



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103282; File No. SR-FICC-2025-015]

### **Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Modify the GSD Rulebook Relating to Default Management and Porting with Respect to Indirect Participant Activity**

June 17, 2025.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 6, 2025, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of amendments to FICC’s Government Securities Division (“GSD”) Rulebook (“Rules” or “GSD Rules”)<sup>3</sup> to (1) enhance the ability of market participants to understand FICC’s default management rules as they apply to the default of a Sponsoring Member or Sponsored Member; (2) adopt rules that would govern the default management and related matters applicable to the Agent Clearing Service that are consistent, as appropriate, with the default management rules of the sponsored membership service (“Sponsored Service”); (3) enhance the provisions that govern a default of FICC by addressing the application of those provisions to indirect

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Terms not defined herein are defined in the Rules, available at [www.dtcc.com/legal/rules-and-procedures.aspx](http://www.dtcc.com/legal/rules-and-procedures.aspx).

participant activity; (4) adopt rules that facilitate the porting of indirect participant activity from one intermediary Netting Member to another intermediary Netting Member; and (5) make other technical updates and corrections to the GSD Rules.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

**Executive Summary**

The primary purpose of the proposed changes to the GSD Rules is to improve market participants' understanding of the rules that govern a default that may occur within one of GSD's indirect access models – the Sponsored Service<sup>4</sup> and the Agent Clearing Service.<sup>5</sup> In connection with these changes, FICC would also enhance the rules that govern a default of FICC (defined in the Rules as a “Corporation Default”)<sup>6</sup> by addressing the application of those rules to indirect participant activity. Finally, FICC is proposing to adopt rules that would permit the porting of indirect participant positions and margin between intermediaries, both in the regular course of business and following the default of an intermediary firm.

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<sup>4</sup> See GSD Rule 3A (Sponsoring Members and Sponsored Members), *id.*

<sup>5</sup> See GSD Rule 8 (Agent Clearing Service), *id.*

<sup>6</sup> See GSD Rule 22B (Corporation Default), *id.*

FICC, through GSD, serves as a central counterparty and provides real-time trade matching, clearing, risk management and netting for cash purchases and sales of U.S. Treasury securities as well as repurchase and reverse repurchase transactions involving U.S. Treasury securities.<sup>7</sup> GSD's central counterparty services are available directly to entities that are approved to be Netting Members and indirectly to other market participants through GSD's indirect access models – the Sponsored Service and Agent Clearing Service. As a central counterparty, FICC plays a key role in financial markets by mitigating counterparty credit risk on Novated transactions that are submitted to FICC for central clearing. The GSD Rules govern the actions that FICC could take following the default of its Netting Members, including those Netting Members that act as intermediaries for other market participants as either Sponsoring Members or Agent Clearing Members. These rules are designed to ensure that such default is managed in a controlled and orderly manner and to minimize losses, thus ensuring the stability of the overall system. Specifically, the GSD Rules provide FICC with the authority to take timely action to contain losses and liquidity demands and to allow FICC to continue to meet its obligations following the default of a Netting Member.

FICC has recently amended the GSD Rules by adopting and enhancing the rules that govern GSD's indirect access models in order to facilitate access to its clearance and settlement services for market participants.<sup>8</sup> These prior rule changes included adopting rules that govern GSD's Agent Clearing Service and amending the rules that govern its Sponsored Service. FICC believes the changes now being proposed would further encourage greater utilization of centralized clearing by providing in the GSD Rules additional information regarding the rights and obligations of FICC's direct and indirect

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<sup>7</sup> GSD also clears and settles certain transactions on securities issued or guaranteed by U.S. government agencies and government sponsored enterprises.

<sup>8</sup> See Securities Exchange Act Release No. 101694 (Nov. 21, 2024), 89 FR 93784 (Nov. 27, 2024) (SR-FICC-2024-005).

participants in the event of a default. By improving the public disclosures of the key aspects of its default rules and procedures, the rule changes would also allow both FICC and relevant market participants to be prepared for the implementation of those procedures. In this way, the rule changes also facilitate FICC's ability to take timely action to contain losses and liquidity demands and continue to meet its obligations as a central counterparty following a Member or indirect participant default.

The proposed rules to govern the porting of indirect participant activity between intermediaries would provide indirect participants with a tool to manage their clearing activity and intermediary relationships and manage their exposures to a defaulting intermediary. In this way, these proposed changes would further facilitate access to GSD's clearance and settlement services.

## **Background**

### *Overview of GSD's Indirect Participation Access Models*

FICC has two indirect access models – the Sponsored Service and the Agent Clearing Service. As described in GSD Rule 3A, FICC's Sponsored Service permits Members that are approved to be Sponsoring Members to sponsor certain institutional firms, referred to as "Sponsored Members," into GSD membership.<sup>9</sup> For these relationships, FICC establishes and maintains a "Sponsoring Member Omnibus Account" on its books where it records the transactions of the Sponsoring Member's Sponsored Members ("Sponsored Member Trades").<sup>10</sup> For purposes of managing the risks presented by Sponsored Member Trades, activity recorded in a Sponsoring Member Omnibus Account is margined on a gross, or Sponsored Member-by-Sponsored Member, basis and cannot be netted across Sponsored Members.<sup>11</sup>

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<sup>9</sup> See GSD Rule 3A, *supra* note 3.

<sup>10</sup> See GSD Rule 2B (Accounts) and GSD Rule 1 (definition of "Sponsored Member Trades"), *id.*

<sup>11</sup> See GSD Rule 3A, Section 10 and GSD Rule 4 (Clearing Fund and Loss Allocation), *id.*

A Sponsored Member is a limited member of GSD and the legal counterparty to FICC for any submitted transactions. However, the Sponsoring Member unconditionally guarantees to FICC the Sponsored Member's performance under a Sponsoring Member Guaranty, which guarantees to FICC the payment and performance of a Sponsored Member's obligations to FICC.<sup>12</sup> Therefore, FICC relies on the financial resources of the Sponsoring Member in relying upon the Sponsoring Member Guaranty. If a Sponsoring Member fails to perform under the Sponsoring Member Guaranty, FICC may cease to act for the Sponsoring Member both as a Sponsoring Member as well as a Netting Member.

FICC's Agent Clearing Service facilitates agent-style trading by allowing Members that are approved to be Agent Clearing Members to submit trades of their customers, referred to as "Executing Firm Customers," into GSD for clearing and settlement.<sup>13</sup> FICC establishes and maintains an "Agent Clearing Member Omnibus Account" on its books where it records the transactions of the Agent Clearing Member's Executing Firm Customers ("Agent Clearing Transactions").<sup>14</sup> Unlike Sponsored Members, Executing Firm Customers do not become limited members of FICC. Agent Clearing Members act as both processing agent and credit intermediary for their customers in clearing, and Executing Firm Customers are identified on Agent Clearing Transactions when such activity is submitted to FICC. FICC may net the Agent Clearing Transactions of one or more Executing Firm Customers whose activity is recorded in the same Agent Clearing Member Omnibus Account for purposes of calculating the required margin deposits.

The Sponsored Service and the Agent Clearing Service each give Sponsored Members and Executing Firm Customers (collectively referred to as "Indirect

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<sup>12</sup> See GSD Rule 1 (definition of "Sponsoring Member Guaranty") and Rule 3A, Section 2(c), *id.*

<sup>13</sup> See GSD Rule 8, *id.*

<sup>14</sup> See GSD Rule 2B and GSD Rule 1 (definition of "Agent Clearing Transactions"), *id.*

Participants”) different options in accessing FICC’s clearance and settlement services, and the benefits of its central counterparty guaranty, multilateral netting and centralized default management. The primary differences between the two services are that (1) Sponsored Members must establish a limited purpose membership with FICC, whereas Executing Firm Customers do not establish any direct relationship with FICC; and (2) Sponsored Member Trades are margined on a gross basis, whereas Agent Clearing Member Transactions of Executing Firm Customers may be margined on a net basis when recorded in the same Agent Clearing Member Omnibus Account.

