

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language

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

RULE 1 – DEFINITIONS

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Category 1 Sponsoring Member

The term “Category 1 Sponsoring Member” shall have the meaning given that term in Section 2(a) of Rule 3A.

Category 2 Sponsoring Member

The term “Category 2 Sponsoring Member” shall have the meaning given that term in Section 2(a) of Rule 3A.

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Sponsoring Member

The term “Sponsoring Member” means a Netting Member whose application to become a Category 1 Sponsoring Member or a Category 2 Sponsoring Member has been approved by the Board pursuant to Rule 3A.

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Sponsoring Member Omnibus Account

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

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Sponsored Member Trade

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

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RULE 3A—SPONSORING MEMBERS AND SPONSORED MEMBERS

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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, 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.

(b) (i) Each Netting Member applicant to become a Sponsoring Member shall complete and deliver to the Corporation an application in such form as may be prescribed by the Corporation from time to time and any other information requested by the Corporation. An application to become a Sponsoring Member shall first be reviewed by the Corporation. The Corporation shall recommend approval or disapproval of the application to the Board.

(ii) The Corporation may impose financial requirements on a Netting Member applying to become a Category 2 Sponsoring Member that are greater than financial requirements applicable to the applicant in its capacity as a Netting Member under Section 4(b) of Rule 2A, based upon the level of the anticipated positions and obligations of such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through the Corporation as a Category 2 Sponsoring Member, and the overall financial condition of such applicant. The Board shall approve any increased financial requirements imposed by the Corporation in connection with the approval of an application of a Netting Member to become a Category 2 Sponsoring Member, and the Corporation shall thereafter regularly review such Category 2 Sponsoring Member regarding its compliance with such increased financial requirements.

(iii) If the Board denies the application of a Netting Member to become a Sponsoring Member, such denial shall be handled in the same way as set forth in Section 6 of Rule 2A with respect to membership applications.

(iv) Each Sponsoring Member, or any Netting Member applicant to become such, shall also furnish to the Corporation such adequate assurances of its financial responsibility and operational capability within the meaning of Section 7 of

Rule 3 as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation and its members, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance and settlement of securities transactions. The Board shall approve any adequate assurances imposed by the Corporation in connection with the approval of an application of a Netting Member to become a Sponsoring Member, and the Corporation shall thereafter regularly review such Sponsoring Member regarding its compliance with such adequate assurances, as appropriate. Any adequate assurances imposed on a Sponsoring Member by the Corporation after its approval shall be communicated in writing to the Sponsoring Member, and the Corporation shall thereafter regularly review such Sponsoring Member regarding its compliance with such adequate assurances, as appropriate.

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(e) Each Sponsoring Member shall submit to the Corporation, within the timeframes and in the formats required by the Corporation, the reports and information that all Netting Members are required to submit regardless of type of Netting Member and the reports and information required to be submitted **specifically by Bank Netting Members for its respective type of Netting Member**, all pursuant to Section 2 of Rule 3.

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(h) If a **Category 1** Sponsoring Member falls below one or more of the required minimum financial standards for being a Sponsoring Member set forth in subsection (a) above, it shall, for the period beginning on the day on which it fell below such level and continuing until the later of the 90th calendar day after the date on which (i) it returned to compliance with such standard, or (ii) the Corporation received notice of the applicable violation, have a Sponsoring Member Omnibus Account Required Fund Deposit equal to the greater of either: (x) the sum of the normal calculation of its Sponsoring Member Omnibus Account Required Fund Deposit plus \$1,000,000, or (y) 125 percent of the normal calculation of its Sponsoring Member Omnibus Account Required Fund Deposit. **If, in the case of a Category 2 Sponsoring Member, the sum of the VaR Charges of its Sponsoring Member Omnibus Account(s) and its Netting System accounts exceeds its Netting Member Capital, the Category 2 Sponsoring Member shall not be permitted to submit activity into its Sponsoring Member Omnibus Account(s), unless otherwise determined by the Corporation in order to promote orderly settlement.**

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