

Bold and underlined text indicates proposed added language

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

FIXED INCOME CLEARING CORPORATION

MORTGAGE-BACKED SECURITIES DIVISION

CLEARING RULES

Changes to this Rule, as amended by File No. SR-FICC-2017-012, are set forth below. These changes have been approved by the SEC, but are not yet effective. Bold and underlined text indicates added language. Bold and strikethrough text indicates deleted language. These changes will become effective [within 45 Business Days after date of the SEC's approval of SR-FICC-2017-012]. Once effective, this legend will automatically be removed from the Rules and the formatting of the text of the changes in this Rule will automatically be revised to reflect that these changes are effective.

RULE 1 – DEFINITIONS

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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~~Broker Give-Up Date~~

~~The term "Broker Give-Up Date" means the date on which Dealers for which a Broker has acted in a are substituted for the Broker.~~

~~Broker Give-Up Trade~~

~~The term "Broker Give-Up Trade" means an SBO-Destined Trade, Trade-for-Trade Transaction or Option Contract in which a Broker acting on behalf of selling and purchasing Dealers temporarily is identified in the applicable Reports initially made available by the Corporation as the Original Contra-Side Member with respect to each Dealer, with the Dealers to be substituted on the Broker Give-Up Date.~~

Brokered Transaction

The term "Brokered Transaction" means any **“give-up”** transaction calling for the delivery of an Eligible Security the data on which has been submitted to the Corporation by Members, to which transaction a Broker is a party.

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Contractual Settlement Date

The term "Contractual Settlement Date" means, in the case of a Trade-for-Trade Transaction, Specified Pool Trade, SBO-Destined Trade, **Stipulated Trade**, **SBON** Trade and Pool Net Settlement Position, the settlement date mutually agreed to by the parties to the Transaction.

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CUSIP Average Price or CAP

~~The term "CUSIP Average Price" or "CAP" means, in the case of any SBON Trade, the average Contract price as computed by the Corporation of all SBO-Destined Trades in the CUSIP number, as the case may be, that have been netted to produce the SBON Trade.~~

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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.

Do Not Allocate

The term "Do Not Allocate" means the process by which Clearing Members that have two or more Trade-for-Trade Transactions and/or SBON Trades with the same Par Amount, CUSIP Number and established date in the settlement cycle, may offset such transactions against one another.

Do Not Allocate Transaction Adjustment Payment

The term "Do Not Allocate Transaction Adjustment Payment" means the amount equal to the difference between the Settlement Price of the buy and sell TBA Obligation transactions multiplied by the contractual quantity. To differentiate between a buy and sell transaction, an indicator of -1 for a buy trade and +1 for a sell trade is multiplied by the contractual quantity of such trade.

DTC

The term "DTC" means The Depository Trust Company.

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EPN Service

The term "EPN Service" means the Corporation's electronic pool notification service that enables Clearing Members and EPN Users to electronically communicate pool information to other EPN Users or the Corporation, as described in these Rules or the Corporation's EPN Rules and EPN procedures.

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Exchange Act

The term "Exchange Act" means the Securities Exchange Act of 1934, as amended.

Expanded Pool Net Transaction Adjustment Payment

The term “Expanded Pool Net Transaction Adjustment Payment” means the amount equal to the difference between the System Price and the SBON Trade’s Settlement Price or Trade-for-Trade Transaction’s Settlement Price, as applicable, multiplied by the total current face of the pools used to satisfy such obligation, then divided by 100. To differentiate between a buy and sell transaction, an indicator of +1 for a buy trade and -1 for a sell trade would be multiplied by the total current face of the pools used to satisfy the obligation.

Expanded Pool Netting

The term “Expanded Pool Netting” means the netting process that captures pool allocations when a Clearing Member has missed the deadline established by the Corporation for the Pool Netting process.

Factor Update Adjustment Payment

The term “Factor Update Adjustment Payment” means the amount equal to a factor update that adjusts the Settlement Value of Pool Deliver Obligations or Pool Receive Obligations, as applicable, that have settled.

Fail

The term "Fail" means a Transaction the clearance of which has not occurred or has not been reported to the Corporation as having occurred on the Contractual Settlement Date, or expiration date, as applicable.

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~~Firm CUSIP Average Price (FCAP)~~

~~**The term "Firm CUSIP Average Price" or "FCAP" means the average purchase or sale Contract price of a Member's SBO-Destined Trades with a particular Original Contra-Side Member in a particular CUSIP number.**~~

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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.

Holiday

The term "Holiday" means, with respect to the Holiday Charge, any day on which the Corporation is closed, but the day is not observed as a holiday by the Securities Industry and Financial Markets Association and the bond markets are open.

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Notification of Settlement

~~The term "Notification of Settlement" means an instruction submitted to the Corporation by a purchasing or selling Clearing Member pursuant to these Rules reflecting settlement of an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade.~~

Novation

The term "Novation" means the termination of deliver, receive and related payment obligations between Members and the replacement of such obligations with **identical obligations** the Guaranteed/Novated Obligations to and from the Corporation, pursuant to these Rules.

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Par Amount

The term "Par Amount" means, for Trade-for-Trade Transactions, Stipulated Trades and SBON Trades~~Transactions~~, Option Contracts and Pool Deliver and Pool Receive Obligations, the current face value of a Security to be delivered on the Contractual Settlement Date. With respect to Specified Pool Trades, "Par Amount" shall mean the original face value of a Security to be delivered on the Contractual Settlement Date.

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Pool Receive Obligation

The term "Pool Receive Obligation" means a Clearing Member's obligation to receive Eligible Securities from the Corporation at the appropriate Settlement Value either in satisfaction of all or part of a Pool Net Long Position.

Pool Settlement Position

The term "Pool Settlement Position" means either a Pool Receive Obligation or a Pool Deliver Obligation, as the context requires.

Purchase and Sale Report

The term "Purchase and Sale Report" means the Report furnished by the Corporation reflecting a Member's Compared Trades in Eligible Securities.

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Rules

The term "Rules" means these Rules of the Mortgage-Backed Securities Division.

SBO

The term "SBO" means the settlement balance orders that constitute the net positions of a Clearing Member as a result of the TBA Netting process. The resulting transactions from this TBA Netting process are identified as SBON Trades.

