit to the Netting Member, such debit amount would be collected and held by FICC overnight and then returned to the Netting Member the following day in a credit for the same amount, plus a use of funds amount (Interest Rate Market Adjustment Payment). FICC proposes to collect and hold debit amounts reflecting Netting Members' GCF Interest Rate Mark or Interest Rate Mark, as applicable, overnight to mitigate the interest rate risk that FICC faces from a Netting Member's default with respect to its CCIT Transactions. However, if the GCF Interest Rate Mark or the Interest Rate Mark component, as applicable, results in a credit to a Netting Member, the Netting Member would not be paid the credit because the related debit would not be collected from the CCIT Member for the reasons described above.

In addition, FICC proposes to apply a new funds-only settlement component to CCIT Transactions, which would be referred to as "CCIT Daily Repo Interest." CCIT Daily Repo Interest would reflect the daily interest earned on a CCIT Transaction and would be collected by FICC on each Business Day during the course of a CCIT Transaction from the cash borrowing Netting Member party to a CCIT Transaction (other than on the Actual Settlement Date of the CCIT Transactions on which it would be treated as a Transaction Adjustment Payment) and paid through by FICC on the same day to the cash lending CCIT Member as part of the funds-only settlement process, unless the parties enter into a negative rate CCIT Transaction, in which case

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<sup>25</sup> Pursuant to the GSD Rules, the "Miscellaneous Adjustment Amount" means "the net total of all miscellaneous funds-only amounts that, on a particular Business Day, are required to be paid by a Netting Member to the Corporation and/or are entitled to be collected by a Member from the Corporation." GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members.

the debits and credits would be reversed. It should be noted that a Netting Member would not receive any use of funds amount credit from FICC on any CCIT Daily Repo Interest collected from such Netting Member during the course of a CCIT Transaction because the related debit would not be collected from the CCIT Member in order to align with current market practice for institutional cash lenders in the tri-party repo market.

*Proposed GSD Rule 3B, Section 14 (Liquidity Requirements of CCIT Members)*

Section 14 of proposed GSD Rule 3B would establish a rules-based committed liquidity facility for CCIT Members.

The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (without the referenced annexes) (the “SIFMA MRA”) would be incorporated by reference into the GSD Rules as a master repurchase agreement between FICC as seller and each CCIT Member as buyer (the “CCIT MRA”).

The CCIT MRA could be invoked by FICC in the event that FICC ceases to act for a Netting Member that engaged in CCIT Transactions (the “Defaulting Member”), and would require CCIT Members that have open trades with the Defaulting Member to enter into repo transactions subject to the CCIT MRA (each, a “CCIT MRA Transaction”). Only CCIT Members that have outstanding CCIT Transactions with the Defaulting Member would be required to enter into CCIT MRA Transactions, and the aggregate total purchase price of a CCIT Member’s CCIT MRA Transactions would be limited to no more than the aggregate total principal dollar amount of such CCIT Member’s outstanding CCIT Transactions with the Defaulting Member. The securities posted to the CCIT Members under CCIT MRA Transactions would have a market value of 102 percent of the aggregate purchase price, and the pricing rate in respect of each CCIT MRA Transaction would be the rate published on FICC’s website at the time that FICC initiates such CCIT MRA Transaction, corresponding to: (A) U.S. Treasury < 30-year maturity (CUSIP: 371487AE9) if the underlying securities are U.S. Treasury securities; (B) Non-Mortgage Backed U.S. Agency Securities (CUSIP: 371487AH2) if the underlying securities are non-mortgage-backed U.S. agency securities; or (C) Fannie Mae and Freddie Mac Fixed Rate MBS (CUSIP: 371487AL3) if the underlying securities are mortgage-backed securities, or, if the relevant foregoing rate is unavailable, a rate that FICC reasonably determines approximates the average daily interest rate paid by a seller of the underlying securities under a cleared repo transaction.

CCIT MRA Transactions would be terminable only by demand of FICC, except in the following circumstances: (i) a Corporation Default occurs during the term of a CCIT MRA Transaction; or (ii) if FICC is not able to settle a CCIT MRA Transaction by (x) the 30<sup>th</sup> calendar day following the entry into such CCIT MRA Transaction where the underlying securities are non-mortgage-backed U.S. agency securities or U.S. Treasury securities, or (y) the 60<sup>th</sup> calendar day following the entry into such CCIT MRA Transaction where the underlying securities are mortgage-backed securities (any such day, a “CCIT MRA Termination Date”). In either of the aforementioned circumstances, the affected CCIT Member would have the right to terminate the CCIT MRA Transaction and sell the underlying securities.

Section 14 of proposed GSD Rule 3B would also make clear that all delivery obligations with respect to an original CCIT Transaction would be deemed satisfied by operation of Section 14, and settlement of any original CCIT Transaction between FICC and any CCIT Member would be final, notwithstanding that the relevant Eligible Securities are not required to be delivered to FICC in connection with such original CCIT Transaction by the CCIT Member that was a buyer in the original CCIT Transaction (such delivery being netted against delivery to the buyer under the CCIT MRA).

In addition to the above, Section 14 of proposed GSD Rule 3B also provides for uncommitted liquidity repurchase transactions between each CCIT Member as Buyer and FICC as Seller under the SIFMA MRA that would also be incorporated by reference in the GSD Rules.

*Proposed GSD Rule 3B, Section 15 (Restrictions on Access to Services by a CCIT Member, Insolvency of a CCIT Member and Wind-Down of a CCIT Member)*

Section 15 of proposed GSD Rule 3B would govern (i) the rights of FICC to restrict a CCIT Member's access to its services, (ii) FICC's rights in the event of an insolvency of a CCIT Member, and (iii) the winding down of a CCIT Member's CCIT activity.

Section 15 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 21 (Restrictions on Access to Services), GSD Rule 21A (Wind-Down of a Netting Member) and GSD Rule 22 (Insolvency of a Member) would apply to CCIT Members in the same manner as such provisions apply to Netting Members.

*Proposed GSD Rule 3B, Section 16 (Procedures for When the Corporation Ceases to Act for a CCIT Member)*

Section 16 of proposed GSD Rule 3B would establish FICC's procedures for when it ceases to act for a CCIT Member.

Section 16 of proposed GSD Rule 3B would provide that GSD Rule 22A (Procedures for When the Corporation Ceases to Act) would apply when FICC ceases to act for a CCIT Member in the same manner as such rule applies to Netting Members, except that with respect to Section 2(b) of GSD Rule 22A, the CCIT Member for whom FICC has ceased to act would be required to return each Eligible Security that the CCIT Member is obligated to return to FICC against payment by FICC of the Contract Value.

*Proposed GSD Rule 3B, Section 17 (Other Applicable Rules, Schedules, Interpretations and Statements)*

Section 17 of proposed GSD Rule 3B would establish certain other GSD Rules as being applicable to CCIT Members in the same manner that such rules apply to Netting Members.

Section 17 of proposed GSD Rule 3B would provide that GSD Rule 1 (Definitions), GSD Rule 22B (Corporation Default), proposed GSD Rule 22C (Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991), GSD Rule 23 (Fine Payments), GSD Rule 25 (Bills Rendered), GSD Rule 27 (Admission to Premises of the Corporation, Powers of Attorney, Etc.), GSD Rule 28 (Forms), GSD Rule 29 (Release of Clearing Data), GSD Rule 31

(Distribution Facilities), GSD Rule 32 (Signatures), GSD Rule 33 (Procedures), GSD Rule 34 (Insurance), GSD Rule 35 (Financial Reports), GSD Rule 36 (Rule Changes), GSD Rule 37 (Hearing Procedures), GSD Rule 38 (Governing Law and Captions), GSD Rule 39 (Limitations of Liability), GSD Rule 40 (General Provisions), GSD Rule 41 (Cross-Guaranty Agreements), GSD Rule 42 (Suspension of Rules), GSD Rule 44 (Action by the Corporation), GSD Rule 45 (Notices), GSD Rule 46 (Interpretation of Terms), GSD Rule 47 (Interpretation of Rules) and GSD Rule 48 (Disciplinary Proceedings) would apply to CCIT Members in the same manner that such rules apply to Netting Members.

Section 17 of proposed GSD Rule 3B would provide that CCIT Members would be Voluntary Purchaser Participants within the meaning of the Shareholders Agreement of DTCC, dated as of November 4, 1999, as heretofore or hereafter amended and restated.<sup>26</sup> In addition, Section 17 of proposed GSD Rule 3B would provide that all schedules cited in or pertaining to the GSD Rules which are cited in proposed GSD Rule 3B would apply to CCIT Members and that the Statements of Policy or Interpretation contained in the GSD Rules as applicable to the CCIT Service would also be applicable to CCIT Members.

***E. Proposed Changes to GSD Rule 4 (Clearing Fund and Loss Allocation)***

The proposed changes to GSD Rule 4 (Clearing Fund and Loss Allocation) would provide that CCIT Members would be treated as Tier Two Members for purposes of default loss allocation.

Unlike Tier One Netting Members, which are subject to default loss mutualization, a Tier Two Member is only subject to loss allocation as a result of the default of a Netting Member with whom it had open FICC-cleared transactions at the time of such Netting Member's default. FICC assesses Tier Two Members ratably based upon their open trading activity with the Defaulting Member that resulted in a loss. Tier Two Members whose trades with the Defaulting Member result in a bilateral liquidation profit are not allocated any portion of a Remaining Loss.

In light of the fact that a CCIT Member would only provide liquidity as a cash lender in the proposed CCIT Service and would not present market risk to FICC due to the perfected security interest FICC would have in such CCIT Member's underlying repo securities, FICC believes it is appropriate to treat CCIT Members as Tier Two Members and subject them to default loss allocation obligations with respect to the default of a Netting Member with whom they had open CCIT Transactions at the time of such Netting Member's default, but not loss mutualization obligations as is required for Tier One Netting Members as described above. Specifically, the proposed changes to GSD Rule 4 would provide that loss would be assessed against CCIT Members as Tier Two Members ratably based upon a percentage of loss attributable to each CCIT Member's specific Generic CUSIP Number that it had open with the Defaulting Member.

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<sup>26</sup> GSD Rule 49, DTCC Shareholders Agreement.

Conforming changes would also be made to GSD Rule 4 to refer to the defined term “Tier Two Member” (previously referred to in the GSD Rules as a “Tier Two Netting Member”), which defined term would be revised by this filing to include a CCIT Member.

***F. Proposed Changes to GSD Rule 5 (Comparison System)***

Conforming changes would be made to GSD Rule 5 (Comparison System) to reference obligations between a Netting Member and a CCIT Member (or Joint Account, as applicable) with respect to novation.

***G. Proposed Changes to GSD Rule 22C (Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991)***

Conforming changes would be made to GSD Rule 22C, formerly GSD Rule 22B Section (c), in order to establish that any actions taken under Section 11(e) of proposed GSD Rule 3B constitute remedies under a “security agreement or arrangement or other credit enhancement.”<sup>27</sup>

***H. Proposed Changes to GSD Rule 24 (Charges for Services Rendered)***

Conforming changes would be made to GSD Rule 24 (Charges for Services Rendered) to provide that CCIT Members would be responsible for all fees pertaining to their CCIT Member activity as set forth in the *Fee Structure*. Such fees would be applied at the Joint Account level where applicable.

***I. Proposed Changes to GSD Rule 30 (Lists to be Maintained)***

Conforming changes would be made to GSD Rule 30 (Lists to be Maintained) to reflect that FICC would maintain lists of all CCIT Members (and their Joint Account Submitters, as applicable) and that such lists would be made available to Members upon request.

***J. Proposed Changes to GSD Rule 49 (DTCC Shareholders Agreement)***

The proposed changes to Section 3 of GSD Rule 49 (DTCC Shareholders Agreement) would provide that all Tier Two Members, including CCIT Members and Netting Members whose membership type has been designated as a “Tier Two Member” type by FICC pursuant to GSD Rule 2A (Initial Membership Requirements), are Voluntary Purchaser Participants.

***(iii) Impact of the Proposed CCIT Service on Various Persons***

The proposed CCIT Service would be voluntary. Institutional cash lenders that wish to become CCIT Members and Netting Members that wish to participate in the proposed CCIT

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<sup>27</sup> Certain other proposed changes to GSD Rule 22B unrelated to the establishment of the proposed CCIT Service are described below in Item 3(a)(iv).



Service would have an opportunity to review the proposed rule change and determine if they would like to participate. Choosing to participate would make these entities subject to all of the rule changes that would be applicable to the proposed CCIT Service as described below.

The proposed CCIT Service would affect institutional cash lenders that choose to become CCIT Members because it would impose various requirements on them. These requirements include, but are not limited to, the following sections of proposed GSD Rule 3B: (1) eligibility and initial application requirements as specified in Sections 1, 2, 3 and 4; (2) on-going membership requirements as specified in Section 5; (3) loss allocation requirements as specified in Section 7; (4) trade submission requirements as specified in Section 9; (5) netting and settlement requirements as specified in Section 11; (6) funds-only settlement requirements as specified in Section 13; and (7) liquidity requirements in the event of a default of a Netting Member with whom such CCIT Member has traded as specified in Section 14.

Specific details on the requirements and the manner in which the proposed CCIT Service would affect institutional cash lenders that choose to become CCIT Members can be found above in *Section (ii) – Detailed Description of the Proposed Rule Changes Related to the Proposed CCIT Service*.

The proposed CCIT Service would affect Netting Members that choose to participate in the service because it would impose various requirements on them. These requirements include, but are not limited to, the funds-only settlement requirements as specified in Section 13 of proposed GSD Rule 3B.

Specific details on these requirements and the manner in which the proposed CCIT Service would affect Netting Members that choose to participate in the proposed CCIT Service are described above in *Section (ii) – Detailed Description of the Proposed Rule Changes Related to the Proposed CCIT Service*.

(iv) **Other Proposed Rule Changes**

This filing contains proposed rule changes that are in addition to the ones related to the establishment of the proposed CCIT Service. The proposed rule changes that are not related to the proposed CCIT Service would provide specificity, clarity and additional transparency to the GSD Rules as described below.

**A. Proposed Changes to GSD Rule 2A (Initial Membership Requirements)**

Section 3 of GSD Rule 2A governs the admission criteria and membership qualifications and standards for Comparison-Only Members.

FICC is proposing to amend Section 3(a) of GSD Rule 2A because FICC interprets this Section as applying specifically to the operational capability requirement for applicants to become Comparison-Only Members, but the existing rule text is more broadly written. In order to align the rule text with FICC's interpretation of the requirement of this Section, FICC is

proposing to amend the rule text to provide that it applies only with respect to the operational capability requirement for applicants that wish to become Comparison-Only Members.<sup>28</sup>

***B. Proposed Changes to GSD Rule 3 (Ongoing Membership Requirements)***

GSD Rule 3 governs ongoing standards for Members.<sup>29</sup>

Section 7 of GSD Rule 3 relates to a Member's ongoing obligation to inform FICC, both orally and in writing, if it is no longer in compliance with any of the relevant qualifications. This includes, but is not limited to, a Member's ongoing obligation to notify FICC within two business days of learning of an investigation or proceeding to which it is or is becoming the subject of that would cause the Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in GSD Rules 2, 2A and 3. FICC is proposing to change the rule text in order clarify that this obligation to notify FICC arises at the point in time that such Member learns that an investigation or proceeding would cause it to fall out of compliance (and not before such time). FICC believes that the proposed change provides Members with clarity on the point in time at which a Member is required to notify FICC. Certain other conforming and typographical changes would also be made to this Section.

Section 10 of GSD Rule 3 provides that a Member's books and records, insofar as they relate to such Member's transactions processed through FICC, would be required to be open to the inspection of the duly authorized representatives of FICC in accordance with the provisions of this Section. In light of the fact that Registered Investment Companies are permitted to be Netting Members under GSD Rule 3, and Registered Investment Company trading activity is typically controlled by a separate investment adviser, FICC proposes to amend Section 10 to require that, in addition to having access to the books and records of the Registered Investment Company Netting Member itself (as is required under current GSD Rule 3), that FICC also have access to the books and records of the Controlling Management of a Registered Investment Company Netting Member in accordance with the provisions of this Section.

Section 13 of GSD Rule 3 governs Comparison-Only Members' and Netting Members', as applicable, election to terminate their GSD membership. Currently, this rule states that a Comparison-Only Member's or Netting Member's, as applicable, request to terminate its GSD membership will not be effective until accepted by FICC. Because the existing rule is open-

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<sup>28</sup> The operational capability requirement is also applicable to applicants to become Netting Members, pursuant to GSD Rule 2A, Section 4. GSD Rule 2A, Initial Membership Requirements.

<sup>29</sup> Pursuant to the GSD Rules, the term "Member" means a "Comparison-Only Member" or a "Netting Member." The term "Member" also includes a Sponsoring Member in its capacity as a Sponsoring Member and a Sponsored Member, each to the extent specified in GSD Rule 3A. GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members to the extent specified in proposed GSD Rule 3B.

ended with respect to FICC's duty to accept such Member's request to terminate its membership and such open-endedness could create uncertainty for a Member that wishes to terminate its GSD membership as to when such termination will be effective, FICC is proposing to amend this section to provide that a Member's written notice of its termination would not be effective until accepted by FICC, which acceptance could be no later than 10 Business Days after the receipt of the written notice from such Member.

**C. *Proposed Changes to GSD Rule 4 (Clearing Fund and Loss Allocation)***

Section 5 of GSD Rule 4 governs FICC's use of Clearing Fund deposits. FICC proposes to correct an out-of-date cross-reference and make a typographical correction to this section.

**D. *Proposed Changes to GSD Rule 20 (Special Provisions For GCF Repo Transactions) and the Schedule of GCF Timeframes***

Section 3 of GSD Rule 20 governs FICC's collateral allocation requirements for each Netting Member in a GCF Net Funds Borrower Position or GCF Net Funds Lender Position.

FICC proposes to amend Section 3 of GSD Rule 20 to require that all GCF Repo Transactions be fully collateralized at the time established by FICC in the *Schedule of GCF Timeframes*,<sup>30</sup> and to amend the *Schedule of GCF Timeframes* to establish 9:00 New York Time as the deadline for satisfaction of such requirement. FICC also proposes to amend Section 3 of GSD Rule 20 to prohibit a Member that receives collateral in the GCF Repo process (i.e., a Member with a Collateral Allocation Entitlement) from withdrawing the securities or cash collateral that such Member receives.

**E. *Proposed Changes to GSD Rule 22B (Corporation Default)***

GSD Rule 22B describes specific events that would cause a Corporation Default<sup>31</sup> and the effect of this default on Transactions that have been submitted to FICC.

FICC proposes to amend GSD Rule 22B to specify the steps that Members would need to take in the event of a Corporation Default. The proposed rule changes to subsection (a) of GSD Rule 22B would state that upon the immediate termination of the open Transactions between Members that have been novated to FICC, such Members would be required to promptly take market action to close out such positions. Each Member would then report the results of the market action to the Board. FICC believes that the proposed change would be helpful to Members and would promote clarity and transparency with respect to the process surrounding a Corporation Default.

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<sup>30</sup> The *Schedule of GCF Timeframes* is an appendix to the GSD Rules.

<sup>31</sup> Subsection (b) of GSD Rule 22B describes the events that would cause FICC to be in default to its Members. GSD Rule 22B, Corporation Default.

***F. Proposed Changes to GSD Rule 35 (Financial Reports)***

FICC proposes to amend GSD Rule 35 (Financial Reports) to add a provision to reflect FICC's current practice of having its independent public accountants conduct an annual study and evaluation of FICC's system of internal accounting controls with respect to the safeguarding of participants' assets, prompt and accurate clearance and settlement of securities transactions, and the reliability of related records. Such study and evaluation is conducted in accordance with the standards established by the American Institute of Certified Public Accountants and is made available to all Members within a reasonable time upon receipt from FICC's independent accountants.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended ("Act") requires, in part, that the GSD Rules be designed to (i) "promote the prompt and accurate clearance and settlement of securities transactions"<sup>32</sup> and (ii) "remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest."<sup>33</sup> By expanding the availability of GSD's infrastructure to institutional cash lenders, FICC believes that the proposed rule change would help to safeguard the tri-party repo market, as the proposed rule change to establish the proposed CCIT Service would (i) decrease settlement and operational risk (by making a greater number of transactions eligible to be netted and subject to guaranteed settlement, novation, and independent risk management through FICC), (ii) lower the risk of liquidity drain in the tri-party repo market (through FICC's guaranty of completion of settlement for a greater number of eligible tri-party repo transactions), and (iii) protect against fire sale risk (through FICC's ability to centralize and control the liquidation of a greater portion of a failed counterparty's portfolio). By decreasing settlement and operational risk, FICC believes the proposed rule change would "promote the prompt and accurate clearance and settlement of securities transactions" and "remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions" consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above. By lowering the risk of liquidity drain in the tri-party repo market and protecting against fire sale risk, FICC believes the proposed rule change would "protect investors and the public interest," consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to "assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible."<sup>34</sup> By providing for sufficient liquidity resources for FICC to settle the obligations of a CCIT Member's defaulted Netting Member pre-novation

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<sup>32</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>33</sup> Id.

<sup>34</sup> Id.

counterparty in the form of the CCIT MRA and by protecting FICC from market risk in the event of a CCIT Member's default in the form of the perfected security interest in FICC's favor in each CCIT Member's underlying repo securities, the proposed CCIT Service would provide for prudent risk management of CCIT Transactions and CCIT Members by FICC and would contribute to FICC's financial stability. Therefore, FICC believes the proposed rule change would "assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible," consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

Section 17A(b)(3)(G) of the Act requires that the GSD Rules "provide that...[the clearing agency's] participants shall be appropriately disciplined for violation of any provision of the rules of the clearing agency by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, or any other fitting sanction."<sup>35</sup> Section 17A(b)(3)(H) of the Act requires, in part, that the GSD Rules "provide a fair procedure with respect to the disciplining of participants, the denial of participation to any person seeking participation therein, and the prohibition or limitation by the clearing agency of any person with respect to access to services offered by the clearing agency."<sup>36</sup> By subjecting CCIT Members, and applicants that wish to become CCIT Members, to comparable admission requirements<sup>37</sup> and the same disciplinary

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<sup>35</sup> 15 U.S.C. 78q-1(b)(3)(G).

<sup>36</sup> 15 U.S.C. 78q-1(b)(3)(H).

<sup>37</sup> There would be certain differences between the admission requirements applicable to CCIT Members under proposed GSD Rule 3B and those applicable to Netting Members under GSD Rule 2A. For example, under proposed GSD Rule 3B, FICC proposes to require that CCIT Member applicants provide certain opinions of counsel in connection with their applications to become CCIT Members (as described above) to which Netting Member applicants are not subject. In addition, CCIT Member applicants would not be subject to the same requirements regarding business history as Netting Member applicants are subject to.

