

FIXED INCOME CLEARING CORPORATION
GOVERNMENT SECURITIES DIVISION RULEBOOK

Underlined, bold text indicates text proposed to be added in this proposed rule change

~~**Strike through, bold text**~~ indicates text proposed to be deleted in this proposed rule change

RULE 1 – DEFINITIONS

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GCF Collateral Excess Account

The term “GCF Collateral Excess Account” means an account established by a GCF Custodian Bank in the name of the Corporation to hold securities it credits to the GCF Securities Account the Corporation establishes for another GCF Clearing Agent Bank.

¹ Certain of the proposed changes are not new GSD Rules; they are currently reflected in the GSD Rulebook. They have been incorporated into the GSD Rules in connection with the GCF Repo® pilot program. In 2011, the GCF Repo® pilot program was adopted by GSD for a period of one year. On a yearly basis since then, FICC has submitted a rule filing to extend the pilot program for a duration of one year. See Securities Exchange Act Release No. 34-65213 (August 29, 2011), 76 FR 54824 (September 2, 2011)(SR-FICC-2011-05); Securities Exchange Release No. 34-67621 (August 8, 2012), 77 FR 48572 (August 14, 2012) (SR-FICC-2012-05); Securities Exchange Act Release No. 34-70068 (July 30, 2013), 78 FR 47453 (August 5, 2013) (SR-FICC-2013-06); Securities Exchange Act Release No. 34-72457 (June 24, 2014), 79 FR 36856 (June 30, 2014) (SR-FICC-2014-02) and Securities Exchange Act Release No. 34-75258 (June 22, 2015), 80 FR 36879 (SR-FICC-2015-002). The proposed rule changes relating to the net-of-net settlement process are clarifying rule change regarding a process that is currently in effect with respect to the GCF Repo service. The proposed rule changes to Rule 1 and Rule 20 Section 7 are technical clean-up changes.

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RULE 20 - SPECIAL PROVISIONS FOR GCF REPO TRANSACTIONS

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Section 3 - Collateral Allocation

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

A Netting Member that has, on a particular Business Day ("~~Day 1~~"), a Collateral Allocation Obligation, may satisfy such Obligation by posting with the Corporation, pursuant to these Rules: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations must be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash.

Every Collateral Allocation Entitlement and Collateral Allocation Obligation that is established by the Corporation on ~~Day 1~~ **a particular Business Day** shall be **reversed netted** on the next Business Day ("~~Day 2~~") **with such day's Collateral Allocation Entitlement and/or Collateral Allocation Obligation**, within a timeframe for such established by the Corporation.

On any Business Day (within the timeframes established by the Corporation by notice to all Members), a Netting Member that posted with the Corporation securities in satisfaction of its Collateral Allocation Obligation on the previous Business Day may substitute for any securities so delivered on such day cash, or (i) Comparable Securities, (ii) Other Acceptable Securities, or (iii) U.S. Treasury bills, notes or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, substitution may be with Comparable Securities and/or cash). All requests for substitutions must be made by the substitution deadline established by the Corporation and announced to Members by Important Notice from time to time.

A Netting Member that had, ~~on Day 1,~~ a Collateral Allocation Entitlement shall have the obligation to settle the new net settlement amount on Day 2 the next Business Day to return to the Corporation the securities or cash collateral that it received on Day 1 and the right to receive back from the Corporation the net funds amount that it paid on ~~Day 1~~ the previous Business Day. ~~Notwithstanding the foregoing, if the Netting Member is not able, due to reasons beyond its control and despite exercising best efforts, to return on Day 2 the securities it received on Day 1 any collateral due back to the Corporation, the Netting Member may return: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations must be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash.~~² The Corporation shall charge such Netting Member for any actual damages directly suffered by the other Netting Member as a result of not receiving back the same securities, and shall remit any amounts received to the other Netting Member. Such damages must be sufficiently demonstrated to the satisfaction of the Corporation and may not include special, consequential or punitive damages. A Netting Member that had, ~~on Day 1,~~ a Collateral Allocation Obligation shall have the obligation ~~on Day 2~~ to settle the new net settlement amount on the next Business Day return to the Corporation the funds that it received on Day 1 and the right to receive back from the Corporation the net securities or cash collateral that it posted on Day 1 the previous Business Day subject to the provisions of the second sentence of this paragraph. Notwithstanding the foregoing, if the Netting Member is not able, due to reasons beyond its control and despite exercising best efforts, to return any collateral due back to the Corporation, the Netting Member may return: (i) Comparable Securities, (ii) Other Acceptable Securities, (iii) U.S. Treasury bills, notes, or bonds maturing in a time frame no greater than that of the securities that have been traded (except where such traded securities are U.S. Treasury bills, such Obligations must be satisfied with the posting of Comparable Securities and/or cash only), and/or (iv) cash.

Notwithstanding the paragraphs immediately above in this Section 3 of Rule 20, Treasury floating rate notes may not be used to satisfy Collateral Allocation Obligations or substitutions with respect to Treasury Inflation-Protected Securities, Separate Trading of Registered Interest and Principal Securities, or fixed-rate mortgage-backed securities issued by Fannie Mae, Freddie Mac or Ginnie Mae.

