

RULE 1 - DEFINITIONS

Changes to this Rule 1, as amended by File No. SR-FICC-2020-010, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2020/FICC/SR-FICC-2020-010.pdf. These changes have been approved by the SEC but have not yet been implemented. By [insert date within 45 Business Days after the date of the SEC's approval of File No. SR-FICC-2020-010], these changes will be implemented and this legend will automatically be removed from this Rule 1.

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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Average RFD

The term “Average RFD” shall have the meaning given that term in Section 7 of Rule 4. Backtesting Charge

Back-up Stress Testing Calculation

The term “Back-up Stress Testing Calculation” means, with respect to each Clearing Member’s portfolio, a back-up method for calculating the stress profits and losses of each portfolio when the vendor fails to provide data to the Corporation. The Corporation shall (1) calculate each Clearing Member’s portfolio net exposures in four securitization programs,¹ (2) calculate the historical stress return for each securitization program as the three-day price return for each securitization program index for each scenario date, and (3) calculate each Clearing Member’s stress profits and losses as the sum of the products of the net exposure of each securitization program and the stress return value for each securitization program. The Corporation shall use publicly available indices as the data source for the stress return calculations.

Backtesting Charge

The term “Backtesting Charge” means an additional charge that may be added to a Clearing 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 Backtesting Charge may apply to Clearing Members that have 12-month trailing backtesting coverage below the 99 percent backtesting coverage target. The Backtesting Charge shall generally be equal to the Clearing Member’s third largest deficiency that occurred during the previous 12 months. The Corporation may in its discretion adjust such charge if the Corporation determines that circumstances particular to a Clearing Member’s

¹ **The securitization programs are as follows: (1) Fannie Mae and Freddie Mac conventional 30-year mortgage-backed securities, (2) Ginnie Mae 30-year mortgage-backed securities, (3) Fannie Mae and Freddie Mac conventional 15-year mortgage-backed securities, and (4) Ginnie Mae 15-year mortgage-backed securities.**

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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RULE 4 – CLEARING FUND AND LOSS ALLOCATION

Changes to this Rule 4, as amended by File No. SR-FICC-2020-010, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2020/FICC/SR-FICC-2020-010.pdf. These changes have been approved by the SEC but have not yet been implemented. By [insert date within 45 Business Days after the date of the SEC's approval of File No. SR-FICC-2020-010], these changes will be implemented and this legend will automatically be removed from this Rule 4.

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Section 12 – Clearance and Settlement Business of the Corporation

For purposes of this Rule 4, references to the clearance and settlement business of the Corporation shall include its business as a Securities Intermediary.

Section 13 – Stress Testing

(a) Stress Testing Program

The Corporation uses stress testing to (1) test the sufficiency of the Clearing Fund against the Corporation's potential losses assuming the default of a Clearing Member with the largest credit exposure and its entire affiliated family (that are also Clearing Members) ("Affiliated Family") under extreme but plausible market conditions,² and (2) identify both (x) Clearing Members who may pose a greater market risk under certain market conditions, and (y) potential weaknesses in the Corporation's margin methodologies. The Corporation's stress testing program is comprised of the following three key components.

- (i) **Risk Identification.** **The Corporation identifies the principal credit/market risk drivers that are representative and specific to each Clearing Member's clearing portfolio to determine risk exposures by analyzing the securities and risk exposures in such Members' clearing portfolios to identify representative principal market risk drivers and**

2 The Corporation aggregates each Clearing Member's stress deficiency within such Clearing Member's applicable Affiliated Family because the Corporation assumes that all Affiliated Family members will simultaneously default, and the gains and losses of different legal entities within an Affiliated Family would not offset each other.

to capture the risk sensitivity of such clearing portfolios under stressed market conditions.

- (ii) *Scenario Development.* The Corporation constructs comprehensive and relevant sets of extreme but plausible historical and hypothetical stress scenarios for the identified risk drivers. Historical scenarios are based on stressed market conditions that occurred on specific dates in the past. The Corporation uses historical risk factor times series data (“Historical Data”) in the development of the historical scenarios. Hypothetical stress scenarios are based on theoretical market conditions that may not actually have occurred but could conceivably occur. The Corporation then applies the historical and hypothetical scenarios to Clearing Members’ portfolio positions.
- (iii) *Risk Measurement and Aggregation.* The Corporation calculates risk metrics for each Clearing Member’s actual portfolio to estimate the profits and losses in connection with such Clearing Member’s close out under the chosen stress scenarios. The Corporation uses Historical Data and security-level risk sensitivity data (“Security-Level Data”) in its calculation of profits and losses for Clearing Members’ portfolios.

The Corporation receives the Historical Data and the Security-Level Data from a vendor.

(b) Back-up Stress Testing Calculation

In the event that the vendor fails to provide any data or a significant portion of the data, the Corporation will use the most recently available data on the first day that such disruption occurs. Subject to discussions with the vendor, if the Corporation determines that the vendor would resume providing data within five (5) Business Days, the Corporation will determine whether the daily stress testing calculation should continue to be calculated by using the most recently available data or whether the Back-up Stress Testing Calculation should be invoked.³ Subject to discussions with the vendor, if the Corporation determines that the data disruption would extend beyond five (5) Business Days, the Back-up Stress Testing Calculation will be employed for daily stress testing, subsequent to the approval of the Corporation’s designated internal authority.

³ For the avoidance of doubt, after taking into consideration the vendor’s condition and, to the extent applicable, market conditions, the Corporation may invoke the Back-up Stress Testing Calculation sooner.