



55 WATER STREET  
NEW YORK, NY 10041-0099

TEL: (212) 855-3277  
*dtemple@dtcc.com*

April 4, 2013

**Via Federal Express**

Mr. Joseph P. Kamnik  
Assistant Director  
Division of Trading and Markets  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Re: Amendment to Fixed Income Clearing Corporation's Application  
for Registration as a Clearing Agency

Dear Mr. Kamnik:

Enclosed for filing pursuant to the Securities Exchange Act of 1934, as amended, are four (4) copies of an amendment to the Fixed Income Clearing Corporation's ("FICC") Form CA-1 Application for Registration as a Clearing Agency (the "Form CA-1"). Each copy has been manually signed by a duly authorized officer of FICC. FICC's current temporary registration became effective on June 30, 2011 and is effective through June 30, 2013.<sup>1</sup>

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<sup>1</sup> In an order issued on May 24, 1988, the Commission granted GSCC's application for registration as a clearing agency under Section 17A of the Securities Exchange Act (the "Act") for a period of not more than 36 months. In an order issued on May 24, 1991, the Commission extended GSCC's temporary registration status until May 31, 1993. In an order issued on June 3, 1993, the Commission extended GSCC's temporary registration until May 31, 1995. In an order issued on May 31, 1995, the Commission extended GSCC's temporary registration status until November 30, 1995. In an order issued on November 27, 1995, the Commission extended GSCC's temporary registration status until November 30, 1996. In an order issued on November 25, 1996, the Commission extended GSCC's temporary registration status until May 31, 1997. In an order issued on May 30, 1997, the Commission extended GSCC's temporary registration status until February 28, 1998. In an order issued on February 24, 1998, the Commission extended GSCC's temporary registration status until February 28, 1999. In an order issued on February 24, 1999, the Commission extended GSCC's temporary registration status until August 31, 1999. In an order issued on August 27, 1999, the Commission extended GSCC's temporary registration status until January 14, 2000. In an order issued on January 12, 2000, the Commission extended GSCC's temporary registration status until January 31, 2001. In an order issued on January 12, 2000, the Commission extended GSCC's temporary registration status until July 31, 2000. In an order issued on July 28, 2000, the Commission extended GSCC's temporary registration until January 31, 2001. In an order issued on January 29, 2001, the Commission extended GSCC's temporary registration until December 31, 2001. In an order issued on December 18, 2001, the Commission extended GSCC's temporary registration until June 30, 2002. In an order issued on June 27, 2002, the Commission extended GSCC's temporary registration until June 30, 2003. On July 1, 2003, the Commission issued an order extending FICC's temporary registration status until June 30, 2004. On June 29, 2004, the Commission issued an order extending FICC's temporary registration status until June 30, 2005. On June 23, 2005, the Commission issued an order extending FICC's temporary registration status until June 30, 2006. On June 28, 2006, the Commission issued an order extending FICC's temporary registration status until June 30, 2007. On June 18, 2007, the Commission issued an order extending FICC's temporary registration status until June 30, 2008. On June 11, 2008, the Commission issued an order extending FICC's temporary registration status until June 30, 2009. On June 29, 2009, the Commission issued an order extending FICC's temporary registration status until June 30, 2010. On June 22, 2010, the

Please be advised that FICC is separately filing, the items listed below pursuant to confidentiality request under the Freedom of Information Act:

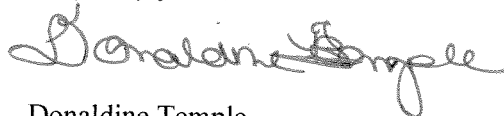
1. Board of Directors contact list included as Item 10 (Exhibit A);
2. graphic chart depicting the organizational structure included as Item 12 (Exhibit C);
3. graphic chart depicting the entities under the common control with FICC included as Item 13 (Exhibit D);
4. By-Laws and Certificate of Incorporation included as Item 14 (Exhibit E);
5. Second Amended and Restated Service Agreement dated as of October 11, 2011 between The Depository Trust & Clearing Corporation, The Depository Trust Company, National Securities Clearing Corporation, FICC, DTCC Solutions LLC, DTCC Loan/SERV LLC and Avox Limited included as Item 16 (Exhibit G);
6. description of the measures employed by FICC to provide for the security of the systems which perform the clearing agency's functions attached as Item 20 (Exhibit K); and
7. list of Government Securities Division applicants and Mortgage-Backed Securities Division applicants included as Item 23 (Exhibit N).

In connection with Item 19 (Exhibit J) and Item 21 (Exhibit L), the rules covering the services referenced therein have been approved by the Securities and Exchange Commission (the "Commission") and are incorporated by reference into the Form CA-1 previously filed by FICC.

I would appreciate your acknowledging receipt of this letter and its enclosures by signing the enclosed copy of this letter in the space provided and returning it in the self-addressed stamped envelope.

Please do not hesitate to contact me at (212) 855-3277 with questions.

Very truly yours,



Donaldine Temple

Received by:

\_\_\_\_\_

Name:

Title:

Enclosures

cc: Nikki Poulos, Managing Director and FICC General Counsel

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Commission issued an order extending FICC's temporary registration status until June 30, 2011. Most recently, on June 30, 2011, the Commission extended FICC's temporary registration status until June 30, 2013.

