SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-98558; File No. SR-FICC-2023-012)

September 27, 2023

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, Relating to the Margin Liquidity Adjustment Charge

## I. INTRODUCTION

On August 3, 2023, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] proposed rule change SR-FICC-2023-012 to amend FICC's Government Securities Division ("GSD") Rulebook ("GSD Rules") and Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules," and collectively with the GSD Rules, the "Rules")[3] to enhance FICC's margin methodology with respect to the Margin Liquidity Adjustment Charge ("MLA Charge"). The proposed rule change was published for public comment in the Federal Register on August 24, 2023.[4] The Commission has received no comments on the proposed rule change. On August 22, 2023, FICC filed Amendment No. 1 to the proposed rule change, to make clarifications to the proposed rule change.[5] The proposed

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Terms not defined herein are defined in the GSD Rules and MBSD Rules, as applicable, available at www.dtcc.com/legal/rules-and-procedures.

4 See Securities Exchange Act Release No. 98163 (Aug. 18, 2023), 88 FR 58004 (Aug. 24, 2023) (File No. SR-FICC-2023-012) ("Notice of Filing").

5 Amendment No. 1 made clarifications and corrections to Exhibit 3b of the filing (Proposed Changes to the Depository Trust and Clearing Corporation ("DTCC")

rule change, as modified by Amendment No. 1, is hereinafter referred to as the "Proposed Rule Change." The Commission is publishing this notice to solicit comments on Amendment No. 1 from interested persons, and, for the reasons discussed below, the Commission is approving the Proposed Rule Change on an accelerated basis.

## II. BACKGROUND

FICC operates two divisions: GSD and MBSD. GSD provides trade comparison, netting, risk management, settlement, and central counterparty ("CCP") services for the U.S. Government securities market. MBSD provides the same services for the U.S. mortgage-backed securities market. GSD and MBSD maintain separate sets of rules, margin models, and clearing funds. As a CCP, FICC interposes itself as the buyer to every seller and seller to every buyer for the financial transactions it clears. As such, FICC is exposed to the risk that one or more of its members may fail to make a payment or to deliver securities.

A key tool that FICC uses to manage its credit exposures to its members is the daily collection of the Required Fund Deposit (i.e., margin) from each member. A member's margin is designed to mitigate potential losses associated with liquidation of the member's portfolio in the event of that member's default. The aggregated amount of all GSD and MBSD members' margin constitutes the GSD Clearing Fund and MBSD Clearing Fund, respectively, which FICC would be able to access should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation

Model Development Documentation – FICC Market Liquidity Adjustment Model and Bid-ask Charge Model) to include a description of a term used in a calculation and to remove an unnecessary chart. These clarifications and corrections do not substantively change proposed rule change. FICC has requested confidential treatment of Exhibit 3b, pursuant to 17 CFR 240.24b-2.

of that member's portfolio. Each member's margin consists of several components, each of which is designed to address specific risks faced by FICC arising out of its members' trading activity. One of these components is the MLA Charge. As described more fully below, the MLA Charge is designed to address the risk presented to FICC by member portfolios that contain large net unsettled positions in a particular group of securities with a similar risk profile or in a particular transaction type.

In the event of a member default, the Rules[6] provide FICC with the authority to close out and manage the positions in a defaulted member's portfolio. The process of closing out a defaulted member's portfolio typically involves buying and selling securities that the defaulted member was obligated to deliver and receive to and from FICC, or otherwise liquidating the portfolio.[7] FICC's transaction costs to liquidate the securities in a defaulted member's portfolio are affected by, among other things, the marketability of such securities ("market impact costs"). As a general matter, less marketable securities are more difficult and costly to liquidate within the three-day assumed period of risk. One factor that could reduce the marketability of the securities in a defaulted member's portfolio is if the portfolio were to contain a large concentration of net unsettled positions in a particular group of securities with a similar risk profile or in a particular transaction type. Therefore, such portfolios create the risk that FICC may face

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[6] See GSD Rule 22A (Procedures for When the Corporation Ceases to Act) and MBSD Rule 17 (Procedures for When the Corporation Ceases to Act), supra note 3.

[7] FICC's margin methodology assumes that a defaulted member's portfolio would take three days to liquidate in normal market conditions.

increased transaction costs to liquidate in the event of a member default. The MLA Charge is the margin component designed to mitigate the foregoing risk.