~~SBO Contra-Side Member~~

~~The term "SBO Contra-Side Member" means the Member with whom a Member is directed by the Corporation to settle an SBO Trade. An "SBON Contra-Side Member" is an SBO Contra-Side Member that is not an Original Contra-Side Member with respect to such SBO Trade. An "SBOO Contra-Side Member" is an SBO Contra-Side Member that is also an Original Contra-Side Member with respect to such SBO Trade.~~

SBO-Destined Trade

The term "SBO-Destined Trade" means a TBA transaction in the Clearing System intended for TBA Netting in accordance with the provisions of these Rules.

~~SBO Market Differential~~

~~The term "SBO Market Differential" means the amount computed pursuant to these Rules, reflecting the difference between Firm CUSIP Average Prices (in the case of an SBO Netted or SBO Net-Out Position) or between the CUSIP Average Price and the Firm CUSIP Average Price (in the case of an SBON Trade).~~

SBO Net Open Position

The term "SBO Net Open Position" means any SBO-Destined Trade that cannot be offset pursuant to these Rules.

SBO Net-Out Position

~~The term "SBO Net-Out Position" means the result of offsetting purchase and sale SBO-Destined Trades originally among different Original Contra-Side Members pursuant to these Rules.~~

SBO Netted Position

~~The term "SBO Netted Position" means the result of offsetting purchase and sale SBO-Destined Trades originally between the same Original Contra-Side Members pursuant to these Rules.~~

SBON Trade

The term "SBON Trade" means a settlement balance order that offsets an SBO Net Open Position pursuant to these Rules. A Member which has one or more "Long SBON Trades" in a particular CUSIP number is a net purchaser with respect to that CUSIP number, as the case may be; a Member which has one or more "Short SBON Trades" is a net seller. ~~An SBO Trade may be either an SBON Trade or an SBOO Trade.~~ SBON Trades settle directly with the Corporation.

SBO Trade

~~The term "SBO Trade" means an SBO Trade which a Member is directed by the Corporation to settle with an SBO Contra-Side Member.~~

SBOO Trade

~~The term "SBOO Trade" means an SBO Trade which a Member is directed by the Corporation to settle with an SBOO Contra-Side Member.~~

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Settlement Price

The term "Settlement Price" means (a) in the case of a Trade-for-Trade Transaction, Specified Pool Trade, Stipulated Trade or SBO-Destined Trade, the Contractual settlement price agreed to by the parties; (b) in the case of an SBON Trade, the System CUSIP Average Price; and (c) ~~in the case of an SBOO Trade, the Firm CUSIP Average Price, and~~ (d) in the case of a Pool Deliver or Pool Receive Obligation, the Pool Net Price.

Settlement Value

The term "Settlement Value" means the amount in dollars equal to the Par Amount of each Eligible Security that comprises a Trade-for-Trade Transaction, a Specified Pool Trade, an SBO-Destined Trade, a Stipulated Trade, an SBOO Trade, an SBON Trade, a Pool Deliver Obligation, a Pool Receive Obligation, multiplied by the Settlement Price

plus interest that has accrued with regard to each such Eligible Security up to the Business Day for which such dollar amount is calculated.

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Statutory Disqualification

The term "Statutory Disqualification" shall have the meaning given that term in Section 3(a)(39) of the Exchange Act.

Stipulated Trade

The term "Stipulated Trade" means a trade in which allocated pools on the Contractual Settlement Date must satisfy certain trade parameters that are agreed upon by Clearing Members at the time of execution.

Strike Price

The term "Strike Price" means the price at which an option granted pursuant to an Option Contract may be exercised.

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TBA or To-Be-Announced

The term "TBA" or "To-Be-Announced" means a contract for the purchase or sale of a mortgage-backed security to be delivered at an agreed-upon future date because as of the transaction date, the seller has not yet identified certain terms of the contract, such as the pool number and number of pools, to the buyer.

TBA Obligations

The term "TBA Obligations" means SBO-Destined obligations and, with respect to Trade-for-Trade Transactions, settlement obligations generated by the Trade Comparison system.

TBA Reprice Transaction Adjustment Payment

The term "TBA Reprice Transaction Adjustment Payment" means the amount equal to the difference between the TBA Obligation's Settlement Price and the System Price, multiplied by the unallocated contractual quantity, and then divided by 100. To differentiate between a buy and sell transaction, an indicator of -1 for a sell trade and +1 for a buy trade is multiplied by the unallocated pool's contractual quantity.

TBA Transaction Adjustment Payment

The term “TBA Transaction Adjustment Payment” means the amount equal to the difference between the SBO-Destined Trade’s Settlement Price and the System Price, multiplied by the contractual quantity of such trade, and then divided by 100. To differentiate between the buyer and seller of the transaction, an indicator of -1 for the buy trade and +1 for the sell trade is multiplied by the contractual quantity of such trade.

Tier One Member

The term “Tier One Member” means a Clearing Member whose membership category has been designated as such by the Corporation pursuant to Rule 2A for loss allocation purposes.

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Trade-for-Trade Transaction

The term "Trade-for-Trade Transaction" means a TBA Transaction submitted to the Corporation ~~not~~ intended for **Pool Netting and Expanded Pool Netting, but not intended for** TBA Netting in accordance with the provisions of these Rules.

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VaR Charge

The term “VaR Charge” means, with respect to each margin portfolio, a calculation of the volatility of specified net unsettled positions of a Member, as of the time of such calculation (with respect to the specified net unsettled positions as of the time of such calculation). Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Exchange Act. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such historical data as the Corporation deems reasonable, and shall cover such range of historical volatility as the Corporation from time to time deems appropriate. To the extent that the primary source of such historical data becomes unavailable for an extended period of time, the Corporation shall utilize an alternative volatility calculation. If the volatility calculation is lower than 5 basis points of the market value of a Clearing Member’s gross unsettled positions (the “VaR Floor”) then the VaR Floor will be utilized as such Clearing Member’s VaR Charge.

Variance Transaction Adjustment Payment

The term “Variance Transaction Adjustment Payment” means the amount equal to the difference between the SBON Trade’s Settlement Price or the Trade-for-Trade Transaction’s Settlement Price, as applicable, and the System Price, multiplied by the difference between the TBA Obligation and the allocated pools used in

satisfaction of such trade, and then divided by 100. To differentiate between a buy and sell transaction, an indicator of -1 for a buy trade and +1 for a sell trade would be multiplied by the total variance amount.

