

Bold and underlined text indicates proposed added language

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

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

RULE 1 – DEFINITIONS

Approved but not yet operative changes to this Rule 1, as amended by File Nos. SR-FICC-2018-001 and SR-FICC-2018-801, are set forth below. Underlined and boldface text indicates added language. Strikethrough and boldface text indicates deleted language. These changes will become operative within 45 Business Days after the later date of the SEC’s approval order of File No. SR-FICC-2018-001 and notice of no objection to File No. SR-FICC-2018-801. Once operative, this legend will automatically be removed from the Rules and the formatting of the text of the changes in this Rule 1 will automatically be revised to reflect that these changes are operative.

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified.

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Backtesting Charge

The term “Backtesting Charge” means an additional charge that may be added to a Netting Member’s VaR Charge to mitigate exposures to the Corporation caused by settlement risks that may not be adequately captured by the Corporation’s portfolio volatility model. The Corporation may assess this charge on a Netting Member’s start of the day portfolio (the “Regular Backtesting Charge”) and/or its intraday portfolios (the “Intraday Backtesting Charge”), as needed, to enable the Corporation to achieve its backtesting coverage target. The Regular Backtesting Charge and the Intraday Backtesting Charge may apply to Netting Members that have 12-month trailing backtesting coverage below the 99 percent backtesting coverage target, excluding deficiencies attributable to Blackout Period exposures. The Regular Backtesting Charge and the Intraday Backtesting Charge, as applicable, shall generally be equal to the Netting Member’s third largest deficiency that occurred during the previous 12 months, ~~excluding any deficiencies attributable to Blackout Period exposures.~~ Deficiencies attributable to Blackout Period exposures would be included only during the Blackout Period. The Corporation may in its discretion adjust such charge if the Corporation determines that circumstances particular to a Netting Member’s settlement activity and/or market price volatility warrant a different approach to determining or applying such charge in a manner consistent with achieving the Corporation’s backtesting coverage target.

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Blackout Period Exposure Adjustment

The term “Blackout Period Exposure Adjustment” means an additional charge or a reduction that may be added to a GCF Counterparty’s VaR Charge to mitigate exposures to the Corporation that may arise due to potential overvaluation of mortgage-backed securities pledged to collateralize GCF Repo Transactions during the Blackout Period. The Blackout Period Exposure Adjustment shall apply to

GCF Counterparties that are exposed to potential overvaluation of mortgage-backed securities pledged as collateral during the Blackout Period. The Blackout Period Exposure Adjustment shall be based on a projected average pay-down rate of the applicable mortgage-backed securities. The Corporation may in its discretion adjust or waive such adjustment if the Corporation determines that circumstances particular to the GCF Counterparty's use of mortgage-backed security pledges or to the mortgage-backed securities so pledged warrant a different approach to determining or applying such adjustment in a manner consistent with achieving the Corporation's backtesting coverage target.

Blackout Period Exposure Charge

~~The term "Blackout Period Exposure Charge" means an additional charge that may be added to a GCF Counterparty's VaR Charge to mitigate exposures to the Corporation that may arise due to potential overvaluation of mortgage-backed securities pledged to collateralize GCF Repo Transactions during the Blackout Period. The Blackout Period Exposure Charge shall apply to GCF Counterparties that have 12-month trailing backtesting coverage below 99 percent where two or more historical deficiencies are determined by the Corporation to have been caused by overvaluation of mortgage-backed securities pledged as collateral during the Blackout Period. The Blackout Period Exposure Charge shall generally be equal to the midpoint between the GCF Counterparty's largest two deficiencies occurring during the Blackout Period. The Corporation may in its discretion adjust or waive such charge if the Corporation determines that circumstances particular to the GCF Counterparty's use of mortgage-backed security pledges or to the mortgage-backed securities so pledged warrant a different approach to determining or applying such charge in a manner consistent with achieving the Corporation's backtesting coverage target. A GCF Counterparty that is subject to the charge may notify the Corporation in writing that it will discontinue or materially reduce its mortgage-backed security pledges, and, if it promptly takes such action, FICC shall waive or reduce the charge accordingly.~~

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Coverage Charge

~~The term "Coverage Charge" means with respect to a Netting Member's Required Fund Deposit, an additional charge to bring the Member's coverage to a targeted confidence level.~~

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Excess Capital

~~The term "Excess Capital" means Excess Net Capital, net assets or equity capital as applicable, to a Netting Member based on its type of regulation.~~

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Excess Capital Ratio

The term “Excess Capital Ratio” means the quotient, rounded to the nearest two decimal places, resulting from dividing the amount of a Netting Member’s VaR Charge by the amount of its ~~Excess~~ Netting Member Capital that it maintains.

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Intraday Supplemental ~~Clearing~~-Fund Deposit

The term “Intraday Supplemental ~~Clearing~~-Fund Deposit” means the additional deposit to the Clearing Fund required by the Corporation from a Member intraday pursuant to the provisions of Rule 4

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Margin Proxy

The term “Margin Proxy” means, with respect to each Margin Portfolio, ~~a minimum-an~~ alternative volatility calculation for specified Net Unsettled Positions of a Netting Member, calculated using historical market price changes of such U.S. Treasury and agency pass-through mortgage-backed securities indices determined by the Corporation. The Margin Proxy would be applied by the Corporation as an ~~adjustment~~ alternative to the model-based volatility calculation of the VaR Charge for each Netting Member’s Margin Portfolio. The Margin Proxy shall cover such range of historical market price moves and parameters as the Corporation from time to time deems appropriate.

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Netting Member Capital

The term “Netting Member Capital” means Net Capital, net assets or equity capital as applicable, to a Netting Member based on its type of regulation.