# FORM CA-1

## FORM FOR REGISTRATION OR FOR EXEMPTION FROM REGISTRATION AS A CLEARING AGENCY AND FOR AMENDMENT TO REGISTRATION AS A CLEARING AGENCY PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

### GENERAL

Form CA-1 is to be used to apply for registration or for exemption from registration as a clearing agency and to amend registration as a clearing agency with the Securities and Exchange Commission pursuant to Section 17A of the Securities and Exchange Act of 1934. Read all instructions before preparing the Form. Please type or print all responses.

FIXED INCOME CLEARING CORPORATION

(Exact name of registrant as specified in charter)

55 Water Street, New York, NY 10041

(Address of registrant's principal place of business)

This Form is filed as:  a registration  
 a request for exemption from registration  
 an amendment

If filed as a registration, does registrant request the Commission to consider granting registration in accordance with paragraph (c)(1) of Rule 17Ab2-1 under the Act?.....  Yes  No

### EXECUTION

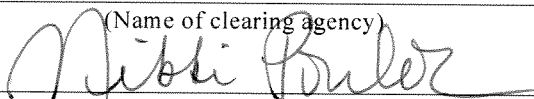
The Registrant submitting this Form, its schedules, its exhibits and its attachments and the person by whom it is executed represent hereby that all information contained herein is true, current and complete. Submission of any amendment after registration has become effective represents that items 1-3 and any schedules, exhibits and attachments related to items 1-3 remain true, current and complete as previously submitted.

Registrant agrees and consents that the notice of any proceedings under Sections 17A or 19 of the Act involving registrant may be given by sending such notice by registered or certified mail or confirmed telegram to the person named, and at the address given, in response to item 2.

Dated the 3rd day of April, 2013

Fixed Income Clearing Corporation

(Name of clearing agency)



(Manual signature of Principal Officer or duly authorized Principal)

General Counsel and Managing Director

(Title)

ATTENTION: Intentional misstatements or omissions of fact constitute Federal Criminal Violations  
(See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a))

### GENERAL INFORMATION

1. Exact name, principal business address, mailing address (if different) and telephone number of registrant:

Name of registrant: Fixed Income Clearing Corporation IRS Employee Identification No. 13-3402242

Name under which clearing agency activities are conducted, if different: n/a

If name of registrant is hereby amended, state name under which registered previously: n/a

If name under which clearing agency activities are conducted is hereby amended, state name given previously: n/a

Address of principal place of business:

55 WATER STREET  
 NEW YORK NY 10041  
 Number and Street City State Zip Code

Mailing address, if different:

n/a  
 Number and Street City State Zip Code

Telephone Number: 212 855-7633  
 Area Code Telephone Number

2. Name, title, mailing address and telephone number of person in charge of registrant's clearing agency activities:

Murray Pozmanter Managing Director and General Manager  
 Name Title  
 Newport Office Center, 570 Washington Blvd Jersey City NY 07310  
 Number and Street City State Zip Code

Telephone Number: 212 855-7522  
 Area Code Telephone Number

3. (a) If registrant is a corporation or a national association: state date on which registrant was incorporated or organized and jurisdiction in which incorporated or under which organized:

Date: 11/18/86 Jurisdiction: NEW YORK

(b) If registrant is not a corporation or a national association, describe on Schedule A the form of organization under which registrant conducts its business and identify the jurisdiction in which registrant is organized.

4. Does registrant have any arrangement with any other person under which, with respect to registrant's clearing agency activities, such other person processes, keeps, transmits or maintains any securities, funds, records or accounts of registrant or registrant's participants relating to clearing agency activities?.....  Yes  No

If answer is "yes," furnish on Schedule A, as to each such arrangement, the full name and principal business address of the other person and a brief summary of each such arrangement.

5. (a) With respect to clearing agency activities, please provide the following information regarding the type of insurance carried or provided:

Type of Insurance	Yes	No	Amount of Coverage	Amount of Deductible
1. Blanket Bond	See Sch. A		\$	\$
2. Fidelity			\$	\$
3. Errors and Omissions			\$	\$
4. Mail Policy			\$	\$
5. Air Courier			\$	\$
6. Lost Instrument			\$	\$
7. Other (please specify on Schedule A)			\$	\$

(b) If any of registrant's clearing activities are not covered by insurance, has provision been made for self-insurance?..... N/A.....  Yes  No

If yes, indicate on Schedule A the provisions made for self-insurance (e.g., accounting reserve or funded reserve) and the amount thereof.

(c) (i) As a result of registrant's clearing agency activities, is registrant exposed to loss if a participant fails to perform its obligations to the clearing agency, any other participant or any other person?.....  Yes  No

(ii) If "yes," describe on Schedule A the operational, organizational or other rules, procedures or practices (citing rules if applicable) which result in registrant's exposure to loss.

