



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Bold and underlined text** indicates proposed added language.

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

**Bold, underlined and shaded text** indicates proposed language added in connection with a separate proposal that has not yet been approved (SR-NSCC-2021-016).

**~~Bold, strikethrough and shaded text~~** indicates proposed language deleted in connection with a separate proposal that has not yet been approved (SR-NSCC-2021-016).

## RULE 1. DEFINITIONS AND DESCRIPTIONS\*

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules and Procedures, have the meanings herein specified.

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### **Agent Clearing Member**

**The term “Agent Clearing Member” means a Member that enters into transactions on behalf of Customers in accordance with the provisions of Rule 2D.**

### **Agent Clearing Member Agreement**

**The term “Agent Clearing Member Agreement” means an agreement between the Corporation and a Member who is approved to become an Agent Clearing Member and specifies the terms and conditions deemed by the Corporation to be necessary in order to protect itself and its participants.**

### **Agent Clearing Member Customer Omnibus Account**

**The term “Agent Clearing Member Customer Omnibus Account” means a ledger maintained on the books and records of the Corporation that reflects the outstanding Agent Clearing Member Transactions that an Agent Clearing Member enters into on behalf of Customers and that have been novated to the Corporation, the SFT Positions or SFT Cash associated with those transactions, and any debits or credits of cash associated with such transactions effected pursuant to Rule 12.**

### **Agent Clearing Member Required Fund Deposit**

**The term “Agent Clearing Member Required Fund Deposit” shall have the meaning given to such term in Rule 2D.**

### **Agent Clearing Member Termination Date**

**The term “Agent Clearing Member Termination Date” means the date on which the termination of an Agent Clearing Member’s status as an Agent Clearing Member becomes effective.**

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\* All products and services provided by the Corporation referenced in these Rules are either registered trademarks or servicemarks of, or trademarks or servicemarks of, The Depository Trust & Clearing Corporation or its affiliates. Other names of companies, products or services appearing in these Rules are the trademarks or servicemarks of their respective owners.

**Agent Clearing Member Transaction**

**The term “Agent Clearing Member Transaction” shall have the meaning given to such term in Rule 2D.**

**Agent Clearing Member Voluntary Termination Notice**

**The term “Agent Clearing Member Voluntary Termination Notice” means a written notice from an Agent Clearing Member to the Corporation that the Agent Clearing Member is voluntarily electing to terminate its status as an Agent Clearing Member.**

**Aggregate Net SFT Close-out Value**

**The term “Aggregate Net SFT Close-out Value” means, with respect to an SFT Member, the sum of the SFT Close-out Value for each SFT Position to which the SFT Member is a party.**

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**Approved SFT Submitter**

**The term “Approved SFT Submitter” means a provider of transaction data on an SFT that the parties to the SFT have selected and the Corporation has approved, subject to such terms and conditions as to which the Approved SFT Submitter and the Corporation may agree.**

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**Bilaterally Initiated SFT**

**The term “Bilaterally Initiated SFT” means an SFT, the Initial Settlement of which occurred prior to the submission of such SFT to the Corporation.**

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**Buy-In**

**The term “Buy-In” shall have the meaning given to such term in Rule 56.**

**Buy-In Amount**

**The term “Buy-In Amount” means a net amount equal to (x) the Buy-In Costs or Deemed Buy-In Costs of the SFT Securities in respect of which a Transferor has effected a Buy-In, less (y) the amount of the SFT Cash for the relevant SFT (unless the Transferor effected a Buy-In in respect of some, but not all, of the SFT Securities that are the subject of the SFT, in which case (y) shall be the amount of the Corresponding SFT Cash).**

**Buy-In Costs**

**The term “Buy-In Costs” shall have the meaning given to such term in Rule 56.**

**Buy-In Indemnified Parties**

**The term “Buy-In Indemnified Parties” shall have the meaning given to such term in Rule 56.**

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**Clearing Fund**

The term “Clearing Fund” means the fund created pursuant to Rule 4. **Clearing Fund shall include the SFT Deposit, if any, unless otherwise noted in these Rules.**

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**CNS Market Value**

**The term “CNS Market Value” has the meaning specified in Rule 41.**

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**CNS Transaction**

**The term “CNS Transaction” has the meaning specified in Rule 11.**

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**Contract Price**

**The term “Contract Price” means, with respect to SFT Securities subject to an SFT, the price of such securities at the time the SFT is submitted to the Corporation for novation, which price shall be determined by the SFT Member parties to the relevant SFT and provided by an Approved SFT Submitter to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose; provided that if no such price is provided by the time required by the Corporation, the “Contract Price” shall be the Current Market Price of the SFT Securities.**

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**Corporation Default**

**The term “Corporation Default” shall have the meaning given to such term in Rule 41.**

**Corresponding SFT Cash**

**The term “Corresponding SFT Cash” means:**

**(a) in respect of a Recalled SFT for which a Transferor has effected a Buy-In in respect of some, but not all, of the SFT Securities that are the subject of the SFT, the portion of the SFT Cash for such SFT equal to the product of (i) the percentage of the SFT Securities in respect of which the Transferor effected a Buy-In and (ii) the SFT Cash of the SFT; and**

**(b) in respect of a Settling SFT which has a greater quantity of SFT Securities as its subject than the corresponding Linked SFT, the portion of the SFT Cash of the Settling SFT equal to the product of (i) the percentage of the SFT Securities of the Settling SFT that the Linked SFT has as its subject and (ii) the SFT Cash of the Settling SFT.**

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**Customer**

**The term “Customer” shall have the meaning given to such term in Rule 2D.**

**Customer Clearing Service**

**The term “Customer Clearing Service” means an Agent Clearing Member’s clearing of Agent Clearing Member Transactions for Customers.**

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**Deemed Buy-In Costs**

**The term “Deemed Buy-In Costs” means the product of the number of SFT Securities subject to the relevant Buy-In and the per-share price therefor on the date of the Buy-In obtained from a generally recognized source or the last bid quotation from such a source at the most recent close of trading for the SFT Security.**

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**Defaulting SFT Member**

**The term “Defaulting SFT Member” means an SFT Member for which the Corporation has ceased to act in accordance with Section 14 of Rule 56.**

**Default-Related SFT**

**The term “Default-Related SFT” shall have the meaning given to such term in Rule 56.**

**Distribution**

**The term “Distribution” means, with respect to any SFT Security at any time, any cash payment of amounts equivalent to dividends and other distributions on the SFT Security.**

**Distribution Amount**

**The term “Distribution Amount” means, in respect of an SFT, an amount of cash equal to the product of:**

- (a) the amount per security in respect of (x) a cash dividend on the SFT Securities that are the subject of the SFT or (y) an exchange of the SFT Securities that are the subject of the SFT for cash; and**
- (b) the number of the relevant SFT Securities subject to the SFT.**

**Distribution Payment**

**The term “Distribution Payment” means an amount payable by one party to an SFT to the other party to the SFT during the term of the SFT in respect of a Distribution on the SFT Securities subject to the SFT.**

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**Existing Master Agreement**

**The term “Existing Master Agreement” means, in respect of an SFT, a written agreement that (i) exists at the time transaction data for the SFT is submitted to the Corporation by an Approved SFT Submitter, (ii) provides for, among other things, terms governing the payment and delivery obligations of the parties and (iii) the parties have established (by written agreement, oral agreement, course of conduct or otherwise) will govern such SFT.**

\*\*\*\*

**FFI Member**

The term “FFI Member” means any Member, ~~or~~ Limited Member **or Sponsored Member** that is treated as a non-U.S. entity for U.S. federal income tax purposes. For the avoidance of doubt, FFI Member includes any Member, ~~or~~ Limited Member **or Sponsored Member** that is a U.S. branch of an entity that is treated as a non-U.S. entity for U.S. federal income tax purposes.

**FICC**

**The term “FICC” means Fixed Income Clearing Corporation.**

**Final Net Settlement Position**

**The term “Final Net Settlement Position” shall have the meaning given to such term in Rule 2C.**

**Final Settlement**

**The term “Final Settlement” means the exchange of SFT Securities for SFT Cash described in clause (b) of the definition of Securities Financing Transaction or SFT.**

**Final Settlement Date**

**The term “Final Settlement Date” means the Business Day on which the final settlement of a transaction is scheduled to occur. If the transaction is an SFT, the Final Settlement Date means the Business Day on which the Final Settlement of the SFT is scheduled to occur in accordance with Rule 56 or, if the SFT is accelerated in accordance with Rule 56, the date to which the Final Settlement obligations have been accelerated.**

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**Former Sponsored Member**

**The term “Former Sponsored Member” shall have the meaning given to such term in Rule 2C.**

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**~~Index Receipt Agent~~**

**~~The term “Index Receipt Agent” has the meaning specified in Rule 7.~~**

\*\*\*\*

**Incremental Additional Independent Amount SFT Cash**

**The term “Incremental Additional Independent Amount SFT Cash” means:**

- (a) **in respect of a Linked SFT, the excess, if any, of the Independent Amount SFT Cash of the Linked SFT over the Independent Amount SFT Cash of the Settling SFT;**
- (b) **in respect of a Non-Returned SFT, the portion of the Price Differential payable by the Transferee, if any, that is attributable to the Independent Amount SFT Cash of the SFT (which shall be calculated by multiplying such Price Differential by the excess, if any, of the Independent Amount Percentage over 100%); and**

- (c) in respect of any other SFT, the Independent Amount SFT Cash of such SFT.

**Independent Amount Percentage**

The term “Independent Amount Percentage” means, in respect of an SFT, a percentage obtained by dividing the SFT Cash of such SFT by the Market Value SFT Cash of such SFT.

**Independent Amount SFT Cash**

The term “Independent Amount SFT Cash” means the portion, if any, of the SFT Cash for an SFT equal to the amount by which the SFT Cash for such SFT at the time of the Initial Settlement exceeds the Contract Price of the SFT Securities that are the subject of such SFT.

**Independent Amount SFT Cash Deposit**

The term “Independent Amount SFT Cash Deposit” shall have the meaning given to such term in Rule 56.

**Independent Amount SFT Cash Deposit Requirement**

The term “Independent Amount SFT Cash Deposit Requirement” shall have the meaning given to such term in Rule 56.

**Index Receipt Agent**

The term “Index Receipt Agent” has the meaning specified in Rule 7.

**Ineligibility Date**

The term “Ineligibility Date” means, with respect to an SFT, the date on which the SFT Security that is the subject of the SFT becomes an Ineligible SFT Security.

**Ineligible SFT**

The term “Ineligible SFT” means an SFT that has, as its subject, SFT Securities that have become Ineligible SFT Securities.

**Ineligible SFT Security**

The term “Ineligible SFT Security” means an SFT Security that is not eligible to be the subject of a novated SFT.



**Initial Settlement**

**The term “Initial Settlement” means the exchange of SFT Securities for SFT Cash described in clause (a) of the definition of Securities Financing Transaction or SFT.**

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**Linked SFT**

**The term “Linked SFT” means an SFT entered into by the pre-novation SFT Member parties to a Settling SFT that has the same Transferor, Transferee and subject SFT Securities (including CUSIP) as the Settling SFT. A Linked SFT shall include an SFT that has as its subject fewer SFT Securities than the corresponding Settling SFT but shall not include an SFT that has as its subject more SFT Securities than the corresponding Settling SFT.**

\*\*\*\*

**Market Value SFT Cash**

**The term “Market Value SFT Cash” means the portion of the SFT Cash for an SFT equal to the amount of the SFT Cash for such SFT minus the Independent Amount SFT Cash of such SFT.**

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**Net Capital**

**The term “Net Capital” means, as of a particular date, the amount equal to the net capital of a Registered Broker-Dealer as defined in Rule 15c3-1(c)(2) of the Exchange Act, or any successor rule or regulation thereto.**

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**Net Member Capital**

**The term “Net Member Capital” means Net Capital, net assets or equity capital, as applicable to a Member, based on the type of regulation, and in particular the capital requirements, to which the Member is subject.**

\*\*\*\*

**Net Worth**

**The term “Net Worth” means, as of a particular date, the amount equal to the excess of the assets of a Person over the liabilities of such Person, computed in accordance with generally accepted accounting principles. For Registered Broker-Dealers, Net Worth shall include liabilities that are subordinated to the**

**claims of creditors pursuant to a satisfactory subordination agreement, as defined in Appendix D to Rule 15c3-1 of the Exchange Act.**

**Non-Returned SFT**

**The term “Non-Returned SFT” shall have the meaning given to such term in Rule 56.**

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**Price Differential**

**The term “Price Differential” means:**

- (a) **for purposes of the discharge of offsetting Final Settlement and Initial Settlement obligations, (i) the SFT Cash for the Settling SFT (or if the Settling SFT has a greater quantity of SFT Securities as its subject than the corresponding Linked SFT, the Corresponding SFT Cash) minus (ii) the SFT Cash for the Linked SFT; and**
- (b) **for all other purposes, (i) the SFT Cash for the SFT minus (ii) the product of the Independent Amount Percentage, if any, and the Current Market Price of the SFT Securities.**

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*Qualified Securities Depository*

The term “Qualified Securities Depository” means a Registered Clearing Agency which has entered into an agreement with the Corporation pursuant to which it will act as a securities depository for the Corporation and effect book-entry transfers of securities to and by the Corporation in respect of the CNS System **and/or the SFT Clearing Service.**

**Rate Payment**

**The term “Rate Payment” means an amount payable from one party to an SFT to the other party to the SFT at the Final Settlement expressed as a percentage of the amount of SFT Cash for the SFT.**

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**Recall Date**

**The term “Recall Date” means, in respect of a Recall Notice, the second Business Day following the Corporation’s receipt of such Recall Notice.**

**Recall Notice**

**The term “Recall Notice” means a notice that triggers the provisions of Section 9(b) of Rule 56 relating to a Buy-In in respect of an SFT and that is submitted by an Approved SFT Submitter on behalf of a Transferor in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose.**

**Recalled SFT**

**The term “Recalled SFT” means an SFT that has been novated to the Corporation in respect of which a Recall Notice has been submitted.**

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**Required Fund Deposit**

The term “Required Fund Deposit” has the meaning specified in Rule 4. **Required Fund Deposit shall include the Sponsoring Member Required Fund Deposit, the Agent Clearing Member Required Fund Deposit and the Required SFT Deposit, if any, unless otherwise noted in these Rules.**

**Required SFT Deposit**

**The term “Required SFT Deposit” shall have the meaning given to that term in Rule 56 and includes any and all Independent Amount SFT Cash Deposit Requirements.**

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**Securities Financing Transaction or SFT**

**The term “Securities Financing Transaction” or “SFT” means a transaction between two SFT Members pursuant to which:**

- (a) **one SFT Member agrees to transfer specified SFT Securities to another SFT Member versus the SFT Cash; and**
- (b) **the Transferee agrees to retransfer such specified SFT Securities or equivalent SFT Securities (including quantity and CUSIP) to the Transferor versus the SFT Cash on the following Business Day.**

**Securities Financing Transaction Clearing Service or SFT Clearing Service**

**The term “Securities Financing Transaction Clearing Service” or “SFT Clearing Service” means the service offered by the Corporation to clear SFTs, as more fully described in Rule 56.**

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**Settling SFT**

**The term “Settling SFT” means, as of any Business Day, an SFT that has been novated to the Corporation, the Final Settlement of which is scheduled to occur on that Business Day.**

**SFT Account**

**The term “SFT Account” means a ledger maintained on the books and records of the Corporation that reflects the outstanding SFTs that an SFT Member enters into and that have been novated to the Corporation, the SFT Positions or SFT Cash associated with those transactions and any debits or credits of cash associated with such transactions effected pursuant to Rule 12. The term “SFT Account” shall include any Agent Clearing Member Customer Omnibus Account and any Sponsored Member Sub-Account.**

**SFT Cash**

**The term “SFT Cash” means the specified amount of U.S. dollars that the Transferee agrees to transfer to the Transferor at the Initial Settlement of an SFT, (i) plus any Price Differential paid by the Corporation to the SFT Member as Transferor or by the SFT Member as Transferee to the Corporation during the term of the SFT and (ii) less any Price Differential paid by the Corporation to the SFT Member as Transferee or by the SFT Member as Transferor to the Corporation during the term of the SFT.**

**SFT Close-out Value**

**The term “SFT Close-out Value” means, with respect to an SFT Position of an SFT Member, an amount equal to:**

- (i) if the SFT Member is the Transferor of the SFT Securities that are the subject of such SFT, (a) the CNS Market Value of the SFT Securities that are the subject of such SFT minus (b) the SFT Cash for such SFT; and**
  
- (ii) if the SFT Member is a Transferee of the SFT Securities that are the subject of such SFT, (a) the SFT Cash for such SFT minus (b) the CNS Market Value of the SFT Securities that are the subject of such SFT.**

**SFT Deposit**

**The term “SFT Deposit” shall have the meaning given to such term in Rule 56 and includes any and all Independent Amount SFT Cash Deposits.**

**SFT Long Position**

**The term “SFT Long Position” means the number of units of an SFT Security which an SFT Member is entitled to receive from the Corporation at Final Settlement of an SFT against payment of the SFT Cash.**