Watch List

The term “Watch List” refers to the list of Members being more closely monitored by the Corporation for any reason deemed necessary by the Corporation.

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RULE 2 – MEMBERS

(a) The Corporation may make its services, or certain of its services, available to Persons which (i) apply for membership to the Corporation for the use of its services, (ii) meet the qualifications specified in these Rules, (iii) are approved by the Board, as applicable, and (iv) if required, have contributed to the Clearing Fund as provided in Rule 4.

(b) The Corporation shall have the following membership types:

(i) Clearing Members

(ii) Cash Settling Bank Members

With respect to item (ii) above, Cash Settling Bank Members shall be governed by Rule 3A.

(c) Only Members shall be entitled to settle Contracts or other Transactions through the Corporation. Except for Brokers effecting Brokered Transactions ~~Broker Give-Up Trades~~ which have Fully Compared, a Member which processes, compares, settles or carries out through the Clearing System any Contract or other Transaction for another Member, or a partnership, corporation or other organization, entity or person who is not a Member (hereinafter a non-Member), shall, so far as the rights of the Corporation and of other Members are concerned, be liable as principal. A non-Member who processes, compares, settles or carries out Contracts or Transactions through a Member shall not possess any of the rights or benefits of a Member.

(d) All Clearing Members are required to be members of the Corporation's EPN Service.

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RULE 4 – CLEARING FUND AND LOSS ALLOCATION

Section 1 – General

Each Clearing Member shall make, and maintain so long as such Member is a Clearing Member, a deposit to the Clearing Fund at no less than the minimum required level set forth in this Rule (the "Required Fund Deposit"). Deposits to the Clearing Fund shall be held by the Corporation or its designated agents to be applied as provided in this Rule. The timing of payment of the Required Fund Deposit shall be determined in accordance with the provisions of Section 8 of this Rule. The term "Transactions" as used in this Rule 4 includes Pool Receive Obligations, Pool Deliver Obligations, TBA Obligations, ~~and~~ Specified Pool Trades **and Stipulated Trades.**

If a Member's Required Fund Deposit is charged as a result of a Clearing Fund loss solely attributable to that Member such Member shall promptly replenish the deficit in its Required Fund Deposit.

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RULE 5 – TRADE COMPARISON

Section 1 – General

Trade comparison, which consists of the reporting, validating, and matching by the Corporation of the long and short sides of a Transaction to ensure that the details of such trades are in agreement between the parties, is the first step in the clearance and settlement process for these Transactions.

Trade data may be entered via any means permitted by the Corporation, and must include such identifying detail as the Corporation may require. As trade data are submitted to the Corporation, the Corporation shall generate output indicating that such trade data: (1) is compared, (2) is uncomparing, and/or (3) has been deleted from the Trade Comparison system.

The Corporation shall guarantee the settlement of ~~the~~ **Guaranteed/Novated Obligations** ~~the data on~~ which were submitted for Trade Comparison at the time at which the comparison of such trade occurs pursuant to Section 11 of this Rule, as long as the trade meets the requirements of these Rules and was entered into in good faith. This guaranty shall no longer be in effect if the Transaction becomes uncomparing, is cancelled, or settles pursuant to these Rules.

Section 2 – General Responsibilities of Members in the Trade Comparison System

Trade data submitted to the Corporation by a Clearing Member shall be submitted in the form and manner, and in accordance with the time schedules, prescribed by, or pursuant to, these Rules or otherwise set forth by the Corporation from time to time.

The symbol corresponding to the name of a Clearing Member printed, stamped or written on any form, document or other item issued by it pursuant to this Rule shall be deemed to have been adopted by it as its signature and shall be valid and binding upon it in all respects as though it had manually affixed its signature to such form, document or other item.

Each Clearing Member shall promptly review each Report it receives from the Corporation pursuant to this Rule. Any errors, omissions, or similar problems noted by a Clearing Member with respect to a Report must be promptly reported to the Corporation.

~~Any Transactions the data on which are submitted to the Corporation by a Clearing Member pursuant to these Rules which are not novated pursuant to Section 13 of this Rule and not netted and novated through the Pool Netting system pursuant to Rule 8 shall be settled directly between the Members. Any Transaction that is novated pursuant to Section 13 of this Rule and not thereafter netted through the Pool Netting system pursuant to Rule~~

~~8 shall be settled on behalf of the Corporation between Clearing Members that are parties to offsetting Transactions with the Corporation (i.e., the Transaction shall settle between each Clearing Member and its SBO Contra-Side Member).~~

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Section 7 – ~~Broker Give-Up Trades [RESERVED]~~

~~Any Broker identified in any Fully Compared Transaction as the Original Contra-Side Member with respect to both selling and purchasing Dealers will be deleted from the records of the Corporation and the Dealers will be substituted (i.e., "given up") as the Original Contra-Side Members after a period elected by the Broker or prescribed by the Corporation from time to time, but in any event (a) in the case of SBO-Destined Trades, prior to TBA netting, and (b) in the case of Trade-for-Trade Transactions prior to the Contractual Settlement Date.~~

Section 8 – Binding Nature of Comparisons

Comparisons generated by the Corporation through the Trade Comparison system shall constitute the trade comparison for all trades in Eligible Securities for which Clearing Members have submitted data and which the Corporation has identified as Compared Trades. Each comparison generated by the Corporation as to any Compared Trade as reported by the **Open Commitment Report**, RTTM Compare Report, the RTTM Purchase and Sale Report and the Purchase and Sale Report (to the extent information is not contained in the RTTM Purchase and Sale Report) shall each constitute the confirmation of the Transaction information contained therein and shall evidence a valid, binding and enforceable Contract in respect of such Compared Trade. Any confirmations, comparison or other documentary evidence of any such Compared Trade, other than the comparison generated by the Corporation, shall not affect the existence or terms and conditions of such a valid, binding and enforceable Contract in respect of such Compared Trade and the Corporation shall be entitled to rely upon such Reports for all purposes under the Rules.

In case of a Fully Compared or Partially Compared transaction involving a Broker, each Dealer as to which the Transaction has compared shall be bound by such Contract. In the case of a Partially Compared Transaction involving a Broker, unless the Dealer as to which the Transaction has not compared submits a DK of the Transaction in accordance with these Rules, such Dealer shall be responsible for Clearing Fund deposits with respect to such Transaction and may be responsible for such Transaction in accordance with Section 2 of Rule 17 “Procedures For When the Corporation Ceases to Act.”

