

Bold and underlined text indicates proposed added language

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

FIXED INCOME CLEARING CORPORATION
GOVERNMENT SECURITIES DIVISION RULEBOOK

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RULE 1 - DEFINITIONS

Changes to this Rule 1, as amended by File Nos. SR-FICC-2020-009 and SR-FICC-2020-802, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2020/FICC/SR-FICC-2020-009.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2020/FICC/SR-FICC-2020-802.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. By no later than [insert date within 10 Business Days after the later of the approval of SR-FICC-2020-0090 and no objection to SR-FICC-2020-802 by the SEC], these changes will be implemented, and this legend will automatically be removed from this Rule 1.

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Margin Liquidity Adjustment Charge or MLA Charge

The terms “Margin Liquidity Adjustment Charge” or “MLA Charge” mean, with respect to each Margin Portfolio, an additional charge applied to Net Unsettled Positions of a Member. The MLA Charge shall be calculated daily and shall be included in each Member’s Required Fund Deposit.

For purposes of calculating this charge, Net Unsettled Positions shall be categorized into the following asset groups: (a) U.S. Treasury securities, which shall be further categorized by maturity – those maturing in (i) less than one year, (ii) equal to or more than one year and less than two years, (iii) equal to or more than two years and less than five years, (iv) equal to or more than five years and less than ten years, and (v) equal to or more than ten years; (b) Treasury-Inflation Protected Securities (“TIPS”), which shall be further categorized by maturity – those maturing in (i) less than two years, (ii) equal to or more than two years and less than six years, (iii) equal to or more than six years and less than eleven years, and (iv) equal to or more than eleven years; (c) U.S. agency bonds; and (d) mortgage pools transactions.

The Corporation shall first calculate a measurement of market impact cost for each Net Unsettled Position in each of the asset groups, as described below:

- (i) For Net Unsettled Positions in U.S. Treasury securities maturing in less than one year and TIPS, the directional market impact cost should be used, which is a function of the Net Unsettled Position's net directional market value;
- (ii) For all other Net Unsettled Positions, two components shall be added together: (1) the directional market impact cost, as described above, and (2) the basis cost, which is based on the Net Unsettled Position's gross market value.

For all asset groups, the net directional market value and the gross market value shall be divided by the average daily volumes of the securities in that asset group over a lookback period.

The calculated market impact cost for each Net Unsettled Position in an asset group shall be compared to a portion of the VaR Charge that is allocated to that Net Unsettled Position. If the ratio of the calculated market impact cost to a portion of the VaR Charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA Charge will be applied to that asset group. If the ratio of these two amounts is equal to or less than this threshold, the MLA charge will not be applied to that asset group.

When applicable, an MLA Charge for each asset group would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to a portion of the VaR Charge allocated to that Net Unsettled Position exceeds the threshold, and (2) a portion of the VaR Charge allocated to that asset group.

Each applicable MLA Charge for each asset group shall be added together to result in one total MLA charge.

The Corporation may apply a downward adjusting scaling factor based on the ratio of the calculated market impact cost to a portion of the VaR Charge to result in a final MLA Charge, where a higher ratio would trigger a larger downward adjustment of the MLA Charge and a lower ratio would trigger no downward adjustment of the MLA Charge.

MLA Excess Amount

Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members may be charged an MLA Excess Amount in addition to the MLA Charge. In order to determine if this additional amount is applicable, FICC shall calculate both an MLA Charge for each account and an MLA Charge for the consolidated portfolio.

If the MLA charge of the consolidated portfolio is higher than the sum of all MLA Charges for each account of the Sponsored Member, the Sponsored Member shall be

charged the amount of such difference, as an MLA Excess Amount, in addition to the applicable MLA Charge.

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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. 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. **In its assessment of volatility, the Corporation shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following risk groups: (a) mortgage pool transactions; (b) TIPS; (c) U.S. agency bonds; and (d) U.S. Treasury securities, which shall be further categorized by maturity – those maturing in (i) less than five years, (ii) equal to or more than five years and less than ten years, and (iii) equal to or more than ten years.**

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

Changes to this Rule 4, as amended by File Nos. SR-FICC-2020-009 and SR-FICC-2020-802, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2020/FICC/SR-FICC-2020-009.pdf and dtcc.com/~media/Files/Downloads/legal/rule-filings/2020/FICC/SR-FICC-2020-802.pdf, respectively. These changes have been approved by the SEC but have not yet been implemented. By no later than [insert date within 10 Business Days after the later of the approval of SR-FICC-2020-009 and no objection to SR-FICC-2020-802 by the SEC], 2020, these changes will be implemented, and this legend will automatically be removed from this Rule 4.