**SFT Member**

**The term “SFT Member” means any Member, Sponsored Member acting in its principal capacity, Sponsoring Member acting in its principal capacity or Agent Clearing Member acting on behalf of a Customer, in each case that is a party to an SFT, permitted to participate in the Corporation’s SFT Clearing Service.**

**SFT Position**

**The term “SFT Position” means an SFT Member’s SFT Long Position or SFT Short Position in an SFT Security that is the subject of an SFT that has been novated to the Corporation.**

**SFT Security**

**The term “SFT Security” shall mean a security that is eligible to be the subject of an SFT novated to the Corporation and is included in the list for which provision is made in Section 1(g) of Rule 3. If any new or different security is exchanged for any SFT Security in connection with a recapitalization, merger, consolidation or other corporate action, such new or different security shall, effective upon such exchange, become an SFT Security in substitution for the former SFT Security for which such exchange is made.**

**SFT Short Position**

**The term “SFT Short Position” means the number of units of an SFT Security that an SFT Member is obligated to deliver to the Corporation at Final Settlement of an SFT against payment of the SFT Cash.**

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**Sponsored Member**

**The term “Sponsored Member” means any Person that has been approved by the Corporation to be sponsored into membership by a Sponsoring Member pursuant to Rule 2C.**

**Sponsored Member Agreement**

**The term “Sponsored Member Agreement” shall have the meaning given to such term in Rule 2C.**

**Sponsored Member Liquidation Amount**

**The term “Sponsored Member Liquidation Amount” shall have the meaning given to such term in Rule 2C.**

**Sponsored Member Sub-Account**

**The term “Sponsored Member Sub-Account” means a ledger maintained on the books and records of the Corporation that reflects the outstanding SFTs that a Sponsoring Member enters into in respect of a Sponsored Member and that have been novated to the Corporation, the SFT Positions or SFT Cash associated with those transactions and any debits or credits of cash associated with such transactions effected pursuant to Rule 12.**

**Sponsored Member Termination Date**

**The term “Sponsored Member Termination Date” means the date on which the termination of a Sponsored Member becomes effective.**

**Sponsored Member Transaction**

**The term “Sponsored Member Transaction” shall have the meaning given to such term in Rule 2C.**

**Sponsored Member Voluntary Termination Notice**

**The term “Sponsored Member Voluntary Termination Notice” means a written notice from a Sponsored Member to the Corporation that the Sponsored Member is voluntarily electing to terminate its membership.**

**Sponsoring Member**

**The term “Sponsoring Member” means a Member whose application to become a Sponsoring Member has been approved by the Board of Directors or the Corporation, as applicable, pursuant to Rule 2C.**

**Sponsoring Member Agreement**

**The term “Sponsoring Member Agreement” means an agreement between the Corporation and a Member who is approved to become a Sponsoring Member and specifies the terms and conditions deemed by the Corporation to be necessary in order to protect itself and its participants.**

**Sponsoring Member Guaranty**

**The term “Sponsoring Member Guaranty” means a guaranty, in the form and substance acceptable to the Corporation, whereby the Sponsoring Member guarantees to the Corporation the payment and performance by its Sponsored**

**Members of their obligations under these Rules and Procedures in respect of the Sponsoring Member's Sponsored Member Sub-Accounts, including, without limitation all of the settlement obligations of its Sponsored Members in respect of such Sponsored Member Sub-Accounts.**

**Sponsoring Member Liquidation Amount**

**The term "Sponsoring Member Liquidation Amount" shall have the meaning given to such term in Rule 2C.**

**Sponsoring Member Required Fund Deposit**

**The term "Sponsoring Member Required Fund Deposit" shall have the meaning given to such term in Rule 2C.**

**Sponsoring Member Settling Bank Omnibus Account**

**The term "Sponsoring Member Settling Bank Omnibus Account" shall have the meaning given to such term in Rule 2C.**

**Sponsoring Member Termination Date**

**The term "Sponsoring Member Termination Date" means the date on which the termination of a Sponsoring Member's status as a Sponsoring Member becomes effective.**

**Sponsoring Member Voluntary Termination Notice**

**The term "Sponsoring Member Voluntary Termination Notice" means a written notice from a Sponsoring Member to the Corporation that the Sponsoring Member is voluntarily electing to terminate its status as a Sponsoring Member with respect to all of its Sponsored Members or with respect to one or more of its Sponsored Members.**

**Sponsoring/Sponsored Membership Program Indemnified Parties or SMP Indemnified Parties**

**The term "Sponsoring/Sponsored Membership Program Indemnified Parties" or "SMP Indemnified Parties" shall have the meaning given to such term in Rule 2C.**

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*Tax Certification*

The term "Tax Certification" means an executed copy of the relevant tax form required by the Internal Revenue Service, as in effect from time to time, that each Member, **and** Limited Member **and Sponsored Member** (or applicant to become such) shall provide from time to time to the Corporation as set forth under these Rules and Procedures.

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**Transferee**

**The term “Transferee” means the SFT Member party to an SFT that agrees to receive SFT Securities from the other SFT Member party to the SFT in exchange for SFT Cash in connection with the Initial Settlement of the SFT.**

**Transferor**

**The term “Transferor” means the SFT Member party to an SFT that agrees to transfer SFT Securities to the other SFT Member party to the SFT in exchange for SFT Cash in connection with the Initial Settlement of the SFT.**

**Volatility Charge**

**The term “Volatility Charge” means, in respect to a Member, the portion of its Required Fund Deposit calculated by the Corporation by applying Sections I.(A)(1)(a)(i) – (iii) of Procedure XV.**

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RULE 2. MEMBERS, ~~AND~~ LIMITED MEMBERS AND SPONSORED MEMBERS

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SEC. 2. Membership Types

The Corporation shall have the following membership types:

(i) Member –

A Member, unless otherwise limited by the Corporation pursuant to these Rules, may generally access all services made available by the Corporation. Only Members shall be entitled to settle contracts through the Corporation and to participate in the Comparison and Recording Operation and Accounting Operation.

**A Member shall include a Member in its capacity as a Sponsoring Member to the extent specified in Rule 2C and an Agent Clearing Member to the extent specified in Rule 2D.**

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**(iii) In addition to Members and Limited Members, the Corporation may approve a Person to become a Sponsored Member, whose use of the Corporation's services is limited to those services specified by the Corporation as follows:**

**Sponsored Member –**

**Participates in the Corporation's Securities Financing Transaction Clearing Service as provided for in Rule 56.**

When these Rules refer to "Members and Limited Members", the reference includes all member types **other than Sponsored Members**; when reference is made to "participants" in these Rules, the reference generally means all participants other than Settling Bank Only Members, unless the context makes clear it refers to one or more specific member types.

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SEC 4. Compliance with Applicable Law

(i) General

Members, ~~and~~ Limited Members **and Sponsored Members** may not submit or confirm any transaction, charge, request, instruction or transmission through the Corporation's services, nor otherwise utilize the Corporation's services, in contravention of any law, rule, regulation or statute, including, but not limited to,

those related to securities, taxation and money laundering, as well as sanctions administered and enforced by the Office of Foreign Assets Control (“OFAC”).

(ii) OFAC

All Members, ~~and~~ Limited Members **and Sponsored Members** must agree not to conduct any transaction or activity through NSCC that it knows to violate sanctions administered and enforced by OFAC.

All Members, ~~and~~ Limited Members **and Sponsored Members** subject to the jurisdiction of the U.S. (as defined by OFAC regulations), with the exception of Data Services Only Members, Municipal Comparison Only Members, Third Party Administrator Members and Investment Manager/Agent Member, are required to periodically confirm that they have implemented a risk-based program reasonably designed to comply with applicable OFAC sanctions regulations. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a fine.

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RULE 2B. ONGOING MEMBERSHIP REQUIREMENTS AND MONITORING

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SEC. 5. DTCC CONFIDENTIAL INFORMATION

Each Member, ~~and~~ Limited Member and Sponsored Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such Member's, ~~or~~ Limited Member's or Sponsored Member's obligations under these Rules or as otherwise required by applicable law. Each Member, ~~and~~ Limited Member and Sponsored Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the Member, ~~or~~ Limited Member or Sponsored Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

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## **RULE 2C. SPONSORING MEMBERS AND SPONSORED MEMBERS**

### **SEC.1. General**

**The Corporation will permit the establishment of a sponsored membership relationship between a Member that is approved as a Sponsoring Member and one or more Persons that are accepted by the Corporation as Sponsored Members of that particular Sponsoring Member.**

**The rights, liabilities and obligations of Sponsoring Members and Sponsored Members shall be governed by this Rule 2C. References to a "Member" in other Rules and/or Procedures shall not apply to Sponsoring Members and to Sponsored Members, in their respective capacities as such, unless specifically noted as such in this Rule 2C or in such other Rules and/or Procedures.**

**A Sponsoring Member shall continue to have all of the rights, liabilities and obligations set forth in these Rules and Procedures and in any agreement between it and the Corporation pertaining to its status as a Member, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as a Sponsoring Member except as contemplated under Sections 7, 8 and 9 of Rule 2C and under the Sponsoring Member Guaranty.**

### **SEC. 2. Qualifications of Sponsoring Members, the Application Process and Continuance Standards.**

**(a) Any Member shall be eligible to apply to become a Sponsoring Member; however, if a Member is a Registered Broker-Dealer, it shall only be eligible to apply to become a Sponsoring Member if it has (1) Net Worth of at least \$25 million and (2) excess net capital over the minimum net capital requirement imposed by the SEC (or such higher minimum capital requirement imposed by the Member's designated examining authority) of at least \$10 million. The Corporation may require that a Person be a Member for a time period deemed necessary by the Corporation before that Person may be considered to become a Sponsoring Member.**

**(b) Each Member applicant to become a Sponsoring Member shall complete and deliver to the Corporation an application in such form as may be prescribed by the Corporation from time to time and any other information requested by the Corporation. An application to become a Sponsoring Member shall first be reviewed by the Corporation. Unless the Member is already an Agent Clearing Member under Rule 2D or a sponsoring member of FICC, the Corporation shall recommend approval or disapproval of the application to the Board of Directors.**

**(c) If the Board of Directors or the Corporation, as applicable, denies the application of a Member to become a Sponsoring Member, such denial shall be**

handled in the same way as set forth in Section 1 of Rule 2A with respect to membership applications.

(d) The Corporation may impose financial requirements on a Member applying to become a Sponsoring Member that are greater than the required minimum financial standards for being a Sponsoring Member set forth in Section 2(a) of this Rule, based upon the level of the anticipated positions and obligations of such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through the Corporation as a Sponsoring Member and the overall financial condition of such applicant. With respect to an application of a Member to become a Sponsoring Member that requires the Board of Directors' approval, the Board of Directors shall approve any increased financial requirements imposed by the Corporation in connection with the approval of the application, and the Corporation shall thereafter regularly review such Sponsoring Member regarding its compliance with such increased financial requirements.

(e) Each Sponsoring Member, or any Member applicant to become such, shall also furnish to the Corporation such adequate assurances of its financial responsibility and operational capability within the meaning of Rule 15 as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation, its participants, creditors or investors, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions.

(f) Each Member whose application is approved to become a Sponsoring Member shall sign and deliver to the Corporation a Sponsoring Member Agreement. Each Member to become a Sponsoring Member shall sign and deliver to the Corporation a Sponsoring Member Guaranty and a related legal opinion in a form satisfactory to the Corporation.

Nothing in these Rules and Procedures shall prohibit a Sponsoring Member from seeking reimbursement from a Sponsored Member for payments made by the Sponsoring Member (whether pursuant to the Sponsoring Member Guaranty, out of Clearing Fund deposits or otherwise) with respect to obligations as to which the Sponsored Member is a principal obligor under these Rules and Procedures, or as otherwise may be agreed by the Sponsored Member and Sponsoring Member.

(g) Each Sponsoring Member shall submit to the Corporation, within the timeframes and in the formats required by the Corporation, the reports and information that all Members are required to submit regardless of type of Member and the reports and information required to be submitted for its respective type of Member, all pursuant to Section 2 of Rule 2B and, if applicable, Addendum O.

**(h) A Sponsoring Member's books and records, insofar as they relate to the Sponsored Member Transactions submitted to the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation to the same extent provided in Rule 2A for other Members.**

**(i) A Sponsoring Member shall promptly inform the Corporation, both orally and in writing, if it is no longer in compliance with the relevant standards and qualifications for applying to become a Sponsoring Member set forth in this Rule. Notification must take place immediately and in no event later than 2 Business Days from the date on which the Sponsoring Member first learns of its non-compliance. The Corporation shall assess a fine in accordance with the Fine Schedule in Addendum P against any Sponsoring Member that fails to so notify the Corporation. If the Sponsoring Member fails to remain in compliance with the relevant standards and qualifications, the Corporation will, if necessary, undertake appropriate action to determine the status of the Sponsoring Member and its continued eligibility as such. In addition, the Corporation may review the financial responsibility and operational capability of the Sponsoring Member, and otherwise require from the Sponsoring Member additional reports of its financial or operational condition at such intervals and in such detail as the Corporation shall determine. In addition, if the Corporation has reason to believe that a Sponsoring Member may fail to comply with any of the Rules and Procedures applicable to Sponsoring Members, it may require the Sponsoring Member to provide it, within such timeframe, and in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Sponsoring Member shall not, in fact, violate any of these Rules and Procedures.**

**(j) In the event that a Sponsoring Member fails to remain in compliance with the relevant requirements of these Rules and Procedures, the Sponsoring Member Agreement or the Sponsoring Member Guaranty, the Corporation shall have the right to cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 10 of this Rule, unless the Sponsoring Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the Sponsoring Member, it is appropriate instead to establish for such Sponsoring Member a time period, which shall be determined by the Corporation and which shall be no longer than 30 calendar days unless otherwise determined by the Corporation, during which the Sponsoring Member must resume compliance with such requirements. In the event that the Sponsoring Member is unable to satisfy such requirements within the time period specified by the Corporation, the Corporation shall, pursuant to these Rules and Procedures, cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 10 of this Rule.**

**(k) If the sum of the Volatility Charges applicable to a Sponsoring Member's Sponsored Member Sub-Accounts and its other accounts at the Corporation exceeds its Net Member Capital, the Sponsoring Member shall not be**

permitted to submit activity into its Sponsored Member Sub-Accounts, unless otherwise determined by the Corporation in order to promote orderly settlement.

(l) A Sponsoring Member may voluntarily elect to terminate its status as a Sponsoring Member, with respect to all Sponsored Members or with respect to one or more Sponsored Members from time to time, by providing the Corporation with a Sponsoring Member Voluntary Termination Notice. The Sponsoring Member shall specify in the Sponsoring Member Voluntary Termination Notice the Sponsored Member(s) in respect of which the Sponsoring Member is terminating its status (the "Former Sponsored Members") and a desired date for such termination, which date shall not be prior to the scheduled Final Settlement Date of any remaining obligation owed by the Sponsoring Member to the Corporation with respect to the Former Sponsored Members as of the time such Sponsoring Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Sponsoring Member Voluntary Termination Notice from such Sponsoring Member. The Corporation's acceptance shall be evidenced by a notice to the Corporation's participants announcing the termination of the Sponsoring Member's status as such with respect to the Former Sponsored Members and the Sponsoring Member Termination Date. After the close of business on the Sponsoring Member Termination Date, the Sponsoring Member shall no longer be eligible to submit Sponsored Member Transactions on behalf of the Former Sponsored Members, and each Former Sponsored Member shall cease to be a Sponsored Member unless it is the Sponsored Member of another Sponsoring Member. If any Sponsored Member Transactions is submitted to the Corporation by the Sponsoring Member on behalf of a Former Sponsored Member that is scheduled to settle after the Sponsoring Member Termination Date, such Sponsoring Member's Sponsoring Member Voluntary Termination Notice will be deemed void, and the Sponsoring Member will remain subject to this Rule as if it had not given such Sponsoring Member Voluntary Termination Notice.

(m) A Sponsoring Member's voluntary termination of its status as such, in whole or in part, shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Transactions submitted to the Corporation before the applicable Sponsoring Member Termination Date. Any such Sponsored Member Transactions that have been novated to the Corporation shall continue to be processed by the Corporation. The return of the Sponsoring Member's Clearing Fund deposit shall be governed by Section 7 of Rule 4. If an Event Period were to occur after a Sponsoring Member has submitted the Sponsoring Member Voluntary Termination Notice but on or prior to the Sponsoring Member Termination Date, in order for the Sponsoring Member to benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4, the Sponsoring Member will need to comply with the provisions of Section 6 of Rule 4 and submit a Loss Allocation

Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Sponsoring Member Voluntary Termination Notice previously submitted by the Sponsoring Member.