- (d) (i) Does the registrant maintain a clearing or participants' fund, mark to the market open obligations involving the purchase or sale of securities or otherwise required participants to protect registrant against losses to which it may be exposed as a result of a participant's failure to perform its obligations to the clearing agency, any other participant or any other person? .....  Yes  No
- (ii) If "yes," describe on Schedule A the operational, organizational or other rules, procedures or practices (citing rules if applicable) which are designed to protect registrant against any such losses.
6. (a) Is registrant audited by an independent accountant? .....  Yes  No
- (b) If registrant is audited by an independent accountant, does the audit include a review of internal controls related to clearing agency activities? .....  Yes  No
- (c) Fiscal year-end of registrant 31 / December (Day/Month)
7. (a) What are registrant's internal policies and procedures for reconciling differences (including long and short stock record differences and dividend differences) in its clearing agency activities? (Describe on Schedule A.)
- (b) State, as of September 30, 1975, the dollar amount of the potential exposure of registrant, if any, as a result of differences (without offsetting long differences against short differences and without offsetting any suspense account items) in its clearing agency activities not resolved after 20 business days. \$ \$0.00
8. (a) How many employees does registrant have engaged in clearing agency activities? 375
- (b) How many years has registrant performed clearing agency activities? 26 years
9. (a) Are registrant's clearing agency activities subject to regulation by any federal agency other than the Commission or by any state or political subdivision? .....  Yes  No
- If yes, specify the name of the agency, state or political subdivision:  
The Board of Governors of the Federal Reserve System
- (b) Have the registrant's clearing agency activities been the subject of periodic examinations by any federal agency other than the Commission or by any state or political subdivision? .....  Yes  No
- If yes, specify the name of the agency, state or political subdivision:  
The Board of Governors of the Federal Reserve System

**SCHEDULE A OF FORM CA-1**

1. Full name of Registrant as stated in Item 1 of Form CA-1  
 Fixed Income Clearing Corporation
- 2.

Item of Form (Identify)	Response

## **EXHIBITS—BUSINESS ORGANIZATION**

10. List in Exhibit A any person who either directly or indirectly, through agreement or otherwise, may control or direct the management or policies of registrant. For each person listed, provide the full name and address and attach a copy of each written agreement or, if the agreements are unwritten, describe the agreement or arrangement through which such person exercises or may exercise such control or direction.
11. List in Exhibit B the registrant's corporate officers, trust officers, managers or other persons occupying a similar status or performing similar functions who supervise, or are directly responsible for the conduct of, registrant's clearing agency activities, indicating for each:
  - (a) Name
  - (b) Title
  - (c) Area of responsibility
  - (d) A brief account of the business experience during the last five (5) years.
12. Attach as Exhibit C narrative and graphic descriptions of registrant's organizational structure. If clearing agency activities are conducted primarily by a division, subdivision, or other segregable entity within the registrant corporation or organization, identify the relationship of such entity to the registrant's overall organizational structure and limit the descriptions to the division, subdivision or other segregable entity which performs clearing agency activities.
13. Attach as Exhibit D a list of persons who directly or indirectly, through one or more intermediaries, are controlled by, or are under common control with, the clearing agency and indicate the nature of the control relationship.
14. Attach as Exhibit E a copy of the currently effective constitution, articles of incorporation or association, by-laws, rules, procedures and instruments corresponding thereto, of the registrant and a complete list of all dues, fees and other charges imposed by registrant for its clearing agency activities.
15. Attach as Exhibit F a brief description of any material pending legal proceeding, other than ordinary and routine litigation incidental to the business, to which the registrant or any of its subsidiaries is a party or to which any of its or their property is the subject. Include the name of the court or agency in which the proceeding is pending, the date instituted, and the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceeding known to be contemplated by governmental agencies.
16. Attach as Exhibit G copies of all contracts with any national securities exchange, national securities association or clearing agency or securities market for which the registrant acts as a clearing agency or performs clearing agency functions.

## **EXHIBITS—FINANCIAL INFORMATION**

17. Attach as Exhibit H a balance sheet and statement of income and expenses, and all notes or schedules thereto of registrant, as of registrant's most recent fiscal year for which such information is available, certified by an independent accountant. (If certified financial information is not available, uncertified financial information should be submitted).
18. Attach as Exhibit I the addresses of all offices in which clearing agency activities are performed by registrant, or for registrant by any person listed in response to item 4, and identify the nature of the clearing activities performed in each office listed.

## **EXHIBITS—OPERATIONAL CAPACITY**

19. Attach as Exhibit J narrative descriptions of each service or function performed by the registrant.
20. Attach as Exhibit K a description of the measures or procedures employed by registrant to provide for the security of any system which performs the functions of a clearing agency. Include a general description of any operational safeguards designed to prevent unauthorized access to the system (including unauthorized input or retrieval of information for which the primary record source is not hard copy). Identify any instances within the past year in which the described security measures or safeguards failed to prevent unauthorized access to the system and describe any measures taken to prevent a recurrence of any such incident. Describe also any measures used to verify the accuracy of information received or disseminated by the system.
21. Attach as Exhibit L a description of the measures or procedures employed by registrant to provide for the safeguarding of securities and funds in its custody or control. Identify any instances within the past year in which the described security measures or safeguards failed to prevent any unauthorized access to securities or funds in possession of registrant and any measures taken to prevent a recurrence of any such incident.
22. If clearing agency functions are performed by automated facilities or systems, attach as Exhibit M a description of all backup systems or subsystems which are designed to prevent interruptions in the performance of any function as a result of technical or other malfunction. Include backups for input or output links to the system and precautions with respect to malfunctions in any areas external to the system.