If trade input with respect to a Transaction in Eligible Securities involving a Broker has not compared or has Partially Compared, the Dealer(s) for which trade input has not compared will be furnished a Report noting such uncompleted or Partially Compared Transaction. The Dealer may then either affirm the Transaction or submit a DK of the Transaction as described in Section 9 of this Rule 4. Unless the Dealer receiving the Unmatched Margin Report submits a DK of such transaction in accordance with the Corporation’s procedures, the Total Required

Fund Deposit shall be payable by the Dealer with respect to such Transaction pursuant to these Rules, the same as if such transaction had been listed in such Dealer's Open Commitment Report.

Section 9 – Cancellation and Modification of Trade Data by Members

If the Clearing Member determines that a transaction has not taken place, the Clearing Member shall (a) delete any trade input information previously submitted by it in error or (b) if the Clearing Member did not previously submit trade input information, submit a DK of such transaction. If the Clearing Member determines that the transaction has taken place, the Clearing Member shall affirm the transaction, correct trade input or settlement information previously submitted in error, or submit trade input information not previously submitted. If a transaction is compared, it will thereafter be reflected in a Report transmitted by the Corporation to the Clearing Member.

A Clearing Member that has submitted to the Corporation trade data that have not been compared may cancel or DK such data by providing appropriate instructions to the Corporation, pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Trade data that has been submitted **against a to the Corporation Clearing Member** that the Clearing Member affirms will be deemed compared.

Trade data submitted for Trade Comparison that have been compared may be cancelled from the Trade Comparison system upon receipt by the Corporation of appropriate instructions, submitted pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose, from both Clearing Members that submitted data on the trade.

Section 10 – Modification of Trade Data by the Corporation

The Corporation may unilaterally modify trade data submitted by Members if the Corporation becomes aware of any changes to the transaction which invalidate the original terms upon which it was submitted or compared.

Section 11 – Timing of Comparison

The comparison of trade data submitted to the Corporation for Trade Comparison shall be deemed to have occurred at the point in time at which the Corporation issues an output to the Clearing Members on both sides of the transaction indicating that such trade data have been compared.

Section 12 – Obligations

Trade data submitted for comparison through the Trade Comparison system will, once matched, constitute settlement obligations, between **each of** the buying and selling counterparties **and the Corporation, respectively**, with respect to **SBO-Destined Trades**, Trade-for-Trade Transactions, ~~and~~ Specified Pool Trades **and Stipulated Trades**.

Settlement obligations with respect to trade data submitted for TBA trades that are SBO-Destined Trades shall be established at the time at which the Corporation has both completed its

SBO-processing for the preparation of such Reports and has released such Reports to the Corporation's data output facility or facilities, unless the Corporation has notified such Clearing Member on such Business Day of a delay in the Corporation's making available such Reports or output to the Member.

Section 13 – Novation

(a) Each SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable**, that meets the requirements of these Rules and was entered into in good faith shall be novated to the Corporation and the Corporation shall guarantee the settlement of **the Guaranteed/Novated Obligations of** each such Trade at the time at which comparison of such Trade occurs pursuant to Section 11 of this Rule. Such Novation shall consist of the termination of the deliver, receive and related payment obligations between the Clearing Members with respect to the SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable**, and their replacement with **the Guaranteed/Novation Obligations** ~~identical obligations~~ to and from the Corporation in accordance with these Rules.

(b) Notwithstanding subsection (a) of this Section 13, an SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable**, that is Partially Compared shall not be novated to the Corporation. At such time as any SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable**, that is Partially Compared becomes Fully Compared, such Fully Compared SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction** shall be novated to the Corporation and the Corporation shall guarantee the settlement of **the Guaranteed/Novated Obligations for** each such Fully Compared SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction**. Such Novation shall consist of the termination of the deliver, receive and related payment obligations between the Clearing Members with respect to the Fully Compared SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable**, and their replacement with ~~identical obligations~~ **the Guaranteed/Novated Obligations** to and from the Corporation in accordance with these Rules.

(c) If a trade becomes uncomparing or is cancelled pursuant to these Rules, the Novation of such transaction shall be reversed, cancelling the deliver, receive, and related payment obligations between the Corporation and the applicable Clearing Members created by such Novation.

(d) At the time an SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction, as applicable**, is novated to the Corporation, such SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction** shall cease to be bound by any bilateral agreement between the parties to such SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction** with respect to the delivery, receive and related payment obligations. If an SBO-Destined Trade, **Specified Pool Trade, Stipulated Trade or Trade-for-Trade Transaction** becomes uncomparing or is cancelled pursuant to these Rules, such trade shall be governed by the same bilateral agreement that governed the trade before it was novated to the Corporation.

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RULE 6 – TBA NETTING

Section 1 – Netting

Each Clearing Member's SBO-Destined Trades in each Account in the TBA Netting system (other than SBO-Destined Trades that have been converted to Trade-for-Trade Transactions as provided in this Rule) shall be netted by CUSIP number on a monthly basis ~~in the following manner:~~. The TBA Netting system will generate SBON Trades. The Settlement Price of an SBON Trade shall be the System Price.

~~(a) — The Corporation shall offset a Clearing Member's purchase and sale Transactions that had the same Original Contra-Side Member (SBO Netted Positions). The SBO Contra-Side Member for an SBO Netted Position shall be the Original Contra-Side Member.~~

~~(b) — To the extent that any purchase or sale Transactions cannot be offset as described in subsection (a) above, the Corporation shall offset the Clearing Member's purchase and sale Transactions that had any of its Original Contra-Side Members (SBO Net-Out Positions).~~

~~(c) — To the extent that any of the Clearing Member's purchase or sale Transactions cannot be offset as described in subsections (a) and (b) above (SBO Net Open Positions), the Corporation shall assign the Clearing Member one or more SBON Trades offsetting such SBO Net Open Positions. To the maximum extent practicable, the Clearing Member's SBO Contra-Side Members shall be one or more of its Original Contra-Side Members. Any remaining SBO Trades shall be SBON Trades and shall have as SBO Contra-Side Members one or more other Members who are non-Original Contra-Side Members.~~

~~The Settlement Price of an SBO Trade shall be the Firm CUSIP Average Price (FCAP), representing the average purchase or sale Contract price of the Member's SBO-Destined Trades with the Original Contra-Side Member in the TBA CUSIP as determined in accordance with this Rule 6. The Settlement Price of an SBON Trade shall be the CUSIP Average Price (CAP), representing the average Contract price as computed by the Corporation of all SBO-Destined Trades in the TBA CUSIP that have been netted to produce the SBON Trade.~~

Prior to netting as described in this Rule, any SBO-Destined Trade that remains Partially Compared shall be converted to a Trade-for-Trade Transaction.