FICC believes that these differences in the admission requirements between CCIT Member applicants and Netting Member applicants are appropriate and consistent with the requirements of the Act (in particular Section 17A(b)(3)(H), cited above), in light of the differences between the proposed CCIT Service and services available to Netting Members.

With respect to the opinion of counsel requirements for CCIT Member applicants, because FICC is anticipating that many of the firms that would apply to become CCIT Members would be of legal entity types that are not otherwise eligible to become Netting Members, FICC believes the opinion of counsel requirements are necessary in order to establish an appropriate framework for the admission of CCIT Members because they ensure that FICC is able to obtain the same level of legal comfort with respect to its rights vis-à-vis CCIT Members as it has with respect to its Netting Members. With respect to the business history requirements, FICC believes that it is not necessary to establish the

requirements (and related due process procedures) as those applicable to Netting Members, and applicants that wish to become Netting Members, the proposed CCIT Service would establish an appropriate framework for the admission and disciplining of CCIT Members. Such framework for the admission and disciplining of CCIT Members would be appropriate in light of the fact that CCIT Members would enjoy rights and privileges vis-à-vis FICC that are similar to those rights and privileges enjoyed by Netting Members. Therefore, FICC believes the proposed rule change would “provide that...its participants shall be appropriately disciplined for violation of any provision of the rules of the clearing agency by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, or any other fitting sanction,” and also “provide a fair procedure with respect to the disciplining of participants, the denial of participation to any person seeking participation therein, and the prohibition or limitation by the clearing agency of any person with respect to access to services offered by the clearing agency,” consistent with the requirements of the Act, in particular Sections 17A(b)(3)(G) and 17A(b)(3)(H), cited above.

The proposal is also consistent with Rules 17Ad-22(d)(2) and (d)(9), promulgated under the Act. Rule 17Ad-22(d)(2) requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to “require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency.”<sup>38</sup> Rule 17Ad-22(d)(9) requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to “provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services.”<sup>39</sup> In connection with the establishment of the proposed CCIT Service, FICC would make certain modifications to the GSD Rules (as described above) in order to create the requirements that would be applicable to CCIT Members, including initial and on-going financial responsibility and operational capacity requirements, as well as the requirements that would be applicable to Netting Members with respect to their participation in the proposed CCIT Service. If approved, the requirements applicable to the proposed CCIT Service would become part of the GSD Rules, which are publicly available on The Depository Trust & Clearing Corporation’s website ([www.dtcc.com](http://www.dtcc.com)), and market participants would be able to review them in connection with their evaluation of potential participation in the proposed CCIT Service. Therefore, FICC believes the proposed rule change would “require participants to have sufficient financial resources and robust operational capacity to meet obligations arising

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same requirements for CCIT Members as it has for Netting Members because CCIT Members do not present FICC with the credit and market risk exposure that Netting Members do in light of the fact that CCIT Members (i) would only be allowed to lend cash into GSD and (ii) would be required to grant FICC an enforceable and perfected security interest in the securities collateral posted to them under CCIT Transactions, which FICC would be able to foreclose upon in the event of a CCIT Member’s default in order to complete settlement without having to take market action.

<sup>38</sup> 17 CFR 240.17Ad-22(d)(2).

<sup>39</sup> 17 CFR 240.17Ad-22(d)(9).

from participation in the clearing agency” and “provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services,” consistent with the requirements of Rules 17Ad-22(d)(2) and (d)(9), cited above.

As stated above, Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to (i) “promote the prompt and accurate clearance and settlement of securities transactions”<sup>40</sup> and (ii) “remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.”<sup>41</sup> By providing specificity, clarity and additional transparency to the GSD Rules, the proposed rule changes to Section 3(a) of GSD Rule 2A (Initial Membership Requirements), Sections 7, 10 and 13 of GSD Rule 3 (Ongoing Membership Requirements), Section 5 of GSD Rule 4 (Clearing Fund and Loss Allocation), Section 3 of GSD Rule 20 (Special Provisions for GCF Repo Transactions) and the *Schedule of GCF Timeframes*, Subsection (a) of GSD Rule 22B (Corporation Default), and GSD Rule 35 (Financial Reports) that are unrelated to the proposed CCIT Service would provide Members with a better understanding of the GSD Rules, making errors in the performance of their responsibilities to FICC less likely to occur and thereby ensuring that FICC’s clearing and settlement system works efficiently. Therefore, FICC believes the proposed rule change would “promote the prompt and accurate clearance and settlement of securities transactions” by FICC and also “remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions,” consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

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

FICC believes that the proposed rule change to establish the proposed CCIT Service would promote competition by increasing the types of entities that may participate in FICC and therefore permit more market participants to utilize FICC’s services.

At the same time, the proposed rule change may impose a burden on competition by limiting participation in the proposed CCIT Service to institutional cash lenders and Netting Members that are eligible to participate in the service. However, FICC believes any burden on competition that may result from the proposed rule change would not be significant and would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act,<sup>42</sup> for the reasons described below.

First, although the proposal would limit the legal entities that would be eligible to participate in the proposed CCIT Service as CCIT Members to non-RICs, and this limitation may impact RICs by excluding them from being able to novate their tri-party repo lending activity in GCF Repo eligible asset classes to FICC (and avail themselves of the commensurate benefits described in *Section (i) – Background on the Proposed CCIT Service* above), FICC believes that

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<sup>40</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>41</sup> Id.

<sup>42</sup> 15 U.S.C. 78q-1(b)(3)(I).

any related burden on competition would be necessary and appropriate in furtherance of the purposes of the Act in light of the fact that the legal ability of RICs to participate in the proposed CCIT Service is uncertain in light of the regulatory requirements applicable to them under the Investment Company Act of 1940 (including, for example, liquid asset requirements and counterparty diversification requirements), and therefore it is necessary and appropriate in furtherance of the purposes of the Act to exclude them, at this time, from the proposed CCIT Service until such legal uncertainty can be resolved. Moreover, FICC believes any related burden on competition would not be significant because, as described in *Section (iii) – Impact of the Proposed CCIT Service on Various Persons* above, the proposed CCIT Service would be voluntary and would not restrict the ability of RICs to enter into tri-party repo transactions with Netting Members in GCF Repo eligible asset classes outside of GSD.

Second, although the proposal would limit participation in the proposed CCIT Service as CCIT Members to legal entities that are able to satisfy the eligibility requirements specified in proposed GSD Rule 3B, and this limitation may impact institutional cash lenders that are unable to satisfy such eligibility requirements by excluding them from being able to novate their tri-party repo lending activity in GCF Repo eligible asset classes to FICC (and avail themselves of the commensurate benefits described in *Section (i) – Background on the Proposed CCIT Service* above), FICC believes that any related burden on competition would be necessary and appropriate in furtherance of the purposes of the Act in light of the fact that such eligibility requirements are designed to allow FICC to prudently manage the risks associated with CCIT Members' participation in the proposed CCIT Service. For example, the proposed minimum Net Asset requirements of \$100 million or more and credit monitoring requirements for CCIT Members included in the proposed GSD Rule 3B are designed to allow FICC to manage the credit risk associated with CCIT Members' participation in the proposed CCIT Service. The requirement that CCIT Members grant FICC an enforceable and perfected security interest in the securities collateral posted to them under CCIT Transactions is designed to allow FICC to manage the market risk associated with CCIT Members' participation in the proposed CCIT Service. Moreover, the requirement that CCIT Members provide FICC with a committed liquidity facility in the event FICC ceases to act for a Netting Member with whom they have open CCIT Transactions is designed to allow FICC to manage the liquidity risk associated with CCIT Members' participation in the proposed CCIT Service. Furthermore, FICC believes any related burden on competition would not be significant because, as described in *Section (iii) – Impact of the Proposed CCIT Service on Various Persons* above and in the preceding paragraph, the proposed CCIT Service would be voluntary and would not restrict the ability of institutional cash lenders to enter into tri-party repo transactions with Netting Members in GCF Repo eligible asset classes outside of GSD.

Third, although the proposal would limit participation in the proposed CCIT Service to Netting Members that are participants in the GCF Repo Service, and this limitation may impact Netting Members that do not participate in the GCF Repo Service by excluding them from being able to novate their institutional tri-party repo borrowing activity in GCF Repo eligible asset classes to FICC (and avail themselves of the commensurate benefits described in *Section (i) – Background on the Proposed CCIT Service* above), FICC believes that any related burden on competition is necessary and appropriate in furtherance of the purposes of the Act in light of the fact that all Netting Members that fulfill the application requirements, including but not limited to completing the necessary documentation, are eligible to become GCF Repo participants and



would therefore be eligible to participate in the proposed CCIT Service. Moreover, FICC believes any related burden on competition would not be significant because, as described in *Section (iii) – Impact of the Proposed CCIT Service on Various Persons* above and in the preceding paragraphs, participation in the proposed CCIT Service would be voluntary and would not restrict the ability of Netting Members to enter into tri-party repo borrowing transactions with institutional counterparties in GCF Repo eligible asset classes outside of GSD.

FICC believes that the proposed changes to Section 3(a) of GSD Rule 2A (Initial Membership Requirements), Sections 7, 10 and 13 of GSD Rule 3 (Ongoing Membership Requirements), Section 5 of GSD Rule 4 (Clearing Fund and Loss Allocation), Section 3 of GSD Rule 20 (Special Provisions for GCF Repo Transactions) and the *Schedule of GCF Timeframes*, Subsection (a) of GSD Rule 22B (Corporation Default), and GSD Rule 35 (Financial Reports) that are unrelated to the proposed CCIT Service would not have an impact, nor impose any burden, on competition because each of such proposed changes are designed to provide specificity, clarity, and additional transparency within the GSD Rules.

**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 been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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

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

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

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

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

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

Not applicable.

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

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the GSD Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2017-005)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Establish the Centrally Cleared Institutional Triparty Service and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March [ ], 2017, 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 the clearing agency.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of amendments to the Government Securities Division (“GSD”) Rulebook (“GSD Rules”)<sup>4</sup> that would (i) establish the “Centrally

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

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

<sup>3</sup> On March [ ], 2017, FICC filed this proposed rule change as an advance notice (SR-FICC-2017-803) with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) of the Act, 17 CFR 240.19b-4(n)(1)(i). A copy of the advance notice is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>4</sup> Capitalized terms not defined herein are defined in the GSD Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

Cleared Institutional Triparty Service” or the “CCIT<sup>TM</sup> Service”<sup>5</sup> and thereby make central clearing available to the institutional tri-party repurchase agreement (“repo”) market<sup>6</sup> and (ii) make other amendments and clarifications to the GSD Rules, as described below.

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

In its filing with the Commission, the clearing agency 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. The clearing agency 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

1. Purpose

The proposed rule change would, among other things, make central clearing available to the institutional tri-party repo market through the proposed CCIT Service.

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<sup>5</sup> CCIT is a trademark of The Depository Trust & Clearing Corporation. Pursuant to this filing, “Centrally Cleared Institutional Triparty Service” or “CCIT Service” would be defined as “the service offered by the Corporation to clear institutional triparty repurchase agreement transactions, as more fully described in Rule 3B.” Proposed GSD Rule 1, Definitions.

<sup>6</sup> The proposed rule changes with respect to the establishment of the proposed CCIT Service are reflected in proposed GSD Rule 3B, and conforming changes are proposed to GSD Rules 1, 2, 2A (Section 2), 4 (Sections 1a and 7), 5, 22C, 24, 30 and 49.

The proposed CCIT Service would allow the submission of tri-party repo transactions in GCF Repo<sup>7</sup> Securities between Netting Members that participate in the GCF Repo Service<sup>8</sup> and institutional counterparties (other than investment companies registered under the Investment Company Act of 1940, as amended<sup>9</sup> (“RICs”)), where the institutional counterparties are the cash lenders in the transactions submitted to GSD. The proposed CCIT Service would create a new GSD limited service membership type for such institutional cash lenders, each referred to as a “Centrally Cleared Institutional Triparty Member” or “CCIT Member.”<sup>10</sup>

This filing also contains proposed rule changes that are not related to the proposed CCIT Service that provide specificity, clarity and additional transparency to the GSD Rules.

(i) **Background on the Proposed CCIT Service**

FICC believes that the tri-party repo market is critical to the stability of the U.S. financial system. The tri-party repo market creates market liquidity and price transparency for U.S. government and corporate securities, is interconnected with other payment clearing and settlement services that are central to the U.S. financial market, and serves as a critical source of funding for systemically important broker-dealers that make

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<sup>7</sup> GCF Repo is a registered trademark of FICC.

<sup>8</sup> Pursuant to this filing, “GCF Repo Service” would be defined as “the service offered by the Corporation to compare, net and settle GCF Repo Transactions.” Proposed GSD Rule 1, Definitions.

<sup>9</sup> 15 U.S.C. 80a-1 *et seq.*

<sup>10</sup> Pursuant to this filing, the term “Centrally Cleared Institutional Triparty Member” or “CCIT Member” would be defined as “a legal entity other than a Registered Investment Company approved to participate in the Corporation’s CCIT Service as a cash lender.” Proposed GSD Rule 1, Definitions.

markets in U.S. government and corporate obligations.<sup>11</sup> At its peak in 2008, about \$2.8 trillion of securities were funded by tri-party repos.<sup>12</sup> Volumes shrank to \$1.6 trillion in the second half of the recent financial crisis and have been relatively steady around that level since then.<sup>13</sup> Nonetheless, FICC believes the tri-party repo market remains a critical source of funding for broker-dealers and an important cash management tool for institutional counterparties.

In response to the 2008 financial crisis, regulators asked tri-party repo market participants to identify ways to reduce reliance on intraday credit, make risk management practices more robust to a broad range of events, and take steps to reduce the risk that a dealer's default could prompt destabilizing fire sales<sup>14</sup> of its collateral by its lenders, with the goal of enhancing the tri-party repo market's ability to navigate stressed market conditions by implementing solutions that help mitigate risk and better safeguard the U.S. financial market.

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<sup>11</sup> See Federal Reserve Bank of New York, Tri-Party Repo Infrastructure Reform, [https://www.newyorkfed.org/banking/tpr\\_infr\\_reform.html](https://www.newyorkfed.org/banking/tpr_infr_reform.html) (last visited Mar. 6, 2017).

<sup>12</sup> See A. Copeland et. al, *The Tri-Party Repo Market before the 2010 Reforms*, FEDERAL RESERVE BANK OF NEW YORK STAFF REPORT NO. 477 (Nov. 2010), [https://www.newyorkfed.org/medialibrary/media/research/staff\\_reports/sr477.pdf](https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr477.pdf).

<sup>13</sup> See Federal Reserve Bank of New York, Tri-Party Repo Volume, [https://www.newyorkfed.org/data-and-statistics/data-visualization/tri-party-repo/index.html#interactive/volume/collateral\\_value](https://www.newyorkfed.org/data-and-statistics/data-visualization/tri-party-repo/index.html#interactive/volume/collateral_value) (last visited Mar. 6, 2017).

<sup>14</sup> Fire sale risk is the risk of rapid asset sales of securities held by cash lenders when a dealer defaults. This rapid sale has the potential to create a market crisis because cash lenders are likely to sell large amounts of securities in a short period of time, which could dramatically reduce the price of such securities that such lenders are looking to sell.

Currently, FICC provides central clearing to a portion of the tri-party repo market. Specifically, GSD's GCF Repo Service provides central clearing to sell-side entities, such as dealers that enter into tri-party repo transactions in GCF Repo Securities with each other.<sup>15</sup> There is currently no U.S. clearing organization that novates tri-party repos between sell-side firms and institutional counterparties.

FICC believes that central clearing of eligible tri-party repo transactions between GSD Netting Members and institutional counterparties through the proposed CCIT Service would help to safeguard the tri-party repo market in a number of ways. For example, the proposed CCIT Service would permit institutional firms that are eligible to participate in FICC as CCIT Members to benefit from FICC's guaranty of completion of settlement of their eligible tri-party repo transactions with Netting Members. FICC believes this would mitigate the risk of a large-scale exit by these institutional firms from the U.S. financial market in a stress scenario and therefore lower the risk of a liquidity drain in such a scenario. Specifically, to the extent institutional firms would otherwise be engaging in the same type of eligible tri-party repo trading activity outside of a central counterparty, having such activity novated to FICC and subject to FICC's guaranty of completion of settlement would reduce the risk that such institutional firms discontinue such trading activity in a Netting Member default situation.

Similarly, FICC believes that broadening the pool of tri-party repos eligible for central clearing at FICC through the proposed CCIT Service to institutional activity as well as sell-side activity would also reduce the potential for market disruption from fire sales by virtue of FICC's ability to centralize and control the liquidation of the portfolio

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<sup>15</sup> According to FICC's data, during 2016, the average daily dollar value of compared GCF Repo Transactions was approximately \$114 billion.

of a defaulted Netting Member. Specifically, in a Netting Member default situation, the more institutional firms participate in FICC as CCIT Members, the more trading activity with the defaulted Netting Member could be centrally liquidated in an orderly manner by FICC rather than by individual counterparties in potential fire sale conditions.

Moreover, FICC believes that the proposed CCIT Service would decrease settlement and operational risk in the U.S. tri-party repo market as more tri-party repos for a greater number of Members would be eligible to be netted and subject to guaranteed settlement, novation, and independent risk management through FICC.

Depending on the nature of their GSD-cleared portfolios and the purposes for which Netting Members borrow cash from institutional tri-party money lenders through the proposed CCIT Service, the proposed CCIT Service would also provide Netting Members with the potential for more efficient use of collateral.<sup>16</sup> Novation of tri-party repo borrowing activity to FICC through the proposed CCIT Service may also afford Netting Members the ability to offset on their balance sheets their obligations to FICC on CCIT Transactions against their obligations to FICC on other eligible FICC-cleared activity, as well as take lesser capital charges than would be required to the extent they

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<sup>16</sup> The potential for more efficient use of collateral by Netting Members relates to the fact that, to the extent they borrow cash today via tri-party repo, Netting Members are required to collateralize their tri-party cash lenders, typically to a 102 percent haircut for GSD eligible securities. See SIFMA, US Repo Market Fact Sheet 2016, p. 3, <https://www.sifma.org/WorkArea/DownloadAsset.aspx?id=8589961606> (last visited Mar. 6, 2017). Such collateral is separate and apart from the Clearing Fund that Netting Members are required to post to FICC to support their sell-side activity in the same asset classes. If a Netting Member's tri-party borrowing activity were novated to FICC through the proposed CCIT Service, its Clearing Fund requirement to FICC could potentially be reduced to the extent it has offsetting cash lending activity within GSD.



engaged in the same borrowing activity outside of a central counterparty.<sup>17</sup> By potentially alleviating balance sheet and capital constraints on their Netting Member counterparties, participation in FICC as CCIT Members may afford eligible institutional firms increased lending capacity and income.

(ii) **Detailed Description of the Proposed Rule Changes Related to the Proposed CCIT Service**

**A. Proposed Changes to GSD Rule 1 (Definitions)**

FICC is proposing to amend the “Applicant Questionnaire” definition to delete the reference to “Rule 2” because this questionnaire is not mentioned in GSD Rule 2; however, it is mentioned in other GSD Rules, including, but not limited to, proposed GSD Rule 3B. In light of the fact that proposed GSD Rule 3B would provide that references to a “Member” in other GSD Rules would not apply to CCIT Members unless specifically noted as such in proposed GSD Rule 3B or in such other GSD Rules, FICC is also proposing to amend the “Applicant Questionnaire” definition to specifically refer to CCIT Members.

FICC is proposing to add the following defined terms, which relate to the proposed CCIT Service: “CCIT,” “CCIT Account,” “CCIT Daily Repo Interest,” “CCIT MRA Account,” “CCIT Transaction,” “Centrally Cleared Institutional Triparty Member or CCIT Member,” “Centrally Cleared Institutional Triparty Service or CCIT Service,” “Joint Account,” “Joint Account Submitter” and “Joint Account Submitter Agreement.”

FICC is proposing to amend the definition of “Contract Value” to refer to a CCIT Transaction. FICC is also proposing to make a grammatical correction to this definition.

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<sup>17</sup> Netting Members interested in such relief should discuss this matter with their accounting and regulatory capital experts.

FICC is proposing to amend the definition of “Controlling Management” in order to incorporate concepts that apply to CCIT Members and Registered Investment Company Netting Members and applicants to become such.

FICC is proposing to amend the definition of “GCF Net Funds Borrower Position” to refer to CCIT Transactions and to add an explicit definition for the term “GCF Net Funds Borrower.”

FICC is proposing to amend the definition of “GCF Net Funds Lender Position” to refer to CCIT Members and CCIT Transactions and to include an explicit definition for the term “GCF Net Funds Lender,” which would include a Netting Member or a CCIT Member, as applicable.

FICC is proposing to amend the definition of “GCF Net Settlement Position” and “GCF Repo Security” to refer to CCIT Transactions.

FICC is proposing to include “GCF Repo Service” as a defined term in order to facilitate the drafting of proposed GSD Rule 3B, which covers the proposed CCIT Service.

FICC is proposing to amend the definitions of “Invoice Amount,” “Member,” “Miscellaneous Adjustment Amount” and “Net Assets” to refer to a CCIT Member.

FICC is also proposing to amend the definition of a “Tier Two Member” (previously referred to in the GSD Rules as a “Tier Two Netting Member”) to include a CCIT Member.

***B. Proposed Changes to GSD Rule 2 (Members)***

FICC is proposing to amend GSD Rule 2 (Members) to include CCIT Members as a membership type and to make conforming changes that accommodate this inclusion.

**C. *Proposed Changes to GSD Rule 2A (Initial Membership Requirements)***

FICC is proposing to amend Section 2 of GSD Rule 2A (Initial Membership Requirements) to make conforming changes to accommodate the revised term “Tier Two Member.”

**D. *Proposed GSD Rule 3B (Centrally Cleared Institutional Triparty Service)***

FICC is proposing to add GSD Rule 3B, entitled “Centrally Cleared Institutional Triparty Service.” This new rule would govern the proposed CCIT Service and would be comprised of 17 sections, each of which is described immediately below.

*Proposed GSD Rule 3B, Section 1 (General)*

Section 1 of proposed GSD Rule 3B would be a general provision regarding the GSD Rules applicable to CCIT Members and to Netting Members that participate in the proposed CCIT Service.

Section 1 of proposed GSD Rule 3B would establish that CCIT Members would be governed by proposed GSD Rule 3B, and that references to the term “Member” in other GSD Rules would not apply to CCIT Members unless specifically noted as such in proposed GSD Rule 3B or in such other GSD Rules. Section 1 of proposed GSD Rule 3B would also make clear that a Netting Member must be a participant of the GCF Repo Service in order to be a counterparty to a CCIT Member in a CCIT Transaction and that, in addition to the GSD Rules governing Netting Members, Netting Members that submit CCIT Transactions would also be subject to the provisions of proposed GSD Rule 3B and other GSD Rules applicable to CCIT Transactions.

