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

File No. * SR 2023 - * 002

Amendment No. (req. for Amendments *)

Filing by Fixed Income Clearing Corporation

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

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input checked="" type="checkbox"/> 19b-4(f)(6)		
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Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) *

Section 806(e)(2) *

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

Section 3C(b)(2) *

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

Description

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

Modifications to the FICC Government Securities Division Rulebook

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 * [Redacted] Last Name * [Redacted]

Title * [Redacted]

E-mail * RuleFilingAdmin@dtcc.com

Telephone * [Redacted] Fax [Redacted]

Signature

Pursuant to the requirements of the Securities Exchange of 1934, Fixed Income Clearing Corporation has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 02/06/2023

(Title *)

By [Redacted]

[Redacted]

(Name *)

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

Date: 2023.02.06
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Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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Narrative - Sponsoring Member Clean

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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Exhibit 1A - Sponsoring Member Clean

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 Advanced 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 being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

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

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

Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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

Exhibit Sent As Paper Document

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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Exhibit 5 - Sponsoring Member Clean

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item 1 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

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 improve the transparency of those rules by making clarifications, corrections, and technical changes to the Rules, described in more detail below.

(a) Not applicable.

(b) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Deputy General Counsel of FICC on January 27, 2023 pursuant to delegated authority from FICC’s Board of Directors.

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

(a) Purpose

FICC is proposing to make certain clarifications, corrections, and technical changes to the Rules, each as described in more detail below.

(i) Clarifications

In Rule 3A, Sections 2(g) and 3(d), FICC proposes to clarify that Members should refer to the Fine Schedule for the dollar amount of the fine by deleting the references to \$1,000 and adding that the fine is pursuant to the applicable Fine Schedule in the Rules. The proposed rule changes would also remove the requirement that notifications under these Sections be provided orally, as such notifications are difficult to record and are redundant of the written notification also required in these Sections of Rule 3A.

FICC would also revise these sections to more clearly describe the Sponsoring Members’ obligations to notify FICC of certain events that involve either the Sponsoring Member or their Sponsored Members. Currently, Section 2(g) describes only the Sponsoring Members’ obligation to notify FICC when it is no longer in compliance with the relevant standards and qualification for a Sponsoring Member membership, and Section 3(d) describes an obligation of the Sponsored Members to notify their Sponsoring Member(s) if it is no longer in compliance with the applicable requirements of Rule 3A. Section 3(d) then describes the obligation of a Sponsoring Member to notify FICC after it receives such notification from a Sponsored Member.

¹ Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the GSD Rules, available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

First, the proposed changes would remove from the Rules the obligation of a Sponsored Member to notify the Sponsoring Member stated in Section 3(d) because this obligation is one that should be created and enforced between those two entities and not in the GSD Rules. Second, the proposed changes would move the obligation of a Sponsoring Member to notify FICC when a Sponsored Member is no longer in compliance with the applicable requirements of that Rule from Section 3(d) to Section 2(g), where the obligations of Sponsoring Members are stated. Third, the proposed rule changes would include the requirement that a Sponsoring Member also notify FICC at least 90 calendar days prior to the effective date of any Reportable Event, as such term is defined in Rule 1 of the GSD Rules, applicable to a Sponsored Member, unless the Sponsoring Member demonstrates that it could not have reasonably done so, in which case such notice shall be provided as soon as possible. This proposed change would clarify that the reporting obligations of Sponsoring Members with respect to their Sponsored Members are the same reporting obligations applicable to other GSD Members.

Finally, the proposed changes would revise a statement in Section 3(d) of Rule 3A that currently states FICC shall cease to act for a Sponsored Member that no longer meets the requirements for such membership. The proposed change would revise this statement to replace “shall” with “may” and would clarify that FICC has the right, but not the obligation, to cease to act for a Sponsored Member in such circumstances. This proposed change would align Section 3(d) with Section 13 of Rule 3A, which provides that FICC may, based on its judgement that there is adequate cause to do so, suspend a Sponsored Member from any FICC services in the circumstances described in that Section.

FICC also proposes changes to Sections 2(i) and 3(e), which address the procedures for Sponsoring Members and Sponsored Members, respectively, to voluntarily terminate their membership with FICC. These Sections currently state that a Sponsoring Member Voluntary Termination Notice or a Sponsored Member Voluntary Termination Notice, as applicable and as defined in those Sections of Rule 3A, is not effective until it is accepted by FICC and that such acceptance is evidenced by a notice to all Members announcing the termination of that membership.

First, FICC is proposing to revise these Sections to make clear that its acceptance of a voluntary termination of a Sponsoring Member’s or Sponsored Member’s membership shall be evidenced by a notification from FICC to the firm terminating its membership and that the effective date of the membership termination will be set forth in that notice from FICC to the member.

Second, the proposed changes to these Sections will clarify that the notice to all members regarding the voluntary termination of a Sponsoring Member’s or Sponsored Member’s membership (i) is an Important Notice, which is a notice posted to FICC’s public website, and (ii) is only posted when a Sponsoring Member has terminated its status as a Sponsoring Member with respect to all Sponsored Members or when a Sponsored Member has terminated its relationship with all Sponsoring Members and, as such, has terminated its membership with FICC. More specifically, the proposed changes would clarify that an Important Notice is not posted if a Sponsored Member terminates its relationship with one, but not all, of its Sponsoring Members, for example, but only when a Sponsored Member or a Sponsoring Member ceases to participate in the Sponsored Clearing service.

FICC also proposes to make a clarification to Rule 3A, Section 3(c). Rule 3A, Section 3(c) currently states that each Person to become a Sponsored Member that shall be an FFI Member must be FATCA Compliant. FICC proposes to enhance clarity by adding that each Person to become a Sponsored Member that shall be a FFI Member is subject to the requirements of Section 9(iii) of Rule 3. FICC does not believe that this proposed change would change the relationship between existing Sponsored Members that are FFI Members and FICC because the requirements of Section 9(iii) of Rule 3A are currently applicable to FFI Members, including Sponsored Members that are FFI Members. Therefore, the proposed change would not impose any new requirement to these firms but would simply clarify the Rules regarding current requirements.

FICC also proposes to revise Rule 3, Section 9(iii), which currently states that an FFI Member shall indemnify FICC for any loss, liability or expense sustained by FICC as a result of such FFI Member failing to be FATCA Compliant. FICC proposes to revise this provision to clarify that the indemnification currently provided by an FFI Member to FICC under this Rule also covers FICC's affiliates, and each of their respective shareholders, directors, officers, employees, agents and advisors (each, an "Indemnified Person"). FICC would also define "Indemnified Person" in Rule 1. The proposed change would also align the indemnifications provided by Sponsored Members that are FFI Members pursuant to Rule 3, Section 9(iii) with the indemnifications provided by these firms in the membership agreements that they execute and deliver to FICC in connection with onboarding.

Rule 3A, Section 2(a) states that a Netting Member that is a Tier One Netting Member, other than an Inter-Dealer Broker Netting Member or a Non-IDB Repo Broker with respect to its activity in its Segregated Repo Account, is eligible to apply to become a Category 2 Sponsoring Member. FICC proposes to replace this description of Tier One Netting Members that are not eligible to apply to become a Category 2 Sponsoring Member (i.e., an Inter-Dealer Broker Netting Member, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account) with the phrase "Repo Broker in its capacity as a broker." In Rule 1, Repo Broker is currently defined as (i) an Inter-Dealer Broker Netting Member, or (ii) Non-IDB Repo Broker with respect to activity in its Segregated Repo Account. As such, FICC believes it would enhance clarity to use the defined term "Repo Broker" with the additional detail that it is the Repo Broker in its capacity as a broker when describing Tier One Netting Members that are not eligible to apply to become Category 2 Sponsoring Members.

FICC is also proposing to revise Section 10 of Rule 3A to clarify the circumstances in which FICC may treat a Sponsoring Member's Netting System accounts and Omnibus Account as a single account. This Section 10 currently provides that a Sponsoring Member's Netting System accounts and its Sponsoring Member Omnibus Account shall be treated separately, as if they were accounts of separate entities, for purposes of satisfying Clearing Fund requirements for both its Netting Member activity and its Sponsoring Member activity. The rest of Section 10, however, describes FICC's right to treat these accounts as a single account in its sole discretion and without notice to a Sponsoring Member. FICC has not, and does not intend to, treat any Sponsoring Member's Netting System accounts and Sponsoring Member Omnibus Account as a single account for purposes of calculating its Clearing Fund requirements to FICC. Therefore, the proposed rule change would remove these statements from Section 10 of Rule 3A. The proposed rule changes would include a statement regarding FICC's right to apply a Sponsoring

Member's Clearing Fund deposits to any obligations of that Sponsoring Member, as provided for under the GSD Rules. This proposed change would clarify that the statements in this Section 10 of Rule 3A do not have any impact on other rights FICC may have with respect to the application of a Member's Clearing Fund deposits, for example, following the default of that firm and as provided for under Sections 5 and 6 of Rule 4.