The activity for Indirect Participants must be recorded in Accounts at GSD that are separate from the Accounts where the intermediary Netting Members’ own Proprietary Transactions are recorded. FICC recently adopted provisions in GSD Rule 2B that govern the maintenance of separate Accounts and create a framework for the separate calculation, collection, and holding of margin supporting a Netting Member’s Proprietary Transactions and the margin supporting the transactions a Netting Member submits on behalf of Indirect Participants.<sup>15</sup> These provisions are designed to address the requirements of Rule 17ad-22(e)(6)(i) under the Act.<sup>16</sup> In addition, both Sponsoring Members and Agent Clearing Members have the option of designating certain Indirect Participants as Segregated Indirect Participants. The activity for Segregated Indirect Participants must be recorded in a separate Segregated Indirect Participant Account, which allows the Sponsoring Member or Agent Clearing Member to direct FICC to calculate and segregate margin deposited in connection with these separate Accounts – referred to in the GSD Rules as Segregated Customer Margin – in accordance with the conditions recently adopted in amendments to Note H to Rule 15c3-3a under the Act

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<sup>15</sup> See GSD Rule 2B, *id.*

<sup>16</sup> 17 CFR 240.17ad-22(e)(6)(i).

(“Note H”).<sup>17</sup> These conditions, addressed principally in Section 1a of GSD Rule 4 (Clearing Fund and Loss Allocation), require, among other things, that activity of Segregated Indirect Participants be margined on a gross, or Segregated Indirect Participant-by-Segregated Indirect Participant, basis and that the Segregated Customer Margin deposits be credited to a Segregated Customer Margin Custody Account to be used exclusively to settle and margin transactions in U.S. Treasury securities recorded in the corresponding Segregated Indirect Participants Account.<sup>18</sup>

In this way, all Segregated Customer Margin deposited with FICC to support the obligations arising under the transactions recorded in a given Segregated Indirect Participants Account must be recorded in a specific Segregated Customer Margin Custody Account maintained by FICC on its books and records for the Netting Member that deposited such Segregated Customer Margin, which Account would be separate from any other Accounts maintained by FICC for the Netting Member, including fellow Segregated Customer Margin Custody Accounts. Additionally, Segregated Customer Margin deposits must be met using assets deposited by the Segregated Indirect Participants with the Netting Member, with a limited exception of temporary “prefunding” by the Netting Member while a margin call to the Segregated Indirect Participant is outstanding.<sup>19</sup>

#### *Overview of FICC Default Management Process*

The GSD Rules specify the circumstances that constitute a default of a Netting Member and the consequences of default. Specifically, under Rule 21 (Restrictions on Access to Services), FICC’s Board of Directors may suspend a Netting Member or prohibit or limit a Netting Member’s access to FICC’s services in enumerated

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<sup>17</sup> 17 CFR 240.15c3-3a.

<sup>18</sup> See Section 1a of GSD Rule 4, *supra* note 3.

<sup>19</sup> See Section 3 of GSD Rule 2B, *id.*

circumstances. These circumstances include, for example, a Netting Member's expulsion or suspension from a regulatory or self-regulatory organization, default in delivering funds or securities to FICC, and a Netting Member experiencing such financial or operational difficulties that FICC determines, in its discretion, that restriction on access to its services is necessary for its protection and for the protection of its membership. The GSD Rules provide FICC with some discretion in determining what constitutes adequate cause to cease to act for a Netting Member. Specifically, Rule 22 (Insolvency of a Member) enumerates the circumstances under which a Netting Member will be treated as insolvent. If any of the enumerated circumstances arise, depending upon the facts and situation, FICC may suspend a Member from any service provided by FICC either with respect to a particular transaction or transactions or with respect to transactions generally, or FICC may prohibit or limit such Member's access to services offered by FICC. When FICC restricts a Netting Member's access to services generally, FICC is said to have "ceased to act" for the Netting Member.

When FICC ceases to act for a Netting Member (referred to in the Rules as a "Defaulting Member"), or suspends or limits its access to services, FICC notifies the Member and furnishes it with a written statement of the grounds for the decision, and of the Member's right to request a hearing with respect to that determination. FICC will also notify FICC's own supervisors of any decision to cease to act promptly after such decision is made and will issue an Important Notice to all Members informing them of the cease to act. Finally, for a Defaulting Member that is also a member of other clearing agencies with which FICC has cross-guaranty or other arrangements, FICC will also notify those clearing agencies as required by those arrangements.

Once FICC has ceased to act for a Defaulting Member, the GSD Rules provide FICC with the authority to promptly close out and manage the positions of the Defaulting Member and to apply the Defaulting Member's collateral. GSD Rule 22A (Procedures for

When the Corporation Ceases to Act) describes the procedures, including actions FICC may take, when it ceases to act for a Defaulting Member; this includes provisions for the treatment of core services where Members may have transactions pending with the Defaulting Member. The GSD Rules identify which actions are automatic and which are discretionary, and detail how the unsettled transactions of the Defaulting Member are to be processed. In this regard, unless determined otherwise, FICC will exclude from further processing any trade that, at the time FICC ceased to act for the Defaulting Member, had not compared upon receipt pursuant to the GSD Rules or that had not been reported by FICC to Members as compared. Any transactions so excluded are to be settled between the parties and not through FICC.

The process of closing out open positions starts with the creation of a “Final Net Settlement Position” for each Eligible Netting Security with a distinct CUSIP Number. This position is a net of all outstanding Deliver Obligations and Receive Obligations of the Defaulting Member in each such security. This netting is a critical part of FICC’s default management and allows it to reduce its exposures in the close-out of a Defaulting Member’s open portfolio and, therefore, contain losses and liquidity demands that may arise in a default event.

The next step in the close-out process is for FICC to effect market purchases and sales of the Final Net Settlement Positions; that is, buying in securities the Defaulting Member was obligated to deliver to FICC, and selling out securities the Defaulting Member was obligated to receive from FICC and pay for, or otherwise liquidating the position. FICC utilizes the services of investment advisors and executing brokers to facilitate such transactions promptly following FICC’s determination to cease to act. If, after closing out and liquidating a Defaulting Member’s positions, FICC were to suffer a loss, FICC has recourse to the loss allocation process pursuant to Rule 4.

The default management process governing the Sponsored Service, set forth in Rule 3A, incorporates the provisions of Rules 21 and 22, described above. As such, FICC may prohibit or suspend Sponsoring Members, in their capacity as Sponsoring Members, and Sponsored Members from access to FICC’s services under the same circumstances specified in those Rules, and would close out the Sponsored Member Trades of a defaulted Sponsoring Member in a similar manner described above. Currently Rule 3A provides that FICC shall determine whether to close out the affected Sponsored Member Trades or permit the Sponsored Members to complete settlement.<sup>20</sup> In the latter alternative, the Sponsored Member Trades would settle pursuant to the GSD Rules in the normal course of business. GSD Rule 3A also includes provisions that govern the voluntary liquidation of done-with Sponsored Member Trades by either the Sponsoring Member or FICC.<sup>21</sup>

Currently, Rule 8, which was recently amended to describe the operation of the Agent Clearing Service, does not specify the provisions that would govern the default of an Agent Clearing Member.

#### *Overview of the Corporation Default Rule*

The GSD Rules also address the actions that would follow a default of FICC. GSD Rule 22B (Corporation Default) specifies the circumstances in which a default by FICC could constitute a “Corporation Default” and how transactions that have been Novated by FICC would be treated following that event. Specifically, following a Corporation Default, Novated, unsettled transactions are terminated, and Netting

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<sup>20</sup> If the Sponsoring Member is subject to insolvency proceedings, FICC may need the permission of the relevant bankruptcy trustee or receiver for the Sponsoring Member (e.g., the Securities Investor Protection Corporation or Federal Deposit Insurance Corporation) in order to settle the Sponsored Member Trades that were Novated to FICC before FICC ceased to act for the Sponsoring Member.