Proposed GSD Rule 3B, Section 2 (Eligibility for Membership: CCIT Member)

Section 2 of proposed GSD Rule 3B would establish the initial membership eligibility requirements for applicants that wish to become CCIT Members.

Under Section 2 of proposed GSD Rule 3B, a legal entity would be eligible to apply to become a CCIT Member if it satisfies the following requirements: (i) financial responsibility and ability to pay anticipated fees pursuant to the GSD Rules, including having minimum Net Assets<sup>18</sup> of \$100 million, or a prescribed multiplier of \$100 million in the case of applicants whose financial statements are prepared other than in accordance with U.S. generally accepted accounting principles;<sup>19</sup> (ii) operational capability (applicable to a Joint Account Submitter, if relevant) to communicate with FICC and fulfill anticipated commitments to and meet other operational requirements of FICC; (iii) provision of an opinion of counsel acceptable to FICC that the GSD Rules would be enforceable against such applicant if it were to become a CCIT Member; and (iv) provision of an opinion of counsel (if required by FICC in its sole discretion) acceptable to FICC that, in the event FICC were to cease to act for the applicant after such applicant

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<sup>18</sup> Pursuant to the GSD Rules, the term “Net Assets” means “the difference between the total assets and the total liabilities of a Netting Member.” GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members. With respect to a CCIT Member applicant, the determination as to whether the applicant satisfies the minimum Net Asset requirement under Section 2 of proposed GSD Rule 3B would be based on financial disclosures provided by the applicant as part of the membership application process.

<sup>19</sup> FICC may impose greater standards on the applicant based upon the level of the anticipated positions and obligations of the applicant, the anticipated risk associated with the volume and types of transactions the applicant proposes to process through FICC and the overall financial condition of the applicant. Proposed GSD Rule 3B, Section 2.

becomes a CCIT Member, FICC would be able to exercise the remedies described in the GSD Rules.

In addition, FICC would have the sole discretion to determine whether the applicability of any enumerated Disqualification Criteria (as set forth in Section 2 of proposed GSD Rule 3B) should be the basis for denial of the membership application.

Section 2 of proposed GSD Rule 3B also states that FICC would retain the right to deny membership to an applicant if FICC becomes aware of any factor or circumstance about the applicant or its Controlling Management<sup>20</sup> which may affect the suitability of that particular applicant as a Member of GSD. Further, applicants would be required to inform FICC as to any member of their Controlling Management that is or becomes subject to Statutory Disqualification.

Section 2 of proposed GSD Rule 3B also includes provisions that would allow CCIT Members to be represented by a Joint Account.<sup>21</sup>

In the market today, some institutional cash lenders submit trades as a “joint account” rather than at the individual legal entity level. This means that two or more institutional cash lenders create a joint account and have a submitter (such as their agent lender) conduct the trading on their behalf. The proposed rule changes would

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<sup>20</sup> Pursuant to this filing, the term “Controlling Management” would be revised to mean “the Chief Executive Officer, the Chief Financial Officer, and the Chief Operations Officer, or their equivalents, of an applicant or Member or such other individuals or entities with direct or indirect control over the applicant or Member; provided that with respect to a Registered Investment Company Netting Member or an applicant to become a Registered Investment Company Netting Member, the term ‘Controlling Management’ shall include the investment manager.” Proposed GSD Rule 1, Definitions.

<sup>21</sup> Pursuant to this filing, “Joint Account” would be defined as “two or more CCIT Members represented by a Joint Account Submitter.” Proposed GSD Rule 1, Definitions.

accommodate this structure and would provide that two or more approved CCIT Members may be represented by a Joint Account Submitter,<sup>22</sup> provided that the applicable CCIT Members enter into a Joint Account Submitter Agreement with FICC. This agreement would permit CCIT Transactions to be submitted through a Joint Account on behalf of the CCIT Members. If FICC terminates a Joint Account Submitter Agreement, such Joint Account Submitter would no longer be permitted to represent the CCIT Members in the Joint Account. Each such CCIT Member would then be required to assume the duties of the Joint Account Submitter or appoint a new Joint Account Submitter subject to the requirements of the GSD Rules.

*Proposed GSD Rule 3B, Section 3 (Membership Application Process to Become a CCIT Member)*

Section 3 of proposed GSD Rule 3B would establish the membership application process that would be required of each applicant to become a CCIT Member.

Under Section 3 of proposed GSD Rule 3B, each applicant would be required to complete all documents and it or its Joint Account Submitter, as applicable, would be required to fulfill, within the timeframes established by FICC, any operational testing requirements and related reporting requirements that may be imposed by FICC to ensure the operational capability of the applicant. In addition, each applicant would be required to complete and deliver a FATCA Certification to FICC, and if the applicant is an FFI

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<sup>22</sup> Pursuant to this filing, the term “Joint Account Submitter” would be defined as “an authorized entity that (i) is acting as agent for two or more CCIT Members that are trading and submitting CCIT Transactions as a Joint Account and (ii) has been appointed by each such CCIT Member pursuant to a Joint Account Submitter Agreement.” Proposed GSD Rule 1, Definitions.

Member,<sup>23</sup> the applicant would also be required to certify and periodically recertify that it is FATCA Compliant, unless such requirements have been explicitly waived in writing by FICC, and no such waiver would be issued if it would cause FICC to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. The applicant would also be required to indemnify FICC as a result of its failing to be FATCA Compliant. Section 3 of proposed GSD Rule 3B would also provide for confidential treatment of information furnished to FICC pursuant to proposed GSD Rule 3B.

In connection with FICC's evaluation of an applicant, FICC would be able to: (i) if applicable, contact the applicant's primary regulatory authority, other examining authority or regulator, or any self-regulatory organization of which the applicant is a member and request from such authority or organization any records, reports or other information that, in their judgment, may be relevant to the application; (ii) examine the books, records and operational procedures of, and inspect the premises of, the applicant or its Controlling Management as they may be related to the business to be conducted through GSD; and (iii) take such other evidence or make such other inquiries as is necessary, including sworn or unsworn testimony, to ascertain relevant facts bearing upon the applicant's qualifications.

Section 3 of proposed GSD Rule 3B would make clear that, notwithstanding that FICC has approved an application to become a CCIT Member, if a material change in the

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<sup>23</sup> Pursuant to GSD Rule 1, the term "FFI Member" means "any Person that is treated as a non-U.S. entity for U.S. federal income tax purposes." For the avoidance of doubt, the term FFI Member also includes "any Member that is a U.S. branch of an entity that is treated as a non-U.S. entity for U.S. federal income tax purposes." GSD Rules, supra note 4.

condition of the applicant or its Controlling Management were to occur, which in the judgment of FICC could bring into question the applicant's ability to perform as a CCIT Member, and such material change were to become known to FICC prior to the applicant's commencing use of GSD's services, FICC would have the right to stay commencement of the applicant's use of GSD's services until a reconsideration by FICC of the applicant's financial responsibility and operational capability could be completed. As a result of such reconsideration, FICC could determine to withdraw approval of an application to become a CCIT Member or condition the approval upon the furnishing of additional information or assurances.

Section 3 of proposed GSD Rule 3B would also state that FICC could deny an application to become a CCIT Member upon FICC's determination that FICC does not have adequate personnel, space, data processing capacity, or other operational capability at that time to perform its services for the applicant without impairing the ability of FICC to provide services for its existing Members (including CCIT Members), to assure the prompt, accurate, and orderly processing and settlement of securities transactions or to otherwise carry out its functions; provided, however, that any such applications which are denied pursuant to this provision would be approved as promptly as the capabilities of FICC permit.

Upon FICC's denial of an application to become a CCIT Member, FICC would furnish the applicant with a concise written statement setting forth the specific grounds under consideration upon which any such denial may be based and would notify the applicant of its right to request a hearing, such request to be filed by the applicant with FICC pursuant to GSD Rule 37 (Hearing Procedures).



Proposed GSD Rule 3B, Section 4 (Membership Agreement)

Section 4 of proposed GSD Rule 3B would govern the agreements that CCIT Member applicants would be required to sign and deliver to FICC.

Section 4 of proposed GSD Rule 3B would describe the terms of the membership agreement that every CCIT Member applicant would be required to execute with FICC and, in the case of CCIT Member applicants that intend to participate in the proposed CCIT Service through a Joint Account, this section would require that such applicants also execute a Joint Account Submitter Agreement with FICC. This section would also specify the rights, obligations, and liability that a CCIT Member that participates in the proposed CCIT Service would have vis-à-vis its Joint Account Submitter, as well as the conditions under which FICC would be able to terminate the Joint Account Submitter Agreement. It should be noted that the Joint Account Submitter in its capacity as such would not be a Member.

Proposed GSD Rule 3B, Section 5 (On-going Membership Requirements)

Section 5 of proposed GSD Rule 3B would establish on-going membership requirements and would make clear that the initial eligibility qualifications and standards for CCIT membership would be continuing membership requirements. Additional on-going membership requirements would also apply to CCIT Members as described below.

Each CCIT Member would be required to submit the following to FICC: (i) disclosure on at least an annual basis regarding such CCIT Member's Net Assets, and (ii) any financial statements the CCIT Member makes publicly available. In addition, each CCIT Member would be required to submit such other reports, financial, and other information as FICC from time to time may reasonably require. The time periods

prescribed for submission of required disclosure would be set forth in notices posted to FICC's website and/or distributed by FICC from time to time. It would be the CCIT Member's responsibility to retrieve all notices daily from FICC's website.

In addition, a CCIT Member would be required to submit written notice of any CCIT Reportable Event<sup>24</sup> at least 90 calendar days prior to the effective date of such CCIT Reportable Event, unless the CCIT Member demonstrates that it could not have reasonably done so, and provides notice, both orally and in writing, to FICC as soon as possible.

CCIT Members that are FFI Members would also be subject to FATCA-related reporting requirements.

Section 5 of proposed GSD Rule 3B would provide that a CCIT Member that fails to submit required information within the prescribed timeframes and in the manner requested by FICC would be subject to the applicable fines noted under "Failure to Timely Provide Financial and Related Information" and "Reportable Events—Fine for Failure of Timely Notification," as applicable, in the *Fine Schedules* of the GSD Rules.

FICC could, from time to time, require CCIT Members or their Joint Account Submitters, as applicable, to fulfill certain operational testing requirements and related reporting requirements to ensure the continuing operational capability of the CCIT Members. FICC would assess a fine or terminate the membership of any CCIT Member

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<sup>24</sup> Proposed GSD Rule 3B would define a "CCIT Reportable Event" as "(i) an event that would, after giving effect thereto, cause a material change in the control, ownership or management of the CCIT Member, or that could have a material impact on such CCIT Member's business and/or financial condition; (ii) material changes in the CCIT Member's business lines, including new business lines undertaken; or (iii) any litigation which could reasonably be anticipated to have a material negative effect on the CCIT Member's financial condition or ability to conduct business." Proposed GSD Rule 3B, Section 5(c).

that does not fulfill any such operational testing and related reporting requirements within the timeframes established by FICC. If a Joint Account Submitter does not fulfill any such operational testing and related reporting requirements within the timeframes established by FICC, FICC could terminate the Joint Account Submitter Agreements for any or all CCIT Members that such Joint Account Submitter represents.

A CCIT Member would also be required to promptly inform FICC, both orally and in writing, if it no longer is in compliance with any of the relevant qualifications and standards for admission to membership set forth in proposed GSD Rule 3B. Notification would be required within two Business Days from the date on which the CCIT Member first learns of its non-compliance. FICC would assess a \$1,000.00 fine against any CCIT Member that fails to notify FICC. In addition, a CCIT Member would be required to notify FICC within two Business Days of learning that an investigation or proceeding to which it is or is becoming the subject of would cause the CCIT Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in proposed GSD Rule 3B. However, the CCIT Member would not be required to notify FICC if doing so would cause the CCIT Member to violate an applicable law, rule, or regulation.

If with respect to a CCIT Member: (i) the CCIT Member fails to maintain the relevant standards and qualifications for admission to membership, including, but not limited to, minimum capital standards, operational testing, and related reporting requirements imposed by FICC from time to time; (ii) the CCIT Member violates any GSD Rule or other agreement with FICC; (iii) the CCIT Member fails to satisfy in a timely manner any obligation to FICC; (iv) there is any CCIT Reportable Event relating

to such Member; or (v) FICC otherwise deems it necessary or advisable, in order to (a) protect FICC, its Members (including CCIT Members), or its creditors or investors; (b) safeguard securities and funds in the custody or control of FICC or for which FICC is responsible; or (c) promote the prompt and accurate processing, clearance or settlement of securities transactions, FICC would undertake appropriate action to determine the status of the CCIT Member and its continued eligibility. In addition, FICC could review the financial responsibility and operational capability of the CCIT Member and/or its Controlling Management to the extent provided in the GSD Rules and otherwise require from the CCIT Member additional reporting of its financial or operational condition at such intervals and in such detail as FICC determines, and would make a determination as to whether such CCIT Member should be placed on the Watch List by FICC consistent with the provisions of Section 5 of proposed GSD Rule 3B (described below).

In addition, if FICC has reason to believe that a CCIT Member may fail to comply with any of the GSD Rules, FICC could require the CCIT Member to provide FICC, within such timeframe, in such detail, and pursuant to such manner as FICC determines, with assurances in writing of a credible nature that the CCIT Member shall not, in fact, violate the GSD Rules. Each CCIT Member, or any applicant to become such, would be required to furnish to FICC such adequate assurances of the CCIT Member's financial responsibility and operational capability as FICC could at any time or from time to time deem necessary or advisable in order to (i) protect FICC, its Members (including CCIT Members), or its creditors or investors; (ii) safeguard securities and funds in the custody or control of FICC or for which FICC is responsible; or (iii) promote the prompt and accurate processing, clearance or settlement of securities transactions. Upon the request

of a CCIT Member or applicant to become such, FICC could choose to confer with the CCIT Member or applicant before or after requiring it to furnish adequate assurances pursuant to this proposed GSD Rule 3B.

Adequate assurances of financial responsibility or operational capability of a CCIT Member or applicant to become such, as could be required by FICC pursuant to proposed GSD Rule 3B, could include, but would not be limited to, as appropriate in the context of the CCIT Member's use of GSD's services: (i) imposing restrictions or modifications on the CCIT Member's use of GSD's services (whether generally, or with respect to certain transactions); or (ii) requiring additional reporting by the CCIT Member of its financial or operational condition at such intervals and in such detail as FICC determines.

Section 5 of proposed GSD Rule 3B would provide that in the event that a CCIT Member fails to satisfy the relevant requirements of any GSD Rules, FICC would cease to act for the CCIT Member, unless the CCIT Member requests that such action not be taken and FICC determines that it is appropriate instead to establish a time period (the "Noncompliance Time Period"), which would be no longer than 30 calendar days (unless otherwise determined by FICC), during which the CCIT Member would be required to resume compliance with such requirements. In the event that the CCIT Member is unable to satisfy such requirements within the Noncompliance Time Period, FICC would cease to act for the CCIT Member. If FICC takes any cease to act action pursuant to this provision, it would be required to promptly file with its records and with the Commission a full report of such actions, and the reasons thereof. Notwithstanding anything to the contrary in Section 5 of proposed GSD Rule 3B, if FICC, in its sole discretion,

determines that a CCIT Member's financial condition has significantly deteriorated during a Noncompliance Time Period, FICC could immediately cease to act for the CCIT Member.

Section 5 of proposed GSD Rule 3B would require that CCIT Members and their Joint Account Submitters, as applicable, comply with all applicable laws, including applicable laws relating to securities, taxation and money laundering, as well as global sanctions regulations in connection with their use of GSD's services. As part of their compliance with global sanctions regulations, all CCIT Members and their Joint Account Submitters would be prohibited from conducting any transaction or activity through FICC which they know to violate global sanctions regulations. CCIT Members subject to the jurisdiction of the U.S. would be required to periodically confirm that they and their Joint Account Submitters, as applicable, have implemented a risk-based program reasonably designed to comply with applicable sanctions regulations issued by the Office of Foreign Assets Control. Failure to do so in the manner and timeframes set forth by FICC from time to time would result in a \$5,000.00 fine.

Section 5 of proposed GSD Rule 3B would also prohibit a CCIT Member that is an FFI Member from conducting CCIT Transactions or activity through FICC if such CCIT Member is not FATCA Compliant, unless such requirement has been explicitly waived in writing by FICC with respect to the specific CCIT Member. In addition, CCIT Members that are FFI Members would be required, as applicable under FATCA, to certify and periodically recertify to FICC that they are FATCA Compliant by providing to FICC a FATCA Certification. Failure to do so in the manner and timeframes set forth by FICC from time to time would result in a fine, unless such requirement has been

explicitly waived in writing by FICC with respect to the specific CCIT Member. Nevertheless, no waiver would be issued if it would cause FICC to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. A CCIT Member that is an FFI Member would also be required to indemnify FICC for losses, liabilities, or expenses sustained by FICC as a result of such CCIT Member failing to be FATCA Compliant.

Section 5 of proposed GSD Rule 3B would also provide that a CCIT Member and its Controlling Management's books and records, insofar as they relate to such CCIT Member's transactions processed through FICC, would be required to be open to the inspection of the duly authorized representatives of FICC upon reasonable prior notice and during the CCIT Member's or its Controlling Management's normal business hours. Each CCIT Member would be required to furnish to FICC all such information about the CCIT Member's and its Controlling Management's business and transactions as FICC may require; provided that (i) the aforesaid rights of FICC would be subject to any applicable laws, rules, or regulations of regulatory bodies having jurisdiction over the CCIT Member or its Controlling Management that relate to the confidentiality of records; and (ii) if the CCIT Member ceases membership, FICC would have no right to inspect the CCIT Member's or its Controlling Management's books and records or to require information relating to transactions wholly subsequent to the time when the CCIT Member ceases membership.

Section 5 of proposed GSD Rule 3B would also provide that a CCIT Member could be monitored for financial and/or operational factors as FICC deems necessary to protect FICC and its Members from undue risk. CCIT Members would not be assigned a

rating from the Credit Risk Rating Matrix; however, they could be included on the Watch List at FICC's discretion. Placement on the Watch List would result in a more thorough monitoring of the CCIT Member's financial and/or operational condition, as applicable, and activities by FICC. FICC could require CCIT Members placed on the Watch List to make more frequent financial disclosures, possibly including interim and/or pro forma reports. A CCIT Member would be placed on the Watch List if FICC takes any action against such CCIT Member pursuant to Section 5(f) of proposed GSD Rule 3B. A CCIT Member would continue to be included on the Watch List until the condition(s) that resulted in its placement on the Watch List improved to the point where the condition(s) are no longer present or a determination is made by FICC that close monitoring is no longer warranted.

*Proposed GSD Rule 3B, Section 6 (Voluntary Termination)*

Section 6 of proposed GSD Rule 3B would establish the requirements regarding a CCIT Member's election to voluntarily terminate its GSD membership.

A CCIT Member would be permitted to elect to terminate its membership by providing FICC with 10 Business Days' written notice of such termination; however, FICC, in its discretion, could accept such termination within a shorter notice period. FICC's acceptance, which would be no later than 10 Business Days after receipt of the written notice, would be evidenced by a notice to Members (including CCIT Members) announcing the CCIT Member's termination and the effective date of the termination of the CCIT Member (the "Termination Date"). As of the Termination Date, a CCIT Member that terminates its membership in GSD would no longer be eligible or required to submit to FICC data on trades and would no longer be eligible to have its trade data



submitted by a Joint Account Submitter, unless the Board determines otherwise in order to ensure an orderly liquidation of the CCIT Member's positions. Section 6 of proposed GSD Rule 3B would provide that a CCIT Member's voluntary termination of membership would not affect its obligations to FICC, or the rights of FICC, with respect to transactions submitted to FICC before the Termination Date.

*Proposed GSD Rule 3B, Section 7 (Loss Allocation Obligations of CCIT Members)*

CCIT Members would only be permitted to participate in the proposed CCIT Service as cash lenders, and FICC would have a perfected security interest in each CCIT Member's underlying repo securities. In the event that a CCIT Member defaults or becomes insolvent, FICC would obtain and deliver the underlying repo securities to the Netting Member with whom the defaulted CCIT Member had open CCIT Transactions. As a result of FICC's perfected security interest, CCIT Members would not present market risk because FICC would not be required to take market action in order to obtain the underlying repo securities. In light of the foregoing, FICC believes it is appropriate from a risk management perspective not to require a Required Fund Deposit from CCIT Members.

However, FICC does propose to establish loss allocation obligations for CCIT Members, and Section 7 of proposed GSD Rule 3B would set forth such obligations.

In particular, Section 7 of proposed GSD Rule 3B provides that Section 7 of GSD Rule 4 (Clearing Fund and Loss Allocation), which covers loss allocation generally, would apply to CCIT Members as Tier Two Members. Section 7 of proposed GSD Rule 3B and Section 7 of GSD Rule 4, together, would provide that CCIT Members would be responsible for the total amount of loss allocated to them. With respect to CCIT

Members with a Joint Account Submitter, loss allocation would be calculated at the Joint Account level and then applied pro rata to each CCIT Member within the Joint Account based on the trade settlement allocation instructions. If, at the time FICC calculates loss allocation, the trade settlement allocation instructions to the individual CCIT Member level have not yet been received by FICC, the CCIT Members in the Joint Account would be required to provide the allocation to FICC within the timeframes set by FICC in its discretion.

*Proposed GSD Rule 3B, Section 8 (Obligations Under Rule 4 Regarding Netting Members That Participate in the CCIT Service)*

Section 8 of proposed GSD Rule 3B would establish the applicability of GSD Rule 4 (Clearing Fund and Loss Allocation) to Netting Members with respect to their CCIT Transactions.

Section 8 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 4 would apply to the CCIT Service activity of Netting Members in the same manner that such provisions apply to Netting Members' GCF Repo Transaction activity.

*Proposed GSD Rule 3B, Section 9 (Trade Submission and the Comparison System)*

Section 9 of proposed GSD Rule 3B would establish trade submission and comparison requirements for CCIT Transactions.

With respect to trade submission, Section 9 of proposed GSD Rule 3B would permit CCIT Members (whether submitting individually or through a Joint Account) to submit only CCIT Transactions to FICC. FICC would leverage its existing GCF Repo Service infrastructure and operations to process CCIT Transactions, subject to certain differences given the nature of the CCIT Transactions and certain industry conventions applicable to such transactions, which FICC wishes to accommodate in its processing.