² Pursuant to a telephone call with FICC's internal counsel on April 19, 2016, staff in the Division of Trading and Markets has modified the appearance of the phrase "any collateral due back to the Corporation" to clarify that FICC intended it to appear in strikethrough bold text, without being underlined.

If an Interbank Pledging Member owes a Prorated Interbank Cash Amount to the Corporation on ~~the morning of Day 2~~ **a particular Business Day at a time established by the Corporation**, the Interbank Pledging Member, as security for any and all obligations and liabilities of such Interbank Pledging Member in respect of such Member's Prorated Interbank Cash Amount, hereby grants to the Corporation a perfected security interest in all NFE-Related Collateral, subject to no lien created by or through the Interbank Pledging Member except any such lien in favor of the GCF Clearing Agent Bank maintaining any NFE-Related Account. Each Member hereby authorizes each GCF Clearing Agent Bank with which any NFE-Related Collateral is maintained to agree to act on entitlement orders or other instructions of the Corporation or its designee with respect to such NFE-Related Collateral and to monitor such property and its value on behalf of the Corporation pursuant to such arrangements as the Corporation deems advisable.

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Section 7 – Establishment and Maintenance of GCF Securities Accounts.

Each GCF Securities Account which the Corporation establishes in the name of a GCF Clearing Agent Bank shall be a “securities account” for purposes of Section 8-501 of the NYUCC. Any ~~Security security~~ that the Corporation credits to a GCF Securities Account shall be a “financial asset” as defined in Section 8-102(a)(9) of the NYUCC. The Corporation shall be a Securities Intermediary with respect to each GCF Securities Account. The GCF Clearing Agent Bank for which a GCF Securities Account is established shall be the Entitlement Holder with respect to the ~~Securities securities~~ in such GCF Securities Account, and any credit of ~~Securities securities~~ to a GCF Securities Account in the name of a Clearing Agent Bank, as agent for customers, shall create in favor of such Clearing Agent Bank a Security Entitlement with respect to such Securities; however, no ~~Security security~~ Entitlement in any ~~Securities securities~~ shall exist in favor of any Clearing Agent Bank until the Corporation has credited such ~~Securities securities~~ to such Clearing Agent Bank's GCF Securities Account on the Corporation's books and records.

Each GCF Securities Account shall be used exclusively to hold Eligible Netting Securities in connection with the netting and settlement of GCF Repo Transactions. GCF Securities Accounts may not contain cash.

Securities that the Corporation credits to a GCF Securities Account shall be held in ~~an account in the name of the Corporation at one or more GCF Custodian Banks~~ **a GCF Collateral Excess Account**.

The Corporation may utilize one or more GCF Custodian Banks to serve as its agent to create and maintain the Corporation's books and records with respect to a GCF Securities Account, to deliver records with respect to the GCF Securities Account to the Entitlement Holder, and to otherwise act as its agent with respect to the GCF Securities Account.

The Corporation's duties and obligations with respect to a GCF Securities Account shall be subject to the Securities Account Agreement entered into between the Corporation and the Entitlement Holder.

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**SCHEDULE OF GCF TIMEFRAMES
(all times are New York City times)**

- 7:00 a.m.** FICC begins to accept from GCF-Authorized Inter-Dealer Brokers ("brokers") data on GCF Repo Transactions -- Brokers must submit data on a GCF Repo Transaction that they are a party to within five minutes of execution of such Transaction
- ~~**7:30 a.m.** GCF Counterparties ("dealers") must, through their clearing bank, return collateral to the FICC account to accomplish the reversal of the previous Business Day's GCF Net Settlement Positions~~
- 7:30 a.m. – 2:30 p.m.** Collateral that was lent interbank is returned to the FICC account at the clearing bank of the lender of securities collateral to facilitate substitutions in the event of a request by such lender
- 10:00 a.m.** Dealers must begin affirming or disaffirming GCF Repo Transactions within one half hour of receipt of data on such transactions from FICC
- 10:30 a.m.** Deadline for dealer affirmation or disaffirmation of all GCF Repo Transactions that they are a party to that are executed prior to 10 a.m.
- 1:00 p.m.** For GCF Repo Transactions executed after 1:00 p.m., dealers must affirm or disaffirm GCF Repo Transactions within ten minutes of their receipt of data on such transactions from FICC
- ~~3:35~~ 3:50 p.m.** Cutoff for GCF Repo Transaction data submission from brokers to FICC including dealer trade affirmation or disaffirmation -- all unaffirmed trades automatically affirmed by FICC -- notification by FICC to banks and dealers of final positions -- collateral allocations begin
- ~~**3:45 p.m.** Cutoff for dealer trade affirmation or disaffirmation -- all unaffirmed trades automatically affirmed by FICC -- notification by FICC to banks and dealers of final positions -- collateral allocations begin~~
- 3:30 p.m.** Every Collateral Allocation Entitlement and Collateral Allocation Obligation that was established by the Corporation on the previous Business Day shall be netted with the current Business Day's Collateral Allocation Obligation and/or Collateral Allocation Entitlement; GCF Counterparties ("dealers") shall have the obligation to settle such new net settlement amounts.

4:30 p.m.* First deadline for dealer allocation of collateral to satisfy obligations, after which a late fee will be imposed

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

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