<sup>21</sup> See GSD Rule 3A, Section 18, supra note 3. Done-with transactions refers to transactions that are executed between an Indirect Participant and Indirect Participant’s Sponsoring Member or Agent Clearing Member.

Members are required to take market action to close out those positions and report the results of such action to the Board of Directors of FICC. GSD Rule 22B is applicable to activity that is cleared through the Sponsored Service and incorporated into Rule 3A by reference,<sup>22</sup> but the provisions of Rule 22B do not specify how Sponsored Member Transactions, or other Indirect Participant activity, would be treated following a Corporation Default.

### **Proposed Rule Changes**

As described below, FICC is proposing to expand the rules that apply to the Sponsored Service and Agent Clearing Service related to how FICC would manage activity cleared through these indirect access models following the default of a Netting Member acting as an intermediary and following the default of FICC.

The proposed rule changes would provide further disclosures regarding the current operation of these rules as they apply to the Sponsored Service. The proposed rule changes would also adopt new rules to govern (1) the application of FICC's default management procedures to the Agent Clearing Service and (2) the porting of Indirect Participant activity between intermediary Netting Members both in the normal course of business and following the default of an intermediary.

#### **I. Default Management Rules Governing the Sponsored Service**

The proposed rule changes would revise Rule 3A to expand the descriptions of default management processes that apply to the Sponsored Service. These proposed rule changes would not alter the existing processes but are designed to improve market participants' understanding in how these processes work. The proposed changes would also address default management of Sponsored Member Trades of Segregated Indirect Participants.

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<sup>22</sup> See Section 17(a) of GSD Rule 3A, *id.*

*a. Sponsoring Member Default*

Currently, Sections 14 and 16 of Rule 3A address the default of a Sponsoring Member by describing the application of Rule 21 (Restrictions on Access to Services), Rule 22 (Insolvency of a Member) and Rule 22A (Procedures for When the Corporation Ceases to Act) to Sponsoring Members and Sponsored Member Trades following the default of a Sponsoring Member.

In order to simplify these rules, FICC would consolidate the otherwise repetitive provisions of Sections 15 and 16 of Rule 3A into Sections 13 and 14. FICC would eliminate Sections 15 and 16 and move provisions related to the requirement that it be notified of the insolvency of a Sponsoring Member or Sponsored Member into the remaining Sections 13 and 14, as applicable. The repetitive provisions in these subsections would be removed from the Rules. With this change, FICC would re-number the remaining sections of Rule 3A.

The default management provisions in Rule 3A provide that, in the event of a Sponsoring Member default, FICC would no longer Novate new Sponsored Member Trades submitted by that Sponsoring Member and would either settle or close out the Sponsored Member Trades that were Novated to FICC before FICC ceased to act for the Sponsoring Member. The proposed rule changes would first expand this provision by providing a third alternative to the disposition of Sponsored Member Trades following a Sponsoring Member default – the transfer of those positions to a different Sponsoring Member pursuant to proposed Rule 26. The proposed rule changes would also include new subsections to Section 14 of Rule 3A that describe further how Sponsored Member Trades would be settled or closed out following the default of a Sponsoring Member.

First, if FICC elects to settle a Sponsored Member Trade that was Novated to FICC before FICC ceased to act for a Sponsoring Member, settlement would occur as though no default had occurred and in accordance with the Rules. That is, FICC, the

Sponsored Member, and the Sponsoring Member (acting through its bankruptcy trustee or receiver, if applicable) would be required to transfer or cause to be transferred the relevant cash and securities in accordance with Section 8 of Rule 3A.<sup>23</sup> FICC is proposing to add a new Section 14(d)(i) to Rule 3A to provide additional description of the operation of this settlement process. The new subsection would specify that, if FICC determines to permit the Sponsored Member of the Defaulting Member to complete settlement with respect to affected Novated Sponsored Member Trades, subject to receipt of all necessary and applicable external approvals, then settlement shall occur in accordance with Section 8 of Rule 3A, as though the Sponsoring Member was not a Defaulting Member pursuant to Rule 22A. These proposed changes would not alter the current processes.

Second, if FICC elects to close out the Novated Sponsored Member Trades submitted by a defaulted Sponsoring Member, FICC would do so in the same manner as it closes out trades of a Netting Member for which FICC has ceased to act, pursuant to Rule 22A (Procedures for When the Corporation Ceases to Act). FICC is proposing to add a new Section 14(d)(ii) to Rule 3A to expand the disclosures regarding the close-out of Sponsored Member Trades. The new subsection would specify that, if FICC determines to close out the Sponsored Member Trades of a Defaulting Member that is a Sponsoring Member, it may net the positions of each Sponsored Member, including each Segregated Indirect Participant that is a Sponsored Member, in determining a Final Net Settlement Position, but would not net the positions of one Sponsored Member (or Segregated Indirect Participant) against the positions of another Sponsored Member (or Segregated Indirect Participant).

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<sup>23</sup> See Section 8 of GSD Rule 3A, describing settlement of securities that are cleared through the Sponsored Service, *id.*

This new subsection would describe FICC's current default management processes that maintain separate Final Net Settlement Positions for Sponsored Members following the default of a Sponsoring Member. This approach is consistent with FICC's risk management practice to calculate the Sponsoring Member Omnibus Account Required Fund Deposit for each Sponsored Member on a gross basis, as if each Sponsored Member was a separate Netting Member. Similarly, the Segregated Customer Margin is calculated on a gross, or Segregated Indirect Participant-by-Segregated Indirect Participant, basis, and, pursuant to Section 1a of Rule 4, Segregated Customer Margin may be used exclusively to settle and margin transactions recorded in the corresponding Segregated Indirect Participants Account.

Finally, proposed Section 14(d)(ii) would also provide that, with respect to any amount due to a Segregated Indirect Participant that is a Sponsored Member, FICC would make such payment to or as directed by the Sponsoring Member or its trustee or receiver.

*b. Sponsored Member Default and Liquidation of Sponsored Member Trades*

Currently, Sections 13 and 15 of Rule 3A address the default of a Sponsored Member by describing the application of Rule 21 (Restrictions on Access to Services), Rule 22 (Insolvency of a Member) and Rule 22A (Procedures for When the Corporation Ceases to Act) to Sponsored Members and Sponsored Member Trades following the default of a Sponsored Member. FICC would consolidate these two sections into Section 13 in order to simplify these rules but is not proposing any substantive changes to these provisions. The consolidated Section 13 of Rule 3A would continue to refer to these generally applicable default management rules, including Rule 22A where provisions regarding the treatment of Sponsored Member Trades will be enhanced, as described below.

## II. Default Management Rules Governing the Agent Clearing Service

FICC recently renamed and consolidated its correspondent clearing/prime broker services into the Agent Clearing Service and amended Rule 8 (Agent Clearing Service) to describe the operation and requirements governing the Agent Clearing Service. Since adopting these changes, FICC has considered which provisions that currently govern the Sponsored Service would be appropriate to apply to the Agent Clearing Service and where these provisions should differ between the two indirect access models.

Accordingly, FICC is proposing to adopt additional provisions to Rule 8 that have analogous provisions in Rule 3A. These proposed changes would adopt new rules regarding the operation of the Agent Clearing Service, including following the default of an Agent Clearing Member. FICC is also proposing new provisions in Rule 8 that would align the default management process across Indirect Participants, e.g., Executing Firm Customers using the Agent Clearing Service and Sponsored Members using the Sponsored Service, where such alignment is appropriate.

### a. Voluntary Termination of Agent Clearing Member Status

FICC is proposing to expand Section 3(g) of Rule 8 to describe a process for Agent Clearing Members to voluntarily terminate their use of the Agent Clearing Service. The current provision simply provides that an Agent Clearing Member may terminate its status as an Agent Clearing Member by providing notice to FICC. However, this provision does not provide certainty regarding the treatment of unsettled Agent Clearing Transactions of that Agent Clearing Member. The proposed provisions align to the provisions applicable to Sponsoring Members set forth in Section 2(i) of Rule 3A. Substantive differences between the two provisions include removing reference to the Sponsoring Member Guaranty, which is not applicable to the Agent Clearing Service, and removing the obligation that FICC post an Important Notice when an Agent Clearing Member terminates its status as such with respect to all Executing Firm Customers. FICC

does not believe this notice is necessary because Executing Firm Customers are not limited members of FICC, and FICC does not publish lists of Agent Clearing Members and their Executing Firm Customer relationships.