CCIT Transactions would be required to be in Generic CUSIP Numbers approved by FICC for the GCF Repo Service.

Each CCIT Member would be required to maintain two accounts at the GCF Clearing Agent Bank(s) at which Netting Members with whom the CCIT Member enters into CCIT Transactions maintain accounts. CCIT Members acting through a Joint Account would be required to cause the Joint Account Submitter to maintain two accounts for the Joint Account activity at the GCF Clearing Agent Bank(s) at which the Netting Members with whom the CCIT Members enter into CCIT Transactions maintain accounts. One account at each such GCF Clearing Agent Bank would be designated for the CCIT Member's activity with FICC, and the second account would be designated for purposes of the committed liquidity facility to which the CCIT Member would be subject. This facility is described in Section 14 of proposed GSD Rule 3B.

With respect to trade comparison, Section 9 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 5 (Comparison System) would apply to CCIT Transactions, subject to the following: (i) "Member," when used in GSD Rule 5 (Comparison System), would include a CCIT Member or a Joint Account Submitter acting on behalf of a CCIT Member, as applicable; (ii) with respect to Section 3 (Trade Submission Communication Methods) of GSD Rule 5, CCIT Transactions could only be submitted using the Interactive Submission Method or FICC's web interface; and (iii) with respect to Section 4 (Submission Size Alternatives) of GSD Rule 5, CCIT Transactions would be required to be submitted exactly as executed.

Also with respect to trade comparison, FICC would permit CCIT Transactions to be submitted for either Bilateral Comparison or Locked-In Comparison. Currently, in the

GCF Repo Service (which the CCIT Service would be leveraging), transactions are submitted for Locked-In Comparison. Because institutional tri-party repo transactions are typically transacted on a bilateral basis, FICC wishes to accommodate this convention and allow CCIT Transactions to be submitted for either Bilateral Comparison or Locked-In Comparison.

Section 9 of proposed GSD Rule 3B would provide that GSD Rule 6A (Bilateral Comparison) would govern the comparison of CCIT Transactions that are submitted for Bilateral Comparison, subject to the following:

(i) “Member,” when used in GSD Rule 6A, would include a CCIT Member or a Joint Account Submitter acting on behalf of a CCIT Member, as applicable;

(ii) with respect to Section 1 (General) of GSD Rule 6A, the *Schedule of Required and Other Data Submission Items for GCF Repo Transactions* would apply to CCIT Transactions. The *Schedule of Required Match Data* and the *Schedule of Money Tolerances* would not apply to CCIT Transactions. With respect to the *Schedule of Required and Other Data Submission Items for GCF Repo Transactions*, the fields requiring Broker information would not apply; and

(iii) with respect to Section 2 (Submission Method Requirements) of GSD Rule 6A, CCIT Transactions could only be submitted using the Interactive Submission Method or FICC’s web interface.

Section 9 of proposed GSD Rule 3B would provide that the following provisions of GSD Rule 6C (Locked-In Comparison) would govern the comparison of CCIT Transactions that are submitted on a Locked-In Trade basis: Section 1 (General), Section 2 (Authorizations of Transmission to and Receipt by the Corporation of Data on Locked-

In Trades), the first sentence in Section 4 (Submission Requirements), Section 5 (GCF Repo Transactions), Section 7 (Reporting of Locked-In Trades), Section 8 (Discretion to not Accept Data), Section 9 (Binding Nature of Comparison System Output on Locked-In Trades), Section 12 (Affirmation, Cancellation and Modification Requirements for Data on GCF Repo Transactions) and Section 13 (Timing of Comparison). For purposes of the application of these provisions to CCIT Transactions, CCIT Transactions would be treated as GCF Repo Transactions. “Member,” when used in applicable parts of GSD Rule 6C, would include a CCIT Member or, as applicable, a Joint Account Submitter acting on behalf of a CCIT Member.

Section 9 of proposed GSD Rule 3B states that the *Schedule of GCF Timeframes* would apply to CCIT Transactions (whether submitted for Bilateral Comparison or Locked-In Comparison) and CCIT Members would be subject to any applicable late fees (applied at the Joint Account level if applicable) noted in the *Fee Structure* for failure to meet applicable deadlines. CCIT Members would be subject to all consequences for not meeting the deadlines in the schedules noted in GSD Rule 20 (Special Provisions for GCF Repo Transactions) in the same manner that such consequences apply to Netting Members.

*Proposed GSD Rule 3B, Section 10 (Forward Trades)*

Section 10 of proposed GSD Rule 3B would apply to CCIT Transactions that are Forward Trades.

Section 10 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 14 (Forward Trades) would apply to CCIT Transactions in the same way such provisions apply to GCF Repo Transactions.

Proposed GSD Rule 3B, Section 11 (Netting System and Settlement of CCIT Transactions)

Section 11 of proposed GSD Rule 3B would govern the netting and settlement of CCIT Transactions.

Section 11 of proposed GSD Rule 3B would provide that GSD Rule 20 (Special Provisions for GCF Repo Transactions) would apply to the netting and settlement obligations of FICC and each party to a CCIT Transaction in the same manner in which such provisions apply to GCF Repo Transactions, subject to the following: (i) when used, “Netting Member” would include a CCIT Member or, as applicable, a Joint Account; (ii) CCIT Members (whether acting individually or through a Joint Account) would always be GCF Net Funds Lenders; (iii) CCIT Members would not be Interbank Pledging Members;<sup>25</sup> (iv) CCIT Members would not be initiators of requests for collateral substitutions but would be the recipients of such collateral substitutions;<sup>26</sup> and (v) the CCIT Transaction activity of Netting Members would be netted with such Netting Members’ GCF Repo Service activity for one net obligation per GCF Repo Service Generic CUSIP Number.

Section 11 of proposed GSD Rule 3B would also provide that on each Business Day, CCIT Members submitting CCIT Transactions through a Joint Account would be

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<sup>25</sup> Interbank processing is not a feature of the CCIT Service because CCIT Members would be required to have accounts at each GCF Clearing Agent Bank at which Netting Members with whom the CCIT Members enter into CCIT Transactions maintain accounts. The net cash requirement for each account would be settled at the applicable bank, thereby eliminating the need for interbank processing.

<sup>26</sup> Because CCIT Members would be cash lenders in CCIT Transactions, they would not initiate collateral substitutions, as collateral substitution is a market practice initiated by cash borrowers in repo transactions.

required to cause their Joint Account Submitter to submit the trade settlement allocation with respect to trades settled by the Joint Account during that Business Day.

In the event that FICC ceases to act for a CCIT Member, FICC would need to obtain the underlying securities collateral to avoid having to take market action to purchase such securities. To address this concern, Section 11 of proposed GSD Rule 3B would provide that each CCIT Member grants to FICC a security interest in the underlying securities as security for the CCIT Member's performance of its obligations under each CCIT Transaction. Section 11 of proposed GSD Rule 3B would further provide that in the event a CCIT Transaction were re-characterized as a loan, the securities delivered to the CCIT Member would be deemed pledged to such Member as security for the performance of FICC's obligations. In such circumstances, FICC would not be considered to have a security interest in the securities but as owning the securities. In addition, Section 11 of proposed GSD Rule 3B would provide that if FICC ceases to act for a CCIT Member, FICC could instruct the relevant GCF Clearing Agent Bank to deliver to FICC the Eligible Securities that the CCIT Member is obligated to return to FICC against payment by FICC of the Contract Value.

*Proposed GSD Rule 3B, Section 12 (Compared Trades)*

Section 12 of proposed GSD Rule 3B would establish FICC's guaranty of settlement of CCIT Transactions.

Section 12 of proposed GSD Rule 3B would provide that GSD Rule 11B (Guaranty of Settlement) would apply to CCIT Transactions that are Compared Trades.

Proposed GSD Rule 3B, Section 13 (Funds-Only Settlement)

Section 13 of proposed GSD Rule 3B would establish the funds-only settlement obligations that would apply to CCIT Members and to Netting Members that are parties to CCIT Transactions.

FICC proposes that CCIT Members would have Funds-Only Settlement Amount obligations as set forth in GSD Rule 13 (Funds-Only Settlement), and that GSD Rule 13 would apply in its entirety to CCIT Members in the same manner as it applies to Netting Members, except that only the following components of Section 1 (General) of GSD Rule 13 would apply to CCIT Members: (i) the Invoice Amount,<sup>27</sup> and (ii) the Miscellaneous Adjustment Amount.<sup>28</sup> FICC proposes to not collect/pay the remaining funds-only settlement components included in Section 1 of GSD Rule 13 from/to CCIT Members in order to align with current market practice for institutional cash lenders in the tri-party repo market. Such modified approach to the funds-only settlement process would be appropriate for FICC to take with respect to CCIT Members in light of the fact that no market action would be required by FICC in the event of a CCIT Member's default due to the perfected security interest FICC would have in such CCIT Member's underlying repo securities.

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<sup>27</sup> Pursuant to the GSD Rules, the term "Invoice Amount" means "all fee amounts due and owing from a Netting Member to the Corporation on a particular Business Day." GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members.

<sup>28</sup> Pursuant to the GSD Rules, the "Miscellaneous Adjustment Amount" means "the net total of all miscellaneous funds-only amounts that, on a particular Business Day, are required to be paid by a Netting Member to the Corporation and/or are entitled to be collected by a Member from the Corporation." GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members.



For Netting Members that are parties to CCIT Transactions, FICC proposes that the Invoice Amount, the Miscellaneous Adjustment Amount, and the Transaction Adjustment Payment components of Section 1 of GSD Rule 13 would apply (inclusive of their CCIT Transactions) in the same manner that such components are currently applied to their GSD funds-only settlement obligations.

However, the GCF Interest Rate Mark and Interest Rate Mark components of Section 1 of GSD Rule 13 would apply in a different manner with respect to Netting Members' CCIT Transactions than such components are currently applied to their GSD funds-only settlement obligations. Specifically, if the GCF Interest Rate Mark funds-only settlement component (for a CCIT Transaction for which the Start Leg has settled) or the Interest Rate Mark funds-only settlement component (for a CCIT Transaction that is a Forward Trade, during such CCIT Transaction's Forward-Starting Period) result in a debit to the Netting Member, such debit amount would be collected and held by FICC overnight and then returned to the Netting Member the following day in a credit for the same amount, plus a use of funds amount (Interest Rate Market Adjustment Payment). FICC proposes to collect and hold debit amounts reflecting Netting Members' GCF Interest Rate Mark or Interest Rate Mark, as applicable, overnight to mitigate the interest rate risk that FICC faces from a Netting Member's default with respect to its CCIT Transactions. However, if the GCF Interest Rate Mark or the Interest Rate Mark component, as applicable, results in a credit to a Netting Member, the Netting Member would not be paid the credit because the related debit would not be collected from the CCIT Member for the reasons described above.

In addition, FICC proposes to apply a new funds-only settlement component to CCIT Transactions, which would be referred to as “CCIT Daily Repo Interest.” CCIT Daily Repo Interest would reflect the daily interest earned on a CCIT Transaction and would be collected by FICC on each Business Day during the course of a CCIT Transaction from the cash borrowing Netting Member party to a CCIT Transaction (other than on the Actual Settlement Date of the CCIT Transactions on which it would be treated as a Transaction Adjustment Payment) and paid through by FICC on the same day to the cash lending CCIT Member as part of the funds-only settlement process, unless the parties enter into a negative rate CCIT Transaction, in which case the debits and credits would be reversed. It should be noted that a Netting Member would not receive any use of funds amount credit from FICC on any CCIT Daily Repo Interest collected from such Netting Member during the course of a CCIT Transaction because the related debit would not be collected from the CCIT Member in order to align with current market practice for institutional cash lenders in the tri-party repo market.

*Proposed GSD Rule 3B, Section 14 (Liquidity Requirements of CCIT Members)*

Section 14 of proposed GSD Rule 3B would establish a rules-based committed liquidity facility for CCIT Members.

The September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement (without the referenced annexes) (the “SIFMA MRA”) would be incorporated by reference into the GSD Rules as a master repurchase agreement between FICC as seller and each CCIT Member as buyer (the “CCIT MRA”).

The CCIT MRA could be invoked by FICC in the event that FICC ceases to act for a Netting Member that engaged in CCIT Transactions (the “Defaulting Member”),

and would require CCIT Members that have open trades with the Defaulting Member to enter into repo transactions subject to the CCIT MRA (each, a “CCIT MRA Transaction”). Only CCIT Members that have outstanding CCIT Transactions with the Defaulting Member would be required to enter into CCIT MRA Transactions, and the aggregate total purchase price of a CCIT Member’s CCIT MRA Transactions would be limited to no more than the aggregate total principal dollar amount of such CCIT Member’s outstanding CCIT Transactions with the Defaulting Member. The securities posted to the CCIT Members under CCIT MRA Transactions would have a market value of 102 percent of the aggregate purchase price, and the pricing rate in respect of each CCIT MRA Transaction would be the rate published on FICC’s website at the time that FICC initiates such CCIT MRA Transaction, corresponding to: (A) U.S. Treasury < 30-year maturity (CUSIP: 371487AE9) if the underlying securities are U.S. Treasury securities; (B) Non-Mortgage Backed U.S. Agency Securities (CUSIP: 371487AH2) if the underlying securities are non-mortgage-backed U.S. agency securities; or (C) Fannie Mae and Freddie Mac Fixed Rate MBS (CUSIP: 371487AL3) if the underlying securities are mortgage-backed securities, or, if the relevant foregoing rate is unavailable, a rate that FICC reasonably determines approximates the average daily interest rate paid by a seller of the underlying securities under a cleared repo transaction.

CCIT MRA Transactions would be terminable only by demand of FICC, except in the following circumstances: (i) a Corporation Default occurs during the term of a CCIT MRA Transaction; or (ii) if FICC is not able to settle a CCIT MRA Transaction by (x) the 30<sup>th</sup> calendar day following the entry into such CCIT MRA Transaction where the underlying securities are non-mortgage-backed U.S. agency securities or U.S. Treasury

securities, or (y) the 60<sup>th</sup> calendar day following the entry into such CCIT MRA Transaction where the underlying securities are mortgage-backed securities (any such day, a “CCIT MRA Termination Date”). In either of the aforementioned circumstances, the affected CCIT Member would have the right to terminate the CCIT MRA Transaction and sell the underlying securities.

Section 14 of proposed GSD Rule 3B would also make clear that all delivery obligations with respect to an original CCIT Transaction would be deemed satisfied by operation of Section 14, and settlement of any original CCIT Transaction between FICC and any CCIT Member would be final, notwithstanding that the relevant Eligible Securities are not required to be delivered to FICC in connection with such original CCIT Transaction by the CCIT Member that was a buyer in the original CCIT Transaction (such delivery being netted against delivery to the buyer under the CCIT MRA).

In addition to the above, Section 14 of proposed GSD Rule 3B also provides for uncommitted liquidity repurchase transactions between each CCIT Member as Buyer and FICC as Seller under the SIFMA MRA that would also be incorporated by reference in the GSD Rules.

*Proposed GSD Rule 3B, Section 15 (Restrictions on Access to Services by a CCIT Member, Insolvency of a CCIT Member and Wind-Down of a CCIT Member)*

Section 15 of proposed GSD Rule 3B would govern (i) the rights of FICC to restrict a CCIT Member’s access to its services, (ii) FICC’s rights in the event of an insolvency of a CCIT Member, and (iii) the winding down of a CCIT Member’s CCIT activity.

Section 15 of proposed GSD Rule 3B would provide that the provisions of GSD Rule 21 (Restrictions on Access to Services), GSD Rule 21A (Wind-Down of a Netting

Member) and GSD Rule 22 (Insolvency of a Member) would apply to CCIT Members in the same manner as such provisions apply to Netting Members.

*Proposed GSD Rule 3B, Section 16 (Procedures for When the Corporation Ceases to Act for a CCIT Member)*

Section 16 of proposed GSD Rule 3B would establish FICC's procedures for when it ceases to act for a CCIT Member.

Section 16 of proposed GSD Rule 3B would provide that GSD Rule 22A (Procedures for When the Corporation Ceases to Act) would apply when FICC ceases to act for a CCIT Member in the same manner as such rule applies to Netting Members, except that with respect to Section 2(b) of GSD Rule 22A, the CCIT Member for whom FICC has ceased to act would be required to return each Eligible Security that the CCIT Member is obligated to return to FICC against payment by FICC of the Contract Value.

*Proposed GSD Rule 3B, Section 17 (Other Applicable Rules, Schedules, Interpretations and Statements)*

Section 17 of proposed GSD Rule 3B would establish certain other GSD Rules as being applicable to CCIT Members in the same manner that such rules apply to Netting Members.

Section 17 of proposed GSD Rule 3B would provide that GSD Rule 1 (Definitions), GSD Rule 22B (Corporation Default), proposed GSD Rule 22C (Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991), GSD Rule 23 (Fine Payments), GSD Rule 25 (Bills Rendered), GSD Rule 27 (Admission to Premises of the Corporation, Powers of Attorney, Etc.), GSD Rule 28 (Forms), GSD Rule 29 (Release of Clearing Data), GSD Rule 31 (Distribution Facilities), GSD Rule 32 (Signatures), GSD Rule 33 (Procedures), GSD Rule 34 (Insurance), GSD Rule 35

(Financial Reports), GSD Rule 36 (Rule Changes), GSD Rule 37 (Hearing Procedures), GSD Rule 38 (Governing Law and Captions), GSD Rule 39 (Limitations of Liability), GSD Rule 40 (General Provisions), GSD Rule 41 (Cross-Guaranty Agreements), GSD Rule 42 (Suspension of Rules), GSD Rule 44 (Action by the Corporation), GSD Rule 45 (Notices), GSD Rule 46 (Interpretation of Terms), GSD Rule 47 (Interpretation of Rules) and GSD Rule 48 (Disciplinary Proceedings) would apply to CCIT Members in the same manner that such rules apply to Netting Members.

Section 17 of proposed GSD Rule 3B would provide that CCIT Members would be Voluntary Purchaser Participants within the meaning of the Shareholders Agreement of DTCC, dated as of November 4, 1999, as heretofore or hereafter amended and restated.<sup>29</sup> In addition, Section 17 of proposed GSD Rule 3B would provide that all schedules cited in or pertaining to the GSD Rules which are cited in proposed GSD Rule 3B would apply to CCIT Members and that the Statements of Policy or Interpretation contained in the GSD Rules as applicable to the CCIT Service would also be applicable to CCIT Members.

***E. Proposed Changes to GSD Rule 4 (Clearing Fund and Loss Allocation)***

The proposed changes to GSD Rule 4 (Clearing Fund and Loss Allocation) would provide that CCIT Members would be treated as Tier Two Members for purposes of default loss allocation.

Unlike Tier One Netting Members, which are subject to default loss mutualization, a Tier Two Member is only subject to loss allocation as a result of the default of a Netting Member with whom it had open FICC-cleared transactions at the

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<sup>29</sup> GSD Rule 49, DTCC Shareholders Agreement.

time of such Netting Member's default. FICC assesses Tier Two Members ratably based upon their open trading activity with the Defaulting Member that resulted in a loss. Tier Two Members whose trades with the Defaulting Member result in a bilateral liquidation profit are not allocated any portion of a Remaining Loss.

In light of the fact that a CCIT Member would only provide liquidity as a cash lender in the proposed CCIT Service and would not present market risk to FICC due to the perfected security interest FICC would have in such CCIT Member's underlying repo securities, FICC believes it is appropriate to treat CCIT Members as Tier Two Members and subject them to default loss allocation obligations with respect to the default of a Netting Member with whom they had open CCIT Transactions at the time of such Netting Member's default, but not loss mutualization obligations as is required for Tier One Netting Members as described above. Specifically, the proposed changes to GSD Rule 4 would provide that loss would be assessed against CCIT Members as Tier Two Members ratably based upon a percentage of loss attributable to each CCIT Member's specific Generic CUSIP Number that it had open with the Defaulting Member.

Conforming changes would also be made to GSD Rule 4 to refer to the defined term "Tier Two Member" (previously referred to in the GSD Rules as a "Tier Two Netting Member"), which defined term would be revised by this filing to include a CCIT Member.

***F. Proposed Changes to GSD Rule 5 (Comparison System)***

Conforming changes would be made to GSD Rule 5 (Comparison System) to reference obligations between a Netting Member and a CCIT Member (or Joint Account, as applicable) with respect to novation.

**G. *Proposed Changes to GSD Rule 22C  
(Interpretation in Relation to the Federal  
Deposit Insurance Corporation Act of 1991)***

Conforming changes would be made to GSD Rule 22C, formerly GSD Rule 22B Section (c), in order to establish that any actions taken under Section 11(e) of proposed GSD Rule 3B constitute remedies under a “security agreement or arrangement or other credit enhancement.”<sup>30</sup>

**H. *Proposed Changes to GSD Rule 24 (Charges for  
Services Rendered)***

Conforming changes would be made to GSD Rule 24 (Charges for Services Rendered) to provide that CCIT Members would be responsible for all fees pertaining to their CCIT Member activity as set forth in the *Fee Structure*. Such fees would be applied at the Joint Account level where applicable.

**I. *Proposed Changes to GSD Rule 30 (Lists to  
be Maintained)***

Conforming changes would be made to GSD Rule 30 (Lists to be Maintained) to reflect that FICC would maintain lists of all CCIT Members (and their Joint Account Submitters, as applicable) and that such lists would be made available to Members upon request.

**J. *Proposed Changes to GSD Rule 49 (DTCC  
Shareholders Agreement)***

The proposed changes to Section 3 of GSD Rule 49 (DTCC Shareholders Agreement) would provide that all Tier Two Members, including CCIT Members and Netting Members whose membership type has been designated as a “Tier Two Member”

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<sup>30</sup> Certain other proposed changes to GSD Rule 22B unrelated to the establishment of the proposed CCIT Service are described below in Item II(A)1(iv).



type by FICC pursuant to GSD Rule 2A (Initial Membership Requirements), are Voluntary Purchaser Participants.

(iii) **Impact of the Proposed CCIT Service on Various Persons**

The proposed CCIT Service would be voluntary. Institutional cash lenders that wish to become CCIT Members and Netting Members that wish to participate in the proposed CCIT Service would have an opportunity to review the proposed rule change and determine if they would like to participate. Choosing to participate would make these entities subject to all of the rule changes that would be applicable to the proposed CCIT Service as described below.

The proposed CCIT Service would affect institutional cash lenders that choose to become CCIT Members because it would impose various requirements on them. These requirements include, but are not limited to, the following sections of proposed GSD Rule 3B: (1) eligibility and initial application requirements as specified in Sections 1, 2, 3 and 4; (2) on-going membership requirements as specified in Section 5; (3) loss allocation requirements as specified in Section 7; (4) trade submission requirements as specified in Section 9; (5) netting and settlement requirements as specified in Section 11; (6) funds-only settlement requirements as specified in Section 13; and (7) liquidity requirements in the event of a default of a Netting Member with whom such CCIT Member has traded as specified in Section 14.