Finally, as described in greater detail below, FICC is also proposing changes to Section 12(a) of Rule 3A and the definition of Off-the-Market Transaction in Rule 1 to clarify the treatment of Sponsored Member Trades that are Off-the-Market Transactions.

By way of background, in 2019, FICC explained in a proposed rule change filing² that, in light of the intermediary relationship between a Sponsoring Member and its Sponsored Member, a Sponsoring Member may choose to post to its Sponsored Member a haircut in order to address regulatory and/or investment guideline concerns. Specifically, the regulations and/or investment guidelines applicable to a Sponsored Member may require that it receive Eligible Securities worth more than the cash it is due to receive at final settlement of a FICC-cleared reverse repo, for example, in the form of a haircut. Similarly, in some circumstances, a Sponsoring Member may choose to collect such haircut from its Sponsored Member at the Start Leg to mitigate its exposure under the Sponsoring Member Guaranty. In both situations, FICC's understanding is that accounting considerations may favor those postings being facilitated through FICC's systems. Specifically, in light of the fact that the counterparty on a FICC-cleared trade changes after novation (and the Sponsoring Member and Sponsored Member thereafter both face FICC as principal), having an obligation to receive and/or deliver a haircut at final settlement directly to FICC as the post-novation counterparty may be favorable for the Sponsoring Member and the Sponsored Member from an accounting perspective. Following regulatory approval of the Sponsored Close-Out Clarification Filing, FICC added the new defined term "Initial Haircut" to the Rules to refer to this haircut.³

In addition, the Sponsored Close-Out Clarification Filing made clear that FICC is not under any obligation to verify the parties' agreement in respect of an Initial Haircut, and the parties' calculation of any Initial Haircut will be conclusive and binding on the parties.⁴ These statements were consistent with the long-standing view that Initial Haircuts be treated as "off market" under the Rules. For example, when the Sponsored Membership Program was first proposed, FICC stated that it learned that custodial banks that are likely to be interested in becoming Sponsoring Members generally collateralize their custody clients (i.e., the potential

² Securities Exchange Act Release No. 88262 (February 21, 2020), 85 FR 11401 (February 27, 2020) (SR-FICC-2019-007) ("Sponsored Close-Out Clarification Filing").

³ Id.

⁴ Id. at 11404 ("FICC would also amend Section 9(a) of Rule 3A to make clear that any Initial Haircut would be as agreed between the parties to the Sponsored Member Trade, and that FICC would not be under any obligation to verify the parties' agreement with respect to any Initial Haircut, and its calculation of the Initial Haircut would be conclusive and binding on the parties").

Sponsored Members) at 102 percent for U.S. Treasury repurchase agreements.⁵ In the Sponsored Service Filing, FICC also stated that under the GSD Clearing Fund formula at the time, this collateralization would cause a Sponsoring Member to pay an additional 4 percent of its overall transactional volume with Sponsored Members in the form of Clearing Fund margin. Therefore, FICC amended the Clearing Fund rule to avoid the potential adverse impact on a Sponsoring Member given that these additional funds payments are pass-through amounts and do not represent risk to FICC or its members.⁶

FICC is now proposing to clarify Section 12(a) of Rule 3A to clarify the Rules regarding how Initial Haircuts are treated in loss allocation arising from a default of a Sponsoring Member and would propose to amend the definition of Off-the-Market Transaction in Rule 1 to state that an Off-the-Market Transaction includes a Sponsored Member Trade in which the Sponsored Member provided the Initial Haircut.

More specifically, the proposed changes would clarify that, in the event a Sponsoring Member defaults, and a Sponsored Member has a Receive Obligation regarding a Sponsored Member Trade for which that Sponsored Member gave an Initial Haircut (which, pursuant to the Rules, makes that Sponsored Member Trade an Off-the-Market Transaction), the Sponsored Member would bear the risk of loss on such Sponsored Member Trade. This clarification would make this provision of the Rules consistent with FICC's practice to facilitate Initial Haircuts as payments but are not otherwise part of FICC's risk management processes. The proposed rule change would add clarifying language to this effect in Section 12(a) of Rule 3A. Specifically, FICC would add that, except as expressly set forth in Section 12 of Rule 3A, if a loss or liability of FICC is determined to arise in connection with the close-out or liquidation of a Sponsored Member Trade of a Sponsored Member that is an Off-the-Market Transaction because the Sponsored Member has provided an Initial Haircut, FICC would allocate such loss or liability attributable to the Initial Haircut to such Sponsored Member in accordance with Section 7 of Rule 4. Currently, Section 7 of Rule 4 states that, to the extent that a loss or liability of FICC is determined by FICC to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction.

Furthermore, as noted above, FICC also proposes to add that an Off-the-Market Transaction includes a Sponsored Member Trade in which the Sponsored Member provided the haircut in the definition of Off-the-Market Transaction in GSD Rule 1.

(ii) Corrections

FICC is also proposing to make a number of changes to the Rules, described below, that would correct errors in the Rules. First, FICC would make a grammatical correction in Rule 3A, Section 1 by revising "and to" to "nor."

⁵ Securities Exchange Act Release No. 51659 (May 5, 2005), 70 FR 25129 (May 12, 2005) (SR-FICC-2004-22) ("Sponsored Service Filing").

⁶ Id.

Next, FICC is proposing to correct an error in Rule 3A, Section 6(b). Currently, Rule 3A, Section 6(b) states that the comparison of Sponsored Member Trades will be governed by Rule 5 and either: (i) Rule 6A or (ii) Sections 1, 2, 4, 6 through 10 and 13 of Rule 6C depending upon the type of comparison for which the Sponsored Member Trades are submitted. FICC would add a reference to Rule 6B as new subsection (ii) to the list of Rules that govern the comparison of Sponsored Member Trades; Rule 6B describes Demand Comparison and is applicable for Sponsored Member Trades that are between a Sponsored Member and a Netting Member.⁷ Rule 6B, Section 1 states that in order for FICC to process a trade for Demand Comparison, FICC must receive trade data from a Demand Trade Source. Rule 6B, Section 1 also states that FICC has designated the Repo Brokers as Demand Trade Sources with respect to Brokered Repo Transactions (other than GCF Repo Transactions) that are submitted to FICC by the deadline established for this purpose in the Schedule of Timeframes. Therefore, Rule 6B should have been included in Rule 3A, Section 6(b) when the Sponsored Member Trade definition was expanded in 2019 to allow Sponsored Members to submit FICC eligible securities transactions with Netting Members other than their Sponsoring Members.⁸ The proposed change would correct this error that failed to include Rule 6B in Rule 3A, Section 6(b).

FICC is also proposing to correct an error in Rule 3A, Section 8(iii) by changing the reference from section (a)(ii) of the definition of Sponsored Member Trade to section (a) of the definition of Sponsored Member Trade. Rule 3A, Section 8(iii) currently states that with respect to Section 1 of Rule 12, the optional Pair-Off Service is available to Sponsored Member Trades within the meaning of section (a)(ii) of that definition. Section (a)(ii) of the definition of Sponsored Member Trades means a transaction that satisfies the requirements of Section 5 of Rule 3A and that is between a Sponsored Member and a Netting Member. Section (a)(i) of the definition of Sponsored Member Trade means a transaction that satisfies the requirements of Section 5 of Rule 3A and that is between a Sponsored Member and its Sponsoring Member. The Pair-Off Service is currently available to transactions that fall within the meaning of section (a)(ii) of the definition of Sponsored Member Trades as well as transactions that fall within the meaning of section (a)(i) of the definition of Sponsored Member Trades. Therefore, FICC proposes to correct the current reference from section (a)(ii) to section (a) of the definition of Sponsored Member Trade in Rule 3A, Section 8(iii) to clarify that the optional Pair-Off Service is available to Sponsored Member Trades that fall within the meaning of sections (a)(i) and (a)(ii) of the definition of Sponsored Member Trade.

FICC is proposing to delete the first sentence in Rule 3A, Section 12(c), which states that that the entire amount of the Required Fund Deposit associated with the Sponsoring Member's

⁷ The term "Sponsored Member Trade" means (a) a transaction that satisfies the requirements of Section 5 of Rule 3A and that is (i) between a Sponsored Member and its Sponsoring Member or (ii) between a Sponsored Member and a Netting Member or (b) a Sponsored GC Trade. Rule 1, supra note 1.

⁸ Securities Exchange Act Release No. 85470 (March 29, 2019), 84 FR 13328 (April 4, 2019) (SR-FICC-2018-013). As of February 11, 2019, the advance notice (SR-FICC-2018-802) was deemed to not have been objected to by the Securities and Exchange Commission ("Commission.")

