

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="123"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2021"/> - * <input type="text" value="003"/> Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Fixed Income Clearing Corporation
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

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

First Name *	<input type="text" value="Kristen"/>	Last Name *	<input type="text" value="Lam"/>
Title *	<input type="text" value="Director and Assistant General Counsel"/>		
E-mail *	<input type="text" value="klam1@dtcc.com"/>		
Telephone *	<input type="text" value="(212) 855-5258"/>	Fax	<input type="text"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.
(Title *)

Date	<input type="text" value="05/12/2021"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>
By	<input type="text" value="Nikki Poulos"/>	<input type="text" value="npoulos@dtcc.com"/>

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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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 the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is annexed hereto as Exhibit 5 and consists of modifications to the FICC Government Securities Division (“GSD”) Rulebook (“Rules”)¹ in order to (i) add a new service offering, which would allow a Sponsoring Member to submit for clearing Repo Transactions with its Sponsored Members on securities that are represented by Generic CUSIP Numbers and held under a triparty custodial arrangement (the “Sponsored GC Service”), (ii) add language to Rule 3A to allow FICC to recognize, for Capped Contingency Liquidity Facility® (“CCLF”) calculation purposes, any offsetting settlement obligations as between a Sponsoring Member’s netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member’s CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, (iii) remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A of the Securities Act of 1933, as amended (“Rule 144A”), or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph, and (iv) make a clarification, certain corrections, and certain technical changes, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Businesses, Technology and Operations Committee and the Risk Committee of the Board of Directors on October 20, 2020.

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

(a) Purpose

The purpose of the proposed rule change is to amend the Rules to (i) add a new service offering, the Sponsored GC Service, (ii) add language to Rule 3A to allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member’s netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member’s CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, (iii) remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of

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

Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph, and (iv) make a clarification, certain corrections, and certain technical changes, as described in greater detail below.

(i) **Background**

Under Rule 3A (Sponsoring Members and Sponsored Members), certain Netting Members are permitted to sponsor, as Sponsoring Members, “qualified institutional buyers” as defined by Rule 144A, and certain legal entities that, although not organized as entities specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfy the financial requirements necessary to be “qualified institutional buyers” as specified in that paragraph into FICC/GSD membership.² Under Rule 3A, a Sponsoring Member is permitted to submit to FICC for comparison, Novation, and netting certain types of eligible delivery versus payment (“DVP”) securities transactions (“Sponsored Member Trades”).³ A Sponsoring Member is required to establish an omnibus account at FICC for its Sponsored Members’ positions arising from such Sponsored Member Trades (“Sponsoring Member Omnibus Account”), which is separate from the Sponsoring Member’s regular netting accounts.⁴ For operational and administrative purposes, FICC interacts solely with the relevant Sponsoring Member as processing agent for purposes of the day-to-day satisfaction of its Sponsored Members’ obligations to or from FICC, including their securities and funds-only settlement obligations.⁵

The current Sponsoring Member/Sponsored Member Service (the “Service”), which has been in existence since 2005, has seen a steady increase in the number of Sponsoring Members, in the number of Sponsored Members and in the volume of Sponsored Member Trades over the

² Rule 3A, Section 3(a), supra note 1.

³ Rule 3A, Section 5, supra note 1. The term “Sponsored Member Trade” means a transaction that satisfies the requirements of Section 5 of Rule 3A and that is (a) between a Sponsored Member and its Sponsoring Member or (b) between a Sponsored Member and a Netting Member. Rule 1, supra note 1.

⁴ The term “Sponsoring Member Omnibus Account” means an Account maintained by a Sponsoring Member that contains the activity of its Sponsored Members that is submitted to FICC. A Sponsoring Member may elect to establish one or more Sponsoring Member Omnibus Accounts. Each Sponsoring Member Omnibus Account may contain activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition. The Sponsoring Member Omnibus Account shall be separate from the Accounts associated with the Sponsoring Member’s activity as a Netting Member except as contemplated by Sections 10, 11 and 12 of Rule 3A and under the Sponsoring Member Guaranty. Rule 1, supra note 1.

⁵ Rule 3A, Sections 5, 6(b), 7(a), 8(a), 8(c), 9(a), and 9(c), supra note 1.

past three years.⁶ One of the main benefits of the Service is that it provides Sponsoring Members with the ability to offset on their balance sheets their obligations to FICC on Sponsored Member Trades with their Sponsored Members against their obligations to FICC on other eligible FICC-cleared activity, including trades with other Netting Members.

In addition, the Service allows Sponsoring Members to take lesser capital charges for Repo Transactions with Sponsored Members than would be required were such transactions uncleared.

By alleviating balance sheet and capital constraints on Sponsoring Members, the Service allows eligible institutional firms to engage in greater activity than may otherwise be feasible, which in turn increases the liquidity available in the repo market. Such greater liquidity provides stability in the market and additionally increases potential returns for investors in both cash provider institutions and collateral provider institutions. For example, the increased liquidity the Service provides allows investors in institutional firms that act as cash provider Sponsored Members to invest more of their cash than may otherwise be possible outside of clearing, which in turn allows such investors the ability to earn a greater return as a result of their institutional firms' participation in the Service. Likewise, for investors in institutional firms that act as collateral provider Sponsored Members, the increased liquidity ensures more consistent financing opportunities than may otherwise be available outside of clearing. Such consistent access to financing may increase the amount of cash the collateral provider institutional firms have to deploy into other investment strategies, which in turn allows their investors the opportunity to earn a greater return as a result of the institutional firms' participation in the Service.

FICC believes that enabling more repo transactions to clear through FICC mitigates the risk of a large-scale exit by institutional firms from the U.S. financial market in a stress scenario.⁷ To that point, during the recent market volatility in the first quarter of 2020, the Service in fact saw its peak volume of approximately \$564 billion, rather than a decline, and no

⁶ In March 2017, there was one Sponsoring Member and 1422 Sponsored Members. See Securities Exchange Act Release No. 80236 (March 14, 2017), 82 FR 14265 (March 17, 2017) (SR-FICC-2017-003). The Service currently has approximately 27 Sponsoring Members and approximately 1894 Sponsored Members. As of March 31, 2017, the aggregate Purchase Price of outstanding Sponsored Member Trades was approximately \$32.2 billion. As of March 31, 2021, the aggregate Purchase Price of outstanding Sponsored Member Trades was approximately \$286 billion.

⁷ The U.S. financial market experienced such a liquidity drain from the repo market in the 2007–2008 financial crisis when the bankruptcy of Lehman Brothers gave rise to concerns among cash provider institutional firms about the creditworthiness of their borrower counterparties. See Ben S. Bernanke, The Courage to Act: A Memoir of a Crisis and its Aftermath 397 (2017) (discussing “the paralyzing uncertainty [on the part of repo lenders] about banks’ financial health” in 2007 and 2008).

discernable impact to volumes notwithstanding the default of a Netting Member. In addition, no Sponsored Members defaulted during that volatile period.

In recent years, FICC has taken steps to enable Sponsoring Members to submit term (rather than overnight) repo transactions for clearing. Specifically, in 2019, the Securities and Exchange Commission (the “Commission”) approved rule changes that added a new close-out mechanism and adjusted the calculation of certain funds-only settlement amounts for Sponsored Member Trades that include haircuts.⁸ FICC believes that having more centrally cleared term repo transactions would promote the prompt and accurate clearance and settlement of securities transactions because more securities transactions would benefit from FICC’s risk management and guaranty of settlement.

FICC also believes that enabling more term (rather than overnight) repo activity in the Service can serve to help reduce repo rate volatility in the market and, in turn, help to avoid events like those that occurred in September 2019, when a temporary reduction in overnight reverse repo activity by money market funds, including through the Service, contributed in part to the repo rate volatility on those days.⁹

Although the aforementioned rule changes have resulted in some Sponsoring Members transacting term Repo Transactions with certain of their Sponsored Member clients, FICC has received additional feedback from several market participants that the Service’s current requirement that all Sponsored Member Trades be margined exclusively in cash through FICC’s funds-only settlement process is not conducive to certain cash provider Sponsored Member clients, particularly money market funds and other mutual funds, being able to transact term Repo Transactions with their Sponsoring Members in central clearing. Specifically, money market funds and other mutual funds are not generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). These funds depend on transfers of securities to maintain required margin, and typically rely on a tri-party repo clearing bank to administer the collateral management on such trades. In particular, the tri-party repo clearing bank calculates the mark-to-market change in value of the securities underlying each repo transaction and facilitates the transfer of securities necessary to ensure the value of the securities equals a specified percentage of the outstanding principal amount of the repo transaction.

In light of this feedback and in order to support more repo activity (particularly term repo activity) to be able to be transacted in central clearing, FICC is proposing to add the Sponsored GC Service, which would allow Sponsoring Members and their Sponsored Member clients to execute Repo Transactions with each other on a general collateral basis in the same asset classes as are currently eligible for Netting Members to transact in through FICC/GSD’s existing GCF

⁸ See Securities Exchange Act Release No. 88262 (February 21, 2020), 85 FR 11401 (February 27, 2020) (SR-FICC-2019-007).

⁹ Gara Afonso et al., Federal Reserve Bank of New York, Staff Report No. 918: The Market Events of Mid-September 2019 (March 2020), available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr918.pdf.

Repo® Service. Such Repo Transactions would be allowed to settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank (as defined below) in a similar manner to the way Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing, thereby making it more operationally efficient for them to transact Repo Transactions (particularly term Repo Transactions) with each other through FICC.

(ii) Add a new service offering, the Sponsored GC Service

(A) Key Parameters of the Proposed Sponsored GC Service

As described above, a Sponsoring Member would be permitted to submit to FICC for Novation the End Leg of Repo Transactions with its Sponsored Member client that would be executed in one of a series of new Generic CUSIP Numbers that would be registered with CUSIP Global Services by FICC in connection with the proposed Sponsored GC Service (each a “Sponsored GC Trade”). The proposed schedule of securities that would be eligible under each of the new Generic CUSIP Numbers that would be established for the proposed Sponsored GC Service would be identical to the current schedule of securities that are eligible under each of the existing Generic CUSIP Numbers that is currently established for the GCF Repo Service, including (i) U.S. Treasury Securities maturing in ten (10) years or less, (ii) U.S. Treasury Securities maturing in thirty (30) years or less, (iii) Non-Mortgage-Backed U.S. Agency Securities, (iv) Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) Fixed Rate Mortgage-Backed Securities, (v) Fannie Mae and Freddie Mac Adjustable Rate Mortgage-Backed Securities, (vi) Government National Mortgage Association (“Ginnie Mae”) Fixed Rate Mortgage-Backed Securities, (vii) Ginnie Mae Adjustable Rate Mortgage-Backed Securities, (viii) U.S. Treasury Inflation-Protected Securities (“TIPS”) and (ix) U.S. Treasury Separate Trading of Registered Interest and Principal of Securities (“STRIPS”).¹⁰

Consistent with FICC’s processing of Repo Transactions in its existing GCF Repo Service, each Sponsored GC Trade would be required to be fully collateralized with securities eligible under the applicable Generic CUSIP Number and/or cash. However, consistent with the existing Service, Sponsoring Members and Sponsored Members would be permitted to transfer a haircut on a Sponsored GC Trade so that the value of the securities at the Start Leg (the “GC

¹⁰ FICC has decided to use a new series of Generic CUSIP Numbers in connection with the proposed Sponsored GC Service rather than utilizing the existing Generic CUSIP Numbers employed for GCF Repo Transactions in order to avoid any operational processing errors that could otherwise result if a trade intended for the proposed Sponsored GC Service was inadvertently processed as a GCF Repo Transaction or vice versa. To that end, a trade submitted for the proposed Sponsored GC Service would be automatically rejected by FICC if not submitted in one of the nine new Generic CUSIP Numbers earmarked for the proposed Sponsored GC Service, and a GCF Repo Transaction would be rejected by FICC if not submitted in one of the nine Generic CUSIP Numbers dedicated to the GCF Repo Service.

Start Leg Market Value”) exceeds 100% of the initial principal balance of the Sponsored GC Trade.

Consistent with the manner in which tri-party repo transactions are settled today outside of central clearing, the Start Leg of a Sponsored GC Trade would settle on a trade for trade basis on a Sponsored GC Clearing Agent Bank’s tri-party repo platform between the Sponsoring Member and the Sponsored Member. Novation to FICC of the End Leg of a Sponsored GC Trade would occur at the time when all of the following requirements have been satisfied on a given Business Day: (i) the trade data on the Sponsored GC Trade has been submitted to FICC by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, (ii) the data on the Sponsored GC Trade has been compared in the Comparison System pursuant to Rule 6A, (iii) the Start Leg of the Sponsored GC Trade has fully settled at the Sponsored GC Clearing Agent Bank by the deadline set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, (iv) the Sponsored GC Clearing Agent Bank has, pursuant to communication links, formats, timeframes, and deadlines established by FICC for such purpose, provided to FICC a report containing such data as FICC may require from time to time, including information regarding the specific Eligible Securities that were delivered in the settlement of the Start Leg of the Sponsored GC Trade (the “Purchased GC Repo Securities”), and (v) FICC determines that the data contained in such report matches the data on the Sponsored GC Trade submitted by the Sponsoring Member to the Comparison System.

Accrued repo interest on Sponsored GC Trades would be paid and collected by FICC on a daily basis. If on any Business Day, the market value of the Purchased GC Repo Securities is less than the GC Start Leg Market Value, then the Sponsoring Member or Sponsored Member that transferred the securities in the Start Leg (the “GC Funds Borrower”) would be required deliver to FICC (and FICC would be required to deliver to the GC Funds Borrower’s pre-Novation counterparty) additional Eligible Securities that are represented by the same Generic CUSIP Number as the Purchased GC Repo Securities (“GC Comparable Securities”) and/or cash, such that the market value of the Purchased GC Repo Securities (inclusive of the newly transferred securities and cash) is at least equal to the GC Start Leg Market Value. If on any Business Day, the market value of the Purchased GC Repo Securities is greater than the GC Start Leg Market Value, the Sponsoring Member or Sponsored Member that received the securities in the start leg (the “GC Funds Lender”) would be required to return to FICC (and FICC would be required to return to the relevant GC Funds Borrower) Purchased GC Repo Securities such that the market value of the remaining Purchased GC Repo Securities remains at least equal to the GC Start Leg Market Value.

Such additional securities and/or cash must be delivered within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Any securities or cash transferred by the GC Funds Borrower pursuant to these requirements would constitute Purchased GC Repo Securities, and any Purchased GC Repo Securities transferred by the GC Funds Lender pursuant to these requirements would, following such transfer, no longer constitute Purchased GC Repo Securities.

In addition, consistent with the processing of Repo Transactions in FICC’s existing GCF Repo Service, a GC Funds Borrower would be permitted to substitute for Purchased GC Repo

Securities, GC Comparable Securities and/or cash within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes.

In order to facilitate settlement, FICC would direct each GC Funds Borrower and GC Funds Lender to make any payment or delivery due to FICC in respect of a Sponsored GC Trade (except for certain funds-only settlement obligations, as discussed below) directly to the relevant Member's pre-Novation counterparty. As a result, each transfer of Purchased GC Repo Securities and daily repo interest would be made directly between the relevant GC Funds Borrower and GC Funds Lender through the tri-party repo platform of a Sponsored GC Clearing Agent Bank.¹¹

To that end, each GC Funds Borrower and GC Funds Lender would agree that any such direct payment or delivery discharges FICC's obligation to make the same payment or delivery. Otherwise, all legal rights and obligations as between FICC and Sponsoring Members, and as between FICC and Sponsored Members, would be the same with respect to Sponsored GC Trades as with respect to Sponsored Member Trades in the existing Service, which is governed by Rule 3A.¹²

(B) Risk Management of Sponsored GC Trades

Sponsored GC Trades would be risk managed in a similar fashion to Sponsored Member Trades in the existing Service.

To mitigate market risk, the VaR Charge would be calculated for each Sponsored Member client individually based on such Sponsored Member client's activity in the existing Service, as well as such Sponsored Member client's activity in the proposed Sponsored GC Service. The VaR Charge for the Sponsoring Member Omnibus Account would continue to be the sum of the individual VaR Charges for each Sponsored Member client, *i.e.*, the Sponsoring

¹¹ FICC does not believe it is appropriate to require that each payment and delivery under a Sponsored GC Trade be made from (or to) the Sponsoring Member to (or from) FICC and separately from (or to) FICC to (or from) the Sponsored Member because inserting FICC in the middle of the payments and deliveries in this fashion would require substantial changes in operational processes for both Sponsored Members and Sponsoring Members. FICC does not believe such operational changes to be necessary in light of the fact that there can only be two pre-Novation counterparties involved in the settlement of a Sponsored GC Trade (*i.e.*, the Sponsoring Member and its Sponsored Member client), as opposed to the multitude of Netting Members that may be involved in the settlement of GCF Repo Transactions the payment and delivery obligations under which are aggregated and netted in FICC's Netting System. For such GCF Repo Transactions, insertion of FICC in the middle of the payments and deliveries can streamline the settlement process and create significant operational efficiencies for Netting Members.

¹² Rule 3A, *supra* note 1.

Member Omnibus Account would continue to be gross margined.¹³ To facilitate FICC's ability to surveil a given Sponsored Member's FICC-cleared activity across its Sponsored GC Trades as well as its other Sponsored Member Trades within the existing Service, both with the same Sponsoring Member and across Sponsoring Members (if applicable), the same symbol would be used to identify the Sponsored Member for purposes of trade submission and risk management under the proposal.

In addition, FICC would risk manage the mark-to-market risk associated with unaccrued repo interest on a Sponsored GC Trade in the same way it manages such risk in the GCF Repo Service, namely through a proposed new GC Interest Rate Mark component of funds-only settlement. This proposed new mark would be calculated in the same manner as the GCF Interest Rate Mark is for GCF Repo Transactions.¹⁴ In light of the application of the proposed new GC Interest Rate Mark to Sponsored GC Trades, an Interest Adjustment Payment would also be applied to account for overnight use of funds by the Sponsoring Member or Sponsored Member, as applicable, based on such party's receipt from FICC of a Forward Mark Adjustment Payment (reflecting a GC Interest Rate Mark) on the previous Business Day.¹⁵

For liquidity risk management, Sponsored Member Trades between a Sponsoring Member and its Sponsored Member in the existing Service do not independently create liquidity

¹³ See Rule 3A, Section 10, supra note 1.

¹⁴ The term "GCF Interest Rate Mark" means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the product of the principal value of the GCF Repo Transaction on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction's Contract Repo Rate is greater than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction's Contract Repo Rate is less than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The term "GCF Interest Rate Mark" means, as regards a GCF Net Settlement Position, the sum of all the GCF Interest Rate Mark Payments on each of the GCF Repo Transactions that compose such position. Rule 1, supra note 1.

¹⁵ No other components of funds-only settlement would be necessary to apply to Sponsored GC Trades because, as described above, (i) all Sponsored GC Trades would novate after the settlement of the Start Legs of such trades (i.e., not during the Forward-Starting Period), (ii) mark-to-market changes in the value of the securities transferred under Sponsored GC Trades would be managed by the Sponsored GC Clearing Agent Bank on FICC's behalf (consistent with the manner in which GCF Repo Transactions are processed today), and (iii) the accrued repo interest on Sponsored GC Trades would be passed on a daily basis, as described above.

risk for FICC. This is because FICC is not required to complete settlement of such Sponsored Member Trades in the event that either the Sponsoring Member or Sponsored Member defaults. In the event that the Sponsoring Member defaults, Section 14(c) of Rule 3A permits FICC to close out (rather than settle) the Sponsored Member Trades of the defaulter's Sponsored Members.¹⁶ Likewise, if the Sponsored Member defaults, FICC is also not required to complete settlement. Rather, under Section 11 of Rule 3A, FICC may offset its settlement obligations to the Sponsoring Member against the Sponsoring Member's obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulted Sponsored Member.¹⁷

As a result, to the extent a Sponsoring Member either (1) runs a matched book of Sponsored Members (*i.e.*, enters into offsetting Sponsored Member Trades with its own Sponsored Members) or (2) simply enters into Sponsored Member Trades without entering into offsetting transactions, it does not increase FICC's liquidity risk. By contrast, if a Sponsoring Member enters into an offsetting Repo Transaction with a third-party Netting Member that is novated to FICC, then that will increase FICC's liquidity risk. This is because, unlike in the context of Sponsored Member Trades, in the event of the Sponsoring Member's default, FICC is required to settle with such third-party Netting Member.

Sponsored GC Trades would impact FICC's liquidity risk similarly to Sponsored Member Trades in the existing Service in this regard, in that liquidity risk to FICC would only be increased to the extent the Sponsoring Member enters into a Repo Transaction with a third-party Netting Member (which it may choose to do in order to offset the Sponsored GC Trade that it executed with its Sponsored Member). Accordingly, FICC proposes to manage the liquidity risk associated with Sponsored GC Trades in the same manner that it manages such risk for other Sponsored Member Trades. As discussed below in Item 3(a)(iii), FICC is proposing to add language to Rule 3A to revise the manner in which it calculates a Sponsoring Member's Individual Total Amount for purposes of its CCLF obligation, with respect to all Sponsored Member Trades, including Sponsored GC Trades, in order to reflect the fact that Sponsored Member Trades do not create liquidity risk.

(C) Proposed Rule Changes

To effectuate the proposed changes described above, FICC would revise Rule 1 to add the following new defined terms: (1) GC Collateral Return Entitlement, (2) GC Collateral Return Obligation, (3) GC Comparable Securities, (4) GC Daily Repo Interest, (5) GC Funds Borrower, (6) GC Funds Lender, (7) GC Interest Rate Mark, (8) GC Repo Security, (9) GC Start Leg Market Value, (10) Purchased GC Repo Securities, (11) Sponsored GC Clearing Agent Bank, and (12) Sponsored GC Trade.

GC Collateral Return Entitlement would mean the entitlement of a Sponsoring Member or Sponsored Member, as applicable, to receive the Purchased GC Repo Securities (as defined below) in exchange for cash at the End Leg of a Sponsored GC Trade.

¹⁶ Rule 3A, Section 14(c), *supra* note 1.

¹⁷ Rule 3A, Section 11, *supra* note 1.

GC Collateral Return Obligation would mean the obligation of a Sponsoring Member or Sponsored Member, as applicable, to deliver the Purchased GC Repo Securities in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Comparable Securities would mean, in relation to a Sponsored GC Trade, any GC Repo Securities that are represented by the same Generic CUSIP Number as the GC Repo Securities that were transferred in the Start Leg of the Sponsored GC Trade, as set forth in the proposed new Schedule of GC Comparable Securities.

GC Daily Repo Interest would mean the daily interest amount that is payable under a Sponsored GC Trade.

GC Funds Borrower would mean a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Entitlement and associated cash payment obligation.

GC Funds Lender would mean a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Obligation and associated cash payment entitlement.

GC Interest Rate Mark would mean, on a particular Business Day as regards any Sponsored GC Trade where the End Leg is not scheduled to settle on that day, the product of the principal value of the Sponsored GC Trade on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by FICC for such Sponsored GC Trade and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Sponsored GC Trade and the denominator of which is 360. If the Sponsored GC Trade's Contract Repo Rate is greater than its System Repo Rate, then the GC Interest Rate Mark would be a positive value for the GC Funds Lender, and a negative value for the GC Funds Borrower. If the Sponsored GC Trade's Contract Repo Rate is less than its System Repo Rate, then the GC Interest Rate Mark would be a positive value for the GC Funds Borrower, and a negative value for the GC Funds Lender.

GC Repo Security would mean an Eligible Security that is only eligible for submission to FICC in connection with the comparison and Novation of Sponsored GC Trades.