Specific details on the requirements and the manner in which the proposed CCIT Service would affect institutional cash lenders that choose to become CCIT Members can be found above in *Section (ii) – Detailed Description of the Proposed Rule Changes Related to the Proposed CCIT Service*.

The proposed CCIT Service would affect Netting Members that choose to participate in the service because it would impose various requirements on them. These requirements include, but are not limited to, the funds-only settlement requirements as specified in Section 13 of proposed GSD Rule 3B.

Specific details on these requirements and the manner in which the proposed CCIT Service would affect Netting Members that choose to participate in the proposed CCIT Service are described above in *Section (ii) – Detailed Description of the Proposed Rule Changes Related to the Proposed CCIT Service*.

**(iv) Other Proposed Rule Changes**

This filing contains proposed rule changes that are in addition to the ones related to the establishment of the proposed CCIT Service. The proposed rule changes that are not related to the proposed CCIT Service would provide specificity, clarity and additional transparency to the GSD Rules as described below.

**A. *Proposed Changes to GSD Rule 2A (Initial Membership Requirements)***

Section 3 of GSD Rule 2A governs the admission criteria and membership qualifications and standards for Comparison-Only Members.

FICC is proposing to amend Section 3(a) of GSD Rule 2A because FICC interprets this Section as applying specifically to the operational capability requirement for applicants to become Comparison-Only Members, but the existing rule text is more broadly written. In order to align the rule text with FICC's interpretation of the requirement of this Section, FICC is proposing to amend the rule text to provide that it

applies only with respect to the operational capability requirement for applicants that wish to become Comparison-Only Members.<sup>31</sup>

***B. Proposed Changes to GSD Rule 3 (Ongoing Membership Requirements)***

GSD Rule 3 governs ongoing standards for Members.<sup>32</sup>

Section 7 of GSD Rule 3 relates to a Member's ongoing obligation to inform FICC, both orally and in writing, if it is no longer in compliance with any of the relevant qualifications. This includes, but is not limited to, a Member's ongoing obligation to notify FICC within two business days of learning of an investigation or proceeding to which it is or is becoming the subject of that would cause the Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in GSD Rules 2, 2A and 3. FICC is proposing to change the rule text in order clarify that this obligation to notify FICC arises at the point in time that such Member learns that an investigation or proceeding would cause it to fall out of compliance (and not before such time). FICC believes that the proposed change provides Members with clarity on the point in time at which a Member is required to notify FICC. Certain other conforming and typographical changes would also be made to this Section.

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<sup>31</sup> The operational capability requirement is also applicable to applicants to become Netting Members, pursuant to GSD Rule 2A, Section 4. GSD Rule 2A, Initial Membership Requirements.

<sup>32</sup> Pursuant to the GSD Rules, the term "Member" means a "Comparison-Only Member" or a "Netting Member." The term "Member" also includes a Sponsoring Member in its capacity as a Sponsoring Member and a Sponsored Member, each to the extent specified in GSD Rule 3A. GSD Rule 1, Definitions. This filing would amend this definition to include CCIT Members to the extent specified in proposed GSD Rule 3B.

Section 10 of GSD Rule 3 provides that a Member's books and records, insofar as they relate to such Member's transactions processed through FICC, would be required to be open to the inspection of the duly authorized representatives of FICC in accordance with the provisions of this Section. In light of the fact that Registered Investment Companies are permitted to be Netting Members under GSD Rule 3, and Registered Investment Company trading activity is typically controlled by a separate investment adviser, FICC proposes to amend Section 10 to require that, in addition to having access to the books and records of the Registered Investment Company Netting Member itself (as is required under current GSD Rule 3), that FICC also have access to the books and records of the Controlling Management of a Registered Investment Company Netting Member in accordance with the provisions of this Section.

Section 13 of GSD Rule 3 governs Comparison-Only Members' and Netting Members', as applicable, election to terminate their GSD membership. Currently, this rule states that a Comparison-Only Member's or Netting Member's, as applicable, request to terminate its GSD membership will not be effective until accepted by FICC. Because the existing rule is open-ended with respect to FICC's duty to accept such Member's request to terminate its membership and such open-endedness could create uncertainty for a Member that wishes to terminate its GSD membership as to when such termination will be effective, FICC is proposing to amend this section to provide that a Member's written notice of its termination would not be effective until accepted by FICC, which acceptance could be no later than 10 Business Days after the receipt of the written notice from such Member.

**C. *Proposed Changes to GSD Rule 4 (Clearing Fund and Loss Allocation)***

Section 5 of GSD Rule 4 governs FICC's use of Clearing Fund deposits. FICC proposes to correct an out-of-date cross-reference and make a typographical correction to this section.

**D. *Proposed Changes to GSD Rule 20 (Special Provisions For GCF Repo Transactions) and the Schedule of GCF Timeframes***

Section 3 of GSD Rule 20 governs FICC's collateral allocation requirements for each Netting Member in a GCF Net Funds Borrower Position or GCF Net Funds Lender Position.

FICC proposes to amend Section 3 of GSD Rule 20 to require that all GCF Repo Transactions be fully collateralized at the time established by FICC in the *Schedule of GCF Timeframes*,<sup>33</sup> and to amend the *Schedule of GCF Timeframes* to establish 9:00 New York Time as the deadline for satisfaction of such requirement. FICC also proposes to amend Section 3 of GSD Rule 20 to prohibit a Member that receives collateral in the GCF Repo process (i.e., a Member with a Collateral Allocation Entitlement) from withdrawing the securities or cash collateral that such Member receives.

**E. *Proposed Changes to GSD Rule 22B (Corporation Default)***

GSD Rule 22B describes specific events that would cause a Corporation Default<sup>34</sup> and the effect of this default on Transactions that have been submitted to FICC.

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<sup>33</sup> The *Schedule of GCF Timeframes* is an appendix to the GSD Rules.

<sup>34</sup> Subsection (b) of GSD Rule 22B describes the events that would cause FICC to be in default to its Members. GSD Rule 22B, Corporation Default.

FICC proposes to amend GSD Rule 22B to specify the steps that Members would need to take in the event of a Corporation Default. The proposed rule changes to subsection (a) of GSD Rule 22B would state that upon the immediate termination of the open Transactions between Members that have been novated to FICC, such Members would be required to promptly take market action to close out such positions. Each Member would then report the results of the market action to the Board. FICC believes that the proposed change would be helpful to Members and would promote clarity and transparency with respect to the process surrounding a Corporation Default.

***F. Proposed Changes to GSD Rule 35  
(Financial Reports)***

FICC proposes to amend GSD Rule 35 (Financial Reports) to add a provision to reflect FICC's current practice of having its independent public accountants conduct an annual study and evaluation of FICC's system of internal accounting controls with respect to the safeguarding of participants' assets, prompt and accurate clearance and settlement of securities transactions, and the reliability of related records. Such study and evaluation is conducted in accordance with the standards established by the American Institute of Certified Public Accountants and is made available to all Members within a reasonable time upon receipt from FICC's independent accountants.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to (i) "promote the prompt and accurate clearance and settlement of securities transactions"<sup>35</sup> and (ii) "remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions,

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<sup>35</sup> 15 U.S.C. 78q-1(b)(3)(F).

and, in general, to protect investors and the public interest.”<sup>36</sup> By expanding the availability of GSD’s infrastructure to institutional cash lenders, FICC believes that the proposed rule change would help to safeguard the tri-party repo market, as the proposed rule change to establish the proposed CCIT Service would (i) decrease settlement and operational risk (by making a greater number of transactions eligible to be netted and subject to guaranteed settlement, novation, and independent risk management through FICC), (ii) lower the risk of liquidity drain in the tri-party repo market (through FICC’s guaranty of completion of settlement for a greater number of eligible tri-party repo transactions), and (iii) protect against fire sale risk (through FICC’s ability to centralize and control the liquidation of a greater portion of a failed counterparty’s portfolio). By decreasing settlement and operational risk, FICC believes the proposed rule change would “promote the prompt and accurate clearance and settlement of securities transactions” and “remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions” consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above. By lowering the risk of liquidity drain in the tri-party repo market and protecting against fire sale risk, FICC believes the proposed rule change would “protect investors and the public interest,” consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to “assure the safeguarding of securities and funds which are in the custody or control of

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<sup>36</sup>

Id.

the clearing agency or for which it is responsible.”<sup>37</sup> By providing for sufficient liquidity resources for FICC to settle the obligations of a CCIT Member’s defaulted Netting Member pre-novation counterparty in the form of the CCIT MRA and by protecting FICC from market risk in the event of a CCIT Member’s default in the form of the perfected security interest in FICC’s favor in each CCIT Member’s underlying repo securities, the proposed CCIT Service would provide for prudent risk management of CCIT Transactions and CCIT Members by FICC and would contribute to FICC’s financial stability. Therefore, FICC believes the proposed rule change would “assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible,” consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

Section 17A(b)(3)(G) of the Act requires that the GSD Rules “provide that...[the clearing agency’s] participants shall be appropriately disciplined for violation of any provision of the rules of the clearing agency by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, or any other fitting sanction.”<sup>38</sup>

Section 17A(b)(3)(H) of the Act requires, in part, that the GSD Rules “provide a fair procedure with respect to the disciplining of participants, the denial of participation to any person seeking participation therein, and the prohibition or limitation by the clearing agency of any person with respect to access to services offered by the clearing agency.”<sup>39</sup>

By subjecting CCIT Members, and applicants that wish to become CCIT Members, to

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<sup>37</sup> Id.

<sup>38</sup> 15 U.S.C. 78q-1(b)(3)(G).

<sup>39</sup> 15 U.S.C. 78q-1(b)(3)(H).



comparable admission requirements<sup>40</sup> and the same disciplinary requirements (and related due process procedures) as those applicable to Netting Members, and applicants that wish to become Netting Members, the proposed CCIT Service would establish an appropriate framework for the admission and disciplining of CCIT Members. Such

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<sup>40</sup> There would be certain differences between the admission requirements applicable to CCIT Members under proposed GSD Rule 3B and those applicable to Netting Members under GSD Rule 2A. For example, under proposed GSD Rule 3B, FICC proposes to require that CCIT Member applicants provide certain opinions of counsel in connection with their applications to become CCIT Members (as described above) to which Netting Member applicants are not subject. In addition, CCIT Member applicants would not be subject to the same requirements regarding business history as Netting Member applicants are subject to.

FICC believes that these differences in the admission requirements between CCIT Member applicants and Netting Member applicants are appropriate and consistent with the requirements of the Act (in particular Section 17A(b)(3)(H), cited above), in light of the differences between the proposed CCIT Service and services available to Netting Members.

With respect to the opinion of counsel requirements for CCIT Member applicants, because FICC is anticipating that many of the firms that would apply to become CCIT Members would be of legal entity types that are not otherwise eligible to become Netting Members, FICC believes the opinion of counsel requirements are necessary in order to establish an appropriate framework for the admission of CCIT Members because they ensure that FICC is able to obtain the same level of legal comfort with respect to its rights vis-à-vis CCIT Members as it has with respect to its Netting Members. With respect to the business history requirements, FICC believes that it is not necessary to establish the same requirements for CCIT Members as it has for Netting Members because CCIT Members do not present FICC with the credit and market risk exposure that Netting Members do in light of the fact that CCIT Members (i) would only be allowed to lend cash into GSD and (ii) would be required to grant FICC an enforceable and perfected security interest in the securities collateral posted to them under CCIT Transactions, which FICC would be able to foreclose upon in the event of a CCIT Member's default in order to complete settlement without having to take market action.

framework for the admission and disciplining of CCIT Members would be appropriate in light of the fact that CCIT Members would enjoy rights and privileges vis-à-vis FICC that are similar to those rights and privileges enjoyed by Netting Members. Therefore, FICC believes the proposed rule change would “provide that...its participants shall be appropriately disciplined for violation of any provision of the rules of the clearing agency by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, or any other fitting sanction,” and also “provide a fair procedure with respect to the disciplining of participants, the denial of participation to any person seeking participation therein, and the prohibition or limitation by the clearing agency of any person with respect to access to services offered by the clearing agency,” consistent with the requirements of the Act, in particular Sections 17A(b)(3)(G) and 17A(b)(3)(H), cited above.

The proposal is also consistent with Rules 17Ad-22(d)(2) and (d)(9), promulgated under the Act. Rule 17Ad-22(d)(2) requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to “require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency.”<sup>41</sup> Rule 17Ad-22(d)(9) requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to “provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services.”<sup>42</sup> In connection with the establishment of the proposed CCIT Service, FICC

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<sup>41</sup> 17 CFR 240.17Ad-22(d)(2).

<sup>42</sup> 17 CFR 240.17Ad-22(d)(9).

would make certain modifications to the GSD Rules (as described above) in order to create the requirements that would be applicable to CCIT Members, including initial and on-going financial responsibility and operational capacity requirements, as well as the requirements that would be applicable to Netting Members with respect to their participation in the proposed CCIT Service. If approved, the requirements applicable to the proposed CCIT Service would become part of the GSD Rules, which are publicly available on The Depository Trust & Clearing Corporation's website ([www.dtcc.com](http://www.dtcc.com)), and market participants would be able to review them in connection with their evaluation of potential participation in the proposed CCIT Service. Therefore, FICC believes the proposed rule change would “require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency” and “provide market participants with sufficient information for them to identify and evaluate the risks and costs associated with using its services,” consistent with the requirements of Rules 17Ad-22(d)(2) and (d)(9), cited above.

As stated above, Section 17A(b)(3)(F) of the Act requires, in part, that the GSD Rules be designed to (i) “promote the prompt and accurate clearance and settlement of securities transactions”<sup>43</sup> and (ii) “remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.”<sup>44</sup> By providing specificity, clarity and additional transparency to the GSD Rules, the proposed rule changes to Section 3(a) of GSD Rule 2A (Initial Membership Requirements), Sections 7, 10 and 13 of GSD Rule 3 (Ongoing Membership

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<sup>43</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>44</sup> Id.

Requirements), Section 5 of GSD Rule 4 (Clearing Fund and Loss Allocation), Section 3 of GSD Rule 20 (Special Provisions for GCF Repo Transactions) and the *Schedule of GCF Timeframes*, Subsection (a) of GSD Rule 22B (Corporation Default), and GSD Rule 35 (Financial Reports) that are unrelated to the proposed CCIT Service, would provide Members with a better understanding of the GSD Rules, making errors in the performance of their responsibilities to FICC less likely to occur and thereby ensuring that FICC's clearing and settlement system works efficiently. Therefore, FICC believes the proposed rule change would "promote the prompt and accurate clearance and settlement of securities transactions" by FICC and also "remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions," consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

(B) Clearing Agency's Statement on Burden on Competition

FICC believes that the proposed rule change to establish the proposed CCIT Service would promote competition by increasing the types of entities that may participate in FICC and therefore permit more market participants to utilize FICC's services.

At the same time, the proposed rule change may impose a burden on competition by limiting participation in the proposed CCIT Service to institutional cash lenders and Netting Members that are eligible to participate in the service. However, FICC believes any burden on competition that may result from the proposed rule change would not be

significant and would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act,<sup>45</sup> for the reasons described below.

First, although the proposal would limit the legal entities that would be eligible to participate in the proposed CCIT Service as CCIT Members to non-RICs, and this limitation may impact RICs by excluding them from being able to novate their tri-party repo lending activity in GCF Repo eligible asset classes to FICC (and avail themselves of the commensurate benefits described in *Section (i) – Background on the Proposed CCIT Service* above), FICC believes that any related burden on competition would be necessary and appropriate in furtherance of the purposes of the Act in light of the fact that the legal ability of RICs to participate in the proposed CCIT Service is uncertain in light of the regulatory requirements applicable to them under the Investment Company Act of 1940 (including, for example, liquid asset requirements and counterparty diversification requirements), and therefore it is necessary and appropriate in furtherance of the purposes of the Act to exclude them, at this time, from the proposed CCIT Service until such legal uncertainty can be resolved. Moreover, FICC believes any related burden on competition would not be significant because, as described in *Section (iii) – Impact of the Proposed CCIT Service on Various Persons* above, the proposed CCIT Service would be voluntary and would not restrict the ability of RICs to enter into tri-party repo transactions with Netting Members in GCF Repo eligible asset classes outside of GSD.

Second, although the proposal would limit participation in the proposed CCIT Service as CCIT Members to legal entities that are able to satisfy the eligibility requirements specified in proposed GSD Rule 3B, and this limitation may impact

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<sup>45</sup> 15 U.S.C. 78q-1(b)(3)(I).

institutional cash lenders that are unable to satisfy such eligibility requirements by excluding them from being able to novate their tri-party repo lending activity in GCF Repo eligible asset classes to FICC (and avail themselves of the commensurate benefits described in *Section (i) – Background on the Proposed CCIT Service* above), FICC believes that any related burden on competition would be necessary and appropriate in furtherance of the purposes of the Act in light of the fact that such eligibility requirements are designed to allow FICC to prudently manage the risks associated with CCIT Members' participation in the proposed CCIT Service. For example, the proposed minimum Net Asset requirements of \$100 million or more and credit monitoring requirements for CCIT Members included in the proposed GSD Rule 3B are designed to allow FICC to manage the credit risk associated with CCIT Members' participation in the proposed CCIT Service. The requirement that CCIT Members grant FICC an enforceable and perfected security interest in the securities collateral posted to them under CCIT Transactions is designed to allow FICC to manage the market risk associated with CCIT Members' participation in the proposed CCIT Service. Moreover, the requirement that CCIT Members provide FICC with a committed liquidity facility in the event FICC ceases to act for a Netting Member with whom they have open CCIT Transactions is designed to allow FICC to manage the liquidity risk associated with CCIT Members' participation in the proposed CCIT Service. Furthermore, FICC believes any related burden on competition would not be significant because, as described in *Section (iii) – Impact of the Proposed CCIT Service on Various Persons* above and in the preceding paragraph, the proposed CCIT Service would be voluntary and would not

restrict the ability of institutional cash lenders to enter into tri-party repo transactions with Netting Members in GCF Repo eligible asset classes outside of GSD.

Third, although the proposal would limit participation in the proposed CCIT Service to Netting Members that are participants in the GCF Repo Service, and this limitation may impact Netting Members that do not participate in the GCF Repo Service by excluding them from being able to novate their institutional tri-party repo borrowing activity in GCF Repo eligible asset classes to FICC (and avail themselves of the commensurate benefits described in *Section (i) – Background on the Proposed CCIT Service* above), FICC believes that any related burden on competition is necessary and appropriate in furtherance of the purposes of the Act in light of the fact that all Netting Members that fulfill the application requirements, including but not limited to completing the necessary documentation, are eligible to become GCF Repo participants and would therefore be eligible to participate in the proposed CCIT Service. Moreover, FICC believes any related burden on competition would not be significant because, as described in *Section (iii) – Impact of the Proposed CCIT Service on Various Persons* above and in the preceding paragraphs, participation in the proposed CCIT Service would be voluntary and would not restrict the ability of Netting Members to enter into tri-party repo borrowing transactions with institutional counterparties in GCF Repo eligible asset classes outside of GSD.

FICC believes that the proposed changes to Section 3(a) of GSD Rule 2A (Initial Membership Requirements), Sections 7, 10 and 13 of GSD Rule 3 (Ongoing Membership Requirements), Section 5 of GSD Rule 4 (Clearing Fund and Loss Allocation), Section 3 of GSD Rule 20 (Special Provisions for GCF Repo Transactions) and the *Schedule of*

*GCF Timeframes*, Subsection (a) of GSD Rule 22B (Corporation Default), and GSD Rule 35 (Financial Reports) that are unrelated to the proposed CCIT Service would not have an impact, nor impose any burden, on competition because each of such proposed changes are designed to provide specificity, clarity, and additional transparency within the GSD Rules.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not 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-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2017-005 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-2017-005. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 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 DTCC's website (<http://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-2017-005 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.<sup>46</sup>

Secretary

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<sup>46</sup> 17 CFR 200.30-3(a)(12).

**Bold and underlined text** indicates proposed added language

**~~Bold and strikethrough text~~** indicates proposed deleted language

**Bold, underlined and shaded text** indicates proposed language added in connection with a separate proposal that has not yet been approved (SR-FICC-2017-002 and SR-FICC-2017-802, filed on March 1, 2017)

**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.

\* \* \* \*

### **Applicant Questionnaire**

The term “Applicant Questionnaire” means the questionnaire required ~~in Rule 2~~ by these Rules to be completed and delivered to the Corporation by ~~each~~ an applicant, as applicable, to become a Member, including a CCIT Member, as applicable.

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### **CCIT<sup>TM</sup>\***

The term “CCIT” means Centrally Cleared Institutional Triparty.

### **CCIT Account**

The term “CCIT Account” shall have the meaning assigned to it in Section 9(b) of Rule 3B.

### **CCIT Daily Repo Interest**

The term “CCIT Daily Repo Interest” means the interest amount that is collected from or paid to a Netting Member, as applicable, and collected from or paid to a CCIT Member, as applicable, on a daily basis resulting from a CCIT Transaction.

### **CCIT MRA Account**

The term “CCIT MRA Account” shall have the meaning assigned to it in Section 9(b) of Rule 3B.

### **CCIT Transaction**

The term “CCIT Transaction” means a transaction that is processed by the Corporation in the CCIT Service. Because the CCIT Service leverages the infrastructure and processes of the GCF Repo Service, a CCIT Transaction must be: (i) in a Generic CUSIP Number approved for the GCF Repo Service and (ii) between a CCIT Member and a Netting Member who participates in the GCF Repo Service where the CCIT Member is the cash lender in the transaction.

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\* CCIT is a trademark of The Depository Trust & Clearing Corporation.

### **Centrally Cleared Institutional Triparty Member or CCIT Member**

**The terms “Centrally Cleared Institutional Triparty Member” and “CCIT Member” mean a legal entity other than a Registered Investment Company approved to participate in the Corporation’s CCIT Service as a cash lender.**

### **Centrally Cleared Institutional Triparty Service or CCIT Service**

**The terms “Centrally Cleared Institutional Triparty Service” and “CCIT Service” mean the service offered by the Corporation to clear institutional triparty repurchase agreement transactions, as more fully described in Rule 3B.**

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### **Contract Value**

The term “Contract Value” means, as regards a trade other than a Repo Transaction, the dollar value at which the trade is entered into. The term “Contract Value” means, as regards a Start or Close Leg, the dollar value at which such Leg is to be settled on **the** Scheduled Settlement Date. For a GCF Repo Transaction **or a CCIT Transaction**, the Contract Value of the Start Leg is the principal value, and the Contract Value of the Close Leg is the principal value plus accrued interest.