(n) Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each Sponsoring Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such Sponsoring Member's obligations under these Rules or as otherwise required by applicable law. Each Sponsoring Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the Sponsoring Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

### SEC. 3. Qualifications of Sponsored Members, Approval Process and Continuance Standards.

(a) A Person shall be eligible to apply to become a Sponsored Member if: (x) it is sponsored into membership by a Sponsoring Member, and (y) it (1) is a "qualified institutional buyer" as defined by Rule 144A under the Securities Act of 1933, as amended, or (2) is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i)(H) of Rule 144A under the Securities Act of 1933, as amended, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph. The Corporation shall have the right to rely on the representation provided by the Sponsoring Member regarding satisfaction of (y).

(b) Each time that a Sponsoring Member wishes to sponsor a Person into membership, it shall provide the Corporation with the representation referred to in Section 3(a) of this Rule, as well as any additional information in such form as may be prescribed by the Corporation. The Corporation shall approve or disapprove Persons as Sponsored Members. If the Corporation denies the request of a Sponsoring Member to add a Person as a Sponsored Member, such denial shall be handled in the same manner as set forth in Section 1 of Rule 2A with respect to membership applications except that the written statement referred to therein shall be provided to both the Sponsoring Member and the Person seeking to become a Sponsored Member.

(c) Each Person to become a Sponsored Member shall sign and deliver to the Corporation an agreement whereby the Person shall agree to any terms and conditions deemed by the Corporation to be necessary in order to protect



**itself and its participants (the “Sponsored Member Agreement”). Each Person to become a Sponsored Member that shall be an FFI Member must be FATCA Compliant.**

**(d) A Sponsored Member shall immediately inform its Sponsoring Member, both orally and in writing, if the Sponsored Member is no longer in compliance with the requirements of Section 3(a) of this Rule. A Sponsoring Member shall promptly inform the Corporation, both orally and in writing, if a Sponsored Member is no longer in compliance with the requirements of Section 3(a) of this Rule. Notification to the Corporation by the Sponsoring Member must take place within one (1) Business Day from the date on which the Sponsoring Member first learns of the Sponsored Member’s non-compliance. The Corporation shall assess a fine in accordance with the Fine Schedule in Addendum P against any Sponsoring Member that fails to so notify the Corporation.**

**(e) A Sponsored Member may voluntarily elect to terminate its membership by providing the Corporation with a Sponsored Member Voluntary Termination Notice. The Sponsored Member shall specify in the Sponsored Member Voluntary Termination Notice a desired date for the termination, which date shall not be prior to the scheduled Final Settlement Date of any remaining obligation owed by the Sponsored Member to the Corporation as of the time such Sponsored Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.**

**Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Sponsored Member Voluntary Termination Notice from such Sponsored Member. The Corporation’s acceptance shall be evidenced by a notice to the Corporation’s participants announcing the termination of the Sponsored Member and the Sponsored Member Termination Date. After the close of business on the Sponsored Member Termination Date, the relevant Sponsoring Member shall no longer be eligible to submit Sponsored Member Transactions on behalf of the Sponsored Member. If any Sponsored Member Transaction is submitted to the Corporation by the relevant Sponsoring Member on behalf of the Sponsored Member that is scheduled to settle after the Sponsored Member Termination Date, such Sponsored Member’s Sponsored Member Voluntary Termination Notice will be deemed void, and the Sponsored Member will remain subject to this Rule as if it had not given such Sponsored Member Voluntary Termination Notice.**

**(f) A Sponsored Member’s voluntary termination shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Transactions submitted to the Corporation before the Sponsored Member Termination Date, and the Sponsoring Member Guaranty shall remain in effect to cover all outstanding obligations of the Sponsored Member to the Corporation that are within the scope of such Sponsoring Member Guaranty.**

**SEC. 4. Compliance with Laws.**

**Each Sponsoring Member and Sponsored Member shall comply in all material respects with all applicable laws, including applicable laws relating to securities, taxation and money laundering, as well as global sanctions laws, in connection with the use of the Corporation's services.**

**SEC. 5. Sponsored Member Transactions.**

**A Sponsoring Member shall be permitted to submit to the Corporation Securities Financing Transactions between itself and its Sponsored Members ("Sponsored Member Transactions") in accordance with Rule 56. The Corporation directs each Sponsored Member and Sponsoring Member to settle all Final Settlement, Rate Payment, Price Differential, and other securities delivery and payment obligations arising under a Sponsored Member Transaction that has been novated to the Corporation by causing the relevant cash and securities to be transferred to the Transferor or Transferee, as applicable, on the books and records of the Sponsoring Member, and each Sponsored Member and Sponsoring Member agrees that any such transfer shall satisfy the Corporation's corresponding obligation with respect to such Sponsored Member Transaction.**

**SEC. 6. Sponsoring Member Agent Obligations.**

**A Sponsored Member shall appoint its Sponsoring Member to act as agent with respect to the Sponsored Member's satisfaction of its settlement obligations arising under Sponsored Member Transactions between the Sponsored Member and the Sponsoring Member and for performing all functions and receiving reports and information set forth in these Rules and Procedures. The Corporation's provision of such reports and information to the Sponsoring Member shall constitute satisfaction of any obligation of the Corporation to provide such reports and information to the affected Sponsored Members. Notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member shall be obligated as principal to the Corporation with respect to all settlement obligations under these Rules and Procedures, and the Sponsoring Member shall not be a principal under these Rules and Procedures with respect to settlement obligations of its Sponsored Members.**

**SEC. 7. Clearing Fund Obligations.**

**(a) The Corporation shall maintain one or more Sponsored Member Sub-Accounts for a Sponsoring Member. Each Sponsoring Member shall make and maintain so long as such Member is a Sponsoring Member a deposit to the Clearing Fund as a Required Fund Deposit to support the activity in its Sponsored Member Sub-Accounts (the "Sponsoring Member Required Fund Deposit"). Each Sponsoring Member, so long as such Member is a Sponsoring Member, shall also provide Supplemental Liquidity Deposits to the Clearing Fund,**

as may be required pursuant to Rule 4A; however, the Supplemental Liquidity Deposits shall be calculated without regard to Sponsored Member Transactions. Deposits to the Clearing Fund shall be held by the Corporation or its designated agents, to be applied as provided in these Rules and Procedures.

(b) In the ordinary course, for purposes of satisfying the Sponsoring Member's Clearing Fund requirements under these Rules and Procedures for its Member activity, its Sponsoring Member activity, and, to the extent applicable, its Agent Clearing Member activity, the Sponsoring Member's proprietary accounts, its Sponsored Member Sub-Accounts, and its Agent Clearing Member Customer Omnibus Account(s), if any, shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time and without prior notice to the Sponsoring Member (but being obligated to give notice to the Sponsoring Member as soon as possible thereafter) and whether or not the Sponsoring Member or any of its Sponsored Members is in default of its obligations to the Corporation, treat the Sponsoring Member's accounts as a single account for the purpose of applying Clearing Fund deposits; apply Clearing Fund deposits made by the Sponsoring Member with respect to any account as necessary to ensure that the Sponsoring Member meets all of its obligations to the Corporation under any other account(s); and otherwise exercise all rights to offset and net against the Clearing Fund deposits any net obligations among any or all of the accounts, whether or not any other Person is deemed to have any interest in such account.

(c) The Sponsoring Member Required Fund Deposit for each Sponsored Member Sub-Account shall be calculated separately based on the Sponsored Member Transactions in such Sponsored Member Sub-Account, and the Sponsoring Member shall, as principal, be required to satisfy the Sponsoring Member Required Fund Deposit for each of the Sponsoring Member's Sponsored Member Sub-Accounts.

(d) Sections 1, 2, 4, 5, 6, 7, 8, 9, 10, 11 and 12 of Rule 4 shall apply to the Sponsoring Member Required Fund Deposit with respect to obligations of a Sponsoring Member under these Rules and Procedures, including its obligations arising under the Sponsored Member Sub-Accounts, and the obligations of a Sponsoring Member under its Sponsoring Member Guaranty to the same extent as such sections apply to any Required Fund Deposit and any other obligations of a Member. For purposes of Section 1 of Rule 4, obligations and liabilities of a Member to the Corporation that shall be secured shall include, without limitation, a Member's obligations as a Sponsoring Member under these Rules and Procedures, including, without limitation, any obligation of any such Sponsoring Member to provide the Sponsoring Member Required Fund Deposit, such Sponsoring Member's obligations arising under the Sponsored Member Sub-Accounts of such Sponsoring Member and such Sponsoring Member's obligations under its Sponsoring Member Guaranty.

(e) A Sponsoring Member shall be subject to such fines as may be imposed in accordance with such Rules or Procedures of the Corporation for any late satisfaction of a Clearing Fund deficiency call.

SEC. 8. Right of Offset.

In the ordinary course, with respect to satisfaction of any Sponsored Member's obligations under these Rules and Procedures, the Sponsoring Member's Sponsored Member Sub-Accounts, the Sponsoring Member's proprietary accounts, and the Sponsoring Member's Agent Clearing Member Customer Omnibus Accounts, if any, at the Corporation shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time any obligation of the Sponsoring Member arises under the Sponsoring Member Guaranty to pay or perform thereunder with respect to any Sponsored Member, exercise a right of offset and net any such obligation of the Sponsoring Member under its Sponsoring Member Guaranty against any obligations of the Corporation to the Sponsoring Member in respect of such Sponsoring Member's proprietary accounts at the Corporation.

SEC. 9. Loss Allocation Obligations.

(a) Sponsored Members shall not be obligated for allocations, pursuant to Rule 4, of loss or liability incurred by the Corporation. To the extent that a loss or liability is determined by the Corporation to arise in connection with Sponsored Member Transactions (i.e., in connection with the insolvency or default of a Sponsoring Member), the Sponsored Members shall not be responsible for or considered in the loss allocation calculation, but rather such loss shall be allocated to other Members in accordance with the principles set forth in Section 4 of Rule 4.

(b) To the extent the Corporation incurs a loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event and a loss allocation obligation arises, that would be the responsibility of a Sponsored Member Sub-Account as if the Sponsored Member Sub-Account were a Member, the Corporation shall calculate such loss allocation obligation as if the affected Sponsored Member were subject to such allocations pursuant to Section 4 of Rule 4, but the Sponsoring Member shall be responsible for satisfying such obligations.

(c) The entire amount of the Required Fund Deposit associated with the Sponsoring Member's proprietary accounts at the Corporation and the entire amount of the Sponsoring Member Required Fund Deposit may be used to satisfy any amount allocated against a Sponsoring Member, whether in its capacity as a Member, a Sponsoring Member, or otherwise. With respect to an obligation to make payment due to any loss allocation amounts assessed on a Sponsoring Member pursuant to Section 9(b) of this Rule, the Sponsoring Member may

instead elect to terminate its membership in the Corporation pursuant to Section 6 of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4; however, for the purpose of determining the Loss Allocation Cap for such Sponsoring Member, its Required Fund Deposit shall be the sum of its Required Fund Deposits associated with its proprietary accounts at the Corporation (including its proprietary SFT Account pursuant to Rule 56), its Sponsoring Member Required Fund Deposit, and its Agent Clearing Member Required Fund Deposits, if any, for each of its Agent Clearing Member Customer Omnibus Accounts.

SEC. 10. Restrictions on Access to Services by a Sponsoring Member.

(a) The Board of Directors may at any time, upon Corporation providing notice to a Sponsoring Member pursuant to Section 5 of Rule 45, suspend a Sponsoring Member in its capacity as a Sponsoring Member from any service provided by the Corporation either with respect to a particular transaction or transactions or with respect to transactions generally, or prohibit or limit such Sponsoring Member's access to services offered by the Corporation in the event that one or more of the factors set forth in Section 1 of Rule 46 is present with respect to the Sponsoring Member.

(b) Rule 46 shall apply with respect to a Sponsoring Member in the same way as it applies to Members, including the Board of Directors' right to summarily suspend the Sponsoring Member and to cease to act for such Sponsoring Member.

(c) If the Corporation ceases to act for a Sponsoring Member in its capacity as a Sponsoring Member, Section 14 of Rule 56 shall apply and the Corporation shall decline to accept or process data from the Sponsoring Member on Sponsored Member Transactions and the Corporation shall cease to act for all of the Sponsored Members of the affected Sponsoring Member (unless such Sponsored Members are also Sponsored Members of other Sponsoring Members). If the Corporation suspends, prohibits or limits a Sponsoring Member in its capacity as a Sponsoring Member with respect to such Sponsoring Member's access to services offered by the Corporation, the Corporation shall decline to accept or process data from the Sponsoring Member on Sponsored Member Transactions and shall suspend the Sponsored Members of the affected Sponsoring Member (unless they are also Sponsored Members of other Sponsoring Members) for so long as the Corporation is suspending, prohibiting or limiting the Sponsoring Member. Any Sponsored Member Transactions which have been novated to the Corporation shall continue to be processed by the Corporation. The Corporation, in its sole discretion, shall determine whether to close-out the affected Sponsored Member Transactions or permit the Sponsored Members to complete their settlement.

**SEC. 11. Restrictions on Access to Services by a Sponsored Member.**

**(a) The Board of Directors may at any time, upon Corporation providing notice to a Sponsored Member and its Sponsoring Member pursuant to Section 5 of Rule 45, suspend a Sponsored Member from any service provided by the Corporation either with respect to a particular transaction or transactions or with respect to transactions generally, or prohibit or limit such Sponsored Member with respect to access to services offered by the Corporation in the event that one or more of the factors set forth in Section 1 of Rule 46 is present with respect to the Sponsored Member.**

**(b) Rule 46 shall apply with respect to a Sponsored Member in the same way as it applies to Members, including the Board of Directors' right to summarily suspend a Sponsored Member and to cease to act for such Sponsored Member.**

**(c) If the Corporation ceases to act for a Sponsored Member, Section 14 of Rule 56 shall apply.**

**(d) The Corporation shall cease to act for a Sponsored Member that is no longer in compliance with the requirements of Section 3(a) of this Rule.**

**SEC. 12. Insolvency of a Sponsoring Member.**

**(a) A Sponsoring Member shall be obligated to immediately notify the Corporation that (a) it fails, or is unable, to perform its contracts or obligations or (b) it is insolvent, as required by Section 1 of Rule 20 for other Members. A Sponsoring Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 20 for other Members. Section 3 of Rule 20 shall apply, in the same manner in which such section applies to other Members, in the case where the Corporation treats a Sponsoring Member as insolvent.**

**(b) In the event that the Corporation determines to treat a Sponsoring Member as insolvent pursuant to Rule 20, the Corporation shall have the right to cease to act for the insolvent Sponsoring Member pursuant to Section 10 of this Rule. If the Corporation ceases to act for the insolvent Sponsoring Member, the Corporation shall decline to accept or process data from the Sponsoring Member, including Sponsored Member Transactions, and the Corporation shall terminate the membership of all of the insolvent Sponsoring Member's Sponsored Members unless they are the Sponsored Members of another Sponsoring Member. Any Sponsored Member Transactions which have been novated to the Corporation shall continue to be processed by the Corporation. The Corporation, in its sole discretion, shall determine whether to close-out the affected Sponsored Member Transactions and/or permit the Sponsored Members to complete their settlement.**

**SEC. 13. Insolvency of a Sponsored Member.**

**(a) A Sponsored Member and its Sponsoring Member (to the extent it has knowledge thereof) shall be obligated to immediately notify the Corporation that the Sponsored Member is insolvent or that the Sponsored Member will be unable to perform any of its material contracts, obligations or agreements in the same manner as required by Section 1 of Rule 20 for other Members. For purposes of this section, a Sponsoring Member shall be deemed to have knowledge that a Sponsored Member is insolvent or will be unable to perform on any of its material contracts, obligations or agreements if one or more duly authorized representatives of the Sponsoring Member, in its capacity as such, has knowledge of such matters. A Sponsored Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 20 for other Members. Section 3 of Rule 20 shall apply, in the same manner in which such section applies to other Members, in the case where the Corporation treats a Sponsored Member as insolvent.**

**(b) In the event that the Corporation determines to treat a Sponsored Member as insolvent pursuant to Rule 20, the Corporation shall have the right to cease to act for the insolvent Sponsored Member pursuant to Section 11 of this Rule. If the Corporation ceases to act for the insolvent Sponsored Member, Section 14 of Rule 56 shall apply with respect to the close-out of the insolvent Sponsored Member's Sponsored Member Transactions.**

**SEC. 14. Liquidation of Sponsored Member and Related Sponsoring Member Positions.**

**(a) The provisions of this Section 14, which shall supersede any conflicting provisions of this Rule 2C, Rule 18 and Rule 56, shall only apply (i) with respect to the liquidation of positions resulting from Sponsored Member Transactions that have been novated to NSCC, (ii) in the event a Sponsoring Member is not a Defaulting Member and the Corporation has not ceased to act for the Sponsoring Member and (iii) if a Corporation Default has not occurred. In addition, the Corporation may only cause the termination described in subsection (b) of this Section 14 if it has ceased to act for the Sponsored Member at issue and the Sponsoring Member has not performed the obligations of the Sponsored Member in respect of all positions guaranteed by such Sponsoring Member.**

**(b) Subject to the provisions of subsection (a) of this Section 14, on any Business Day, the Sponsoring Member or the Corporation may by written notice to the other cause the immediate termination of all, but not fewer than all, of the SFT Positions of the Sponsored Member established in the Sponsored Member Sub-Account. Any such notice shall also cause the immediate termination of all of the corresponding, offsetting SFT Positions of the Sponsoring Member established in the Sponsoring Member's proprietary SFT Account. Each such termination shall be effected by the Sponsoring Member's establishment of a final net settlement position for each eligible 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 security (the “Final Net Settlement Position”).