Netting System accounts and the entire amount of the Sponsoring Member's Omnibus Account Required Fund Deposit may be used to satisfy any amount allocated against a Sponsoring Member in its capacity as either a Netting Member or a Sponsoring Member. The proposed change would remove this statement, which does not describe the current process and should have been removed when FICC revised the loss allocation rules to, among other things, incorporate the concept of the Loss Allocation Cap and to reference the applicable sections in Rule 4 that would apply when a Sponsoring Member elects to terminate its status as a Sponsoring Member.⁹ The proposed change would correct the error of failing to delete this sentence in the Loss Allocation Filing. The Loss Allocation Filing added the description of the current process in the second sentence of Rule 3A, Section 12(c), but should have also deleted the description of the process that was in the Rules at the time (i.e., the first sentence of Rule 3A, Section 12(c)).¹⁰

The process is correctly described in the second sentence of Rule 3A, Section 12(c), which as described above, was added in the Loss Allocation Filing and intended to replace the process described in the first sentence of Rule 3A, Section 12(c). The second sentence of Rule 3A, Section 12(c) states that with respect to an obligation to make payment due to any loss allocation amounts assessed to a Sponsoring Member pursuant to Rule 3A, Section 12(b) above, the Sponsoring Member may instead elect to terminate its membership in FICC pursuant to Section 7b of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4. In addition, for the purpose of determining the Loss Allocation Cap for such Sponsoring Member, its Required Fund Deposit will be the sum of its Required Fund Deposit and its Sponsoring Member's Omnibus Account Required Fund Deposit.¹¹

Finally, FICC would correct the Interpretative Guidance with Respect to Settlement Finality by adding a section describing the point of finality for Sponsored GC Trades. Specifically, FICC proposes to add a section that would state that the point of finality of settlement of Sponsored GC Trades occurs on the books of the Sponsored GC Clearing Agent Bank at the point when the Sponsoring Member and Sponsored Member make the relevant payment obligation or securities delivery, as applicable, to the account at the Sponsored GC Clearing Agent Bank specified by the pre-novation counterparty in accordance with such procedures as the Sponsoring GC Clearing Agent Bank may specify from time to time. This proposed subsection describing the point of finality for Sponsored GC Trades should have been

⁹ Securities Exchange Act Release Nos. 83970 (August 28, 2018), 83 FR 44929 (September 4, 2018) (SR-FICC-2017-022) and 83951 (August 27, 2018), 83 FR 44331 (August 30, 2018) (SR-FICC-2017-806) ("Loss Allocation Filing").

¹⁰ Id.

¹¹ Id.

added to the Interpretative Guidance with Respect to Settlement Finality in the proposal to add the Sponsored GC Service but was inadvertently omitted; this proposal was approved in 2021.¹²

(iii) Technical Changes

FICC is also proposing to make a number of technical changes to the Rules, which include correcting grammar, for example, by adding a comma after the word “hereinafter” in the second paragraph of Rule 3A, Section 2(i) and adding “hereinafter,” before the defined terms in Rule 3A, Sections 2(i), 3(e) and 18(b). The proposed changes would also add the word “the” before the defined term “Sponsored Member Voluntary Termination Notice” in Rule 3A, Section 3(e), and would revise the hyphens in the headings of Sections 3, 4, 5, 6, 8, 10, 12, 13, 14, 15 and 16 of Rule 3A to be consistent with the hyphens in the headings of the other sections in Rule 3A (e.g., Sections 1 and 2).

In the Schedule of Sponsored GC Trade Timeframes, with respect to the “10:30 p.m. to 2:00 a.m.” timeframe, FICC proposes to delete the double space after the line that lists “10:30 p.m.” so that there would only be a single space between the line that lists “10:30 p.m.” and the line that lists “to 2:00 am.” FICC also proposes to bold the times listed in the Sponsored GC Trade Timeframes to be consistent with the formatting of times in the other schedules in the Rules.

In the Schedule of GC Comparable Securities, FICC proposes to delete the extra space after the hyphen in the description of GC Comparable Securities for Generic Security Type “FFARM” (Fannie Mae and Freddie Mac Fixed Rate and Adjustable Rate Mortgage- Backed Securities) and for Generic Security Type “TIPS” (U.S. Treasury inflation- protected notes and bonds). In the Schedule of GC Comparable Securities, FICC proposes to add the word “and” in the description of GC Comparable Securities for Generic Security Type “STRP” and to delete the comma and add the word “and” in the description of GC Comparable Securities for Generic Security Type “TIPS”.

In Rule 3A, Section 6(b), FICC proposes to add a new subsection (ii) as described above and as such, also proposes to make a conforming change to renumber current subsection (ii) to subsection (iii). Similarly, in the Interpretative Guidance with Respect to Settlement Finality, FICC proposes to add subsection 2(b), as further described above. As such, FICC proposes to make a conforming change to revise current subsection 2(b) to subsection 2(c).

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (the “Act”) requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of

¹² Securities Exchange Act Release Nos. 92808 (August 30, 2021), 86 FR 49580 (September 3, 2021) (SR-FICC-2021-003) and 92799 (August 27, 2021), 86 FR 49387 (September 2, 2021) (SR-FICC-2021-801).

securities transactions.¹³

The proposed changes to make certain clarifications, corrections, and technical changes to the Rules would help to ensure that the Rules are accurate and clear to participants. When participants better understand their rights and obligations regarding the Rules, such participants are more likely to act in accordance with the Rules, which FICC believes would promote the prompt and accurate clearance and settlement of securities transactions. As such, FICC believes that the proposed changes would be consistent with Section 17A(b)(3)(F) of the Act.¹⁴

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

FICC does not believe the proposed rule changes to make certain clarifications, corrections, and technical changes to the Rules would impact competition. The proposed rule changes would help to ensure that the Rules remain clear and accurate. In addition, the changes would facilitate participants' understanding of the Rules and their obligations thereunder. These changes would not affect FICC's operations or the rights and obligations of the membership. As such, FICC believes the proposed rule changes 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, who are the FICC Members that would be impacted by the proposed changes. FICC has not received any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right to not respond to any comments received.

¹³ 15 U.S.C. 78q-1(b)(3)(F).

¹⁴ Id.

6. Extension of Time Period for Commission Action

Not applicable.

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

(a) The proposed rule change is to become effective pursuant to paragraph (A) of Section 19(b)(3) of the Act¹⁵ and Rule 19b-4(f)(6)¹⁶ thereunder.

(b) The proposed rule change (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. As noted above, the proposed changes are designed to improve the transparency of the Rules by making clarifications, corrections, and technical changes. Therefore, these proposed changes would not significantly affect the protection of investors or the public interest, nor would these changes impose any significant burden on competition, for the reasons also described above.

FICC has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.¹⁷ FICC believes that it would be appropriate for the proposed changes to become operative on a shorter timeframe in order to allow it to maintain clear and accurate internal procedures and avoid any errors in carrying out the important responsibilities described therein. Because the proposed changes the Rules are primarily clarifications, corrections and technical changes, FICC does not believe that allowing these proposed changes to become operative on a shorter timeframe would have any impact on the protection of investors or be inconsistent with the public interest. Therefore, FICC respectfully requests that the Commission waive the 30-day operative delay so that it may modify the Rules without delay.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6).

¹⁷ 17 CFR 240.19b-4(f)(6)(iii).

otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule should be approved or disapproved.

(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

Not applicable.

11. Exhibits

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-FICC-2023-002)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Consisting of Modifications to the FICC Government Securities Division Rulebook

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 January __, 2023, 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. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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”)⁵ in order to improve the transparency of

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the GSD Rules, available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

those rules by making clarifications, corrections, and technical changes to the Rules, 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

In Rule 3A, Sections 2(g) and 3(d), FICC proposes to clarify that Members should refer to the Fine Schedule for the dollar amount of the fine by deleting the references to \$1,000 and adding that the fine is pursuant to the applicable Fine Schedule in the Rules. The proposed rule changes would also remove the requirement that notifications under these Sections be provided orally, as such notifications are difficult to record and are redundant of the written notification also required in these Sections of Rule 3A.

FICC would also revise these sections to more clearly describe the Sponsoring Members' obligations to notify FICC of certain events that involve either the Sponsoring Member or their Sponsored Members. Currently, Section 2(g) describes only the Sponsoring Members' obligation to notify FICC when it is no longer in compliance with the relevant standards and qualification for a Sponsoring Member membership, and Section 3(d) describes an obligation of the Sponsored Members to notify their Sponsoring

Member(s) if it is no longer in compliance with the applicable requirements of Rule 3A. Section 3(d) then describes the obligation of a Sponsoring Member to notify FICC after it receives such notification from a Sponsored Member.

First, the proposed changes would remove from the Rules the obligation of a Sponsored Member to notify the Sponsoring Member stated in Section 3(d) because this obligation is one that should be created and enforced between those two entities and not in the GSD Rules. Second, the proposed changes would move the obligation of a Sponsoring Member to notify FICC when a Sponsored Member is no longer in compliance with the applicable requirements of that Rule from Section 3(d) to Section 2(g), where the obligations of Sponsoring Members are stated. Third, the proposed rule changes would include the requirement that a Sponsoring Member also notify FICC at least 90 calendar days prior to the effective date of any Reportable Event, as such term is defined in Rule 1 of the GSD Rules, applicable to a Sponsored Member, unless the Sponsoring Member demonstrates that it could not have reasonably done so, in which case such notice shall be provided as soon as possible. This proposed change would clarify that the reporting obligations of Sponsoring Members with respect to their Sponsored Members are the same reporting obligations applicable to other GSD Members.