A. Current MLA Charge

To calculate the MLA Charge, FICC categorizes securities into asset groups that share similar risk profiles. Under the current GSD Rules, the asset groups include: (a) U.S. Treasury securities, which are further categorized into subgroups by maturity – those maturing in (i) less than one year, (ii) equal to or more than one year and less than two years, (iii) equal to or more than two years and less than five years, (iv) equal to or more than five years and less than ten years, and (v) equal to or more than ten years; (b) Treasury-Inflation Protected Securities ("TIPS"), which are further categorized into subgroups by maturity – those maturing in (i) less than two years, (ii) equal to or more than two years and less than six years, (iii) equal to or more than six years and less than eleven years, and (iv) equal to or more than eleven years; (c) U.S. agency bonds; and (d) mortgage pools transactions.[8] Under the current MBSD Rules, there is currently one mortgage-backed securities asset group.[9]

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[8] See GSD Rule 1 (definition of "Margin Liquidity Adjustment Charge"), supra note 3. Additional details regarding the calculation of the MLA Charge are set forth in the DTCC Model Development Documentation – FICC Market Liquidity Adjustment Model and Bid-ask Charge Model ("Model Development Documentation"). FICC would revise the Model Development Document to incorporate the changes in the Proposed Rule Change and included copies of changes to the Model Development Document in Exhibit 3b to the Proposed Rule Change. Pursuant to 17 CFR 240.24b-2, FICC requested confidential treatment of Exhibit 3b.

[9] See MBSD Rule 1 (definition of "Margin Liquidity Adjustment Charge"), supra note 3.

FICC designed the MLA Charge calculation to compare the total market value of a portfolio's net unsettled positions in a particular asset group to the available trading volume of that asset group (or subgroup) in the market.[10] If the market value of the portfolio's net unsettled positions in an asset group is large in comparison to the available trading volume of that asset group, then FICC faces the risk of increased transaction costs to liquidate those positions in the event of a member default.[11]

Calculation of the MLA Charge involves several steps, which are generally described as part of the definition of the MLA Charge in Rule 1.[12] First, FICC calculates the market impact cost with respect to the member's net unsettled positions in each asset group.[13] To determine the market impact cost for net unsettled positions in Treasuries maturing in less than one year and TIPS at GSD, FICC uses the directional market impact cost, which is a function of the net unsettled positions' net directional market value.[14] To determine the market impact cost for all other net unsettled positions at GSD and MBSD, FICC adds together two components: (1) the directional market impact cost, as described

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[10] FICC determines average daily trading volume by reviewing data that is made publicly available by the Securities Industry and Financial Markets Association ("SIFMA"), at https://www.sifma.org/resources/archive/research/statistics. See Notice of Filing, supra note 4, at 58006.

[11] See id.

[12] See supra notes 8 and 9.

[13] See id.

[14] The net directional market value of an asset group within a portfolio equals the absolute difference between the market value of the long net unsettled positions in that asset group, and the market value of the short net unsettled positions in that asset group. For example, if the market value of the long net unsettled positions is $100,000, and the market value of the short net unsettled positions is $150,000, the net directional market value of the asset group is $50,000. See id.

above, and (2) the basis cost, which is based on the net unsettled positions' gross market value.[15] The calculation of market impact cost for net unsettled positions in Treasuries maturing in less than one year and TIPS does not include basis cost because basis risk is negligible for these types of positions.[16] For all asset groups, when determining the market impact cost at GSD and MBSD, the net directional market value and the gross market value of the net unsettled positions are divided by the average daily volumes of the securities in that asset group over a lookback period.[17]

Next, FICC compares the calculated market impact cost to a portion of the Value at Risk ("VaR") Charge ("VaR Charge") that is allocated to the net unsettled positions in those asset groups.[18] If the ratio of the calculated market impact cost to a portion of the VaR Charge is greater than a prescribed threshold,[19] FICC applies an MLA Charge to

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[15] To determine the gross market value of the net unsettled positions in each asset group, FICC sums the absolute value of each CUISP in the asset group. See id.

[16] See id.

[17] See supra note 10.

