

Bolded, underlined text indicates proposed added language

~~Bolded, strikethrough text~~ indicates proposed deleted language

**FIXED INCOME CLEARING CORPORATION
MORTGAGE-BACKED SECURITIES DIVISION
CLEARING RULES**

RULE 1 - DEFINITIONS

[Changes to this Rule 1, as amended by File No. SR-FICC-2022-002 (available at [dtcc.com/~media/Files/Downloads/legal/rule-filings/2022/FICC/SR-FICC-2022-002.pdf](https://www.dtcc.com/~media/Files/Downloads/legal/rule-filings/2022/FICC/SR-FICC-2022-002.pdf)), have been approved by the SEC but have not yet been implemented. These changes will be implemented within 60 Business Days after the date of the SEC's approval of SR-FICC-2022-002. The Corporation will issue an Important Notice when these changes are 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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Affiliate

The term "Affiliate" shall have the meaning given that word in SEC Rule 405, promulgated under the authority of the Securities Act of 1933.

Aggregated Account

The term "Aggregated Account" means either a single Account linked to an aggregate ID or a set of Accounts linked to an aggregate ID for the processing of Transactions in the Clearing System. Pursuant to these Rules, Members' Cash Settlement obligations ~~and~~ **(which shall include the** Mark-to-Market requirements) **are** calculated on a net basis at the aggregate ID level.

Applicant Questionnaire

The term "Applicant Questionnaire" means the questionnaire required in Rule 2A to be completed and delivered to the Corporation by each applicant to become a Clearing Member.

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Designee

The term "Designee" means a service provider designated by a Member either orally or in writing to provide the Corporation with instructions on behalf of the Member.

Deterministic Risk Component

~~The term "Deterministic Risk Component" means with respect to the margin portfolio of a Clearing Member, the calculation equaling: (i) the Mark-to-Market Debit; minus (ii) the Mark-to-Market Credit; plus (iii) a cash obligation item debit; minus (iv) a cash obligation item credit; plus or minus (v) accrued principal and interest.~~

DK

The term “DK” means a statement submitted to the Corporation by a Member that the Member “does not know” (i.e., denies the existence of) a Transaction reported to the Member by the Corporation.

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Ginnie Mae

The term Ginnie Mae means the Government National Mortgage Association.

~~Government Securities Division Funds-Only Settling Bank Member~~

~~The term “Government Securities Division Funds-Only Settling Bank Member” means an entity that qualifies as a funds-only settling bank member under the rules of the Government Securities Division and has been approved as such by the Corporation.~~

Government Securities Division

The term “Government Securities Division” means the division of the Fixed Income Clearing Corporation that provides clearing and other services related to transactions in U.S. Government securities and certain mortgage-backed securities.

Government Securities Division Funds-Only Settling Bank Member

The term “Government Securities Division Funds-Only Settling Bank Member” means an entity that qualifies as a funds-only settling bank member under the rules of the Government Securities Division and has been approved as such by the Corporation.

Government Securities Division Member

The term “Government Securities Division Member” means a member who utilizes the services of the Government Securities Division.

Government Securities Issuer

The term “Government Securities Issuer” means an entity that issues “government securities”, as that term is defined in subparagraphs (A), (B) and (C) of Section 3(a)(42) of the Exchange Act.

Government Securities Issuer Clearing Member

The term “Government Securities Issuer Clearing Member” shall have the meaning given that term in Section 1 of Rule 2A.

Government Sponsored Enterprise

The term “Government Sponsored Enterprise” shall mean Fannie Mae, Ginnie Mae, Federal Home Loan Banks, or Freddie Mac.

~~Government Securities Issuer Clearing Member~~

~~The term “Government Securities Issuer Clearing Member” shall have the meaning given that term in Section 1 of Rule 2A.~~

Guaranteed/Novated Obligations

The term “Guaranteed/Novated Obligations” means obligations to deliver or receive a Security satisfying certain TBA criteria determined by the Corporation and the payment obligations related thereto.

