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Clearing Agency Stress Testing Framework (Market Risk)

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Clearing Agency Liquidity Risk Management Framework

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

RULE 1 – DEFINITIONS*

[Changes to this Rule, as amended by File No. SR-FICC-2022-004, are available at dtcc.com/legal/sec-rule-filings. These changes have been approved by the SEC but have not yet been implemented. By no later than November 30, 2022, these changes will be implemented and this legend will be automatically removed from this Rule.]

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

* * *

Average RFD

The term “Average RFD” shall have the meaning given that term in Section 7 of Rule 4.

~~Back-up Stress Testing Calculation~~

~~The term “Back-up Stress Testing Calculation” means, with respect to each Clearing Member’s portfolio, a back-up method for calculating the stress profits and losses of each portfolio when the vendor fails to provide data to the Corporation. The Corporation shall (1) calculate each Clearing Member’s portfolio net exposures in four securitization programs,¹ (2) calculate the historical stress return for each securitization program as the three-day price return for each securitization program index for each scenario date, and (3) calculate each Clearing Member’s stress profits and losses as the sum of the products of the net exposure of each securitization program and the stress return value for each securitization program. The Corporation shall use publicly available indices as the data source for the stress return calculations.~~

Backtesting Charge

* * *

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¹ ~~The securitization programs are as follows: (1) Fannie Mae and Freddie Mac conventional 30-year mortgage-backed securities, (2) Ginnie Mae 30-year mortgage-backed securities, (3) Fannie Mae and Freddie Mac conventional 15-year mortgage-backed securities, and (4) Ginnie Mae 15-year mortgage-backed securities.~~

RULE 4 – CLEARING FUND AND LOSS ALLOCATION

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Section 13 – Stress Testing

(a) — Stress Testing Program

~~The Corporation uses stress testing to (1) test the sufficiency of the Clearing Fund against the Corporation’s potential losses assuming the default of a Clearing Member with the largest credit exposure and its entire affiliated family (that are also Clearing Members) (“Affiliated Family”) under extreme but plausible market conditions,² and (2) identify both (x) Clearing Members who may pose a greater market risk under certain market conditions, and (y) potential weaknesses in the Corporation’s margin methodologies. The Corporation’s stress testing program is comprised of the following three key components.~~

- ~~(i) — *Risk Identification.* The Corporation identifies the principal credit/market risk drivers that are representative and specific to each Clearing Member’s clearing portfolio to determine risk exposures by analyzing the securities and risk exposures in such Members’ clearing portfolios to identify representative principal market risk drivers and to capture the risk sensitivity of such clearing portfolios under stressed market conditions.~~
- ~~(ii) — *Scenario Development.* The Corporation constructs comprehensive and relevant sets of extreme but plausible historical and hypothetical stress scenarios for the identified risk drivers. Historical scenarios are based on stressed market conditions that occurred on specific dates in the past. The Corporation uses historical risk factor times series data (“Historical Data”) in the development of the historical scenarios. Hypothetical stress scenarios are based on theoretical market conditions that may not actually have occurred but could conceivably occur. The Corporation then applies the historical and hypothetical scenarios to Clearing Members’ portfolio positions.~~
- ~~(iii) — *Risk Measurement and Aggregation.* The Corporation calculates risk metrics for each Clearing Member’s actual portfolio to estimate the profits and losses in connection with such Clearing Member’s close out under the chosen stress scenarios. The Corporation uses Historical Data and security-level risk~~

¹ ~~The Corporation aggregates each Clearing Member’s stress deficiency within such Clearing Member’s applicable Affiliated Family because the Corporation assumes that all Affiliated Family members will simultaneously default, and the gains and losses of different legal entities within an Affiliated Family would not offset each other.~~

~~sensitivity data (“Security-Level Data”) in its calculation of profits and losses for Clearing Members’ portfolios.~~

~~The Corporation receives the Historical Data and the Security-Level Data from a vendor.~~

~~(b) — Back-up Stress Testing Calculation~~

~~In the event that the vendor fails to provide any data or a significant portion of the data, the Corporation will use the most recently available data on the first day that such disruption occurs. Subject to discussions with the vendor, if the Corporation determines that the vendor would resume providing data within five (5) Business Days, the Corporation will determine whether the daily stress testing calculation should continue to be calculated by using the most recently available data or whether the Back-up Stress Testing Calculation should be invoked.³ Subject to discussions with the vendor, if the Corporation determines that the data disruption would extend beyond five (5) Business Days, the Back-up Stress Testing Calculation will be employed for daily stress testing, subsequent to the approval of the Corporation’s designated internal authority.~~

³ ~~For the avoidance of doubt, after taking into consideration the vendor’s condition and, to the extent applicable, market conditions, the Corporation may invoke the Back-up Stress Testing Calculation sooner.~~