GC Start Leg Market Value would mean, in relation to a Sponsored GC Trade, the market value of the GC Repo Securities transferred in the Start Leg of the Sponsored GC Trade, measured as of the date of the settlement of the Start Leg of such Sponsored GC Trade.

Purchased GC Repo Securities would mean the GC Repo Securities transferred by the Sponsoring Member or Sponsored Member, as applicable, in settlement of the Start Leg of a Sponsored GC Trade, plus all cash and other GC Repo Securities transferred by such Sponsoring Member or Sponsored Member pursuant to proposed Sections 8(b)(ii) and 8(b)(v) of Rule 3A, less any GC Repo Securities or cash received by the Sponsoring Member or Sponsored Member pursuant to proposed Sections 8(b)(iii) and 8(b)(v) of Rule 3A.

Sponsored GC Clearing Agent Bank would mean a Clearing Agent Bank that has agreed to provide FICC, upon request, under mutually agreeable terms, with clearing services for Sponsored GC Trades.

Sponsored GC Trade would mean, in connection with the Sponsored GC Service, a Sponsored Member Trade that is a Repo Transaction between a Sponsored Member and its Sponsoring Member involving securities represented by a Generic CUSIP Number the data on which are submitted to FICC by the Sponsoring Member pursuant to the provisions of Rule 6A, for Novation to FICC pursuant to proposed Section 7(b)(ii) of Rule 3A.

FICC also proposes to revise the following defined terms in Rule 1: (1) Eligible Security, (2) End Leg, (3) General Collateral Repo Transaction, (4) Generic CUSIP Number, (5) Initial Haircut, (4) Interest Adjustment Payment, (5) Sponsored Member Trade, (6) Start Leg, (7) Forward Mark Adjustment Payment, and (8) Sponsoring Member Omnibus Account, each as described in greater detail below.

FICC proposes to revise the definition of Eligible Security to state that a GC Repo Security would be deemed to be an Eligible Security only in connection with a Sponsored GC Trade.

FICC also proposes to revise the definition of End Leg to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, End Leg would mean the concluding settlement aspects of the transaction, involving the retransfer of the Purchased GC Repo Securities by the GC Funds Lender and the taking back of such Purchased GC Repo Securities by the GC Funds Borrower. Because FICC is revising the definition of End Leg to add a definition applicable to Sponsored GC Trades, FICC would also revise the first sentence of the current definition to state that it does not apply to Sponsored GC Trades by adding the phrase “or a Sponsored GC Trade” after “as regards a Repo Transaction other than a GCF Repo Transaction (or CCIT Transaction as applicable).”

FICC proposes to revise the definition of General Collateral Repo Transaction to state that General Collateral Repo Transaction would mean a Repo Transaction, other than a GCF Repo Transaction or Sponsored GC Trade (unless the context indicates otherwise), with a Generic CUSIP Number.

FICC also proposes to revise the definition of Generic CUSIP Number to state that FICC would use separate Generic CUSIP Numbers for General Collateral Repo Transactions, GCF Repo Transactions and Sponsored GC Trades.

FICC also proposes to revise the definition of Initial Haircut to include a definition applicable to Sponsored GC Trades. As regards any Sponsored GC Trade, Initial Haircut would mean any difference between (x) the Contract Value of the Start Leg of the Sponsored GC Trade and (y) the GC Start Leg Market Value. Because FICC is revising the definition of Initial Haircut to include a definition applicable to Sponsored GC Trades, FICC would revise proposed section (i) in the definition to state that proposed section (i) would apply to any Sponsored Member Trade that is not a Sponsored GC Trade by adding the phrase “that is not a Sponsored GC Trade” after “as regards any Sponsored Member Trade.”

FICC also proposes to revise the definition Interest Adjustment Payment to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, Interest Adjustment Payment would mean the product of the GC Interest Rate Mark multiplied by the

applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360.

FICC proposes to revise the definition of Sponsored Member Trade to include Sponsored GC Trades.

FICC also proposes to revise the definition of Start Leg to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, Start Leg would mean the initial settlement aspects of the Transaction, involving the transfer of GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Borrower and the taking in of such GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Lender. Because FICC is proposing to revise the definition of Start Leg to add a definition applicable to Sponsored GC Trades, FICC would revise that the first sentence of the current definition to state that it does not apply to Sponsored GC Trades by adding the phrase “or a Sponsored GC Trade” after “as regards a Repo Transaction other than a GCF Repo Transaction.”

FICC also proposes to revise the definition of Forward Mark Adjustment Payment in Rule 1 to state that it would refer to the GC Interest Rate Mark with respect to Sponsored GC Trades.

FICC also proposes to make conforming changes to the definition of Sponsoring Member Omnibus Account to state that it may contain all types of Sponsored Member Trades. The current definition of Sponsoring Member Omnibus Account states that each Sponsoring Member Omnibus Account may contain activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition.

In addition, FICC proposes to revise the definition of Sponsored GC Service in Rule 1 and to revise Section VII (Sponsoring Members) of the Fee Structure, as described below.

FICC proposes to revise the definition of Sponsored GC Service in Rule 1 to state that it would mean the service offered by FICC to clear tri-party repurchase agreement transactions between Sponsoring Members and Sponsored Members, as described in Rule 3A. Currently, the definition of Sponsored GC Service states that it means a service to be offered by FICC, which has not yet been proposed for and would be subject to regulatory approval, to clear tri-party repurchase agreement transactions between the Sponsoring Members and Sponsored Members, as shall be described in Rule 3A. FICC also proposes to remove the footnote in the definition of Sponsored GC Service, which states that the Sponsored GC Service shall be the subject of a subsequent rule filing with the Commission and that the definition of Sponsored GC Service shall be revised upon approval of the subsequent rule filing, and at that time the footnote shall sunset.

FICC also proposes to revise Section VII (Sponsoring Members) of the Fee Structure to remove language that states that to the extent FICC, in consultation with its Board of Directors, does not implement the Sponsored GC Service, all previously collected Sponsored GC Pre-Payment Assessments shall be returned to the contributing Sponsoring Members in full. FICC

also proposes to remove the footnote in this section which states that the Sponsored GC Service shall be the subject of a subsequent rule filing with the Commission and that Section VII of the Fee Structure shall be revised to remove the referenced sentence upon approval of the subsequent rule filing, and at that time the footnote shall sunset.

In addition, FICC proposes to revise Rule 3A, Section 5 (Sponsored Member Trades) to state that this section does not apply to Sponsored GC Trades. Section 5 concerns the types of trades that may be submitted as Sponsored Member Trades and discusses the application of Rule 14 (Forward Trades) and Rule 18 (Special Provisions for Repo Transactions) to Sponsored Member Trades. The requirements that Sponsored GC Trades must meet would be separately enumerated in Section 7, and the provisions of Rules 14 and 18, which only apply to transactions eligible for FICC's general netting system, would not apply to such Sponsored GC Trades.

FICC also proposes to revise Rule 3A, Section 6 (Trade Submission and the Comparison System) to state that the current Schedule of Timeframes would apply to Sponsored Member Trades other than Sponsored GC Trades. The proposed new Schedule of Sponsored GC Trade Timeframes would apply to Sponsored GC Trades.

Section 7 (The Netting System, Novation and Guaranty of Settlement) of Rule 3A would be revised to create a proposed new paragraph (a). The proposed new paragraph (a) would provide that the current provisions of Section 7, which would be reorganized as proposed new subparagraphs (i) through (iv) of proposed new paragraph (a), apply to Sponsored Member Trades other than Sponsored GC Trades. These provisions concern the netting and Novation of Sponsored Member Trades. As discussed below, different provisions would apply to Sponsored GC Trades.

Proposed new paragraph (b) of Section 7 would only apply to Sponsored GC Trades. Proposed new subparagraph (i) of proposed new paragraph (b) of Section 7 would provide that only the End Legs of a Sponsored GC Trade may be novated to FICC and that a Sponsored GC Trade is permitted (but not required) to have an Initial Haircut. Proposed new subparagraph (ii) of proposed new paragraph (b) of Section 7 would provide requirements that would have to be satisfied in order for a Sponsored GC Trade to be novated on a given Business Day. The following requirements would be included: (A) the trade data on the Sponsored GC Trade must have been submitted to FICC by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, (B) the data on the Sponsored GC Trade must have been compared in the Comparison System pursuant to Rule 6A, (C) the Start Leg of the Sponsored GC Trade must have fully settled at the Sponsored GC Clearing Agent Bank by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, (D) the Sponsored GC Clearing Agent Bank must have, pursuant to communication links, formats, timeframes, and deadlines established by FICC for such purpose, provided to FICC a report containing such data as FICC may require from time to time, including information regarding the specific GC Repo Securities that were delivered in settlement of the Start Leg of the Sponsored GC Trade, and (E) FICC must determine that the data contained in such report matches the data on the Sponsored GC Trade submitted by the Sponsoring Member pursuant to Rule 6A. Proposed new subparagraph (iii) of proposed new paragraph (b) of Section 7 would state that, on each Business Day, FICC would provide each Sponsoring Member with one or more Reports setting forth (A) each Sponsored GC Trade, the

data on which has been compared in the Comparison System and (B) each Sponsored GC Trade, the End Leg of which has been novated to FICC. Proposed new subparagraph (iv) of proposed new paragraph (b) of Section 7 would require that each Sponsoring Member and Sponsored Member acknowledges and agrees that it has authorized each relevant Sponsored GC Clearing Agent Bank to provide FICC with all information and data as FICC may require or request from time to time in order to novate and process Sponsored GC Trades.

Section 8 (Securities Settlement) of Rule 3A would be revised to create a new paragraph (a). The proposed new paragraph (a) would provide that the bulk of the current provisions of Section 8, which would be reorganized as subparagraphs (i) through (vii) of proposed new paragraph (a), apply to Sponsored Member Trades other than Sponsored GC Trades. Those provisions concern the process for settling Sponsored Member Trades. As discussed below, different settlement requirements would apply to Sponsored GC Trades.

Proposed new paragraph (b) of Section 8 would apply only to Sponsored GC Trades. Proposed new subparagraph (i) of proposed new paragraph (b) of Section 8 would state that GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements must be satisfied by a GC Funds Lender and GC Funds Borrower, respectively, within the timeframes established for such by FICC in the proposed new Schedule of Sponsored GC Trade Timeframes. In addition, any failure by the GC Funds Borrower to satisfy its cash payment obligations associated with GC Collateral Return Entitlements within the timeframe established for such by FICC in the proposed new Schedule of Sponsored GC Trade Timeframes would subject the GC Funds Borrower to a late fee as if such GC Funds Borrower were a Net Funds Payor within the meaning of Section IX of the Fee Structure (Late Fee Related to GCF Repo Transactions). Proposed new subparagraph (ii) of proposed new paragraph (b) of Section 8 would state that if on any Business Day, the market value of a GC Funds Borrower's GC Collateral Return Entitlement from the previous Business Day (or the current Business Day) is less than the GC Start Leg Market Value, then such GC Funds Borrower would deliver to FICC (and FICC would deliver to the relevant GC Funds Lender) additional GC Comparable Securities and/or cash, such that the market value of the GC Funds Borrower's GC Collateral Return Entitlement (and the market value of the relevant GC Funds Lender's GC Collateral Return Obligation) is at least equal to the GC Start Leg Market Value. Such additional securities and/or cash must be delivered by the GC Funds Borrower within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (iii) of proposed new paragraph (b) of Section 8 would state that if on any Business Day, the market value of a GC Funds Lender's GC Collateral Return Obligation from the previous Business Day (or the current Business Day) is greater than the GC Start Leg Market Value, then such GC Funds Lender would deliver to FICC (and FICC would deliver to the relevant GC Funds Borrower) some of the Purchased GC Repo Securities, such that the market value of the GC Funds Lender's GC Collateral Return Obligation (and the market value of the relevant GC Funds Borrower's Collateral Return Entitlement) is at least equal to the GC Start Leg Market Value. Such Purchased GC Repo Securities must be delivered within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (iv) of proposed new paragraph (b) of Section 8 would state that each GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) would, within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, pay the daily accrued GC Daily Repo Interest to FICC (and FICC would pay such GC Daily Repo

Interest to the GC Funds Lender or GC Funds Borrower, as applicable). Proposed new subparagraph (v) of proposed new paragraph (b) of Section 8 would state that a GC Funds Borrower may substitute cash and/or GC Comparable Securities for any Purchased GC Repo Securities in accordance with the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (vi) of proposed new paragraph (b) of Section 8 would state that FICC directs each Sponsored Member and Sponsoring Member to satisfy any payment or delivery obligation due to FICC, except for any obligation to pay a Funds-Only Settlement Amount, by making the relevant payment or delivery to an account at the relevant Sponsored GC Clearing Agent Bank specified by the pre-Novation counterparty to the Sponsored Member or Sponsoring Member, as applicable, in accordance with such procedures as the Sponsored GC Clearing Agent Bank may specify from time to time. Each Sponsored Member and Sponsoring Member that is owed any such payment or delivery from FICC would acknowledge and agree that, if the pre-Novation counterparty to such Sponsored GC Trade makes the relevant payment or delivery as described in the prior sentence, FICC's obligation to make such payment or delivery would be discharged and satisfied in full. Proposed new subparagraph (vii) of proposed new paragraph (b) of Section 8 would state that the market value of all GC Repo Securities would be determined by the relevant Sponsored GC Clearing Agent Bank each Business Day.

In addition, FICC proposes to move language from current Section 8(a) to proposed new Section 8(c). Proposed new Section 8(c) would state that notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member would be principally obligated to FICC with respect to all securities settlement obligations under the Rules, and the Sponsoring Member would not be a principal under the Rules with respect to the settlement obligations of its Sponsored Members. This provision would apply to both Sponsored GC Trades as well as other kinds of Sponsored Member Trades.

FICC also proposes to revise Section 9 of Rule 3A to state which provisions would apply to Sponsored Member Trades other than Sponsored GC Trades, which provisions would apply only to Sponsored GC Trades, and which provisions would apply to all Sponsored Member Trades. Specifically, FICC proposes to add language to state that Section 9(a) applies to Sponsored Member Trades other than Sponsored GC Trades and current Sections 9(b), (c), (d), and (e), which would be reorganized as proposed new Sections 9(c)(i), (c)(ii), (c)(iii), and (c)(iv), respectively, applies to all Sponsored Member Trades. In addition, FICC proposes to add a new Section 9(b) to Rule 3A, which would only apply to Sponsored GC Trades and would state that each Sponsoring Member and Sponsored Member would be obligated to pay to FICC, and/or would be entitled to receive from FICC, the following amounts: Forward Mark Adjustment Payment and Interest Adjustment Payment. It would also state that such amounts would be payable and receivable as though they were amounts described in Rule 13.

FICC proposes to add Section 10(i) to Rule 3A that would state that for purposes of applying Rule 4 to a Sponsoring Member Omnibus Account, each Sponsored GC Trade would be treated as a GCF Repo Transaction, each GC Funds Lender and GC Funds Borrower would be treated as a GCF Counterparty, and each Sponsored GC Clearing Agent Bank would be treated as a GCF Clearing Agent Bank.

FICC would also revise Section 4 of Rule 5 (Comparison System) to add Sponsored GC Trades. Specifically, Section 4 of Rule 5 would be revised to state that GCF Repo Transactions and Sponsored GC Trades must be submitted exactly as executed.

FICC is also proposing to add a new Schedule of Sponsored GC Trade Timeframes that would only be applicable to Sponsored GC Trades. The proposed new Schedule of Sponsored GC Trade Timeframes would state that the time during which reports would be made available with respect to end of day Clearing Fund requirements and funds-only settlement requirements would be from 10:30 p.m. to 2:00 a.m. In addition, it would state that 2:00 p.m. would be the time during which reports would be made available with respect to intraday Clearing Fund requirements, and intraday funds-only settlement requirements. The proposed new Schedule of Sponsored GC Trade Timeframes would also state that at 10:00 a.m., funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service and at 4:30 p.m., the intraday funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that 9:00 a.m. would be the deadline for the GC Funds Borrower to satisfy the obligation described in proposed Section 8(b)(ii) of Rule 3A in accordance with the provisions of proposed Section 8(b)(vi) of Rule 3A. It would also state that FICC reserves the right to also require a GC Funds Borrower to satisfy the obligation described in proposed Section 8(b)(ii) on an intraday basis based on the market value of the applicable GC Repo Securities as determined by the GC Clearing Agent Bank in accordance with proposed Section 8(b)(vii) of Rule 3A. It would also state that 12:00 p.m. would be the deadline for the GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) to pay to FICC the accrued GC Daily Repo Interest as described in proposed Section 8(b)(iv) in accordance with the provisions of proposed Section 8(b)(vi) of Rule 3A (unless the End Leg of the related Sponsored GC Trade is due to settle on the same day). The proposed new Schedule of Sponsored GC Timeframes would state that any accrued GC Daily Repo Interest that is due on the settlement day of the End Leg of the related Sponsored GC Trade would be paid in connection with the settlement of the End Leg.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that 5:00 p.m. would be the deadline for final input by the Sponsoring Members to FICC of Sponsored GC Trade data. Furthermore, 5:30 p.m. would be the deadline for (i) full settlement of the Start Leg of the Sponsored GC Trade in accordance with proposed Section 7(b)(ii)(C) of Rule 3A, (ii) substitutions of Purchased GC Repo Securities in accordance with proposed Section 8(b)(v) of Rule 3A, and (iii) satisfaction of GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements by GC Funds Lenders and GC Funds Borrowers, respectively, in accordance with proposed Section 8(b)(i) of Rule 3A.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that the time by which a GC Funds Lender would be required to deliver any securities to a GC Funds Borrower in connection with proposed Section 8(b)(iii) of Rule 3A would be determined by the relevant Sponsored GC Clearing Agent Bank. Furthermore, it would state that all times may be extended as needed by FICC to (i) address operational or other delays that would reasonably prevent members or FICC from meeting the deadline or timeframe, as applicable, or (ii) allow

the FICC time to operationally exercise its existing rights under the Rules. In addition, it would state that times applicable to FICC are standards and not deadlines and that actual processing times may vary slightly, as necessary.

FICC also proposes to revise the Schedule for the Deletion of Trade Data to state which provisions would not apply to Sponsored GC Trades. In addition, FICC would also add language to state that trade data on Sponsored GC Trades that remain uncompleted on a given Business Day would pend in the Comparison System until FICC's deadline for final input by Sponsoring Members of Sponsored GC Trade data (as provided in the Schedule of Sponsored GC Trade Timeframes) on such Business Day. FICC would also add language to state that trade data on Sponsored GC Trades, which have been compared in the Comparison System pursuant to Rule 6A but the Start Legs of which have not fully settled at a Sponsored GC Clearing Agent Bank by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, would be deleted from the Comparison System during the same processing cycle as the Repo Start Date for such Sponsored GC Trades.

FICC also proposes to revise the Schedule of Required Data Submission Items to state that items (1) and (2) in this schedule would not be required for Sponsored Member Trades.

FICC also proposes to revise the following schedules to exclude Sponsored GC Trades: (i) Schedule of Required and Accepted Data Submission Items for a Substitution and (ii) Schedule of Required and Accepted Data Submission Items for New Securities Collateral.

In addition, as described above, FICC would add a proposed new Schedule of GC Comparable Securities.

- (iii) **Add language to Rule 3A to allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades**

As described above, Sponsored Member Trades between a Sponsoring Member and its Sponsored Member in the existing Service do not independently create liquidity risk for FICC. This is because FICC is not required to complete settlement of such Sponsored Member Trades in the event that either the Sponsoring Member or Sponsored Member defaults. In the event that the Sponsoring Member defaults, Section 14(c) of Rule 3A permits FICC to close out (rather than settle) the Sponsored Member Trades of the defaulter's Sponsored Members.¹⁸ Likewise, if the Sponsored Member defaults, FICC is also not required to complete settlement. Rather, under Section 11 of Rule 3A, FICC may offset its settlement obligations to the Sponsoring Member

¹⁸ Rule 3A, Section 14(c), supra note 1.

against the Sponsoring Member's obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulted Sponsored Member.¹⁹

Accordingly, liquidity risk to FICC is only increased to the extent the Sponsoring Member enters into a Repo Transaction with a third-party Netting Member that is novated to FICC. Such a Repo Transaction creates liquidity risk to FICC because, in the event of the Sponsoring Member's default, FICC is required to settle with such third-party Netting Member.²⁰

In light of this, FICC believes that a Sponsored Member Trade should only increase the obligation of a Sponsoring Member with respect to FICC's CCLF to the extent the Sponsoring Member offsets that trade with a Repo Transaction entered into with a third-party Netting Member that is novated to FICC. To the extent a Sponsoring Member either (1) enters into an offsetting Sponsored Member Trade with another Sponsored Member (*i.e.*, it runs a matched book of Sponsored Member Trades) or (2) simply does not enter into an offsetting transaction at all, then the Sponsored Member Trade has no effect on FICC's liquidity risk, and so should not affect the Sponsoring Member's CCLF obligation.

Currently, FICC does not impose a CCLF obligation on a Sponsoring Member to the extent the Sponsoring Member runs a matched book of Sponsored Member Trades. This is because FICC calculates a Sponsoring Member's CCLF obligation based on the net settlement obligations of its Sponsoring Member Omnibus Account and the net settlement obligations of the Sponsoring Member's netting account.²¹ In other words, FICC nets all of the positions recorded in the Sponsoring Member's Sponsoring Member Omnibus Account, regardless of whether they relate to the same Sponsored Member, and separately nets all of the positions in Sponsoring Member's netting account. As a result, to the extent a Sponsoring Member enters into perfectly offsetting Sponsored Member Trades, the settlement obligations of those trades will net out in the Sponsoring Member Omnibus Account and in the netting account and thereby create no CCLF obligation for the Sponsoring Member.

However, currently, if a Sponsoring Member enters into a Sponsored Member Trade without entering into an offsetting transaction, it is subject to CCLF obligations for the position of its Sponsored Member recorded in its Sponsoring Member Omnibus Account as well as its own position arising from the Sponsored Member Trade recorded in its netting account. This is because, although the positions in the Sponsoring Member Omnibus Account and netting account arising from such Sponsored Member Trade are perfectly offsetting, FICC does not

¹⁹ Rule 3A, Section 11, *supra* note 1.

²⁰ As described above, a Sponsored GC Trade would impact FICC's liquidity risk similarly to a Sponsored Member Trade in the existing Service in this regard, in that liquidity risk to FICC would only be increased to the extent the Sponsoring Member enters into an offsetting Repo Transaction with a third-party Netting Member that is novated to FICC.

²¹ See Rule 3A, Section 8(b) and Rule 22A, Section 2a(b), *supra* note 1.

currently net them against each other for CCLF purposes due to the current CCLF allocation being calculated at the participant account level.²²

In order to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, FICC proposes to add language to Rule 3A to allow it to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account. This proposed change would ensure that all Sponsored Member Trades, whether perfectly offset by other Sponsored Member Trades or not, would be recognized for CCLF purposes as not affecting FICC's liquidity risk. With respect to Sponsored GC Trades in particular, this proposed change would ensure that FICC applies an appropriate CCLF obligation to a Sponsoring Member in the event a Sponsored GC Clearing Agent Bank allocates to a Sponsored GC Trade a different security than the security that underlies an offsetting Sponsored Member Trade.²³

²² Consider the following example: A Sponsoring Member sells 100 shares of CUSIP 123 to a Sponsored Member in a Repo Transaction. That transaction will result in the Sponsoring Member's netting account being long 100 shares of CUSIP 123 and the Sponsoring Member's Sponsoring Member Omnibus Account being short 100 shares of CUSIP 123. Under the existing Rules, the Sponsoring Member will have a CCLF obligation for both the long position in the netting account as well as the short position in the Sponsoring Member Omnibus Account even though, as described above, the Sponsored Member Trade does not independently create liquidity risk for FICC.