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Interested Person

The term “Interested Person” means a Member or an applicant for membership.

Intraday Mark-to-Market Charge

The term “Intraday Mark-to-Market Charge” means an additional charge that is collected from a Clearing Member (unless waived or altered by the Corporation per subsection (d) below) to mitigate the Corporation’s exposures that may arise due to intraday changes in the size, composition and constituent security prices of such Member’s portfolio. The Intraday Mark-to-Market Charge equals the difference between Mark-to-Market amounts already included in the Clearing Member’s ~~Cash Settlement amounts Required Fund Deposit (including any Intraday Mark-to-Market Charge)~~ and such Clearing Member’s current portfolio marked to the most recently observed System Price for such positions. The following apply with respect to the Intraday Mark-to-Market Charge:

- (a) The Intraday Mark-to-Market Charge applies to Clearing Members that ~~(i)~~ experience an adverse intraday Mark-to-Market change that equals or exceeds (x) a certain threshold dollar amount ~~of (but not less than \$1,000,000) as determined by the Corporation from time to time,~~ as compared to the Clearing Member’s start-of-day Mark-to-Market requirement including, if applicable, any subsequently collected Mark-to-Market amount, and (y) a certain threshold percentage ~~of (but not less than 1030 percent) as determined by the Corporation from time to time~~ as compared to the daily VaR Charge, ~~and (ii) have 12-month backtesting coverage below 99 percent (each of (i)(x), and (i)(y) and (ii), a “Parameter” for purposes of this definition).~~
- (b) If certain market conditions occur, the Corporation may reduce the threshold dollar amount in Parameter ~~(i)(x)~~ above (but not to less than \$250,000) and the threshold percentage in Parameter ~~(i)(y)~~ above (but not to less than 5 percent), ~~and not consider the Parameter in (ii) above~~ in applying the Intraday Mark-to-Market

Charge to Clearing Members whose portfolios may present relatively greater risks to the Corporation on an overnight basis due to such market conditions. Examples of market conditions that the Corporation may consider with respect to applying this subsection (b) may include, but shall not be limited to, the occurrence of sudden large swings in an equity index in either direction and moves in U.S. Treasury yields and mortgage-backed security spreads outside of historically observed market moves.

~~(e) The Corporation may, in its discretion, collect the Intraday Mark-to-Market Charge from a Clearing Member that experiences an adverse Intraday Mark-to-Market change that (1) has not yet breached the percentage threshold in Parameter (i)(y) above but is greater than or equal to 20 percent as compared to the daily VaR Charge and (2) exceeds a certain dollar threshold (“Surveillance Threshold”), if the Corporation determines that the size of such Clearing Member’s Mark-to-Market change exposes the Corporation to increased risk. The Surveillance Threshold is an amount between \$1,000,000 and \$50,000,000 that is set by the Corporation per Clearing Member based on a Clearing Member’s rating as determined by the Credit Risk Rating Matrix and/or a Clearing Member’s Watch List status.~~

(d) The Corporation may waive the imposition of the Intraday Mark-to-Market Charge, or may decrease or increase the amount of the Intraday Mark-to-Market Charge, in circumstances where the Corporation determines that the adverse change to the Clearing Member’s Mark-to-Market and/or the breaches of the Parameters referred to in subsection (a) or as adjusted pursuant to subsection (b) or (c) do not accurately reflect the Corporation’s risk exposure to the Clearing Member’s intraday Mark-to-Market fluctuation. Examples of circumstances that the Corporation may consider with respect to the determination in the previous sentence, may include, but shall not be limited to, large Mark-to-Market fluctuations arising out of trade errors. Any decrease to such Intraday Mark-to-Market Charge shall not reduce the Clearing Member’s Required Fund Deposit below the amount reported to the Clearing Member at the start of day. Any increase to the Intraday Mark-to-Market Charge shall not cause the Intraday Mark-to-Market Charge to be greater than two times its calculated amount.