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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,

minus

(ii) 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 Netting Member with backtesting deficiencies, the Backtesting Charge, if applicable,

plus

(vi) the Holiday Charge, if applicable, on the Business Day prior to a Holiday²,

plus

(vii) a Margin Liquidity Adjustment Charge and an MLA Excess Amount, if applicable.

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FIXED INCOME CLEARING CORPORATION
MORTGAGE-BACKED SECURITIES DIVISION
CLEARING RULES

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RULE 1 - DEFINITIONS

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Margin Liquidity Adjustment Charge or MLA Charge

The terms “Margin Liquidity Adjustment Charge” or “MLA Charge” mean, with respect to each Margin Portfolio, an additional charge applied to net unsettled positions of a Member. The MLA Charge shall be calculated daily and shall be included in each Member’s Required Fund Deposit.

For purposes of calculating this charge, net unsettled positions in TBA transactions, Specified Pool Trades and Stipulated Trades shall be included in one mortgage-backed securities asset group.

The Corporation shall first calculate a measurement of market impact cost for each net unsettled position in this asset group by using the directional market impact cost, which is a function of the net unsettled position’s net directional market value. The net directional market value and the gross market value shall be divided by the average daily volumes of the securities in that asset group over a lookback period.

The calculated market impact cost for each net unsettled position shall be compared to a portion of the VaR Charge that is allocated to that net unsettled position. If the ratio of the calculated market impact cost to a portion of the VaR Charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA Charge will be applied to the net unsettled position. If the ratio of these two amounts is equal to or less than this threshold, the MLA Charge will not be applied to the net unsettled position.

When applicable, an MLA Charge for each asset group would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to a portion of the VaR Charge allocated to that Net Unsettled Position exceeds the threshold, and (2) a portion of the VaR Charge allocated to that asset group.

The Corporation may apply a downward adjusting scaling factor based on the ratio of the calculated market impact cost to a portion of the VaR Charge to result in a final MLA Charge, where a higher ratio would trigger a larger downward adjustment of the MLA Charge and a lower ratio would trigger no downward adjustment of the MLA Charge.

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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 Clearing Member, as of the time of such calculation (with respect to the specified net unsettled positions 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 Exchange Act. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such historical data as the Corporation deems reasonable, and shall cover such range of historical volatility as the Corporation from time to time deems appropriate. To the extent that the primary source of such historical data becomes unavailable for an extended period of time, the Corporation shall utilize the Margin Proxy as an alternative volatility calculation. **In its assessment of volatility, the Corporation shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually.**

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 sum of the absolute values of Long Positions and Short Positions, at market value, by a percentage designated by the Corporation that is no less than 0.05% and no greater than 0.30%. The Corporation shall determine the percentage within this range to be applied based on factors including but not limited to a review performed at least annually of the impact of the VaR Floor parameter at different levels within the range to the backtesting performance and to Clearing Members’ margin charges. The Corporation shall inform Clearing Members of the applicable percentage utilized by the VaR Floor by an Important Notice issued no later than 10 Business Days prior to the implementation of such percentage.

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RULE 4 – CLEARING FUND AND LOSS ALLOCATION

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Section 2 – Required Fund Deposit Requirements

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(c) Each Business Day, each Clearing Member shall be required to make a Required Fund Deposit to the Clearing Fund equal to the greater of: (i) the Minimum Charge, or (ii) the sum of the following:

(i) the VaR Charge

plus

(ii) the amount of the Deterministic Risk Component

plus

(iii) an additional payment (“special charge”) from such Member 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

plus

(iv) in the case of Clearing Member with backtesting deficiencies, the Backtesting Charge, if applicable

plus

(v) the Holiday Charge, if applicable, on the Business Day prior to a Holiday

plus

(vi) an Intraday Mark-to-Market Charge, if applicable;

plus

(vii) a Margin Liquidity Adjustment Charge, if applicable.

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