Currently, Section 3(g) of Rule 8 states that an Agent Clearing Member may provide written notice to FICC that it will no longer submit to FICC trades on behalf of an Executing Firm Customer. FICC is proposing to expand Section 3(g) to more directly provide that an Agent Clearing Member may voluntarily elect to terminate its status as an Agent Clearing Member, with respect to all Executing Firm Customers or with respect to one or more Executing Firm Customers from time to time, by providing FICC with a written notice of such termination (“Agent Clearing Member Voluntary Termination Notice”). The expanded Section 3(g) would provide that the Agent Clearing Member shall specify in the Agent Clearing Member Voluntary Termination Notice a desired date for the termination of the Agent Clearing Member’s status as such with respect to the Executing Firm Customer(s) as to which the Agent Clearing Member has terminated such status (“Former Executing Firm Customer”), which date shall not be prior to the scheduled final settlement date of any Agent Clearing Transactions of such Former Executing Firm Customers, unless otherwise approved by FICC.

In addition, the expanded Section 3(g) would provide that no later than 10 Business Days after the receipt of the Agent Clearing Member Voluntary Termination Notice from such Agent Clearing Member, FICC shall notify the Agent Clearing Member that such notice has been accepted and the date the termination shall be effective (“Agent Clearing Member Termination Date”). Section 3(g) would also state that, as of the Agent Clearing Member Termination Date, the Agent Clearing Member shall no longer be eligible to submit trades on behalf of its Former Executing Firm Customers, and each of its Former Executing Firm Customers shall cease to be an Executing Firm Customer under the Rules unless it is the Executing Firm Customer of another Agent Clearing

Member. Furthermore, Section 3(g) would provide that if any trade is submitted to FICC by the Agent Clearing Member on behalf of its Former Executing Firm Customers that is scheduled to settle on or after the Agent Clearing Member Termination Date, such Agent Clearing Member's Agent Clearing Member Voluntary Termination Notice will be deemed void, and the Agent Clearing Member will remain subject to Rule 8 as if it had not given such Agent Clearing Member Voluntary Termination Notice.

The proposed Section 3(g) would provide that an Agent Clearing Member's voluntary termination of its status as such, in whole or in part, shall not affect its obligations to FICC, or the rights of FICC, with respect to Agent Clearing Transactions submitted to FICC before the applicable Agent Clearing Member Termination Date. Lastly, Section 3(g) would provide that any Agent Clearing Transactions that have been Novated by FICC shall continue to be processed by FICC.

b. Termination of Executing Firm Customer(s) Access to Agent Clearing Service

FICC is proposing to add a new Section 3(h) in Rule 8 to provide FICC with the ability to terminate the access of one or more Executing Firm Customers to the Agent Clearing Service. Because Executing Firm Customers are not limited members and do not establish a legal relationship with FICC, the proposed changes would apply to the Agent Clearing Members. Specifically, the proposed section would provide that FICC may, based upon its judgement that adequate cause exists to do so, provide notice to an Agent Clearing Member that FICC has terminated that Agent Clearing Members' ability to submit Agent Clearing Transactions of one or more Executing Firm Customers. The provision would further provide that the Executing Firm Customer(s) shall cease to be an Executing Firm Customer under the Rules. FICC may take this action, for example, if one or more Executing Firm Customers is subject to sanctions imposed and FICC is restricted or prohibited from processing transactions for this firm.

c. FICC's Right of Offset with Respect to Agent Clearing Members' Obligations

FICC is proposing to add a new Section 5(f) in Rule 8 to address FICC's right to offset obligations of an Agent Clearing Member with respect to an Executing Firm Customer, with any obligations of FICC to the Agent Clearing Member with respect to its Proprietary Accounts. This proposed provision is aligned with Section 11 (Right of Offset) of Rule 3A and would differ from that provision only by removing references to the Sponsoring Member Guaranty, which is not applicable to the Agent Clearing Service.

As with the Sponsored Service, this proposed change would provide that, in the ordinary course, with respect to satisfaction of any Agent Clearing Member's obligations under the Rules, the Agent Clearing Member's Proprietary Accounts and its Agent Clearing Member Omnibus Account shall be treated separately, as if they were Accounts of separate entities. The proposed Section 5(f) would also provide that FICC may, at any time any obligation of an Agent Clearing Member arises under the Rules to pay or perform thereunder with respect to any Executing Firm Customer (other than an Executing Firm Customer that is a Segregated Indirect Participant), exercise a right of offset and net any such obligation of the Agent Clearing Member against any obligations of FICC to the Agent Clearing Member in respect of such Agent Clearing Member's Proprietary Accounts. This provision would align the rules that apply to the Agent Clearing Service with the rules that apply to the Sponsored Service and would ensure that market participants using these services understand their rights and obligations with respect to these services.

d. Application of GSD's Loss Allocation Provisions to Agent Clearing Service

FICC is proposing to expand the disclosures in Rule 8 to provide market participants with a better understanding of how FICC's loss allocation provisions apply to the Agent Clearing Service. The proposed provisions would be added to Section 7(f) of

Rule 8 and would align to disclosures applicable to the Sponsored Service set forth in Section 12(a) of Rule 3A. These aligned provisions would differ only to exclude reference to Off-the-Market Transactions, which are not applicable to Agent Clearing Transactions.

The proposed language would provide that Executing Firm Customers shall not be obligated for allocations of loss or liability incurred by FICC pursuant to Rule 4. The proposed language would further provide that, to the extent a loss or liability is determined by FICC to arise in connection with Agent Clearing Transactions (i.e., in connection with the insolvency or default of an Agent Clearing Member), the Executing Firm Customers shall not be responsible for or considered in the loss allocation calculation and such obligation would be the responsibility of an Agent Clearing Member.

e. *Agent Clearing Member Default*

FICC is proposing to add Section 8 (Restrictions on Access to Services by an Agent Clearing Member) to Rule 8 to describe the default management processes that would govern the default of an Agent Clearing Member. These proposed rules would align with Section 14 (Restrictions on Access to Services by a Sponsoring Member) of Rule 3A, as appropriate. By specifying the procedures that apply to an Agent Clearing Member default and the actions that may be taken with respect to any affected Agent Clearing Transactions, the proposed rule changes would allow market participants to better understand the rights and obligations associated with the use of this indirect access model.

First, Section 8(a) would provide that the provisions of Rule 21 would apply to Agent Clearing Members to provide FICC with the authority to suspend an Agent Clearing Member in its capacity as an Agent Clearing Member. In practice, this provision would permit FICC to suspend an Agent Clearing Member in its capacity as an Agent

Clearing Member in the event that one or more of the factors set forth in Section 1(a) through (g) of Rule 21 is present with respect to the Agent Clearing Member. Similarly, Rule 3A incorporates the provisions of Rule 21 to apply to FICC's authority to terminate a Sponsoring Member's status as a Sponsoring Member. Proposed Section 8(a) would also provide that FICC may summarily suspend an Agent Clearing Member without action of the Board.

Second, proposed Section 8(b) would provide that an Agent Clearing Member shall be obligated to inform FICC that it is insolvent or that it will be unable to perform any of its material contracts, obligations or agreements in the same manner as required by Section 1 of Rule 22 for other Members. The proposed Section 8(b) would also state that, an Agent Clearing Member shall be treated by FICC in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 22 for other Members. Furthermore, Section 8(b) would state that Section 3 of Rule 22 shall apply, in the same manner in which such section applies to other Members, in the case where FICC treats an Agent Clearing Member as insolvent. This section would mirror the language that would be moved from Section 16 of Rule 3A into Section 14 of Rule 3A and would continue to be applied to Sponsoring Members as well.