## **EXHIBITS—ACCESS TO SERVICES**

23. Attach as Exhibit N a list of the persons who currently participate, or who have applied for participation, in registrant's clearing agency activities (if registrant performs more than one activity, a columnar presentation may be utilized).
24. Attach as Exhibit O a description of any specifications, qualifications, or other criteria which limit, are interpreted to limit, or have the effect of limiting access to, or use of, any clearing agency service furnished by the registrant and state the reasons for imposing such specifications, qualifications, or other criteria.
25. Attach as Exhibit P copies of any form of contracts governing the terms on which persons may subscribe to clearing agency services provided by the registrant.
26. Attach as Exhibit Q a schedule of any prices, rates or fees fixed by registrant for services rendered by its participants.
27. Attach as Exhibit R a schedule of any prohibitions or limitations imposed by the clearing agency on access by any person to services offered by any participant.

## **EXHIBIT—APPLICATION FOR EXEMPTION**

28. If this is an application for an exemption from registration as a clearing agency, attach as Exhibit S a statement demonstrating why the granting of an exemption from registration as a clearing agency would be consistent with the public interest, the protection of investors and the purposes of Section 17A of the Act, including the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds.

## SCHEDULE A OF FORM CA-1

1. **Full name of Registrant as stated in Item 1 of Form CA:-1:** Fixed Income Clearing Corporation

4. **Does registrant have any arrangement with any other person under which, with respect to registrant's clearing agency activities, such other person processes, keeps, transmits or maintains any securities, funds, records or accounts of registrant or registrant's participants relating to clearing agency activities? . . . . .**  Yes  No

**If answer is "yes," furnish on Schedule A, as to each such arrangement, the full name and principal business address of the other person and a brief summary of each such arrangement.**

### **FICC's Arrangement with Clearing Banks**

FICC is not a depository institution; it does not have direct access to the Federal Reserve's Fedwire ("Fedwire") and therefore employs the services of its two clearing banks, The Bank of New York Mellon ("BNY") and JPMorgan Chase Bank ("JPM"). All settlements are made either over the Fedwire or on the clearing bank's books. Participation in the FICC/GSD's GCF Repo® service requires dealer Members to have an account with either or both of BNY or JPM. It should be noted that for non-GCF Repo® activity members are not limited to BNY and JPM.

### **FICC/GSD Funds Only Settlement and FICC MBSD/Cash Settlement**

The above-referenced settlement processes are affected on the Federal Reserve's National Settlement Service ("NSS"); The Depository Trust Company ("DTC") is FICC's settlement agent with respect to the NSS processes.

### **Cash Investments**

Each of FICC/GSD's and FICC/MBSD's cash is generally invested in reverse repurchase agreements under tri-party repo<sup>1</sup> arrangements using standard Master Repurchase

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<sup>1</sup> A tri-party repo is a repo in which a custodian bank acts as an intermediary between the two parties to the repo. The tri-party custodian is responsible for the administration of the transaction including the collateral allocations.



Agreements. Investment with eligible counterparties are collateralized with: (1) U.S. governments securities, (2) mortgage pass-through obligations issued by the Government National Mortgage Association (“GNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), and the Federal National Mortgage Association (“FNMA”), or (3) any collateral eligible for comparison only or netting by the Government Securities Division (“GSD”).

Funds may be directly invested in U.S. Government securities and in certificates of deposit or similar deposits of FDIC-insured banks (“CDs”). Cash may also be invested in money market or domestic sweep accounts in its name. Investments are also permitted in certain money market mutual funds rated AAA and registered with the Securities and Exchange Commission under the Investment Company Act of 1940 in accordance with Investment Company Act Rule 2a-7.

#### **FICC/GSD One Pot Margining**

FICC/GSD has a one pot margining arrangement with New York Portfolio Clearing, LLC (“NYPC”), a derivative clearing organization. Common members of FICC/GSD and NYPC may participate in margining fixed income securities and listed interest rate futures in a “NYPC-FICC one-pot” cross-margin calculation. This arrangement permits transmission of NYPC future portfolio positions to be sent to FICC/GSD to calculate margin requirements. FICC/GSD collects the margin from the common members and then deposits NYPC's portion of the margin into an NYPC bank account.

#### **Additional Information**

Each of FICC/GSD and FICC/MBSD utilize a sub-account of DTC at the Federal Reserve Bank of New York for collection and disbursement of the margin cash.

FICC/GSD uses the services of JPM and of BNY for the following additional services: custodial services for the clearing fund, credit extensions and as tri-party custodial for reverse repurchase agreements with counterparties. FICC/GSD also maintains demand deposit accounts with JPM.

FICC/MBSD uses the services of JPM and BNY for tri-party custodian for reverse repurchase agreements with counterparties. FICC/MBSD also maintains demand deposit accounts with JPM and custodial services for margin collateral with BNY.

FICC/GSD and FICC/MBSD each maintain repurchase agreements with various counterparties for the overnight investment of funds as well as for liquidity purposes.