(c) To liquidate the Final Net Settlement Positions of any Sponsored Member and the corresponding, offsetting Final Net Settlement Positions of the Sponsoring Member established pursuant to subsection (b) of this Section 14, a Sponsoring Member shall calculate a liquidation amount, which may be equal to zero. The liquidation amount in respect of the Final Net Settlement Positions of a Sponsored Member (the “Sponsored Member Liquidation Amount”) shall be due to or from the Corporation from or to the Sponsored Member. The liquidation amount in respect of the corresponding, offsetting Final Net Settlement Positions of the Sponsoring Member (the “Sponsoring Member Liquidation Amount”) shall be due to or from the Corporation from or to the Sponsoring Member. If the Sponsored Member Liquidation Amount in respect of the Final Net Settlement Positions of a Sponsored Member is due to the Corporation, the Sponsoring Member Liquidation Amount in respect of the corresponding Final Net Settlement Positions of the Sponsoring Member shall be due to the Sponsoring Member. If the Sponsored Member Liquidation Amount in respect of the Final Net Settlement Positions of a Sponsored Member is due to the Sponsored Member, the Sponsoring Member Liquidation Amount in respect of the Final Net Settlement Positions of the Sponsoring Member shall be due to the Corporation.

Any Sponsoring Member Liquidation Amount calculated by a Sponsoring Member pursuant to this subsection (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 Sponsoring 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 Sponsoring Member’s Final Net Settlement Positions. The Sponsored Member Liquidation Amount in respect of Final Net Settlement Positions of a Sponsored Member shall equal the Sponsoring Member Liquidation Amount in respect of the corresponding Final Net Settlement Positions of the Sponsoring Member. The Sponsoring Member’s calculation of any Sponsored Member Liquidation Amount or Sponsoring Member Liquidation Amount shall be conclusive and binding on all relevant parties, absent manifest error and subject to any right of the Corporation to indemnification under these Rules and Procedures.

If a Sponsored Member Liquidation Amount is due to the Corporation from the Sponsored Member, the Sponsoring Member shall be obligated to pay such Sponsored Member Liquidation Amount under its Sponsoring Member Guaranty, which obligation shall, notwithstanding anything to the contrary in the Sponsoring Member Guaranty, be payable without demand and (automatically and without further action by any Person) be set off against the obligation of the



**Corporation to pay the corresponding Sponsoring Member Liquidation Amount to the Sponsoring Member.**

**If a Sponsored Member Liquidation Amount is due to the Sponsored Member from the Corporation, the Corporation's sole obligation in respect of any such Sponsored Member Liquidation Amount shall be to transfer such amount to the applicable account of the Sponsoring Member at the Settling Bank acting on behalf of a Sponsoring Member (the "Sponsoring Member Settling Bank Omnibus Account"). The Corporation hereby instructs the Sponsoring Member to discharge its obligation to pay the Corporation any Sponsoring Member Liquidation Amount by transferring such amount to the Sponsoring Member's Sponsoring Member Settling Bank Omnibus Account for application to the Corporation's obligation to pay the corresponding Sponsored Member Liquidation Amount to the Sponsored Member. To the extent that the Sponsoring Member transfers such funds to the Sponsoring Member Settling Bank Omnibus Account as provided in this paragraph, (i) the obligations of the Corporation in respect of the Sponsored Member Liquidation Amount shall be discharged and (ii) the obligations of the Sponsoring Member in respect of the corresponding Sponsoring Member Liquidation Amount shall be discharged. The Sponsored Member agrees to accept the transfer of such funds to the Sponsoring Member Settling Bank Omnibus Account in full satisfaction of the obligation of the Corporation to pay the Sponsored Member Liquidation Amount to the Sponsored Member.**

**(d) The Sponsoring Member shall indemnify the Corporation, and its employees, officers, directors, shareholders, agents and Members (collectively, the "Sponsoring/Sponsored Membership Program Indemnified Parties" or "SMP Indemnified Parties"), for any and all losses, liability, or expenses of an SMP Indemnified Party arising from any claim by an affected Sponsored Member disputing the Sponsoring Member's calculation of any Sponsored Member Liquidation Amount or Sponsoring Member Liquidation Amount pursuant to this Section 14.**

**(e) The Corporation hereby acknowledges that a Sponsoring Member may take a security interest in the deliver, receive and related payment obligations owed by the Corporation to a Sponsored Member in respect of its transactions that have been novated to the Corporation by such Sponsoring Member and established in the Sponsoring Member's Sponsored Member Sub-Account for the Sponsored Member, including, but not limited to, such Sponsored Member's rights to receive payment of any Sponsored Member Liquidation Amount pursuant to this Section 14.**

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## RULE 2D. AGENT CLEARING MEMBERS

### SEC. 1. General.

The Corporation will permit a Member that is approved to be an Agent Clearing Member to submit transactions to the Corporation for novation on behalf of one or more its customers (each such customer, a "Customer").

The rights, liabilities and obligations of Agent Clearing Members shall be governed by this Rule 2D. References to a "Member" in other Rules and/or Procedures shall not apply to Agent Clearing Members, in their capacities as such, unless specifically noted as such in this Rule 2D or in such other Rules and/or Procedures.

An Agent Clearing Member shall continue to have all of the rights, liabilities and obligations set forth in these Rules and Procedures and in any agreement between it and the Corporation pertaining to its status as a Member, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as an Agent Clearing Member except as contemplated under Sections 6, 7 and 8 of Rule 2D.

### SEC. 2. Qualifications of Agent Clearing Members, the Application Process and Continuance Standards.

(a) Any Member shall be eligible to apply to become an Agent Clearing Member; however, if a Member is a Registered Broker-Dealer, it shall only be eligible to apply to become an Agent Clearing Member if it has (1) Net Worth of at least \$25 million and (2) excess net capital over the minimum net capital requirement imposed by the SEC (or such higher minimum capital requirement imposed by the Member's designated examining authority) of at least \$10 million. The Corporation may require that a Person be a Member for a time period deemed necessary by the Corporation before that Person may be considered to become an Agent Clearing Member.

(b) Each Member applicant to become an Agent Clearing Member shall complete and deliver to the Corporation an application in such form as may be prescribed by the Corporation from time to time and any other information requested by the Corporation. An application to become an Agent Clearing Member shall first be reviewed by the Corporation. Unless the Member is already a Sponsoring Member under Rule 2C or a sponsoring member of FICC, the Corporation shall recommend approval or disapproval of the application to the Board of Directors.

(c) If the Board of Directors or the Corporation, as applicable, denies the application of a Member to become an Agent Clearing Member, such denial shall be handled in the same way as set forth in Section 1 of Rule 2A with respect to membership applications.

**(d) The Corporation may impose financial requirements on a Member applying to become an Agent Clearing Member that are greater than the required minimum financial standards for being an Agent Clearing Member set forth in Section 2(a) of this Rule, based upon the level of the anticipated positions and obligations of such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through the Corporation as an Agent Clearing Member and the overall financial condition of such applicant. With respect to an application of a Member to become an Agent Clearing Member, the Board of Directors shall approve any increased financial requirements imposed by the Corporation in connection with the approval of the application, and the Corporation shall thereafter regularly review such Agent Clearing Member regarding its compliance with such increased financial requirements.**

**(e) Each Agent Clearing Member, or any Member applicant to become such, shall also furnish to the Corporation such adequate assurances of its financial responsibility and operational capability within the meaning of Rule 15 as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation, its participants, creditors or investors, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions.**

**(f) Each Member whose application is approved to become an Agent Clearing Member shall sign and deliver to the Corporation an Agent Clearing Member Agreement and a related legal opinion in a form satisfactory to the Corporation.**

**(g) Each Agent Clearing Member shall submit to the Corporation, within the timeframes and in the formats required by the Corporation, the reports and information that all Members are required to submit regardless of type of Member and the reports and information required to be submitted for its respective type of Member, all pursuant to Section 2 of Rule 2B and, if applicable, Addendum O.**

**(h) An Agent Clearing Member's books and records, insofar as they relate to the Agent Clearing Member Transactions submitted to the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation to the same extent provided in Rule 2A for other Members.**

**(i) An Agent Clearing Member shall promptly inform the Corporation, both orally and in writing, if it is no longer in compliance with the relevant standards and qualifications for applying to become an Agent Clearing Member set forth in this Rule. Notification must take place immediately and in no event later than 2 Business Days from the date on which the Agent Clearing Member first learns of its non-compliance. The Corporation shall assess a fine in accordance with the Fine Schedule in Addendum P against any Agent Clearing**

Member that fails to so notify the Corporation. If the Agent Clearing Member fails to remain in compliance with the relevant standards and qualifications, the Corporation will, if necessary, undertake appropriate action to determine the status of the Agent Clearing Member and its continued eligibility as such. In addition, the Corporation may review the financial responsibility and operational capability of the Agent Clearing Member, and otherwise require from the Agent Clearing Member additional reports of its financial or operational condition at such intervals and in such detail as the Corporation shall determine. In addition, if the Corporation has reason to believe that an Agent Clearing Member may fail to comply with any of the Rules and Procedures applicable to Agent Clearing Members, it may require the Agent Clearing Member to provide it, within such timeframe, and in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Agent Clearing Member shall not, in fact, violate any of these Rules and Procedures.

(j) In the event that an Agent Clearing Member fails to remain in compliance with the relevant requirements of these Rules and Procedures or the Agent Clearing Member Agreement, the Corporation shall have the right to cease to act for the Agent Clearing Member in its capacity as an Agent Clearing Member pursuant to Section 9 of this Rule or as a Member more generally, unless the Agent Clearing Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the Agent Clearing Member, it is appropriate instead to establish for such Agent Clearing Member a time period, which shall be determined by the Corporation and which shall be no longer than 30 calendar days unless otherwise determined by the Corporation, during which the Agent Clearing Member must resume compliance with such requirements. In the event that the Agent Clearing Member is unable to satisfy such requirements within the time period specified by the Corporation, the Corporation shall, pursuant to these Rules and Procedures, cease to act for the Agent Clearing Member in its capacity as an Agent Clearing Member pursuant to Section 9 of this Rule or as a Member more generally.

(k) If the sum of the Volatility Charges applicable to an Agent Clearing Member's Agent Clearing Member Customer Omnibus Account(s) and its other accounts at the Corporation exceeds its Net Member Capital, the Agent Clearing Member shall not be permitted to submit activity into its Agent Clearing Member Customer Omnibus Account(s), unless otherwise determined by the Corporation in order to promote orderly settlement.

(l) An Agent Clearing Member may voluntarily elect to terminate its status as an Agent Clearing Member by providing the Corporation with an Agent Clearing Member Voluntary Termination Notice. The Agent Clearing Member shall specify in the Agent Clearing Member Voluntary Termination Notice the desired date for such termination, which date shall not be prior to the scheduled Final Settlement Date of any remaining obligation owed by the Agent Clearing Member in respect of Agent Clearing Member Transactions entered into on behalf

of Customers as of the time such Agent Clearing Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Agent Clearing Member Voluntary Termination Notice from such Agent Clearing Member. The Corporation's acceptance shall be evidenced by a notice to the Corporation's participants announcing the termination of the Agent Clearing Member's status as such and the Agent Clearing Member Termination Date. After the close of business on the Agent Clearing Member Termination Date, the Agent Clearing Member shall no longer be eligible to submit Agent Clearing Member Transactions. If any Agent Clearing Member Transaction is submitted to the Corporation by the Agent Clearing Member on behalf of a Customer that is scheduled to settle 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 this Rule as if it had not given such Agent Clearing Member Voluntary Termination Notice.

(m) An Agent Clearing Member's voluntary termination of its status as such shall not affect its obligations to the Corporation, or the rights of the Corporation with respect to Agent Clearing Member Transactions submitted to the Corporation before the Agent Clearing Member Termination Date. Any such Agent Clearing Member Transactions that have been novated to the Corporation shall continue to be processed by the Corporation. The return of the Agent Clearing Member's Clearing Fund deposit shall be governed by Section 7 of Rule 4. If an Event Period were to occur after an Agent Clearing Member has submitted the Agent Clearing Member Voluntary Termination Notice but on or prior to the Agent Clearing Member Termination Date, in order for the Agent Clearing Member to benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4, the Agent Clearing Member will need to comply with the provisions of Section 6 of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Agent Clearing Member Voluntary Termination Notice previously submitted by the Agent Clearing Member.

(n) Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each Agent Clearing Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such Agent Clearing Member's obligations under these Rules or as otherwise required by applicable law. Each Agent Clearing Member acknowledges that a

breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the Agent Clearing Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

SEC. 3. Compliance with Laws.

Each Agent Clearing Member shall comply in all material respects with all applicable laws, including applicable laws relating to securities, taxation and money laundering, as well as global sanctions laws, in connection with the use of the Corporation's services.

SEC. 4. Agent Clearing Member Transactions.

An Agent Clearing Member shall be permitted to submit to the Corporation on behalf of one or more Customers' Securities Financing Transactions ("Agent Clearing Member Transactions") in accordance with Rule 56.

SEC. 5. Agent Clearing Member Agent Obligations.

(a) An Agent Clearing Member shall be permitted to submit to the Corporation for novation Agent Clearing Member Transactions entered into by the Agent Clearing Member as agent on behalf of one or more Customers. Any such submission shall be in accordance with this Rule. Subject to the provisions of these Rules and Procedures, the Customer Clearing Service may be provided by an Agent Clearing Member to its Customers on any terms and conditions mutually agreed to by the Agent Clearing Member and its Customers; provided, that each Agent Clearing Member shall, before providing Customer Clearing Service to any Customer, enter into an agreement with that Customer that binds the Customer to the provisions of these Rules and Procedures applicable to Agent Clearing Member Transactions and Customers.

(b) With respect to an Agent Clearing Member that submits Agent Clearing Member Transactions to the Corporation for novation on behalf of its Customers, the Corporation shall maintain one or more Agent Clearing Member Customer Omnibus Accounts in the name of the Agent Clearing Member for the benefit of its Customers.

(c) The Agent Clearing Member shall act solely as agent of its Customers in connection with the clearing of Agent Clearing Member Transactions; provided, that the Agent Clearing Member shall remain fully liable for the performance of all obligations to the Corporation arising in connection with Agent Clearing Member Transactions; and provided further, that the liabilities and obligations of the Corporation with respect to Agent Clearing Member Transactions entered into by the Agent Clearing Member shall extend only to the Agent Clearing Member. Without limiting the generality of the

foregoing, the Corporation shall not have any liability or obligation arising out of or with respect to any Agent Clearing Member Transaction to any Customer on behalf of whom an Agent Clearing Member entered into the Agent Clearing Member Transaction.

(d) Nothing in these Rules and Procedures shall prohibit an Agent Clearing Member from seeking reimbursement from a Customer for payments made by the Agent Clearing Member (whether out of Clearing Fund deposits or otherwise) under these Rules and Procedures, or as otherwise may be agreed between the Agent Clearing Member and the Customer.

#### SEC. 6. Clearing Fund Obligations.

(a) The Corporation shall maintain one or more Agent Clearing Member Customer Omnibus Accounts for an Agent Clearing Member. Each Agent Clearing Member shall make and maintain so long as such Member is an Agent Clearing Member, a deposit to the Clearing Fund as a Required Fund Deposit to support the activity in its Agent Clearing Member Customer Omnibus Account(s) (the "Agent Clearing Member Required Fund Deposit"). Each Agent Clearing Member, so long as such Member is an Agent Clearing Member, shall also provide Supplemental Liquidity Deposits to the Clearing Fund, as may be required pursuant to Rule 4A, to support the activity in its Agent Clearing Member Customer Omnibus Account(s). Deposits to the Clearing Fund shall be held by the Corporation or its designated agents, to be applied as provided in these Rules and Procedures.

(b) In the ordinary course, for purposes of satisfying the Agent Clearing Member's Clearing Fund requirements under these Rules and Procedures for its Member activity, its Agent Clearing Member activity, and, to the extent applicable, its Sponsoring Member activity, the Agent Clearing Member's proprietary accounts, its Agent Clearing Member Customer Omnibus Account(s), and its Sponsored Member Sub-Accounts, if any, shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time and without prior notice to the Agent Clearing Member (but being obligated to give notice to the Agent Clearing Member as soon as possible thereafter) and whether or not the Agent Clearing Member is in default of its obligations to the Corporation, treat the Agent Clearing Member's accounts as a single account for the purpose of applying Clearing Fund deposits; apply Clearing Fund deposits made by the Agent Clearing Member with respect to any account as necessary to ensure that the Agent Clearing Member meets all of its obligations to the Corporation under any other account(s); and otherwise exercise all rights to offset and net against the Clearing Fund deposits any net obligations among any or all of the accounts, whether or not any other Person is deemed to have any interest in such account.