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RULE 7 – POOL COMPARISON AND OBLIGATIONS

Section 1 – Pool Allocation and the Pool Comparison System

The Pool Comparison system is a system for comparing pools that have been allocated in satisfaction of open TBA Obligations. Clearing Members **are required to notify the Corporation of the pools that will be allocated** ~~allocating pools~~ to satisfy open TBA Obligations **and open Stipulated Trade obligations** recorded in the Clearing System. **Clearing Members with TBA Obligations and Stipulated Trade obligations** are **also** required to submit pool details to the Corporation. **Pool details for Stipulated Trade obligations are required in order for Pool Settlement Positions to be established pursuant to Section 4 below. Pool details for TBA Obligations are required** in order for such pools to be processed through the Pool Netting system pursuant to Rule 8. **In the event that a Clearing Member does not submit pool details by the deadline established by the Corporation, the Corporation will submit such pool details on behalf of the Clearing Member.**

In order for the Corporation to process data for Pool Comparison, the Corporation must receive data from the long and short sides of the allocated pool submission in the format and within the timeframes specified in guidelines issued by the Corporation from time to time. For a Pool Comparison to be generated by the Corporation, there must be an exact match of all required match data submitted by each contra-party as required by the Corporation's procedures. Notwithstanding the previous sentence, if the price submitted by ~~the settlement counterparties~~ **each contraside to the Corporation** matches within the tolerance of decimal places specified by the Corporation in its procedures, but does not match beyond such decimal place, the Corporation shall apply the Settlement Price.

~~Items identified as uncomparing by the Corporation reflect pool data submitted by a Clearing Member for which the counterparty Clearing Member either did not submit data or did not submit data which matched in all respects, except as otherwise provided in these Rules. Comparison requested (advisory) data represents trades submitted by a Clearing Member against its counterparty.~~

Section 2 – Cancellation and Modification of Data by Clearing Members

A Clearing Member that has submitted to the Corporation data for Pool Comparison that have not been compared may modify, cancel or DK such data by providing appropriate instructions to the Corporation, pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Pool data submitted **by** ~~against~~ a

Clearing Member that is affirmed by the Corporation ~~Clearing Member~~ will be deemed compared.

Data submitted for Pool Comparison that have been compared may be cancelled from the Pool Comparison system, by either the selling or buying Original Contra-Side Member, upon receipt by the Corporation of appropriate instructions, submitted pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose.

Section 3 – Do Not Allocate Process for TBA Obligations

A Clearing Member may request that the Corporation offset two or more TBA Obligations with the same Par Amount, CUSIP Number and established date in the settlement cycle. Such Clearing Member shall submit this request by providing appropriate instructions to the Corporation in accordance with the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Upon the Corporation's receipt and verification of this request, the Clearing Member's designated TBA Obligations will be offset and such Clearing Member's number of open TBA Obligations will be reduced.

If a Clearing Member determines that it would like to cancel its request to have its TBA Obligations offset through the Do Not Allocate process, the Clearing Member shall submit a cancellation request by providing appropriate instructions to the Corporation pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Upon the Corporation's acceptance of the cancellation request, such Clearing Member would be required to allocate pools in accordance with this Rule to the previously designated TBA Obligations.

Section 4 – Pool Settlement Positions for Stipulated Trades

(a) **Pool Settlement Positions**

On each Business Day, for each Eligible Security, the Corporation will establish a Pool Settlement Position for eligible pools of a Clearing Member with the same Delivery Date and Contractual Settlement Date. All Pool Settlement Positions shall be reported by CUSIP Number by the Corporation in a Report issued and made available each Business Day to each Clearing Member.

(b) **Allocation of Pool Deliver Obligations and Pool Receive Obligations**

On each Business Day, for Eligible Securities, the Corporation will establish Pool Deliver Obligations and Pool Receive Obligations based on the pool information transmitted from the Clearing Members to the Corporation. Each Pool Deliver Obligation and each Pool Receive Obligation of a Clearing Member shall be listed in the Report that will be issued on each Business Day to each Clearing Member.

(c) Substitutions

With regard to any Pool Deliver Obligation, a Clearing Member may substitute the underlying pool that comprises such Pool Settlement Position by providing appropriate instructions to the Corporation pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Members with a Pool Receive Obligation that has been substituted are required to accept the substituted pools from the Corporation in accordance with the Corporation's procedures.

(d) Termination of Guaranteed/Novated Obligations and Replacement with Pool Deliver Obligations and Pool Receive Obligations

Pool Settlement Positions and resultant Pool Deliver Obligations and Pool Receive Obligations of a Clearing Member, either as originally established by the Corporation or as may be adjusted by the Corporation as the result of a correction of compared data made pursuant to these Rules, shall be fixed at the time the Report of such positions and obligations is made available by the Corporation to the Member. At that time, the related Guaranteed/Novated Obligations between such Clearing Member and the Corporation are terminated and replaced by the Pool Deliver Obligations, Pool Receive Obligations and related payment obligations listed in the Report.

Section 5 – Pool Deliver Obligations and Pool Receive Obligations for Specified Pool Trades

The Corporation will establish Pool Deliver Obligations and Pool Receive Obligations for Specified Pool Trades. Such obligations shall be consistent with the trade data that the Clearing Member has submitted to the Corporation. Obligations shall be established on the Business Day prior to the Delivery Date.

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RULE 8- POOL NETTING AND EXPANDED POOL NETTING SYSTEMS

Section 1– General

Pool Netting is a system for aggregating and matching offsetting allocated pools submitted by Clearing Members to satisfy: (i) settlement obligations associated with Trade-for-Trade Transactions and (ii) settlement obligations resulting from the TBA Netting system.