Contact information for each of the arrangements described above is as follows:

JPM Securities Processing

Frank Perez  
 Vice President  
 J.P. Morgan  
 14201 North Dallas Parkway, Floor 12  
 Dallas, TX 75254  
 T: (469) 477 - 1284

BNY Securities Processing

John Lombardo  
 Managing Director  
 BNY Mellon  
 1 Wall Street 5th floor  
 New York, NY 10286  
 T: (212) 635 - 4815

NYPC

Natalya Baram  
 Chief Operating Officer  
 New York Portfolio Clearing, LLC  
 570 Washington Blvd, 10th Floor  
 Jersey City, NJ 07310  
 T: (212) 855 - 5260

5. (a) **With respect to clearing agency activities, please provide the following information regarding the type of insurance carried or provided:**

Type of Insurance	Yes	No	Amount of coverage	Amount of Deductible
1. Blanket Bond	X		\$ 50,000,000	\$ 500,000

2. Fidelity <sup>2</sup>	X		\$ see FN2 below	\$ see FN2 below
3. Errors and Omissions	X		\$ see FN2 below	\$ see FN2 below
4. Mail Policy*		X	\$	\$
5. Air Courier*		X	\$	\$
6. Lost Instruments*		X	\$	\$
7. Other (please specify on Schedule A)	N/A	N/A	\$	\$

**(b) If any of registrant’s clearing activities are not covered by insurance, has provision been made for self-insurance? .....  Yes  No**

**If “yes”, indicate on Schedule A the provisions made for self-insurance (e.g., accounting reserve or funded reserve) and the amount thereof.**

N/A

**(c) (i) As a result of registrant’s clearing agency activities, is registrant exposed to loss if a participant fails to perform its obligations to the clearing agency, any other participant or any other person? ..... Yes  No**

**(ii) If “yes,” describe on Schedule A the operational, organizational or other rules, procedures or practices (citing rules if applicable) which result in registrant’s exposure to loss.**

FICC guarantees the trades at GSD and MBSD, as applicable, at the point of comparison, as a result, FICC is exposed to potential loss with respect to the default/insolvency of a Member. In the event of a Member default/insolvency, there is the possibility that the liquidation of the defaulting Member’s positions results in a loss that is not otherwise covered by the defaulting Member’s Clearing Fund or by other loss sharing agreements that FICC may have in place (such as the multilateral cross-guaranty agreement). If FICC experiences such a loss, it would invoke its loss allocation process. See FICC/GSD Rule 4 and FICC/MBSD Rule 4.

**(d) (i) Does the registrant maintain a clearing or participants’ fund, mark to the market open obligations involving the purchase or sale of securities or otherwise required participants to protect registrant against losses to which it may be exposed as a result of**

<sup>2</sup> Included in the Blanket Bond Insurance.

\* Registrant does not maintain physical custody of securities.

**a participant's failure to perform its obligations to the clearing agency, any other participant or any other person? .....  Yes  No**

**(ii) If "yes," describe on Schedule A the operational, organizational or other rules, procedures or practices (citing rules if applicable) which are designed to protect registrant against any such losses.**

**RISK MANAGEMENT - OVERVIEW**

Risk management is the foundation for the FICC/GSD and FICC/MBSD's ability to guarantee settlement, as well as the means by which the FICC protects itself and its Members from the risk inherent in the settlement process. Procedures are in place to ensure that participants comply with the FICC/GSD Rules and the FICC/MBSD Rules. Each division maintains strict membership standards, including minimum financial requirements (see GSD Rules 2, 2A, 3 and 3A and MBSD Rules 2, 2A and 3), and also collects Clearing Fund (see GSD Rule 4 and MBSD Rule 4) to minimize FICC's exposure to each division's Members. The primary purpose of each division's Clearing Fund is to provide readily accessible resources to facilitate settlement and reduce loss-related costs which may be incurred in the event of a FICC/GSD Member's or FICC/MBSD Member's insolvency, failure to fulfill its contractual obligations to FICC or its liabilities subject to a cross-margining agreement or cross-guaranty agreement, as applicable. Each division's underlying Clearing Fund methodology is designed primarily to account for market risks associated with the Member's unsettled portfolio.

Additional charges and premiums may be considered to address additional risks (i.e., credit, reputation, legal, etc.) or non-compliance with each division's Rules. An initial Clearing Fund Deposit must be collected from a new member prior to formal activation with a division.

As described in each of the FICC/GSD and FICC/MBSD Rules, each division analyzes and reviews on an intraday basis certain components of the Clearing Fund that are recalculated using updated positions. In addition, the FICC/GSD or FICC/MBSD, as applicable, may at its discretion call for additional collateral outside of their standard Clearing Fund cycles.

In the event that losses were incurred in the liquidation of a FICC/GSD or FICC/MBSD Member, as applicable, that was not covered by the Member's Clearing Fund deposit or amounts available under the cross-margining agreement or cross-guaranty agreement, as applicable, to which FICC is a party, FICC/GSD or FICC/MBSD, as applicable would invoke its loss allocation process.

The FICC/GSD also collects mark-to-market payments as part of its pass-through funds-only settlement process. Every business day, with respect to start-of-day portfolios, each Member must pay (or is entitled to collect) an aggregate funds-only settlement amount across all CUSIPs. The main components of this amount include, among other payments, a mark-to-market amount for every net settlement position, a mark-to-market amount for every forward net settlement position, fail marks for obligations that were scheduled to settle and have not yet settled, coupon payments and other adjustments. A second daily mark-to-market pass-through is also performed with respect to intraday portfolios; this intraday mark includes a limited set of components. FICC/GSD has the ability to collect charges above the systemically generated Clearing Fund charges when deemed appropriate in order to protect FICC/GSD and its members.

The FICC/GSD's Rules also contain a loss allocation procedure, which would be invoked if a defaulting Member's Clearing Fund deposit is not sufficient to cover losses incurred in the liquidation of the Member's positions. If a Member were to become insolvent, the FICC/GSD would first use that Member's Clearing Fund to cover a loss incurred on the liquidation of the Member's positions (and any funds available from any applicable collateral sharing arrangements with other clearing corporations). If such an event occurred where those deposits were insufficient to cover the liquidation of all positions, the FICC/GSD's loss allocation procedure would be used.