Intraday VaR Charge

The term “Intraday Var Charge” means an additional charge that is collected from a Clearing Member if the difference of (i) a Clearing Member’s VaR Charge collected pursuant to Rule 4 and (ii) such Clearing Member’s intraday VaR calculations exceeds a certain percentage threshold and dollar amount determined by FICC from time to time based on its regular review of margining methodologies.

Legal Risk

The term “Legal Risk” shall have the meaning given that term in Section 2 of Rule 4.

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Margin Proxy

The term “Margin Proxy” means, with respect to each margin portfolio, an alternative volatility calculation for specified net unsettled positions of a Clearing Member, calculated using the historical market price changes of such benchmark TBA securities determined by the Corporation. The Margin Proxy would be applied by the Corporation as an alternative to the model-based volatility calculation of the VaR Charge for each Clearing 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.

Margin Transaction Adjustment Payment

The term “Margin Transaction Adjustment Payment” means the TBA Transaction Adjustment Payment amount calculated by the Corporation for each Transaction to be collected or paid prior to the Contractual Settlement Date.

Margin Transaction Adjustment Payment Return

The term “Margin Transaction Adjustment Payment Return” means the return of Margin Transaction Adjustment Payment for each Transaction that was collected or paid during the prior Cash Settlement.

Margin Transaction Adjustment Payment Return Interest

The term “Margin Transaction Adjustment Payment Return Interest” means the overnight interest that accrued on the Margin Transaction Adjustment Payment for each Transaction that was collected or paid during the prior Cash Settlement.

Mark Return

The term “Mark Return” means the return of Mark-to-Market for each Transaction, and principal and interest related payments for each Fail, that was collected or paid during the prior Cash Settlement.

Mark Return Interest

The term “Mark Return Interest” means the overnight interest that accrued on the Mark Return for each Transaction that was collected or paid during the prior Cash Settlement.

Mark-to-Market

The term “Mark-to-Market” means the aggregate amount of a Member’s profits and losses calculated by the Corporation pursuant to Rule-4 11.

Mark-to-Market Credit

~~The term “Mark-to-Market Credit” means the amount of a Clearing Member’s Mark-to-Market if such amount represents a net profit.~~

Mark-to-Market Debit

~~The term “Mark-to-Market Debit” means the amount of a Clearing Member’s Mark-to-Market if such amount represents a net loss.~~

Member

The term “Member” means any entity accepted into membership in the Mortgage-Backed Securities Division.

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RULE 4 – CLEARING FUND AND LOSS ALLOCATION

[Changes to this Rule 4, as amended by File Nos. SR-FICC-2022-002 (available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2022/FICC/SR-FICC-2022-002.pdf) have been approved by the SEC but have not yet been implemented. These changes will be implemented within 60 Business Days after the date of the SEC's approval of SR-FICC-2022-002. The Corporation will issue an Important Notice when these changes are implemented, and this legend will automatically be removed from this Rule 4.]

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Section 2 – Required Fund Deposit Requirements

~~(a) — Mark-to-Market -- Computation of profit or loss.~~

~~— The Corporation shall separately compute profit or loss for each Transaction in each Account maintained by a Clearing Member as follows. The term “Transactions” as used in this Rule 4 includes Pool Receive Obligations, Pool Deliver Obligations, TBA Obligations, Specified Pool Trades and Stipulated Trades.~~

~~— (i) A Transaction other than an Option Contract shall be deemed to produce a profit or loss based on:~~

~~(aa) — the direction of the Transaction (i.e., based on whether the Transaction results in a Long Position or a Short Position for the Member); and~~

~~(bb) — the difference between the Transaction's Settlement Value and its System Value.~~

~~(ii) An Option Contract shall be deemed to produce a profit or loss based on:~~

~~(aa) — the direction of the Option Contract (i.e., based on whether the Member bought or sold the Option Contract, resulting in a Long Position or a Short Position for the Member);~~

~~(bb) — the nature of the Option Contract (which can be either a Call Option Contract or a Put Option Contract);~~