[18] The VaR Charge is a margin component designed to mitigate the risk that market volatility could cause the price of securities in a member's portfolio to change between trade execution and settlement. See GSD Rule 1 (definition of "VaR Charge"); MBSD Rule 1 (definition of "VaR Charge"), supra note 3. The VaR Charge is typically the largest component of a member's margin requirement. For purposes of calculating the MLA Charge, FICC uses a portion of the VaR Charge that is based on a one-day assumed period of risk and calculated by applying a simple square-root of time scaling, referred to herein as the "1-day VaR Charge." See Notice of Filing, supra note 4, at 58006.

[19] The threshold is based on an estimate of the market impact cost that is incorporated into the calculation of the 1-day VaR Charge, such that FICC only applies an MLA Charge when the calculated market impact cost exceeds this prescribed threshold. FICC reviews its method for calculating the thresholds from time to time. Any changes that FICC deems appropriate would be subject to FICC's model risk management governance procedures set forth in the Clearing

that asset group.[20] If the ratio of these two amounts is equal to or less than the threshold, FICC does not apply an MLA Charge to that asset group.[21] In addition, FICC may apply a downward adjusting scaling factor in the calculation of the MLA Charge based on the ratio of the calculated market impact cost to the 1-day VaR Charge.[22]

For each member portfolio, FICC adds together the MLA Charges (if any) for each asset group to determine the total MLA Charge for the member portfolio.[23] FICC calculates the final MLA Charge daily, and if applicable, includes the MLA Charge as a margin component.[24]

B. Current MLA Charge and MLA Excess Amount for Sponsored Members

A Sponsoring Member is permitted to submit to FICC, for comparison, novation, and netting, certain eligible securities transactions of its Sponsored Members.[25] A Sponsored Member may be sponsored by a single Sponsoring Member or by multiple

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Agency Model Risk Management Framework ("Model Risk Management Framework"). See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 31, 2017) (SR-FICC-2017-014); 84458 (Oct. 19, 2018), 83 FR 53925 (Oct. 25, 2018) (SR-FICC-2018-010); 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-FICC-2020-004); 92380 (July 13, 2021), 86 FR 38140 (July 19, 2021) (SR-FICC-2021-006); 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (SR-FICC-2022-001); and 97890 (July 13, 2023), 88 FR 46287 (July 19, 2023) (SR-FICC-2023-008).

[20] Notice of Filing, supra note 4, at 58006.

[21] See id.

[22] See id.

[23] See id.

[24] See id.

[25] Securities Exchange Act Release No. 51896 (June 21, 2005), 70 FR 36981 (June 27, 2005) (SR-FICC-2004-22). See GSD Rule 3A, supra note 3.

Sponsoring Members. FICC requires each Sponsoring Member to establish an omnibus account at FICC (separate from its regular netting account) for Sponsored Member trading activity.[26] Sponsored Members are generally required to meet the definition of a qualified institutional buyer ("QIB"), as defined in Rule 144A[27] under the Securities Act of 1933.[28]

For operational and administrative purposes, FICC interacts solely with the Sponsoring Member as agent for purposes of the day-to-day satisfaction of its Sponsored Members' obligations to and from FICC, including their securities and funds-only settlement obligations.[29] Sponsoring Members are also responsible for providing FICC with a Sponsoring Member Guaranty, whereby the Sponsoring Member guarantees to FICC the payment and performance by its Sponsored Members of their obligations under the GSD Rules.[30] Although Sponsored Members are principally liable to FICC for their own settlement obligations under the GSD Rules, the Sponsoring Member Guaranty requires the Sponsoring Member to satisfy those settlement obligations on behalf of a Sponsored Member if the Sponsored Member defaults and fails to perform its settlement

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[26] See GSD Rule 3A, Section 8, supra note 3.

[27] 17 CFR 230.144A.

[28] 15 U.S.C. 77a et seq.

[29] See GSD Rule 3A, Section 8, supra note 3.