Any such loss allocation would first be made against the retained earnings of FICC attributable to the FICC/GSD, in the amount of up to 25% of the retained earnings or such higher amount as may be approved by the Board of Directors of FICC. If a loss still remains, the FICC/GSD will divide the loss between the GSD Tier One Netting Members and the

GSD Tier Two Netting Members<sup>3</sup>. Tier Two Netting Members will only be subject to loss to the extent they traded with the defaulting members, due to regulatory requirements applicable to them.

Tier One Netting Members will be allocated the loss applicable to them first by assessing the Required Clearing Fund deposit of each Member in the amount of up to \$50,000, equally. If a loss remains, Tier One Netting Members will be assessed ratably, in accordance with the respective amounts of their Required Fund Deposits based on the average daily amount of the Member's Required Fund Deposit over the prior twelve months<sup>4</sup>.

The FICC/MBSD includes mark-to-market components in its Clearing Fund, and has the ability to collect charges above the systemically generated Clearing Fund charges when deemed appropriate in order to protect FICC/MBSD and its members.

Similar to GSD, the FICC/MBSD's Rules also contain a loss allocation procedure, which would be invoked if a defaulting Member's Clearing Fund deposit is not sufficient to cover losses incurred in the liquidation of the Member's positions. If a Member were to become insolvent, the FICC/MBSD would first use that Member's Clearing Fund to cover a loss incurred on the liquidation of the Member's positions (and any funds available from any applicable collateral sharing arrangements with other clearing corporations). If such an event occurred where those deposits were insufficient to cover the loss, the FICC/MBSD's loss allocation procedure would be used.

Any such loss allocation would first be made against the retained earnings of FICC attributable to the FICC/MBSD, in the amount of up to 25% of the retained earnings or such higher amount as may be approved by the Board of Directors of FICC. If a loss still remains, the FICC/MBSD will divide the loss between the MBSD Tier One Clearing Members and the MBSD Tier Two Clearing Members. Tier Two Clearing Members will only be subject to

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<sup>3</sup> FICC/GSD has engaged in discussions with the SEC about expanding the FICC/GSD membership type to include certain buy-side entities. Such entities include investment companies registered under the Investment Act of 1940, as amended. Upon submission and approval of the related rule filing, such investment companies will qualify as FICC/GSD Tier Two Netting Members.

<sup>4</sup> FICC/GSD Members that are acting as Inter-Dealer Brokers are limited to a loss allocation of \$5 million in respect of their inter-dealer broker activity.

loss to the extent they traded with the defaulting members, due to regulatory requirements applicable to them.

Tier One Clearing Members will be allocated the loss applicable to them first by assessing the Required Clearing Fund deposit of each Member in the amount of up to \$50,000, equally. If a loss remains, Tier One Clearing Members will be assessed ratably, in accordance with the respective amounts of their Required Fund Deposits based on the average daily amount of the Member's Required Fund Deposit over the prior twelve months.

**7. (a) What are registrant's internal policies and procedures for reconciling differences (including long and short stock record differences and dividend differences) in its clearing agency activities?**

**GOVERNMENT SECURITIES DIVISION**

*Trade Matching*

On trade date, each Member submits trade data for comparison. (The FICC/GSD also receives from the Federal Reserve Bank, on a precompared or "locked in" basis, data on Netting Members' Treasury auction awards). The crux of the FICC/GSD's comparison system is its RTTM® service. This is an interactive tool that enables Members to automate the processing of their securities trades throughout the trading day. Using standardized international message formats, RTTM provides a common platform for collecting and matching trade data, enabling the parties to a securities trade to monitor and manage the status of their trades in real time. The result is an immediate confirmation for trade executions that is legal and binding. RTTM creates a more streamlined and operationally efficient processing environment. It maximizes the volume of trades that match on trade date, and it reduces the risk of mismatched securities trades by allowing trading parties to note and fix errors or potential problems in execution or processing as close as possible to trade execution.

Uncompared bilateral trades may be modified or deleted by a Member. Compared trades (depending on the type of comparison for which the trade is submitted) can be modified or deleted only if both parties to the trade agree. If a Member determines that a request for comparison is invalid or incorrect, it can send a "DK Notice" to the FICC/GSD, which will

be forwarded to the original submitter. The receipt of the “DK Notice” by the FICC/GSD prevents the trade from comparing on the FICC/GSD’s system. If a Member that sent a DK Notice determines that it did so erroneously, the Member can remove the DK and enable comparison to occur, if it does so within the timeframes prescribed by the FICC/GSD for such purpose.

A Member may request a list of all trades pending comparison which indicates the Member as the contra-party. The Member may then take steps to correct and/or confirm its input to compare trade. Comparison also drives netting. Trades that do not compare are dropped from the system.

### *Netting and Settlement*

Through netting, the FICC/GSD establishes a single net long or short position for each Member’s daily trading activity in a given security. The Member’s net position is the difference between all purchases (long) and all sales (short) in a given security. The FICC/GSD replaces each net position with a settlement obligation for the scheduled settlement date whereby the Member settles with the FICC/GSD as CCP.