~~(cc) — the difference between the Option Contract's Strike Price and the System Value of the underlying Eligible Security; and~~

~~(dd) — the expiration date of the Option Contract.~~

~~The net amount of profits and/or losses computed for each Clearing Member pursuant to this Section 2(a) of Rule 4 shall be reported in the Member's daily Open Commitment Report.~~

~~Notwithstanding anything to the contrary above, on any Business Day, a Clearing Member may become subject to an Intraday Mark-to-Market Charge, which, if applicable, may be collected by the Corporation on an intra-day basis, with payment having to be made by the affected Member within one hour after the Corporation has provided such Member with notification that payment of such amount is due that same day (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York). Such intra-day payment(s) shall be made as instructed by the Corporation.~~

~~(b)~~ (ba) Long Positions and Short Positions

For purposes of ~~Section 2(a) of this~~ Rule 4 and Rule 11 above, Members' Long Positions and Short Positions shall be determined as follows:

(i) In the case of a Transaction between Dealers not involving a Broker:

- (aa) The Dealer listed on an Open Commitment Report as the purchaser of an Eligible Security or the purchaser of an Option Contract shall be deemed to have a Long Position; and
- (bb) The Dealer listed on an Open Commitment Report as the seller of an Eligible Security or the seller (writer) of an Option Contract shall be deemed to have a Short Position.

(ii) In the case of a Transaction involving a Broker:

- (aa) If the Transaction is Fully Compared:
 - (1) the Dealer listed on its Open Commitment Report as the purchaser of an Eligible Security shall be deemed to have a Long Position;
 - (2) the Dealer listed on its Open Commitment Report as the seller of an Eligible Security shall be deemed to have a Short Position; and
 - (3) the Broker shall be deemed to have neither a Long Position nor a Short Position.
- (bb) If the Transaction has not compared:

- (1) Neither of the Dealers nor the Broker shall be deemed to have a Long Position or a Short Position.
- (cc) If the Transaction is Partially Compared:
- (1) The Dealer with respect to which the Transaction has compared shall be deemed:
 - (i) to have a Long Position in any Eligible Security of which it is listed in its Open Commitment Report to be the purchaser; and
 - (ii) to have a Short Position in any Eligible Security of which it is listed in its Open Commitment report to be the seller;
 - (2) If the Dealer with respect to which the Transaction has not compared and has not submitted a DK of the Transaction as reflected on its Unmatched Margin Report
 - (i) the Dealer shall be deemed to have a Long Position as the purchaser of Eligible Securities or a Short Position as the seller of Eligible securities with respect to uncompleted Transactions;
 - (ii) the Broker shall be deemed to have neither a Long Position nor a Short Position.
 - (3) If the Dealer with respect to which the Transaction has not compared has submitted a DK of the Transaction as reflected on its Unmatched Margin Report:
 - (i) such Dealer shall be deemed to have neither a Long Position nor a Short Position; and
 - (ii) the Broker shall be deemed to have a Short Position or Long Position corresponding to the Long Position or Short Position of the Dealer with respect to which the Transaction has compared.

(eb) 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~~ equal to six days of interest for any Fail in the margin portfolio where the Clearing Member is a seller

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) an Intraday VaR Charge, if applicable

plus

- (viii) a Margin Liquidity Adjustment Charge, if applicable

The Corporation shall have the discretion not to apply the VaR calculation(s) to net unsettled positions in classes of securities where volatility is less amenable to statistical analysis. In lieu of such calculations the component required with respect to such Transactions shall instead be determined based on a haircut method.

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~~(cd)~~ The initial Required Fund Deposit of each Clearing Member shall be set by the Corporation based upon the expected nature and level of such Member’s activity.