Finally, the proposed changes would revise a statement in Section 3(d) of Rule 3A that currently states FICC shall cease to act for a Sponsored Member that no longer meets the requirements for such membership. The proposed change would revise this statement to replace “shall” with “may” and would clarify that FICC has the right, but not the obligation, to cease to act for a Sponsored Member in such circumstances. This proposed

change would align Section 3(d) with Section 13 of Rule 3A, which provides that FICC may, based on its judgement that there is adequate cause to do so, suspend a Sponsored Member from any FICC services in the circumstances described in that Section.

FICC also proposes changes to Sections 2(i) and 3(e), which address the procedures for Sponsoring Members and Sponsored Members, respectively, to voluntarily terminate their membership with FICC. These Sections currently state that a Sponsoring Member Voluntary Termination Notice or a Sponsored Member Voluntary Termination Notice, as applicable and as defined in those Sections of Rule 3A, is not effective until it is accepted by FICC and that such acceptance is evidenced by a notice to all Members announcing the termination of that membership.

First, FICC is proposing to revise these Sections to make clear that its acceptance of a voluntary termination of a Sponsoring Member's or Sponsored Member's membership shall be evidenced by a notification from FICC to the firm terminating its membership and that the effective date of the membership termination will be set forth in that notice from FICC to the member.

Second, the proposed changes to these Sections will clarify that the notice to all members regarding the voluntary termination of a Sponsoring Member's or Sponsored Member's membership (i) is an Important Notice, which is a notice posted to FICC's public website, and (ii) is only posted when a Sponsoring Member has terminated its status as a Sponsoring Member with respect to all Sponsored Members or when a Sponsored Member has terminated its relationship with all Sponsoring Members and, as such, has terminated its membership with FICC. More specifically, the proposed changes would clarify that an Important Notice is not posted if a Sponsored Member terminates its

relationship with one, but not all, of its Sponsoring Members, for example, but only when a Sponsored Member or a Sponsoring Member ceases to participate in the Sponsored Clearing service.

FICC also proposes to make a clarification to Rule 3A, Section 3(c). Rule 3A, Section 3(c) currently states that each Person to become a Sponsored Member that shall be an FFI Member must be FATCA Compliant. FICC proposes to enhance clarity by adding that each Person to become a Sponsored Member that shall be a FFI Member is subject to the requirements of Section 9(iii) of Rule 3. FICC does not believe that this proposed change would change the relationship between existing Sponsored Members that are FFI Members and FICC because the requirements of Section 9(iii) of Rule 3A are currently applicable to FFI Members, including Sponsored Members that are FFI Members. Therefore, the proposed change would not impose any new requirement to these firms but would simply clarify the Rules regarding current requirements.

FICC also proposes to revise Rule 3, Section 9(iii), which currently states that an FFI Member shall indemnify FICC for any loss, liability or expense sustained by FICC as a result of such FFI Member failing to be FATCA Compliant. FICC proposes to revise this provision to clarify that the indemnification currently provided by an FFI Member to FICC under this Rule also covers FICC's affiliates, and each of their respective shareholders, directors, officers, employees, agents and advisors (each, an "Indemnified Person"). FICC would also define "Indemnified Person" in Rule 1. The proposed change would also align the indemnifications provided by Sponsored Members that are FFI Members pursuant to Rule 3, Section 9(iii) with the indemnifications provided by

these firms in the membership agreements that they execute and deliver to FICC in connection with onboarding.

Rule 3A, Section 2(a) states that a Netting Member that is a Tier One Netting Member, other than an Inter-Dealer Broker Netting Member or a Non-IDB Repo Broker with respect to its activity in its Segregated Repo Account, is eligible to apply to become a Category 2 Sponsoring Member. FICC proposes to replace this description of Tier One Netting Members that are not eligible to apply to become a Category 2 Sponsoring Member (i.e., an Inter-Dealer Broker Netting Member, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account) with the phrase “Repo Broker in its capacity as a broker.” In Rule 1, Repo Broker is currently defined as (i) an Inter-Dealer Broker Netting Member, or (ii) Non-IDB Repo Broker with respect to activity in its Segregated Repo Account. As such, FICC believes it would enhance clarity to use the defined term “Repo Broker” with the additional detail that it is the Repo Broker in its capacity as a broker when describing Tier One Netting Members that are not eligible to apply to become Category 2 Sponsoring Members.

FICC is also proposing to revise Section 10 of Rule 3A to clarify the circumstances in which FICC may treat a Sponsoring Member’s Netting System accounts and Omnibus Account as a single account. This Section 10 currently provides that a Sponsoring Member’s Netting System accounts and its Sponsoring Member Omnibus Account shall be treated separately, as if they were accounts of separate entities, for purposes of satisfying Clearing Fund requirements for both its Netting Member activity and its Sponsoring Member activity. The rest of Section 10, however, describes FICC’s right to treat these accounts as a single account in its sole discretion and without notice to

a Sponsoring Member. FICC has not, and does not intend to, treat any Sponsoring Member's Netting System accounts and Sponsoring Member Omnibus Account as a single account for purposes of calculating its Clearing Fund requirements to FICC. Therefore, the proposed rule change would remove these statements from Section 10 of Rule 3A. The proposed rule changes would include a statement regarding FICC's right to apply a Sponsoring Member's Clearing Fund deposits to any obligations of that Sponsoring Member, as provided for under the GSD Rules. This proposed change would clarify that the statements in this Section 10 of Rule 3A do not have any impact on other rights FICC may have with respect to the application of a Member's Clearing Fund deposits, for example, following the default of that firm and as provided for under Sections 5 and 6 of Rule 4.

Finally, as described in greater detail below, FICC is also proposing changes to Section 12(a) of Rule 3A and the definition of Off-the-Market Transaction in Rule 1 to clarify the treatment of Sponsored Member Trades that are Off-the-Market Transactions.

By way of background, in 2019, FICC explained in a proposed rule change filing⁶ that, in light of the intermediary relationship between a Sponsoring Member and its Sponsored Member, a Sponsoring Member may choose to post to its Sponsored Member a haircut in order to address regulatory and/or investment guideline concerns. Specifically, the regulations and/or investment guidelines applicable to a Sponsored Member may require that it receive Eligible Securities worth more than the cash it is due to receive at final settlement of a FICC-cleared reverse repo, for example, in the form of a

⁶ Securities Exchange Act Release No. 88262 (February 21, 2020), 85 FR 11401 (February 27, 2020) (SR-FICC-2019-007) ("Sponsored Close-Out Clarification Filing").

haircut. Similarly, in some circumstances, a Sponsoring Member may choose to collect such haircut from its Sponsored Member at the Start Leg to mitigate its exposure under the Sponsoring Member Guaranty. In both situations, FICC's understanding is that accounting considerations may favor those postings being facilitated through FICC's systems. Specifically, in light of the fact that the counterparty on a FICC-cleared trade changes after novation (and the Sponsoring Member and Sponsored Member thereafter both face FICC as principal), having an obligation to receive and/or deliver a haircut at final settlement directly to FICC as the post-novation counterparty may be favorable for the Sponsoring Member and the Sponsored Member from an accounting perspective. Following regulatory approval of the Sponsored Close-Out Clarification Filing, FICC added the new defined term "Initial Haircut" to the Rules to refer to this haircut.⁷

In addition, the Sponsored Close-Out Clarification Filing made clear that FICC is not under any obligation to verify the parties' agreement in respect of an Initial Haircut, and the parties' calculation of any Initial Haircut will be conclusive and binding on the parties.⁸ These statements were consistent with the long-standing view that Initial Haircuts be treated as "off market" under the Rules. For example, when the Sponsored Membership Program was first proposed, FICC stated that it learned that custodial banks that are likely to be interested in becoming Sponsoring Members generally collateralize their custody clients (i.e., the potential Sponsored Members) at 102 percent for U.S.

⁷ Id.

⁸ Id. at 11404 ("FICC would also amend Section 9(a) of Rule 3A to make clear that any Initial Haircut would be as agreed between the parties to the Sponsored Member Trade, and that FICC would not be under any obligation to verify the parties' agreement with respect to any Initial Haircut, and its calculation of the Initial Haircut would be conclusive and binding on the parties").

Treasury repurchase agreements.⁹ In the Sponsored Service Filing, FICC also stated that under the GSD Clearing Fund formula at the time, this collateralization would cause a Sponsoring Member to pay an additional 4 percent of its overall transactional volume with Sponsored Members in the form of Clearing Fund margin. Therefore, FICC amended the Clearing Fund rule to avoid the potential adverse impact on a Sponsoring Member given that these additional funds payments are pass-through amounts and do not represent risk to FICC or its members.¹⁰

FICC is now proposing to clarify Section 12(a) of Rule 3A to clarify the Rules regarding how Initial Haircuts are treated in loss allocation arising from a default of a Sponsoring Member and would propose to amend the definition of Off-the-Market Transaction in Rule 1 to state that an Off-the-Market Transaction includes a Sponsored Member Trade in which the Sponsored Member provided the Initial Haircut.