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VaR Charge

The term “VaR Charge” means, with respect to each Margin Portfolio, a calculation of the volatility of specified Net Unsettled Positions of a Netting Member as of the time of such calculation. Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such observable market data as the Corporation deems reasonable, and shall cover such range and assessment of volatility as the Corporation from time to time deems appropriate. ~~If, with respect to the Margin Portfolio of a Netting Member, the model-based volatility calculation pursuant to this definition results in a lower amount than the Margin Proxy~~

calculated for that Margin Portfolio, then the Margin Proxy will be applied as the VaR Charge. To the extent that the primary source of such market data becomes unavailable for an extended period of time, the Corporation shall utilize the Margin Proxy as an alternative volatility calculation. If the volatility calculation is lower than an amount designated by the Corporation (the "VaR Floor") then the VaR Floor will be utilized as such Clearing Member's VaR Charge. Such VaR Floor will be determined by multiplying the absolute value of the sum of Net Long Positions and Net Short Positions of Eligible Securities, grouped by product and remaining maturity, by a percentage designated by the Corporation from time to time for such group. For U.S. Treasury and agency securities, such percentage shall be a fraction, no less than 10%, of the historical minimum volatility of a benchmark fixed income index for such group by product and remaining maturity. For mortgage-backed securities, such percentage shall be a fixed percentage that is no less than 0.05%.

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RULE 4 – CLEARING FUND AND LOSS ALLOCATION

Approved but not yet operative changes to this Rule 4, as amended by File Nos. SR-FICC-2018-001 and SR-FICC-2018-801, are set forth below. Underlined and boldface text indicates added language. Strikethrough and boldface text indicates deleted language. These changes will become operative within 45 Business Days after the later date of the SEC’s approval order of File No. SR-FICC-2018-001 and notice of no objection to File No. SR-FICC-2018-801. Once operative, this legend will automatically be removed from the Rules and the formatting of the text of the changes in this Rule 4 will automatically be revised to reflect that these changes are operative.

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Section 1b – Unadjusted GSD Margin Portfolio Amount

(a) Each Business Day, the Corporation shall determine, with respect to each Margin Portfolio, an Unadjusted GSD Margin Portfolio Amount as the sum of the following:

(i) the VaR Charge,

plus

~~(ii) the Coverage Charge,~~

minus

(iii) in the case of a Margin Portfolio of a Cross Margining Participant that is subject to one or more Cross-Margining Arrangements, in the discretion of the Corporation, an amount not to exceed the sum of any applicable Cross Margining Reductions, calculated on the current Business Day for such Cross-Margining Participant in accordance with the applicable Cross-Margining Agreements,

plus

~~(iii)~~ in the case of a Margin Portfolio of a GCF Counterparty, the GCF Premium Charge and/or GCF Repo Event Premium and/or the Early Unwind Intraday Charge, if applicable,

plus or minus

(iv) in the case of a Margin Portfolio of a GCF Counterparty, the Blackout Period Exposure Adjustment, if applicable, during the monthly Blackout Period or until the applicable GCF Clearing Agent Bank updates the Pool Factors used for collateral valuation,

plus

~~(v) in the case of a Margin Portfolio of a GCF Counterparty with backtesting deficiencies, the Blackout Period Exposure Charge, if applicable, during the monthly Blackout Period and until the applicable GCF Clearing Agent Bank updates the Pool Factors used for collateral valuation,~~

plus

~~(vi)—in the case of a Netting Member with backtesting deficiencies, the Backtesting Charge, if applicable,~~

plus

~~(vii) the Holiday Charge, if applicable, on the Business Day prior to a Holiday.~~

The Corporation shall determine a separate Unadjusted GSD Margin Portfolio Amount for a Netting Member's Market Professional Cross-Margining Account.

The Corporation shall have the discretion to not apply the VaR calculation(s) to ~~n~~**Net** ~~u~~**Unsettled** ~~p~~**Positions** in classes of securities whose volatility is less amenable to statistical analysis, or to Term Repo Transactions and Forward-Starting Repo Transactions (including term and forward-starting GCF Repo Transactions) whose term repo rate volatility is less amenable to statistical analysis. In lieu of such calculation, the component required with respect to such transactions shall instead be determined utilizing a haircut method based on a historic index volatility model.

The Corporation shall take into account the VaR confidence level applicable to the Member in calculating the VaR Charge ~~and Coverage Charge~~. In the case of a Margin Portfolio containing accounts of Permitted Margin Affiliates, the Corporation shall apply the highest VaR confidence level applicable to the Member or its Permitted Margin Affiliates.

~~When the Margin Proxy is applied as the VaR Charge, the Corporation shall reduce the Coverage Charge up to the amount that the Margin Proxy exceeds the sum of the model-based volatility calculation and the Coverage Charge, but not by an amount greater than the total Coverage Charge.~~

The Corporation shall have the discretion to calculate an additional amount ("special charge") applicable to a Margin Portfolio as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time.

The Corporation shall calculate the Unadjusted GSD Margin Portfolio Amount applicable to a Sponsoring Member Omnibus Account, and the Sponsoring Member Omnibus Account Required Fund Deposit, subject to the provisions set forth in Section 10 of Rule 3A.

The minimum Clearing Fund requirement applicable to an Inter-Dealer Broker Netting Member or a Netting Member that maintains one or more Broker Accounts shall at all times be no less than \$5 million.

Once applicable minimum Clearing Fund amounts have been applied, the Corporation shall apply any applicable additional payments, charges and premiums set forth in these Rules.

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Methodology Document
GSD Initial Market Risk Margin Model

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