(c) The Agent Clearing Member Required Fund Deposit for each Agent Clearing Member Customer Omnibus Account shall be calculated separately

**based on the Agent Clearing Member Transactions in such Agent Clearing Member Customer Omnibus Account, and the Agent Clearing Member shall, as principal, be required to satisfy the Agent Clearing Member Required Fund Deposit for each of the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts.**

**(d) Sections 1, 2, 4, 5, 6, 7, 8, 9, 10, 11 and 12 of Rule 4 shall apply to the Agent Clearing Member Required Fund Deposit with respect to obligations of an Agent Clearing Member under these Rules and Procedures, including its obligations arising under the Agent Clearing Member Customer Omnibus Accounts, to the same extent as such sections apply to any Required Fund Deposit and any other obligations of a Member. For purposes of Section 1 of Rule 4, obligations and liabilities of a Member to the Corporation that shall be secured shall include, without limitation, a Member's obligations as an Agent Clearing Member under these Rules and Procedures, including, without limitation, any obligation of any such Agent Clearing Member to provide the Agent Clearing Member Required Fund Deposit and such Agent Clearing Member's obligations arising under SFTs established in the Agent Clearing Member Customer Omnibus Accounts of such Agent Clearing Member.**

**(e) An Agent Clearing Member shall be subject to such fines as may be imposed in accordance with such Rules or Procedures of the Corporation for any late satisfaction of a Clearing Fund deficiency call.**

#### **SEC. 7. Right of Offset.**

**In the ordinary course, with respect to satisfaction of any Customer's obligations under these Rules and Procedures, the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts, the Agent Clearing Member's proprietary accounts, and the Agent Clearing Member's Sponsored Member Sub-Accounts, if any, at the Corporation shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time any obligation of the Agent Clearing Member arises in respect of any Agent Clearing Member Customer Omnibus Account, exercise a right of offset and net any such obligation against any obligations of the Corporation to the Agent Clearing Member in respect of such Agent Clearing Member's proprietary accounts at the Corporation.**

#### **SEC. 8. Loss Allocation Obligations.**

**(a) To the extent the Corporation incurs a loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event and a loss allocation obligation arises, that would be the responsibility of the Agent Clearing Member Customer Omnibus Account as if the Agent Clearing Member Customer Omnibus Account were a Member, the Corporation shall calculate such loss**



allocation obligation and the Agent Clearing Member shall, as principal, be responsible for satisfying such obligations.

(b) The entire amount of the Required Fund Deposit associated with the Agent Clearing Member's proprietary accounts at the Corporation and the entire amount of the Agent Clearing Member Required Fund Deposit may be used to satisfy any amount allocated against an Agent Clearing Member, whether in its capacity as a Member, an Agent Clearing Member, or otherwise. With respect to an obligation to make payment due to any loss allocation amounts assessed on an Agent Clearing Member pursuant to Section 8(a) of this Rule, the Agent Clearing Member may instead elect to terminate its membership in the Corporation pursuant to Section 6 of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4; however, for the purpose of determining the Loss Allocation Cap for such Agent Clearing Member, its Required Fund Deposit shall be the sum of its Required Fund Deposits associated with its proprietary accounts at the Corporation (including its proprietary SFT Account pursuant to Rule 56), its Agent Clearing Member Required Fund Deposits for each of its Agent Clearing Member Customer Omnibus Accounts, and its Sponsoring Member Required Fund Deposit, if any.

SEC. 9. Restrictions on Access to Services by an Agent Clearing Member.

(a) The Board of Directors may at any time, upon the Corporation providing notice to an Agent Clearing Member pursuant to Section 5 of Rule 45, suspend an Agent Clearing Member in its capacity as an Agent Clearing Member from any service provided by the Corporation either with respect to a particular transaction or transactions or with respect to transactions generally, or prohibit or limit such Agent Clearing Member's access to services offered by the Corporation in the event that one or more of the factors set forth in Section 1 of Rule 46 is present with respect to the Agent Clearing Member.

(b) Rule 46 shall apply with respect to an Agent Clearing Member in the same way as it applies to Members, including the Board of Directors' right to summarily suspend the Agent Clearing Member and to cease to act for such Agent Clearing Member.

(c) If the Corporation ceases to act for an Agent Clearing Member in its capacity as an Agent Clearing Member, Section 14 of Rule 56 shall apply and the Corporation shall decline to accept or process data from the Agent Clearing Member on Agent Clearing Member Transactions and close-out any Agent Clearing Member Transactions that have been novated to the Corporation. If the Corporation suspends, prohibits or limits an Agent Clearing Member in its capacity as an Agent Clearing Member with respect to such Agent Clearing Member's access to services offered by the Corporation, the Corporation shall decline to accept or process data from the Agent Clearing Member on Agent Clearing Member Transactions for so long as the Corporation is suspending, prohibiting or limiting the Agent Clearing Member. The Corporation shall close-

out any Agent Clearing Member Transactions which have been novated to the Corporation.

**SEC. 10. Insolvency of an Agent Clearing Member.**

(a) An Agent Clearing Member shall be obligated to immediately notify the Corporation that (a) it fails, or is unable, to perform its contracts or obligations or (b) it is insolvent as required by Section 1 of Rule 20 for other Members. An Agent Clearing Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 20 for other Members. Section 3 of Rule 20 shall apply, in the same manner in which such section applies to other Members, in the case where the Corporation treats an Agent Clearing Member as insolvent.

(b) In the event that the Corporation determines to treat an Agent Clearing Member as insolvent pursuant to Rule 20, the Corporation shall have the right to cease to act for the insolvent Agent Clearing Member pursuant to Section 9 of this Rule. If the Corporation ceases to act for the insolvent Agent Clearing Member, the Corporation shall decline to accept or process data from the Agent Clearing Member, including Agent Clearing Member Transactions. The Corporation shall close-out any Agent Clearing Member Transactions which have been novated to the Corporation.

**SEC. 11. Transfer of Agent Clearing Member Transactions in Agent Clearing Member Customer Omnibus Accounts.**

(a) The provisions of this Section 11 shall only apply (i) with respect to Agent Clearing Member Transactions that have been novated to NSCC, (ii) in the event the relevant Agent Clearing Member is not a Defaulting Member and (iii) a Corporation Default has not occurred.

(b) To the extent permitted under applicable laws and regulations, an Agent Clearing Member may, upon a default of a Customer and the consent of the Corporation, transfer the Agent Clearing Member Transactions of the Customer established in one or more of the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts from such Agent Clearing Member Customer Omnibus Accounts to the Agent Clearing Member's proprietary account at the Corporation as a Member. Any such transfer shall occur by novation, such that the obligations between the Corporation and the relevant Customer in respect of the Agent Clearing Member Transactions shall be terminated and replaced with identical obligations between the Corporation and the Agent Clearing Member, acting as principal. The Agent Clearing Member shall indemnify the Corporation, and its employees, officers, directors, shareholders, agents and Members, for any and all losses, liability, or expenses incurred by them arising from, or in relation to, any such transfer.

**SEC. 12. Customer Acknowledgments**

**Each Agent Clearing Member on behalf of each of its Customers agrees that such Customer, by participating in and entering into Agent Clearing Member Transactions through the Agent Clearing Member, understands, acknowledges, and agrees that:**

**(a) the service provided by the Corporation with regard to the Customer Clearing Service will be subject to and governed by these Rules and Procedures;**

**(b) these Rules and Procedures shall govern the novation of Agent Clearing Member Transactions and all transactions between the Customer and its Agent Clearing Member resulting in the novation of such transactions, and at the time of novation of an Agent Clearing Member Transaction, the Customer on whose behalf it was submitted will be bound by the Agent Clearing Member Transaction automatically and without any further action by the Customer or by its Agent Clearing Member, and the Customer agrees to be bound by the applicable provisions of these Rules and Procedures in all respects;**

**(c) the Corporation shall be under no obligation to deal directly with the Customer, and the Corporation may deal exclusively with the Customer's Agent Clearing Member;**

**(d) the Corporation shall have no obligations to the Customer with respect to any Agent Clearing Member Transactions submitted by an Agent Clearing Member on behalf of the Customer, including with respect to any payment or delivery obligations; and**

**(e) the Customer shall have no right to receive from the Corporation, or any right to assert a claim against the Corporation with respect to, nor shall the Corporation be liable to the Customer for, any payment or delivery obligation in connection with any Agent Clearing Member Transactions submitted by an Agent Clearing Member on behalf of the Customer, and the Corporation shall make any such payments or redeliveries solely to the relevant Agent Clearing Member.**

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### RULE 3. LISTS TO BE MAINTAINED

SEC. 1. (a) The Corporation shall maintain a list of the securities which may be the subject of contracts cleared through the Corporation (hereinafter referred to as "Cleared Securities"), and may from time to time add securities to such list or remove securities therefrom. Unless the Corporation shall otherwise determine, Cleared Securities may only be those issues of securities the issuer of which is subject to, or regularly complies with, Rule 10b-17 of the SEC, promulgated pursuant to the Exchange Act. The Corporation shall accept an issue of securities as a Cleared Security only upon a determination by the Corporation that it has the existing operational capability to do so and to continue successfully to provide its services to Members.

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(f) The Corporation shall maintain a list of Eligible ID Net Securities as defined in Rule 65 and may from time to time add CNS Securities to such list or remove CNS Securities therefrom.

**(g) The Corporation shall maintain a list of the securities that may be the subject of a novated Securities Financing Transaction and may from time to time add securities to such list or remove securities therefrom.**

SEC. 2. The Corporation shall maintain a list of Eligible Clearing Fund Securities.

SEC. 3. (a) The Corporation shall maintain a list of those Persons who are entitled under the provisions of New York law to pay New York State stock transfer taxes through the facilities of the Corporation.

(b) The Corporation shall maintain a list of Members, **and** Limited Members, **and Sponsored Members** as set forth in Rule 2.

(c) The Corporation shall maintain a list of broker dealers and others on whose behalf Members have indicated they will act in comparing, clearing and/or settling trades. Members shall provide the Corporation with such information, in accordance with the Procedures as may be adopted from time to time by the Corporation, or pursuant to agreement.

(d) The Corporation shall maintain a list of Members and Settling Bank Only Members that have agreed to act as Settling Banks.

SEC. 4. Members, **Sponsored Members**, Mutual Fund/Insurance Services Members, Fund Members, Insurance Carrier/Retirement Services Members, Municipal Comparison Only Members, TPA Members, TPP Members, Investment Manager/Agent Members, and AIP Members shall not:

(a) submit to the Corporation for processing, or

(b) request the inclusion on any list maintained pursuant to this Rule 3 of, any security or other financial instrument if its issuer is: (i) listed on the Office of Foreign Assets Control ("OFAC") list of specially designated nationals distributed by the U.S. Department of the Treasury, or (ii) incorporated in a country that is on the OFAC list of countries subject to comprehensive sanctions.

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## RULE 4. CLEARING FUND

SEC. 1. *Required Fund Deposits.* Each Member shall make and maintain on an ongoing basis a deposit to the Clearing Fund.<sup>1</sup> The amount of each Member's required deposit shall be determined by the Corporation in accordance with Procedure XV and other applicable Rules and Procedures (the "Required Fund Deposit"). The minimum Required Fund Deposit, **excluding Required SFT Deposit**, for each Member shall be \$250,000. The Corporation may require any such Member to deposit additional amounts to the Clearing Fund pursuant to Rule 15. A Member may in its discretion maintain additional deposits at the Corporation, subject to any Procedures or other requirements the Corporation may establish for such excess amounts. For purposes of these Rules and Procedures, such additional deposits shall be deemed to be part of the Clearing Fund and the Member's Actual Deposit but shall not be deemed to be part of the Member's Required Fund Deposit.

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<sup>1</sup> Clearing Fund deposits for Sponsored Accounts (as defined in Procedure IX.B.) relative to such Sponsored Accounts' DTC activity will be calculated and held by DTC in accordance with their procedures, and shall not be included in determining the Required Fund Deposit or the minimum cash requirement.

## RULE 5. GENERAL PROVISIONS

SEC. 1. Receive data covering the buy side and deliver data covering the sell side of any contract calling for delivery of Cleared Securities may be sent for comparison by a Member to the Corporation; such contracts shall be compared by the Corporation to the extent provided for under these Rules and the Procedures. Trade Data may also be provided to the Corporation on a locked-in basis as provided pursuant to the Rules and the Procedures. Output made available by the Corporation on: (i) contracts compared by the Corporation, and (ii) locked-in transactions recorded by the Corporation from data received from a Member or Self-Regulatory Organization (collectively, "Compared Contracts"), shall evidence valid, binding and enforceable compared transactions for purposes of these Rules (notwithstanding with respect to locked-in transactions that the underlying data is not matched with corresponding data submitted to the Corporation by the affected contra-Member). Compared Contracts for CNS Securities and other transactions in respect of CNS Securities submitted to the Corporation under these Rules ("CNS Contracts") shall be accounted for in the CNS System; Compared Contracts for Balance Order Securities and other transactions in respect of Balance Order Securities submitted to the Corporation under these Rules ("Balance Order Contracts") shall be accounted for in the Balance Order System; Compared Contracts for Foreign Securities and other transactions in respect of Foreign Securities submitted to the Corporation under these Rules ("Foreign Security Contracts") shall be accounted for in the Foreign Security System. Delivery of CNS Securities to the Corporation, except as specified in Section 9 of Rule 11, shall be made through the facilities of the Corporation or a Qualified Securities Depository and payment therefore shall be made through the Corporation or such agent as it may designate; delivery of Balance Order Securities may be made through the Corporation in which case payment therefore shall be made through the Corporation or such agent as it may designate; delivery of Foreign Securities shall be made pursuant to arrangements mutually agreed upon by the parties, and the Rules of the Corporation shall not govern such delivery or the failure to deliver such securities; **delivery of SFT Securities and SFT Cash to the Corporation shall be made through the facilities of a Qualified Securities Depository.** Such comparison, accounting, and, with respect to CNS Securities, **and Balance Order Securities, SFT Securities and SFT Cash,** delivery and payment shall be effected as hereinafter prescribed in these Rules, in such regulations with respect thereto as the Corporation may from time to time adopt and in the Procedures.

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RULE 24. CHARGES FOR SERVICES RENDERED

SEC. 1. Each Member, **Sponsored Member**, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member and AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 24) shall pay such fees and charges to the Corporation as shall be specified by the Corporation or in the Procedures and approved by the Board of Directors on a reasonable and non-discriminatory basis.

**Members shall be responsible for all fees pertaining to their respective Sponsoring Member activity or Agent Clearing Member activity, if applicable, as set forth in the Corporation’s Fee Structure.**

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RULE 26. BILLS RENDERED

The Corporation will render bills to Members, **Sponsored Members**, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members, TPA Members, TPP Members, Investment Manager/Agent Members, Fund Members and AIP Members for charges on account of the business of any month and will charge their respective accounts with the amounts thereof on or before such date as determined by the Corporation from time to time. **Members shall receive bills for their respective aggregate Sponsoring Member activity and Agent Clearing Member activity, if applicable, as set forth in the Fee Structure.**

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## RULE 32. SIGNATURES

With respect to any and all agreements and other documents entered into between a Member, **Sponsored Member** and Limited Member and the Corporation, or otherwise delivered to or by the Corporation pursuant to these Rules and Procedures, the use of an electronic signature shall have the same validity and effect as the use of a signature affixed by hand.

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RULE 38. GOVERNING LAW AND CAPTIONS

SEC. 1 Governing Law

These Rules and Procedures and all agreements and other documents entered into between a Member, **Sponsored Member** or Limited Member and the Corporation, or otherwise delivered to or by the Corporation pursuant to these Rules and Procedures, and the rights and obligations under the Rules and Procedures thereunder, shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts executed and performed therein, unless otherwise expressly provided.

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## RULE 39. RELIANCE ON INSTRUCTIONS

The Corporation may accept or rely upon any instruction given to the Corporation by a Member, **Sponsored Member**, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Fund Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Data Services Only Member, AIP Member or Special Representative, ~~or~~ Index Receipt Agent **or Approved SFT Submitter** (each hereinafter referred to as a “participant” for purposes of this Rule 39), including wire transmission, physical delivery or delivery by other means of instructions recorded on magnetic tape or other media or of facsimile copies of instructions, in form acceptable to the Corporation and in accordance with the Procedures, which reasonably is understood by the Corporation to have been delivered to the Corporation by such participant. In the case of instructions given by a Special Representative, ~~or~~ Index Receipt Agent **or Approved SFT Submitter**, Investment Manager/Agent Member, TPP Member, or TPA Member, the Corporation shall be entitled to act pursuant to any such instruction as though such instruction had been received from the Member **or Sponsored Member** for which the Special Representative, ~~or~~ Index Receipt Agent **or Approved SFT Submitter** or TPP Member, TPA Member or Investment Manager/Agent Member is acting.