Although this limitation on offset is consistent with FICC's approach of not offsetting the positions of two accounts of the same Member for CCLF purposes, there is an important difference between Sponsored Member Trades and other FICC repo activity. As discussed above, the Service requires that a Sponsoring Member have a Sponsoring Member Omnibus Account that is separate from its netting account. For all other repo activity, the Member has the option to collapse all of its activity into a single participant account in order to achieve a similar netting benefit. Sponsoring Members do not have that option with respect to their Sponsored Member Trades, so FICC believes this proposed change is necessary to ensure that a Sponsoring Member's CCLF obligations are calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades.

²³ For example, a Sponsoring Member may enter into a Sponsored GC Trade on a Generic CUSIP Number and an offsetting Sponsored Member Trade in a specific CUSIP Number (e.g., CUSIP 123). Although CUSIP 123 may be an eligible security under the Generic CUSIP Number underlying the Sponsored GC Trade, the Sponsored GC Clearing Agent Bank may allocate to the Sponsored GC Trade a different eligible CUSIP Number (e.g., CUSIP 456) from the securities eligibility schedule. In that situation, the CUSIP 123 and CUSIP 456 positions in the Sponsoring Member's netting account and the Sponsoring Member Omnibus Account would not offset within the respective account, but the proposed change to Section 8(d) of Rule 3A would allow FICC to offset the CUSIP 123

Specifically, FICC proposes to add new Section 8(d) to Rule 3A, which would state that FICC, when calculating Individual Total Amounts²⁴ for a Sponsoring Member, may net any offsetting settlement obligations across the Sponsoring Member's proprietary positions and the positions of its Sponsored Members in its Sponsoring Member Omnibus Account(s).

Expected Member Impact

FICC has conducted a study for the period from January 1, 2021 to March 30, 2021 as to the impact on FICC/GSD Netting Members' CCLF allocations as a result of recognizing offset between positions in a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account. The impact of recognition of the offsetting positions as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account relates strictly to the allocation of the total CCLF facility amongst the FICC/GSD netting membership, with certain Sponsoring Members receiving less allocation of CCLF once the offsets between the Sponsoring Member's netting account and the Sponsoring Member Omnibus Account are recognized.

- (iv) **Remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a "qualified institutional buyer" as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph**

FICC also proposes to remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide to FICC a quarterly representation that each of its Sponsored Members is a "qualified institutional buyer" as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph.²⁵ FICC proposes to remove this requirement because Section 3(d) of Rule 3A separately requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a "qualified institutional buyer" as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph.²⁶ As such, FICC views the quarterly representation requirement in Section 2 of Rule

and CUSIP 456 positions across the Sponsoring Member's netting account and Sponsoring Member Omnibus Account to ensure that the CCLF obligation applicable to the Sponsoring Member accurately reflects the liquidity risk that its positions create.

²⁴ The Individual Total Amount dictates the maximum amount of liquidity a Member must provide under FICC's CCLF. See Rule 22A, Section 2a(b), supra note 1.

²⁵ Rule 3A, Section 2(d), supra note 1.

²⁶ Rule 3A, Section 3(d), supra note 1.

3A to be an overlapping and redundant requirement that creates administrative burdens for FICC and for its Sponsoring Members that are, in FICC's view, unnecessary.

To effectuate the proposed changes described above, FICC would revise Rule 3A to remove Section 2(d).

(v) **A Clarification, Certain Corrections, and Certain Technical Changes**

FICC proposes to make a clarification to the Rules. Specifically, in the definition of Initial Haircut, FICC proposes to add the phrase “, if any,” after “absolute value of the dollar difference.”

FICC also proposes to make certain corrections to the Rules.

First, FICC proposes to correct the definition of Initial Haircut in Rule 1 so that it would be defined, with respect to Sponsored Member Trades that are not Sponsored GC Trades, as the absolute dollar difference between the Market Value of the Sponsored Member Trade, as of the settlement date of the Start Leg, and the Contract Value of the Start Leg of the Sponsored Member Trade, instead of the Contract Value of the Close Leg (as is currently provided).

Second, FICC proposes to correct the reference in Rule 3A, Section 3(a)(ii)(B) to paragraph (a)(1)(i)(H) of Rule 144A instead of paragraph (a)(1)(i) of Rule 144A (as is currently provided).

Third, FICC also proposes to correct a typographical error in Section VII (Fee Structure) by revising from the reference to Additional Sponsored GC Credit instead of Additional Sponsored GC Assessment (as is currently provided).

FICC also proposes to make certain technical changes, such as numbering and renumbering sections and making conforming grammatical changes.

For example, because FICC is removing Section 2(d) of Rule 3A, FICC proposes to renumber the subsequent subsections in Rule 3A, Section 2. Specifically, FICC proposes to renumber current Sections 2(e), 2(f), 2(g), 2(h), 2(i), and 2(j) as Sections 2(d), 2(e), 2(f), 2(g), 2(h), and 2(i), respectively.

In addition, Section 7 of Rule 3A, in connection with FICC's creation of a proposed new paragraph (a) as described above, FICC proposes to renumber current Sections 7(a), 7(b), 7(c) and 7(d) as new Sections 7(a)(i), 7(a)(ii), 7(a)(iii) and 7(a)(iv), respectively. In addition, in current Sections 8(b) and 8(c), FICC proposes to revise the references from Section 7 to Section 7(a) to reflect the proposed renumbering of Section 7 described above.

Likewise, in Section 8 of Rule 3A, in connection with FICC's creation of a proposed new paragraph (a) as described above, FICC proposes to renumber current Sections 8(a), 8(b), 8(c), 8(d), 8(e), 8(f) and 8(g) as new Sections 8(a)(i), 8(a)(ii), 8(a)(iii), 8(a)(iv), 8(a)(v), 8(a)(vi), and 8(a)(vii), respectively. In addition, in current Section 8(a), FICC proposes to revise the reference from Section 8(c) to Section 8(a)(iii) to reflect the proposed renumbering of Section 8 described

above. In current Section 8(f), FICC also proposes to revise the reference from subsection (b) to subsection (a)(ii) to reflect the proposed renumbering of Section 8 described above.

In addition, in current Section 9 of Rule 3A, in connection with FICC's addition of proposed new paragraph (b) as described above, FICC proposes to renumber current Sections 9(b), 9(c), 9(d) and 9(e) as new Sections 9(c)(i), 9(c)(ii), 9(c)(iii) and 9(c)(iv), respectively.

Because FICC is adding Sponsored GC Trades to the definition of Sponsored Member Trade as described above, FICC would create new sections (a) and (b) and renumber current sections (a) and (b) as subsections (i) and (ii) of new section (a). FICC would also revise the definition of Same-Day Settling Trade and current Section 8(c) and Section 18(a) of Rule 3A to reflect the proposed changes to the Sponsored Member Trade definition.

In addition, in the definition of Initial Haircut, FICC is proposing to add section numbers (i) and (ii) to make it clear that proposed section (i) of the definition would apply to any Sponsored Member Trade that is not a Sponsored GC Trade and proposed section (ii) would apply to any Sponsored Member Trade.

In addition, FICC would also make certain conforming grammatical changes. For example, FICC would add a comma and move the word "and" in the definition of Generic CUSIP Number to reflect the addition of Sponsored GC Trades. Similarly, in each of the (i) Schedule of Required and Accepted Data Submission Items for a Substitution and (ii) Schedule of Required and Accepted Data Submission Items for New Securities Collateral, FICC would also add a comma and move the word "and" as conforming grammatical changes. As another example, FICC would also add the word "or" in the definition of Sponsored Member Trade to reflect the addition of Sponsored GC Trades. In the definition of Initial Haircut, FICC would also add the word "and" to reflect the addition of proposed section (ii). As another example, in Section 18(a) of Rule 3A, FICC would revise the reference from subsection to subsections to reflect the proposed changes to the definition of Sponsored Member Trades described above.

(b) Statutory Basis

FICC believes these proposed changes are consistent with the requirements of the Securities Exchange Act of 1934 (the "Act"), and the rules and regulations applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act,²⁷ and Rule 17Ad-22(e)(7),²⁸ Rule 17Ad-22(e)(18),²⁹ and Rule 17Ad-22(e)(21)(i),³⁰ as promulgated under the Act, for the reasons stated below.

²⁷ 15 U.S.C. 78q-1(b)(3)(F).

²⁸ 17 CFR 240.17Ad-22(e)(7).

²⁹ 17 CFR 240.17Ad-22(e)(18).

³⁰ 17 CFR 240.17Ad-22(e)(21)(i).

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to (i) remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, (ii) promote the prompt and accurate clearance and settlement of securities transactions, and (iii) in general, to protect investors and the public interest.³¹

FICC believes that the proposed changes described in Item 3(a)(ii) above, *i.e.*, to add the Sponsored GC Service, are designed to remove certain impediments to and perfect the mechanism of a national settlement system for the prompt and accurate clearance and settlement of securities transactions. This is because the Sponsored GC Service would allow Sponsoring Members and their Sponsored Member clients to submit for clearing Repo Transactions that settle on a tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing. In particular, as described above, the existing Service's requirement that Sponsored Member Trades be margined exclusively in cash through FICC's funds-only settlement process is currently an impediment that discourages term repo activity through the Service because money market funds and other mutual funds are not generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). As such, FICC believes that adding the Sponsored GC Service would make it more operationally efficient for Sponsoring Members and their Sponsored Members that are money market funds and other mutual funds to transact Repo Transactions (particularly term Repo Transactions) with each other through FICC, and thereby, remove the impediment, consistent with Section 17A(b)(3)(F) of the Act.³²

FICC also believes the proposed changes described in Item 3(a)(ii) above, *i.e.*, to add the Sponsored GC Service, are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³³ By allowing Sponsoring Members and Sponsored Member clients to submit for clearing Repo Transactions that settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing today, FICC believes the proposed changes would enable Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. In particular, FICC believes Sponsoring Members would be able to submit to FICC more term Repo Transactions. FICC's clearance and settlement of such term Repo Transactions would promote the prompt and accurate clearance and settlement of securities transactions by increasing the number of transactions subject to FICC's risk management and guaranty of settlement. Therefore, FICC believes that the proposed changes

³¹ 15 U.S.C. 78q-1(b)(3)(F).

³² Id.

³³ Id.

described in Item 3(a)(ii) above are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁴

FICC also believes that the proposed changes described in Item 3(a)(iii) above, *i.e.*, to add language to Rule 3A to enable FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account, are designed to remove certain impediments to and perfect the mechanism of a national settlement system for the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁵ Currently, as described above, if a Sponsoring Member enters into a Sponsored Member Trade that is not perfectly offset by another Sponsored Member Trade, it is subject to a CCLF obligation for its positions that is in excess of the liquidity risk its positions generate. FICC believes that this approach to CCLF calculations unnecessarily increases the costs for Sponsoring Members and therefore, may be an impediment that discourages the submission of Sponsored Member Trades to FICC. With this proposed change, FICC would be able to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades and thereby removes the aforementioned impediment. As such, FICC believes the proposed changes described in Item 3(a)(iii) above are designed to remove certain impediments to and perfect the mechanism of a national settlement system for the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁶

FICC also believes that the proposed changes described in Item 3(a)(iii) above, *i.e.*, to add language to Rule 3A to enable FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account, are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁷ As described above, if a Sponsoring Member enters into a Sponsored Member Trade without another offsetting Sponsored Member Trade, it is subject to a CCLF obligation for its positions that is in excess of the liquidity risk that its positions generate. With this proposed change, FICC would be able to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades and thereby reduce unnecessary costs. FICC believes that reducing unnecessary costs could encourage Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. FICC's clearance and settlement of a greater number of securities transactions would promote the prompt and accurate clearance and settlement of securities transactions by increasing the number of transactions subject to FICC's risk management and guaranty of settlement. Therefore, FICC believes that the proposed changes described in Item

³⁴ Id.

³⁵ Id.

³⁶ Id.

³⁷ Id.

3(a)(iii) above are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁸

FICC believes the proposed changes described in Item 3(a)(iv) above, *i.e.*, to remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph, are designed, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Act.³⁹ FICC believes the administrative burdens created for FICC and the Sponsoring Members by the quarterly representation requirement in Section 2 of Rule 3A is unnecessary because it is an overlapping and redundant requirement and does not add any substantive benefit. As described above, Section 3(d) of Rule 3A separately requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.⁴⁰ As such, FICC believes that removing this overlapping and redundant quarterly representation requirement would facilitate the effective and efficient operation of FICC and the Service and therefore, would enable FICC to better serve its Sponsoring Members. Furthermore, with these proposed changes, there would be a clear and singular mechanism for Sponsoring Members to notify FICC of a Sponsored Member’s failure to satisfy the above-described requirement (as opposed to having overlapping and redundant requirements that could cause confusion). FICC believes this proposed change would enhance clarity and therefore, may enhance compliance by the Sponsoring Members with the requirement to notify FICC if a Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph. Therefore, FICC believes that the proposed changes described in Item 3(a)(iv) above, are designed, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Act.⁴¹

FICC believes the proposed clarification, corrections, and technical changes described in Item 3(a)(v) above are also designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act, by enhancing clarity and transparency regarding the Service.⁴² Having transparent and clear

³⁸ Id.

³⁹ Id.

⁴⁰ Rule 3A, Section 3(d), supra note 1.

⁴¹ 15 U.S.C. 78q-1(b)(3)(F).

⁴² Id.

provisions regarding the Service would enable Members to better understand the operation of the Service and would provide Members with increased predictability and certainty regarding their rights and obligations. FICC believes that this predictability and certainty regarding their rights and obligations may encourage Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. FICC's clearance and settlement of such securities transactions would promote the prompt and accurate clearance and settlement of securities transactions by increasing the number of transactions subject to FICC's risk management and guaranty of settlement. Therefore, FICC believes the proposed clarification, corrections, and technical changes described in Item 3(a)(v) above are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁴³

Rule 17Ad-22(e)(7) under the Act requires FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.⁴⁴ FICC believes that the proposed changes described in Item 3(a)(iii) above are consistent with Rule 17Ad-22(e)(7) because, as described above, all Sponsored Member Trades (including Sponsored Member Trades in the existing Service and Sponsored GC Trades in the proposed Sponsored GC Service) do not independently create a liquidity risk. FICC believes the proposed changes described in Item 3(a)(iii) above would allow FICC to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades. As such, FICC believes that the proposed changes described in Item 3(a)(iii) above are reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity, consistent with Rule 17Ad-22(e)(7).⁴⁵

Rule 17Ad-22(e)(18) under the Act requires FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access by direct, and where relevant, indirect participants and other financial market utilities, require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency, and monitor compliance with such participation requirements on an ongoing basis.⁴⁶ FICC believes that the proposed changes described in Item 3(a)(iv) above would enhance clarity and therefore, may enhance compliance by the Sponsoring Members with the requirement to notify FICC if a Sponsored Member is no longer either a "qualified institutional buyer" as defined in Rule 144A, or a legal entity that, although not

⁴³ Id.

⁴⁴ 17 CFR 240.17Ad-22(e)(7).

⁴⁵ Id.

⁴⁶ 17 CFR 240.17Ad-22(e)(18).

organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph. As described above, this requirement is set forth in Section 3(d) of Rule 3A.⁴⁷ With these proposed changes, there would be a clear and singular mechanism for Sponsoring Members to notify FICC of a Sponsored Member’s failure to satisfy the above-described requirement (as opposed to having overlapping and redundant requirements that could cause confusion). Therefore, FICC believes the proposed changes described in Item 3(a)(iv) above are consistent with Rule 17Ad-22(e)(18).⁴⁸

Rule 17Ad-22(e)(21)(i) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, and have the covered clearing agency’s management regularly review the efficiency and effectiveness of its clearing and settlement arrangements.⁴⁹ FICC believes that the proposed changes described in Item 3(a)(ii) above would improve the efficiency and effectiveness of FICC’s clearing and settlement arrangements by making it more operationally efficient for Sponsoring Members and their Sponsored Members that are money market funds and other mutual funds to transact Repo Transactions (particularly term Repo Transactions) through FICC by allowing them to settle such Repo Transactions on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a similar manner to the way such Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing. FICC also believes that the proposed rule changes described in Item 3(a)(iv) above would improve the efficiency and effectiveness of FICC’s clearing and settlement arrangements by removing the quarterly representation requirement of Sponsoring Members under Section 2 of Rule 3A, which, as described above, overlaps and is redundant with the separate requirement under Section 3(d) of Rule 3A that requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A.⁵⁰ Therefore, FICC believes that the proposed changes described in Items 3(a)(ii) and 3(a)(iv) above are consistent with Rule 17Ad-22(e)(21)(i).⁵¹

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

FICC believes that the proposed changes described in Item 3(a)(ii) above, *i.e.*, to add the Sponsored GC Service, could promote competition by allowing a greater variety of institutions to become Sponsoring Members and Sponsored Members and could encourage Sponsoring

⁴⁷ Rule 3A, Section 3(d), *supra* note 1.

⁴⁸ 17 CFR 240.17Ad-22(e)(18).

⁴⁹ 17 CFR 240.17Ad-22(e)(21)(i).

⁵⁰ Rule 3A, Section 3(d), *supra* note 1.

⁵¹ 17 CFR 240.17Ad-22(e)(21)(i).

Members and Sponsored Members to submit to FICC a greater number and variety of transactions, including, in particular, term Repo Transactions.

The proposed changes described in Item 3(a)(ii) above, *i.e.*, to add the Sponsored GC Service, which would allow Sponsoring Members and their Sponsored Member clients to submit for clearing Repo Transactions that settle on a tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing today, could promote competition. FICC believes this new Sponsored GC Service could encourage more institutions to become Sponsoring Members and Sponsored Members. As described above, the existing Service's requirement that all Sponsored Member Trades be margined exclusively in cash through FICC's funds-only settlement process is not conducive to certain cash provider Sponsored Members, particularly money market funds and other mutual funds, being able to transact Repo Transactions with their Sponsoring Members in central clearing. Therefore, FICC believes the proposed changes described in Item 3(a)(ii) above could promote competition because they could cause Sponsoring Members to accept a greater number of Sponsored Members, including those institutions who may not be generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). FICC also believes that the ability to submit for clearing Repo Transactions that settle on a tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing today may also attract more institutions to become Sponsoring Members.

Furthermore, FICC believes that these proposed changes described in Item 3(a)(ii) above may also encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number and variety of securities transactions, including, in particular, term Repo Transactions. As described above, in order to engage in term repo activity, money market funds and other mutual funds typically require the support of a tri-party repo clearing bank to administer the collateral management on such trades. The new Sponsored GC Service would allow Sponsoring Members and their Sponsored Member clients to submit for clearing Repo Transactions that settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and Sponsored Members settle tri-party repo transactions outside of central clearing, thereby making it more operationally efficient for them to transact Repo Transactions (particularly term Repo Transactions) with each other through FICC. Therefore, FICC believes these proposed changes described in Item 3(a)(ii) above could promote competition because they could encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number and variety of securities transactions, including term Repo Transactions.

FICC believes that the proposed changes described in Item 3(a)(iii) above could promote competition. FICC believes that the proposed changes described in Item 3(a)(iii) above may encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number of securities transactions. As described above, the proposed changes would allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns

with the liquidity risk associated with Sponsored Member Trades. Specifically, as described above, if a Sponsoring Member enters into a Sponsored Member Trade without another perfectly offsetting Sponsored Member Trade, it is subject to a CCLF obligation for its positions that is in excess of the liquidity risk that its positions generate. With this proposed change, FICC would be able to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades and thereby reduce unnecessary costs. In addition, as described above, unlike other Netting Members, Sponsoring Members do not have the option to collapse all of their FICC/GSD activity into one participant account in order to reap the commensurate benefits of offsetting positions for the purposes of reducing their CCLF obligations. With the proposed changes described in Item 3(a)(iii) above, FICC would be able, for CCLF calculation purposes, to recognize the offsetting settlement obligations across the Sponsoring Member's netting account and its Sponsoring Member Omnibus Account, and therefore, FICC believes these proposed changes may encourage more repo activity through the Service. As such, FICC believes the proposed changes described in Item 3(a)(iii) above could promote competition because they could encourage Sponsoring Members and Sponsored Members to submit a greater number of securities transactions to be cleared and settled by FICC.

FICC believes that the proposed changes described in Item 3(a)(iv) above could promote competition. FICC believes the proposed changes described in Item 3(a)(iv) above could encourage Sponsoring Members to sponsor more Sponsored Members and thereby encourage the submission of more securities transactions to FICC because it would eliminate the administrative burdens on FICC and the Sponsoring Members of the overlapping and redundant quarterly representation requirement in Section 2 of Rule 3A described above.⁵²

FICC does not believe that the proposed changes described in Item 3(a)(v) above to make a clarification, certain corrections, and certain technical changes would have an impact on competition. The proposed changes described in Item 3(a)(v) above would simply provide additional clarity, transparency and consistency to the Rules and not affect Members' rights and obligations. As such, FICC believes that the proposed changes described in Item 3(a)(v) above would not have any impact on competition.

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

FICC reviewed the proposed rule change with Sponsoring Members and Sponsored Members in order to benefit from their expertise. Written comments relating to this proposed rule change have not been received from the Sponsoring Members, Sponsored Members or any other person. FICC will notify the Commission of any written comments received by FICC.

⁵² Rule 3A, Section 2, supra note 1.

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 Act⁵³ 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

Not applicable.

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

Not applicable.

10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010

Not applicable.

⁵³ 15 U.S.C. 78s(b)(2).

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 – FICC/GSD CCLF Allocations Impact Study. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3 pursuant to 17 CFR 240.24b-2 being requested.***

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-FICC-2021-003)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Add the Sponsored GC Service and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on May __, 2021, 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.³ 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 modifications to the FICC Government Securities Division (“GSD”) Rulebook (“Rules”)⁴ in order to (i) add a new service offering, which would allow a Sponsoring Member to submit for clearing Repo

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ On May __, 2021, FICC filed this proposed rule change as an advance notice (SR-FICC-2021-801) with the Commission pursuant to Section 806(e)(1) of Title VIII 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) under 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>.

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

Transactions with its Sponsored Members on securities that are represented by Generic CUSIP Numbers and held under a triparty custodial arrangement (the “Sponsored GC Service”), (ii) add language to Rule 3A to allow FICC to recognize, for Capped Contingency Liquidity Facility® (“CCLF”) calculation purposes, any offsetting settlement obligations as between a Sponsoring Member’s netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member’s CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, (iii) remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A of the Securities Act of 1933, as amended (“Rule 144A”), or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph, and (iv) make a clarification, certain corrections, and certain technical changes, as described in greater detail 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 purpose of the proposed rule change is to amend the Rules to (i) add a new service offering, the Sponsored GC Service, (ii) add language to Rule 3A to allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, (iii) remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a "qualified institutional buyer" as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph, and (iv) make a clarification, certain corrections, and certain technical changes, as described in greater detail below.

(i) **Background**

Under Rule 3A (Sponsoring Members and Sponsored Members), certain Netting Members are permitted to sponsor, as Sponsoring Members, "qualified institutional buyers" as defined by Rule 144A, and certain legal entities that, although not organized as entities specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfy the financial requirements necessary to be "qualified institutional buyers" as specified in that

paragraph into FICC/GSD membership.⁵ Under Rule 3A, a Sponsoring Member is permitted to submit to FICC for comparison, Novation, and netting certain types of eligible delivery versus payment (“DVP”) securities transactions (“Sponsored Member Trades”).⁶ A Sponsoring Member is required to establish an omnibus account at FICC for its Sponsored Members’ positions arising from such Sponsored Member Trades (“Sponsoring Member Omnibus Account”), which is separate from the Sponsoring Member’s regular netting accounts.⁷ For operational and administrative purposes, FICC interacts solely with the relevant Sponsoring Member as processing agent for purposes of the day-to-day satisfaction of its Sponsored Members’ obligations to or from FICC, including their securities and funds-only settlement obligations.⁸

The current Sponsoring Member/Sponsored Member Service (the “Service”), which has been in existence since 2005, has seen a steady increase in the number of Sponsoring Members, in the number of Sponsored Members and in the volume of

⁵ Rule 3A, Section 3(a), supra note 4.