[30] See GSD Rule 1 (definition of "Sponsoring Member Guaranty") and GSD Rule 3A, Section 2(c), supra note 3.

obligations.[31]

FICC's calculation of the MLA Charge for a Sponsored Member that clears through a single account sponsored by a single Sponsoring Member is the same as described above in Section II.A.[32] However, for a Sponsored Member that clears through multiple accounts sponsored by multiple Sponsoring Members, in addition to calculating an MLA Charge for each account as described above, FICC also calculates an MLA Charge for the combined net unsettled positions of the Sponsored Member across all of its Sponsoring Members (referred to herein as the "consolidated portfolio").[33]

Currently, if the MLA Charge of the consolidated portfolio is greater than the sum of all MLA Charges for each account of the Sponsored Member, FICC charges the difference (referred to herein and currently defined in the Rules as the "MLA Excess Amount") in addition to the applicable MLA Charge.[34] If the MLA Charge of the consolidated portfolio is not greater than the sum of all MLA Charges for each account of the Sponsored Member, FICC does not charge the MLA Excess Amount.[35] Instead, FICC charges the applicable MLA Charge for each of the Sponsored Member's accounts.[36]

The MLA Excess Amount is designed to capture the additional market impact cost that could be incurred when a Sponsored Member defaults, and each of its

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31 Id.

32 Notice of Filing, supra note 4, at 58006.

33 See id.

34 See id.

35 See id.

36 See id.

Sponsoring Members, in its capacity as the Sponsored Member's guarantor, liquidates net unsettled positions associated with that defaulted Sponsored Member.[37] If large net unsettled positions in the same asset group are being liquidated by multiple Sponsoring Members, the market impact cost to liquidate those positions could increase as Sponsoring Members compete for market liquidity in the same asset group at the same time.[38] The MLA Excess Amount addresses this additional market impact cost by capturing any difference between the calculations of the MLA Charge for each of the Sponsored Member's accounts on both a stand-alone basis and for the consolidated portfolio.[39] The MLA Excess Amount for a Sponsored Member is allocated pro rata across each of its Sponsoring Members using a market volatility risk-weighted allocation methodology.[40]

## III. DESCRIPTION OF THE PROPOSED RULE CHANGE

### A. Amend MLA Charge Calculation and Eliminate MLA Excess Amount

FICC proposes to amend the MLA Charge calculation for Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members to better align the amount of the MLA Charge with the market impact cost arising from position concentration of the Sponsored Member's respective Sponsored Member accounts. Specifically, the revised calculation would apportion a higher MLA Charge to those

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37 See id.

38 See id.

39 See id.

40 Notice of Filing, supra note 4, at 58006-07.

Sponsored Member accounts with higher relative market impact costs (and lower relative VaR Charges) than the current calculation.

FICC's proposal to amend the MLA Charge calculation for Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members is designed to mitigate the risk of incurring additional market impact costs when a Sponsored Member defaults and each of its Sponsoring Members (each, as the Sponsored Member's guarantor) liquidate the defaulted Sponsored Member's large net unsettled positions in the same asset group.[41] In light of this change to the MLA Charge calculation, FICC also proposes to simplify its margin methodology by eliminating the MLA Excess Amount from the GSD Rules because the amended MLA Charge calculation would address the additional market impact cost that the MLA Excess Amount was originally designed to address.[42] Specifically, for such Sponsored Members, FICC proposes to calculate an MLA Charge both (1) for each asset group/subgroup in the account on a stand-alone basis, as described above in Section II.C, and (2) for each asset group/subgroup in the account as part of a consolidated portfolio, as described below, with the greater amount applied as the MLA Charge for the relevant asset group/subgroup.

When calculating the MLA Charge for each asset group/subgroup in the account as part of a consolidated portfolio, FICC would first calculate the market impact cost for each asset group/subgroup based on the aggregate net unsettled positions of that asset group/subgroup in the consolidated portfolio. FICC would allocate the market impact

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41 See Notice of Filing, supra note 4, at 58007.

42 See id.

cost for each asset group/subgroup to each asset group/subgroup in each account of the Sponsored Member on a pro rata basis based on the market impact cost of that asset group/subgroup in the account.

Next, FICC would compare the allocated market impact cost for an asset group/subgroup to a portion of the VaR Charge that is allocated to that asset group/subgroup in the account. If the ratio of the allocated market impact cost to a portion of the VaR Charge is greater than a prescribed threshold, FICC would apply an MLA Charge for that asset group/subgroup. If the ratio of the two amounts is equal to or less than this threshold, FICC would not apply an MLA Charge for that asset group/subgroup.[43]

When applicable, FICC would calculate the MLA Charge for each asset group/subgroup in the account as part of the consolidated portfolio as a proportion of the product of (1) the amount by which the ratio of the allocated market impact cost for the asset group/subgroup to the portion of the VaR Charge allocated to that asset group/subgroup exceeds the prescribed threshold,[44] and (2) a portion of the VaR Charge allocated to that asset group/subgroup.