Any participant delivering instructions as provided above, or on whose behalf a Special Representative, **Approved SFT Submitter**, TPA Member, TPP Member, or Investment Manager/Agent Member, shall deliver instructions as provided above, shall indemnify the Corporation, and any of its employees, officers, directors, shareholders, agents, and participants who may sustain any loss, liability or expense as a result of (a) any act done in reliance upon the authenticity of any instruction received by the Corporation, (b) the inaccuracy of the information contained therein or (c) effecting transactions in reliance upon such information or instruction against any such loss, liability or expense so long as such transactions are effected in accordance with such information and instructions even though they are inaccurate or not authentic and so long as the person asserting a right to indemnification shall not have knowledge of such inaccuracy or lack of authenticity at the time of the event or events giving rise to such loss, liability or expense.

Notwithstanding the foregoing, the Corporation will not act upon any instruction purporting to have been given by a participant which is received by wire transmission or in the form of facsimile copies or magnetic tape or media other than written instructions or from a Special Representative, **Approved SFT Submitter**, TPA Member, TPP Member, or Investment Manager/Agent Member, commencing one Business Day after the Corporation receives written notice from the participant that the Corporation shall not accept such instructions until such time as the participant shall withdraw such notice.

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RULE 42. WIND-DOWN OF THE CORPORATION

SEC 1. Defined Terms

(a) For purposes of this Rule 42:

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“Limited Member” means a Limited Member or Sponsored Member of the Corporation (other than a Settling Bank Only Member) or a Limited Member or Sponsored Member of the Transferee (other than a Settling Bank Only Member), as the context requires.

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RULE 49. RELEASE OF CLEARING DATA AND CLEARING FUND DATA

(a) Absent valid legal process or as provided in paragraph (b) hereof, the Corporation will only release Clearing Data relating to transactions of a particular participant and Clearing Fund Data to such participant upon his written request; **however, if the participant is a Sponsored Member, the Corporation will also release Clearing Data relating to transactions of such participant to such participant's Sponsoring Member upon the Sponsoring Member's written request.**

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**RULE 56. (RULE NUMBER RESERVED FOR FUTURE USE)**

**RULE 56. SECURITIES FINANCING TRANSACTION CLEARING SERVICE**

**SEC. 1. General.**

**(a) The Corporation may accept for novation Securities Financing Transactions (SFTs) entered into between (i) a Member and another Member, (ii) a Sponsoring Member and its Sponsored Member, or (iii) an Agent Clearing Member acting on behalf of a Customer and either (x) a Member or (y) the same or another Agent Clearing Member acting on behalf of a Customer.**

**(b) Any SFT that is submitted to the Corporation for novation, and any Member and Sponsored Member that enters into an SFT (and any Customer on behalf of whom an Agent Clearing Member enters into an SFT) shall be subject to the provisions of this Rule 56; provided that Sections 15 and 16 of this Rule shall only apply to Sponsoring Members, Agent Clearing Members, Sponsored Members and Customers, as applicable.**

**(c) Any amount of cash described in this Rule 56 may be rounded up to the nearest one cent, five cents, 10 cents, 25 cents or dollar according to the rounding convention requested by the SFT Member parties to the relevant SFT as conveyed to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose.**

**SEC. 2. Eligibility for SFT Clearing Service: SFT Member.**

**The Corporation may permit any Member acting in its principal capacity, Sponsored Member acting in its principal capacity or Agent Clearing Member acting on behalf of a Customer to be an SFT Member and participate in the SFT Clearing Service.**

**The rights, liabilities and obligations of SFT Members in their capacity as such shall be governed by this Rule 56. References to a Member in other Rules and Procedures shall not apply to an SFT Member in its capacity as such, unless specifically noted in this Rule or in such other Rules and Procedures as applicable to an SFT Member.**

**An SFT Member that participates in the Corporation in another capacity pursuant to another Rule or Procedure of this Corporation, or which has entered into an agreement with the Corporation independent from this Rule, shall continue to have all the rights, liabilities and obligations set forth in such other Rule or Procedure or pursuant to such agreement, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as an SFT Member, except as contemplated under Sections 15 and 16 of this Rule.**

**SEC. 3. Membership Documents.**

**To become an SFT Member, each applicant shall complete and deliver to the Corporation documents in such forms as may be prescribed by the Corporation from time to time and any other information requested by the Corporation.**

**SEC. 4. Securities Financing Transaction Data Submission.**

**(a) In order for an SFT to be submitted to the Corporation, the transaction data for the SFT must be submitted to the Corporation by an Approved SFT Submitter in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Any such transaction data shall be submitted to the Corporation on a locked-in basis. In determining whether to accept transaction data from an Approved SFT Submitter, the Corporation may require the Approved SFT Submitter to provide a Cybersecurity Confirmation, as described in Rule 2B, Section 2.A.**

**(b) The Corporation will not act upon any instruction received from an Approved SFT Submitter in respect of an SFT unless each SFT Member (other than an SFT Member that is a Sponsored Member) designated by the Approved SFT Submitter as a party to such SFT has consented, in a writing delivered to the Corporation, to the Approved SFT Submitter acting on behalf of the SFT Member in respect of SFTs.**

**(c) The obligations reflected in the transaction data on an SFT shall be deemed to have been confirmed and acknowledged by each SFT Member designated by the Approved SFT Submitter as a party thereto and to have been adopted by such SFT Member and, for the purposes of determining the rights and obligations between the Corporation and such SFT Member under this Rule and such other Rules or Procedures applicable to SFTs, shall be valid and binding upon such SFT Member. An SFT Member which has been so designated by an Approved SFT Submitter shall resolve any differences or claims regarding the rights and obligations reflected in the transaction data submitted by the Approved SFT Submitter with the Approved SFT Submitter, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the SFT Member in any way, other than pursuant to the instructions of the Approved SFT Submitter. Any such adjustment shall be in the sole discretion of the Corporation.**

**(d) The Corporation makes no representation, whether expressed or implied, as to the complete and timely performance of an Approved SFT Submitter's duties and obligations. The Corporation assumes no liability to any SFT Member for any act or failure to act by an Approved SFT Submitter in connection with any information received by the Corporation or given to the SFT Member by the Corporation via the Approved SFT Submitter, as the case may be.**



**(e) The submission of each SFT to the Corporation and the performance of any obligation under such SFT shall constitute a representation to the Corporation and covenant by the Transferor and the Transferee, any Sponsoring Member that is acting on behalf of the Transferor or Transferee and any Agent Clearing Member that is acting on behalf of a Customer in connection with such SFT that its participation in such SFT is in compliance, and will continue to comply, with all applicable laws and regulations, including without limitation Rule 15c3-3 and all other applicable rules and regulations of the SEC, any applicable provisions of Regulation T, Regulation U and Regulation X of the Board of Governors of the Federal Reserve System, and the rules of FINRA and any other regulatory or self-regulatory organization to which the Transferor, the Transferee, any Sponsoring Member that is acting on behalf of the Transferor or Transferee or any Agent Clearing Member that is acting on behalf of a Customer is subject.**

**(f) The submission of each SFT to the Corporation shall constitute an authorization to the Corporation by the Transferor, the Transferee and any Agent Clearing Member that is acting on behalf of a Customer for the Corporation to give instructions regarding the SFT to DTC in respect of the relevant accounts of the Transferor, Transferee and Agent Clearing Member at DTC.**

#### **SEC. 5. Novation of Securities Financing Transactions.**

**(a) The Corporation will only novate an SFT if, at the time of novation, the Final Settlement of such transaction is scheduled to occur one Business Day following the Initial Settlement and the SFT Cash is no less than 100% of the Contract Price of the SFT.**

**(b) Each SFT that is a Bilaterally Initiated SFT, including any Sponsored Member Transaction, and validated pursuant to these Rules and Procedures shall be novated to the Corporation as of the time the Corporation provides the Approved SFT Submitter for such SFT a report confirming such novation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Each SFT that is neither a Bilaterally Initiated SFT nor a Sponsored Member Transaction and that is validated pursuant to these Rules and Procedures shall be novated to the Corporation as of the time (x) the Initial Settlement of such SFT has completed by (i) the Transferor instructing DTC to deliver from the relevant DTC account of the Transferor to the Corporation's account at DTC the subject SFT Securities versus payment of the amount of the SFT Cash, (ii) the Corporation instructing DTC to deliver from the Corporation's account at DTC to the relevant DTC account of the Transferee the subject SFT Securities versus payment of the amount of SFT Cash and (iii) DTC processes the deliveries in accordance with the rules and procedures of DTC, or (y) the Initial Settlement obligations of such SFT have been discharged in accordance with Section 8 of this Rule. If the Initial Settlement obligations of an SFT that is neither a Bilaterally Initiated SFT nor a Sponsored Member Transaction are not discharged in accordance with clause (x) or (y), then such SFT shall be deemed void *ab initio*.**

(c) Subject to subsections (d) and (e) below of this Section 5, the novation of SFTs shall consist of the termination of the Final Settlement, Rate Payment and Distribution Payment obligations and entitlements between the parties to the SFT with respect to such SFT and their replacement with obligations and entitlements to and from the Corporation to perform, in accordance with these Rules and Procedures, the Final Settlement, Rate Payment, and Distribution Payment obligations and entitlements under the SFT.

(d) Novation in Respect of SFTs Having Incremental Additional Independent Amount SFT Cash

(i) If an SFT has Incremental Additional Independent Amount SFT Cash, then, unless the SFT is a Sponsored Member Transaction and the Sponsoring Member is the Transferee, the obligation of the Transferor to return the Incremental Additional Independent Amount SFT Cash to the Transferee shall not be terminated and novated to the Corporation (nor shall the Corporation otherwise be required to return such Incremental Additional Independent Amount SFT Cash), except to the extent that the Transferor, Sponsoring Member or Agent Clearing Member, as applicable, has satisfied the associated Independent Amount SFT Cash Deposit Requirement.

(ii) To the extent the Transferor, Sponsoring Member or Agent Clearing Member has not satisfied the associated Independent Amount SFT Cash Deposit Requirement, the Transferor's (or in the case of a Non-Returned SFT, the Corporation's) obligation to return the Incremental Additional Independent Amount SFT Cash shall:

1. If the SFT is an Agent Clearing Member Transaction for which the Agent Clearing Member, acting on behalf of the Customer, is the Transferor, be terminated and replaced with an obligation of the Agent Clearing Member, in its capacity as principal, to return the Incremental Additional Independent Amount SFT Cash to the Transferee; or

2. Otherwise, remain (or in the context of a Non-Returned SFT, be terminated and replaced with) a bilateral obligation of the Transferor to the Transferee.

(iii) Each SFT Member agrees that any obligation to return Incremental Additional Independent Amount SFT Cash that is novated to an Agent Clearing Member or that remains (or becomes) a bilateral obligation of the Transferor to the Transferee in accordance with (ii) above is a binding and enforceable obligation of the Agent Clearing Member or Transferor, as applicable, regardless of whether the Transferee has entered into an Existing Master Agreement with the Agent Clearing Member or Transferor. Each SFT Member further agrees that any such obligation shall

only be due and payable to the Transferee upon the final discharge of the Corporation's Final Settlement obligations to the Transferor under the portion of the SFT that has been novated to the Corporation in accordance with Section 5(b) of this Rule.

(iv) Until the Transferor, Sponsoring Member or Agent Clearing Member has satisfied in full its Independent Amount SFT Cash Deposit Requirement, the SFT Cash of the SFT shall, for purposes of determining the obligations owing to and from the Corporation under such SFT, equal the SFT Cash of the SFT less the Incremental Additional Independent Amount SFT Cash.

(v) Once the Transferor, Sponsoring Member or Agent Clearing Member, as applicable, has satisfied in full its Independent Amount SFT Cash Deposit Requirement, the obligation of the Transferor to return the Incremental Additional Independent Amount SFT Cash to the Transferee (or, in the case of an SFT that is an Agent Clearing Member Transaction, any obligation of the Agent Clearing Member to return the Incremental Additional Independent Amount SFT Cash to the Transferee) shall be novated to the Corporation, and the SFT Cash of the SFT shall, for purposes of determining the obligations owing to and from the Corporation under the SFT, include the full amount of the SFT Cash of such SFT.

(e) Novation in Respect of Certain Corporate Actions

(i) Regardless of anything to the contrary in any Existing Master Agreement (including a provision addressing when an issuer pays different amounts to different security holders due to withholding tax or other reasons), the Distribution Payment obligations and entitlements between the Corporation and each party to an SFT that has been novated to the Corporation shall be the obligation of the Corporation to pay to the Transferor and the obligation of the Transferee to pay to the Corporation the Distribution Amount in respect of each Distribution and the corresponding entitlements of the Transferor and the Corporation, in each case, in accordance with these Rules and Procedures.

(ii) The Corporation shall maintain a list of corporate actions and distributions that the Corporation does not support with respect to SFTs. No Final Settlement, Rate Payment, Distribution Payment or other obligation resulting from a corporate action or distribution that is not supported by the Corporation shall be novated to the Corporation. Nor shall any such corporate action modify the Final Settlement, Rate Payment, Distribution Payment or other obligations of the Corporation, Transferor and Transferee under an SFT that has been novated to the Corporation. Each SFT Member agrees that any obligation under an SFT resulting from a corporate action or distribution not supported by the Corporation shall remain a binding and enforceable bilateral obligation between the

**Transferor and the Transferee, regardless of whether the Transferor and Transferee have entered into an Existing Master Agreement.**

**(f) The novation of SFTs shall not affect the fundamental substance of the SFT as a transfer of securities by one party in exchange for a transfer of cash by the other party and an agreement by each party to return the property it received and shall not affect the economic obligations or entitlements of the parties under the SFT except that following novation, the Final Settlement, Rate Payment and Distribution Payment obligations and entitlements shall be owed to and by the Corporation rather than the original counterparty under the SFT.**

**(g) The representations and warranties made by each of the parties to an SFT that has been novated to the Corporation under the parties' Existing Master Agreement, if any, shall (x) to the extent that they are inconsistent with the Rules and Procedures of the Corporation, be eliminated and replaced with the Rules and Procedures of the Corporation and (y) to the extent that they are not inconsistent with the Rules and Procedures of the Corporation, remain in effect as between the parties to the original SFT, but shall not impose any additional obligations on the Corporation.**

**SEC. 6. Rate and Distributions.**

**(a) The Corporation shall debit and credit the Rate Payment from and to the SFT Accounts of the SFT Member parties to an SFT that has been novated to the Corporation as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII on the scheduled Final Settlement Date for the SFT, irrespective of whether Final Settlement of such SFT occurs on such date.**

**(b) If (x) a cash dividend is made on or in respect of an SFT Security that is the subject of an SFT that has been novated to the Corporation or (y) cash is exchanged, in whole or in part, for such an SFT Security in a merger, consolidation or similar transaction, and the Transferor under the SFT would have been entitled to a cash payment related to the event described in clause (x) or (y) had it not transferred the SFT Securities that are the subject of the SFT to the Transferee in the Initial Settlement, then the Corporation shall, within the time period determined by the Corporation from time to time, credit the Distribution Amount to the Transferor's SFT Account and debit the Distribution Amount from the Transferee's SFT Account as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If cash is exchanged in whole for such an SFT Security, then the completion of the actions described in the preceding sentence shall discharge the Corporation's Final Settlement obligations to the relevant Transferor and the Transferee's Final Settlement obligations to the Corporation.**

**SEC. 7. Final Settlement of Securities Financing Transactions.**

**Subject to the provisions of Section 11 of this Rule, the Final Settlement of an SFT that has been novated to the Corporation shall be scheduled to occur on the Business Day immediately following the date the SFT was novated to the Corporation. Unless the Final Settlement obligations under such an SFT are discharged in accordance with Section 8 of this Rule, Final Settlement of the SFT shall occur by (x) the Corporation instructing DTC to (i) deliver from the relevant DTC account of the Transferee to the Corporation's account at DTC the subject SFT Securities versus payment of the amount of SFT Cash and (ii) deliver from the Corporation's account at DTC to the relevant DTC account of the Transferor the subject SFT Securities versus payment of the amount of SFT Cash, and (y) the processing of such deliveries by DTC in accordance to the rules and procedures of DTC; provided that if such transfers do not occur and a Buy-In does not occur in respect of the SFT, then the Final Settlement Date shall be rescheduled for the following Business Day as described in Section 9 of this Rule. The obligation of a Transferor (or a Sponsoring Member that guarantees to the Corporation the obligation of a Transferor or an Agent Clearing Member that is responsible for the performance of the obligation under an SFT that is an Agent Clearing Member Transaction to return SFT Cash to the Corporation) in respect of the Final Settlement of an SFT that has been novated to the Corporation shall be to pay the SFT Cash and, if applicable, the Rate Payment to the Corporation against the transfer of the relevant SFT Securities by the Corporation. The obligation of a Transferee (or a Sponsoring Member that guarantees to the Corporation the obligation of a Transferee or an Agent Clearing Member that is responsible for the performance of the obligation under an SFT that is an Agent Clearing Member Transaction to return SFT Securities to the Corporation) in respect of the Final Settlement of an SFT that has been novated to the Corporation shall be to transfer the SFT Securities and, if applicable, the Rate Payment to the Corporation against the transfer of SFT Cash by the Corporation.**

**An SFT, or a portion thereof, shall be deemed complete and final upon Final Settlement of the SFT, or such portion, whether pursuant to this Section 7, Section 8, Section 9(d) or Section 13(c). From and after the Final Settlement of an SFT, or a portion thereof, pursuant to any such section, the Corporation shall be discharged from its obligations to the Transferor and the Transferee, and the Corporation shall have no further obligation in respect of the SFT, or such portion.**

**SEC. 8. Discharge of Offsetting Final Settlement and Initial Settlement Obligations.**

**(a) Subject to the provisions of Section 13(c) of this Rule, if, on any Business Day, the pre-novation SFT Member parties to a Settling SFT enter into a Linked SFT and the Approved SFT Submitter provides an appropriate instruction to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose, the**

Final Settlement obligations of the parties to the Settling SFT and the Initial Settlement obligations of the parties to the Linked SFT shall be discharged once the Corporation has instructed DTC to debit and credit the relevant DTC accounts, of the SFT Member parties, as described in subsection (b) of this Section 8 and DTC processes such debits and credits in accordance with the rules and procedures of DTC. To the extent the Price Differential is not processed by DTC in accordance with the rules and procedures of DTC, the Corporation shall debit and credit the Price Differential from and to the SFT Accounts of the SFT Member parties as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Price Differential is positive, the Corporation shall (x) credit an amount equal to the Price Differential to the Transferee's SFT Account and (y) debit an amount equal to the Price Differential from the Transferor's SFT Account. If the Price Differential is negative, the Corporation shall (x) credit an amount equal to the absolute value of the Price Differential to the Transferor's SFT Account and (y) debit an amount equal to the absolute value of the Price Differential from the Transferee's SFT Account. However, if the Linked SFT has as its subject fewer SFT Securities than the Settling SFT, then only the following Final Settlement obligations under the Settling SFT shall be discharged in accordance with this Section 8: (i) the Transferee's and Corporation's Final Settlement obligations in respect of a quantity of SFT Securities equal to the quantity of SFT Securities that are the subject of the Linked SFT and (ii) the Transferor's and Corporation's Final Settlement obligations in respect of the Corresponding SFT Cash.