~~(de)~~ Notwithstanding anything to the contrary in this Rule, the Corporation may require a Clearing Member to make and maintain a higher Required Fund Deposit than the amount as noted above, if the Corporation determines that such higher Required Fund Deposit is necessary to protect the Corporation and its Members from the risk (the “Legal Risk”) that the Corporation, as a result of a law, rule or regulation applicable to a Clearing Member, including a Clearing Member’s insolvency or bankruptcy, may be delayed or prohibited from: (i) accessing any portion

of the Clearing Member's Required Fund Deposit, (ii) netting, closing out or liquidating Transactions, or setting off obligations, or taking any other action contemplated by these Rules or (iii) otherwise exercising its rights pursuant to these Rules.

(ef) Notwithstanding anything to the contrary in this Rule, the Corporation may require a Clearing Member's Clearing Fund deposit to be in proportions of cash, Eligible Clearing Fund Securities and Eligible Letters of Credit that the Corporation determines to be necessary to protect itself and its Members from Legal Risk. In addition, the Corporation may take all necessary action to mitigate Legal Risk, including, but not limited to, requiring the Member to post additional Clearing Fund as set forth in this Section 2 of Rule 4.

Notwithstanding anything to the contrary in this Rule, on any Business Day, any VaR Charge may be collected on an intra-day basis, with payment having to be made by the affected Member within one hour after the Corporation has provided such Member with notification that payment of such amount is due that same day (as long as notification is provided at least one hour prior to the close of the cash Fedwire operated by the Federal Reserve Bank of New York). Such Intra-day VaR Charge amount shall be based upon certain parameter breaks defined by the Corporation from time to time, including changes to a Member's position size and composition and price changes on the constituent securities. Qualitative factors including, but not limited to, Watch List status and internal rating will also be considered in the application of Intraday VaR Charge. Such intra-day payment(s) shall be made as instructed by the Corporation.

Section 3 - Form of Deposit

Subject to the provisions of Section 2 of this Rule 4 governing the computation of a Clearing Member's Required Fund Deposit, and the limitations of this Section 3, Section 3a and Section 3b, a Clearing Member's deposits to the Clearing Fund may be in the form of:

- (a) cash; or
- (b) an open account indebtedness fully secured by Eligible Clearing Fund Securities.

A minimum of 40 percent of the Clearing Member's Required Fund Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.

The lesser of \$5,000,000 or 10 percent of the Required Fund Deposit, with a minimum of \$100,000, must be made and maintained in cash, with the remaining portion of the Required Fund Deposit to be made and maintained in the form specified in this Section 3.

Section 3a –Calculation of Intraday VaR Charge and Intraday Mark-to-Market Charge

Pursuant to procedures established by the Corporation, the Corporation shall recalculate intraday, each Business Day, at the times established by the Corporation for this purpose, the amount of the Intraday VaR Charge and the Intraday Mark-to-Market Charge, as applicable, to each Clearing Member's margin portfolio based upon the open positions in such margin portfolio at a designated time intraday, for purposes of establishing whether a Clearing Member shall be required to make payment of an additional amount to its Required

Fund Deposit. Such additional amounts shall be deemed part of the Member's Required Fund Deposit for all purposes under these Rules.

The Corporation shall establish procedures for collection of an amount calculated in respect of a Clearing Member's Intraday VaR Charge and Intraday Mark-to-Market Charge, including parameters regarding threshold amounts that require payment, and the form and time by which payment is required to be made to the Corporation. The Corporation reserves the right to require a Clearing Member or Clearing Members generally to make additional Intraday VaR Charges or Intraday Mark-to-Market Charges if the Corporation determines it to be necessary to protect itself and its Clearing Members in response to factors such as market conditions or financial or operational capabilities affecting a Clearing Member or Clearing Members generally.

Section 3ba - Special Provisions Relating to Deposits of Cash

Cash deposits to the Clearing Fund shall be paid to the Corporation in immediately available funds. The Corporation may invest any cash in the Clearing Fund, including (i) cash deposited by a Clearing Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, "Clearing Fund Cash") in accordance with the Clearing Agency Investment Policy adopted by the Corporation.

Each Clearing Member shall be entitled to any interest earned or paid on Clearing Fund cash deposits.