⁶ Rule 3A, Section 5, supra note 4. The term “Sponsored Member Trade” means a transaction that satisfies the requirements of Section 5 of Rule 3A and that is (a) between a Sponsored Member and its Sponsoring Member or (b) between a Sponsored Member and a Netting Member. Rule 1, supra note 4.

⁷ The term “Sponsoring Member Omnibus Account” means an Account maintained by a Sponsoring Member that contains the activity of its Sponsored Members that is submitted to FICC. A Sponsoring Member may elect to establish one or more Sponsoring Member Omnibus Accounts. Each Sponsoring Member Omnibus Account may contain activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition. The Sponsoring Member Omnibus Account shall be separate from the Accounts associated with the Sponsoring Member’s activity as a Netting Member except as contemplated by Sections 10, 11 and 12 of Rule 3A and under the Sponsoring Member Guaranty. Rule 1, supra note 4.

⁸ Rule 3A, Sections 5, 6(b), 7(a), 8(a), 8(c), 9(a), and 9(c), supra note 4.

Sponsored Member Trades over the past three years.⁹ One of the main benefits of the Service is that it provides Sponsoring Members with the ability to offset on their balance sheets their obligations to FICC on Sponsored Member Trades with their Sponsored Members against their obligations to FICC on other eligible FICC-cleared activity, including trades with other Netting Members.

In addition, the Service allows Sponsoring Members to take lesser capital charges for Repo Transactions with Sponsored Members than would be required were such transactions uncleared.

By alleviating balance sheet and capital constraints on Sponsoring Members, the Service allows eligible institutional firms to engage in greater activity than may otherwise be feasible, which in turn increases the liquidity available in the repo market. Such greater liquidity provides stability in the market and additionally increases potential returns for investors in both cash provider institutions and collateral provider institutions. For example, the increased liquidity the Service provides allows investors in institutional firms that act as cash provider Sponsored Members to invest more of their cash than may otherwise be possible outside of clearing, which in turn allows such investors the ability to earn a greater return as a result of their institutional firms' participation in the Service. Likewise, for investors in institutional firms that act as collateral provider Sponsored

⁹ In March 2017, there was one Sponsoring Member and 1422 Sponsored Members. See Securities Exchange Act Release No. 80236 (March 14, 2017), 82 FR 14265 (March 17, 2017) (SR-FICC-2017-003). The Service currently has approximately 27 Sponsoring Members and approximately 1894 Sponsored Members. As of March 31, 2017, the aggregate Purchase Price of outstanding Sponsored Member Trades was approximately \$32.2 billion. As of March 31, 2021, the aggregate Purchase Price of outstanding Sponsored Member Trades was approximately \$286 billion.

Members, the increased liquidity ensures more consistent financing opportunities than may otherwise be available outside of clearing. Such consistent access to financing may increase the amount of cash the collateral provider institutional firms have to deploy into other investment strategies, which in turn allows their investors the opportunity to earn a greater return as a result of the institutional firms' participation in the Service.

FICC believes that enabling more repo transactions to clear through FICC mitigates the risk of a large-scale exit by institutional firms from the U.S. financial market in a stress scenario.¹⁰ To that point, during the recent market volatility in the first quarter of 2020, the Service in fact saw its peak volume of approximately \$564 billion, rather than a decline, and no discernable impact to volumes notwithstanding the default of a Netting Member. In addition, no Sponsored Members defaulted during that volatile period.

In recent years, FICC has taken steps to enable Sponsoring Members to submit term (rather than overnight) repo transactions for clearing. Specifically, in 2019, the Commission approved rule changes that added a new close-out mechanism and adjusted the calculation of certain funds-only settlement amounts for Sponsored Member Trades that include haircuts.¹¹ FICC believes that having more centrally cleared term repo

¹⁰ The U.S. financial market experienced such a liquidity drain from the repo market in the 2007–2008 financial crisis when the bankruptcy of Lehman Brothers gave rise to concerns among cash provider institutional firms about the creditworthiness of their borrower counterparties. See Ben S. Bernanke, The Courage to Act: A Memoir of a Crisis and its Aftermath 397 (2017) (discussing “the paralyzing uncertainty [on the part of repo lenders] about banks’ financial health” in 2007 and 2008).

¹¹ See Securities Exchange Act Release No. 88262 (February 21, 2020), 85 FR 11401 (February 27, 2020) (SR-FICC-2019-007).

transactions would promote the prompt and accurate clearance and settlement of securities transactions because more securities transactions would benefit from FICC's risk management and guaranty of settlement.

FICC also believes that enabling more term (rather than overnight) repo activity in the Service can serve to help reduce repo rate volatility in the market and, in turn, help to avoid events like those that occurred in September 2019, when a temporary reduction in overnight reverse repo activity by money market funds, including through the Service, contributed in part to the repo rate volatility on those days.¹²

Although the aforementioned rule changes have resulted in some Sponsoring Members transacting term Repo Transactions with certain of their Sponsored Member clients, FICC has received additional feedback from several market participants that the Service's current requirement that all Sponsored Member Trades be margined exclusively in cash through FICC's funds-only settlement process is not conducive to certain cash provider Sponsored Member clients, particularly money market funds and other mutual funds, being able to transact term Repo Transactions with their Sponsoring Members in central clearing. Specifically, money market funds and other mutual funds are not generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). These funds depend on transfers of securities to maintain required margin, and typically rely on a tri-party repo clearing bank to administer the collateral management on such trades. In particular, the tri-party repo clearing bank calculates the mark-to-market change in value of the

¹² Gara Afonso et al., Federal Reserve Bank of New York, Staff Report No. 918: The Market Events of Mid-September 2019 (March 2020), available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr918.pdf.

securities underlying each repo transaction and facilitates the transfer of securities necessary to ensure the value of the securities equals a specified percentage of the outstanding principal amount of the repo transaction.

In light of this feedback and in order to support more repo activity (particularly term repo activity) to be able to be transacted in central clearing, FICC is proposing to add the Sponsored GC Service, which would allow Sponsoring Members and their Sponsored Member clients to execute Repo Transactions with each other on a general collateral basis in the same asset classes as are currently eligible for Netting Members to transact in through FICC/GSD's existing GCF Repo® Service. Such Repo Transactions would be allowed to settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank (as defined below) in a similar manner to the way Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing, thereby making it more operationally efficient for them to transact Repo Transactions (particularly term Repo Transactions) with each other through FICC.

(ii) Add a new service offering, the Sponsored GC Service

(A) Key Parameters of the Proposed Sponsored GC Service

As described above, a Sponsoring Member would be permitted to submit to FICC for Novation the End Leg of Repo Transactions with its Sponsored Member client that would be executed in one of a series of new Generic CUSIP Numbers that would be registered with CUSIP Global Services by FICC in connection with the proposed Sponsored GC Service (each a "Sponsored GC Trade"). The proposed schedule of securities that would be eligible under each of the new Generic CUSIP Numbers that would be established for the proposed Sponsored GC Service would be identical to the

current schedule of securities that are eligible under each of the existing Generic CUSIP Numbers that is currently established for the GCF Repo Service, including (i) U.S. Treasury Securities maturing in ten (10) years or less, (ii) U.S. Treasury Securities maturing in thirty (30) years or less, (iii) Non-Mortgage-Backed U.S. Agency Securities, (iv) Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) Fixed Rate Mortgage-Backed Securities, (v) Fannie Mae and Freddie Mac Adjustable Rate Mortgage-Backed Securities, (vi) Government National Mortgage Association (“Ginnie Mae”) Fixed Rate Mortgage-Backed Securities, (vii) Ginnie Mae Adjustable Rate Mortgage-Backed Securities, (viii) U.S. Treasury Inflation-Protected Securities (“TIPS”) and (ix) U.S. Treasury Separate Trading of Registered Interest and Principal of Securities (“STRIPS”).¹³

Consistent with FICC’s processing of Repo Transactions in its existing GCF Repo Service, each Sponsored GC Trade would be required to be fully collateralized with securities eligible under the applicable Generic CUSIP Number and/or cash. However, consistent with the existing Service, Sponsoring Members and Sponsored Members would be permitted to transfer a haircut on a Sponsored GC Trade so that the value of the

¹³ FICC has decided to use a new series of Generic CUSIP Numbers in connection with the proposed Sponsored GC Service rather than utilizing the existing Generic CUSIP Numbers employed for GCF Repo Transactions in order to avoid any operational processing errors that could otherwise result if a trade intended for the proposed Sponsored GC Service was inadvertently processed as a GCF Repo Transaction or vice versa. To that end, a trade submitted for the proposed Sponsored GC Service would be automatically rejected by FICC if not submitted in one of the nine new Generic CUSIP Numbers earmarked for the proposed Sponsored GC Service, and a GCF Repo Transaction would be rejected by FICC if not submitted in one of the nine Generic CUSIP Numbers dedicated to the GCF Repo Service.

securities at the Start Leg (the “GC Start Leg Market Value”) exceeds 100% of the initial principal balance of the Sponsored GC Trade.

Consistent with the manner in which tri-party repo transactions are settled today outside of central clearing, the Start Leg of a Sponsored GC Trade would settle on a trade for trade basis on a Sponsored GC Clearing Agent Bank’s tri-party repo platform between the Sponsoring Member and the Sponsored Member. Novation to FICC of the End Leg of a Sponsored GC Trade would occur at the time when all of the following requirements have been satisfied on a given Business Day: (i) the trade data on the Sponsored GC Trade has been submitted to FICC by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, (ii) the data on the Sponsored GC Trade has been compared in the Comparison System pursuant to Rule 6A, (iii) the Start Leg of the Sponsored GC Trade has fully settled at the Sponsored GC Clearing Agent Bank by the deadline set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, (iv) the Sponsored GC Clearing Agent Bank has, pursuant to communication links, formats, timeframes, and deadlines established by FICC for such purpose, provided to FICC a report containing such data as FICC may require from time to time, including information regarding the specific Eligible Securities that were delivered in the settlement of the Start Leg of the Sponsored GC Trade (the “Purchased GC Repo Securities”), and (v) FICC determines that the data contained in such report matches the data on the Sponsored GC Trade submitted by the Sponsoring Member to the Comparison System.

Accrued repo interest on Sponsored GC Trades would be paid and collected by FICC on a daily basis. If on any Business Day, the market value of the Purchased GC

Repo Securities is less than the GC Start Leg Market Value, then the Sponsoring Member or Sponsored Member that transferred the securities in the Start Leg (the “GC Funds Borrower”) would be required deliver to FICC (and FICC would be required to deliver to the GC Funds Borrower’s pre-Novation counterparty) additional Eligible Securities that are represented by the same Generic CUSIP Number as the Purchased GC Repo Securities (“GC Comparable Securities”) and/or cash, such that the market value of the Purchased GC Repo Securities (inclusive of the newly transferred securities and cash) is at least equal to the GC Start Leg Market Value. If on any Business Day, the market value of the Purchased GC Repo Securities is greater than the GC Start Leg Market Value, the Sponsoring Member or Sponsored Member that received the securities in the start leg (the “GC Funds Lender”) would be required to return to FICC (and FICC would be required to return to the relevant GC Funds Borrower) Purchased GC Repo Securities such that the market value of the remaining Purchased GC Repo Securities remains at least equal to the GC Start Leg Market Value.

Such additional securities and/or cash must be delivered within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Any securities or cash transferred by the GC Funds Borrower pursuant to these requirements would constitute Purchased GC Repo Securities, and any Purchased GC Repo Securities transferred by the GC Funds Lender pursuant to these requirements would, following such transfer, no longer constitute Purchased GC Repo Securities.

In addition, consistent with the processing of Repo Transactions in FICC’s existing GCF Repo Service, a GC Funds Borrower would be permitted to substitute for

Purchased GC Repo Securities, GC Comparable Securities and/or cash within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes.

In order to facilitate settlement, FICC would direct each GC Funds Borrower and GC Funds Lender to make any payment or delivery due to FICC in respect of a Sponsored GC Trade (except for certain funds-only settlement obligations, as discussed below) directly to the relevant Member's pre-Novation counterparty. As a result, each transfer of Purchased GC Repo Securities and daily repo interest would be made directly between the relevant GC Funds Borrower and GC Funds Lender through the tri-party repo platform of a Sponsored GC Clearing Agent Bank.¹⁴

To that end, each GC Funds Borrower and GC Funds Lender would agree that any such direct payment or delivery discharges FICC's obligation to make the same payment or delivery. Otherwise, all legal rights and obligations as between FICC and Sponsoring Members, and as between FICC and Sponsored Members, would be the same

¹⁴ FICC does not believe it is appropriate to require that each payment and delivery under a Sponsored GC Trade be made from (or to) the Sponsoring Member to (or from) FICC and separately from (or to) FICC to (or from) the Sponsored Member because inserting FICC in the middle of the payments and deliveries in this fashion would require substantial changes in operational processes for both Sponsored Members and Sponsoring Members. FICC does not believe such operational changes to be necessary in light of the fact that there can only be two pre-Novation counterparties involved in the settlement of a Sponsored GC Trade (i.e., the Sponsoring Member and its Sponsored Member client), as opposed to the multitude of Netting Members that may be involved in the settlement of GCF Repo Transactions the payment and delivery obligations under which are aggregated and netted in FICC's Netting System. For such GCF Repo Transactions, insertion of FICC in the middle of the payments and deliveries can streamline the settlement process and create significant operational efficiencies for Netting Members.

with respect to Sponsored GC Trades as with respect to Sponsored Member Trades in the existing Service, which is governed by Rule 3A.¹⁵

(B) Risk Management of Sponsored GC Trades

Sponsored GC Trades would be risk managed in a similar fashion to Sponsored Member Trades in the existing Service.

To mitigate market risk, the VaR Charge would be calculated for each Sponsored Member client individually based on such Sponsored Member client's activity in the existing Service, as well as such Sponsored Member client's activity in the proposed Sponsored GC Service. The VaR Charge for the Sponsoring Member Omnibus Account would continue to be the sum of the individual VaR Charges for each Sponsored Member client, *i.e.*, the Sponsoring Member Omnibus Account would continue to be gross margined.¹⁶ To facilitate FICC's ability to surveil a given Sponsored Member's FICC-cleared activity across its Sponsored GC Trades as well as its other Sponsored Member Trades within the existing Service, both with the same Sponsoring Member and across Sponsoring Members (if applicable), the same symbol would be used to identify the Sponsored Member for purposes of trade submission and risk management under the proposal.

In addition, FICC would risk manage the mark-to-market risk associated with unaccrued repo interest on a Sponsored GC Trade in the same way it manages such risk in the GCF Repo Service, namely through a proposed new GC Interest Rate Mark component of funds-only settlement. This proposed new mark would be calculated in the

¹⁵ Rule 3A, supra note 4.

¹⁶ See Rule 3A, Section 10, supra note 4.

same manner as the GCF Interest Rate Mark is for GCF Repo Transactions.¹⁷ In light of the application of the proposed new GC Interest Rate Mark to Sponsored GC Trades, an Interest Adjustment Payment would also be applied to account for overnight use of funds by the Sponsoring Member or Sponsored Member, as applicable, based on such party's receipt from FICC of a Forward Mark Adjustment Payment (reflecting a GC Interest Rate Mark) on the previous Business Day.¹⁸

For liquidity risk management, Sponsored Member Trades between a Sponsoring Member and its Sponsored Member in the existing Service do not independently create liquidity risk for FICC. This is because FICC is not required to complete settlement of

¹⁷ The term "GCF Interest Rate Mark" means, on a particular Business Day as regards any GCF Repo Transaction that is not scheduled to settle on that day, the product of the principal value of the GCF Repo Transaction on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the Repo Rate established by FICC for such Repo Transaction and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Repo Transaction and the denominator of which is 360. If the Repo Transaction's Contract Repo Rate is greater than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Reverse Repo Party, and a negative value for the Repo Party. If the Repo Transaction's Contract Repo Rate is less than its System Repo Rate, then the GCF Interest Rate Mark shall be a positive value for the Repo Party, and a negative value for the Reverse Repo Party. The term "GCF Interest Rate Mark" means, as regards a GCF Net Settlement Position, the sum of all the GCF Interest Rate Mark Payments on each of the GCF Repo Transactions that compose such position. Rule 1, supra note 4.

¹⁸ No other components of funds-only settlement would be necessary to apply to Sponsored GC Trades because, as described above, (i) all Sponsored GC Trades would novate after the settlement of the Start Legs of such trades (i.e., not during the Forward-Starting Period), (ii) mark-to-market changes in the value of the securities transferred under Sponsored GC Trades would be managed by the Sponsored GC Clearing Agent Bank on FICC's behalf (consistent with the manner in which GCF Repo Transactions are processed today), and (iii) the accrued repo interest on Sponsored GC Trades would be passed on a daily basis, as described above.

such Sponsored Member Trades in the event that either the Sponsoring Member or Sponsored Member defaults. In the event that the Sponsoring Member defaults, Section 14(c) of Rule 3A permits FICC to close out (rather than settle) the Sponsored Member Trades of the defaulter's Sponsored Members.¹⁹ Likewise, if the Sponsored Member defaults, FICC is also not required to complete settlement. Rather, under Section 11 of Rule 3A, FICC may offset its settlement obligations to the Sponsoring Member against the Sponsoring Member's obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulted Sponsored Member.²⁰

As a result, to the extent a Sponsoring Member either (1) runs a matched book of Sponsored Members (i.e., enters into offsetting Sponsored Member Trades with its own Sponsored Members) or (2) simply enters into Sponsored Member Trades without entering into offsetting transactions, it does not increase FICC's liquidity risk. By contrast, if a Sponsoring Member enters into an offsetting Repo Transaction with a third-party Netting Member that is novated to FICC, then that will increase FICC's liquidity risk. This is because, unlike in the context of Sponsored Member Trades, in the event of the Sponsoring Member's default, FICC is required to settle with such third-party Netting Member.

Sponsored GC Trades would impact FICC's liquidity risk similarly to Sponsored Member Trades in the existing Service in this regard, in that liquidity risk to FICC would only be increased to the extent the Sponsoring Member enters into a Repo Transaction with a third-party Netting Member (which it may choose to do in order to offset the

¹⁹ Rule 3A, Section 14(c), supra note 4.

²⁰ Rule 3A, Section 11, supra note 4.

Sponsored GC Trade that it executed with its Sponsored Member). Accordingly, FICC proposes to manage the liquidity risk associated with Sponsored GC Trades in the same manner that it manages such risk for other Sponsored Member Trades. As discussed below in Item II(A)1(iii), FICC is proposing to add language to Rule 3A to revise the manner in which it calculates a Sponsoring Member's Individual Total Amount for purposes of its CCLF obligation, with respect to all Sponsored Member Trades, including Sponsored GC Trades, in order to reflect the fact that Sponsored Member Trades do not create liquidity risk.

(C) Proposed Rule Changes

To effectuate the proposed changes described above, FICC would revise Rule 1 to add the following new defined terms: (1) GC Collateral Return Entitlement, (2) GC Collateral Return Obligation, (3) GC Comparable Securities, (4) GC Daily Repo Interest, (5) GC Funds Borrower, (6) GC Funds Lender, (7) GC Interest Rate Mark, (8) GC Repo Security, (9) GC Start Leg Market Value, (10) Purchased GC Repo Securities, (11) Sponsored GC Clearing Agent Bank, and (12) Sponsored GC Trade.

GC Collateral Return Entitlement would mean the entitlement of a Sponsoring Member or Sponsored Member, as applicable, to receive the Purchased GC Repo Securities (as defined below) in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Collateral Return Obligation would mean the obligation of a Sponsoring Member or Sponsored Member, as applicable, to deliver the Purchased GC Repo Securities in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Comparable Securities would mean, in relation to a Sponsored GC Trade, any GC Repo Securities that are represented by the same Generic CUSIP Number as the GC Repo Securities that were transferred in the Start Leg of the Sponsored GC Trade, as set forth in the proposed new Schedule of GC Comparable Securities.

GC Daily Repo Interest would mean the daily interest amount that is payable under a Sponsored GC Trade.

GC Funds Borrower would mean a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Entitlement and associated cash payment obligation.

GC Funds Lender would mean a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Obligation and associated cash payment entitlement.

GC Interest Rate Mark would mean, on a particular Business Day as regards any Sponsored GC Trade where the End Leg is not scheduled to settle on that day, the product of the principal value of the Sponsored GC Trade on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by FICC for such Sponsored GC Trade and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Sponsored GC Trade and the denominator of which is 360. If the Sponsored GC Trade's Contract Repo Rate is greater than its System Repo Rate, then the GC Interest Rate Mark would be a positive value for the GC Funds Lender, and a negative value for the GC Funds Borrower. If the Sponsored GC Trade's Contract Repo Rate is less than its

System Repo Rate, then the GC Interest Rate Mark would be a positive value for the GC Funds Borrower, and a negative value for the GC Funds Lender.

GC Repo Security would mean an Eligible Security that is only eligible for submission to FICC in connection with the comparison and Novation of Sponsored GC Trades.

GC Start Leg Market Value would mean, in relation to a Sponsored GC Trade, the market value of the GC Repo Securities transferred in the Start Leg of the Sponsored GC Trade, measured as of the date of the settlement of the Start Leg of such Sponsored GC Trade.

Purchased GC Repo Securities would mean the GC Repo Securities transferred by the Sponsoring Member or Sponsored Member, as applicable, in settlement of the Start Leg of a Sponsored GC Trade, plus all cash and other GC Repo Securities transferred by such Sponsoring Member or Sponsored Member pursuant to proposed Sections 8(b)(ii) and 8(b)(v) of Rule 3A, less any GC Repo Securities or cash received by the Sponsoring Member or Sponsored Member pursuant to proposed Sections 8(b)(iii) and 8(b)(v) of Rule 3A.

Sponsored GC Clearing Agent Bank would mean a Clearing Agent Bank that has agreed to provide FICC, upon request, under mutually agreeable terms, with clearing services for Sponsored GC Trades.

Sponsored GC Trade would mean, in connection with the Sponsored GC Service, a Sponsored Member Trade that is a Repo Transaction between a Sponsored Member and its Sponsoring Member involving securities represented by a Generic CUSIP Number the data on which are submitted to FICC by the Sponsoring Member pursuant to the

provisions of Rule 6A, for Novation to FICC pursuant to proposed Section 7(b)(ii) of Rule 3A.

FICC also proposes to revise the following defined terms in Rule 1: (1) Eligible Security, (2) End Leg, (3) General Collateral Repo Transaction, (4) Generic CUSIP Number, (5) Initial Haircut, (4) Interest Adjustment Payment, (5) Sponsored Member Trade, (6) Start Leg, (7) Forward Mark Adjustment Payment, and (8) Sponsoring Member Omnibus Account, each as described in greater detail below.

FICC proposes to revise the definition of Eligible Security to state that a GC Repo Security would be deemed to be an Eligible Security only in connection with a Sponsored GC Trade.

FICC also proposes to revise the definition of End Leg to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, End Leg would mean the concluding settlement aspects of the transaction, involving the retransfer of the Purchased GC Repo Securities by the GC Funds Lender and the taking back of such Purchased GC Repo Securities by the GC Funds Borrower. Because FICC is revising the definition of End Leg to add a definition applicable to Sponsored GC Trades, FICC would also revise the first sentence of the current definition to state that it does not apply to Sponsored GC Trades by adding the phrase “or a Sponsored GC Trade” after “as regards a Repo Transaction other than a GCF Repo Transaction (or CCIT Transaction as applicable).”