FICC would then compare the MLA Charge for each asset group/subgroup in the account on a stand-alone basis against the MLA Charge for each asset group/subgroup in

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43 As described in further detail in Model Development Documentation submitted in the Proposed Rule Change, FICC determines the threshold by an optimization process based on the ratio of an estimate of the market impact cost to the 1-day VaR Charge. See supra note 8; see Notice of Filing, supra note 4, at 58007.

44 The proposed methodology would calculate the MLA Charge for the consolidated portfolio by applying the threshold to asset groups/subgroups, as opposed to the current methodology, which calculates the MLA Charge for the consolidated portfolio by applying the threshold to the entire portfolio. See supra note 8.

the account as part of a consolidated portfolio. FICC would apply the greater of these two amounts as the MLA Charge for the asset group. FICC would add the applicable MLA Charges for each asset group/subgroup together to calculate the total MLA Charge for that Sponsored Member account.

FICC believes that the proposed revisions to the MLA Charge calculation for Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members would better allocate MLA Charges to those Sponsored Member accounts than the current calculation, so that the MLA Charge would increase for accounts with higher relative market impact costs.[45] FICC also believes that the proposed revisions to the MLA Charge calculation would address the market impact costs that the MLA Excess Amount was originally designed to address, thereby enabling FICC to eliminate the MLA Excess Amount from the GSD Rules.[46]

B. Revise Description of Asset Groups and/or Subgroups

As described above in Section II.A, FICC categorizes securities into asset groups/subgroups that share similar risk profiles for the purpose of calculating the MLA Charge. The current GSD Rules contain a list of the asset groups/subgroups.[47] The current MBSD Rules contain a statement that there is one mortgage-backed securities asset group.[48] FICC states that it may need to set and adjust the asset groupings from time

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45 See Notice of Filing, supra note 4, at 58007.

46 See id.

47 See GSD Rule 1 (definition of "Margin Liquidity Adjustment Charge"), supra note 3.

48 See MBSD Rule 1 (definition of "Margin Liquidity Adjustment Charge"), supra note 3.

to time in response to changes in market conditions that cause the risk profiles of portfolio positions to shift.[49] However, since the groups/subgroups are currently codified in the GSD Rules and MBSD Rules, FICC notes that any changes to the groupings would require the filing of a proposed rule change with the Commission, which FICC believes does not necessarily provide FICC with the flexibility to make timely changes in response to market conditions.[50] Therefore, FICC proposes to retain the asset groups in the GSD Rules, but remove the asset subgroups (i.e., the specific maturities) from the GSD Rules.[51] FICC proposes to revise the GSD Rules and the MBSD Rules to provide that FICC would publish the asset groups and subgroups on FICC's website, and that FICC will provide at least 5 business days' advance notice of any changes to the schedule via Important Notice.

Additionally, to better reflect the different risk profiles of the mortgage pools/mortgage-backed securities asset groups, FICC proposes to add language in the GSD Rules and MBSD Rules to indicate that mortgage pools/mortgage-backed securities asset groups may be further categorized into subgroups by mortgage pool types. FICC also proposes to revise the MBSD Rules to provide that for the purpose of calculating the MLA Charge at MBSD, a member's net unsettled positions in TBA transactions, Specified Pool Trades, and Stipulated Trades shall be included in one mortgage-backed

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49 See Notice of Filing, supra note 4, at 58008.

50 See id.

51 The revised GSD Rule would contain provisions indicating that the asset groupings may be further categorized into subgroups. See id.

securities asset group, which may be further categorized into subgroups by mortgage pool types.

C. Clarifying and Technical Changes

FICC proposes to modify certain language in the GSD Rules and MBSD Rules to clarify certain aspects of the MLA Charge, without making substantive changes to the methodology. Specifically, FICC proposes to clarify that for the purpose of determining the MLA Charge amount, FICC first calculates the MLA Charge for each asset group/subgroup, and then FICC adds the MLA Charges together to result in one MLA Charge for each member portfolio. FICC also proposes to clarify that FICC calculates the market impact cost for the combined net unsettled positions in each asset group/subgroup; not for each net unsettled position. Similarly, FICC proposes to clarify that the associated VaR Charge allocation is also performed for each asset group/subgroup; not for each net unsettled position.