More specifically, the proposed changes would clarify that, in the event a Sponsoring Member defaults, and a Sponsored Member has a Receive Obligation regarding a Sponsored Member Trade for which that Sponsored Member gave an Initial Haircut (which, pursuant to the Rules, makes that Sponsored Member Trade an Off-the-Market Transaction), the Sponsored Member would bear the risk of loss on such Sponsored Member Trade. This clarification would make this provision of the Rules consistent with FICC's practice to facilitate Initial Haircuts as payments but are not otherwise part of FICC's risk management processes. The proposed rule change would

⁹ Securities Exchange Act Release No. 51659 (May 5, 2005), 70 FR 25129 (May 12, 2005) (SR-FICC-2004-22) ("Sponsored Service Filing").

¹⁰ Id.

add clarifying language to this effect in Section 12(a) of Rule 3A. Specifically, FICC would add that, except as expressly set forth in Section 12 of Rule 3A, if a loss or liability of FICC is determined to arise in connection with the close-out or liquidation of a Sponsored Member Trade of a Sponsored Member that is an Off-the-Market Transaction because the Sponsored Member has provided an Initial Haircut, FICC would allocate such loss or liability attributable to the Initial Haircut to such Sponsored Member in accordance with Section 7 of Rule 4. Currently, Section 7 of Rule 4 states that, to the extent that a loss or liability of FICC is determined by FICC to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction.

Furthermore, as noted above, FICC also proposes to add that an Off-the-Market Transaction includes a Sponsored Member Trade in which the Sponsored Member provided the haircut in the definition of Off-the-Market Transaction in GSD Rule 1.

(ii) Corrections

FICC is also proposing to make a number of changes to the Rules, described below, that would correct errors in the Rules. First, FICC would make a grammatical correction in Rule 3A, Section 1 by revising “and to” to “nor.”

Next, FICC is proposing to correct an error in Rule 3A, Section 6(b). Currently, Rule 3A, Section 6(b) states that the comparison of Sponsored Member Trades will be governed by Rule 5 and either: (i) Rule 6A or (ii) Sections 1, 2, 4, 6 through 10 and 13 of Rule 6C depending upon the type of comparison for which the Sponsored Member Trades are submitted. FICC would add a reference to Rule 6B as new subsection (ii) to the list of Rules that govern the comparison of Sponsored Member Trades; Rule 6B

describes Demand Comparison and is applicable for Sponsored Member Trades that are between a Sponsored Member and a Netting Member.¹¹ Rule 6B, Section 1 states that in order for FICC to process a trade for Demand Comparison, FICC must receive trade data from a Demand Trade Source. Rule 6B, Section 1 also states that FICC has designated the Repo Brokers as Demand Trade Sources with respect to Brokered Repo Transactions (other than GCF Repo Transactions) that are submitted to FICC by the deadline established for this purpose in the Schedule of Timeframes. Therefore, Rule 6B should have been included in Rule 3A, Section 6(b) when the Sponsored Member Trade definition was expanded in 2019 to allow Sponsored Members to submit FICC eligible securities transactions with Netting Members other than their Sponsoring Members.¹² The proposed change would correct this error that failed to include Rule 6B in Rule 3A, Section 6(b).

FICC is also proposing to correct an error in Rule 3A, Section 8(iii) by changing the reference from section (a)(ii) of the definition of Sponsored Member Trade to section (a) of the definition of Sponsored Member Trade. Rule 3A, Section 8(iii) currently states that with respect to Section 1 of Rule 12, the optional Pair-Off Service is available to Sponsored Member Trades within the meaning of section (a)(ii) of that definition.

Section (a)(ii) of the definition of Sponsored Member Trades means a transaction that

¹¹ The term “Sponsored Member Trade” means (a) a transaction that satisfies the requirements of Section 5 of Rule 3A and that is (i) between a Sponsored Member and its Sponsoring Member or (ii) between a Sponsored Member and a Netting Member or (b) a Sponsored GC Trade. Rule 1, supra note 5.

¹² Securities Exchange Act Release No. 85470 (March 29, 2019), 84 FR 13328 (April 4, 2019) (SR-FICC-2018-013). As of February 11, 2019, the advance notice (SR-FICC-2018-802) was deemed to not have been objected to by the Commission.

satisfies the requirements of Section 5 of Rule 3A and that is between a Sponsored Member and a Netting Member. Section (a)(i) of the definition of Sponsored Member Trade means a transaction that satisfies the requirements of Section 5 of Rule 3A and that is between a Sponsored Member and its Sponsoring Member. The Pair-Off Service is currently available to transactions that fall within the meaning of section (a)(ii) of the definition of Sponsored Member Trades as well as transactions that fall within the meaning of section (a)(i) of the definition of Sponsored Member Trades. Therefore, FICC proposes to correct the current reference from section (a)(ii) to section (a) of the definition of Sponsored Member Trade in Rule 3A, Section 8(iii) to clarify that the optional Pair-Off Service is available to Sponsored Member Trades that fall within the meaning of sections (a)(i) and (a)(ii) of the definition of Sponsored Member Trade.

FICC is proposing to delete the first sentence in Rule 3A, Section 12(c), which states that that the entire amount of the Required Fund Deposit associated with the Sponsoring Member's Netting System accounts and the entire amount of the Sponsoring Member's Omnibus Account Required Fund Deposit may be used to satisfy any amount allocated against a Sponsoring Member in its capacity as either a Netting Member or a Sponsoring Member. The proposed change would remove this statement, which does not describe the current process and should have been removed when FICC revised the loss allocation rules to, among other things, incorporate the concept of the Loss Allocation Cap and to reference the applicable sections in Rule 4 that would apply when a Sponsoring Member elects to terminate its status as a Sponsoring Member.¹³ The

¹³ Securities Exchange Act Release Nos. 83970 (August 28, 2018), 83 FR 44929 (September 4, 2018) (SR-FICC-2017-022) and 83951 (August 27, 2018), 83 FR 44331 (August 30, 2018) (SR-FICC-2017-806) ("Loss Allocation Filing").

proposed change would correct the error of failing to delete this sentence in the Loss Allocation Filing. The Loss Allocation Filing added the description of the current process in the second sentence of Rule 3A, Section 12(c), but should have also deleted the description of the process that was in the Rules at the time (i.e., the first sentence of Rule 3A, Section 12(c)).¹⁴

The process is correctly described in the second sentence of Rule 3A, Section 12(c), which as described above, was added in the Loss Allocation Filing and intended to replace the process described in the first sentence of Rule 3A, Section 12(c). The second sentence of Rule 3A, Section 12(c) states that with respect to an obligation to make payment due to any loss allocation amounts assessed to a Sponsoring Member pursuant to Rule 3A, Section 12(b) above, the Sponsoring Member may instead elect to terminate its membership in FICC pursuant to Section 7b of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4. In addition, for the purpose of determining the Loss Allocation Cap for such Sponsoring Member, its Required Fund Deposit will be the sum of its Required Fund Deposit and its Sponsoring Member's Omnibus Account Required Fund Deposit.¹⁵

Finally, FICC would correct the Interpretative Guidance with Respect to Settlement Finality by adding a section describing the point of finality for Sponsored GC Trades. Specifically, FICC proposes to add a section that would state that the point of finality of settlement of Sponsored GC Trades occurs on the books of the Sponsored GC Clearing Agent Bank at the point when the Sponsoring Member and Sponsored Member

¹⁴ Id.

¹⁵ Id.

make the relevant payment obligation or securities delivery, as applicable, to the account at the Sponsored GC Clearing Agent Bank specified by the pre-novation counterparty in accordance with such procedures as the Sponsoring GC Clearing Agent Bank may specify from time to time. This proposed subsection describing the point of finality for Sponsored GC Trades should have been added to the Interpretative Guidance with Respect to Settlement Finality in the proposal to add the Sponsored GC Service but was inadvertently omitted; this proposal was approved in 2021.¹⁶

(iii) Technical Changes

FICC is also proposing to make a number of technical changes to the Rules, which include correcting grammar, for example, by adding a comma after the word “hereinafter” in the second paragraph of Rule 3A, Section 2(i) and adding “hereinafter,” before the defined terms in Rule 3A, Sections 2(i), 3(e) and 18(b). The proposed changes would also add the word “the” before the defined term “Sponsored Member Voluntary Termination Notice” in Rule 3A, Section 3(e), and would revise the hyphens in the headings of Sections 3, 4, 5, 6, 8, 10, 12, 13, 14, 15 and 16 of Rule 3A to be consistent with the hyphens in the headings of the other sections in Rule 3A (e.g., Sections 1 and 2).

In the Schedule of Sponsored GC Trade Timeframes, with respect to the “10:30 p.m. to 2:00 a.m.” timeframe, FICC proposes to delete the double space after the line that lists “10:30 p.m.” so that there would only be a single space between the line that lists “10:30 p.m.” and the line that lists “to 2:00 am.” FICC also proposes to bold the times

¹⁶ Securities Exchange Act Release Nos. 92808 (August 30, 2021), 86 FR 49580 (September 3, 2021) (SR-FICC-2021-003) and 92799 (August 27, 2021), 86 FR 49387 (September 2, 2021) (SR-FICC-2021-801).

listed in the Sponsored GC Trade Timeframes to be consistent with the formatting of times in the other schedules in the Rules.