FICC proposes to revise the definition of General Collateral Repo Transaction to state that General Collateral Repo Transaction would mean a Repo Transaction, other

than a GCF Repo Transaction or Sponsored GC Trade (unless the context indicates otherwise), with a Generic CUSIP Number.

FICC also proposes to revise the definition of Generic CUSIP Number to state that FICC would use separate Generic CUSIP Numbers for General Collateral Repo Transactions, GCF Repo Transactions and Sponsored GC Trades.

FICC also proposes to revise the definition of Initial Haircut to include a definition applicable to Sponsored GC Trades. As regards any Sponsored GC Trade, Initial Haircut would mean any difference between (x) the Contract Value of the Start Leg of the Sponsored GC Trade and (y) the GC Start Leg Market Value. Because FICC is revising the definition of Initial Haircut to include a definition applicable to Sponsored GC Trades, FICC would revise proposed section (i) in the definition to state that proposed section (i) would apply to any Sponsored Member Trade that is not a Sponsored GC Trade by adding the phrase “that is not a Sponsored GC Trade” after “as regards any Sponsored Member Trade.”

FICC also proposes to revise the definition Interest Adjustment Payment to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, Interest Adjustment Payment would mean the product of the GC Interest Rate Mark multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360.

FICC proposes to revise the definition of Sponsored Member Trade to include Sponsored GC Trades.

FICC also proposes to revise the definition of Start Leg to include a definition applicable to Sponsored GC Trades. As regards a Sponsored GC Trade, Start Leg would mean the initial settlement aspects of the Transaction, involving the transfer of GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Borrower and the taking in of such GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Lender. Because FICC is proposing to revise the definition of Start Leg to add a definition applicable to Sponsored GC Trades, FICC would revise that the first sentence of the current definition to state that it does not apply to Sponsored GC Trades by adding the phrase “or a Sponsored GC Trade” after “as regards a Repo Transaction other than a GCF Repo Transaction.”

FICC also proposes to revise the definition of Forward Mark Adjustment Payment in Rule 1 to state that it would refer to the GC Interest Rate Mark with respect to Sponsored GC Trades.

FICC also proposes to make conforming changes to the definition of Sponsoring Member Omnibus Account to state that it may contain all types of Sponsored Member Trades. The current definition of Sponsoring Member Omnibus Account states that each Sponsoring Member Omnibus Account may contain activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition.

In addition, FICC proposes to revise the definition of Sponsored GC Service in Rule 1 and to revise Section VII (Sponsoring Members) of the Fee Structure, as described below.

FICC proposes to revise the definition of Sponsored GC Service in Rule 1 to state that it would mean the service offered by FICC to clear tri-party repurchase agreement transactions between Sponsoring Members and Sponsored Members, as described in Rule 3A. Currently, the definition of Sponsored GC Service states that it means a service to be offered by FICC, which has not yet been proposed for and would be subject to regulatory approval, to clear tri-party repurchase agreement transactions between the Sponsoring Members and Sponsored Members, as shall be described in Rule 3A. FICC also proposes to remove the footnote in the definition of Sponsored GC Service, which states that the Sponsored GC Service shall be the subject of a subsequent rule filing with the Commission and that the definition of Sponsored GC Service shall be revised upon approval of the subsequent rule filing, and at that time the footnote shall sunset.

FICC also proposes to revise Section VII (Sponsoring Members) of the Fee Structure to remove language that states that to the extent FICC, in consultation with its Board of Directors, does not implement the Sponsored GC Service, all previously collected Sponsored GC Pre-Payment Assessments shall be returned to the contributing Sponsoring Members in full. FICC also proposes to remove the footnote in this section which states that the Sponsored GC Service shall be the subject of a subsequent rule filing with the Commission and that Section VII of the Fee Structure shall be revised to remove the referenced sentence upon approval of the subsequent rule filing, and at that time the footnote shall sunset.

In addition, FICC proposes to revise Rule 3A, Section 5 (Sponsored Member Trades) to state that this section does not apply to Sponsored GC Trades. Section 5 concerns the types of trades that may be submitted as Sponsored Member Trades and

discusses the application of Rule 14 (Forward Trades) and Rule 18 (Special Provisions for Repo Transactions) to Sponsored Member Trades. The requirements that Sponsored GC Trades must meet would be separately enumerated in Section 7, and the provisions of Rules 14 and 18, which only apply to transactions eligible for FICC's general netting system, would not apply to such Sponsored GC Trades.

FICC also proposes to revise Rule 3A, Section 6 (Trade Submission and the Comparison System) to state that the current Schedule of Timeframes would apply to Sponsored Member Trades other than Sponsored GC Trades. The proposed new Schedule of Sponsored GC Trade Timeframes would apply to Sponsored GC Trades.

Section 7 (The Netting System, Novation and Guaranty of Settlement) of Rule 3A would be revised to create a proposed new paragraph (a). The proposed new paragraph (a) would provide that the current provisions of Section 7, which would be reorganized as proposed new subparagraphs (i) through (iv) of proposed new paragraph (a), apply to Sponsored Member Trades other than Sponsored GC Trades. These provisions concern the netting and Novation of Sponsored Member Trades. As discussed below, different provisions would apply to Sponsored GC Trades.

Proposed new paragraph (b) of Section 7 would only apply to Sponsored GC Trades. Proposed new subparagraph (i) of proposed new paragraph (b) of Section 7 would provide that only the End Legs of a Sponsored GC Trade may be novated to FICC and that a Sponsored GC Trade is permitted (but not required) to have an Initial Haircut. Proposed new subparagraph (ii) of proposed new paragraph (b) of Section 7 would provide requirements that would have to be satisfied in order for a Sponsored GC Trade to be novated on a given Business Day. The following requirements would be included:

(A) the trade data on the Sponsored GC Trade must have been submitted to FICC by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, (B) the data on the Sponsored GC Trade must have been compared in the Comparison System pursuant to Rule 6A, (C) the Start Leg of the Sponsored GC Trade must have fully settled at the Sponsored GC Clearing Agent Bank by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, (D) the Sponsored GC Clearing Agent Bank must have, pursuant to communication links, formats, timeframes, and deadlines established by FICC for such purpose, provided to FICC a report containing such data as FICC may require from time to time, including information regarding the specific GC Repo Securities that were delivered in settlement of the Start Leg of the Sponsored GC Trade, and (E) FICC must determine that the data contained in such report matches the data on the Sponsored GC Trade submitted by the Sponsoring Member pursuant to Rule 6A.

Proposed new subparagraph (iii) of proposed new paragraph (b) of Section 7 would state that, on each Business Day, FICC would provide each Sponsoring Member with one or more Reports setting forth (A) each Sponsored GC Trade, the data on which has been compared in the Comparison System and (B) each Sponsored GC Trade, the End Leg of which has been novated to FICC. Proposed new subparagraph (iv) of proposed new paragraph (b) of Section 7 would require that each Sponsoring Member and Sponsored Member acknowledges and agrees that it has authorized each relevant Sponsored GC Clearing Agent Bank to provide FICC with all information and data as FICC may require or request from time to time in order to novate and process Sponsored GC Trades.

Section 8 (Securities Settlement) of Rule 3A would be revised to create a new paragraph (a). The proposed new paragraph (a) would provide that the bulk of the current provisions of Section 8, which would be reorganized as subparagraphs (i) through (vii) of proposed new paragraph (a), apply to Sponsored Member Trades other than Sponsored GC Trades. Those provisions concern the process for settling Sponsored Member Trades. As discussed below, different settlement requirements would apply to Sponsored GC Trades.

Proposed new paragraph (b) of Section 8 would apply only to Sponsored GC Trades. Proposed new subparagraph (i) of proposed new paragraph (b) of Section 8 would state that GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements must be satisfied by a GC Funds Lender and GC Funds Borrower, respectively, within the timeframes established for such by FICC in the proposed new Schedule of Sponsored GC Trade Timeframes. In addition, any failure by the GC Funds Borrower to satisfy its cash payment obligations associated with GC Collateral Return Entitlements within the timeframe established for such by FICC in the proposed new Schedule of Sponsored GC Trade Timeframes would subject the GC Funds Borrower to a late fee as if such GC Funds Borrower were a Net Funds Payor within the meaning of Section IX of the Fee Structure (Late Fee Related to GCF Repo Transactions). Proposed new subparagraph (ii) of proposed new paragraph (b) of Section 8 would state that if on any Business Day, the market value of a GC Funds Borrower's GC Collateral Return Entitlement from the previous Business Day (or the current Business Day) is less than the GC Start Leg Market Value, then such GC Funds Borrower would deliver to FICC (and FICC would deliver to the relevant GC Funds

Lender) additional GC Comparable Securities and/or cash, such that the market value of the GC Funds Borrower's GC Collateral Return Entitlement (and the market value of the relevant GC Funds Lender's GC Collateral Return Obligation) is at least equal to the GC Start Leg Market Value. Such additional securities and/or cash must be delivered by the GC Funds Borrower within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (iii) of proposed new paragraph (b) of Section 8 would state that if on any Business Day, the market value of a GC Funds Lender's GC Collateral Return Obligation from the previous Business Day (or the current Business Day) is greater than the GC Start Leg Market Value, then such GC Funds Lender would deliver to FICC (and FICC would deliver to the relevant GC Funds Borrower) some of the Purchased GC Repo Securities, such that the market value of the GC Funds Lender's GC Collateral Return Obligation (and the market value of the relevant GC Funds Borrower's Collateral Return Entitlement) is at least equal to the GC Start Leg Market Value. Such Purchased GC Repo Securities must be delivered within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (iv) of proposed new paragraph (b) of Section 8 would state that each GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) would, within the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes, pay the daily accrued GC Daily Repo Interest to FICC (and FICC would pay such GC Daily Repo Interest to the GC Funds Lender or GC Funds Borrower, as applicable). Proposed new subparagraph (v) of proposed new paragraph (b) of Section 8 would state that a GC Funds Borrower may substitute cash and/or GC Comparable Securities for any Purchased GC Repo

Securities in accordance with the timeframe set forth in the proposed new Schedule of Sponsored GC Trade Timeframes. Proposed new subparagraph (vi) of proposed new paragraph (b) of Section 8 would state that FICC directs each Sponsored Member and Sponsoring Member to satisfy any payment or delivery obligation due to FICC, except for any obligation to pay a Funds-Only Settlement Amount, by making the relevant payment or delivery to an account at the relevant Sponsored GC Clearing Agent Bank specified by the pre-Novation counterparty to the Sponsored Member or Sponsoring Member, as applicable, in accordance with such procedures as the Sponsored GC Clearing Agent Bank may specify from time to time. Each Sponsored Member and Sponsoring Member that is owed any such payment or delivery from FICC would acknowledge and agree that, if the pre-Novation counterparty to such Sponsored GC Trade makes the relevant payment or delivery as described in the prior sentence, FICC's obligation to make such payment or delivery would be discharged and satisfied in full. Proposed new subparagraph (vii) of proposed new paragraph (b) of Section 8 would state that the market value of all GC Repo Securities would be determined by the relevant Sponsored GC Clearing Agent Bank each Business Day.

In addition, FICC proposes to move language from current Section 8(a) to proposed new Section 8(c). Proposed new Section 8(c) would state that notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member would be principally obligated to FICC with respect to all securities settlement obligations under the Rules, and the Sponsoring Member would not be a principal under the Rules with respect to the

settlement obligations of its Sponsored Members. This provision would apply to both Sponsored GC Trades as well as other kinds of Sponsored Member Trades.

FICC also proposes to revise Section 9 of Rule 3A to state which provisions would apply to Sponsored Member Trades other than Sponsored GC Trades, which provisions would apply only to Sponsored GC Trades, and which provisions would apply to all Sponsored Member Trades. Specifically, FICC proposes to add language to state that Section 9(a) applies to Sponsored Member Trades other than Sponsored GC Trades and current Sections 9(b), (c), (d), and (e), which would be reorganized as proposed new Sections 9(c)(i), (c)(ii), (c)(iii), and (c)(iv), respectively, applies to all Sponsored Member Trades. In addition, FICC proposes to add a new Section 9(b) to Rule 3A, which would only apply to Sponsored GC Trades and would state that each Sponsoring Member and Sponsored Member would be obligated to pay to FICC, and/or would be entitled to receive from FICC, the following amounts: Forward Mark Adjustment Payment and Interest Adjustment Payment. It would also state that such amounts would be payable and receivable as though they were amounts described in Rule 13.

FICC proposes to add Section 10(i) to Rule 3A that would state that for purposes of applying Rule 4 to a Sponsoring Member Omnibus Account, each Sponsored GC Trade would be treated as a GCF Repo Transaction, each GC Funds Lender and GC Funds Borrower would be treated as a GCF Counterparty, and each Sponsored GC Clearing Agent Bank would be treated as a GCF Clearing Agent Bank.

FICC would also revise Section 4 of Rule 5 (Comparison System) to add Sponsored GC Trades. Specifically, Section 4 of Rule 5 would be revised to state that

GCF Repo Transactions and Sponsored GC Trades must be submitted exactly as executed.

FICC is also proposing to add a new Schedule of Sponsored GC Trade Timeframes that would only be applicable to Sponsored GC Trades. The proposed new Schedule of Sponsored GC Trade Timeframes would state that the time during which reports would be made available with respect to end of day Clearing Fund requirements and funds-only settlement requirements would be from 10:30 p.m. to 2:00 a.m. In addition, it would state that 2:00 p.m. would be the time during which reports would be made available with respect to intraday Clearing Fund requirements, and intraday funds-only settlement requirements. The proposed new Schedule of Sponsored GC Trade Timeframes would also state that at 10:00 a.m., funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service and at 4:30 p.m., the intraday funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that 9:00 a.m. would be the deadline for the GC Funds Borrower to satisfy the obligation described in proposed Section 8(b)(ii) of Rule 3A in accordance with the provisions of proposed Section 8(b)(vi) of Rule 3A. It would also state that FICC reserves the right to also require a GC Funds Borrower to satisfy the obligation described in proposed Section 8(b)(ii) on an intraday basis based on the market value of the applicable GC Repo Securities as determined by the GC Clearing Agent Bank in accordance with proposed Section 8(b)(vii) of Rule 3A. It would also state that 12:00 p.m. would be the deadline for the GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is

negative, the GC Funds Lender) to pay to FICC the accrued GC Daily Repo Interest as described in proposed Section 8(b)(iv) in accordance with the provisions of proposed Section 8(b)(vi) of Rule 3A (unless the End Leg of the related Sponsored GC Trade is due to settle on the same day). The proposed new Schedule of Sponsored GC Timeframes would state that any accrued GC Daily Repo Interest that is due on the settlement day of the End Leg of the related Sponsored GC Trade would be paid in connection with the settlement of the End Leg.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that 5:00 p.m. would be the deadline for final input by the Sponsoring Members to FICC of Sponsored GC Trade data. Furthermore, 5:30 p.m. would be the deadline for (i) full settlement of the Start Leg of the Sponsored GC Trade in accordance with proposed Section 7(b)(ii)(C) of Rule 3A, (ii) substitutions of Purchased GC Repo Securities in accordance with proposed Section 8(b)(v) of Rule 3A, and (iii) satisfaction of GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements by GC Funds Lenders and GC Funds Borrowers, respectively, in accordance with proposed Section 8(b)(i) of Rule 3A.

The proposed new Schedule of Sponsored GC Trade Timeframes would also state that the time by which a GC Funds Lender would be required to deliver any securities to a GC Funds Borrower in connection with proposed Section 8(b)(iii) of Rule 3A would be determined by the relevant Sponsored GC Clearing Agent Bank. Furthermore, it would state that all times may be extended as needed by FICC to (i) address operational or other delays that would reasonably prevent members or FICC from meeting the deadline or timeframe, as applicable, or (ii) allow the FICC time to operationally exercise its existing

rights under the Rules. In addition, it would state that times applicable to FICC are standards and not deadlines and that actual processing times may vary slightly, as necessary.

FICC also proposes to revise the Schedule for the Deletion of Trade Data to state which provisions would not apply to Sponsored GC Trades. In addition, FICC would also add language to state that trade data on Sponsored GC Trades that remain uncomparing on a given Business Day would pend in the Comparison System until FICC's deadline for final input by Sponsoring Members of Sponsored GC Trade data (as provided in the Schedule of Sponsored GC Trade Timeframes) on such Business Day. FICC would also add language to state that trade data on Sponsored GC Trades, which have been comparing in the Comparison System pursuant to Rule 6A but the Start Legs of which have not fully settled at a Sponsored GC Clearing Agent Bank by the deadline set forth in FICC's proposed new Schedule of Sponsored GC Trade Timeframes, would be deleted from the Comparison System during the same processing cycle as the Repo Start Date for such Sponsored GC Trades.

FICC also proposes to revise the Schedule of Required Data Submission Items to state that items (1) and (2) in this schedule would not be required for Sponsored Member Trades.

FICC also proposes to revise the following schedules to exclude Sponsored GC Trades: (i) Schedule of Required and Accepted Data Submission Items for a Substitution and (ii) Schedule of Required and Accepted Data Submission Items for New Securities Collateral.

In addition, as described above, FICC would add a proposed new Schedule of GC Comparable Securities.

- (iii) **Add language to Rule 3A to allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades**

As described above, Sponsored Member Trades between a Sponsoring Member and its Sponsored Member in the existing Service do not independently create liquidity risk for FICC. This is because FICC is not required to complete settlement of such Sponsored Member Trades in the event that either the Sponsoring Member or Sponsored Member defaults. In the event that the Sponsoring Member defaults, Section 14(c) of Rule 3A permits FICC to close out (rather than settle) the Sponsored Member Trades of the defaulter's Sponsored Members.²¹ Likewise, if the Sponsored Member defaults, FICC is also not required to complete settlement. Rather, under Section 11 of Rule 3A, FICC may offset its settlement obligations to the Sponsoring Member against the Sponsoring Member's obligations under the Sponsoring Member Guaranty to perform on behalf of its defaulted Sponsored Member.²²

Accordingly, liquidity risk to FICC is only increased to the extent the Sponsoring Member enters into a Repo Transaction with a third-party Netting Member that is novated to FICC. Such a Repo Transaction creates liquidity risk to FICC because, in the

²¹ Rule 3A, Section 14(c), supra note 4.

²² Rule 3A, Section 11, supra note 4.

event of the Sponsoring Member's default, FICC is required to settle with such third-party Netting Member.²³

In light of this, FICC believes that a Sponsored Member Trade should only increase the obligation of a Sponsoring Member with respect to FICC's CCLF to the extent the Sponsoring Member offsets that trade with a Repo Transaction entered into with a third-party Netting Member that is novated to FICC. To the extent a Sponsoring Member either (1) enters into an offsetting Sponsored Member Trade with another Sponsored Member (i.e., it runs a matched book of Sponsored Member Trades) or (2) simply does not enter into an offsetting transaction at all, then the Sponsored Member Trade has no effect on FICC's liquidity risk, and so should not affect the Sponsoring Member's CCLF obligation.

Currently, FICC does not impose a CCLF obligation on a Sponsoring Member to the extent the Sponsoring Member runs a matched book of Sponsored Member Trades. This is because FICC calculates a Sponsoring Member's CCLF obligation based on the net settlement obligations of its Sponsoring Member Omnibus Account and the net settlement obligations of the Sponsoring Member's netting account.²⁴ In other words, FICC nets all of the positions recorded in the Sponsoring Member's Sponsoring Member Omnibus Account, regardless of whether they relate to the same Sponsored Member, and separately nets all of the positions in Sponsoring Member's netting account. As a result,

²³ As described above, a Sponsored GC Trade would impact FICC's liquidity risk similarly to a Sponsored Member Trade in the existing Service in this regard, in that liquidity risk to FICC would only be increased to the extent the Sponsoring Member enters into an offsetting Repo Transaction with a third-party Netting Member that is novated to FICC.

²⁴ See Rule 3A, Section 8(b) and Rule 22A, Section 2a(b), supra note 4.

to the extent a Sponsoring Member enters into perfectly offsetting Sponsored Member Trades, the settlement obligations of those trades will net out in the Sponsoring Member Omnibus Account and in the netting account and thereby create no CCLF obligation for the Sponsoring Member.

However, currently, if a Sponsoring Member enters into a Sponsored Member Trade without entering into an offsetting transaction, it is subject to CCLF obligations for the position of its Sponsored Member recorded in its Sponsoring Member Omnibus Account as well as its own position arising from the Sponsored Member Trade recorded in its netting account. This is because, although the positions in the Sponsoring Member Omnibus Account and netting account arising from such Sponsored Member Trade are perfectly offsetting, FICC does not currently net them against each other for CCLF purposes due to the current CCLF allocation being calculated at the participant account level.²⁵

²⁵ Consider the following example: A Sponsoring Member sells 100 shares of CUSIP 123 to a Sponsored Member in a Repo Transaction. That transaction will result in the Sponsoring Member's netting account being long 100 shares of CUSIP 123 and the Sponsoring Member's Sponsoring Member Omnibus Account being short 100 shares of CUSIP 123. Under the existing Rules, the Sponsoring Member will have a CCLF obligation for both the long position in the netting account as well as the short position in the Sponsoring Member Omnibus Account even though, as described above, the Sponsored Member Trade does not independently create liquidity risk for FICC.

Although this limitation on offset is consistent with FICC's approach of not offsetting the positions of two accounts of the same Member for CCLF purposes, there is an important difference between Sponsored Member Trades and other FICC repo activity. As discussed above, the Service requires that a Sponsoring Member have a Sponsoring Member Omnibus Account that is separate from its netting account. For all other repo activity, the Member has the option to collapse all of its activity into a single participant account in order to achieve a similar netting benefit. Sponsoring Members do not have that option with respect to their Sponsored Member Trades, so FICC believes this proposed change is necessary to ensure that a Sponsoring Member's CCLF obligations are calculated in a manner

In order to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades, FICC proposes to add language to Rule 3A to allow it to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account. This proposed change would ensure that all Sponsored Member Trades, whether perfectly offset by other Sponsored Member Trades or not, would be recognized for CCLF purposes as not affecting FICC's liquidity risk. With respect to Sponsored GC Trades in particular, this proposed change would ensure that FICC applies an appropriate CCLF obligation to a Sponsoring Member in the event a Sponsored GC Clearing Agent Bank allocates to a Sponsored GC Trade a different security than the security that underlies an offsetting Sponsored Member Trade.²⁶

that more closely aligns with the liquidity risk associated with Sponsored Member Trades.

²⁶ For example, a Sponsoring Member may enter into a Sponsored GC Trade on a Generic CUSIP Number and an offsetting Sponsored Member Trade in a specific CUSIP Number (e.g., CUSIP 123). Although CUSIP 123 may be an eligible security under the Generic CUSIP Number underlying the Sponsored GC Trade, the Sponsored GC Clearing Agent Bank may allocate to the Sponsored GC Trade a different eligible CUSIP Number (e.g., CUSIP 456) from the securities eligibility schedule. In that situation, the CUSIP 123 and CUSIP 456 positions in the Sponsoring Member's netting account and the Sponsoring Member Omnibus Account would not offset within the respective account, but the proposed change to Section 8(d) of Rule 3A would allow FICC to offset the CUSIP 123 and CUSIP 456 positions across the Sponsoring Member's netting account and Sponsoring Member Omnibus Account to ensure that the CCLF obligation applicable to the Sponsoring Member accurately reflects the liquidity risk that its positions create.

Specifically, FICC proposes to add new Section 8(d) to Rule 3A, which would state that FICC, when calculating Individual Total Amounts²⁷ for a Sponsoring Member, may net any offsetting settlement obligations across the Sponsoring Member's proprietary positions and the positions of its Sponsored Members in its Sponsoring Member Omnibus Account(s).