### **Controlling Management**

The term “Controlling Management” shall mean the Chief Executive Officer, the Chief Financial Officer, and the Chief Operations Officer, or their equivalents, of an applicant or Member **or such other individuals or entities with direct or indirect control over the applicant or Member; provided that with respect to a Registered Investment Company Netting Member or an applicant to become a Registered Investment Company Netting Member, the term “Controlling Management” shall include the investment manager.**

\* \* \* \*

### **GCF Net Funds Borrower Position**

The term “GCF Net Funds Borrower Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member has borrowed as the net result of its outstanding GCF Repo Transactions **and CCIT Transactions** and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member is obligated, pursuant to Rule 20, to allocate to the Corporation to secure such borrowing **(such Netting Member holding a GCF Net Funds Borrower Position, a “GCF Net Funds Borrower”).**

### **GCF Net Funds Lender Position**

The term “GCF Net Funds Lender Position” means, with respect to a particular Generic CUSIP Number, both the amount of funds that a Netting Member **or CCIT Member** has lent as the result of its outstanding GCF Repo Transactions **or its outstanding CCIT Transactions, as applicable,** and the equivalent amount of Eligible Netting Securities and/or cash that such Netting Member **or CCIT Member, as applicable,** is entitled, pursuant to Rule 20, to be allocated for its benefit to secure such loan (**such Netting Member or CCIT Member holding a GCF Net Funds Lender Position, a “GCF Net Funds Lender”**).

### **GCF Net Settlement Position**

The term “GCF Net Settlement Position” means, on a particular Business Day as regards a Netting Member’s GCF Repo Transaction activity **and CCIT Transaction activity** in a particular Generic CUSIP Number, either a GCF Net Funds Lender Position or a GCF Net Funds Borrower Position, as the context requires.

\* \* \* \*

### **GCF Repo Security**

The term “GCF Repo Security” means an Eligible Security or an Eligible Netting Security that is only eligible for submission to the Corporation in connection with the comparison, netting and/or settlement of GCF Repo Transactions **or CCIT Transactions.**

### **GCF Repo<sup>†</sup> Service**

**The term “GCF Repo Service” means the service offered by the Corporation to compare, net and settle GCF Repo Transactions.**

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### **Invoice Amount**

The term “Invoice Amount” means all fee amounts due and owing from a Netting Member **or CCIT Member, as applicable,** to the Corporation on a particular Business Day.

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<sup>†</sup> **GCF Repo is a registered trademark of the Fixed Income Clearing Corporation.**

**Joint Account**

**The term “Joint Account” means two or more CCIT Members represented by a Joint Account Submitter.**

**Joint Account Submitter**

**The term “Joint Account Submitter” means an authorized entity that (i) is acting as agent for two or more CCIT Members who are trading and submitting CCIT Transactions as a Joint Account and (ii) has been appointed by each such CCIT Member pursuant to a Joint Account Submitter Agreement.**

**Joint Account Submitter Agreement**

**The term “Joint Account Submitter Agreement” means the agreement required in Rule 3B to be signed and delivered to the Corporation by each CCIT Member that elects to appoint a Joint Account Submitter.**

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**Member**

The term “Member” means a Comparison-Only Member or a Netting Member. The term “Member” shall include a Sponsoring Member in its capacity as a Sponsoring Member and a Sponsored Member, each to the extent specified in Rule 3A. **The term “Member” shall include a CCIT Member to the extent specified in Rule 3B.**

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**Miscellaneous Adjustment Amount**

The term “Miscellaneous Adjustment Amount” means the net total of all miscellaneous funds-only amounts that, on a particular Business Day, are required to be paid by a Netting Member **or CCIT Member, as applicable,** to the Corporation and/or are entitled to be collected by a Member **(including a CCIT Member, as applicable)** from the Corporation.

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**Net Assets**

The term “Net Assets” shall mean the difference between the total assets and the total liabilities of a Netting Member **or CCIT Member, as applicable.**

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**SIFMA MRA**

**The term “SIFMA MRA” means the September 1996 Securities Industry and Financial Markets Association Master Repurchase Agreement, available at <http://www.sifma.org/services/standard-forms-and-documentation/mra-gmra-msla-and-msftas/>.**

\* \* \* \*

**Tier Two ~~Netting~~ Member**

The term “Tier Two Member” means a Netting Member whose membership category has been designated as such by the Corporation pursuant to Rule 2A for loss allocation purposes **or a CCIT Member**.

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## RULE 2 – MEMBERS

(a) The Corporation shall make its services, or certain of its services, available to Persons which (i) apply for membership to the Corporation for the use of its services, (ii) meet the qualifications specified in these Rules, (iii) are approved by the Corporation or the Board, as applicable, and (iv) if required, have contributed to the Clearing Fund as provided in Rule 4.

(b) The Corporation shall have the following membership types:

(i) Comparison-Only Members;

(ii) Netting Members;

(iii) Sponsoring Members and Sponsored Members; ~~and~~

(iv) CCIT Members; and

~~(iv)~~(v) Funds-Only Settling Bank Members.

With respect to item (ii) above, there shall be the following categories of Netting Members: Bank Netting Members, Dealer Netting Members, Inter-Dealer Broker Netting Members, Futures Commission Merchant Netting Members, Foreign Netting Members, Government Securities Issuer Netting Members, Insurance Company Netting Members, Registered Clearing Agency Netting Members and Registered Investment Company Netting Members.

      With respect to items (iii), ~~and~~ (iv) and (v) above, Sponsored Members and Sponsoring Members shall be governed by Rule 3A, CCIT Members shall be governed by Rule 3B and Funds-Only Settling Bank Members shall be governed by Rule 13.

(c) Except as otherwise provided in these Rules, a Member that compares and nets through the Corporation any contract or transaction on behalf of a Non-Member shall, so far as the rights of the Corporation and all other Members are concerned, be liable as a principal.

## **RULE 2A – INITIAL MEMBERSHIP REQUIREMENTS**

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### Section 2 – Eligibility for Membership: Netting Members

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Applicants in categories (i) through (vii) above that are admitted into membership shall be Tier One Netting Members. Applicants in category (viii) above that are admitted into membership shall be Tier Two ~~Netting~~ Members. With respect to applicants in category (ix), the Corporation shall make a determination as to whether such applicant shall be a Tier One **Netting Member** or Tier Two ~~Netting~~ Member.

\* \* \* \*

### Section 3 – Admission Criteria Membership Qualifications and Standards for Comparison-Only Members

The Corporation may approve an application to become a Comparison-Only Member by a Person that is eligible to apply to become a Comparison-Only Member pursuant to this Rule upon a determination that such applicant meets the following requirements:

(a) **Operational Capability** – The applicant must be able to satisfactorily communicate with the Corporation, fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy, and conform to any **operational** condition and requirement that the Corporation reasonably deems necessary for its protection or that of its Members. The applicant agrees that it must fulfill, within the timeframes established by the Corporation, operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the continuing operational capability of the applicant.

\* \* \* \*

## RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS

\* \* \* \*

### Section 7 – General Continuance Standards

A Member shall promptly inform the Corporation, both orally and in writing, if it no longer is in compliance with any of the relevant qualifications and standards for admission to membership set forth in Rule 2 and in this Rule, including whether it is subject to any of the criteria set forth in subsection (d) of Section 3 of Rule 2A. Notification must take place within two ~~B~~**business** ~~D~~**days** from the date on which the Member first learns of its non-compliance. The Corporation shall assess a fine against any Member who fails to so notify the Corporation. In addition, a Member shall notify the Corporation within two ~~B~~**business** ~~D~~**days** of learning ~~that of~~ an investigation or proceeding to which it is or is becoming ~~the~~ **the** subject ~~of that~~ would cause the Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in Rules 2, 2A and 3. Notwithstanding the previous sentence, the Member shall not be required to notify the Corporation if doing so would cause the Member to violate an applicable law, rule or regulation. If, with respect to any type of Member: (a) it fails to maintain the relevant standards and qualifications for admission to membership, including but not limited to minimum capital standards and operational testing and related reporting requirements imposed by the Corporation from time to time; (b) it violates any Rule of the Corporation or other agreement with the Corporation; (c) it fails to satisfy in a timely manner any obligation to the Corporation; (d) there is ~~a~~ Reportable Event relating to such Member; or (e) the Corporation otherwise deems it necessary or advisable, in order to protect the Corporation, its other Members, or its creditors or investors, to safeguard securities and funds in the custody or control of the Corporation ~~or for which the Corporation is responsible~~, or to promote the prompt and accurate processing, clearance or settlement of securities transactions, the Corporation will undertake appropriate action to determine the status of the Member and its continued eligibility. In addition, the Corporation may review the financial responsibility and operational capability of the Member to the extent provided in these Rules and otherwise require from the Member additional reporting of its financial or operational condition at such intervals and in such detail as the Corporation shall determine, and shall make a determination as to whether such Member should be placed on the Watch List by the Corporation consistent with the provisions of Section 12 of this Rule.

\* \* \* \*

### Section 10 - Books and Records

~~The books and records of Aa Member's books and records and, in the case of a Registered Investment Company Netting Member, its Controlling Management~~, insofar as they relate to transactions processed through the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation upon reasonable prior notice and during the Member's ~~or its Controlling Management's~~ normal business hours, ~~as applicable~~. The Corporation shall be furnished with all such information about the ~~Member's~~ business and transactions ~~of the Member and, in the case of a Registered Investment Company Netting Member, its Controlling Management~~, as it may require; provided that (i) the aforesaid rights

of the Corporation shall be subject to any applicable laws or rules or regulations of regulatory bodies having jurisdiction over the Member which relate to the confidentiality of records, and (ii) if the Member ceases membership, the Corporation shall have no right to inspect the Member's **or its Controlling Management's** books and records, **as applicable**, or to require information relating to transactions wholly subsequent to the time when the Member ceases membership.

\* \* \* \*

### Section 13 – Voluntary Termination

A Member that is a Comparison-Only Member may elect to terminate such membership, and a Netting Member may elect to terminate its membership in either the Corporation or in just the Netting System (and to become a Comparison-Only Member), by providing the Corporation with 10 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, **which shall be no later than 10 Business Days after the receipt of the written notice from such Member**. The Corporation's acceptance shall be evidenced by a notice to Members announcing the Member's termination and the effective date of the termination of the Member (hereinafter the "Termination Date"). As of the Termination Date, a Netting Member that terminates its membership in the Netting System, or a Comparison-Only Member or Netting Member that terminates its membership in the Corporation, shall no longer be eligible or required to submit to the Corporation data on trades and shall no longer be eligible to have its trade data submitted by an authorized submitter, notwithstanding any provision of Rule 5, Rules 6A through 6C, or Rule 11 to the contrary, unless the Board determines otherwise in order to ensure an orderly liquidation of the Member's Net Settlement Positions. A Member's voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to transactions submitted to the Corporation before the Termination Date.

\* \* \* \*

## RULE 3B – CENTRALLY CLEARED INSTITUTIONAL TRIPARTY SERVICE

### Section 1 – General

The rights, liabilities and obligations of CCIT Members shall be governed by this Rule 3B. References to a “Member” in other Rules shall not apply to CCIT Members, unless specifically noted as such in this Rule 3B or in such other Rules.

In order for a Netting Member to participate in the CCIT Service as a trading counterparty to CCIT Members in CCIT Transactions, the Netting Member must be a participant in the GCF Repo Service. In addition to the Rules governing Netting Members, Netting Members who submit CCIT Transactions shall be subject to the provisions of this Rule 3B and to such other Rules applicable to CCIT Transactions.

### Section 2 – Eligibility for Membership: CCIT Member

(a) The Corporation may approve an application to become a CCIT Member upon a determination that:

(i) Financial Responsibility – The applicant has sufficient financial ability to meet all of its obligations to the Corporation in a timely manner.

(ii) (A) Except as otherwise provided in subsection (B), (C) or (D) below, the applicant has minimum Net Assets of \$100 million. The Corporation, based upon the level of the anticipated positions and obligations of the applicant, the anticipated risk associated with the volume and types of transactions the applicant proposes to process through the Corporation and the overall financial condition of the applicant, may impose greater standards.

(B) For applicants whose financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of 1985 (UK generally accepted accounting principles) or Canadian generally accepted accounting principles, the minimum financial requirements shall be one and one-half times the applicable requirements set forth in subsection (A) above.

(C) For applicants whose financial statements are prepared in accordance with the generally accepted accounting principles of a European Union country other than the United Kingdom, the minimum financial requirements shall be five times the applicable requirements set forth in subsection (A) above.

(D) For applicants whose financial statements are prepared in accordance with any other type of generally accepted accounting principles, the minimum financial requirements shall be seven times the applicable requirements set forth in subsection (A) above.

- (iii) Operational Capability – The applicant or its Joint Account Submitter, as applicable, must be able to satisfactorily communicate with the Corporation, fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy, and conform to any operational condition and requirement that the Corporation reasonably deems necessary for its protection or that of its Members (including CCIT Members).**
- (iv) Fees – The applicant agrees to make, and has sufficient financial ability to make, all anticipated fee payments required to be made to the Corporation that may be set forth in these Rules.**
- (v) Disqualification Criteria – The Corporation must have received no substantial information that would reasonably and adversely reflect on the applicant, or its Controlling Management, if applicable, to such an extent that the applicant should be denied membership in the Corporation. The Corporation, in its sole discretion, shall determine whether any of the following criteria should be the basis for denial of the membership application:**

  - (A) the applicant is subject to Statutory Disqualification (as defined in Section 3(a)(39) of the Exchange Act), or an order of similar effect issued by a Federal or State banking authority, or other examining authority or regulator, including a non-U.S. examining authority or regulator;**
  - (B) the applicant or its Controlling Management has been responsible for (I) making a misstatement of a material fact or omitting to state a material fact to the Corporation, in connection with its application to become a Member or thereafter or (II) fraudulent acts or violation of the Securities Act of 1933, the Exchange Act, the Investment Company Act, the Investment Advisers Act or the Government Securities Act of 1986, or any rule or regulation promulgated thereunder;**
  - (C) the applicant or its Controlling Management has been convicted within the ten years preceding the filing of the application or at any time thereafter of (I) any criminal offense involving the purchase, sale or delivery of any security, bribery, perjury, burglary or conspiracy to commit any offense referred to in this subparagraph, (II) the larceny, theft, robbery, embezzlement, extortion, fraudulent conversion, fraudulent concealment, forgery or misappropriation of funds, securities or other property, (III) any violation of Sections 1341, 1342 or 1343 of Title 18, United States Code or (IV) any other criminal offense involving breach of fiduciary obligation, or arising out of the conduct of business as a broker, dealer, investment**

company, adviser or underwriter, bank, trust company, fiduciary, insurance company or other financial institution;

(D) the applicant or its Controlling Management has been permanently or temporarily enjoined or prohibited by order, judgment or decree of any court or other governmental authority of competent jurisdiction from acting as a broker, dealer, investment company, adviser or underwriter, bank, trust company, fiduciary, insurance company or other financial institution, or from engaging in or continuing any conduct or practice in connection with any such activity, or in connection with the purchase, sale or delivery of any security, and the enforcement of such injunction or prohibition has not been stayed; or

(E) the applicant has been expelled or suspended from or had its participation terminated by a national securities association or exchange registered under the Exchange Act, a Self-Regulatory Organization or an entity that engages in clearance and settlement activities or a securities depository, or has been barred or suspended from being associated with any member of such an exchange, association, organization, entity or securities depository.

(vi) Enforceability Opinion – The applicant provides the Corporation with an opinion of counsel acceptable to the Corporation in its sole discretion that the Corporation’s Rules will be enforceable against such applicant if it becomes a CCIT Member.

(vii) Insolvency Opinion – The Corporation has (or is able to obtain from the applicant or otherwise) an opinion of counsel acceptable to the Corporation in its sole discretion that, in the event the Corporation ceases to act for the applicant after such applicant becomes a CCIT Member, the Corporation will be able to exercise the remedies described in these Rules, including those specified in Section 11(e) of this Rule 3B. The Corporation may determine in its discretion that the opinion described in this Section 2(a)(vii) is not required in respect of an applicant.

(b) Two or more CCIT Members may be represented by a Joint Account Submitter that has been approved by the Corporation subject to such CCIT Member signing and delivering a Joint Account Submitter Agreement to the Corporation in such form as may be prescribed by the Corporation. If the Corporation terminates the Joint Account Submitter Agreement, the Joint Account Submitter will no longer be permitted to represent the CCIT Members in the Joint Account. Each such CCIT Member will be required to assume the duties of the Joint Account Submitter or appoint a new Joint Account Submitter subject to the requirements of these Rules.

**(c) In addition to the criteria set forth in subsection (a) above, the Corporation shall retain the right to deny membership to an applicant if the Corporation becomes aware of any factor or circumstance about the applicant or its Controlling Management which may impact the suitability of that particular applicant as a Member of the Corporation. Further, applicants are required to inform the Corporation as to any member of their Controlling Management that is or becomes subject to Statutory Disqualification (as defined in Section 3(a)(39) of the Exchange Act).**

### **Section 3 – Membership Application Process to Become a CCIT Member**

**(a) Each applicant to become a CCIT Member shall, as required by the Corporation from time to time, complete and deliver to the Corporation an Applicant Questionnaire in such form as may be prescribed by the Corporation and shall also deliver to the Corporation the financial reports, other reports, opinions and other information as the Corporation determines appropriate.**

**(b) Each applicant to become a CCIT Member or its Joint Account Submitter, as applicable, must also fulfill, within the timeframes established by the Corporation, any operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the operational capability of the applicant.**

**(c) Each applicant shall complete and deliver to the Corporation a FATCA Certification as part of its membership application. Without limiting the generality of the foregoing, if an applicant is a FFI Member, the Corporation shall require such applicant to certify and periodically recertify to the Corporation that it is FATCA Compliant under such procedures as are set forth under FATCA, unless such requirements have been explicitly waived in writing by the Corporation; provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property. In addition, as part of its membership application, such applicant must agree that it shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation as a result of its failing to be FATCA Compliant.**

**(d) Except as otherwise provided in Rule 29 (Release of Clearing Data), any information furnished to the Corporation pursuant to this Rule shall be held in at least the same degree of confidence as may be required by law or the rules and regulations of the appropriate regulatory body having jurisdiction over the applicant or Member.**

**(e) In evaluating a membership application, the Corporation may:**

**(i) if applicable, contact the applicant's primary regulatory authority, other examining authority or regulator or any self-regulatory organization of which the applicant is a member and request from such authority or organization any records, reports, or other**



information that, in their judgment, may be relevant to the application;

- (ii) examine the books, records and operational procedures of, and inspect the premises of, the applicant or its Controlling Management as they may be related to the business to be conducted through the Corporation; and
- (iii) take such other evidence or make such other inquiries as is necessary, including sworn or unsworn testimony, to ascertain relevant facts bearing upon the applicant's qualifications.

The Corporation shall approve an application to become a CCIT Member only upon a determination that the applicant meets the standards set forth in this Rule. In addition, with regard to any applicant that is an FFI Member, such applicant must be FATCA Compliant.

Notwithstanding that an application to become a CCIT Member shall have been approved by the Corporation, if a material change in the condition of the applicant or its Controlling Management occurs, which in the judgment of the Corporation could bring into question the applicant's ability to perform as a CCIT Member, and such material change becomes known to the Corporation prior to the applicant's commencing use of the Corporation's services, the Corporation shall have the right to stay commencement by the applicant of use of the Corporation's services until a reconsideration by the Corporation of the applicant's financial responsibility and operational capability can be completed. As a result of such reconsideration, the Corporation may determine to withdraw approval of an application to become a CCIT Member or condition the approval upon the furnishing of additional information or assurances.

The Corporation may deny an application to become a CCIT Member upon the Corporation's determination that the Corporation does not have adequate personnel, space, data processing capacity or other operational capability at that time to perform its services for the applicant without impairing the ability of the Corporation to provide services for its existing Members (including CCIT Members), to assure the prompt, accurate and orderly processing and settlement of securities transactions or to otherwise carry out its functions; provided, however, that any such applications which are denied pursuant to this paragraph shall be approved as promptly as the capabilities of the Corporation permit.

Upon the Corporation's denial of an application to become a CCIT Member pursuant to this Rule, the Corporation shall furnish the applicant with a concise written statement setting forth the specific grounds under consideration upon which any such denial may be based and shall notify the applicant of its right to request a hearing before the Board, such request to be filed by the applicant with the Corporation pursuant to Rule 37 (Hearing Procedures).

#### Section 4 – Membership Agreement

Each applicant to become a CCIT Member shall sign and deliver to the Corporation a membership agreement whereby the applicant shall agree, as applicable:

(a) to abide by the Rules of the Corporation and to be bound by all the provisions thereof;

(b) to pay to the Corporation in a timely manner the compensation provided for by the Rules of the Corporation for services rendered and such costs and fines as may be imposed in accordance with such Rules of the Corporation for the failure to comply therewith;

(c) to be bound by any amendment to the Rules of the Corporation with respect to any transaction occurring subsequent to the time such amendment takes effect as fully as though such amendment were now a part of the Rules of the Corporation;

(d) to continue to be bound by the Rules of the Corporation, notwithstanding that it may have terminated its membership, as to all matters and transactions occurring while it was a CCIT Member;

(e) to fulfill its settlement obligations to the Corporation in accordance with the Rules of the Corporation and pay or deliver to the Corporation in a timely manner all amounts due and any loss or liability allocated to it pursuant to the Rules of the Corporation;

(f) that the determination of the Board as to any questions arising with regard to any payment, charge, fee, deposit, or fine to which it may be subject shall be final and conclusive, except as may be otherwise provided in these Rules;

(g) if the applicant is represented at any time by a Joint Account Submitter and is participating through a Joint Account, (i) to cause the Joint Account Submitter to fulfill all obligations of a Joint Account Submitter under these Rules, (ii) that the failure of the Joint Account Submitter to fulfill the requirements of the CCIT Member and/or the Joint Account under these Rules shall not excuse such CCIT Member's obligations to the Corporation pursuant to the Rules and (iii) that the Joint Account may be liable for the failure of the Joint Account Submitter to fulfill the obligations of a Joint Account Submitter under these Rules;

(h) if the applicant is represented at any time by a Joint Account Submitter and is participating through a Joint Account, (i) to specify its Joint Account Submitter in advance of such Joint Account Submitter submitting its first trade on behalf of the applicant, (ii) to provide the Corporation with advance notice in writing of a change in its Joint Account Submitter and (iii) to not revoke the authority of its Joint Account Submitter without providing the Corporation with advance written notice; and

(i) to any other terms and conditions deemed by the Corporation to be necessary in order to protect itself and its Members (including CCIT Members), including

all agreements, opinions of counsel and other legal documentation required by the Corporation.