Section 3cb - Special Provisions Relating to Deposits of Eligible Clearing Fund Securities

(a) Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities, respectively, in excess of 25 percent of the Member's Required Fund Deposit will be subject to an additional haircut equal to twice the percentage as specified in the haircut schedule.

(b) No more than 20 percent of a Member's Required Fund Deposit may, be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer and no Member may post as eligible collateral Eligible Clearing Fund Agency Securities of which it is the issuer.

(c) A Member may post as eligible collateral Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such collateral will be subject to a premium haircut as specified in the haircut schedule.

Eligible Clearing Fund Securities that are used to secure an open account indebtedness must be pledged to the Corporation on such terms and conditions as it may require, and be delivered to the Corporation or to the Corporation's account at a financial institution designated by the Corporation. The valuation of such Eligible Clearing Fund Securities shall be at current

market value, which shall be determined by the Corporation not less frequently than on a daily basis. All Eligible Clearing Fund Securities shall be subject to a haircut set forth in these Rules. The Corporation has the right, in its discretion, to refuse to accept a particular type of Eligible Clearing Fund Security as a permissible form of Clearing Fund deposit.

Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Clearing Member may substitute and/or withdraw Eligible Clearing Fund Securities from pledge and deposit, provided that the Clearing Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour prior to the close of the securities FedWire on such day. Any interest on Eligible Clearing Fund Securities deposited by a Clearing Member to secure a Clearing Fund open account indebtedness that is received by the Corporation shall be credited to the Clearing Member's cash deposits to the Clearing Fund, except in the event of a default by such Clearing Member on any obligations to the Corporation under these Rules, in which case the Corporation may exercise its rights under Section 6 of this Rule.

Section 4 - Lien

As security for any and all obligations and liabilities of a Clearing Member to the Corporation, including, without limitation, any obligation of a Cross-Guaranty Defaulting Member to reimburse the Corporation pursuant to Rule 32 or any obligation of a Cross-Guaranty Beneficiary Member to reimburse the Corporation pursuant to Section 5 of Rule 32, each such Clearing Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Clearing Member's open account indebtedness or placed by a Clearing Member in the possession of the Corporation (or its agents acting on its behalf), including all securities and cash on deposit with the Corporation or its agents pursuant to this Rule and Rule 11 (collectively with any Eligible Letters of Credit issued on behalf of a Clearing Member in favor of the Corporation, the Clearing Member's "Actual Deposit"). The Corporation shall be entitled to exercise the rights of a pledgee under common law and a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such assets.

Section 5 - Use of Clearing Fund

The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including, without limitation, each Member's obligations with respect to any loss allocations as set forth in Section 7 of this Rule and any obligations arising from a Cross-Guaranty Agreement pursuant to Rule 32, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in Section **3ba** of this Rule.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the Close of Business on the 30th calendar day (or on the first Business Day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 7 of this Rule.

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RULE 11 – CASH SETTLEMENT

[Changes to this Rule 11, as amended by File No. SR-FICC-2022-002 (available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2022/FICC/SR-FICC-2022-002.pdf), have been approved by the SEC but have not yet been implemented. These changes will be implemented within 60 Business Days after the date of the SEC’s approval of SR-FICC-2022-002. The Corporation will issue an Important Notice when these changes are implemented, and this legend will automatically be removed from this Rule 11.]

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Section 6 – Factor Update Adjustment Payment

The Corporation shall compute a Factor Update Adjustment Payment in the event that updated pool factor information is released after the clearing bank’s settlement of a pool. This update would cause a cash differential that will require a debit to the seller and a credit to the buyer.

Section 7 – Mark-to-Market – Computation of Profit or Loss

The Corporation shall separately compute profit or loss for each Transaction in each Account maintained by a Clearing Member as follows.

(a) A Transaction other than an Option Contract shall be deemed to produce a profit or loss based on:

- (i) the direction of the Transaction (i.e., based on whether the Transaction results in a Long Position or a Short Position for the Member); and
- (ii) the difference between the Transaction’s Settlement Value and its System Value.