(b) If the Price Differential is positive, the Corporation shall (x) instruct DTC to debit an amount equal to the Price Differential from the Corporation's account at DTC and credit such amount to the relevant DTC account of the Transferee and (y) instruct DTC to debit an amount equal to the Price Differential from the relevant DTC account of the Transferor and credit such amount to the Corporation's account at DTC. If the Price Differential is negative, the Corporation shall (x) instruct DTC to debit an amount equal to the absolute value of the Price Differential from the Corporation's account at DTC and credit such amount to the relevant DTC account of the Transferor and (y) instruct DTC to debit an amount equal to the absolute value of the Price Differential from the relevant DTC account of the Transferee and credit such amount to the Corporation's account at DTC.

#### SEC. 9. Non-Returned Securities Financing Transactions and Recalls.

(a) If (x) the Transferee does not satisfy its Final Settlement obligations in respect of an SFT that has been novated to the Corporation on the Final Settlement Date, (y) such Final Settlement obligations have not been discharged in accordance with the provisions of Section 8 of this Rule, and (z) a Buy-In has not occurred in respect of such SFT or a portion thereof (such SFT, a "Non-Returned SFT"), the Final Settlement Date of the Non-Returned SFT shall be rescheduled for the following Business Day, and the Corporation shall instruct DTC to debit and credit the relevant DTC accounts of the SFT Member parties, as

described in subsection (b) of Section 8. To the extent the Price Differential is not processed by DTC in accordance with the rules and procedures of DTC, the Corporation shall debit and credit the Price Differential from and to the SFT Accounts of the SFT Member parties to the Non-Returned SFT as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Price Differential is positive, the Corporation shall (x) credit an amount equal to the Price Differential to the Transferee's SFT Account and (y) debit an amount equal to the Price Differential from the Transferor's SFT Account. If the Price Differential is negative, the Corporation shall (x) credit an amount equal to the absolute value of the Price Differential to the Transferor's SFT Account and (y) debit an amount equal to the absolute value of the Price Differential from the Transferee's SFT Account.

(b) If the Corporation receives a Recall Notice in respect of an SFT that has been novated to the Corporation and the Transferee does not satisfy its Final Settlement obligations by the Recall Date for the Recall Notice, the Transferor may, in a commercially reasonable manner, purchase some or all of the SFT Securities that are the subject of the SFT or elect to be deemed to have purchased the SFT Securities, in each case in accordance with such timeframes and deadlines as established by the Corporation for such purpose (a "Buy-In"); provided that in the case of a Default-Related SFT, the commercial reasonableness of a Buy-In shall be determined by the Corporation based on whether, in the opinion of the Corporation, such Buy-In would create a disorderly market in the relevant SFT Security. Following such purchase or deemed purchase, the Transferor shall (x) give written notice to the Corporation of the Transferor's costs to purchase the relevant SFT Securities (including the price paid by the Transferor and any broker's fees and commissions and reasonable out-of-pocket transaction costs, fees or interest expenses incurred in connection with such purchase) (such costs, the "Buy-In Costs") or, if the Transferor elects to be deemed to have purchased the SFT Securities, the Deemed Buy-In Costs, and (y) indemnify the Corporation, and its employees, officers, directors, shareholders, agents and Members (collectively the "Buy-In Indemnified Parties"), for any and all losses, liability or expenses of a Buy-In Indemnified Party arising from any claim disputing the calculation of the Buy-In Costs, the Deemed Buy-In Costs or the method or manner of effecting the Buy-In. Each SFT Member acknowledges and agrees that each SFT Security is of a type traded in a recognized market and that, in the absence of a generally recognized source for prices or bid or offer quotations for any SFT Security, the Transferor may, for purposes of a Buy-In, establish the source therefor in its commercially reasonable discretion. Each SFT Member further acknowledges and agrees that the Corporation will not calculate any Buy-In Costs or Deemed Buy-In Costs and shall have no liability for any such calculation. The Corporation hereby assigns to any Transferee whose SFT is subject to a Buy-In any rights it may have against the Transferor to dispute the Transferor's calculation of the Buy-In Costs or Deemed Buy-In Costs.

(c) On the Business Day following the Corporation's receipt of written notice of the Transferor's Buy-In Costs, the Corporation shall debit and credit the Buy-In Amount from and to the SFT Accounts of the SFT Member parties to the SFT as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Buy-In Amount is positive, the Corporation will (x) credit the value of the Buy-In Amount to the Transferor's SFT Account and (y) debit the value of the Buy-In Amount from the Transferee's SFT Account. If the Buy-In Amount is negative, the Corporation will (x) credit the value of the Buy-In Amount to the Transferee's SFT Account and (y) debit the value of the Buy-In Amount from the Transferor's SFT Account.

(d) Following the application of such Buy-In Amount, the Final Settlement obligations under the SFT shall be discharged; provided that if the Transferor effected a Buy-In in respect of some but not all of the SFT Securities that are the subject of an SFT, then only the following obligations shall be discharged: (i) the Transferee's and Corporation's Final Settlement obligations in respect of the SFT Securities for which the Transferor effected the Buy-In and (ii) the Transferor's and Corporation's Final Settlement obligations in respect of the Corresponding SFT Cash.

(e) A Recalled SFT shall be treated as a Non-Returned SFT by the Corporation until the earlier of the time that the SFT settles or a Buy-In is processed by the Corporation in accordance with this Section 9, except that the additional SFT Deposit required for Non-Returned SFTs under Section 12(c) of this Rule shall not apply. If the Transferor effects the Buy-In in respect of some, but not all, of the SFT Securities that are the subject of a Recalled SFT, the Final Settlement obligations of the Recalled SFT that are not discharged in accordance with subsection (d) of this Section 9 shall be treated as a Non-Returned SFT until the SFT settles or a Buy-In is processed by the Corporation in accordance with this Section 9, and the additional SFT Deposit required under Section 12(c) of this Rule for Non-Returned SFTs shall apply.

#### SEC. 10. Cancellation, Modification and Termination of Securities Financing Transactions.

(a) Transaction data on an SFT that has not been novated to the Corporation may be cancelled upon receipt by the Corporation of appropriate instructions from the Approved SFT Submitter with respect to such SFT on behalf of both SFT Member parties thereto, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. An SFT that is so cancelled by the Corporation will be deemed to be void *ab initio*.

(b) The Rate Payment on an SFT that has been novated to the Corporation may be modified upon receipt by the Corporation of appropriate instructions from the Approved SFT Submitter with respect to such SFT, submitted in accordance with the communication links, formats, timeframes and



deadlines established by the Corporation for such purpose. Any instructions submitted by an Approved SFT Submitter to modify the Rate Payment of an SFT must be submitted on behalf of both SFT Member parties to the SFT.

(c) An SFT that has been novated to the Corporation in accordance with Section 5 of this Rule may be terminated upon receipt by the Corporation of appropriate instructions from the Approved SFT Submitter with respect to such SFT on behalf of both SFT Member parties thereto, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purposes. Following any such termination, no amounts or further obligations shall be owing in respect of the SFT between the Corporation and Transferor or the Corporation and the Transferee.

#### SEC. 11. Accelerated Final Settlement.

The Transferee may accelerate the scheduled Final Settlement of an SFT that has been novated to the Corporation upon receipt by the Corporation of appropriate instruction from the Approved SFT Submitter with respect to such SFT, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Such accelerated Final Settlement shall be effected by the Corporation in accordance with the provisions of Section 7 of this Rule.

#### SEC. 12. Clearing Fund Obligations.

(a) Each SFT Member, other than an SFT Member that is a Sponsored Member, shall make and maintain on an ongoing basis a deposit to the Clearing Fund with respect to its SFT Positions (the "SFT Deposit"). For the avoidance of doubt, the SFT Positions for an SFT Member that is a Sponsoring Member shall include all SFT Positions held in its Sponsored Member Sub-Account(s) in addition to its proprietary account(s).

(b) The SFT Deposit shall be held by the Corporation or its designated agents as part of the Clearing Fund, to be applied as provided in Sections 1 through 12 of Rule 4.

(c) The Corporation shall calculate the amount of each such SFT Member's required deposit for SFT Positions, subject to a \$250,000 minimum (excluding the minimum contribution to the Clearing Fund as required by Procedure XV, Section II.(A)), by applying the Clearing Fund formula for CNS

Transactions in Sections I.(A)(1)(a),<sup>2</sup> (b), (c), (e), (f), (g)<sup>3</sup> of Procedure XV as well as the additional Clearing Fund formula in Section I.(B)(5) (Intraday Mark-to-Market Charge) of Procedure XV, except as noted otherwise, in the same manner as such sections apply to CNS Transactions submitted to the Corporation for regular way settlement, plus, with respect to any Non-Returned SFT, an additional charge that is calculated by (x) multiplying the Current Market Price of the SFT Securities that are the subject of such Non-Returned SFTs by the number of such SFT Securities that are the subject of the SFT and (y) multiplying such product by (i) 5% for SFT Members rated 1 through 4 on the Credit Risk Rating Matrix, (ii) 10% for SFT Members rated 5 or 6 on the Credit Risk Rating Matrix, or (iii) 20% for SFT Members rated 7 on the Credit Risk Rating Matrix shall be applied to each SFT Member that is a party thereto (collectively, the “Required SFT Deposit”); provided, however, notwithstanding anything to the contrary, (x) a minimum of 40% of an SFT Member’s Required SFT Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities and (y) the lesser of \$5,000,000 or 10% of an SFT Member’s Required SFT Deposit, with a minimum of \$250,000, must be made and maintained in cash; provided, further, the additional Clearing Fund formula in Sections I.(B)(1) (Additional Deposits for Members on the Watch List); (2) (Excess Capital Premium); (3) (Backtesting Charge); (4) (Bank Holiday Charge); Minimum Clearing Fund and Additional Deposit Requirements in Sections II.(A)1(a) – (b), II.(B), II.(C), and II.(D); as well as Section III (Collateral Value of Eligible Clearing Fund Securities) of Procedure XV shall apply to SFT Members in the same manner as such sections apply to Members.

(d) The Corporation shall have the discretion to require an SFT Member to post its Required SFT Deposit in proportion of cash higher than as required under subsection (c) of this Section 12, as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the SFT Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time.

(e) If an SFT has Incremental Additional Independent Amount SFT Cash, the Transferor shall make an additional deposit to the Clearing Fund that equals the amount of the Incremental Additional Independent Amount SFT Cash for such

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<sup>2</sup> For the purpose of applying Section I.(A)(1)(a)(i) of Procedure XV (Value-at-Risk (VaR) charge), the volatility of an SFT Member’s SFT Positions shall be the sum of (a) the highest resultant value between Section I.(A)(1)(a)(i)I. (Core Parametric Estimation) and Section I.(A)(1)(a)(i)III. (Margin Floor) and (b) the resultant value of Section I.(A)(1)(a)(i)II. (Gap Risk Measure).

<sup>3</sup> For the purpose of applying Section I.(A)(1)(g) of Procedure XV (Margin Liquidity Adjustment (MLA) charge), SFT Positions shall be aggregated with Net Unsettled Positions, as defined in Rule 1, in the same asset group or subgroup; provided, however, in the event such aggregation results in a reduction of the aggregate positions in the relevant asset group or subgroup, the Corporation shall apply the greater of (a) the sum of MLA charges separately calculated for SFT Positions and Net Unsettled Positions in the asset group or subgroup and (b) the MLA charge calculated from aggregating the SFT Positions and the Net Unsettled Positions in the asset group or subgroup.

SFT (“Independent Amount SFT Cash Deposit”, and such requirement the “Independent Amount SFT Cash Deposit Requirement”). The Independent Amount SFT Cash Deposit Requirement must be satisfied in cash and may, at the discretion of the Corporation, be satisfied using Independent Amount SFT Cash Deposits that have previously been made by the Transferor in respect of SFTs with the same Transferee that have since settled. The Transferor shall satisfy any Independent Amount SFT Cash Deposit Requirement in respect of an SFT on the date that the SFT is novated to the Corporation pursuant to the timeframes and deadlines established by the Corporation for such purpose. If, on a given day, the Transferor satisfies its Independent Amount SFT Cash Deposit Requirement for some, but not all, SFTs novated to the Corporation on that day, the Corporation will consider the Transferor to have satisfied its Independent Amount SFT Cash Deposit Requirement for none of the SFTs that were novated to the Corporation on that day.

(f) Each SFT Member, other than an SFT Member that is a Sponsored Member, so long as such Member is an SFT Member, shall also provide Supplemental Liquidity Deposits to the Clearing Fund, as may be required pursuant to Rule 4A. References to Clearing Fund in the other Rules and Procedures shall include and apply to SFT Deposit, and references to Required Fund Deposit shall include and apply to Required SFT Deposit, unless specifically noted otherwise in this Rule 56 or in such other Rules and Procedures.

### SEC. 13. Ineligible SFT Securities and Supported Corporate Actions.

(a) The Corporation will remove an Ineligible SFT Security from the list maintained by the Corporation as set forth in Rule 3; provided that the Corporation may not be able to identify that an SFT Security is an Ineligible SFT Security and remove such SFT Security from the list maintained by the Corporation if the reason for the ineligibility is that the SFT Security is undergoing a corporate action or distribution not supported by the Corporation and the Corporation is not in receipt of reasonably advanced notice of such corporate action or distribution.

(b) Notwithstanding Section 12 of this Rule, if an SFT Security becomes an Ineligible SFT Security because the Current Market Price of the SFT Security falls below the threshold established by the Corporation from time to time, the Required SFT Deposit of each SFT Member party to an SFT which has such Ineligible SFT Security as its subject shall include an additional amount equal to the product of 100% of the Current Market Price of such Ineligible SFT Security and the number of such Ineligible SFT Securities that the SFT has as its subject.

(c) If the Corporation declares that an SFT Security has or will become an Ineligible SFT Security because the security is or will become ineligible for processing or is or will be undergoing a corporate action or distribution that is not supported by the Corporation, the Final Settlement of all SFTs that have been

novated to the Corporation and have such SFT Security as their subject must occur before the Ineligibility Date. If following such declaration the Transferee does not satisfy its Final Settlement obligations in respect of any such SFT as provided in Section 7 of this Rule by the Ineligibility Date, the Corporation shall, unless the Corporation has previously debited and credited the Price Differential from and to the SFT Accounts of the SFT Member parties to the SFT in accordance with Section 8 of this Rule on Ineligibility Date, debit and credit the Price Differential from and to the SFT Accounts of the SFT Member parties to the SFT as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Price Differential is positive, the Corporation shall (x) credit an amount equal to the Price Differential to the Transferee's SFT Account and (y) debit an amount equal to the Price Differential from the Transferor's SFT Account. If the Price Differential is negative, the Corporation shall (x) credit an amount equal to the absolute value of the Price Differential to the Transferor's SFT Account and (y) debit an amount equal to the absolute value of the Price Differential from the Transferee's SFT Account. Following the application of Price Differential to an Ineligible SFT on or after the relevant Ineligibility Date, all rights and obligations as between the Corporation and the SFT Member parties thereto with respect to such SFT shall be discharged.