Finally, FICC proposes to make several technical changes to the GSD Rules that reflect the correct usage of terms. Specifically, in GSD Rule 1, FICC proposes to replace the term "mortgage pools transactions" with "mortgage pools," and the term "MLA charge" with "MLA Charge."

## IV. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act[52] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. After carefully considering the Proposed Rule Change,

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52 15 U.S.C. 78s(b)(2)(C).

the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F)[53] of the Act and Rules 17Ad-22(e)(4)(i), (e)(6)(i), and (e)(19) thereunder.[54]

A. Consistency with Section 17A(b)(3)(F) of the Act

1. Prompt and Accurate Clearance and Settlement

Section 17A(b)(3)(F) of the Act[55] requires that the rules of a clearing agency, such as FICC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[56] The Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As described above in Section III.A, FICC proposes to amend the MLA Charge calculation at GSD for Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members. Specifically, the amended calculation would apportion a higher MLA Charge to those Sponsored Member accounts with higher relative market impact costs than the current calculation. As a result, the proposal would better align the MLA Charge with the risk arising from position concentration in such Sponsored Member portfolios. The Commission believes that a closer alignment between

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[53] 15 U.S.C. 78q-1(b)(3)(F).

[54] 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), and (e)(19).

[55] 15 U.S.C. 78q-1(b)(3)(F).

[56] Id.

the MLA Charge and the risks presented by the concentration of securities in Sponsored Member portfolios would help facilitate FICC's ability to set margins that more accurately reflect the risks posed by such portfolios. Setting margins that accurately reflect the risks posed by its members' portfolios could reduce the likelihood that FICC would not have collected sufficient margin to address losses arising out of a member default. Reducing the likelihood that FICC holds insufficient margin to address default losses would, in turn, further assure that FICC's operation of its critical clearance and settlement services would not be disrupted because of insufficient financial resources.

As part of the Proposed Rule Change, FICC filed Exhibit 3a – Summary of Impact Study ("Impact Study"), which provided the actual MLA Charges at the member-level, account-level, and CCP-level, from October 19, 2020 through October 31, 2022, as compared to the MLA Charges that FICC would have assessed if the proposed enhancement had been in place during that time period.[57] The Commission reviewed and analyzed the Impact Study, which showed, among other things, that had the proposed enhancement been in place for Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members, it would have resulted in an average daily increase of $9.47 million in the aggregate MLA Charge for the impacted Sponsored Members. Therefore, the Impact Study demonstrates that the proposed MLA Charge calculation would enable FICC to set higher margin coverage levels than those using the current calculation, providing further assurance that FICC's operation of its critical clearance and settlement services would not be disrupted because of insufficient financial

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57 FICC has requested confidential treatment of Exhibit 3a, pursuant to 17 CFR 240.24b-2.

resources.

Additionally, as described above in Section III.A, the proposed enhancement to the MLA Charge calculation would enable FICC to simplify its margin methodology by eliminating the MLA Excess Amount from the GSD Rules because the enhanced MLA Charge calculation would address the additional market impact cost that the MLA Excess Amount was originally designed to address. Thus, the proposed enhancement to the MLA Charge calculation and removal of the MLA Excess Amount from the GSD Rules would render FICC's margin methodology more accurate, robust, and streamlined, further assuring its effectiveness.

As described above in Section III.B, FICC proposes to (1) remove the enumerated asset subgroups from the GSD Rules, (2) change both the GSD Rules and MBSD Rules to indicate that FICC may further categorize asset groups into subgroups, and (3) change both the GSD Rules and MBSD Rules to indicate that a member's net unsettled positions in TBA transactions, Specified Pool Trades, and Stipulated Trades shall be included in one mortgage-backed securities asset group, which may be further categorized into subgroups by mortgage pool types. FICC states that the purpose of these changes is to facilitate FICC's ability to timely set and adjust the asset groupings from time to time in response to changes in market conditions that cause a shift in the risk profiles of portfolio positions. FICC would publish the asset groups and subgroups on FICC's website, and that FICC will provide at least 5 business days' advance notice of any changes to the schedule via Important Notice.

FICC's ability to promptly respond to changing risk profiles of the securities in its members' portfolios would better enable FICC to set margins that more accurately reflect

the risks posed by such portfolios. Setting margins that accurately reflect the risks posed by its members' portfolios could reduce the likelihood that FICC would not have collected sufficient margin to address losses arising out of a member default. Reducing the likelihood that FICC holds insufficient margin to address default losses would, in turn, further assure that FICC's operation of its critical clearance and settlement services would not be disrupted because of insufficient financial resources.