In the Schedule of GC Comparable Securities, FICC proposes to delete the extra space after the hyphen in the description of GC Comparable Securities for Generic Security Type “FFARM” (Fannie Mae and Freddie Mac Fixed Rate and Adjustable Rate Mortgage- Backed Securities) and for Generic Security Type “TIPS” (U.S. Treasury inflation- protected notes and bonds). In the Schedule of GC Comparable Securities, FICC proposes to add the word “and” in the description of GC Comparable Securities for Generic Security Type “STRP” and to delete the comma and add the word “and” in the description of GC Comparable Securities for Generic Security Type “TIPS”.

In Rule 3A, Section 6(b), FICC proposes to add a new subsection (ii) as described above and as such, also proposes to make a conforming change to renumber current subsection (ii) to subsection (iii). Similarly, in the Interpretative Guidance with Respect to Settlement Finality, FICC proposes to add subsection 2(b), as further described above. As such, FICC proposes to make a conforming change to revise current subsection 2(b) to subsection 2(c).

2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹⁷

The proposed changes to make certain clarifications, corrections, and technical changes to the Rules would help to ensure that the Rules are accurate and clear to participants. When participants better understand their rights and obligations regarding

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

the Rules, such participants are more likely to act in accordance with the Rules, which FICC believes would promote the prompt and accurate clearance and settlement of securities transactions. As such, FICC believes that the proposed changes would be consistent with Section 17A(b)(3)(F) of the Act.¹⁸

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

FICC does not believe the proposed rule changes to make certain clarifications, corrections, and technical changes to the Rules would impact competition. The proposed rule changes would help to ensure that the Rules remain clear and accurate. In addition, the changes would facilitate participants' understanding of the Rules and their obligations thereunder. These changes would not affect FICC's operations or the rights and obligations of the membership. As such, FICC believes the proposed rule changes would not have any impact on competition.

(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, who are the FICC Members that would be impacted by the proposed changes. FICC has not received any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment

¹⁸ Id.

submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right to not respond to any comments received.

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

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and
- (iii) become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁹ and Rule 19b-4(f)(6) thereunder.²⁰

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6).

Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2023-002 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-2023-002. 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-2023-002 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.²¹

Secretary

²¹ 17 CFR 200.30-3(a)(12).

Bold and underlined text indicates proposed new language

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

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

RULE 1 – DEFINITIONS*

* * *

Indemnified Person

The term “Indemnified Person” shall have the meaning given to that term in Section 9(iii) of Rule 3.

* * *

Off-the Market Transaction

The term “Off-the-Market Transaction” means either of the following:

(1) A single transaction that is:

(i) greater than \$1 million in par value; and

(ii) executed at a contract price that is either higher or lower (by a percentage amount determined by the Corporation based on factors such as market conditions) than the System Price for the underlying Eligible Netting Security on the day of the submission of data on the transaction to the Corporation;

(2) A pattern of transactions submitted by two Members that, if looked at as a single transaction, would be encompassed by subsection (1) of this definition.

An Off-the-Market Transaction includes a Sponsored Member Trade in which the Sponsored Member provided an Initial Haircut.

* * *

RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS

* * *

Section 9 - Compliance with Laws

* All products and services provided by the Corporation referenced in these Rules are either registered trademarks or servicemarks of, or trademarks or servicemarks of, The Depository Trust & Clearing Corporation or its affiliates. Other names of companies, products or services appearing in these Rules are the trademarks or servicemarks of their respective owners.

* * *

(iii) FATCA

* * *

An FFI Member ~~agrees to~~ shall indemnify the Corporation, its affiliates, and each of their respective shareholders, directors, officers, employees, agents and advisors (each, an “Indemnified Person”) for any loss, liability or expense sustained by the Indemnified Person ~~Corporation~~ as a result of such FFI Member failing to be FATCA Compliant.

* * *

RULE 3A – SPONSORING MEMBERS AND SPONSORED MEMBERS

* * *

Section 1 – General

The Corporation may permit the establishment of a sponsored membership relationship between a Netting Member that is approved as a Sponsoring Member and one or more Persons that are accepted by the Corporation as Sponsored Members of that particular Sponsoring Member.

The rights, liabilities and obligations of Sponsoring Members and Sponsored Members shall be governed by this Rule 3A. References to a “Member” in other Rules shall not apply to Sponsoring Members ~~and to nor~~ Sponsored Members, in their respective capacities as such, unless specifically noted as such in this Rule 3A or in such other Rules.

* * *

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

(a) A Netting Member shall be eligible to apply to become a Category 1 Sponsoring Member if: (i) it is a Bank Netting Member, (ii) it has a level of equity capital as of the end of the month prior to the effective date of its membership of at least \$5 billion, (iii) it is “well-capitalized” as defined by the Federal Deposit Insurance Corporation’s applicable regulations, and (iv) if it has a bank holding company that is registered under the Bank Holding Company Act of 1956, as amended, such bank holding company is also “well-capitalized” as defined by the applicable regulations of the Board of Governors of the Federal Reserve System. A Netting Member that is a Tier One Netting Member, other than ~~an Inter-Dealer Broker Netting Member, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account~~ Repo Broker in its capacity as a broker, shall be eligible to apply to become a Category 2 Sponsoring Member. The Corporation may require that a Person be a Netting Member for a time period deemed necessary by the Corporation before that Person may be considered to become a Sponsoring Member.

* * *

(g) 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.

With respect to any of its Sponsored Members, a Sponsoring Member shall also submit to the Corporation written notice (i) within 1 business day of becoming aware that a Sponsored Member is no longer in compliance with the requirements of subsection (a) of Section 3 of this Rule 3A, and (ii) at least 90 calendar days prior to the effective date of any Reportable Event applicable to a Sponsored Member, unless the Sponsoring Member demonstrates that it could not have reasonably done so, in which case such notice shall be provided as soon as possible.

The Corporation shall assess a fine pursuant to the applicable Fine Schedule in these Rules against any Sponsoring Member who fails to notify the Corporation as required by this subsection (g) of Section 2 of this Rule 3A.

* * *

(i) A Sponsoring Member may voluntarily elect to terminate its status as a Sponsoring Member, with respect to all Sponsored Members or with respect to one or more Sponsored Members from time to time, by providing the Corporation with a written notice of such termination (**hereinafter**, “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 (**hereinafter**, 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 n~~No later than 10 Business Days after the receipt of the Sponsoring Member Voluntary Termination Notice from such Sponsoring Member, **the Corporation shall notify the Sponsoring Member that such notice has been accepted and the date the termination shall be effective (hereinafter the “Sponsoring Member Termination Date”).**

If a Sponsoring Member has terminated its status as a Sponsoring Member with respect to all Sponsored Members, the Corporation's acceptance shall be evidenced by post an Important Notice to all Members announcing the termination of the Sponsoring Member's status as such with respect to the Former Sponsored Members a Sponsoring Member and the Sponsoring Member Termination Date 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.

* * *

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

* * *

(c) Each Person to become a Sponsored Member shall sign and deliver to the Corporation a Sponsored Member Agreement whereby the Person shall agree to any terms and conditions deemed by the Corporation to be necessary in order to protect itself and its Members. Each Person to become a Sponsored Member that shall be an FFI Member must be FATCA Compliant **and is subject to the requirements of Section 9(iii) of Rule 3.**

~~(d) A Sponsored Member shall immediately inform its Sponsoring Member, both orally and in writing, if the Sponsored Member is no longer in compliance with the requirements of subsection (a) of this Section 3. A Sponsoring Member shall promptly inform the Corporation, both orally and in writing, if a Sponsored Member is no longer in compliance with the requirements of subsection (a) of this Section 3. Notification to the Corporation by the Sponsoring Member must take place within 1 business day from the date on which the Sponsoring Member first learns of the Sponsored Member's non compliance. The Corporation shall assess a \$1,000 fine against any Sponsoring Member who fails to so notify the Corporation. The Corporation shall, pursuant to Section 13 of this Rule 3A, cease to act for a Sponsored Member that is no longer in compliance with the requirements of subsection (a) of this Section 3.~~

(e) A Sponsored Member may voluntarily elect to terminate its membership by providing the Corporation with a written notice of such termination (**hereinafter, the** "Sponsored Member Voluntary Termination Notice"). The Sponsored Member shall specify in the Sponsored Member Voluntary Termination Notice a desired date for the termination, which date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the Sponsored

Member to the Corporation as of the time such Sponsored 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 n~~ No later than 10 Business Days after the receipt of the Sponsored Member Voluntary Termination Notice from such Sponsored Member, the Corporation shall notify the Sponsored Member and all Sponsoring Members for that Sponsored Member that such notice has been accepted and the date the termination shall be effective (hereinafter the “Sponsoring Member Termination Date”).