Third, proposed Section 8(c) would provide that, if FICC ceases to act for an Agent Clearing Member in its capacity as an Agent Clearing Member, Rule 22A shall apply and FICC shall decline to accept or process data from the Agent Clearing Member on Agent Clearing Transactions, and FICC shall terminate the ability of such Agent Clearing Member from submitting Agent Clearing Transactions for all of its Executing Firm Customers to FICC. The proposed Section 8(c) would also provide that, if FICC suspends the Agent Clearing Member or ceases to act for the Agent Clearing Member, FICC shall decline to accept or process data from the Agent Clearing Member on Agent Clearing Transactions and shall terminate the ability of such Agent Clearing Member to

submit Agent Clearing Transactions for all of its Executing Firm Customers to FICC for so long as and to the extent that FICC is ceasing to act for the Agent Clearing Member. The proposed Section 8(c) would state that any Agent Clearing Transactions which have been Novated by FICC shall continue to be processed by FICC. In addition, the proposed Section 8(c) would state that, FICC shall determine whether to close out the affected Agent Clearing Transactions pursuant to Rule 22A, permit the Executing Firm Customers to complete their settlement, or transfer all or part of the activity of the Defaulting Member's Executing Firm Customer relationships to another Agent Clearing Member pursuant to proposed Rule 26. These provisions would be identical to Section 14(d) in Rule 3A, as it is proposed to be amended as described above.

Fourth, FICC would include Section 8(d) to provide the right of Executing Firm Customers to settle Agent Clearing Transactions, if permitted by FICC following the default of an Agent Clearing Member. Similar to the clarification changes proposed to Section 14(e) in Rule 3A, as discussed above, the proposed Section 8(d) would provide that, if FICC determines to permit the Executing Firm Customers of the Agent Clearing Member to complete settlement with respect to affected Novated Agent Clearing Transactions, subject to receipt of all necessary and applicable external approvals, then settlement shall occur in accordance with Rule 11 (Netting System) and Section 7 (Agent Clearing Transactions Processing Rules) of Rule 8, as though the Agent Clearing Member was not a Defaulting Member pursuant to Rule 22A.

Finally, proposed Section 8(e) would provide that, if FICC determines to close out the Agent Clearing Transactions of a Defaulting Member that is an Agent Clearing Member, such close-out shall be completed as provided for in Rule 22A. In this way, this proposed Section 8(e) would mirror the proposed Section 14(d)(ii) that would be added to Rule 3A, as discussed above. However, unlike the provision in Rule 3A, this proposed section would state that FICC may net the positions of Executing Firm Customers (other

than Segregated Indirect Participants) against the positions of other Executing Firm Customers that are recorded in the same Agent Clearing Member Omnibus Account in determining a Final Net Settlement Position. These provisions would reflect that FICC nets the Agent Clearing Transactions of multiple Executing Firm Customers that are recorded in the same Agent Clearing Member Omnibus Account for purposes of calculating the Agent Clearing Member Omnibus Account Required Fund Deposit for that activity. The proposed Section 8(e) would further provide that, if any amount is due to a Segregated Indirect Participant that is an Executing Firm Customer, FICC shall make such payment to such Segregated Indirect Participant or its applicable trustee or receiver or as otherwise directed by such Agent Clearing Member, trustee, or receiver.

f. Liquidation of Agent Clearing Transactions

FICC is proposing a new Section 9 (Liquidation of the Agent Clearing Transactions of an Executing Firm Customer) to Rule 8 to describe the ability of FICC and Agent Clearing Members to elect to liquidate the done-with Agent Clearing Transactions of an Executing Firm Customer and outline the operation of that liquidation. This proposed section would align to the parallel provisions in Rule 3A that address the voluntary liquidation of Sponsored Member Trades (currently in Section 18 of Rule 3A, which would be re-numbered Section 16 of Rule 3A under these proposed rule changes).

Differences between the provisions would include removing references to the Sponsoring Member Guaranty, which is not applicable to the Agent Clearing Service, and other adjustments to reflect the distinction between a Sponsored Member as a limited member of FICC and Executing Firm Customers, which do not onboard with FICC as a member. For example, Rule 3A provides that FICC is only able to cause the termination of Sponsored Member Trades, as described in that section, if it has ceased to act for the relevant Sponsored Member and the Sponsoring Member has not performed the obligations of the Sponsored Member in respect of all positions guaranteed by such

Sponsoring Member. Because Executing Firm Customers are not limited members of FICC, this limitation would not be included in the proposed Section 9 of Rule 8.

Section 9(a) would provide that the provisions in Section 9, which would supersede any conflicting provisions of Rule 8 and Rule 22A, apply only (i) with respect to the liquidation of done-with Agent Clearing Transactions, (ii) in the event an Agent Clearing Member is not a Defaulting Member and FICC has not ceased to act for the Agent Clearing Member and (iii) if a Corporation Default has not occurred.

Section 9(b) would provide that, subject to the provisions of the proposed Section 9(a), on any Business Day, the Agent Clearing Member or FICC may, by written notice to the other, cause the immediate termination of some or all of the long and short Net Settlement Positions and Forward Net Settlement Positions of the Executing Firm Customer established in the Agent Clearing Member's Agent Clearing Member Omnibus Account(s). Proposed Section 9(b) would also provide that, any such notice shall also cause the immediate termination of all of the corresponding, offsetting long and short Net Settlement Positions and Forward Net Settlement Positions of the Agent Clearing Member established in the Agent Clearing Member's Dealer Account(s). In addition, Section 9(b) would state that each such termination shall be effected by the Agent Clearing Member's establishment of a final Net Settlement Position for each Eligible Netting Security with a distinct CUSIP number that shall equal the net of all outstanding deliver obligations and receive obligations of the parties thereto in each such Eligible Netting Security including those that arise from Forward Net Settlement Positions (to be referred to in proposed Section 9 as the "Final Net Settlement Position").

Section 9(c) would provide that, to liquidate the Final Net Settlement Positions of any Executing Firm Customer and the corresponding, offsetting Final Net Settlement Positions of the Executing Firm Customer established pursuant to proposed Section 9(b), an Agent Clearing Member shall calculate a liquidation amount, which may be equal to

zero and shall be deemed a Funds-Only Settlement Amount. The proposed Section 9(c) would state that the liquidation amount in respect of the Final Net Settlement Positions of an Executing Firm Customer (to be defined as the “Executing Firm Customer Liquidation Amount”) would be due to or from FICC from or to the Executing Firm Customer. Furthermore, the proposed Section 9(c) would state that the liquidation amount in respect of the corresponding, offsetting Final Net Settlement Positions of the Agent Clearing Member (to be referred to as the “Agent Clearing Member Liquidation Amount”) would be due to or from FICC from or to the Agent Clearing Member. In addition, the proposed Section 9(c) would provide that, if the Executing Firm Customer Liquidation Amount in respect of the Final Net Settlement Positions of an Executing Firm Customer is due to FICC, the Agent Clearing Member Liquidation Amount in respect of the corresponding Final Net Settlement Positions of the Agent Clearing Member would be due to the Agent Clearing Member. The proposed Section 9(c) would also state that, if the Executing Firm Customer Liquidation Amount in respect of the Final Net Settlement Positions of an Executing Firm Customer is due to the Executing Firm Customer, the Agent Clearing Member Liquidation Amount in respect of the Final Net Settlement Positions of the Agent Clearing Member shall be due to FICC.