(d) If a corporate action supported by the Corporation in respect of the SFT Securities that are the subject of an SFT is scheduled to occur, the Corporation may cease to permit the discharge of the SFT's Final Settlement obligations, whether pursuant to Section 8 of this Rule or otherwise, and treat the SFT as a Non-Returned SFT for such period of time determined by the Corporation as necessary to process the corporate action, except that the additional SFT Deposit required for Non-Returned SFTs under Section 12(c) of this Rule shall not apply. Notwithstanding the foregoing, the Corporation shall not limit the ability of a Member to accelerate the Final Settlement of an SFT in accordance with Section 11 of this Rule, provided that any Price Differential for the SFT has settled in accordance with Section 9(a) of this Rule and that such accelerated Final Settlement is permitted in accordance with the rules and procedures of DTC.

SEC. 14. Cease to Act Procedures for SFT Members with Open Securities Financing Transactions.

(a) The provisions of Rule 18 shall not apply to the SFTs, with the exception of Sections 1 and 8 thereof.

(b) If the Corporation has ceased to act for an SFT Member and subject to Section 14 of Rule 2C:

(i) Except as otherwise may be determined by the Board of Directors, any SFT entered into by the SFT Member that, at the time the Corporation ceased to act for such SFT Member, has not been novated to the Corporation pursuant to this Rule

shall be excluded from all operations of the Corporation applicable to such SFT.

- (ii) The Corporation may decline to act upon any instructions, transaction data or notices submitted by such SFT Member or an Approved SFT Submitter on behalf of such SFT Member.
- (iii) The Corporation shall close-out such SFT Member's proprietary SFT Positions as well as any SFT Positions established in the SFT Member's Agent Clearing Member Customer Omnibus Account by (x) buying in or selling out, as applicable, some or all of the SFT Securities that are the subject of each SFT of the SFT Member that has been novated to the Corporation but for which the Final Settlement has not occurred, (y) deeming the Corporation to have bought in or sold out some or all such SFT Securities at the bid or ask price therefor, respectively, from a generally recognized source or at such price or prices as the Corporation is able to purchase or sell, respectively, some such SFT Securities, or (z) otherwise liquidating such SFT Member's SFT Positions.
- (iv) Any Sponsored Member Transactions for which a Defaulting SFT Member is the Sponsoring Member and which have been novated to the Corporation shall continue to be processed by the Corporation. The Corporation, in its sole discretion, will determine whether to close-out the SFT Positions established in a Defaulting SFT Member's Sponsored Member Sub-Accounts (if any), which close-out shall be effected in accordance with the provisions of subsection (b)(iii) above, or instead permit the relevant Sponsored Members to complete settlement of the relevant Sponsored Member Transactions.
- (v) If, in the aggregate, the close-out of a Defaulting SFT Member's proprietary SFT Positions results in a profit to the Corporation, such profit shall be applied to any loss to the Corporation arising from the closing out of such Defaulting SFT Member (including losses arising from closing out the SFT Positions established in any of the Defaulting SFT Member's Agent Clearing Member Customer Omnibus Accounts or Sponsored Member Sub-Accounts or losses arising from closing out any Net Close Out Positions of the Defaulting SFT Member). If, in the aggregate, the close-out of a Defaulting SFT Member's proprietary SFT Positions results in a loss to the Corporation, such loss shall be netted against, or otherwise applied to, any amounts owed by the Corporation to such SFT Member in its proprietary capacity and thereafter

debited from such Defaulting SFT Member's Clearing Fund deposit at the Corporation.

- (vi) If, in the aggregate, the close-out of the SFT Positions established in the Agent Clearing Member Customer Omnibus Accounts of a Defaulting SFT Member results in a profit to the Corporation, such profit shall be credited to the Agent Clearing Member Customer Omnibus Accounts. If, in the aggregate, the close-out of the SFT Positions established in the Agent Clearing Member Customer Omnibus Accounts of a Defaulting SFT Member results in a loss to the Corporation, such loss shall be netted against, or otherwise applied to, any amounts owed by the Corporation to such SFT Member in its proprietary capacity and thereafter debited from the Defaulting SFT Member's Clearing Fund deposit at the Corporation.
- (vii) If, in the aggregate, the close-out of the SFT Positions established in a Defaulting SFT Member's Sponsored Member Sub-Accounts results in a profit to the Corporation, such profit shall be credited to the Sponsored Member Sub-Accounts. If, in the aggregate, the closing out of the SFT Positions established in a Defaulting SFT Member's Sponsored Member Sub-Accounts results in a loss to the Corporation, such loss shall be netted against, or otherwise applied to, any amounts owed by the Corporation to such SFT Member in its proprietary capacity and thereafter debited from such Defaulting SFT Member's Clearing Fund deposit at the Corporation.
- (viii) The Final Settlement Date of each SFT that has been novated to the Corporation and that, prior to novation, was with a Defaulting SFT Member (each, a "Default-Related SFT") shall be the Business Day following the day on which the Corporation ceased to act for the Defaulting SFT Member.
- (ix) Until Final Settlement, each Default-Related SFT shall be treated as a Non-Returned SFT, and the Corporation will pay and collect the Price Differential amounts described in Section 9(a) of this Rule. The Corporation shall have all of the rights of a Transferor in relation to any Default-Related SFT in respect of which the Defaulting SFT Member was the Transferor, including the ability to deliver a Recall Notice in relation to such Default-Related SFT and to effect a Buy-In, and all of the rights of a Transferee in relation to any Default-Related SFT in respect of which the Defaulting SFT Member was the Transferee, including the ability to accelerate the scheduled Final Settlement Date of the Default-Related SFT. However, no additional SFT Deposit required for

**Non-Returned SFTs under Section 12(c) of this Rule shall apply to any Default-Related SFT, and no Rate Payments shall accrue on Default-Related SFTs after the date on which the Corporation ceases to act for the Defaulting SFT Member.**

**SEC. 15. Sponsored Member SFT Clearing.**

**(a) A Sponsoring Member shall be permitted to submit, either directly as an Approved SFT Submitter or via another Approved SFT Submitter, to the Corporation Sponsored Member Transactions between itself and its Sponsored Member in accordance with the provisions of this Rule and Rule 2C.**

**(b) The Corporation shall maintain for the Sponsoring Member one or more Sponsored Member Sub-Accounts. The SFT Deposits for each Sponsored Member Sub-Account shall be calculated separately based on the SFT Positions in such Sponsored Member Sub-Account, and the Sponsoring Member, as principal, shall be required to satisfy the SFT Deposits for each of the Sponsoring Member's Sponsored Member Sub-Accounts.**

**(c) Settlement of the Final Settlement, Rate Payment, Price Differential, Distribution Payment and other obligations of a Sponsored Member Transaction that have been novated to the Corporation shall be effected by the Sponsoring Member, as settlement agent for the relevant Sponsored Member, crediting and debiting the account the Sponsoring Member maintains for the Sponsored Member on the Sponsoring Member's books and records.**

**SEC. 16. Customer SFT Clearing.**

**(a) An Agent Clearing Member shall be permitted to submit, either directly as an Approved SFT Submitter or via another Approved SFT Submitter, to the Corporation for novation SFTs that are Agent Clearing Member Transactions. Any such submission shall be in accordance with this Rule and Rule 2D.**

**(b) With respect to an Agent Clearing Member that submits SFTs to the Corporation for novation on behalf of its Customers, the Corporation shall maintain one or more Agent Clearing Member Customer Omnibus Accounts in the name of the Agent Clearing Member for the benefit of its Customers in which all SFT Positions and SFT Cash carried by the Agent Clearing Member on behalf of its Customers are reflected; provided, that each Agent Clearing Member Customer Omnibus Account may only contain activity where the Agent Clearing Member is acting as Transferor on behalf of its Customers, or as Transferee on behalf of its Customers, but not both.**

**(c) With respect to SFTs entered into on behalf of its Customers and maintained in the Agent Clearing Member Customer Omnibus Account, the Agent Clearing Member shall act solely as agent of its Customers in connection with the clearing of such SFTs; provided, that the Agent Clearing Member shall remain**

fully liable for the performance of all obligations to the Corporation arising in connection with such SFTs; and provided further, that the liabilities and obligations of the Corporation with respect to such SFTs entered into by the Agent Clearing Member on behalf of its Customers shall extend only to the Agent Clearing Member. Without limiting the generality of the foregoing, the Corporation shall not have any liability or obligation arising out of or with respect to any SFT to any Customer of an Agent Clearing Member.

(d) The SFT Deposits for each Agent Clearing Member Customer Omnibus Account shall be calculated separately based on the SFT Positions in such Agent Clearing Member Customer Omnibus Account, and the Agent Clearing Member shall, as principal, be required to satisfy the SFT Deposit for each of the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts.

#### SEC. 17. Corporation Default.

(a) If a "Corporation Default" occurs pursuant to Section 2 of Rule 41, all SFTs that have been novated to the Corporation but not yet settled, and all obligations and rights arising thereunder which have been assumed by the Corporation pursuant to this Rule, shall be immediately terminated, and the Board of Directors shall determine the Aggregate Net SFT Close-out Value owed by or to each SFT Member with respect to each of its SFT Positions.

(b) For purposes of this Section 17, a Member shall be considered a different SFT Member in respect of each of (i) its proprietary SFT Positions; (ii) the SFT Positions established in its Agent Clearing Member Customer Omnibus Accounts (if any); and (iii) the SFT Positions established in its Sponsored Member Sub-Accounts (if any).

(c) Each SFT Member's Aggregate Net SFT Close-out Value shall be netted and offset as described in Section 14(b)(v) through Section 14(b)(vii) of this Rule, as though the Corporation had ceased to act for each SFT Member.

(d) The Board of Directors shall notify each SFT Member of the Aggregate SFT Close-out Value, taking into account the netting and offsetting provided for above. SFT Members that 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 of Directors, subject to any applicable setoff rights. SFT 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 Procedures and applicable law. Nothing herein shall limit the rights of the Corporation upon an SFT Member default (including following a Corporation Default), including any rights under any Clearing Agency Cross-Guaranty Agreement or otherwise.

#### SEC. 18. Other Applicable Rules, Procedures, and Addendums.



**In addition to this Rule 56, the Rules, Procedures, and Addendums referenced in this section shall also apply to SFTs and SFT Members, unless expressly stated otherwise.**

**Rule 1 (Definitions and Descriptions), Rule 2 (Members, Limited Members and Sponsored Members), Rule 5 (General Provisions), Rule 12 (Settlement), Rule 13 (Exception Processing), Rule 17 (Fine Payments), Rule 19 (Miscellaneous Rights of the Corporation), Rule 21 (Honest Broker), Rule 22 (Suspension of Rules), Rule 23 (Action by the Corporation), Rule 24 (Charges for Services Rendered), Rule 26 (Bills Rendered), Rule 27 (Admission to Premises of the Corporation - Powers of Attorney, Etc.), Rule 28 (Forms), Rule 29 (Qualified Securities Depositories), Rule 32 (Signatures), Rule 33 (Procedures), Rule 34 (Insurance), Rule 35 (Financial Reports), Rule 36 (Rule Changes), Rule 37 (Hearing Procedures), Rule 38 (Governing Law and Captions), Rule 39 (Reliance on Instructions), Rule 40 (Wind-Down of a Member, Fund Member or Insurance Carrier/Retirement Services Member), Rule 41 (Corporation Default), Rule 42 (Wind-down of the Corporation), Rule 45 (Notice), Rule 47 (Interpretation of Rules), Rule 48 (Disciplinary Proceedings), Rule 49 (Release of Clearing Data and Clearing Fund Data), Rule 55 (Settling Banks and AIP Settling Banks), Rule 58 (Limitations on Liability), Rule 60 (Market Disruption and Force Majeure), Rule 60A (Systems Disconnect: Threat of Significant Impact to the Corporation's Systems), Rule 63 (SRO Regulatory Reporting), Procedure I (Introduction), Procedure VIII (Money Settlement Service), Procedure XII (Time Schedule), Procedure XIII (Definitions), Procedure XIV (Forms, Media and Technical Specifications), Procedure XV (Clearing Fund Formula and Other Matters), Addendum B (Qualifications and Standards of Financial Responsibility, Operational Capability and Business History), Addendum H (Interpretation of the Board of Directors Release of Clearing Data), Addendum L (Statement of Policy Pertaining to Information Sharing), and Addendum P (Fine Schedule) shall apply to SFTs and SFT Members, unless the context otherwise requires.**

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RULE 58. LIMITATIONS ON LIABILITY

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SEC. 2. Notwithstanding any other provision in the Rules:

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**(j) The Corporation will not be responsible for the completeness or accuracy of the transaction data received from the Approved SFT Submitters, nor shall the Corporation, absent gross negligence on the Corporation's part, be responsible for any errors, omissions or delays that may occur in the transmission of transaction data from any Approved SFT Submitter.**

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RULE 64. DTCC SHAREHOLDERS AGREEMENT

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SEC. 4. This Rule 64 shall have no application to a **Sponsored Member**, Data Services Only Member, Settling Bank Only Member, Investment Manager/Agent Member, TPP Member, TPA Member, AIP Member.<sup>1</sup>

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<sup>1</sup> Note that, if a Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member or Mutual Fund/Insurance Services Member is also a member or participant of another clearing agency subsidiary of DTCC, such Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member or Mutual Fund/Insurance Services Member may be a Mandatory Purchaser Participant pursuant to the terms of the Shareholders Agreement and the rules and procedures of such other subsidiary. If a **Sponsored Member**, Data Services Only Member, Settling Bank Only Member, Investment Manager/Agent Member, TPP Member, TPA Member or AIP Member is also a member or participant of another clearing agency subsidiary of DTCC, such **Sponsored Member**, Data Services Only Member, Settling Bank Only Member, Investment Manager/Agent Member, TPP Member, TPA Member or AIP Member may be a Mandatory Purchaser Participant or a Voluntary Purchaser Participant pursuant to the terms of the Shareholders Agreement and the rules and procedures of such other subsidiary.

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS<sup>1</sup>

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II. Minimum Clearing Fund and Additional Deposit Requirements

- (A) Each Member of the Corporation shall be required to contribute a minimum of \$250,000 (the "minimum contribution"), **excluding Required SFT Deposit**. The first 40% (but no less than \$250,000) of a Member's Required Fund Deposit **(excluding Required SFT Deposit)** must be in cash and the remaining amount, may be evidenced by open account indebtedness secured by the pledge of Eligible Clearing Fund Securities, which shall be valued, for collateral purposes, as set forth in subsection III below. A Mutual Fund/Insurance Services Member's entire deposit is required to be in cash.

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<sup>1</sup> All calculations shall be performed daily or, if the Corporation deems it appropriate, on a more frequent basis.

ADDENDUM B

QUALIFICATIONS AND STANDARDS OF FINANCIAL RESPONSIBILITY,  
OPERATIONAL CAPABILITY AND BUSINESS HISTORY

MEMBERS (Section 1);

MUTUAL FUND/INSURANCE SERVICES MEMBERS (Section 2);

FUND MEMBERS (Section 3);

INSURANCE CARRIER/RETIREMENT SERVICES MEMBERS (Section 4);

MUNICIPAL COMPARISON ONLY MEMBERS (Section 5);

DATA SERVICES ONLY MEMBERS (Section 6);

SETTLING BANK ONLY MEMBERS (Section 7);

THIRD PARTY ADMINISTRATOR MEMBERS (Section 8);

INVESTMENT MANAGER/AGENT MEMBERS (Section 9);

AIP MEMBERS (Section 10); and

THIRD PARTY PROVIDER MEMBERS (Section 11)

**SPONSORED MEMBERS (Section 12)**

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SEC. 3. FUND MEMBERS

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B. Financial Responsibility

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4. Investment Advisers:

**have An applicant or Fund Member that is an investment adviser must have and maintain at all times** a minimum of \$25,000,000 in assets under management and \$100,000 in total **nNet wWorth**.

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## **SEC. 12. SPONSORED MEMBERS**

### **A. Qualification**

**To qualify for membership, a Sponsored Member (x) shall be sponsored into membership by a Sponsoring Member and (y)(1) is a “qualified institutional buyer” as defined by Rule 144A under the Securities Act of 1933, as amended, or (2) is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i)(H) of Rule 144A under the Securities Act of 1933, as amended, satisfies the financial requirements necessary to be a “qualified institutional buyer” as specified in that paragraph.**

### **B. Operational Capability<sup>11</sup>**

**An applicant shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.**

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<sup>11</sup> **An applicant must have the operational capability for membership or have arrangement, concerning the provision of operational support services to such applicant, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.**

ADDENDUM P

FINE SCHEDULE

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2) General Continuance Standards-Fine for failure to notify pursuant to Section 2(B)(a)(i) of Rule 2B, **Section 2(i) of Rule 2C, Section 3(d) of Rule 2C, or Section 2(i) of Rule 2D**: Each single offense, \$1,000 fine. If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary (DTC, NSCC and/or FICC), the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

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