The Corporation’s ~~acceptance~~ shall ~~be evidenced by post an Important n~~ Notice to all Members announcing the termination of the Sponsored Member’s membership with the Corporation and the effective date of such termination (hereinafter, the “Sponsored Member Termination Date”). As of the Sponsored Member Termination Date, the relevant Sponsoring Member shall no longer be eligible to submit trades on behalf of the Sponsored Member. If any trade is submitted to the Corporation by the relevant Sponsoring Member on behalf of the Sponsored Member that is scheduled to settle on or after the Sponsored Member Termination Date, such Sponsored Member’s Sponsored Member Voluntary Termination Notice will be deemed void, and the Sponsored Member will remain subject to this Rule as if it had not given such Sponsored Member Voluntary Termination Notice.

* * *

Section 4 – Compliance with the Laws~~Section 4 – Compliance with Laws~~

* * *

Section 5 – Sponsored Member Trades~~Section 5 – Sponsored Member Trades~~

* * *

Section 6 – Trade Submission and the Comparison System~~Section 6 – Trade Submission and the Comparison System~~

* * *

(b) The Corporation has established standards for designating those Members who shall be required to participate in annual business continuity and disaster recovery testing that the Corporation reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event that business continuity and disaster recovery plans are required to be activated. The standards shall take into account factors such as: (1) activity-based thresholds; (2) significant operational issues of the Member during the twelve months prior to the designation; and (3) past performance of the Member with respect to operational testing. The specific standards adopted by the Corporation and any updates or modifications thereto shall be published to Members and applied on a prospective basis.

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

The comparison of Sponsored Member Trades shall be governed by Rule 5 and either: (i) Rule 6A, **(ii) Rule 6B** or ~~(iii)~~**(ii)** Sections 1, 2, 4, 6 through 10 and 13 of Rule 6C depending upon the type of comparison for which the Sponsored Member Trades are submitted. The Sponsoring Member shall act as processing agent for performing all functions and receiving Reports and information set forth in these trade submission and comparison Rules 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.

* * *

Section 8 – Securities Settlement~~**Section 8 – Securities Settlement**~~

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

* * *

(iii) 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, 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 (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.

* * *

Section 9 – Funds-Only Settlement

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Section 10 – Clearing Fund Obligations~~Section 10 – Clearing Fund Obligations~~

* * *

(b) ~~In the ordinary course, f~~For purposes of satisfying the Sponsoring Member's Clearing Fund requirements under the Rules for both its Netting Member activity and its Sponsoring Member activity, the Sponsoring Member's Netting System accounts and its Sponsoring Member Omnibus Account shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, **the Corporation shall have the right to apply a Sponsoring Member's Clearing Fund deposits to any obligations of that Sponsoring Member as otherwise permitted pursuant to Rule 4.** ~~the Corporation may, in its sole discretion, at any time and without prior notice to the Sponsoring Member (but being obliged to given notice to the Sponsoring Member as soon as possible thereafter) and whether or not the Sponsoring Member or any of its Sponsored Members is in default of its obligations to Corporation, treat the Sponsoring Member's accounts as a single account for the purpose of applying Clearing Fund deposits; apply Clearing Fund deposits made by the Sponsoring Member with respect to any account as necessary to ensure that the Sponsoring Member meets all of it obligations to the Corporation under any other account(s); and otherwise exercise all rights to offset and net against the Clearing Fund deposits any net obligations among any or all of the accounts, whether or not any other Person is deemed to have any interest in such account.~~

Section 12 – Loss Allocation Obligations~~Section 12 – Loss Allocation Obligations~~

(a) Sponsored Members shall not be obligated for allocations, pursuant to Rule 4, of loss or liability incurred by the Corporation. To the extent that a loss or liability is determined by the Corporation to arise in connection with Sponsored Member Trades (i.e., in connection with the insolvency or default of a Sponsoring Member), the Sponsored Members shall not be responsible for or considered in the loss allocation calculation, but rather such loss shall be allocated to Tier One Netting Members in accordance with the principles set forth in Section 7 of Rule 4. **Except as expressly set forth in this Section 12, if a loss or liability of the Corporation is determined to arise in connection with the close-out or liquidation of a Sponsored Member Trade of a Sponsored Member that is an Off-the-Market Transaction because the Sponsored Member has provided an Initial Haircut, the Corporation shall allocate such loss or liability attributable to the Initial Haircut to such Sponsored Member in accordance with the provisions of Section 7 of Rule 4.**

(b) To the extent the Corporation incurs a loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event and a loss allocation obligation arises that would be the responsibility of the Sponsoring Member Omnibus Account if the Sponsoring Member Omnibus Account were a Netting Member, the Corporation shall calculate such loss allocation obligation as if the affected Sponsored Members were subject to such allocations pursuant to

Section 7 of Rule 4, but the Sponsoring Member shall be responsible for satisfying such obligations.

(c) ~~The entire amount of the Required Fund Deposit associated with the Sponsoring Member's Netting System accounts and the entire amount of the Sponsoring Member's Omnibus Account Required Fund Deposit may be used to satisfy any amount allocated against a Sponsoring Member in its capacity as either a Netting Member or a Sponsoring Member.~~ With respect to an obligation to make payment due to any loss allocation amounts assessed to a Sponsoring Member pursuant to subsection (b) above, the Sponsoring Member may instead elect to terminate its membership in the Corporation pursuant to Section 7b of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 7 of Rule 4; however, for the purpose of determining the Loss Allocation Cap for such Sponsoring Member, its Required Fund Deposit shall be the sum of its Required Fund Deposit and its Sponsoring Member's Omnibus Account Required Fund Deposit.

* * *

~~**Section 13 – Restrictions on Access to Services by a Sponsored Member**~~
~~**Section 13 – Restrictions on Access to Services by a Sponsored Member**~~

* * *

~~**Section 14 – Restrictions on Access to Services by a Sponsoring Member**~~
~~**Section 14 – Restrictions on Access to Services by a Sponsoring Member**~~

* * *

~~**Section 15 – Insolvency of a Sponsored Member**~~
~~**Section 15 – Insolvency of a Sponsored Member**~~

* * *

~~**Section 16 – Insolvency of a Sponsoring Member**~~
~~**Section 16 – Insolvency of a Sponsoring Member**~~

* * *

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

* * *

(b) Subject to the provisions of subsection (a) of this Section 18, on any Business Day, the Sponsoring Member or the Corporation may by written notice to the other cause the immediate termination of all, but not fewer than all, of the long and short Net Settlement Positions, Fail Net Settlement Positions and Forward Net Settlement Positions of the Sponsored Member established in the Sponsoring Member's Sponsoring Member Omnibus Account. Any such notice shall also cause the immediate termination of all of the corresponding, offsetting long and short Net Settlement Positions, Fail Net Settlement Positions and Forward Net Settlement Positions of the

Sponsoring Member established in the Sponsoring Member's Netting System Account(s). Each such termination shall be effected by the Sponsoring Member's establishment of a final Net Settlement Position for each Eligible Netting Security with a distinct CUSIP number that shall equal the net of all outstanding deliver obligations and receive obligations of the parties thereto in each such Eligible Netting Security including those that arise from Fail Net Settlement Positions and Forward Net Settlement Positions (**hereinafter**, the "Final Net Settlement Position").

* * *

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

~~10:30 p.m.~~

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.

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

* 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.

GC Collateral Return Entitlements by GC Funds Lenders and GC Funds Borrowers, respectively, in accordance with Section 8(b)(i) of Rule 3A.

SCHEDULE OF GC COMPARABLE SECURITIES^{††§§*†††}**

Generic Security Type	GC Repo Security Number	Description	GC Comparable Securities
TU10	84910LAB2	U.S. TREASURIES < 10 YR MATURITY	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
TU30	84910LAA4	U.S. TREASURIES < 30 YR MATURITY	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
AGCY	84910LAC0	NON-MORTGAGE BACKED U.S. AGENCY SECURITIES	Non-Mortgage Backed Securities issued by: <ul style="list-style-type: none"> • Federal Farm Credit Banks • Federal Home Loan Bank • Federal Home Loan Mortgage Corporation • Federal National Mortgage Association • U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)

^{††} Please refer to the Sponsored GC Clearing Bank for details regarding the Fed “tickers” applicable to GC Comparable Securities.

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

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

^{†††} Eligible Securities with a maturity date of the next Business Day are not eligible as GC Comparable Securities.

^{†††} 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”).