As described above in Section III.C, FICC proposes to make several technical changes to the GSD Rules that reflect the correct usage of terms. Enhancing the clarity of the GSD Rules would enable members to more efficiently and effectively understand and conduct their business in accordance with the GSD Rules. When members conduct their business in accordance with the GSD Rules, FICC is able to focus more of its resources on providing its clearance and settlement services.

Accordingly, for the reasons above, the Commission finds that the Proposed Rule Change should help FICC to continue providing prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.[58]

2. Safeguarding Securities and Funds

As described above in Section II, FICC would access the mutualized Clearing Fund should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. As discussed above in Section IV.A.1, FICC's proposals to enhance the MLA Charge calculation and eliminate the MLA Excess Amount should help ensure that FICC collects sufficient margin from its members. Similarly, FICC's proposals to remove the asset subgroups from the GSD

[58] 15 U.S.C. 78q-1(b)(3)(F).

Rules and otherwise streamline the GSD Rules and MBSD Rules with respect to the asset groups/subgroups, should help facilitate FICC's ability to promptly respond to changing risk profiles of its members' portfolios, and thereby set margins that more accurately reflect the risks posed by such portfolios. Accordingly, the Proposed Rule Change should help minimize the likelihood that FICC would have to access the Clearing Fund, thereby limiting non-defaulting members' exposure to mutualized losses.

The Commission believes that by helping to limit the exposure of FICC's non-defaulting members to mutualized losses, the Proposed Rule Change would help FICC assure the safeguarding of securities and funds which are in its custody or control, consistent with Section 17A(b)(3)(F) of the Act.[59]

B. Consistency with Rule 17Ad-22(e)(4)(i) under the Act

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency that provides central counterparty services, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[60] The Commission believes that the proposal is consistent with Rule 17Ad-22(e)(4)(i) under the Act for the reasons stated below.

As discussed above in Section IV.A, FICC's proposed enhancement to the MLA Charge calculation and removal of the MLA Excess Amount from the GSD Rules would

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59 Id.

60 17 CFR 240.17Ad-22(e)(4)(i).

render FICC's margin methodology more accurate than the current methodology by apportioning a higher MLA Charge to those Sponsored Member accounts with higher relative market impact costs. As a result, the proposal would better align the MLA Charge with the risk arising from position concentration in such Sponsored Member portfolios. The Commission has reviewed and analyzed the filing materials, including the Impact Study,[61] and agrees that the proposed enhancement to the MLA Charge calculation and removal of the MLA Excess Amount from the GSD Rules would enable FICC to set margins that more accurately reflect the risks posed by such portfolios than the current methodology. As a result, implementing the Proposed Rule Change would better enable FICC to collect sufficient margin in connection with Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members.

Accordingly, the Commission finds the Proposed Rule Change is consistent with Rule 17Ad-22(e)(4)(i) under the Act because it is designed to assist FICC in managing its credit exposures to its members by maintaining sufficient financial resources to cover its credit exposure to the portfolios of Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members.[62]

C. Consistency with Rule 17Ad-22(e)(6)(i) under the Act

Rule 17Ad-22(e)(6)(i) under the Act requires that each covered clearing agency that provides central counterparty services, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a

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[61] See supra note 57.

[62] 17 CFR 240.17Ad-22(e)(4)(i).

minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.[63] The Commission believes that the proposal is consistent with Rule 17Ad-22(e)(6)(i) under the Act for the reasons stated below.

As discussed above in Section IV.A, FICC's proposed enhancement to the MLA Charge calculation and removal of the MLA Excess Amount from the GSD Rules would render FICC's margin methodology more accurate than the current methodology by apportioning a higher MLA Charge to those Sponsored Member accounts with higher relative market impact costs. As a result, the proposal would better align the MLA Charge with the risk arising from position concentration in such Sponsored Member portfolios. The Commission has reviewed and analyzed the filing materials, including the Impact Study,[64] and agrees that the proposed enhancement to the MLA Charge calculation and removal of the MLA Excess Amount from the GSD Rules would enable FICC to set margins that more accurately reflect the risks posed by such portfolios than the current methodology. As a result, implementing the Proposed Rule Change would better enable FICC to set margin amounts at levels commensurate with the risks associated with the portfolios of Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members.