Each Business Day, the Corporation will calculate and report to each Clearing Member each Pool Net Settlement Position of such Member. With respect to each such Pool Net Settlement Position, the Corporation will report to the Member the extent to which the Member is obligated to deliver Eligible Securities to the Corporation and/or to receive Eligible Securities from the Corporation in accordance with each such Pool Net Settlement Position.

Section 2A – Eligibility for Pool Netting

A pool is eligible for Pool Netting if it meets all of the following requirements:

- (a) the pool has been compared by the Corporation pursuant to Rule 7;
- (b) the pool is assigned to a TBA Obligation generated pursuant to these Rules; and
- (c) the pool meets the criteria set forth in the Corporation's procedures for inclusion in Pool Netting.

____ Notwithstanding the foregoing, the Corporation may, in its sole discretion, exclude any pools from the Pool Netting system by Clearing Member or by pool. ~~**Pools not meeting the eligibility requirements for Pool Netting are required to be settled bilaterally with the settlement counterparties and are subject to the requirements of Rule 10 with respect to Notification of Settlement.**~~

Section 2B – Eligibility for Expanded Pool Netting

A pool that is not allocated by the deadline established by the Corporation for Pool Netting shall be included in the Expanded Pool Netting process. The Expanded Pool Netting process will occur on each Business Day prior to the established settlement date (“Exp Day”).

Section 3 – Calculation of Pool Net Settlement Positions

On each Business Day, for each Eligible Security in the Pool Netting system, **and on each ExP Day, for each Eligible Security in the Expanded Pool Netting system,** the Corporation will establish a Pool Net Settlement Position for eligible pools of a Clearing Member with the same Delivery Date and Contractual Settlement Date, comparing the aggregate Par Amount of each long obligation in an Eligible Security by the Clearing Member (hereinafter, the “Long Total”) and each short obligation in an Eligible Security by the Clearing Member (hereinafter, the “Short Total”). If the Long Total exceeds the Short Total, the resulting difference will constitute the Pool Net Long Position. If the Short Total exceeds the Long Total, the resulting difference will constitute the Pool Net Short Position. All Pool Net Settlement Positions shall be reported by CUSIP Number by the Corporation in a Report issued and made available each Business Day **or each ExP Day, as applicable,** to each Clearing Member.

Section 4 - Allocation of Pool Deliver and Pool Receive Obligations

On each Business Day, **for Eligible Securities processed by Pool Netting, and on each ExP Day, for Eligible Securities processed by Expanded Pool Netting,** the Corporation will establish Pool Deliver Obligations and Pool Receive Obligations as necessary to accomplish the settlement of Pool Net Settlement Positions. Pool Deliver Obligations and Pool Receive Obligations shall be allocated by the Corporation on an equitable basis to Clearing Members with corresponding Pool Receive Obligations and Pool Deliver Obligations that involve Eligible Securities with the same CUSIP Number. A single Pool Net Settlement Position may result in the establishment of more than one Pool Deliver Obligation or Pool Receive Obligation in an Eligible Security. Each Pool Deliver Obligation and each Pool Receive Obligation of a Clearing Member shall be listed in the Report that will be issued on each Business Day to each Clearing Member.

Section 5 – Substitutions

With regard to any Pool Deliver Obligation, a Clearing Member may substitute the underlying pool that comprises such Pool Net Settlement Position by providing appropriate instructions to the Corporation, pursuant to the communication links, formats, timeframes, and deadlines established by the Corporation for such purpose. Members with a Pool Receive Obligation that has been substituted are required to accept the substituted pools from the Corporation in accordance with the Corporation’s procedures.

Section 6 – Termination of Guaranteed/Novated Obligations and Replacement with Pool Deliver Obligations and Pool Receive Obligations ~~Novation of Obligations~~

Pool Net Settlement Positions and resultant Pool Deliver Obligations and Pool Receive Obligations of a Clearing Member, either as originally established by the Corporation or as may be adjusted by the Corporation as the result of a correction of compared data made pursuant to these Rules, shall be fixed at the time the Report of such Positions and Obligations is made available by the Corporation to the Member. At that time, **the related Guaranteed/Novated Obligations all deliver, receive and related payment obligations (a)** between such Clearing Member and the Corporation, ~~for SBO Trades, or (b) between Members, for other~~

~~Transactions, that were created by compared pools that comprise a Pool Net Settlement Position or Positions~~ are terminated and replaced by the Pool Deliver Obligations, Pool Receive Obligations and related payment obligations ~~for such Members that are~~ listed in the Report. ~~The associated TBA Obligations of netted pools will be terminated and replaced with Pool Deliver Obligations, Pool Receive Obligations or cash obligations as established by the Corporation in the applicable Report.~~

Section 7 – Obligation to Submit ~~SBOO~~ Trade-for-Trade Transactions and SBON Trades to Pool Netting

Each Clearing Member must submit to the Corporation for inclusion in Pool Netting each Trade-for-Trade Transaction ~~SBOO~~ and SBON Trade to which such Clearing Member is a party.

* * * *

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RULE 10 – [RESERVED] NOTIFICATION OF SETTLEMENT

Section 1 – Settlement Obligations

~~— Except as the selling and purchasing Clearing Members in a Trade-for-Trade Transaction may otherwise agree, pools that are not eligible for processing through the Pool Netting system will settle bilaterally with their original allocation counterparty at the Settlement Price established by the Corporation.~~

~~— For purposes of complying with procedures for notifications, settlements and reclamations specified in the SIFMA Guidelines, the delivering and receiving Clearing Members shall be deemed Dealers.~~

Section 2 – Notification of Settlement

~~— Upon clearance of a Specified Pool Trade or an SBO Trade or a Trade for Trade Transaction not novated by the Corporation pursuant to Rule 8 above (including an SBO Trade novated pursuant to Rule 5 and not thereafter novated by the Corporation pursuant to Rule 8 above), and within the timeframes established by the Corporation from time to time, each of the delivering and the receiving Clearing Members shall promptly submit to the Corporation, in the manner specified in the procedures, a Notification of Settlement of the Eligible Securities delivered or received by the Clearing Member.~~

~~— If the Corporation receives a Notification of Settlement with respect to an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade from both the delivering and the receiving Member and the information submitted by the Members compares within dollar tolerances determined by the Corporation from time to time, either with respect to the entire SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or a portion thereof), the Corporation shall reflect clearance of such SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof) in each Member's Purchase and Sale Report. The SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof with respect to which information compares) will subsequently be deleted from the delivering and the receiving Member's respective Open Commitment Reports.~~