Each applicant to become a CCIT Member that plans to participate through a Joint Account must enter into a Joint Account Submitter Agreement with the Corporation.

Each CCIT Member that is represented by a Joint Account Submitter shall only be entitled to and liable for rights and obligations arising under or in connection with CCIT Transactions allocated to such CCIT Member. To the extent a Joint Account or Joint Account Submitter incurs obligations to the Corporation that are unallocated, each CCIT Member represented by such Joint Account Submitter shall only be liable for its pro rata share of such obligations.

The Corporation may terminate a Joint Account Submitter Agreement if: (i) the relevant Joint Account or any CCIT Member that participates in the Joint Account fails to satisfy the requirements applicable to it under these Rules; (ii) the Joint Account Submitter fails to satisfy the requirements of these Rules relating to such Joint Account Submitter; or (iii) the Corporation determines, in its sole discretion, that such action is necessary for the protection of the Corporation or its Members (including CCIT Members).

#### Section 5 – On-going Membership Requirements

(a) The eligibility qualifications and standards set forth above in this Rule shall be continuing membership requirements. In addition, each CCIT Member shall comply with the ongoing requirements set forth below in this Section.

(b) Each CCIT Member shall submit to the Corporation disclosure on at least an annual basis regarding such CCIT Member's Net Assets, any financial statements the CCIT Member makes publicly available and such other reports, financial and other information as the Corporation from time to time may reasonably require. The time periods prescribed by the Corporation for such disclosure are set forth in the form of notices posted at the Corporation's website and/or distributed by the Corporation from time to time. It shall be the CCIT Member's responsibility to retrieve all notices daily from the Corporation's website.

(c) Each CCIT Member shall submit to the Corporation written notice of any CCIT Reportable Event. A CCIT Reportable Event means:

- (i) an event that would, after giving effect thereto, cause a material change in the control, ownership or management of the CCIT Member, or that could have a material impact on such CCIT Member's business and/or financial condition;
- (ii) material changes in the CCIT Member's business lines, including new business lines undertaken; or

- (iii) any litigation which could reasonably be anticipated to have a material negative effect on the CCIT Member’s financial condition or ability to conduct business.

A CCIT Member must submit to the Corporation written notice of any CCIT Reportable Event at least 90 calendar days prior to the effective date of such CCIT Reportable Event, unless the CCIT Member demonstrates that it could not have reasonably done so, and provides notice, both orally and in writing, to the Corporation as soon as possible.

Each CCIT Member that is an FFI Member shall inform the Corporation, both orally and in writing, if it (i) undergoes a change in circumstance that would affect its FATCA Certification or (ii) otherwise has reason to know that it is not, or will not be, FATCA Compliant, in each case, within two days of knowledge thereof.

(d) A CCIT Member that fails to submit the above listed information within the timeframes required by guidelines issued by the Corporation from time to time and in the manner requested shall be subject to the fine(s) noted under “Failure to Timely Provide Financial and Related Information” and “Reportable Events—Fine for Failure of Timely Notification”, as applicable, in the Fine Schedules in these Rules.

(e) Operational Testing Requirements

(i) The Corporation may, from time to time, require CCIT Members or their Joint Account Submitters, as applicable, to fulfill, within the timeframes established by the Corporation, certain operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the continuing operational capability of such CCIT Members. The Corporation will assess a fine or terminate the membership of any CCIT Member that does not fulfill any such operational testing and related reporting requirements within the timeframes established by the Corporation. If a Joint Account Submitter does not fulfill any such operational testing and related reporting requirements within the timeframes established by the Corporation, the Corporation may terminate all Joint Account Submitter Agreements for any or all CCIT Members that such Joint Account Submitter represents.

(ii) The Corporation has established standards for designating those CCIT Members or Joint Account Submitters, as applicable, who shall be required to participate in annual business continuity and disaster recovery testing that the Corporation reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event that business continuity and disaster

recovery plans are required to be activated. The standards shall take into account factors such as: (A) activity-based thresholds; (B) significant operational issues of the CCIT Member during the twelve months prior to the designation; and (C) past performance of the CCIT Member or its Joint Account Submitter, as applicable, with respect to operational testing. The specific standards adopted by the Corporation and any updates or modifications thereto shall be published to CCIT Members and applied on a prospective basis.

Upon notification that the CCIT Member or its Joint Account Submitter, as applicable, has been designated to participate in the annual business continuity and disaster recovery testing, as described above, the CCIT Member or its Joint Account Submitter, as applicable, shall be required to fulfill, within the timeframes established by the Corporation, certain testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner determined by the Corporation).

(f) A CCIT Member shall promptly inform the Corporation, both orally and in writing, if it no longer is in compliance with any of the relevant qualifications and standards for admission to membership set forth in this Rule, including the criteria set forth in Section 2(a) of this Rule. Notification must take place within two Business Days from the date on which the CCIT Member first learns of its non-compliance. The Corporation shall assess a \$1,000.00 fine against any CCIT Member which fails to so notify the Corporation. In addition, a CCIT Member shall notify the Corporation within two Business Days of learning that an investigation or proceeding to which it is or is becoming the subject of would cause the CCIT Member to fall out of compliance with any of the relevant qualifications and standards for membership set forth in this Rule. Notwithstanding the previous sentence, the CCIT Member shall not be required to notify the Corporation if doing so would cause the CCIT Member to violate an applicable law, rule or regulation. If, with respect to a CCIT Member: (i) it fails to maintain the relevant standards and qualifications for admission to membership, including but not limited to minimum capital standards and operational testing and related reporting requirements imposed by the Corporation from time to time; (ii) it violates any Rule of the Corporation or other agreement with the Corporation; (iii) it fails to satisfy in a timely manner any obligation to the Corporation; (iv) there is any CCIT Reportable Event relating to such Member; or (v) the Corporation otherwise deems it necessary or advisable, in order to protect the Corporation, its other Members (including CCIT Members), or its creditors or investors, to safeguard securities and funds in the custody or control of the Corporation or for which the Corporation is responsible, or to promote the prompt and accurate processing, clearance or settlement of securities transactions, the Corporation will undertake appropriate action to determine the status of the CCIT Member and its continued eligibility. In addition, the Corporation may review the financial responsibility and operational capability of the CCIT Member and/or its Controlling Management to the extent provided in these Rules and otherwise require from the CCIT Member additional

reporting of its financial or operational condition at such intervals and in such detail as the Corporation shall determine, and shall make a determination as to whether such CCIT Member should be placed on the Watch List by the Corporation consistent with the provisions of Section 5(l) of this Rule.

(g) In addition, if the Corporation has reason to believe that a CCIT Member may fail to comply with any of the Rules, it may require the CCIT Member to provide it, within such timeframe, in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the CCIT Member shall not, in fact, violate any of these Rules. Notwithstanding the previous sentence, each CCIT Member, or any applicant to become such, shall furnish to the Corporation such adequate assurances of its financial responsibility and operational capability as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation and its Members (including CCIT Members), or its creditors or investors, to safeguard securities and funds in the custody or control of the Corporation or for which the Corporation is responsible, or to promote the prompt and accurate processing, clearance or settlement of securities transactions. Upon the request of a CCIT Member or applicant to become such, the Corporation may choose to confer with the CCIT Member or applicant before or after requiring it to furnish adequate assurances pursuant to this Rule.

Adequate assurances of financial responsibility or operational capability of a CCIT Member or applicant to become such, as may be required by the Corporation pursuant to these Rules, may include, but shall not be limited to, as appropriate in the context of the CCIT Member's use of the Corporation's services:

- (i) imposing restrictions or modifications on the CCIT Member's use of the Corporation's services (whether generally or with respect to certain transactions); or
- (ii) requiring additional reporting by the CCIT Member of its financial or operational condition at such intervals and in such detail as the Corporation shall determine.

(h) In the event that a CCIT Member fails to maintain the relevant requirements of any of these Rules, the Corporation shall, pursuant to these Rules, cease to act for the CCIT Member, unless the CCIT Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the CCIT Member, it is appropriate instead to establish for such CCIT Member a time period (the "Noncompliance Time Period"), which shall be determined by the Corporation and which shall be no longer than 30 calendar days unless otherwise determined by the Corporation, during which the CCIT Member must resume compliance with such requirements. In the event that the CCIT Member is unable to satisfy such requirements within the Noncompliance Time Period, the Corporation shall, pursuant to these Rules, cease to act for the CCIT Member. If the Corporation takes any cease to act action pursuant to this paragraph, it shall promptly file with its records and with the SEC a full report of such actions, and the reasons thereof.

(i) Notwithstanding anything to the contrary in this Section, if the Corporation, in its sole discretion, determines that a CCIT Member's financial condition has significantly deteriorated during a Noncompliance Time Period, the Corporation immediately may, pursuant to these Rules, cease to act for the CCIT Member.

(i) Compliance with Laws

(i) General

In connection with their use of the Corporation's services, CCIT Members and their Joint Account Submitters, as applicable, must comply with all applicable laws, including applicable laws relating to securities, taxation, and money laundering, as well as global sanctions laws.

(ii) Global Sanctions

As part of their compliance with global sanctions regulations, CCIT Members and their Joint Account Submitters, as applicable, must not conduct any transaction or activity through the Corporation which they know to violate global sanctions regulations.

CCIT Members subject to the jurisdiction of the U.S. are required to periodically confirm that they and their Joint Account Submitters, as applicable, have implemented a risk-based program reasonably designed to comply with applicable OFAC sanctions regulations. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a \$5,000.00 fine.

(iii) FATCA

Each CCIT Member that is an FFI Member must agree not to conduct any CCIT Transaction or activity through the Corporation if such CCIT Member is not FATCA Compliant, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific CCIT Member; provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.

All such CCIT Members that are FFI Members are required, as applicable under FATCA, to certify and periodically recertify to the Corporation that they are FATCA Compliant by providing to the Corporation a FATCA Certification. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a fine, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific CCIT Member; provided, however, that no such waiver will be issued if it

shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.

A CCIT Member that is an FFI Member shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation as a result of such CCIT Member failing to be FATCA Compliant.

(k) A CCIT Member's and its Controlling Management's books and records, insofar as they relate to such CCIT Member's transactions processed through the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation upon reasonable prior notice and during the CCIT Member's or its Controlling Management's normal business hours. The Corporation shall be furnished with all such information about the CCIT Member's and its Controlling Management's business and transactions as it may require; provided that (i) the aforesaid rights of the Corporation shall be subject to any applicable laws, rules or regulations of regulatory bodies having jurisdiction over the CCIT Member or its Controlling Management which relate to the confidentiality of records and (ii) if the CCIT Member ceases membership, the Corporation shall have no right to inspect the CCIT Member's or its Controlling Management's books and records or to require information relating to transactions wholly subsequent to the time when the CCIT Member ceases membership.

(l) CCIT Members may be monitored for financial and/or operational factors as the Corporation deems necessary to protect the Corporation and its Members from undue risk. CCIT Members will not be assigned a rating from the Credit Risk Rating Matrix; however, they may be included on the Watch List at the Corporation's discretion. Placement on the Watch List shall result in a more thorough monitoring of the CCIT Member's financial and/or operational condition, as applicable, and activities by the Corporation. The Corporation may require CCIT Members placed on the Watch List to make more frequent financial disclosures, possibly including interim and/or pro forma reports. A CCIT Member shall be placed on the Watch List if the Corporation takes any action against such CCIT Member pursuant to Section 5(f) of this Rule 3B. A CCIT Member shall continue to be included on the Watch List until the condition(s) that resulted in its placement on the Watch List have improved to the point where the condition(s) are no longer present or a determination is made by the Corporation that close monitoring is no longer warranted.

#### Section 6 – Voluntary Termination

A CCIT Member may elect to terminate its membership in the Corporation by providing the Corporation with 10 Business 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 which shall be no later than 10 Business Days after the receipt of the written notice from the CCIT Member. The Corporation's acceptance shall be evidenced by a notice to Members (including CCIT Members) announcing the CCIT Member's termination and the effective date of the termination of the CCIT Member (hereinafter the "Termination



Date”). As of the Termination Date, a CCIT Member that terminates its membership in the Corporation shall no longer be eligible or required to submit to the Corporation data on trades and shall no longer be eligible to have its trade data submitted by a Joint Account Submitter, unless the Board determines otherwise in order to ensure an orderly liquidation of the CCIT Member’s positions. A CCIT Member’s voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to transactions submitted to the Corporation before the Termination Date.

#### Section 7 – Loss Allocation Obligations of CCIT Members

Section 7 (Allocation of Loss or Liability Incurred by the Corporation) of Rule 4 (Clearing Fund and Loss Allocation) shall apply to CCIT Members as Tier Two Members. CCIT Members shall be responsible for the total amount of loss allocated to them. With respect to CCIT Members with a Joint Account Submitter, loss allocation will be calculated at the Joint Account level and then applied pro rata to each CCIT Member in the Joint Account based on the trade settlement allocation instructions. If, at the time the Corporation calculates loss allocation, the trade settlement allocation instructions to the individual CCIT Member level have not yet been received by the Corporation, the CCIT Members in the Joint Account shall be required to provide the allocation to the Corporation within the timeframes set by the Corporation in its discretion.

#### Section 8 – Obligations Under Rule 4 Regarding Netting Members That Participate in the CCIT Service

The provisions of Rule 4 (Clearing Fund and Loss Allocation) shall apply to the CCIT Service activity of Netting Members in the same way in which such provisions apply to Netting Members’ GCF Repo Transaction activity.

#### Section 9 – Trade Submission and the Comparison System

(a) CCIT Members (whether submitting individually or through a Joint Account) shall be permitted to submit only CCIT Transactions to the Corporation. CCIT Transactions must be in Generic CUSIP Numbers approved by the Corporation for GCF Repo Transactions.

(b) Each CCIT Member shall be required to maintain two accounts at the GCF Clearing Agent Bank(s) at which the Netting Members with whom the CCIT Member enters into CCIT Transactions maintain accounts. One account at such GCF Clearing Agent Bank shall be designated for the CCIT Member’s activity in respect of CCIT Transactions (the “CCIT Account”) and the second account shall be designated for Transactions (as defined in Section 14(a) of this Rule 3B) initiated by the Corporation pursuant to Section 14(a) of this Rule 3B (the “CCIT MRA Account”). In each case, such accounts shall be as designated by the Corporation for these purposes from time to time. If acting through a Joint Account, a CCIT Member shall cause its Joint Account Submitter to maintain both a CCIT Account and a CCIT MRA Account for the Joint Account at the

**GCF Clearing Agent Bank(s) at which the Netting Members with whom the CCIT Member enters into CCIT Transactions maintain accounts.**

**(c) The provisions of Rule 5 (Comparison System) shall apply to CCIT Transactions subject to the following:**

- (i) “Member”, when used in Rule 5, shall include a CCIT Member or a Joint Account Submitter acting on behalf of a CCIT Member, as applicable.**
- (ii) With respect to Section 3 (Trade Submission Communication Methods) of Rule 5, CCIT Transactions may only be submitted using the Interactive Submission Method or the Corporation’s web interface.**
- (iii) With respect to Section 4 (Submission Size Alternatives) of Rule 5, CCIT Transactions must be submitted exactly as executed.**

**CCIT Transactions may be submitted for Bilateral Comparison or Locked-In Comparison.**

**(d) Rule 6A (Bilateral Comparison) shall govern the comparison of CCIT Transactions that are submitted for Bilateral Comparison subject to the following:**

- (i) “Member”, when used in Rule 6A, shall include a CCIT Member or a Joint Account Submitter acting on behalf of a CCIT Member, as applicable.**
- (ii) With respect to Section 1 (General) of Rule 6A, the Schedule of Required and Other Data Submission Items for GCF Repo Transactions shall apply to CCIT Transactions. The Schedule of Required Match Data and the Schedule of Money Tolerances shall not apply to CCIT Transactions. With respect to the Schedule of Required and Other Data Submission Items for GCF Repo Transactions, the fields requiring Broker information shall not apply.**
- (iii) With respect to Section 2 (Submission Method Requirements) of Rule 6A, CCIT Transactions may only be submitted using the Interactive Submission Method or the Corporation’s web interface.**

**(e) The following provisions of Rule 6C (Locked-In Comparison) shall govern the comparison of CCIT Transactions that are submitted on a Locked-In Trade basis: Sections 1 (General), 2 (Authorizations of Transmission to and Receipt by the Corporation of Data on Locked-In Trades), the first sentence in Section 4 (Submission Requirements), 5 (GCF Repo Transactions), 7 (Reporting of Locked-In Trades), 8 (Discretion to not Accept Data), 9 (Binding Nature of Comparison System Output on Locked-In Trades), 12 (Affirmation, Cancellation and Modification Requirements for Data on GCF Repo Transactions) and 13 (Timing of Comparison). For purposes of the application of these**

**provisions to CCIT Transactions, CCIT Transactions shall be treated as GCF Repo Transactions. “Member”, when used in applicable parts of Rule 6C, shall include a CCIT Member or, as applicable, a Joint Account Submitter acting on behalf of a CCIT Member.**

**(f) The Schedule of GCF Timeframes shall apply to CCIT Transactions (whether submitted for Bilateral Comparison or Locked-In Comparison) and CCIT Members shall be subject to any applicable late fees (applied at the Joint Account level if applicable) noted in the Corporation’s Fee Structure for failure to meet applicable deadlines. CCIT Members shall be subject to all consequences for not meeting the deadlines in the Schedules noted in Rule 20 (Special Provisions for GCF Repo Transactions) in the same way as such consequences apply to Netting Members.**

#### **Section 10 – Forward Trades**

**The provisions of Rule 14 (Forward Trades) shall apply to CCIT Transactions in the same way such provisions apply to GCF Repo Transactions.**

#### **Section 11 – Netting System and Settlement of CCIT Transactions**

**(a) Rule 20 (Special Provisions for GCF Repo Transactions) shall apply to the netting and settlement obligations of the Corporation and each party to a CCIT Transaction in the same way in which such provisions apply to GCF Repo Transactions subject to the following:**

- (i) when used, “Netting Member” shall include a CCIT Member or, as applicable, a Joint Account;**
- (ii) CCIT Members (whether acting individually or through a Joint Account) shall always be GCF Net Funds Lenders;**
- (iii) CCIT Members shall not be Interbank Pledging Members;**
- (iv) CCIT Members shall not be initiators of requests for collateral substitutions but shall be the recipients of such collateral substitutions; and**
- (v) The CCIT Transaction activity of Netting Members shall be netted with such Netting Members’ GCF Repo Service activity for one net obligation per GCF Repo Service Generic CUSIP Number.**

**(b) On each Business Day, CCIT Members submitting CCIT Transactions through a Joint Account shall cause their Joint Account Submitter to submit the trade settlement allocation with respect to trades settled by the Joint Account during that Business Day.**

**(c) Each CCIT Member hereby grants to the Corporation a security interest in all its right, title and interest, at any time acquired, in and to the securities and other property delivered to it by the Corporation pursuant to a CCIT Transaction from time to**

time credited to an account maintained by the CCIT Member or the Joint Account Submitter on its behalf pursuant to Section 9(b) of this Rule 3B as security for the prompt and complete payment and performance when due (whether at stated maturity or by acceleration or otherwise) of all obligations of the CCIT Member to the Corporation under each CCIT Transaction.

(d) Although the Corporation and each CCIT Member intends that each CCIT Transaction be a sale and purchase and not a loan, in the event any such CCIT Transaction is deemed to be a loan, the Corporation shall be deemed to have pledged to the relevant CCIT Member as security for the performance by the Corporation of its obligations under such CCIT Transaction, and shall be deemed to have granted to such CCIT Member a security interest in, the securities and other property delivered to it by the Corporation pursuant to such CCIT Transaction from time to time credited to the account maintained by the CCIT Member or the Joint Account Submitter on its behalf pursuant to Section 9(b) of this Rule 3B.

(e) In addition to and not by way of limitation of any provisions of these Rules, if the Corporation ceases to act for a CCIT Member, the Corporation may (i) exercise all rights and remedies available to a secured party under the Uniform Commercial Code, whether or not in effect in the applicable jurisdiction and (ii) instruct the relevant GCF Clearing Agent Bank to deliver to the Corporation the Eligible Securities that the CCIT Member is obligated to return to the Corporation against payment by the Corporation of the Contract Value.

#### Section 12 – Compared Trades

Rule 11B (Guaranty of Settlement) shall apply to CCIT Transactions that are Compared Trades.

#### Section 13 – Funds-Only Settlement

(a) A CCIT Member, or Joint Account (as applicable), shall have the same Funds-Only Settlement Amount obligations as a Netting Member pursuant to Rule 13 (Funds-Only Settlement), and Rule 13 shall apply in its entirety to CCIT Members in the same way as it applies to Netting Members except that only the following components of Section 1 of Rule 13 shall apply to CCIT Members with respect to their CCIT Transactions:

(i) Invoice Amount; and

(ii) Miscellaneous Adjustment Amount.

(b) The following components of Section 1 of Rule 13 shall apply to Netting Members with respect to their CCIT Transactions (such components shall apply as they apply to GCF Repo Transactions except as noted below):

- (i) Transaction Adjustment Payment;
- (ii) GCF Interest Rate Mark, provided that Netting Members shall be obligated to pay debits but shall not be entitled to collect credits for GCF Interest Rate Mark with respect to their CCIT Transactions;
- (iii) Interest Rate Mark, provided that Netting Members shall be obligated to pay debits but shall not be entitled to collect credits for Interest Rate Mark with respect to their CCIT Transactions;
- (iv) Interest Rate Mark Adjustment Payment;
- (v) Invoice Amount as it relates to CCIT Transactions; and
- (vi) Miscellaneous Adjustment Amount as it relates to CCIT Transactions.

(c) CCIT Daily Repo Interest shall also apply to CCIT Members (or Joint Accounts as applicable) and Netting Members with respect to their CCIT Transactions.