Because FICC is not a depository institution, it is not given direct access to Fedwire and therefore employs the services of its two clearing banks, the Bank of New York Mellon (“BNY”) and JPMorgan Chase Bank (“JPM”), for this purpose. FICC/GSD Rule 12 (Securities Settlement) provides that the FICC/GSD shall notify each Member (prior to the entity activating its membership) of the clearing bank or banks that the FICC/GSD will use to deliver eligible securities to Members and to receive eligible securities from Members, and by product, the types of securities that each such clearing bank will so deliver and receive. In turn, each Member (prior to activating its membership) must notify the FICC/GSD of the clearing bank or banks that the Member has designated to act on its behalf in the delivery of securities to the FICC/GSD and in the receipt of securities from the FICC/GSD.

On each business day, the FICC/GSD makes available to each Member output (i.e., a report) that provides information (for example, type of obligation (deliver or receive), name and reference number of the clearing bank, and CUSIP number, settlement date, par value, final dollar value and other information descriptive of an eligible netting security) that the



FICC/GSD deems sufficient to enable such Member to be able to settle its net settlement positions on that business day. Each Member, based on the information provided by the FICC/GSD, then provides appropriate instructions to its clearing bank to deliver to the FICC/GSD, and/or to receive from the FICC/GSD, on behalf of the Member, eligible netting securities against payment or receipt at the appropriate settlement value.

## **MORTGAGE-BACKED SECURITIES DIVISION**

### *Trade Matching*

Upon trade execution, FICC/MBSD Members submit all mandatory trade details to the FICC/MBSD RTTM system to be matched with the trade details submitted against them by their counterparties. Brokered trades are handled on a “give-up” basis in the FICC/MBSD. This means that the broker submits trade details for both the “buy” and “sell” dealers to FICC/MBSD for matching versus the two dealers’ submissions. At the time of execution, submission and matching, the dealers are not disclosed to one another (i.e., their anonymity is retained).

Prior to comparison, a Member may unilaterally cancel trade data that it determines it has submitted in error. A member may also submit a Don’t Know (“DK”) of a transaction that has been submitted against it. Once a trade has been compared by the FICC/MBSD, it may be canceled only by matching instructions from both parties.

A trade is deemed compared by the FICC/MBSD at the point in time at which the FICC/MBSD makes available to the members on both sides of a transaction output indicating that their trade data have been compared. A trade compared by FICC constitutes a valid and binding contract. FICC guarantees trade settlement (i.e., make the counterparty whole) at the point of comparison regardless of whether the trade is settled versus FICC or novated or settled bilaterally between members.

Once trade-for-trade transactions and specified pool trades (“SPTs”) are matched by the FICC/MBSD, settlement obligations are established between the counterparties as these trades do not enter the TBA netting process. SBO-destined TBA transactions proceed to the

target TBA netting process after they are matched. TBA Options are canceled by both members at the time the underlying option is exercised or reached its expiration date.

### *TBA Netting*

The Securities Industry and Financial Markets Association (“SIFMA”) establishes various standard product classes (known as Classes A, B, C and D) and associated Settlement Dates for each Class. The SIFMA Classes and Settlement Dates are industry recognized and provide the foundation of the MBSD TBA netting process.

Three business days prior to the SIFMA established settlement date (known as “72 Hour Day”) TBA netting for the applicable Class occurs. On this date, all TBA trades within that Class that have been designated for TBA netting (i.e., that were submitted as SBO-destined) and that have been fully matched/compared are netted by TBA CUSIPs within and across contra-sides. The final net position is referred to as the Settlement Balance Order (“SBO”) position which constitutes settlement obligations against which “Pool Instructs” may be submitted (this is discussed in more detail below). TBA trades that were submitted as trade-for-trade transactions are not netted at the TBA level, but like SBO positions do constitute TBA settlement obligations against which “Pool Instructs” may be submitted. SPTs are also not netted at the TBA level and they are not eligible for pool netting. OPTN trades are not eligible for either TBA or Pool netting.

### *EPN Allocation*

Two business days prior to the established settlement date of the TBA obligations (known as “48 Hour Day”), pool allocations occur. Pool allocations occur for all TBA obligations, whether established on 72 Hour Day via TBA netting, or established upon comparison when submitted as Trade-for-Trade activity. Allocations are not performed for Specified Pool Trades, as the pool that is to be delivered is specified upon submission and is a trade matching term so buyers and sellers agree to the pool number as part of the matching process (i.e., is not TBA). Members that are designated sellers of TBA obligations submit detailed information regarding the pools they intend to deliver to their buyer counterparties in satisfaction of their TBA obligations. This notification may occur via the MBSD’s EPN system. The EPN system processes all messages in real time.

### *Pool Comparison*

On 48 Hour Day, members are also required to submit pool allocation information (called “Pool Instructs”) via the RTTM system for pool comparison (which is a pre-requisite for pool netting). As with EPN allocation, Pool Instructs are to be submitted against all TBA obligations, whether stemming from Trade-for-Trade activity or TBA netting. As noted previously, allocations are not performed for Specified Pool Trades and they are not eligible for pool netting services. Additionally, members may choose not to submit pools allocated against a Stipulated trade.

Pool data information on Pool Instructs must be bilaterally compared (i.e., the mandatory comparison pool data submitted by the seller must match the mandatory comparison pool data submitted by the buyer) in order for the Pool Instructs to be eligible for consideration for pool netting. Pool Instructs must further be “assigned” by the MBSD to a valid, open TBA position, meaning that the trade terms submitted on the Pool Instruct must match the trade terms of a TBA CUSIP that has sufficient open position. Only compared and assigned Pool Instructs are evaluated for inclusion in pool netting.