~~— If the Corporation receives a Notification of Settlement with respect to an SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade from both the delivering and the receiving Members but the information submitted by the Members does not compare within dollar tolerances determined by the Corporation pursuant to these Rules or compares only in part, or if only one Member submits a Notification of Settlement, the Corporation shall so indicate in the applicable report distributed to each Member. Until~~

~~such time as the Member submitting incorrect information submits a correction, or, if only one Member submitted a Notification of Settlement, the information is deleted by that Member or the other Member submits a Notification of Settlement with information that compares, the SBO Trade, Trade-for-Trade Transaction or Specified Pool Trade (or portion thereof with respect to which information does not compare) will continue to be reflected on each Member's Open Commitment Report and will remain subject to Required Fund Deposit requirements as computed pursuant to these Rules.~~

~~On the last Business Day of each month, in every instance where a Clearing Member's open TBA Obligation falls below an established par amount threshold (as specified by the Corporation in its procedures or in an Important Notice), the Corporation will mark such trade as fully settled.~~

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RULE 11 – CASH SETTLEMENT

Section 1 – ~~SBO Market Differential~~TBA Transaction Adjustment Payment

On the established date in the settlement cycle for each Eligible Security, the Corporation will determine whether any Aggregated Account in the Clearing System has a net positive or negative ~~SBO Market Differential~~ TBA Transaction Adjustment Payment. Any net negative ~~SBO Market Differential~~ TBA Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account on the Contractual Settlement Date, and any net positive ~~SBO Market Differential~~ TBA Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account on the Contractual Settlement Date. ~~The SBO Market Differential is calculated as follows:~~

- ~~(a) for each of its SBO Netted Positions, the difference (positive or negative) between the FCAPs for its purchases and the FCAPs for its sales; plus or minus~~
- ~~(b) for each of its SBO Net-Out Positions, the difference (positive or negative) between the FCAPs for its purchases and the FCAPs for its sales; plus or minus~~
- ~~(c) for each of its SBO Net Open Positions that is offset by an SBON Trade, the difference (positive or negative) between the Member's FCAP for its purchase or sale transaction originally with the Original Contra-Side Member and the CAP for its SBON Trade.~~

Section 2A – Net Pool Transaction Adjustment Payment

The Corporation shall compute a Pool Transaction Adjustment Payment for each trade that is eligible for the Pool Netting process as follows.

The Pool Transaction Adjustment Payment shall be an amount equal to the difference between the Pool Net Price that was established during the allocated pool's Pool Netting process and the compared pools Settlement Price, multiplied by the contractual quantity.

The sum of all Pool Transaction Adjustment Payments that have been calculated for a Member during a given Pool Netting process will constitute such Member's Net Pool Transaction Adjustment Payment, which can be positive or negative. On the first Business Day that follows the calculation of a Member's Net Pool Transaction Adjustment Payment, any negative Net Pool Transaction Adjustment Payment will be charged against the Member's Cash

Balance for such Aggregated Account and any positive Net Pool Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

Section 2B – Expanded Pool Net Transaction Adjustment Payment

The Corporation shall compute an Expanded Pool Net Transaction Adjustment Payment for each TBA Obligation included in the Expanded Pool Netting process.

The sum of all Expanded Pool Net Transaction Adjustment Payments that have been calculated for a Member during a given Expanded Pool Netting process will constitute such Member's Expanded Pool Net Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's Expanded Pool Net Transaction Adjustment Payment, any negative Expanded Pool Net Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive Expanded Pool Net Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

Section 3 – Do Not Allocate Transaction Adjustment Payment

The Corporation shall compute a Do Not Allocate Transaction Adjustment Payment for TBA Obligations that have been offset through the Do Not Allocate process.

The sum of all Do Not Allocate Transaction Adjustment Payments that have been calculated for a Member during a given Do Not Allocate process will constitute such Member's Do Not Allocate Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's Do Not Allocate Transaction Adjustment Payment, any negative Do Not Allocate Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive Do Not Allocate Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

Section 4 – TBA Reprice Transaction Adjustment Payment

The Corporation shall compute a TBA Reprice Transaction Adjustment Payment for the repriced TBA Obligations that remain unallocated after the deadline established by the Corporation.

The sum of all TBA Reprice Transaction Adjustment Payments that have been calculated for a Member during a given TBA Reprice process will constitute such Member's TBA Reprice Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's TBA Reprice Transaction Adjustment Payment, any negative TBA Reprice Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive TBA Reprice Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

Section 5 – Variance Transaction Adjustment Payment

The Corporation shall compute a Variance Transaction Adjustment Payment to capture the difference of the TBA Obligation and the current face of the pools allocated in satisfaction of the obligation. Pursuant to the Chapter 8 in the SIFMA Guidelines, TBA trades are allowed a variance on all TBA transactions equal to plus or minus 0.01% of the dollar amount of the transaction agreed to by the parties.

The sum of all Variance Transaction Adjustment Payments that have been calculated for a Member during a given Pool Netting and Expanded Pool Netting process will constitute such Member's Variance Transaction Adjustment Payment, which can be positive or negative. On the established date in the settlement cycle for each Eligible Security that follows the calculation of a Member's Variance Transaction Adjustment Payment, any negative Variance Transaction Adjustment Payment will be charged against the Member's Cash Balance for such Aggregated Account, and any positive Variance Transaction Adjustment Payment will be credited to the Member's Cash Balance for such Aggregated Account.

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 37 – 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 ~~SBO Market Differential~~ **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 ~~amount~~; 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**
- (eh) 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
- (di) 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
- (ej) 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
- (fk) if applicable, the amount of any charges for services rendered with respect to such Account pursuant to Rule 18; minus
- (gl) 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
- (hm) 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(in) the positive or negative value of any Clearance Difference Amount.

Section 48 – 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.

Section 59 – Cash Settlement

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Section 610 – Failure to Pay

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RULE 12 – FAILS CHARGE

* * * *

If fails accrue at a particular fails charge and the fails charge changes, the existing fails will keep the original accrual and new fails will be subject to the new rate. When there is a substitution of the underlying pool, fails charges will be calculated pursuant to the above formula using (in the formula) the fed funds target rate for each day of the substitution period beginning on the Contractual Settlement Date.