The proposed Section 9(c) would state that, any Agent Clearing Member Liquidation Amount calculated by an Agent Clearing Member pursuant to this proposed Section 9(c) may be based on prices obtained from a generally recognized source or the most recent closing bid or offer quotation from such a source and may include the losses (including costs such as fees, expenses and commissions) and/or gains realized by the Agent Clearing Member in entering into replacement transactions and/or entering into or terminating hedge transactions in connection with or as a result of, and any other loss, damage, cost or expense directly arising or resulting from, the liquidation of the Agent Clearing Member’s Final Net Settlement Positions. As proposed, Section 9(c) would

provide that the Executing Firm Customer Liquidation Amount in respect of Final Net Settlement Positions of an Executing Firm Customer shall equal the Agent Clearing Member Liquidation Amount in respect of the corresponding Final Net Settlement Positions of the Agent Clearing Member. The proposed Section 9(c) would also provide that the Agent Clearing Member's calculation of any Executing Firm Customer Liquidation Amount or Agent Clearing Member Liquidation Amount shall be conclusive and binding as between each of the parties and FICC, absent manifest error and subject to any right of FICC to indemnification under the Rules.

The proposed Section 9(c) would also state that, if an Executing Firm Customer Liquidation Amount is due to FICC from the Executing Firm Customer, the Agent Clearing Member would be obligated to pay such Executing Firm Customer Liquidation Amount under its obligations set forth in Rule 8, which obligation shall, notwithstanding anything to the contrary in Rule 8, be payable without demand and (automatically and without further action by any Person) be set off against the obligation of FICC to pay the corresponding Agent Clearing Member Liquidation Amount to the Agent Clearing Member.

The proposed Section 9(c) would further state that, if an Executing Firm Customer Liquidation Amount is due to the Executing Firm Customer from FICC, FICC's sole obligation in respect of any such Executing Firm Customer Liquidation Amount shall be to transfer such amount to the applicable account of the Agent Clearing Member at the Funds-Only Settling Bank Member acting on behalf of an Agent Clearing Member (to be referred to as the "Agent Clearing Funds-Only Omnibus Account"). Furthermore, the proposed Section 9(c) would state that, FICC hereby instructs the Agent Clearing Member to discharge its obligation to pay FICC any Agent Clearing Member Liquidation Amount by transferring such amount to the Agent Clearing Member's Agent Clearing Funds-Only Omnibus Account for application to FICC's obligation to pay the

corresponding Executing Firm Customer Liquidation Amount to the Executing Firm Customer. In addition, the proposed Section 9(c) would state that, to the extent that the Agent Clearing Member transfers such funds to the Agent Clearing Funds-Only Omnibus Account as provided in this paragraph, (i) the obligations of FICC in respect of the Executing Firm Customer Liquidation Amount shall be discharged and (ii) the obligations of the Agent Clearing Member in respect of the corresponding Agent Clearing Member Liquidation Amount shall be discharged. The proposed Section 9(c) would also state that the Agent Clearing Member, on behalf of the Executing Firm Customer, agrees to accept the transfer of such funds to the Agent Clearing Funds-Only Omnibus Account in full satisfaction of the obligation of FICC to pay the Executing Firm Customer Liquidation Amount to the Executing Firm Customer.

Lastly, the proposed Section 9(d) would provide that the Agent Clearing Member shall indemnify FICC, and its employees, officers, directors, shareholders, agents, and Members (to be referred to collectively as the “ACM Indemnified Parties”), for any and all losses, liability, or expenses of an ACM Indemnified Party arising from any claim by an affected Executing Firm Customer disputing the Agent Clearing Member’s calculation of any Executing Firm Customer Liquidation Amount or Agent Clearing Member Liquidation Amount pursuant to the proposed Section 9.

### III. Close-out of Indirect Participant Activity Under Rule 22A

The proposed rule changes would expand the descriptions of FICC’s procedures set forth in Rule 22A that apply following a Netting Member default (including the default of a Netting Member that is a Sponsoring Member and/or Agent Clearing Member) (referred to in the Rules as a “Defaulting Member”). The proposed rule changes would clarify how these procedures apply to the activity of Indirect Participants. By publicly disclosing the key aspects of FICC’s default management rules and procedures, the proposed rule changes would provide market participants with a better understanding

of those rules and procedures. In this way, the proposed changes also facilitate FICC's ability to take timely action following the default of a Member to contain losses and liquidity demands, and to continue to meet its obligations as a central counterparty notwithstanding such default.

First, FICC would amend Section 2(a) of Rule 22A to exclude from the scope of this rule those Sponsored Member Trades and Agent Clearing Transactions that FICC determines to settle, pursuant to Rules 3A and 8, respectively.

Second, FICC would amend Section 2(b) of Rule 22A to address the actions FICC would take to close out Indirect Participant activity that FICC determines, pursuant to Rules 3A and 8, to close out. The proposed changes would include positions recorded in an Indirect Participants Account that would be closed out in accordance with the provisions of this rule. The proposed changes would then include a description of how the Final Net Settlement Position(s) would be determined for Indirect Participant activity of a Defaulting Member. Specifically, the proposed changes would specify that, in determining a Final Net Settlement Position, FICC could (i) net the outstanding positions of each Sponsored Member and Segregated Indirect Participant on a gross, or Indirect Participant-by-Indirect Participant, basis; and (ii) net the outstanding positions across Executing Firm Customers. This change would reiterate the provisions proposed to Rules 3A and 8 and incorporate those parallel provisions within the process described in Rule 22A.

Third, the proposed rule changes would amend the description of FICC's right to take market action with respect to each Final Net Settlement Position of the Defaulting Member. Specifically, FICC would provide that its authority to take appropriate market action includes a right to decline to take market action to the extent that a Final Net Settlement Position has opposite directionality to a Final Net Settlement Position established in the same Security in relation to the Defaulting Member or its Indirect

Participants. In the circumstances described in this provision, FICC would not be required to incur the costs or risk of market action with respect to offsetting Final Net Settlement Positions. The proposed rule changes would also provide that, in making its determination in this regard, FICC would determine the value of the Final Net Settlement Positions through the other market actions it would be taking at that time or by reference to available market data.

The proposed rule changes would also provide that the Indirect Participants of a Defaulting Member may, but are not obligated to, take market action to close out any outstanding positions that FICC determines to close out pursuant to Rules 3A and 8, respectively. The proposed rule change would also expand a provision that currently permits FICC to apply any gains realized from its market action to offset any losses from such market action. Currently this right only applies to gains or losses realized in connection with a Defaulting Member's Market Professional Cross-Margining Account. However, FICC should have the ability to reduce losses that are incurred in connection with the close-out of the Indirect Participant activity of a Defaulting Member with any gains realized in connection with the close-out of that Defaulting Member's Proprietary Transactions. This proposed change would permit FICC to take action that would contain the losses resulting from a close-out that would impact the Indirect Participants of a Defaulting Member.

Lastly, FICC would add language to make it clear that FICC would include, without limitation, all costs and fees incurred by FICC in connection with a close-out of all the Final Net Settlement Positions of a Defaulting Member when determining the resulting loss or liability of such close-out. This proposed change would elaborate in the existing rule the scope of such losses and liabilities, without changing the existing rights or obligations of FICC.

#### IV. Indirect Participant Activity Under the Corporation Default Rule 22B

Rule 22B addresses the procedures that would be followed if FICC defaults and a Corporation Default, as defined in the Rules, is declared. Specifically, this rule provides that Members with Novated, unsettled activity at the time of a Corporation Default are required to take market action to close out such positions and report the results of that activity to the FICC Board of Directors. The Board of Directors would then apply the procedures set forth in Rule 22A and take account of any application of the loss allocation provisions in Rule 4 to determine a net amount that would be owed to or by each such Member. FICC is proposing changes to Section (a) of Rule 22B to specify how Indirect Participant activity would be treated in the context of a Corporation Default.

First, the proposed changes would clarify that the scope of the rule includes Indirect Participant activity by clarifying that references to the Transactions that are subject to the procedures in Rule 22B include all Sponsored Member Trades and Agent Clearing Transactions. FICC would also revise this section to make it clear that references to “each relevant Member” in Rule 22B include Sponsored Members, which are limited members of GSD. The proposed changes would also clarify that only Members that have outstanding positions arising from Novated Transactions shall take market action with respect to such positions under Rule 22B. This proposed change would provide a clarification of the scope of these provisions but would not change the operation of this rule.