Expected Member Impact

FICC has conducted a study for the period from January 1, 2021 to March 30, 2021 as to the impact on FICC/GSD Netting Members' CCLF allocations as a result of recognizing offset between positions in a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account. The impact of recognition of the offsetting positions as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account relates strictly to the allocation of the total CCLF facility amongst the FICC/GSD netting membership, with certain Sponsoring Members receiving less allocation of CCLF once the offsets between the Sponsoring Member's netting account and the Sponsoring Member Omnibus Account are recognized.

²⁷ The Individual Total Amount dictates the maximum amount of liquidity a Member must provide under FICC's CCLF. See Rule 22A, Section 2a(b), supra note 4.

- (iv) **Remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph**

FICC also proposes to remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide to FICC a quarterly representation that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.²⁸ FICC proposes to remove this requirement because Section 3(d) of Rule 3A separately requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.²⁹ As such, FICC views the quarterly representation requirement in Section 2 of Rule 3A to be an overlapping and redundant requirement that creates administrative burdens for FICC and for its Sponsoring Members that are, in FICC’s view, unnecessary.

To effectuate the proposed changes described above, FICC would revise Rule 3A to remove Section 2(d).

²⁸ Rule 3A, Section 2(d), supra note 4.

²⁹ Rule 3A, Section 3(d), supra note 4.

(v) ***A Clarification, Certain Corrections, and Certain Technical Changes***

FICC proposes to make a clarification to the Rules. Specifically, in the definition of Initial Haircut, FICC proposes to add the phrase “, if any,” after “absolute value of the dollar difference.”

FICC also proposes to make certain corrections to the Rules.

First, FICC proposes to correct the definition of Initial Haircut in Rule 1 so that it would be defined, with respect to Sponsored Member Trades that are not Sponsored GC Trades, as the absolute dollar difference between the Market Value of the Sponsored Member Trade, as of the settlement date of the Start Leg, and the Contract Value of the Start Leg of the Sponsored Member Trade, instead of the Contract Value of the Close Leg (as is currently provided).

Second, FICC proposes to correct the reference in Rule 3A, Section 3(a)(ii)(B) to paragraph (a)(1)(i)(H) of Rule 144A instead of paragraph (a)(1)(i) of Rule 144A (as is currently provided).

Third, FICC also proposes to correct a typographical error in Section VII (Fee Structure) by revising from the reference to Additional Sponsored GC Credit instead of Additional Sponsored GC Assessment (as is currently provided).

FICC also proposes to make certain technical changes, such as numbering and renumbering sections and making conforming grammatical changes.

For example, because FICC is removing Section 2(d) of Rule 3A, FICC proposes to renumber the subsequent subsections in Rule 3A, Section 2. Specifically, FICC proposes to renumber current Sections 2(e), 2(f), 2(g), 2(h), 2(i), and 2(j) as Sections 2(d), 2(e), 2(f), 2(g), 2(h), and 2(i), respectively.

In addition, Section 7 of Rule 3A, in connection with FICC's creation of a proposed new paragraph (a) as described above, FICC proposes to renumber current Sections 7(a), 7(b), 7(c) and 7(d) as new Sections 7(a)(i), 7(a)(ii), 7(a)(iii) and 7(a)(iv), respectively. In addition, in current Sections 8(b) and 8(c), FICC proposes to revise the references from Section 7 to Section 7(a) to reflect the proposed renumbering of Section 7 described above.

Likewise, in Section 8 of Rule 3A, in connection with FICC's creation of a proposed new paragraph (a) as described above, FICC proposes to renumber current Sections 8(a), 8(b), 8(c), 8(d), 8(e), 8(f) and 8(g) as new Sections 8(a)(i), 8(a)(ii), 8(a)(iii), 8(a)(iv), 8(a)(v), 8(a)(vi), and 8(a)(vii), respectively. In addition, in current Section 8(a), FICC proposes to revise the reference from Section 8(c) to Section 8(a)(iii) to reflect the proposed renumbering of Section 8 described above. In current Section 8(f), FICC also proposes to revise the reference from subsection (b) to subsection (a)(ii) to reflect the proposed renumbering of Section 8 described above.

In addition, in current Section 9 of Rule 3A, in connection with FICC's addition of proposed new paragraph (b) as described above, FICC proposes to renumber current Sections 9(b), 9(c), 9(d) and 9(e) as new Sections 9(c)(i), 9(c)(ii), 9(c)(iii) and 9(c)(iv), respectively.

Because FICC is adding Sponsored GC Trades to the definition of Sponsored Member Trade as described above, FICC would create new sections (a) and (b) and renumber current sections (a) and (b) as subsections (i) and (ii) of new section (a). FICC would also revise the definition of Same-Day Settling Trade and current Section 8(c) and

Section 18(a) of Rule 3A to reflect the proposed changes to the Sponsored Member Trade definition.

In addition, in the definition of Initial Haircut, FICC is proposing to add section numbers (i) and (ii) to make it clear that proposed section (i) of the definition would apply to any Sponsored Member Trade that is not a Sponsored GC Trade and proposed section (ii) would apply to any Sponsored Member Trade.

In addition, FICC would also make certain conforming grammatical changes. For example, FICC would add a comma and move the word “and” in the definition of Generic CUSIP Number to reflect the addition of Sponsored GC Trades. Similarly, in each of the (i) Schedule of Required and Accepted Data Submission Items for a Substitution and (ii) Schedule of Required and Accepted Data Submission Items for New Securities Collateral, FICC would also add a comma and move the word “and” as conforming grammatical changes. As another example, FICC would also add the word “or” in the definition of Sponsored Member Trade to reflect the addition of Sponsored GC Trades. In the definition of Initial Haircut, FICC would also add the word “and” to reflect the addition of proposed section (ii). As another example, in Section 18(a) of Rule 3A, FICC would revise the reference from subsection to subsections to reflect the proposed changes to the definition of Sponsored Member Trades described above.

2. Statutory Basis

FICC believes these proposed changes are consistent with the requirements of the Act, and the rules and regulations applicable to a registered clearing agency.

Specifically, FICC believes that the proposed changes are consistent with Section

17A(b)(3)(F) of the Act,³⁰ and Rule 17Ad-22(e)(7),³¹ Rule 17Ad-22(e)(18),³² and Rule 17Ad-22(e)(21)(i),³³ as promulgated under the Act, for the reasons stated below.

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to (i) remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, (ii) promote the prompt and accurate clearance and settlement of securities transactions, and (iii) in general, to protect investors and the public interest.³⁴

FICC believes that the proposed changes described in Item II(A)1(ii) above, i.e., to add the Sponsored GC Service, are designed to remove certain impediments to and perfect the mechanism of a national settlement system for the prompt and accurate clearance and settlement of securities transactions. This is because the Sponsored GC Service would allow Sponsoring Members and their Sponsored Member clients to submit for clearing Repo Transactions that settle on a tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing. In particular, as described above, the existing Service's requirement that Sponsored Member Trades be margined exclusively in cash through FICC's funds-only settlement process is currently an impediment that discourages term repo activity through the Service because

³⁰ 15 U.S.C. 78q-1(b)(3)(F).

³¹ 17 CFR 240.17Ad-22(e)(7).

³² 17 CFR 240.17Ad-22(e)(18).

³³ 17 CFR 240.17Ad-22(e)(21)(i).

³⁴ 15 U.S.C. 78q-1(b)(3)(F).

money market funds and other mutual funds are not generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). As such, FICC believes that adding the Sponsored GC Service would make it more operationally efficient for Sponsoring Members and their Sponsored Members that are money market funds and other mutual funds to transact Repo Transactions (particularly term Repo Transactions) with each other through FICC, and thereby, remove the impediment, consistent with Section 17A(b)(3)(F) of the Act.³⁵

FICC also believes the proposed changes described in Item II(A)1(ii) above, i.e., to add the Sponsored GC Service, are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁶ By allowing Sponsoring Members and Sponsored Member clients to submit for clearing Repo Transactions that settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing today, FICC believes the proposed changes would enable Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. In particular, FICC believes Sponsoring Members would be able to submit to FICC more term Repo Transactions. FICC's clearance and settlement of such term Repo Transactions would promote the prompt and accurate clearance and settlement of securities transactions by increasing the number of transactions subject to FICC's risk management and guaranty of settlement. Therefore, FICC believes that the proposed

³⁵ Id.

³⁶ Id.

changes described in Item II(A)1(ii) above are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁷

FICC also believes that the proposed changes described in Item II(A)1(iii) above, i.e., to add language to Rule 3A to enable FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account, are designed to remove certain impediments to and perfect the mechanism of a national settlement system for the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁸ Currently, as described above, if a Sponsoring Member enters into a Sponsored Member Trade that is not perfectly offset by another Sponsored Member Trade, it is subject to a CCLF obligation for its positions that is in excess of the liquidity risk its positions generate. FICC believes that this approach to CCLF calculations unnecessarily increases the costs for Sponsoring Members and therefore, may be an impediment that discourages the submission of Sponsored Member Trades to FICC. With this proposed change, FICC would be able to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades and thereby removes the aforementioned impediment. As such, FICC believes the proposed changes described in Item II(A)1(iii) above are designed to remove certain impediments to and perfect the

³⁷ Id.

³⁸ Id.

mechanism of a national settlement system for the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁹

FICC also believes that the proposed changes described in Item II(A)1(iii) above, i.e., to add language to Rule 3A to enable FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account, are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁴⁰ As described above, if a Sponsoring Member enters into a Sponsored Member Trade without another offsetting Sponsored Member Trade, it is subject to a CCLF obligation for its positions that is in excess of the liquidity risk that its positions generate. With this proposed change, FICC would be able to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades and thereby reduce unnecessary costs. FICC believes that reducing unnecessary costs could encourage Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. FICC's clearance and settlement of a greater number of securities transactions would promote the prompt and accurate clearance and settlement of securities transactions by increasing the number of transactions subject to FICC's risk management and guaranty of settlement. Therefore, FICC believes that the proposed changes described in Item II(A)1(iii) above are designed to promote the prompt and

³⁹ Id.

⁴⁰ Id.

accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁴¹

FICC believes the proposed changes described in Item II(A)1(iv) above, i.e., to remove the requirement from Section 2 of Rule 3A that a Sponsoring Member provide a quarterly representation to FICC that each of its Sponsored Members is a “qualified institutional buyer” as defined in Rule 144A, or is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph, are designed, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Act.⁴² FICC believes the administrative burdens created for FICC and the Sponsoring Members by the quarterly representation requirement in Section 2 of Rule 3A is unnecessary because it is an overlapping and redundant requirement and does not add any substantive benefit. As described above, Section 3(d) of Rule 3A separately requires a Sponsoring Member to notify FICC if its Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.⁴³ As such, FICC believes that removing this overlapping and redundant quarterly representation requirement would facilitate the effective and efficient operation of FICC and the Service and therefore,

⁴¹ Id.

⁴² Id.

⁴³ Rule 3A, Section 3(d), supra note 4.

would enable FICC to better serve its Sponsoring Members. Furthermore, with these proposed changes, there would be a clear and singular mechanism for Sponsoring Members to notify FICC of a Sponsored Member's failure to satisfy the above-described requirement (as opposed to having overlapping and redundant requirements that could cause confusion). FICC believes this proposed change would enhance clarity and therefore, may enhance compliance by the Sponsoring Members with the requirement to notify FICC if a Sponsored Member is no longer either a "qualified institutional buyer" as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph. Therefore, FICC believes that the proposed changes described in Item II(A)1(iv) above, are designed, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Act.⁴⁴

FICC believes the proposed clarification, corrections, and technical changes described in Item II(A)1(v) above are also designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act, by enhancing clarity and transparency regarding the Service.⁴⁵ Having transparent and clear provisions regarding the Service would enable Members to better understand the operation of the Service and would provide Members with increased predictability and certainty regarding their rights and obligations. FICC believes that this predictability and certainty regarding their rights and obligations may encourage

⁴⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁴⁵ Id.

Sponsoring Members to submit a greater number of securities transactions to be cleared and settled by FICC. FICC's clearance and settlement of such securities transactions would promote the prompt and accurate clearance and settlement of securities transactions by increasing the number of transactions subject to FICC's risk management and guaranty of settlement. Therefore, FICC believes the proposed clarification, corrections, and technical changes described in Item II(A)1(v) above are designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁴⁶

Rule 17Ad-22(e)(7) under the Act requires FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.⁴⁷ FICC believes that the proposed changes described in Item II(A)1(iii) above are consistent with Rule 17Ad-22(e)(7) because, as described above, all Sponsored Member Trades (including Sponsored Member Trades in the existing Service and Sponsored GC Trades in the proposed Sponsored GC Service) do not independently create a liquidity risk. FICC believes the proposed changes described in Item II(A)1(iii) above would allow FICC to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades. As such, FICC believes that the proposed changes described in Item II(A)1(iii) above are

⁴⁶ Id.

⁴⁷ 17 CFR 240.17Ad-22(e)(7).

reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity, consistent with Rule 17Ad-22(e)(7).⁴⁸

Rule 17Ad-22(e)(18) under the Act requires FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access by direct, and where relevant, indirect participants and other financial market utilities, require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency, and monitor compliance with such participation requirements on an ongoing basis.⁴⁹ FICC believes that the proposed changes described in Item II(A)1(iv) above would enhance clarity and therefore, may enhance compliance by the Sponsoring Members with the requirement to notify FICC if a Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph. As described above, this requirement is set forth in Section 3(d) of Rule 3A.⁵⁰ With these proposed changes, there would be a clear and singular mechanism for Sponsoring Members to notify FICC of a Sponsored Member’s failure to satisfy the

⁴⁸ Id.

⁴⁹ 17 CFR 240.17Ad-22(e)(18).

⁵⁰ Rule 3A, Section 3(d), supra note 4.

above-described requirement (as opposed to having overlapping and redundant requirements that could cause confusion). Therefore, FICC believes the proposed changes described in Item II(A)1(iv) above are consistent with Rule 17Ad-22(e)(18).⁵¹

Rule 17Ad-22(e)(21)(i) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, and have the covered clearing agency's management regularly review the efficiency and effectiveness of its clearing and settlement arrangements.⁵² FICC believes that the proposed changes described in Item II(A)1(ii) above would improve the efficiency and effectiveness of FICC's clearing and settlement arrangements by making it more operationally efficient for Sponsoring Members and their Sponsored Members that are money market funds and other mutual funds to transact Repo Transactions (particularly term Repo Transactions) through FICC by allowing them to settle such Repo Transactions on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a similar manner to the way such Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing. FICC also believes that the proposed rule changes described in Item II(A)1(iv) above would improve the efficiency and effectiveness of FICC's clearing and settlement arrangements by removing the quarterly representation requirement of Sponsoring Members under Section 2 of Rule 3A, which, as described above, overlaps and is redundant with the separate requirement under Section 3(d) of Rule 3A that requires a Sponsoring Member to notify FICC if its

⁵¹ 17 CFR 240.17Ad-22(e)(18).

⁵² 17 CFR 240.17Ad-22(e)(21)(i).

Sponsored Member is no longer either a “qualified institutional buyer” as defined in Rule 144A, or a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A.⁵³ Therefore, FICC believes that the proposed changes described in Items II(A)1(ii) and II(A)1(iv) above are consistent with Rule 17Ad-22(e)(21)(i).⁵⁴

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

FICC believes that the proposed changes described in Item II(A)1(ii) above, i.e., to add the Sponsored GC Service, could promote competition by allowing a greater variety of institutions to become Sponsoring Members and Sponsored Members and could encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number and variety of transactions, including, in particular, term Repo Transactions.

The proposed changes described in Item II(A)1(ii) above, i.e., to add the Sponsored GC Service, which would allow Sponsoring Members and their Sponsored Member clients to submit for clearing Repo Transactions that settle on a tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing today, could promote competition. FICC believes this new Sponsored GC Service could encourage more institutions to become Sponsoring Members and Sponsored Members. As described above, the existing Service’s requirement that all Sponsored Member Trades be margined exclusively in cash through

⁵³ Rule 3A, Section 3(d), supra note 4.

⁵⁴ 17 CFR 240.17Ad-22(e)(21)(i).

FICC's funds-only settlement process is not conducive to certain cash provider Sponsored Members, particularly money market funds and other mutual funds, being able to transact Repo Transactions with their Sponsoring Members in central clearing. Therefore, FICC believes the proposed changes described in Item II(A)1(ii) above could promote competition because they could cause Sponsoring Members to accept a greater number of Sponsored Members, including those institutions who may not be generally operationally equipped to provide or receive cash margin in connection with their term repo activity (either bilaterally or in central clearing). FICC also believes that the ability to submit for clearing Repo Transactions that settle on a tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and their Sponsored Member clients settle tri-party repo transactions outside of central clearing today may also attract more institutions to become Sponsoring Members.

Furthermore, FICC believes that these proposed changes described in Item II(A)1(ii) above may also encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number and variety of securities transactions, including, in particular, term Repo Transactions. As described above, in order to engage in term repo activity, money market funds and other mutual funds typically require the support of a tri-party repo clearing bank to administer the collateral management on such trades. The new Sponsored GC Service would allow Sponsoring Members and their Sponsored Member clients to submit for clearing Repo Transactions that settle on the tri-party repo platform of a Sponsored GC Clearing Agent Bank in a manner consistent with the way Sponsoring Members and Sponsored Members settle tri-party repo transactions outside of central clearing, thereby making it more operationally efficient for them to transact Repo

Transactions (particularly term Repo Transactions) with each other through FICC. Therefore, FICC believes these proposed changes described in Item II(A)1(ii) above could promote competition because they could encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number and variety of securities transactions, including term Repo Transactions.

FICC believes that the proposed changes described in Item II(A)1(iii) above could promote competition. FICC believes that the proposed changes described in Item II(A)1(iii) above may encourage Sponsoring Members and Sponsored Members to submit to FICC a greater number of securities transactions. As described above, the proposed changes would allow FICC to recognize, for CCLF calculation purposes, any offsetting settlement obligations as between a Sponsoring Member's netting account and its Sponsoring Member Omnibus Account to ensure that a Sponsoring Member's CCLF obligation is calculated in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades. Specifically, as described above, if a Sponsoring Member enters into a Sponsored Member Trade without another perfectly offsetting Sponsored Member Trade, it is subject to a CCLF obligation for its positions that is in excess of the liquidity risk that its positions generate. With this proposed change, FICC would be able to calculate a Sponsoring Member's CCLF obligation in a manner that more closely aligns with the liquidity risk associated with Sponsored Member Trades and thereby reduce unnecessary costs. In addition, as described above, unlike other Netting Members, Sponsoring Members do not have the option to collapse all of their FICC/GSD activity into one participant account in order to reap the commensurate benefits of offsetting positions for the purposes of reducing their CCLF

obligations. With the proposed changes described in Item II(A)1(iii) above, FICC would be able, for CCLF calculation purposes, to recognize the offsetting settlement obligations across the Sponsoring Member's netting account and its Sponsoring Member Omnibus Account, and therefore, FICC believes these proposed changes may encourage more repo activity through the Service. As such, FICC believes the proposed changes described in Item II(A)1(iii) above could promote competition because they could encourage Sponsoring Members and Sponsored Members to submit a greater number of securities transactions to be cleared and settled by FICC.

FICC believes that the proposed changes described in Item II(A)1(iv) above could promote competition. FICC believes the proposed changes described in Item II(A)1(iv) above could encourage Sponsoring Members to sponsor more Sponsored Members and thereby encourage the submission of more securities transactions to FICC because it would eliminate the administrative burdens on FICC and the Sponsoring Members of the overlapping and redundant quarterly representation requirement in Section 2 of Rule 3A described above.⁵⁵

FICC does not believe that the proposed changes described in Item II(A)1(v) above to make a clarification, certain corrections, and certain technical changes would have an impact on competition. The proposed changes described in Item II(A)1(v) above would simply provide additional clarity, transparency and consistency to the Rules and not affect Members' rights and obligations. As such, FICC believes that the proposed changes described in Item II(A)1(v) above would not have any impact on competition.

⁵⁵ Rule 3A, Section 2, supra note 4.

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

FICC reviewed the proposed rule change with Sponsoring Members and Sponsored Members in order to benefit from their expertise. Written comments relating to this proposed rule change have not been received from the Sponsoring Members, Sponsored Members or any other person. 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. Please include File Number SR-FICC-2021-003 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-2021-003. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2021-003 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.⁵⁶

Secretary

⁵⁶ 17 CFR 200.30-3(a)(12).

FICC/GSD CCLF Allocations Impact Study

January 1, 2021 to March 30, 2021

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Bold and underlined text indicates proposed added language

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

RULE 1 – DEFINITIONS

* * *

Eligible Security

The term “Eligible Security” means a security issued or guaranteed by the United States, a U.S. government agency or instrumentality, a U.S. government-sponsored corporation, or any other security approved by the Board from time to time, or one or more categories of such securities as represented by a Generic CUSIP Number, that the Corporation has listed on the Eligible Securities master file maintained by it pursuant to Rule 30. Notwithstanding the previous sentence, a GCF Repo Security shall be deemed to be an Eligible Security only in connection with a GCF Repo Transaction **and a GC Repo Security shall be deemed to be an Eligible Security only in connection with a Sponsored GC Trade.** A security of an issuer that is listed on the Office of Foreign Assets Control (“OFAC”) list of specially designated nationals distributed by the U.S. Department of the Treasury, or of an issuer that is incorporated in a country that is on the OFAC list of countries subject to comprehensive sanctions, shall not be an “Eligible Security”.

* * *

End Leg

The term “End Leg” means, as regards a Repo Transaction other than a GCF Repo Transaction (or CCIT Transaction as applicable) **or a Sponsored GC Trade,** the concluding settlement aspects of the transaction, involving the retransfer of the underlying Eligible Netting Securities by the Netting Member that is, or is submitting data on behalf of, the funds lender (if netting eligible, through satisfaction of the applicable Deliver Obligation generated by the Corporation) and the taking back of such Eligible Securities by the Netting Member that is, or is submitting data on behalf of, the funds borrower (if netting eligible, through satisfaction of the applicable Receive Obligation generated by the Corporation). The term “End Leg” means, as regards a GCF Repo Transaction (or CCIT Transaction as applicable), the concluding settlement aspects of the transaction, involving the retransfer of the underlying Eligible Netting Securities by the Netting Member that is in the GCF Net Funds Lender Position and the taking back of such Eligible Netting Securities by the Netting Member that is in the GCF Net Funds Borrower Position. **The term “End Leg” means, as regards a Sponsored GC Trade, the concluding settlement aspects of the transaction, involving the retransfer of the Purchased GC Repo Securities by the GC Funds Lender and the taking back of such Purchased GC Repo Securities by the GC Funds Borrower.**

* * *

Forward Mark Adjustment Payment

The term “Forward Mark Adjustment Payment” means, on a particular Business Day, as regards a Member’s Forward Net Settlement Position, the sum of the Collateral Mark applicable to such Position, the Financing Mark applicable to such Position, and the Interest

Rate Mark applicable to such Position. Notwithstanding the above, as regards an outstanding Repo Transaction where a request for substitution has been made but New Securities Collateral has not been received by the Corporation, the term “Forward Mark Adjustment Payment” means “Forward Unallocated Sub Mark”. **Notwithstanding the above, the term “Forward Mark Adjustment Payment” shall refer to the GC Interest Rate Mark with respect to Sponsored GC Trades.** Notwithstanding the above, the term “Forward Mark Adjustment Payment” shall not apply to GCF Repo Transactions and CCIT Transactions.

* * *

GC Collateral Return Entitlement

The term “GC Collateral Return Entitlement” means the entitlement of a Sponsoring Member or Sponsored Member, as applicable, to receive the Purchased GC Repo Securities in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Collateral Return Obligation

The term “GC Collateral Return Obligation” means the obligation of a Sponsoring Member or Sponsored Member, as applicable, to deliver the Purchased GC Repo Securities in exchange for cash at the End Leg of a Sponsored GC Trade.