(b) An Option Contract shall be deemed to produce a profit or loss based on:

- (i) the direction of the Option Contract (i.e., based on whether the Member bought or sold the Option Contract, resulting in a Long Position or a Short Position for the Member);
- (ii) the nature of the Option Contract (which can be either a Call Option Contract or a Put Option Contract);
- (iii) the difference between the Option Contract’s Strike Price and the System Value of the underlying Eligible Security; and
- (iv) the expiration date of the Option Contract.

The net amount of profits and/or losses computed for each Clearing Member pursuant to this Section 7 of Rule 11 shall be made available on a Report to Clearing Members one or more times on each Business Day, which is either to be paid from such Clearing Member to the Corporation on such Business Day or to be collected by such Clearing Member from the Corporation on such Business Day.

Section 78a - Computation of Cash Balance for Each Account

Each Business Day, the Corporation shall compute a Cash Balance for each applicable Account, which for Clearing Members shall be a net positive or negative amount equal to:

- (a) the positive or negative amount of any TBA Transaction Adjustment Payment computed for such Account pursuant to Section 1 of this Rule; plus or minus
- (b) the positive or negative amount of any Net Pool Transaction Adjustment Payment; plus or minus
- (c) the positive or negative amount of any Expanded Pool Net Transaction Adjustment Payment; plus or minus
- (d) the positive or negative amount of any Do Not Allocate Transaction Adjustment Payment; plus or minus
- (e) the positive or negative amount of any TBA Reprice Transaction Adjustment Payment; plus or minus
- (f) the positive or negative amount of any Variance Transaction Adjustment Payment; plus or minus
- (g) the positive or negative amount of any Factor Update Adjustment Payment; plus or minus
- (h) the positive or negative amount of any Margin Transaction Adjustment Payment; plus or minus**
- (i) the positive or negative amount of any Margin Transaction Adjustment Payment Return; plus or minus**
- (j) the positive or negative amount of any Margin Transaction Adjustment Payment Return Interest; plus or minus**
- (k) the positive or negative amount of any Mark-to-Market; plus or minus**
- (l) the positive or negative amount of any accrued principal and interest payments required for any Fail; plus or minus**
- (m) the positive or negative amount of net value of the Mark Return; plus or minus**

(n) the positive or negative of any Mark Return Interest; plus or minus

- (oh)** the positive or negative amount of any Principal and Interest payments required as a result of the clearance of Deliver and Receive Obligations which are not eligible for processing through FedWire (Fail Tracking/Interim Accounting) Securities Service Automated Claims Adjustment Process (ACAP); plus
- (pi)** in the case of a Broker, any commissions that the Corporation, at such intervals as are prescribed by the Corporation from time to time, determines are due the Broker as a result of Transactions effected by the Broker on behalf of purchasing and selling Dealers; or minus
- (qj)** in the case of a Dealer effecting Transactions through a Broker, any commissions that the Corporation, at such intervals as are prescribed by the Corporation from time to time, determines are due the Broker with respect to such Transactions; minus
- (rk)** if applicable, the amount of any charges for services rendered with respect to such Account pursuant to Rule 18; minus
- (sl)** the amount of any fines, billing fees, charges for financing costs or interest imposed by the Corporation or other charges for services rendered by the Corporation, with respect to such Account pursuant to these Rules; or plus
- (tm)** if applicable, the amount of interest payable by the Corporation with respect to such Account pursuant to Section 1 and Section 6 of this Rule; plus or minus
- (un)** the positive or negative value of any Clearance Difference Amount; plus or minus
- (vo)** if applicable, the positive or negative amount of any credits or debits processed by the Corporation pursuant to any valid CPR Claim; plus or minus
- (wn)** the positive or negative value of any Clearance Difference Amount; plus or minus
- (xo)** if applicable, the positive or negative amount of any credits or debits processed by the Corporation pursuant to any valid CPR Claim; plus or minus
- (yp)** Miscellaneous Adjustment Amount from TBA Clearing (MIS); plus or minus
- (zq)** Miscellaneous Adjustment Amount from Pool Netting (MSC); plus or minus
- (aar)** Miscellaneous Adjustment Amount from EPN (MSE).