FICC is also proposing to add language to state that Sponsored Members may appoint a Sponsoring Member as its agent to conduct market action on its behalf with respect to the Sponsored Member Trades submitted by that Sponsoring Member; and would further provide that Agent Clearing Members may conduct such market action on behalf of their Executing Firm Customers with respect to relevant Agent Clearing Transactions, unless an Agent Clearing Member and its Executing Firm Customers

otherwise agree. Related to these changes, the proposal would also clarify that either a Member or an agent of the Member (which would include the Sponsoring Member of a Sponsored Member) would report the results of market actions to the Board of Directors.

Finally, FICC would expand the provisions of Rule 22B to provide that, in determining the net amount that would be payable to or from a Member under this rule, (i) an Indirect Participant's net claim against FICC shall not be netted against amounts owed to FICC by the respective Sponsoring Member or Agent Clearing Member; (ii) activity recorded in Agent Clearing Member Omnibus Accounts (other than Segregated Indirect Participants Accounts) would be netted across all Executing Firm Customers with activity recorded in an Account; and (iii) activity recorded in Sponsoring Member Omnibus Accounts and Segregated Indirect Participants Accounts would be netted on an Indirect Participant-by-Indirect Participant basis. The proposed changes would also allow for more than one net amount that may be owed by or to each Member, to reflect separate amounts that may be calculated for Indirect Participants of the Member. Collectively, these changes would address the operation of this rule in connection with these indirect access models.

In connection with these changes, FICC is also proposing to add a sentence to Section 17(a) of Rule 3A (to be re-numbered Section 15(a)) to clarify that any payments to be made to a Sponsored Member following a Corporation Default would be made on a net basis for each Sponsored Member and Segregated Indirect Participant that is a Sponsored Member pursuant to Rule 22B. This clarification in Rule 3A would reflect the changes that are also being proposed to Rule 22B to ensure the parallel provisions of these separate rules are consistent.

V. Proposed Rule 26 to Govern Transfers of Indirect Participant Activity and Margin

FICC is proposing to adopt a new Rule 26 that would describe the process by which an Indirect Participant's activity and, when applicable, Segregated Customer

Margin could be ported between Sponsoring Members or Agent Clearing Members. The proposed rule changes would describe the rights and obligations of the parties to these transfers and would set forth the conditions necessary and operational process for effecting these transfers in the normal course of business. The proposed changes would also provide for the transfer of Indirect Participant activity and Segregated Customer Margin following the default of a Sponsoring Member or Agent Clearing Member. These proposed changes would provide Members and their Indirect Participants with clear, transparent rules that would govern an important tool for market participants to manage their clearing relationships and activity.

Section 1 of proposed Rule 26 would describe the operation of a transfer in the normal course of business and would begin with a general statement of the service. First, the proposed changes would establish the ability for all or a portion of an Indirect Participant's activity to be transferred between Members acting as intermediaries. The proposed changes would define the originating Sponsoring Member or Agent Clearing Member as the "Sending Member" and the recipient Sponsoring Member or Agent Clearing Member as the "Receiving Member". The rule change would also provide that Indirect Participants would only be able to move activity into the same type of Indirect Participants Account; meaning a Sponsored Member could not move from a Sponsoring Member to become the Executing Firm Customer of another Agent Clearing Member. This limitation is important given the unique onboarding requirements of the two indirect access models and is reiterated in the conditions to activity transfers, described below.

Second, the proposed changes would describe how a transfer of an Indirect Participant's activity would be submitted to FICC by a Sending Member. Specifically, a Sending Member would be required to submit data on the Sponsored Member Trade(s) and Agent Clearing Transaction(s) to be transferred to FICC's real-time trade matching system in a form and subject to procedures that FICC would prescribe. The proposed

changes would require that such trade data be unaltered from the original trade data, including, for example, trade date, trade price and settlement date.

Under the proposed rule, a Receiving Member would be deemed to have accepted a transfer if it submits matching data for comparison in response to the transfer submission through FICC's real-time trade matching system in accordance with FICC's procedures. If a Receiving Member does not submit such matching data by the deadline for intraday transaction porting (which FICC would publish to Members), the transfer would pend and be removed from the system, the transfer would not be processed by FICC, and the Sponsored Member Trade(s) or Agent Clearing Transaction(s) would continue to be the obligations of the Sending Member pursuant to the Rules.

The proposed rule would provide that a transfer of Sponsored Member Trade(s) and Agent Clearing Transaction(s) that is submitted to FICC by the published deadline would be effective by no later than the close of business on that Business Day and any transfer that is submitted to FICC after such deadline would be effective at the start of the next Business Day. The proposed rule would define the time a transfer is effective as the "Transfer Effective Time". In order to operationalize these provisions, FICC would publish to its Members the applicable timeframes and procedures, pursuant to this proposed rule.

Third, the proposed rule change would set forth the conditions required for transferring Indirect Participant activity. These conditions would include (1) the Sending Member has submitted the required data on the activity to be transferred, and the Receiving Member has taken the actions necessary to be deemed to have accepted that transfer pursuant to Rule 26; (2) the Indirect Participant has completed all necessary onboarding requirements under the Rules such that it is either a Sponsored Member or Executing Firm Customer of the Receiving Member, as applicable; and (3) the Sponsored Member Trade(s) and Agent Clearing Transaction(s) to be transferred have been Novated

by FICC, have not yet been included in a Net Settlement Position of the Sending Member pursuant to GSD Rule 11 (Netting System)<sup>24</sup> for purposes of settlement, and have a scheduled final settlement date that is not prior to the Transfer Effective Time.

The proposed rules would provide that, if these conditions are met, FICC would process the transfer of activity by the Transfer Effective Time. The proposed rules would also provide that FICC's lien on the Sending Member's Clearing Fund and, subject to a transfer of Segregated Customer Margin under Rule 26, the Sending Member's Segregated Customer Margin, would continue to secure the obligations arising from the transferred activity pursuant to Rule 4 until the Receiving Member has satisfied the necessary margin requirements with respect to such transactions.<sup>25</sup> This provision would allow FICC to continue to manage the risks presented by the Indirect Participant's activity while a transfer of that activity is pending under this proposed rule. The proposed rule would also provide that if the specified conditions are not met, the transfer would be rejected, and the Sponsored Member Trade(s) and Agent Clearing Transaction(s) would continue to be the obligations of the Sending Member.

Fourth, the proposed changes would describe the conditions necessary for a Sending Member to transfer the Segregated Customer Margin deposits of a Segregated Indirect Participant to a Receiving Member. Under the rules that FICC recently adopted to comply with recent amendments to Note H of Rule 15c3-3 under the Exchange Act, Segregated Customer Margin requirements must be funded with the cash and eligible securities of the Segregated Indirect Participant.<sup>26</sup> Therefore, because these deposits are the cash and assets of the Segregated Indirect Participant, FICC is adopting rules that

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<sup>24</sup> See GSD Rule 11 (Netting System), *id.*

<sup>25</sup> See Section 4 of GSD Rule 4, *id.*

<sup>26</sup> 17 CFR 240.15c3-3a.

would permit a Sending Member to transfer those deposits to a Receiving Member, subject to specified conditions.

Such conditions would include that (1) all of the activity of the Segregated Indirect Participant is transferred from the Sending Member to a Segregated Indirect Participants Account of the Receiving Member; (2) the Sending Member has identified to FICC the cash deposit and Eligible Clearing Fund Securities that will be transferred to the Receiving Member; and (3) the transfer is submitted to FICC in accordance with the applicable published timeframes.

The proposed changes would provide that, if these conditions are met, FICC's books and records would be updated to reflect the movement of the excess Segregated Customer Margin of the Segregated Indirect Participant that is on deposit with FICC from the Segregated Customer Margin Custody Account of the Sending Member to the Segregated Customer Margin Custody Account of the Receiving Member. Such transfer would be reflected at the start of business on the Business Day following the Transfer Effective Time. The proposed rules would further provide that, if any of the specified conditions are not met, the transfer of Segregated Customer Margin would not be processed by FICC.