Generic Security Type	GC Repo Security Number	Description	GC Comparable Securities
FFFIX	84910LAD8	FEDERAL NATIONAL MORTGAGE ASSOCIATION (“FANNIE MAE”) & FEDERAL HOME LOAN MORTGAGE CORPORATION (“FREDDIE MAC”) FIXED RATE MORTGAGE-BACKED SECURITIES	Fannie Mae and Freddie Mac Fixed Rate Mortgage-Backed Securities U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)
FFARM	84910LAE6	FANNIE MAE & FREDDIE MAC ADJUSTABLE RATE MORTGAGE-BACKED SECURITIES	Fannie Mae and Freddie Mac Fixed Rate and Adjustable Rate Mortgage-Backed Securities Ginnie Mae Fixed Rate and Adjustable Rate Mortgage-Backed Securities U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)
GNMA	84910LAF3	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GINNIE MAE”) FIXED RATE MORTGAGE-BACKED SECURITIES	Ginnie Mae Fixed Rate Mortgage-Backed Securities U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)
GNARM	84910LAG1	GINNIE MAE ADJUSTABLE RATE MORTGAGE-BACKED SECURITIES	Ginnie Mae Adjustable Rate and Ginnie Mae Fixed Rate Mortgage-Backed Securities U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)

Generic Security Type	GC Repo Security Number	Description	GC Comparable Securities
TIPS	84910LAH9	U.S. TREASURY INFLATION-PROTECTED SECURITIES (“TIPS”)	U.S. Treasury inflation-protected notes and bonds U.S. Treasury bills, notes, and bonds (excluding U.S. Treasury floating rate notes)
STRP	84910LAJ5	U.S. TREASURY SEPARATE TRADING OF REGISTERED INTEREST AND PRINCIPAL OF SECURITIES (“STRIPS”)	U.S. Treasury STRIPS U.S. Treasury bills, notes and bonds (excluding U.S. Treasury floating rate notes)

INTERPRETIVE GUIDANCE WITH RESPECT TO SETTLEMENT FINALITY

1. *Interpretive Guidance With Respect to Settlement Finality – Funds-Only Settlement*

The point of finality for funds-only settlement by the Corporation is defined by the Federal Reserve Bank Operating Circular 12 (“Operating Circular 12”),¹ which governs NSS processing by the FRB. The Corporation and each Member’s Funds-Only Settling Bank is a “Settler” and together are in a “Settlement Arrangement” (each term as defined in Operating Circular 12) for purposes of funds-only settlement.² DTC, as the Settlement Agent (as defined in the Rules and in Operating Circular 12), provides the Settlement File (as defined in Operating Circular 12) to the FRB.³ Each Settler maintains a Master Account (as defined in Operating Circular 12) with the FRB.⁴ The point of finality in accordance with Operating Circular 12 is, for debits, the time at which the Settler’s Master Account is debited by the FRB,⁵ and, for credits, the time at which the Settler’s Master Account is credited by the FRB.⁶

Therefore, the point of finality with respect to funds-only settlement by the Corporation is the point at which each of the Master Accounts for the Corporation and the Funds-Only Settling Banks designated by each of the Members have been debited and credited through NSS pursuant to the Settlement File provided by the Settlement Agent.

¹ Federal Reserve Bank Operating Circular 12 (Multilateral Settlement), Effective June 30, 2016 (“Operating Circular 12”), available at <https://www.frb.services.org>

² For purposes of Operating Circular 12, the following definitions apply:

“Balance” means the amount listed on a Settlement File that a Settler owes (debit Balance) or is due (credit Balance) as a result of the clearing activities of the Settlement Arrangement.

“Master Account” means the Master Account (as that term is defined in the Reserve Banks’ Operating Circular 1, Account Relationships) of a Settler on the books of a Reserve Bank.

“Settler” means an entity that has established an account with a Reserve Bank and settles its own Balances, settles Balances for the account of another Participant, or both.

“Settlement Agent” means the entity authorized to act on behalf of the Settlers under Operating Circular 12.

“Settlement File” means the instructions submitted by a Settlement Agent showing the debit and credit Balances of the Settlers.

See Section 1.2 of Operating Circular 12. See also Federal Reserve Banks Operating Circular 1 (Account Relationships), Effective February 1, 2013, available at <https://www.frb.services.org>.

³ See id.

⁴ See id.

⁵ See Section 5.4 of Operating Circular 12.

⁶ See Section 5.6 of Operating Circular 12.

2. *Interpretive Guidance With Respect to Settlement Finality – Settlement for Securities Deliveries and Related Payment Obligations.*

Settlement for securities deliveries and related payment obligations occurs (i) on the books of the Corporation's designated clearing bank for each Member whose designated clearing bank for such settlement is the same as the Corporation's designated clearing bank and (ii) through the Fedwire system, for each Member whose designated clearing bank for such settlement is not the same as the Corporation's designated clearing bank.

(a) *Point of Finality on the Books of the Corporation's Clearing Bank.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs on the books of the Corporation's clearing bank is the point at which the Corporation's clearing bank has acted upon a settlement instruction from the Corporation.

Pursuant to the agreement between the Corporation and the Corporation's clearing bank, a settlement instruction is an instruction by the Corporation to the clearing bank in respect of settlement that: (1) (a) instructs the clearing bank to direct delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) specifies the dollar amounts that the clearing bank is simultaneously to take collection of from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (2) (a) instructs the clearing bank to direct payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) specifies the securities that the clearing bank is simultaneously to take receipt of from each of the Member accounts designated in the settlement instruction for the Corporation's account.

The Corporation's clearing bank has acted upon such instructions when the clearing bank (i) (a) directs delivery, from the Corporation's account to the Member account(s) designated in such settlement instruction, of securities specified for each such Member account and (b) simultaneously collects the dollar amounts from each of the respective Member accounts designated in the settlement instruction for the Corporation's account; or (ii) (a) directs payment, from the Corporation's account to the designated Member account(s), of the dollar amounts specified in the settlement instruction for each such Member account and (b) simultaneously takes receipt of securities from each of the Member accounts designated in the settlement instruction for the Corporation's account.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations that occur on the books of the Corporation's clearing bank is when each of the accounts held by the Corporation and the Members at the clearing bank for purposes of securities settlement have been debited and credited in accordance with the settlement instructions provided by the Corporation.

(b) *Point of Finality for Sponsored GC Trades.*

The point of finality of settlement of Sponsored GC Trades occurs on the books of the Sponsored GC Clearing Agent Bank at the point when the Sponsoring Member and

Sponsored Member make the relevant payment obligation or securities delivery, as applicable, to the account at the Sponsored GC Clearing Agent Bank specified by the pre-novation counterparty in accordance with such procedures as the Sponsoring GC Clearing Agent Bank may specify from time to time.

(c)(b) *Point of Finality on the Fedwire System.*

The point of finality relating to settlement of securities deliveries and related payment obligations that occurs through the Fedwire system is defined by the Federal Reserve Banks Operating Circular No. 7 (“Operating Circular 7”),⁷ which governs book entry security account maintenance and transfers. The Corporation’s clearing bank and each Member’s clearing bank is a “Participant” and maintains a “Securities Account” and a “Master Account” with the FRB (each term as defined in Operating Circular 7).⁸ Operating Circular 7 states that “[u]nless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to the Sender’s and Receiver’s Securities

⁷ Federal Reserve Banks Operating Circular 7 (Book-Entry Securities Account Maintenance and Transfer Services), Effective October 29, 2017 (“Operating Circular 7”), [available at https://www.frbservices.org](https://www.frbservices.org).

⁸ For purposes of Operating Circular 7, the following definitions apply:

“Book-Entry Security” means a marketable security issued in electronic form by the United States Government (the “Treasury”), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks have determined is eligible to be held in a Securities Account and is eligible for Transfer.

“Free Transfer” means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

“Master Account” means a “Master Account” (as defined in the Reserve Banks’ Operating Circular 1, Account Relationships) on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A of Operating Circular 7. A Master Account does not contain Book-Entry Securities.

“Participant” means an entity that maintains a Securities Account with a Reserve Bank in the entity’s name.

“Receiver” means the Participant receiving a Book-Entry Security as a result of a Transfer.

“Securities Account” means an account at a Reserve Bank containing Book-Entry Securities.

“Sender” means the Participant sending a Transfer Message.

“Transfer” means the electronic movement over the Fedwire® Securities Service of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

“Transfer Against Payment” means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

“Transfer Message” means an instruction of a Participant to a Reserve Bank to effect a Transfer.

See Operating Agreement Circular 7, Section 3.0.

Accounts and, in case of Transfer Against Payment, their corresponding Master Accounts.”⁹ For purposes of settlement of securities deliveries and related payment obligations, the clearing banks designated by the Corporation and each Member to deliver and receive securities and related funds on behalf of the Corporation and each Member, respectively, are the Senders and Receivers described in Operating Circular 7.

Therefore, the point of finality of settlement of securities deliveries and related payment obligations is when each of the Securities Accounts and the Master Accounts of the clearing banks designated by the Corporation and each of the Members have been debited and credited through the Fedwire system in accordance with the settlement instructions provided by the Corporation.¹⁰

~~February 13, 2020~~ February 6, 2023

⁹ Operating Circular 7, Section 9.1.1. Capitalized terms are defined as set forth in Operating Circular 7. See id.

¹⁰ Each Business Day, the Corporation makes available to each Member a Report that provides settlement information that the Corporation deems sufficient to enable each such Member to be able to settle its securities deliveries and related payment obligations and each Member is obligated to provide the appropriate instructions to its clearing bank to deliver and/or receive securities and related payments as set forth in the Report. Rule 12, Section 3.