Section 8b – Netting of Cash Balances for Aggregated Accounts

Each Business Day, the Corporation shall net the positive or negative Cash Balance for each Account in an Aggregated Account to produce a single Cash Settlement amount for such Aggregated Account.

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INTERPRETIVE GUIDANCE WITH RESPECT TO WATCH LIST CONSEQUENCES

[Changes to this Interpretive Guidance, as amended by File Nos. SR-FICC-2022-002 (available at [dtcc.com/~media/Files/Downloads/legal/rule-filings/2022/FICC/SR-FICC-2022-002.pdf](https://www.dtcc.com/~media/Files/Downloads/legal/rule-filings/2022/FICC/SR-FICC-2022-002.pdf)), have been approved by the SEC but have not yet been implemented. These changes will be implemented within 60 Business Days after the later date of the SEC's approval of SR-FICC-2022-002. The Corporation will issue an Important Notice when these changes are implemented, and this legend will automatically be removed from this Interpretive Guidance.]

Being placed on the Watch List may result in Clearing Fund-related consequences under the Rules:

A. *Clearing Fund-Related Consequences*

1. Additional Clearing Fund Deposits

Pursuant to Section 11(e) of Rule 3, the Corporation may require a Clearing Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with the provisions of Rule 4 or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members.

The determination of whether a Clearing Member that is on the Watch List should be subject to an additional Clearing Fund deposit is based on factors determined to be relevant by the Corporation from time to time, including:

- a. the overall financial condition and financial stability or volatility of the Clearing Member, which may include a review of the Clearing Member's credit rating/enhanced surveillance history and outlook;
- b. the liquidity arrangement, if any, of the Clearing Member;
- c. the Clearing Fund requirement history, transaction volume trends, simulated closeout results, stress test results, backtest results and outstanding positions of the Clearing Member;
- d. adverse news reports and/or regulatory concerns relating to the Clearing Member; and
- e. any additional concerns relating to the financial or operational condition of the Clearing Member.

Additionally, pursuant to Section ~~3a2(a)~~ of Rule 4, the Corporation may impose (i) an Intraday Mark-to-Market Charge on a Clearing Member that experiences an adverse Intraday Mark-to-Market change or (ii) an Intraday VaR Charge on a Clearing Member that experiences a change in its VaR Charge as calculated by FICC throughout the day that, among other things, exceeds certain ~~Surveillance T~~ thresholds. The ~~Surveillance T~~ thresholds ~~are~~ may

be set by the Corporation based on a Clearing Member's rating as determined by the Credit Risk Rating Matrix and/or its Watch List status.

~~Furthermore, pursuant to Section 2(f) of Rule 4, the Corporation may subject a Clearing Member to an intraday VaR Charge if the Clearing Member is on the Watch List.~~

1. Restriction on Withdrawal of Excess Clearing Fund Deposits

Pursuant to Section 10 of Rule 4, the Corporation may retain some or all of the Excess Clearing Fund Deposit of a Member who is on the Watch List. Nonetheless, the Corporation generally does not retain the Excess Clearing Fund Deposit of a Watch List Member unless the Member fails to pay the Required Fund Deposit within the required timeframes established by the Corporation, or if the Corporation has a concern that the Member will not be able to satisfy its obligation to the Corporation.

2. Non-Waiver of Minimal Clearing Fund Payment

Pursuant to Section 2(**be**) of Rule 4, a Member is not required to make any payment to its Clearing Fund on a given day if the difference between the amount of the Member's Required Fund Deposit as reported on that day and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000 and (ii) 25 percent of the amount then on deposit, provided that the Member is not on the Watch List. As such, Members that are on the Watch List must satisfy all margin calls for their respective Clearing Funds regardless of the amount.

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