Finally, Section 2 of proposed Rule 26 would provide for transfers of Indirect Participant activity following the default of a Sponsoring Member or Agent Clearing Member. As stated above, FICC is proposing to state in Section 14 of Rule 3A and Section 8 of Rule 8 that, following the default of a Sponsoring Member or Agent Clearing Member, the activity of the Defaulting Member's Indirect Participants could be closed out, settled or transferred pursuant to the proposed Rule 26. This section would govern such transfers.

Specifically, Section 2 would provide that, upon a default of a Sponsoring Member or Agent Clearing Member, FICC may, in accordance with applicable law, act

immediately to attempt to transfer to alternate Sponsoring Member(s) or Agent Clearing Member(s) all or part of the transactions of the Defaulting Member's Indirect Participants and, where applicable, associated Segregated Customer Margin. Given the variety of circumstances that could be present in connection with a Member default, and FICC's obligation, as a central counterparty, to ensure the orderly management of such default, it would not be appropriate for FICC to commit to its ability to transfer such activity away from the Defaulting Member. For example, FICC would be required to follow the orders issued by a bankruptcy court in the event a Defaulting Member is insolvent. However, the proposed changes would document in the Rules FICC's intention to give effect to such transfers when it is able and when such action is appropriate.

Section 2 would further provide that, if the transactions of the Defaulting Member's Indirect Participants are transferred to alternate Sponsoring Member(s) or Agent Clearing Members(s), FICC's lien on the Defaulting Member's Clearing Fund, pursuant to Rule 4, would continue to secure the obligations arising from the transferred transactions until such time as the Receiving Member satisfies the necessary Sponsoring Member Omnibus Account Required Fund Deposits or Agent Clearing Member Omnibus Account Required Fund Deposits with respect to such transactions.<sup>27</sup> Again, this provision would allow FICC to continue to manage the risks of activity that is transferred under this proposed rule.

#### VI. Technical Updates and Corrections

FICC is proposing to add a defined term for "Indirect Participant" to GSD Rule 1 (Definitions) that would refer to any Sponsored Member or Executing Firm Customer.

FICC is also proposing to add a reference to proposed Rule 26 to Section 17(b) of Rule 3A (to be re-numbered Section 15(b)) as an additional rule that would be applicable

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<sup>27</sup> See Section 4 of GSD Rule 4, supra note 3.

to Sponsored Members and Sponsoring Members. FICC is proposing to change the references of “Member” to “Defaulting Member” in Rule 22A to reflect a more appropriate usage of such term as defined in Rule 1. FICC would also create additional subsections to Section 2 of Rule 22A to improve the readability of that rule.

FICC would make a grammatical correction in Section 14(a) of Rule 3A, correct a section referenced in Section 18(e) of Rule 3A (to be renumbered Section 16(e)), and correct a typo in Section 2(b) of Rule 8. FICC would also remove an unnecessary heading at the top of Rule 22B.

## 2. Statutory Basis

FICC believes the proposed rule change is consistent with Section 17A of the Act<sup>28</sup> and the rules thereunder applicable to FICC. Specifically, FICC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>29</sup> and Rules 17ad-22(e)(13) and (e)(23)(i),<sup>30</sup> each as promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the Rules be designed, among other things, to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.<sup>31</sup> The proposed changes would improve market participants’ understanding of the operation of FICC’s default management procedures as those procedures apply to the GSD indirect access models. By expanding the disclosures in the GSD Rules in this way, FICC believes that market participants would be better prepared in the event of a Member default, which would

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<sup>28</sup> 15 U.S.C. 78q-1.

<sup>29</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>30</sup> 17 CFR 240.17ad-22(e)(13) and (e)(23)(i).

<sup>31</sup> 15 U.S.C. 78q-1(b)(3)(F).

result in a more orderly management of such an event. The proposed rule changes would, therefore, minimize default losses and, thereby, reduce potential risk to FICC and non-defaulting Members. As such, FICC believes the proposed rule change would assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.<sup>32</sup>

Similarly, the proposed changes to adopt rules that would govern the transfer of Indirect Participant activity between Members would provide participants with a tool to manage their clearing relationships and activity. These proposed changes would encourage participation in central clearing, particularly by firms that would participate through indirect access models. Therefore, by encouraging more activity into central clearing, the proposed changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>33</sup> Finally, the proposed change to make technical updates and corrections to the Rules would ensure that the Rules remain accurate and clear, which in turn would enable all stakeholders to readily understand their rights and obligations in connection with FICC's clearance and settlement of securities transactions. Therefore, FICC believes that this proposed change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>34</sup>

Rule 17ad-22(e)(13) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure FICC has the authority and operational capacity to take timely action to contain losses and continue to meet its obligations.<sup>35</sup> The proposed rule changes would expand

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<sup>32</sup> Id.

<sup>33</sup> Id.

<sup>34</sup> Id.

<sup>35</sup> 17 CFR 240.17ad-22(e)(13).

the descriptions in the GSD Rules of FICC's default management procedures, principally by describing how those procedures apply to the Sponsored Service and Agent Clearing Service. The proposed changes would also provide for the transfer of Indirect Participant activity following the default of a Member acting as either a Sponsoring Member or Agent Clearing Member. The proposed changes would provide market participants with a better understanding of how FICC would manage the default of a Member, specifically a Member that acts as a Sponsoring Member or Agent Clearing Member. Having clear and comprehensive rules governing the default management process would facilitate a more effective and orderly administration of those rules, providing FICC with the authority and operational capacity to take timely action to contain losses and liquidity demands in the event of a default. This, in turn, would help FICC to continue to meet its clearance and settlement obligations as a central counterparty in such an event. Therefore, FICC believes that the proposed rule changes to enhance the transparency and consistency of FICC's default management process with respect to indirect participant activity are consistent with Rule 17ad-22(e)(13) under the Act.<sup>36</sup>

Rule 17ad-22(e)(23)(i) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures, including key aspects of FICC's default rules and procedures.<sup>37</sup> The proposed rule changes would expand the description of FICC's default management procedures in the GSD Rules, principally by describing the application of those procedures to the GSD indirect access models. The proposed changes would also adopt rules that would govern the rights, obligations and operational aspects of a transfer of Indirect Participant activity and, in some cases, Segregated

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<sup>36</sup> Id.

<sup>37</sup> 17 CFR 240.17ad-22(e)(23)(i).

Customer Margin deposits. The proposed changes would also make technical corrections and other updates to the Rules. As such, these proposed changes would improve the public disclosures in the GSD Rules of relevant rules and material procedures, in particular the key aspects of FICC's default rules and procedures as such matters apply to the indirect access models. Therefore, FICC believes that the proposed rule changes are consistent with Rule 17ad-22(e)(23)(i) under the Act.<sup>38</sup>

(B) Clearing Agency's Statement on Burden on Competition

FICC does not believe that the proposed rule changes to expand its disclosures regarding how its default management procedures apply to the GSD indirect access models, adopt rules that would permit the transfer of Indirect Participant activity, and make technical corrections to the GSD Rules would impact competition. These changes would apply equally to all Members. By adopting default management rules to apply to the Agent Clearing Service that are, where appropriate, aligned with the default management rules that apply to the Sponsored Service, the proposed changes would further the consistent treatment, to the extent practicable and appropriate, of Indirect Participants in these two indirect access models. As such, FICC believes that these proposed rule changes would not have any impact on competition.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto. Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters

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<sup>38</sup> Id.

should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submitcomments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777. FICC reserves the right to not respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2025-015 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2025-015. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<https://www.dtcc.com/legal/sec-rule-filings.aspx>). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FICC-2025-015 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>39</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2025-11422 Filed: 6/20/2025 8:45 am; Publication Date: 6/23/2025]

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<sup>39</sup> 17 CFR 200.30-3(a)(12).