Prior to pool netting, members have the ability to take a series of actions on previously submitted Pool Instructs, including DKs, among other instructions. If any action taken prevents a previously compared/assigned Pool Instruct from remaining both compared and assigned, the Pool Instruct will no longer be eligible for inclusion in pool netting.

### *Pool Netting*

Compared pools are evaluated for potential inclusion in pool netting. Pool netting occurs daily after the input cutoff for the current cycle is reached. All Pool Instructs having a delivery date equal to the next business date will be included in the current day’s pool netting cycle (excluding failing pool obligation IDs). Because the majority of mortgage-backed securities settle on one of four monthly scheduled settlement dates established by SIFMA for each security class, the majority of Pool Instructs will have a delivery date equal to settlement date, and will be netted on the business day preceding the SIFMA established settlement date of the TBA obligations (known as “24 Hour Day”). There are four 24 Hour

Days that correspond to the four SIFMA established settlement dates, on for each product Class – “A,” “B,” “C” and “D”.

Trade-for-Trade Trades (“TFTDs”) may have a settlement date equal to any business day of the month. Correspondingly, Pool Instructs associated with TFTDs will be evaluated for inclusion in pool netting as part of the netting cycle for their designated delivery date. In addition, if a Pool Instruct is submitted after settlement date but within the same settlement month (i.e., it represents a late allocation), it will be evaluated for inclusion in pool netting as part of the netting cycle for its designated delivery date.<sup>5</sup> There must be sufficient trading velocity and netting benefit for the Pool Instructs to be included in pool netting. If they do not meet the selection criteria for inclusion in Pool Netting, they will settle directly between trading parties outside the clearing corporation (as they would prior to the implementation of the Pool Netting service).

At the start of each netting cycle, all Pool Instructs active in the system are evaluated for potential inclusion in pool netting. In order to be included in this selection process, the following criteria must be met:

- The Pool Instructs have the same contractual settlement date;
- The Pool Instructs have a delivery date equal to the next business date;
- The Pool Instructs are compared; and
- The Pool Instructs have been correlated and assigned to a TBA position when pool netting commences (i.e., have been “assigned”).

Any Pool Instruct not included in the selection process for pool netting, such as uncomparing Pool Instructs or Pool Instructs in pending status (pending status occurs if a member submits a pool number that FICC does not have complete information on or if FICC deems that the pool number should not be netting eligible), will be purged from the system. These

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<sup>5</sup> On November 6, 2012, FICC submitted rule filing SR-FICC-2012-07 which further extends pool netting benefits to its members by capturing Pool Instructs submitted for allocations made after the traded pool’s settlement month has passed.

transactions must be settled directly between allocation counterparties outside of FICC. Pool Instructs in a CDR state are precluded from operational netting; however, the current face of all long CDR Pool Instructs are totaled to establish an aggregated long CDR amount, and the current face of all short CDR Pool Instructs are totaled to establish an aggregated short CDR amount

Upon FICC's issuance of pool netting results to members, "novation" occurs, i.e., settlement obligations between the parties are cancelled and replaced with obligations to settle with FICC.

#### *Settlement*

##### *Settlement with FICC as Counterparty*

Members will be required to designate a clearing bank for purposes of delivering securities to, and receiving securities from, the FICC/MBSD in satisfaction of settlement obligations. All deliveries and receipts of securities in satisfaction of pool deliver obligations and pool receive obligations are required to be made against simultaneous payment.

On delivery date, members will be required to deliver securities to, or receive securities from, one of FICC's designated accounts at its clearing banks in satisfaction of its net pool deliver or net pool receive obligations as established and reported by FICC. Settlements will occur at a settlement value (the pool net settlement value) determined by FICC.

##### *Settlement outside of FICC*

For those Pool Instructs which are not included in Pool Netting (either because they are ineligible or because they do not meet selection criteria for inclusion in the net), Members are required to settle such transactions bilaterally with applicable settlement counterparties, outside of FICC. Since Specified Pool Trades are not eligible for pool netting, these must also be settled bilaterally with applicable settlement counterparties outside of FICC. Members must continue to submit Notifications of Settlement ("NOS") to FICC with respect to these settlements. NOS is required to be received on the applicable clearance date for each transaction. When the MBSD receives NOS from each counterside to a transaction, the MBSD reports clearance of the applicable transaction back to each member. Members have

the ability to submit NOS via RTTM Web and/or MBSD Proprietary File transmission Service, and can do so on the day the obligations are settled. This allows the settled obligation to be excluded from FICC's risk management processes more quickly.

**(b) State, as of September 30, 1975, the dollar amount of the potential exposure of registrant, if any, as a result of differences (without offsetting long differences against short differences and without offsetting any suspense account items) in its clearing agency activities not resolved after 20 business days. \$ 0**

9. (a) Are registrant's clearing agency activities subject to regulation by any federal agency other than the Commission or by any state or political subdivision?  Yes  No

**If yes, specify the name of the agency, state or political subdivision:**

The Board of Governors of the Federal Reserve System.

(b) Have the registrant's clearing agency activities been the subject of periodic examinations by any federal agency other than the Commission or by any state or political subdivision? .....  Yes  No

**If yes, specify the name of the agency, state or political subdivision:**

The Board of Governors of the Federal Reserve System.