#### Section 14 – Liquidity Requirements of CCIT Members

(a) In order to finance the Corporation’s obligations in respect of certain Deliver Obligations in connection with CCIT Transactions in accordance with subsection (b) of this Section 14, the SIFMA MRA (without the referenced annexes) is hereby incorporated by reference in the Rules as a master repurchase agreement between the Corporation, as Seller, and each CCIT Member, as Buyer (the “CCIT MRA”); provided that, notwithstanding anything else set forth in the CCIT MRA:

- (i) Transactions (for purposes of this Section 14(a), as defined in the CCIT MRA) shall only be initiated by the Corporation in accordance with this Rule 3B,
- (ii) all Transactions shall be terminable only by demand of the Corporation and in accordance with this Rule 3B except as specified in subsection (c) below,
- (iii) all Securities (for purposes of this Section 14(a), as defined in the CCIT MRA) shall be transferred by the Corporation in its sole discretion,
- (iv) any and all notices, statements, demands or other communications under the CCIT MRA shall be given by a party to the other in accordance with the notice provisions set forth in the Rules,
- (v) so long as the CCIT Member is a Member of the Corporation, the CCIT MRA may only be terminated by the Corporation except as specified in subsection (c) below,

- (vi) there shall be no Events of Default (for purposes of this Section 14(a), as defined in the CCIT MRA) with respect to Seller other than as specified in this Section 14,
- (vii) on any Business Day prior to the CCIT MRA Termination Date as defined in subsection (c) below, the Corporation may, by notice to Buyer, terminate any Transaction, in whole or in part, by specifying such Business Day as the Repurchase Date (for purposes of this Section 14(a), as defined in the CCIT MRA) for some or all of the Purchased Securities (for purposes of this Section 14(a), as defined in the CCIT MRA),
- (viii) if the Corporation terminates a portion of a Transaction pursuant to clause (vii) of this paragraph:

  - (A) the Repurchase Price (for purposes of this Section 14(a), as defined in the CCIT MRA) for the Purchased Securities to be repurchased on such date (the “Relevant Securities”) shall be an amount equal to the sum of the Purchase Price (for purposes of this Section 14(a), as defined in the CCIT MRA) for the Relevant Securities and the unpaid Price Differential (for purposes of this Section 14(a), as defined in the CCIT MRA) accrued on the Purchase Price for the Relevant Securities through such Business Day;
  - (B) upon transfer of the Repurchase Price for the Relevant Securities, the Relevant Securities shall no longer constitute Purchased Securities; and
  - (C) upon transfer of the Repurchase Price for the Relevant Securities, the Purchase Price for the Transaction shall be reduced by the Purchase Price for the Relevant Securities,
- (ix) Section 19(a) of the CCIT MRA shall be amended by adding at the end thereof before the period “, and this Agreement and each Transaction is of a type set forth in Section 5390(c)(8)(D) of Title 12 of the United States Code, as amended”,
- (x) Section 19(b) of the CCIT MRA shall be amended by adding at the end thereof before the period “, and a right to terminate, liquidate or accelerate as described in Section 5390(c)(8)(A) and (C) of Title 12 of the United States Code, as amended”,
- (xi) Buyer’s Margin Percentage (for purposes of this Section 14(a), as defined in the CCIT MRA) shall be 102% for all Transactions, and
- (xii) the Pricing Rate (as defined in the CCIT MRA) in respect of each Transaction shall be the rate published on the Corporation’s website at the time the Corporation initiates such Transaction, corresponding

to: (A) U.S. Treasury < 30-year maturity (CUSIP: 371487AE9) if the Purchased Securities under such Transaction are U.S. Treasury bills, notes or bonds, (B) Non-Mortgage Backed U.S. Agency Securities (CUSIP: 371487AH2) if the Purchased Securities under such Transaction are non-mortgage-backed U.S. agency securities or (C) Fannie Mae and Freddie Mac Fixed Rate MBS (CUSIP: 371487AL3) if the Purchased Securities under such Transaction are mortgage-backed securities, or if the relevant foregoing rate is unavailable, a rate that the Corporation reasonably determines approximates the average daily interest rate paid by a seller of the Purchased Securities under a cleared repurchase transaction.

(b) Once the Corporation has ceased to act for a Netting Member with whom a CCIT Member traded pursuant to these Rules, if any portions of such trades, as guaranteed and novated pursuant to these Rules, remain outstanding, then, if the Corporation determines, in its sole discretion, that the procedures below are necessary to address certain of the Corporation's liquidity needs, the Corporation may initiate transactions under the CCIT MRA as provided below.

- (i) The Corporation shall determine which CCIT Members had open CCIT Transactions originally with the Defaulting Member (each such CCIT Member an "Affected CCIT Member"),
- (ii) The Corporation shall notify all Affected CCIT Members informing them that the Corporation will initiate repurchase agreements under the CCIT MRA,
- (iii) The Corporation shall determine each Affected CCIT Member's pro rata share of the total principal dollar amount of such CCIT Transactions originally with the Defaulting Member in respect of which the Corporation needs financing, with such pro rata share being determined by reference to the total dollar amount of such Affected CCIT Member's trades with the Defaulting Member that remain unsettled (such Affected CCIT Member's "Financing Amount"),
- (iv) The Corporation shall initiate repurchase transactions under the terms and conditions of the CCIT MRA with each Affected CCIT Member having a Purchase Price equal to such Affected CCIT Member's Financing Amount (each such repurchase transaction, a "CCIT MRA Transaction", shall be a "Transaction" under the CCIT MRA),
- (v) The payment of the Purchase Price and the delivery of any Purchased Securities under each CCIT MRA Transaction shall be netted against the delivery obligations and related payment obligations under the

original CCIT Transaction to which such CCIT MRA Transaction relates, and

- (vi) Upon the initiation of a CCIT MRA Transaction, the Corporation shall cause the relevant GCF Clearing Agent Bank to transfer the Purchased Securities from an Affected CCIT Member's CCIT Account to such Affected CCIT Member's CCIT MRA Account.

(c) If (i) a Corporation Default has occurred during the term of a CCIT MRA Transaction or (ii) the Corporation has not repurchased all Purchased Securities (for purposes of this Section 14(c), as defined in the CCIT MRA) under the applicable CCIT MRA Transaction by (A) the end of the 30th calendar day after the Purchase Date (for purposes of this Section 14(c), as defined in the CCIT MRA) in the case of a CCIT MRA Transaction where the underlying security is a U.S. government agency debenture or U.S. Treasury bill, note or bond or (B) the end of the 60th calendar day after the Purchase Date in the case of a CCIT MRA Transaction where the underlying security is a mortgage-backed security (each a "CCIT MRA Termination Date"), the Affected CCIT Member may exercise the rights of a "nondefaulting party" under Section 11 of the CCIT MRA as if an "Event of Default" with respect to Seller had occurred and such Affected CCIT Member had exercised the option referred to in Section 11(a) of the CCIT MRA.

(d) It shall be an "Event of Default" with respect to Buyer under a CCIT MRA if the Corporation ceases to act for the relevant Affected CCIT Member.

(e) All delivery obligations and related payment obligations under an original CCIT Transaction in respect of which the Corporation enters into a CCIT MRA Transaction in accordance with Section 14(b) above shall be deemed satisfied by operation of this Section 14, and settlement of any such original CCIT Transaction between the Corporation and any CCIT Member shall be final notwithstanding that the Eligible Securities are not required to be delivered to the Corporation in connection with such original CCIT Transaction by the CCIT Member who was a buyer in the original CCIT Transaction (such delivery being netted against delivery to Buyer under the CCIT MRA).

(f) The Corporation and any CCIT Member may agree to enter into repurchase transactions in addition to those initiated by the Corporation pursuant to Section 14(b) above. In furtherance of the foregoing, the SIFMA MRA is hereby incorporated by reference in the Rules as a master repurchase agreement between the Corporation, as Seller, and each CCIT Member, as Buyer (the "Uncommitted CCIT MRA"); provided that, notwithstanding anything else set forth in the Uncommitted CCIT MRA:

- (i) Transactions (for purposes of this Section 14(f), as defined in the Uncommitted CCIT MRA) shall only be initiated by the Corporation in accordance with this Rule 3B,
- (ii) all Transactions shall be terminable only by demand of the Corporation and in accordance with this Rule 3B,



- (iii) all Securities (for purposes of this Section 14(f), as defined in the Uncommitted CCIT MRA) shall be transferred by the Corporation in its sole discretion,
- (iv) any and all notices, statements, demands or other communications under the Uncommitted CCIT MRA shall be given by a party to the other in accordance with the notice provisions set forth in the Rules,
- (v) there shall be no Events of Default (for purposes of this Section 14(f), as defined in the Uncommitted CCIT MRA) with respect to Seller other than a Corporation Default,
- (vi) Section 19(a) of the Uncommitted CCIT MRA shall be amended by adding at the end thereof before the period “, and this Agreement and each Transaction is of a type set forth in Section 5390(c)(8)(D) of Title 12 of the United States Code, as amended”, and
- (vii) Section 19(b) of the Uncommitted CCIT MRA shall be amended by adding at the end thereof before the period “, and a right to terminate, liquidate or accelerate as described in Section 5390(c)(8)(A) and (C) of Title 12 of the United States Code, as amended”.

**Section 15 – Restrictions on Access to Services by a CCIT Member, Insolvency of a CCIT Member and Wind-Down of a CCIT Member**

**The provisions of Rules 21 (Restrictions on Access to Services), 21A (Wind-Down of a Netting Member) and 22 (Insolvency of a Member) shall apply to CCIT Members in the same way as such provisions apply to Netting Members.**

**Section 16 – Procedures for When the Corporation Ceases to Act for a CCIT Member**

**Rule 22A (Procedures for When the Corporation Ceases to Act) shall apply when the Corporation ceases to act for a CCIT Member in the same way as such Rule applies to Netting Members, except that with respect to Section 2(b), the CCIT Member for whom the Corporation has ceased to act shall be required to return each Eligible Security that the CCIT Member is obligated to return to the Corporation against payment by the Corporation of the Contract Value.**

**Section 17 – Other Applicable Rules, Schedules, Interpretations and Statements**

**(a) Rule 1 (Definitions), Rule 22B (Corporation Default), Rule 22C (Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991), Rule 23 (Fine Payments), Rule 25 (Bills Rendered), Rule 27 (Admission to Premises of the Corporation, Powers of Attorney, Etc.), Rule 28 (Forms), Rule 29 (Release of Clearing Data), Rule 31 (Distribution Facilities), Rule 32 (Signatures), Rule 33 (Procedures), Rule 34 (Insurance), Rule 35 (Financial Reports), Rule 36 (Rule Changes), Rule 37 (Hearing Procedures), Rule 38 (Governing Law and Captions), Rule 39 (Limitations of Liability),**

**Rule 40 (General Provisions), Rule 41 (Cross Guaranty Agreements), Rule 42 (Suspension of Rules), Rule 44 (Action by the Corporation), Rule 45 (Notices), Rule 46 (Interpretation of Terms), Rule 47 (Interpretation of Rules) and Rule 48 (Disciplinary Proceedings) shall apply to CCIT Members with respect to CCIT Transactions in the same way as these provisions apply to Netting Members.**

**(b) With respect to Rule 49 (DTCC Shareholders Agreement), CCIT Members shall be Voluntary Purchaser Participants.**

**(c) All Schedules that are cited in, or pertain to, the Rules cited in this Rule 3B as applying to CCIT Members shall apply to CCIT Members.**

**(d) Any Statements of Policy or Interpretations contained in the Rules applicable to the CCIT Service shall apply to CCIT Members unless expressly stated otherwise.**

## **RULE 4 – CLEARING FUND AND LOSS ALLOCATION**

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### Section 1a – Margin Portfolio

(a) A Margin Portfolio shall consist of such Accounts of the Member and of Permitted Margin Affiliates of the Member as the Member shall designate in accordance with the Rules and Procedures of the Corporation.

(b) A Sponsoring Member Omnibus Account shall not be grouped in a Margin Portfolio with any other Accounts. An Account of a Tier Two ~~Netting~~ Member shall not be grouped in a Margin Portfolio with any Accounts of a Tier One Netting Member. A Bank Netting Member shall not be permitted to group any of its Accounts in a Margin Portfolio with Accounts of a Permitted Margin Affiliate unless it can demonstrate to the satisfaction of the Corporation that, in doing so, it is in compliance with regulatory requirements applicable to it.

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### Section 5 – Use of Deposits and Payments

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If a loss or liability incurred by the Corporation is allocated to a Member pursuant to Section ~~8~~ **7** of this Rule, a Member that is a Cross-Margining Participant incurs a Reimbursement Obligation to the Corporation pursuant to Section 3 of Rule 43, under a Cross-Margining Agreement, a Member that is a Cross-Margining Beneficiary Participant incurs an obligation to reimburse the Corporation pursuant to Section 7 of Rule 43, a Member that is a Cross-Guaranty Defaulting Member incurs an obligation to reimburse the Corporation pursuant to Section 2 of Rule 41 or a Member that is a Cross-Guaranty Beneficiary Member incurs an obligation to reimburse the Corporation pursuant to Section 5 of Rule 41, the Corporation may apply the portion of the: (a) Member's deposit to the Clearing Fund or (b) in the case of a Netting Member that is a Category 1 Inter-Dealer Broker Netting Member, the deposit required pursuant to Section 7 of this Rule, necessary to satisfy such allocation or obligation. In this regard, the Corporation may apply any cash, draw against any letters of credit, and liquidate any securities deposited by the Member, and may do any or all of the foregoing whether or not the Member is treated as insolvent under Rule 22.

\* \* \* \*

### Section 7 – Allocation of Loss or Liability Incurred by the Corporation

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(c) If there is any Remaining Loss after application of paragraph (b) above, the Corporation shall determine the amount of such loss that is attributable to Tier One Netting Members.

\* \* \* \*

To the extent there is a ~~Tier Two~~ Remaining Loss payable by Tier Two Members, ~~the Tier Two Remaining Loss~~ such loss shall be allocated to Tier Two ~~Netting~~ Members.

If the Tier Two Members are not CCIT Members (“Tier Two Non-CCIT Members”), the allocation will be based upon their trading activity with the Defaulting Member that resulted in a loss. The Corporation shall assess such loss against the Tier Two ~~Non-CCIT Netting~~ Members ratably based upon their loss as a percentage of the entire amount of the Remaining Loss attributable to such Tier Two ~~Non-CCIT Netting~~ Members. Such Tier Two ~~Non-CCIT Netting~~ Members with a bilateral liquidation profit will not be allocated any portion of the Remaining Loss otherwise attributable to Tier Two ~~Members Remaining Loss~~.

If the Tier Two Members are CCIT Members (“Tier Two CCIT Members”), the allocation will be based upon their open trading activity with the Defaulting Member that resulted in a loss. The Corporation shall assess such loss against the Tier Two CCIT Members ratably based upon a percentage of the loss attributable to each Tier Two CCIT Member’s specific Generic CUSIP that it had open with the Defaulting Member. Such Tier Two CCIT Members with a bilateral liquidation profit will not be allocated any portion of the Remaining Loss otherwise attributable to Tier Two Members.

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## RULE 5 – COMPARISON SYSTEM

\* \* \* \*

### Section 8 – 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, **or between a CCIT Member (or Joint Account) and a Netting Member**, 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 **and, as applicable, CCIT Member (or Joint Account)**, 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 **and, as applicable, CCIT Member (or Joint Account)**, to and from the Corporation.

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## RULE 20 – SPECIAL PROVISIONS FOR GCF REPO TRANSACTIONS

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### Section 3 – Collateral Allocation

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

**If on any Business Day, at the time set forth in the Schedule of GCF Timeframes, a Netting Member's Collateral Allocation Obligation from the previous Business Day is greater than the value of the securities and cash delivered by such Netting Member to satisfy such Collateral Allocation Obligation, then such Netting Member shall deliver to the Corporation additional (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Collateral Allocation Obligations must be satisfied with the posting of Comparable Securities and/or cash only) and/or (iv) cash such that the total value of the securities and cash delivered by such Netting Member to satisfy such Collateral Allocation Obligation is greater than or equal to such Collateral Allocation Obligation. Such additional securities and/or cash must be delivered to the Corporation within the timeframe set forth in the Schedule of GCF Timeframes.**

\* \* \* \*

A Netting Member that had a Collateral Allocation Entitlement **may not withdraw the securities or cash collateral that it receives from its account at the GCF Clearing Agent Bank and** shall have the obligation to settle the new net settlement amount on the next Business Day and the right to receive back from the Corporation the net funds amount that it paid on the previous Business Day. The Corporation shall charge such Netting Member for any actual damages directly suffered by the other Netting Member as a result of not receiving back the same securities, and shall remit any amounts received to the other Netting Member. Such damages must be sufficiently demonstrated to the satisfaction of the Corporation and may not include special, consequential or punitive damages. A Netting Member that had a Collateral Allocation Obligation shall have the obligation to settle the new settlement amount on the next Business Day and the right to receive back from the Corporation the net securities or cash collateral that it

posted on the previous Business Day. Notwithstanding the foregoing, if the Netting Member is not able, due to reasons beyond its control and despite exercising best efforts, to return any collateral due back to the Corporation, the Netting Member may return: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations must be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash.

\* \* \* \*

## 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. **Each relevant Member shall thereupon promptly take such market action as is commercially reasonable under the circumstances to effect a close out of any outstanding positions. Each Member will report the results of its market action to the Board** and the Board shall determine a single net amount owed by or to each Member with respect to such **Transactions positions, to the extent applicable**, 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. 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.

\* \* \* \*

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



**RULE 22C – INTERPRETATION IN RELATION TO THE FEDERAL DEPOSIT INSURANCE CORPORATION ACT OF 1991**

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

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

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

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

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

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

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

These Rules, together with all other agreements between the Corporation -and a Netting Member, are a “netting contract”, the margin, Clearing Fund and other provisions of these Rules granting an interest in any funds or property of a ~~m~~Member to the Corporation constitute a “security agreement or arrangement or other credit enhancement” relating to such netting contract ~~and the~~. The close-out process in Rule 22A or this Rule 22CB constitutes the “terminat[ion], liquidat[ion], accelerat[ion], and nett[ing]” of obligations and the taking of any action by the Corporation under Section 11(e) of Rule 3B shall constitute an exercise of remedies under a “security agreement or arrangement or other credit enhancement”.

\* \* \* \*

## **RULE 24 – CHARGES FOR SERVICES RENDERED**

### Section 1

Members shall pay such fees and charges to the Corporation as shall be specified by the Corporation or in the Procedures and approved by the Board of Directors on a reasonable and non-discriminatory basis.

Sponsoring Members shall be responsible for all fees pertaining to their Sponsoring Member activity as set forth in the Corporation's Fee Structure.

**CCIT Members shall be responsible for all fees pertaining to their CCIT Member activity as set forth in the Corporation's Fee Structure. Such fees will be applied at the Joint Account level where applicable.**

\* \* \* \*

**RULE 30 – LISTS TO BE MAINTAINED**

\* \* \* \*

Section 2

The Corporation shall maintain lists, by category of Membership, of each Comparison-Only Member, Netting Member, **CCIT Member (and its Joint Account Submitter as applicable)** and Sponsored Member, which lists shall be made available to a Member upon request.

\* \* \* \*

## **RULE 35 – FINANCIAL REPORTS**

As soon as practicable after the end of each calendar year, the Corporation shall provide to Members financial statements of the Corporation audited and covered by a report prepared by independent public accountants for such calendar year. The Corporation shall undertake to provide such financial statements and report to Members within 60 days following the close of the Corporation's fiscal year.

The Corporation shall also provide to Members unaudited financial statements of the Corporation within 30 days following the close of the Corporation's fiscal quarter for each of the first three calendar quarters of each calendar year.

**A study and evaluation of the Corporation's system of internal accounting controls with respect to the safeguarding of participants' assets, prompt and accurate clearance and settlement of securities transactions, and the reliability of related records shall be conducted annually by independent public accountants. Such study and evaluation shall be conducted in accordance with the standards established by the American Institute of Certified Public Accountants and shall be made available to all Members within a reasonable time upon receipt from the Corporation's independent accountants.**

\* \* \* \*

## RULE 49 – DTCC SHAREHOLDERS AGREEMENT

\* \* \* \*

### Section 3 – Comparison-Only Members and ~~Registered Investment Companies~~ Tier Two Members

A Comparison-Only Member (other than any central securities depository, Federal Reserve bank, or central counterparty) and any Tier Two m~~Member of GSD that is a Registered Investment Company~~, shall be permitted (but not required) to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement. For purposes of the Shareholders Agreement, a Comparison-Only Member (other than any central securities depository, Federal Reserve bank, or central counterparty) and any Tier Two m~~Member of GSD that is a Registered Investment Company~~, shall be a Voluntary Purchaser Participant.\*

\* \* \* \*

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\* Note that, if a Comparison-Only Member is also a member or participant of any other clearing agency subsidiary of DTCC, such Comparison-Only Member may be a Mandatory Purchaser Participant pursuant to the terms of the Shareholders Agreement and the rules or procedures of such other subsidiary. If a Sponsored Member is also a member or participant of any other clearing agency subsidiary of DTCC, such Sponsored Member may be a Mandatory Purchaser Participant or a Voluntary Purchaser Participant pursuant to the terms of the Shareholders Agreement and the rules and procedures of such other subsidiary.

## SCHEDULE OF GCF TIMEFRAMES

(all times are New York City times)

- 7:00 a.m.** FICC begins to accept from GCF-Authorized Inter-Dealer Brokers (“brokers”) data on GCF Repo Transactions – Brokers must submit data on a GCF Repo Transaction that they are a party to within five minutes of executions of such ~~T~~ transaction.
- 7:30 a.m.** – Collateral that was lent interbank is returned to the FICC account at the clearing bank of the lender of securities collateral to facilitate substitutions in the event of a request by such lender.
- 2:30 p.m.**
- 9:00 a.m.** Deadline for Netting Members to deliver additional securities or cash such that value of such securities and cash equals or exceeds Collateral Allocation Obligations from previous Business Day.
- 10:00 a.m.** Dealers must begin affirming or disaffirming GCF Repo Transactions within one half hour of receipt of data on such transactions from FICC.
- 10:30 a.m.** Deadline for dealer affirmation or disaffirmation of all GCF Repo Transactions that they are a party to that are executed prior to 10 a.m.
- 1:00 p.m.** For GCF Repo Transactions executed after 1:00 p.m., dealers must affirm or disaffirm GCF Repo Transactions within ten minutes of their receipt of data on such transactions from FICC.
- 3:00 p.m.** Cutoff for GCF Repo Transaction data submission from brokers to FICC including dealer trade affirmation or disaffirmation – all unaffirmed trades automatically affirmed by FICC – notification by FICC to banks and dealers of final positions – collateral allocations begin.
- 3:30 p.m.** Every Collateral Allocation Entitlement and Collateral Allocation Obligation that was established by the Corporation on the previous Business Day shall be netted with the current Business Day’s Collateral Allocation Obligation and/or Collateral Allocation Entitlement. GCF Counterparties (“dealers”) shall have the obligation to settle such new net settlement amounts.
- 4:30 p.m.\*** First deadline for dealer allocation of collateral to satisfy obligations, after which a late fee will be imposed.

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

**6:00 p.m.** Second deadline for dealer allocation of collateral to satisfy obligations, after which FICC shall process Collateral Allocation Obligations on a good faith basis only.

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