GC Comparable Securities

The term “GC Comparable Securities” means, in relation to a Sponsored GC Trade, any GC Repo Securities that are represented by the same Generic CUSIP Number as the GC Repo Securities that were transferred in the Start Leg of the Sponsored GC Trade, as set forth in the Schedule of GC Comparable Securities.

GC Daily Repo Interest

The term “GC Daily Repo Interest” means the daily interest amount that is payable under a Sponsored GC Trade.

GC Funds Borrower

The term “GC Funds Borrower” means a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Entitlement and associated cash payment obligation.

GC Funds Lender

The term “GC Funds Lender” means a Sponsoring Member or Sponsored Member, as applicable, that has a GC Collateral Return Obligation and associated cash payment entitlement.

GC Interest Rate Mark

The term “GC Interest Rate Mark” means, on a particular Business Day as regards any Sponsored GC Trade where the End Leg is not scheduled to settle on that day, the product of the principal value of the Sponsored GC Trade on the Scheduled Settlement Date for its End Leg multiplied by a factor equal to the absolute difference between the System Repo Rate established by the Corporation for such Sponsored GC Trade and its Contract Repo Rate, and then multiplied by a fraction, the numerator of which is the number of calendar days from the current day until the Scheduled Settlement Date for the End Leg of the Sponsored GC Trade and the denominator of which is 360. If the Sponsored GC Trade’s Contract Repo Rate is greater than its System Repo Rate, then the GC Interest Rate Mark shall be a positive value for the GC Funds Lender, and a negative value for the GC Funds Borrower. If the Sponsored GC Trade’s Contract Repo Rate is less than its System Repo Rate, then the GC Interest Rate Mark shall be a positive value for the GC Funds Borrower, and a negative value for the GC Funds Lender.

GC Repo Security

The term “GC Repo Security” means an Eligible Security that is only eligible for submission to the Corporation in connection with the comparison and Novation of Sponsored GC Trades.

GC Start Leg Market Value

The term “GC Start Leg Market Value” means, in relation to a Sponsored GC Trade, the market value of the GC Repo Securities transferred in the Start Leg of the Sponsored GC Trade, measured as of the date of the settlement of the Start Leg of such Sponsored GC Trade.

* * *

General Collateral Repo Transaction

The term “General Collateral Repo Transaction” means a Repo Transaction, other than a GCF Repo Transaction or Sponsored GC Trade (unless the context indicates otherwise), with a Generic CUSIP Number.

Generic CUSIP Number

The term “Generic CUSIP Number” means a Committee on Uniform Securities Identification Procedures identifying number established for a category of securities, as opposed to a specific security. The Corporation shall use separate Generic CUSIP Numbers for General Collateral Repo Transactions, ~~and~~ GCF Repo Transactions and Sponsored GC Trades.

* * *

Initial Haircut

The term “Initial Haircut” means, **(i)** as regards any Sponsored Member Trade **that is not a Sponsored GC Trade**, the absolute value of the dollar difference, **if any**, between the Market Value of the Sponsored Member Trade, as of the settlement date of the Start Leg, and the Contract Value of the ~~Close~~**Start** Leg of the Sponsored Member Trade **and (ii) as regards any Sponsored GC Trade, any difference between (x) the Contract Value of the Start Leg of the Sponsored GC Trade and (y) the GC Start Leg Market Value.**

* * *

Interest Adjustment Payment

The term “Interest Adjustment Payment” means, as regards a Forward Mark Adjustment Payment, the product of the Forward Mark Adjustment Payment multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360. **The term “Interest Adjustment Payment” means, as regards a Sponsored GC Trade, the product of the GC Interest Rate Mark multiplied by the applicable Overnight Investment Rate and then multiplied by a fraction, the numerator of which is the number of calendar days between the previous Business Day and the current Business Day and the denominator of which is 360.**

* * *

Purchased GC Repo Securities

The term “Purchased GC Repo Securities” means the GC Repo Securities transferred by the Sponsoring Member or Sponsored Member, as applicable, in settlement of the Start Leg of a Sponsored GC Trade, plus all cash and other GC Repo Securities transferred by such Sponsoring Member or Sponsored Member pursuant to Sections 8(b)(ii) and 8(b)(v) of Rule 3A, less any GC Repo Securities or cash received by the Sponsoring Member or Sponsored Member pursuant to Sections 8(b)(iii) and 8(b)(v) of Rule 3A.

* * *

Same-Day Settling Trade

The term “Same-Day Settling Trade” means (i) a Start Leg of a Netting Member’s Repo Transaction where the Scheduled Settlement Date of the Start Leg is the current Business Day, (ii) an As-Of Trade of a Netting Member where the Scheduled Settlement Date of the Start Leg is the previous Business Day and the End Leg is the current Business Day or thereafter, or (iii) a Sponsored Member Trade within the meaning of section ~~(b)(a)(ii)~~ of that definition that meets the requirements of either (i) or (ii) above.

* * *

Sponsored GC Clearing Agent Bank

The term “Sponsored GC Clearing Agent Bank” means a Clearing Agent Bank that has agreed to provide the Corporation, upon request, under mutually agreeable terms, with clearing services for Sponsored GC Trades.

* * *

Sponsored GC Service

The term “Sponsored GC Service” means the service ~~to be~~ offered by the Corporation, ~~which has not yet been proposed for and would be subject to regulatory approval,~~ to clear tri-party repurchase agreement transactions between Sponsoring Members and Sponsored Members, as ~~shall be~~ described in Rule 3A.[‡]

Sponsored GC Trade

The term “Sponsored GC Trade” means, in connection with the Sponsored GC Service, a Sponsored Member Trade that is a Repo Transaction between a Sponsored Member and its Sponsoring Member involving securities represented by a Generic CUSIP Number the data on which are submitted to the Corporation by the Sponsoring Member pursuant to the provisions of Rule 6A, for Novation to the Corporation pursuant to Section 7(b)(ii) of Rule 3A.

* * *

Sponsored Member Trade

The term “Sponsored Member Trade” means **(a)** a transaction that satisfies the requirements of Section 5 of Rule 3A and that is **(ai)** between a Sponsored Member and its Sponsoring Member or **(bii)** between a Sponsored Member and a Netting Member **or (b) a Sponsored GC Trade.**

* * *

Sponsoring Member Omnibus Account

The term “Sponsoring Member Omnibus Account” shall mean an Account maintained by a Sponsoring Member that contains the activity of its Sponsored Members that is submitted to the Corporation. A Sponsoring Member may elect to establish one or more Sponsoring Member Omnibus Accounts. Each Sponsoring Member Omnibus Account may contain ~~all types of Sponsored Member Trades activity within the meaning of clause (a) of the Sponsored Member Trade definition or activity within the meaning of clause (b) of such definition.~~ The Sponsoring Member Omnibus Account shall be separate from the

[‡]—~~The Sponsored GC Service shall be the subject of a subsequent rule filing with the SEC. The definition of Sponsored GC Service shall be revised upon approval of the subsequent rule filing, and at that time this footnote shall sunset.~~

Accounts associated with the Sponsoring Member's activity as a Netting Member except as contemplated by Sections 10, 11 and 12 of Rule 3A and under the Sponsoring Member Guaranty.

* * *

Start Leg

The term "Start Leg" means, as regards a Repo Transaction other than a GCF Repo Transaction or a Sponsored GC Trade, the initial settlement aspects of the Transaction, involving the transfer of the underlying Eligible Netting Securities by the Netting Member that is, or is submitting data on behalf of, the funds borrower (through satisfaction of the applicable Deliver Obligation generated by the Corporation) and the taking in of such Eligible Securities by the Netting Member that is, or is submitting data on behalf of, the funds lender (if netting eligible, through satisfaction of the applicable Receive Obligation generated by the Corporation). The term "Start Leg" means, as regards a GCF Repo Transaction, the initial settlement aspects of the Transaction, involving the transfer of the underlying Eligible Netting Securities by the Netting Member that is in the GCF Net Funds Borrower Position and the taking in of such Eligible Netting Securities by the Netting Member that is in the GCF Net Funds Lender Position. The term "Start Leg" means, as regards a Sponsored GC Trade, the initial settlement aspects of the Transaction, involving the transfer of GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Borrower and the taking in of such GC Repo Securities by the Sponsoring Member or Sponsored Member, as applicable, that is the GC Funds Lender.

* * *

RULE 3A – SPONSORING MEMBERS AND SPONSORED MEMBERS

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

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~~(d) A Sponsoring Member shall represent to the Corporation in a writing signed by a duly authorized officer of the Sponsoring Member that each of its Sponsored Members (i) is a “qualified institutional buyers” as defined in Rule 144A under the Securities Act of 1933, as amended, or (ii) is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i) of Rule 144A under the Securities Act of 1933, as amended, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph. Such representation shall be provided to the Corporation within 10 business days after each quarter-end, with respect to the quarter then ended. If the Sponsoring Member fails to provide the requisite representation within the requisite 10-business day period, the Sponsoring Member shall be subject to a fine by the Corporation which shall be determined in accordance with the Fine Schedule for Failure to Timely Provide Financial and Related Information. The Corporation shall have the right to cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 14 of this Rule 3A if the Sponsoring Member does not provide the requisite representation regarding one or more of its Sponsored Members. The Corporation shall also have the right to cease to act, pursuant to Section 13 of this Rule 3A, for any Sponsored Members for which it does not have a requisite representation, unless the Sponsoring Member and/or the affected Sponsored Member(s) request that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the records of the Sponsoring Member and the Sponsored Member(s), it is appropriate instead to establish a time period, which shall be determined by the Corporation, during which the Sponsoring Member and/or the affected Sponsored Member(s) must resume compliance with the representation requirement. In the event that the Sponsoring Member or the Sponsored Member(s) are unable to satisfy such requirement within the time period specified by the Corporation, the Corporation shall, pursuant to these Rules, cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 14 of this Rule 3A and/or cease to act for the Sponsored Member(s) pursuant to Section 13 of this Rule 3A.~~

(ed) Each Sponsoring Member shall submit to the Corporation, within the timeframes and in the formats required by the Corporation, the reports and information that all Netting Members are required to submit regardless of type of Netting Member and the reports and information required to be submitted for its respective type of Netting Member, all pursuant to Section 2 of Rule 3. Each Sponsoring Member shall submit the Legal Entity Identifier for each of its Sponsored Member applicants as part of the application of such Sponsored Member applicant. Each Sponsoring Member shall provide the Corporation with a Legal Entity Identifier for each of its Sponsored Members such that the Corporation shall have a current Legal Entity Identifier for each Sponsored Member at all times. The Sponsoring Member shall indemnify the Corporation, and its employees, officers, directors, shareholders, agents, and Members (collectively, the “LEI

Indemnified Parties”), for any and all losses, liabilities, expenses and Legal Actions suffered or incurred by the LEI Indemnified Parties arising from a Sponsoring Member’s failure to have the current Legal Entity Identifiers of its Sponsored Members on file with the Corporation. “Legal Action” means and includes any claim, counterclaim, demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation before any federal, state or foreign court or other tribunal, or any investigative or regulatory agency or self-regulatory organization.

(fe) A Sponsoring Member’s books and records, insofar as they relate to the Sponsored Member Trades submitted to the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation to the same extent provided in Section 10 of Rule 3 for other Members.

(gf) A Sponsoring Member shall promptly inform the Corporation, both orally and in writing, if it is no longer in compliance with the relevant standards and qualifications for applying to become a Sponsoring Member set forth in this Rule 3A. Notification must take place immediately and in no event later than 2 business days from the date on which the Sponsoring Member first learns of its non-compliance. The Corporation shall assess a \$1,000 fine against any Sponsoring Member who fails to so notify the Corporation. If the Sponsoring Member fails to maintain a standard, the Corporation will, if necessary, undertake appropriate action to determine the status of the Sponsoring Member and its continued eligibility as such. In addition, the Corporation may review the financial responsibility and operational capability of the Sponsoring Member, and otherwise require from the Sponsoring Member additional reports of its financial or operational condition at such intervals and in such detail as the Corporation shall determine. In addition, if the Corporation has reason to believe that a Sponsoring Member may fail to comply with any of the Rules applicable to Sponsoring Members, it may require the Sponsoring Member to provide it, within such timeframe, and in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Sponsoring Member shall not, in fact, violate any of these Rules.

In the event that a Sponsoring Member fails to maintain the relevant requirements of the Rules, the Sponsoring Member Agreement, or the Sponsoring Member Guaranty, the Corporation shall have the right to cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 14 of this Rule 3A, unless the Sponsoring Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the Sponsoring Member, it is appropriate instead to establish for such Sponsoring Member a 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 Sponsoring Member must resume compliance with such requirements. In the event that the Sponsoring Member is unable to satisfy such requirements within the time period specified by the Corporation, the Corporation shall, pursuant to these Rules, cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 14 of this Rule 3A.

(hg) If a Category 1 Sponsoring Member falls below one or more of the required minimum financial standards for being a Sponsoring Member set forth in subsection (a) above, it shall, for the period beginning on the day on which it fell below such level and continuing until the later of the 90th calendar day after the date on which (i) it returned to compliance with such standard, or (ii) the Corporation received notice of the applicable violation, have a Sponsoring

Member Omnibus Account Required Fund Deposit equal to the greater of either: (x) the sum of the normal calculation of its Sponsoring Member Omnibus Account Required Fund Deposit plus \$1,000,000, or (y) 125 percent of the normal calculation of its Sponsoring Member Omnibus Account Required Fund Deposit. If, in the case of a Category 2 Sponsoring Member, the sum of the VaR Charges of its Sponsoring Member Omnibus Account(s) and its Netting System accounts exceeds its Netting Member Capital, the Category 2 Sponsoring Member shall not be permitted to submit activity into its Sponsoring Member Omnibus Account(s), unless otherwise determined by the Corporation in order to promote orderly settlement.

(ih) A Sponsoring Member may voluntarily elect to terminate its status as a Sponsoring Member, with respect to all Sponsored Members or with respect to one or more Sponsored Members from time to time, by providing the Corporation with a written notice of such termination (“Sponsoring Member Voluntary Termination Notice”). The Sponsoring Member shall specify in the Sponsoring Member Voluntary Termination Notice a desired date for the termination of the Sponsoring Member’s status as such with respect to the Sponsored Member(s) as to which the Sponsoring Member has terminated such status (the “Former Sponsored Members”), which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Sponsoring Member with respect to the Former Sponsored Members to the Corporation as of the time such Sponsoring Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Sponsoring Member Voluntary Termination Notice from such Sponsoring Member. The Corporation’s acceptance shall be evidenced by a notice to all Members announcing the termination of the Sponsoring Member’s status as such with respect to the Former Sponsored Members and the effective date of such termination (hereinafter the “Sponsoring Member Termination Date”). As of the Sponsoring Member Termination Date, the Sponsoring Member shall no longer be eligible to submit trades on behalf of its Former Sponsored Members and each of its Former Sponsored Members shall cease to be a Sponsored Member unless it is the Sponsored Member of another Sponsoring Member. If any trade is submitted to the Corporation by the Sponsoring Member on behalf of its Former Sponsored Members that is scheduled to settle on or after the Sponsoring Member Termination Date, such Sponsoring Member’s Sponsoring Member Voluntary Termination Notice will be deemed void, and the Sponsoring Member will remain subject to this Rule as if it had not given such Sponsoring Member Voluntary Termination Notice.

A Sponsoring Member’s voluntary termination of its status as such, in whole or in part, shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Trades submitted to the Corporation before the applicable Sponsoring Member Termination Date. Any Sponsored Member Trades which have received the Corporation’s guaranty of settlement and been novated to the Corporation shall continue to be processed and guaranteed by the Corporation.

(ji) Except as otherwise provided in Rule 29, 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 Sponsoring Member.

Section 3 - Qualifications of Sponsored Members, Approval Process and Continuance Standard

(a) A Person shall be eligible to become a Sponsored Member if: (i) it is sponsored into membership by a Sponsoring Member, and (ii) it (A) is a “qualified institutional buyer” as defined by Rule 144A under the Securities Act of 1933, as amended, or (B) is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i)(H) of Rule 144A under the Securities Act of 1933, as amended, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph. The Corporation shall have the right to rely on the representation provided by the Sponsoring Member regarding satisfaction of (ii).

* * *

Section 5—Sponsored Member Trades

Sponsored Member Trades (**other than Sponsored GC Trades**) may be any type of transaction eligible for submission to the Corporation for netting with the exception of Netting-Eligible Auction Purchases, Brokered Transactions, and GCF Repo Transactions.

Rule 14 (Forward Trades) shall apply to Sponsored Member Trades (**other than Sponsored GC Trades**) that are Forward Trades in the same manner in which it applies to Netting Members with the exception that the Report on Forward Net Settlement Positions shall be issued to the Sponsoring Member as processing agent for its Sponsored Members. The Corporation’s provision of such Report to the Sponsoring Member shall constitute satisfaction of the Corporation’s obligations to provide such Report to the affected Sponsored Members.

Rule 18 (Special Provisions for Repo Transactions) shall apply to Sponsored Member Trades (**other than Sponsored GC Trades**) that are Repo Transactions in the same manner in which it applies to Netting Members.

Section 6—Trade Submission and the Comparison System

(a) The Corporation’s Schedule of Timeframes shall be applicable to Sponsored Member Trades, **other than Sponsored GC Trades to which the Corporation’s Schedule of Sponsored GC Trade Timeframes shall be applicable.**

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

(a) **The following provisions apply to Sponsored Member Trades other than Sponsored GC Trades:**

(i) The Sponsored Member Trades of each Sponsored Member shall be novated and netted in the same manner as set forth in Section 8 of Rule 5 and Sections 1, 4 and 6 of Rule 11 for Netting Member trades as long as such Sponsored Member Trades meet the requirements of Section 2 of Rule 11. Net Settlement Positions per CUSIP shall be calculated for each Sponsored Member in the same manner set forth in Rule 11 for Netting Members. The Sponsoring Member shall act as processing agent for performing

all functions and receiving Reports and information set forth in Rule 11 on behalf of its Sponsored Members. The Corporation's provision of such Reports and information to the Sponsoring Member shall constitute satisfaction of the Corporation's obligations to provide such Reports and information to the affected Sponsored Members.

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

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

(div) The Corporation's guaranty of settlement shall apply to Sponsored Member Trades and such trades shall be novated in the same manner in which trades of Netting Members are novated and settlement is guaranteed pursuant to Section 8 of Rule 5.

(b) The following provisions apply only to Sponsored GC Trades:

(i) Only the End Leg of a Sponsored GC Trade may be novated to the Corporation. A Sponsored GC Trade may, but need not, have an Initial Haircut.

(ii) The End Leg of each Sponsored GC Trade shall be novated in the same manner as set forth in Section 8 of Rule 5 as of the time that the following requirements have been satisfied on a given Business Day;

- (A) Trade data on the Sponsored GC Trade has been submitted to the Corporation by the Sponsoring Member pursuant to Rule 6A by the deadline set forth in the Corporation's Schedule of Sponsored GC Trade Timeframes;**
- (B) The data on the Sponsored GC Trade has been compared in the Comparison System pursuant to the Rule 6A;**
- (C) The Start Leg of such Sponsored GC Trade has fully settled at a Sponsored GC Clearing Agent Bank by the deadline set forth in the Corporation's Schedule of Sponsored GC Trade Timeframes;**
- (D) Such Sponsored GC Clearing Agent Bank has, pursuant to communications links, formats, timeframes, and deadlines established by the Corporation for such purpose, provided to the Corporation a report containing such data as the Corporation may require from time to time, including information regarding**

the particular GC Repo Securities that were delivered in settlement of the Start Leg of the Sponsored GC Trade; and

- (E) The Corporation determines that the data contained in such report matches the data on the Sponsored GC Trade submitted by the relevant Sponsoring Member pursuant to Rule 6A.

(iii) On each Business Day, the Corporation will provide each Sponsoring Member with one or more Reports setting forth (A) each Sponsored GC Trade, the data on which has been compared in the Comparison System and (B) each Sponsored GC Trade, the End Leg of which has been novated to the Corporation.

(iv) Each Sponsoring Member and Sponsored Member acknowledges and agrees that it has authorized each relevant Sponsored GC Clearing Agent Bank to provide the Corporation with all information and data as the Corporation may require or request from time to time in order to novate and process Sponsored GC Trades.

Section 8—Securities Settlement

(a) The following provisions apply to Sponsored Member Trades other than Sponsored GC Trades:

(i) A Sponsored Member shall appoint its Sponsoring Member to act as processing agent with respect to the Sponsored Member's satisfaction of its securities settlement obligations and for performing all functions and receiving Reports and information set forth in the Sections of the Rules cited in Section ~~8(e)~~8(a)(iii) below. The Corporation's provision of such Reports and information to the Sponsoring Member shall constitute satisfaction of the Corporation's obligations to provide such Reports and information to the affected Sponsored Members. ~~Notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member shall be principally obligated to the Corporation with respect to all securities settlement obligations under the Rules, and the Sponsoring Member shall not be a principal under the Rules with respect to settlement obligations of its Sponsored Members.~~

(bii) Netting at the Sponsored Member level shall occur as stated in Section 7(a) of this Rule 3A. The Corporation shall then, for operational purposes, calculate a single Net Settlement Position and Fail Net Settlement Position in each CUSIP for the Sponsoring Member Omnibus Account and associated Deliver Obligations and Receive Obligations.

(eiii) Each Sponsored Member shall be responsible for satisfying its allocable portion (calculated for such Sponsored Member as stated in Section 7(a) of this Rule 3A) of the Deliver Obligations and Receive Obligations established for the Sponsoring Member Omnibus Account, using its Sponsoring Member as a processing agent, in the same manner set forth in Sections 9 through 12 of Rule 11 and Sections 1 through 5, 7, 9, and 10, and 11 of Rule 12 for Netting Members. With respect to Section 1 of Rule 12, the optional Pair-Off Service shall be available to Sponsored Member Trades within the meaning of section

~~(b)~~**(a)(ii)** of that definition. With respect to Section 5 of Rule 12, the Sponsoring Member shall inform the Corporation as to the manner in which a partial delivery, if any, was allocated among the Sponsored Members. Notwithstanding anything to the contrary in these Rules or any Sponsoring Member Guaranty, a Sponsoring Member's satisfaction of the net Deliver Obligations and Receive Obligations to the Corporation with respect to the Sponsoring Member Omnibus Account of such Sponsoring Member prior to such Sponsoring Member's receipt of any Sponsored Member's payment or delivery of its allocable portion of such Deliver Obligations or Receive Obligations shall constitute performance by the Sponsoring Member under its Sponsoring Member Guaranty with respect to such Sponsored Member's allocable portion of the Sponsoring Member Omnibus Account Deliver Obligations and Receive Obligations, regardless of the manner or capacity in which the Sponsoring Member satisfies such net Deliver Obligations and Receive Obligations.

(div) On each Business Day, each Deliver Obligation and Receive Obligation of the Sponsoring Member Omnibus Account shall be settled at Settlement Value reported on such Business Day for such Obligations. The Corporation's satisfaction of its securities settlement obligations with the Sponsoring Member Omnibus Account shall constitute satisfaction of the Corporation's obligation to settle with an individual Sponsored Member whose securities settlement obligations constitute an allocable portion of the Deliver Obligation or Receive Obligation of the Sponsoring Member Omnibus Account.

(ev) Any financing costs incurred as described in Section 6 of Rule 12 due to Sponsored Member activity shall be the responsibility of the applicable Sponsoring Member. Section 8 of Rule 12 shall apply to Sponsoring Members and Sponsored Members in the same manner in which it applies to Netting Members.