In the event that the Corporation is the failing party because (i) the Corporation received Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae too near the close of Fedwire for redelivery or for any other reason, ~~or~~ (ii) the Corporation received a substitution of a pool deliver obligation of Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae too near the specified cut-off time in the SIFMA 48-Hour Rule for same day redelivery of securities or for any other reason or (iii) the Corporation received an allocation of a TBA Obligation of Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae and the Corporation is unable to deliver such obligations by the specified cut-off time in the SIFMA 48-Hour Rule to be eligible for the specified SIFMA Contractual Settlement Date, the fails charge will be distributed pro rata to the Clearing Members based upon usage of the Mortgage-Backed Securities Division's services.

Each business day, the Corporation shall provide reports reflecting fails charge amounts to Clearing Members and will generate a consolidated monthly report at month end for those Eligible Securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae that were settled during the month. Clearing Members with a net debit (i.e., the fails charge amounts owed by the Clearing Member exceed the fails charge amounts it is owed) shall be required to pay such net amount in respect of those delivery obligations that have settled the previous month and which are reflected in the previous month's consolidated month end report by the Class "B" payable date (as established by SIFMA Guidelines) of the month following settlement in conjunction with other cash movements. The fails charge funds received by the Corporation will then be used to pay members with fail net credits.

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RULE 17 – PROCEDURES FOR WHEN THE CORPORATION CEASES TO ACT

* * * *

Section 2 – Action by the Corporation – Close-Out Procedure

Except as otherwise may be determined by the Board in any particular case, from and after the time the Corporation ceases to act for a Member, the following shall apply:

* * * *

(b) **[Reserved]** ~~Not later than the time specified by the Corporation in its procedures or in an Important Notice, all Clearing Members that have open settlement obligations pursuant to these Rules with the Defaulting Member as settlement counterparty shall be required to submit Notifications of Settlement with respect to such obligations that have in fact been settled but for which the Corporation has not yet been provided with Notifications of Settlement. Except for loss allocations against Members in accordance with Section 7 of Rule 4, a Member that follows the foregoing procedures shall not have any liability to the Corporation with respect to such settlement obligations.~~

* * * *

(d) All long and short settlement obligations of the Member, with the exception of those obligations associated with Option Contracts, outstanding at the time the Corporation ceases to act for the Member that have been reported by the Corporation to Members pursuant to these Rules shall be assumed by the Corporation and closed out by (i) for each Eligible Security with a distinct CUSIP Number, establishing a final net settlement obligation (hereinafter, the "Final Net Settlement Obligation") that shall be equal to the net of all outstanding deliver and receive obligations of the Member in each Security, and (ii) buying, borrowing, or reversing in or selling, lending or reposing out the Securities deliverable by or to such insolvent Member, and/or borrowing or lending monies, in order to close out the Final Net Settlement Obligations established for each Security. ~~Pool Net Deliver and Receive Obligations may be disposed of based upon the generic terms of the underlying TBA transaction from which the obligation was created.~~

(e) With respect to the disposition of Option Contracts, those that are deemed by the Corporation to be "out of the money" will be canceled; those deemed by the Corporation to be "in the money" shall be settled in cash based upon the difference between the last System Price at the time the Corporation ceases to act for the Member and the Strike Price.

(f) ~~[Reserved] Specified Pool Trades may be disposed of as if they did not contain a specified pool (i.e., the Trade will be disposed of based on its generic trade terms such as agency, product, coupon rate and maturity).~~

(g) ~~Trade for Trade Transactions may be disposed of based upon their generic terms (i.e., agency, product, coupon rate and maturity).~~ In the event of a Clearing Member's default, the Corporation may settle any Pool Deliver Obligation or Pool Receive Obligation with the Defaulting Clearing Member or any other Clearing Member as though the termination and replacement described in Section 6 of Rule 8 had not occurred.

This close-out procedure shall be completed as promptly as practicable after the Corporation has given notice pursuant to Section 1 of this Rule of the Corporation's determination to cease to act, unless the Board determines that the immediate close out of Obligations in a security may be disadvantageous to the Corporation or may promote a disorderly market in that security, in which case the Corporation may suspend the operation of this close-out provision until such later time as is determined by the Board, except that the Board may not suspend the operation of such close-out procedure for a period longer than 30 calendar days without the approval of such by the SEC. If, in the aggregate, the close-out of all of the Final Net Settlement Obligations established for a Member results in the Corporation incurring any loss or liability, such loss or liability shall be allocated as provided in Rule 4. If, in the aggregate, the close-out of all of the Final Net Settlement Obligations established for a Member results in a profit to the Corporation (after the Corporation has fulfilled its obligations under any Cross-Guaranty Agreements), such profit shall be credited to the Member, or to a duly-appointed legal representative of the Member.

Subsequent to the close-out of a Member's Positions, the Corporation shall in accordance with these Rules, ensure the settlement of all obligations that would have arisen had the Corporation not ceased to act, in accordance with the terms of the Transactions that comprise such obligations, subject to the provisions of this Section 2.

If the Corporation takes any action pursuant to this Section, it shall promptly notify the SEC.

* * * *

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RULE 17A – CORPORATION DEFAULT

(a) If a "Corporation Default" occurs pursuant to subsection (b) below, all Transactions which have been subject to Novation pursuant to these Rules but have not yet settled and any rights and obligations of the parties thereto shall be immediately terminated and the Board shall determine a single net amount owed by or to each Member with respect to such Transactions by applying the close out and application procedures in Section 2 of Rule 17 and Section 7 of Rule 4 (interpreted in all such cases as if each Member were a Defaulting Member) taking into account the other provisions in these Rules relating to loss allocation, including in the event that any Member is a Defaulting Member. For purposes of this Rule 17A and notwithstanding any other provision to the contrary, ~~Novation is deemed to occur and~~ Pool Deliver Obligations and Pool Receive Obligations shall be established with respect to all Transactions, ~~whether or not such Transactions are SBO-Destined Trades,~~ at the time at which the data submitted in respect of such Transactions are compared and such Transactions constitute Compared Trades. The Board shall notify each Member of the net amount so determined and Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying Contracts with respect thereto, these Rules and applicable law. Nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default) including under any Cross-Guaranty Agreement with the Government Securities Division or any other Cross-Guaranty Counterparty.

* * * *