(fvi) The Corporation's buy-in provisions set forth in Section 13 of Rule 11 shall apply, the same manner in which they apply to Netting Member positions, to the Receive Obligations and Deliver Obligations established at the level of the Sponsoring Member Omnibus Account pursuant to subsection ~~(b)~~**(a)(ii)** of this Section 8.

(gvii) As security for any and all obligations and liabilities of a Sponsored Member to the Corporation under the Rules, including, without limitation, all of the securities and funds-only settlement obligations of such Sponsored Member under the Rules, each such Sponsored Member grants to the Corporation a first priority perfected security interest in all assets and property placed by a Sponsored Member in the possession of the Corporation (or its agents acting on its behalf), including all securities and cash on deposit with the Corporation or its agents.

(b) The following provisions apply only to Sponsored GC Trades:

(i) GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements must be satisfied by a GC Funds Lender and GC Funds Borrower, respectively, within the timeframes established for such by the Corporation in the Schedule of Sponsored GC Trade Timeframes. In addition, any failure by the GC Funds Borrower to satisfy its cash payment

obligations associated with GC Collateral Return Entitlements within the timeframe established for such by the Corporation in the Schedule of Sponsored GC Trade Timeframes shall subject it to a late fee as if such GC Funds Borrower were a Net Funds Payor within the meaning of Section IX of the Fee Structure (Late Fee Related to GCF Repo Transactions).

(ii) If on any Business Day, the market value of a GC Funds Borrower's GC Collateral Return Entitlement from the previous Business Day (or the current Business Day) is less than the GC Start Leg Market Value, then such GC Funds Borrower shall deliver to the Corporation (and the Corporation shall deliver to the relevant GC Funds Lender) additional GC Comparable Securities and/or cash, such that the market value of the GC Funds Borrower's GC Collateral Return Entitlement (and the market value of the relevant GC Funds Lender's GC Collateral Return Obligation) is at least equal to the GC Start Leg Market Value. Such additional securities and/or cash must be delivered by the GC Funds Borrower within the timeframe set forth in the Schedule of Sponsored GC Trade Timeframes.

(iii) If on any Business Day, the market value of a GC Funds Lender's GC Collateral Return Obligation from the previous Business Day (or the current Business Day) is greater than the GC Start Leg Market Value, then such GC Funds Lender shall deliver to the Corporation (and the Corporation shall deliver to the relevant GC Funds Borrower) some of the Purchased GC Repo Securities, such that the market value of the GC Funds Lender's GC Collateral Return Obligation (and the market value of the relevant GC Funds Borrower's Collateral Return Entitlement) is at least equal to the GC Start Leg Market Value. Such Purchased GC Repo Securities must be delivered within the timeframe set forth in the Schedule of Sponsored GC Trade Timeframes.

(iv) Each GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) shall, within the timeframe set forth in the Schedule of Sponsored GC Trade Timeframes, pay the daily accrued GC Daily Repo Interest to the Corporation (and the Corporation shall pay such GC Daily Repo Interest to the GC Funds Lender or GC Funds Borrower, as applicable).

(v) A GC Funds Borrower may substitute cash and/or GC Comparable Securities for any Purchased GC Repo Securities in accordance with the timeframe set forth in the Schedule of Sponsored GC Trade Timeframes.

(vi) The Corporation hereby directs each Sponsored Member and Sponsoring Member to satisfy any payment or delivery obligation due to the Corporation, except for any obligation to pay a Funds-Only Settlement Amount, by making the relevant payment or delivery to an account at the relevant Sponsored GC Clearing Agent Bank specified by the pre-Novation counterparty to the Sponsored Member or Sponsoring Member, as applicable, in accordance with such procedures as the Sponsored GC Clearing Agent Bank may specify from time to time. Each Sponsored Member and Sponsoring Member that is owed any such payment or delivery from the Corporation acknowledges and agrees that, if the pre-Novation

counterparty to such Sponsored GC Trade makes the relevant payment or delivery as described in the prior sentence, the Corporation's obligation to make such payment or delivery shall be discharged and satisfied in full.

(vii) The market value of all GC Repo Securities shall be determined by the relevant Sponsored GC Clearing Agent Bank each Business Day.

(c) Notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member shall be principally obligated to the Corporation with respect to all securities settlement obligations under the Rules, and the Sponsoring Member shall not be a principal under the Rules with respect to settlement obligations of its Sponsored Members.

(d) The Corporation, when calculating Individual Total Amounts for a Sponsoring Member, may net any offsetting settlement obligations across the Sponsoring Member's proprietary positions and the positions of its Sponsored Members in its Sponsoring Member Omnibus Account(s).

Section 9 – Funds-Only Settlement

(a) The following provisions apply to Sponsored Member Trades other than Sponsored GC Trades: A Sponsored Member shall have the same Funds-Only Settlement Amount obligations as a Netting Member pursuant to Rule 13. However, if the parties to a Sponsored Member Trade agree for such Sponsored Member Trade to have an Initial Haircut, any Funds-Only Settlement Amount that is applicable to such Sponsored Member Trade and that includes a Collateral Mark shall, in lieu of such Collateral Mark, include any Haircut Deficit or Haircut Surplus. Any Haircut Deficit shall be a negative amount for the Member with a Net Long Position, and a positive amount for the Member with a Net Short Position. Any Haircut Surplus shall be a negative amount for the Member with a Net Short Position, and a positive amount for the Member with a Net Long Position. The Corporation shall not be under any obligation to verify the parties' agreement in respect of an Initial Haircut, and its calculation of any Initial Haircut shall be conclusive and binding on the parties. A Sponsored Member shall appoint its Sponsoring Member to act as processing agent for performing all functions and receiving Reports and information set forth in Rule 13. The Corporation's provision of such Reports and information to the Sponsoring Member shall constitute satisfaction of the Corporation's obligations to provide such Reports and information to the affected Sponsored Members. Notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member shall be principally obligated to the Corporation with respect to all funds-only settlement obligations under the Rules, and the Sponsoring Member shall not be a principal under the Rules with respect to settlement obligations of its Sponsored Members.

(b) The following provision shall apply only to Sponsored GC Trades: Each Sponsoring Member and Sponsored Member shall be obligated to pay to the Corporation, and/or shall be entitled to receive from the Corporation, the following amounts: Forward Mark Adjustment Payment and Interest Adjustment Payment. Such amounts shall be payable and receivable as though they were amounts described in Rule 13.

(c) The following provisions shall apply to all Sponsored Member Trades:

(bi) The Corporation shall, for operational purposes, calculate a single Funds-Only Settlement Amount obligation for the Sponsoring Member Omnibus Account. Notwithstanding anything to the contrary in these Rules or any Sponsoring Member Guaranty, a Sponsoring Member's satisfaction of the net Funds-Only Settlement Amount obligation to the Corporation with respect to the Sponsoring Member Omnibus Account of such Sponsoring Member prior to such Sponsoring Member's receipt of any Sponsored Member's payment of its allocable portion of such Funds-Only Settlement Amount obligation shall constitute performance by the Sponsoring Member under its Sponsoring Member Guaranty with respect to such Sponsored Member's allocable portion of the Sponsoring Member Omnibus Account Funds-Only Settlement Amount obligation, regardless of the manner or capacity in which the Sponsoring Member satisfies such net Funds-Only Settlement Amount obligation.

(eji) Each Sponsored Member shall be responsible for satisfying its allocable portion of the Funds-Only Settlement Amount calculated for the Sponsoring Member Omnibus Account, using its Sponsoring Member as a processing agent, in the same manner set forth in Rule 13 for Netting Members. The Corporation's satisfaction of its funds-only settlement obligations with the Sponsoring Member Omnibus Account shall constitute satisfaction of the Corporation's obligation to settle with an individual Sponsored Member whose Funds-Only Settlement obligations constitute an allocable portion of the Funds-Only Settlement Amount of the Sponsoring Member Omnibus Account.

(diii) A Sponsoring Member shall be subject to a fine pursuant to the Fine Schedule for Late Payment of Funds Settlement Debit in these Rules for any late payment of a Funds-Only Settlement Amount that is a debit obligation of any of its Sponsored Members.

(eiv) Section 7 of Rule 13 shall apply to the Sponsored Member activity in the same manner in which it applies to Netting Member activity, except that the Sponsoring Member shall have all obligations arising thereunder even if caused by its Sponsored Members.

Section 10—Clearing Fund Obligations

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(i) For purposes of the application of Rule 4 to a Sponsoring Member Omnibus Account, each Sponsored GC Trade shall be treated as a GCF Repo Transaction, each GC Funds Lender and GC Funds Borrower shall be treated as a GCF Counterparty, and each Sponsored GC Clearing Agent Bank shall be treated as a GCF Clearing Agent Bank.

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Section 18 – Liquidation of Sponsored Member and Related Sponsoring Member Positions

(a) The provisions of this Section 18, which shall supersede any conflicting provisions of this Rule 3A and Rule 22A, shall only apply (i) with respect to the liquidation of positions resulting from Sponsored Member Trades within the meaning of subsections (a)(i) and (a)(ii) of the Sponsored Member Trade definition, (ii) in the event a Sponsoring Member is not a Defaulting Member and the Corporation has not ceased to act for the Sponsoring Member and (iii) if a Corporation Default has not occurred. In addition, the Corporation may only cause the termination described in subsection (b) below if it has ceased to act for the Sponsored Member at issue and the Sponsoring Member has not performed the obligations of the Sponsored Member in respect of all positions guaranteed by such Sponsoring Member.

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RULE 5 - COMPARISON SYSTEM

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Section 4 – Submission Size Alternatives

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Notwithstanding the above: (i) GCF Repo Transactions **and Sponsored GC Trades** must be submitted exactly as executed, and (ii) when the Corporation deems it appropriate and advises Members of such, Members using the Interactive Submission Method may submit Full-Sized Trades exactly as executed, for amounts over \$50 million. The Corporation shall establish procedures governing the manner in which the Corporation shall compare Full-Sized Trades to trades submitted in pieces and the order in which such comparison shall occur. The Corporation shall inform Members of these procedures by notice prior to their implementation.

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SCHEDULE OF GCF REPO TIMEFRAMES

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SCHEDULE OF SPONSORED GC TRADE TIMEFRAMES* ** *** (all times are New York City times)

10:30 p.m.

to 2:00 a.m. Time during which reports will be made available with respect to the end of day Clearing Fund requirements and funds-only settlement requirements.

9:00 a.m. Deadline for the GC Funds Borrower to satisfy the obligation described in Section 8(b)(ii) of Rule 3A in accordance with the provisions of Section 8(b)(vi) of Rule 3A. The Corporation reserves the right to also require a GC Funds Borrower to satisfy the obligation described in Section 8(b)(ii) on an intraday basis based on the market value of the applicable GC Repo Securities as determined by the GC Clearing Agent Bank in accordance with Section 8(b)(vii) of Rule 3A.

10:00 a.m. Funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service.

12:00 p.m. Deadline for the GC Funds Borrower (or if the repo rate for the relevant Sponsored GC Trade is negative, the GC Funds Lender) to pay to the Corporation the accrued GC Daily Repo Interest as described in Section 8(b)(iv) in accordance with the provisions of Section 8(b)(vi) of Rule 3A (unless the End Leg of the related Sponsored GC Trade is due to settle on the same day).

2:00 p.m. Time during which reports will be made available with respect to the intraday Clearing Fund requirements, and intraday funds-only settlement requirements.

* The time by which a GC Funds Lender is required to deliver any securities to a GC Funds Borrower in connection with Section 8(b)(iii) of Rule 3A shall be determined by the relevant Sponsored GC Clearing Agent Bank.

** All times may be extended as needed by the Corporation to (i) address operational or other delays that would reasonably prevent members or the Corporation from meeting the deadline or timeframe, as applicable, or (ii) allow the Corporation time to operationally exercise its existing rights under these Rules. In addition, times applicable to the Corporation are standards and not deadlines; actual processing times may vary slightly, as necessary.

*** Any accrued GC Daily Repo Interest that is due on the settlement day of the End Leg of the related Sponsored GC Trade shall be paid in connection with the settlement of the End Leg.

4:30 p.m. Intraday funds-only settlement debits and credits are executed via the Federal Reserve's National Settlement Service.

5:00 p.m. Deadline for final input by Sponsoring Members to the Corporation of Sponsored GC Trade data.

5:30 p.m. Deadline for (i) full settlement of the Start Leg of the Sponsored GC Trade in accordance with Section 7(b)(ii)(C) of Rule 3A, (ii) substitutions of Purchased GC Repo Securities in accordance with Section 8(b)(v) of Rule 3A, and (iii) satisfaction of GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements by GC Funds Lenders and GC Funds Borrowers, respectively, in accordance with Section 8(b)(i) of Rule 3A.

SCHEDULE FOR THE DELETION OF TRADE DATA

Trade data on transactions other than Repo Transactions that remain uncomparing shall pend in the Comparison System until the later of: (a) for trades in new issues and re-issues, the issue date or re-issue date for such trades, or (b) the processing cycle after the second Business Day after the date of submission of such data. Trade Data on Repo Transactions **other than Sponsored GC Trades** that remain uncomparing shall pend in the Comparison System until the later of: (a) the processing cycle after the second Business Day after the Repo Start Date, or (b) the processing cycle after the second Business Day after the date of submission of such data. Data on trades (including Yield Comparison Trades) that are not eligible for netting that compare (prior to being deleted) are deleted during the same processing cycle during which such comparison is reported to Members. Data on trades eligible for netting that compare shall pend until (and shall be deleted during) the processing cycle prior to the Scheduled Settlement Date for such trades. **Trade data on Sponsored GC Trades that remain uncomparing on a given Business Day shall pend in the Comparison System until the Corporation's deadline for final input by Sponsoring Members of Sponsored GC Trade data (as provided in the Schedule of Sponsored GC Trade Timeframes) on such Business Day. Trade data on Sponsored GC Trades, which have been compared in the Comparison System pursuant to Rule 6A but the Start Legs of which have not fully settled at a Sponsored GC Clearing Agent Bank by the deadline set forth in the Corporation's Schedule of Sponsored GC Trade Timeframes, shall be deleted from the Comparison System during the same processing cycle as the Repo Start Date for such Sponsored GC Trades.**

The timeframes for deletion of trade data that are set forth in this schedule may be changed by the Corporation upon the provision by it of 15 Business Days' prior notice of such to all Members.

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SCHEDULE OF REQUIRED DATA SUBMISSION ITEMS

In addition to the data items listed in the Schedule of Required Match Data, the following data items are required, as indicated below, to be submitted by Members when they submit trade data to the Corporation:

- (1) Broker reference number - the reference number used by a Repo Broker submitting data to uniquely identify the matching short and long sides of a Brokered Transaction
- (2) Contra Submitting Member's executing firm - if this field is left blank, the Corporation will fill this field with the contra Submitting Member's identifying number
- (3) Executing Firm - if this field is left blank, the Corporation will fill this field with the submitting Member's identifying number
- (4) External reference number - the reference number used by a Member submitting data to uniquely identify the transaction
- (5) Price (rate) - as regards Repo Transaction, the repo rate must be submitted in this field
- (6) Pricing method - for buy/sell transactions, this field must be submitted with either a "D" (discount), (P) (price), or "Y" (yield), while for Repo Transactions, this field must be submitted with an "R" (rate)
- (7) Trade date

This schedule does not apply to Netting Eligible Auction Purchases and GCF Repo Transactions, **and items (1) and (2) above are not required for Sponsored Member Trades.**

**SCHEDULE OF REQUIRED AND ACCEPTED
DATA SUBMISSION ITEMS FOR A SUBSTITUTION**

In addition to the data items required in the Schedules of Required Match Data and Required Data Submission Items, the following data items are required to be received by the Corporation as regards a Repo Transaction in order for the Corporation to process a substitution:

- (1) the Specific CUSIP Number for the Existing Securities Collateral;
- (2) the par amount;
- (3) the principal value;
- (4) Scheduled Settlement Date for the Start Leg of the Transaction and Contract Repo Rate;
- (5) for Brokered Repo Transactions, the reverse repo rate; and
- (6) counterparty to the Transaction.

This schedule does not apply to Netting-Eligible Auction Purchases, ~~and~~ GCF Repo Transactions **and Sponsored GC Trades**.

**SCHEDULE OF REQUIRED AND ACCEPTED
DATA SUBMISSION ITEMS FOR NEW SECURITIES COLLATERAL**

In addition to the data items required in the Schedules of Required Match Data and Required Data Submission Items, the following data items are required to be received by the Corporation as regards a Repo Transaction in order for it to process a substitution:

- (1) the Specific CUSIP Number for the New Securities Collateral;
- (2) the par amount;
- (3) the principal value;
- (4) Scheduled Settlement Date for the Start Leg of the Transaction and Contract Repo Rate;
- (5) for Brokered Repo Transactions, the reverse repo rate; and
- (6) counterparty to the Transaction.

This schedule does not apply to Netting-Eligible Auction Purchases, ~~and~~ GCF Repo Transactions **and Sponsored GC Trades**.

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SCHEDULE OF MONEY TOLERANCES

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SCHEDULE OF GC COMPARABLE SECURITIES¹²³⁴

<u>Generic Security Type</u>	<u>GC Repo Security Number</u>	<u>Description</u>	<u>GC Comparable Securities</u>
<u>TU10</u>	<u>84910LAB2</u>	<u>U.S. TREASURIES < 10 YR MATURITY</u>	<u>U.S. Treasury bills, notes and bonds⁵ (including U.S. Treasury floating rate notes) maturing in a time frame no greater than that of the securities that have been traded</u>
<u>TU30</u>	<u>84910LAA4</u>	<u>U.S. TREASURIES < 30 YR MATURITY</u>	<u>U.S. Treasury bills, notes and bonds (including U.S. Treasury floating rate notes) maturing in a time frame no greater than that of the securities that have been traded</u>

¹ Please refer to the Sponsored GC Clearing Bank for details regarding the Fed “tickers” applicable to GC Comparable Securities.

² Government National Mortgage Association (“Ginnie Mae”) serial notes are not eligible as GC Comparable Securities.

³ U.S. Agency Real Estate Mortgage Investment Conduits (“REMICs”) and U.S. Agency Collateralized Mortgage Obligations (“CMOs”) are not eligible as GC Comparable Securities.

⁴ Eligible Securities with a maturity date of the next Business Day are not eligible as GC Comparable Securities.

⁵ For purposes of this Schedule, the references to U.S. Treasury bills, notes or bonds shall not include U.S. Treasury inflation-protected securities (“TIPS”) or U.S. Treasury Separate Trading of Registered Interest and Principal Securities (“STRIPS”).

<u>Generic Security Type</u>	<u>GC Repo Security Number</u>	<u>Description</u>	<u>GC Comparable Securities</u>
<u>AGCY</u>	<u>84910LAC0</u>	<u>NON-MORTGAGE BACKED U.S. AGENCY SECURITIES</u>	<u>Non-Mortgage Backed Securities issued by:</u> <ul style="list-style-type: none"> • <u>Federal Farm Credit Banks</u> • <u>Federal Home Loan Bank</u> • <u>Federal Home Loan Mortgage Corporation</u> • <u>Federal National Mortgage Association</u> • <u>U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)</u>
<u>FFIX</u>	<u>84910LAD8</u>	<u>FEDERAL NATIONAL MORTGAGE ASSOCIATION (“FANNIE MAE”)</u> <u>& FEDERAL HOME LOAN MORTGAGE CORPORATION (“FREDDIE MAC”)</u> <u>FIXED RATE MORTGAGE- BACKED SECURITIES</u>	<u>Fannie Mae and Freddie Mac Fixed Rate Mortgage-Backed Securities</u> <u>U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)</u>
<u>FFARM</u>	<u>84910LAE6</u>	<u>FANNIE MAE & FREDDIE MAC</u> <u>ADJUSTABLE RATE MORTGAGE-BACKED SECURITIES</u>	<u>Fannie Mae and Freddie Mac Fixed Rate and Adjustable Rate Mortgage- Backed Securities</u> <u>Ginnie Mae Fixed Rate and Adjustable Rate Mortgage-Backed Securities</u> <u>U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)</u>

<u>Generic Security Type</u>	<u>GC Repo Security Number</u>	<u>Description</u>	<u>GC Comparable Securities</u>
<u>GNMA</u>	<u>84910LAF3</u>	<u>GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GINNIE MAE”) FIXED RATE MORTGAGE-BACKED SECURITIES</u>	<u>Ginnie Mae Fixed Rate Mortgage-Backed Securities</u> <u>U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)</u>
<u>GNARM</u>	<u>84910LAG1</u>	<u>GINNIE MAE ADJUSTABLE RATE MORTGAGE-BACKED SECURITIES</u>	<u>Ginnie Mae Adjustable Rate and Ginnie Mae Fixed Rate Mortgage-Backed Securities</u> <u>U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)</u>
<u>TIPS</u>	<u>84910LAH9</u>	<u>U.S. TREASURY INFLATION-PROTECTED SECURITIES (“TIPS”)</u>	<u>U.S. Treasury inflation-protected notes and bonds</u> <u>U.S. Treasury bills, notes, bonds (excluding U.S. Treasury floating rate notes)</u>
<u>STRP</u>	<u>84910LAJ5</u>	<u>U.S. TREASURY SEPARATE TRADING OF REGISTERED INTEREST AND PRINCIPAL OF SECURITIES (“STRIPS”)</u>	<u>U.S. Treasury STRIPS</u> <u>U.S. Treasury bills, notes bonds (excluding U.S. Treasury floating rate notes)</u>

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FEE STRUCTURE

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VII. SPONSORING MEMBERS

A Sponsoring Member shall be liable for fees and charges arising from Sponsored Member Trades the data on which it, or its Sponsored Member(s), has submitted to the Corporation. A Sponsoring Member shall also be subject to the minimum monthly fee set forth in Section V of this Fee Structure; provided, that a Sponsoring Member Omnibus Account shall be considered a single account for purposes of calculating such fee, regardless of the number of Sponsored Members whose trading activity is conducted through such account. A Sponsoring Member shall also be liable to the Corporation for the Sponsored GC Pre-Payment Assessment to the extent it participates in the Sponsored GC Service. The Corporation's books and records shall reflect the Sponsored GC Pre-Payment Assessment as a credit to such Sponsoring Member until expiration.

In addition, any Sponsoring Member that elects to be charged the Sponsored GC Pre-Payment Assessment between November 2020 and February 2021 shall receive an additional \$25,000 credit toward its use of the Sponsored GC Service (the "Additional Sponsored GC Credit"), which shall be credited by the Corporation against the Sponsoring Member's fees for use of the Sponsored GC Service until the earlier of (i) the Additional Sponsored GC ~~Assessment~~ **Credit** being completely depleted and (ii) thirty-six (36) months after the Sponsoring Member onboards into the Sponsored GC Service. The Corporation's books and records shall reflect the Additional Sponsored GC Credit as a credit to such Sponsoring Member until expiration.

~~To the extent the Corporation, in consultation with its Board of Directors, does not implement the Sponsored GC Service, all previously collected Sponsored GC Pre-Payment Assessments shall be returned to the contributing Sponsoring Members in full.*~~

In addition, to the extent a Sponsoring Member elects to withdraw from the Sponsored GC Service prior to the expiration of its Sponsored GC Pre-Payment Assessment, it shall be entitled to a return of any unused portion of such Sponsored GC Pre-Payment Assessment from the Corporation; provided that, for the avoidance of doubt, such Sponsoring Member shall be liable for the Sponsored GC Pre-Payment Assessment to the extent that it ever elects to participate in the Sponsored GC Service in the future.

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*—~~The Sponsored GC Service shall be the subject of a subsequent rule filing with the SEC. Section VII of the Fee Structure shall be revised to remove the referenced sentence upon approval of the subsequent rule filing, and at that time this footnote shall sunset.~~