Accordingly, the Commission finds the Proposed Rule Change is consistent with Rule 17Ad-22(e)(6)(i) under the Act because it is designed to assist FICC in maintaining

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63 17 CFR 240.17Ad-22(e)(6)(i).

64 See supra note 57.

a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of its Sponsored Member portfolios.[65]

D. Consistency with Rule 17Ad-22(e)(19) under the Act

Rule17Ad-22(e)(19) under the Act requires that each covered clearing agency that provides central counterparty services, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants in the covered clearing agency rely on the services provided by direct participants to access the covered clearing agency's payment, clearing, or settlement facilities.[66] The Commission believes that the proposal is consistent with Rule 17Ad-22(e)(19) under the Act for the reasons stated below.

As discussed above in Section II.B, FICC's Sponsored Service allows eligible members to sponsor their clients into a limited form of FICC membership such that a Sponsoring Member is permitted to submit to FICC, for comparison, novation, and netting, certain eligible securities transactions of its Sponsored Members. Sponsored Members are indirect FICC participants that rely on the services provided by direct FICC participants (i.e., Sponsoring Members) to access FICC's clearance and settlement facilities.[67] Therefore, Rule17Ad-22(e)(19) requires FICC to identify, monitor, and manage the material risks arising from the Sponsored Service.[68]

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65 17 CFR 240.17Ad-22(e)(6)(i).

66 17 CFR 240.17Ad-22(e)(19).

67 See id.

68 See id.

FICC's proposals to amend the MLA Charge calculation and eliminate the MLA Excess Amount are designed to address the risks arising from Sponsored Members that clear through multiple accounts sponsored by multiple Sponsoring Members. As described above in Section II.B, for such Sponsored Members, FICC currently calculates an MLA Charge for each Sponsored Member account on both a stand-alone and consolidated portfolio basis, ultimately applying whichever MLA Charge calculation is greater to the Sponsored Member's margin. FICC has identified an opportunity to amend the MLA Charge calculation for such Sponsored Members to better align the amount of the MLA Charge with the market impact cost arising from position concentration in the Sponsored Member's respective Sponsored Member accounts. Specifically, the revised calculation would apportion a higher MLA Charge to those Sponsored Member accounts with higher relative market impact costs than the current calculation. The proposed change would also enable FICC to simplify its margin methodology by eliminating the MLA Excess Amount from the GSD Rules because the enhancement would address the additional market impact cost that the MLA Excess Amount was originally designed to address. As discussed above in Section IV.A, the Commission believes that implementation of these proposals would help facilitate FICC's ability to set margins that more accurately and efficiently reflect the risks posed by the portfolios of Sponsored Members that clear through multiple Sponsoring Members.

Accordingly, the Commission believes that by improving FICC's margin methodology with respect to FICC's Sponsored Members, the Proposed Rule Change

would help FICC better manage the material risks arising from the Sponsored Service, consistent with Rule 17Ad-22(e)(19).[69]

## V. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning whether Amendment No. 1 is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2023-012 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549.

All submissions should refer to File Number SR-FICC-2023-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the Proposed Rule Change that are filed with the Commission, and all written communications relating to the Proposed Rule Change between the Commission and any person, other than those that may be withheld

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[69] 17 CFR 240.17Ad-22(e)(19).

from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of FICC and FICC's website at https://www.dtcc.com/legal.

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FICC-2023-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

## VI. ACCELERATED APPROVAL OF THE PROPOSED RULE CHANGE, AS MODIFIED BY AMENDMENT NO. 1

The Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,[70] to approve the Proposed Rule Change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of Amendment No. 1 in the Federal Register. As noted above, in Amendment No. 1, FICC updated the Exhibit 3b[71] to the Proposed Rule Change to add a missing description of a term used in a calculation and to remove an unnecessary chart. Amendment No. 1 neither modifies the Proposed Rule Change as originally published in any substantive manner, nor does Amendment No. 1 affect any rights or obligations of FICC or its members. Instead, Amendment No. 1 makes technical

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[70] 15 U.S.C. 78s(b)(2)(C)(iii).

[71] See supra note 8.

changes to clarify Exhibit 3b. Additionally, since FICC filed Amendment No. 1 on August 22, 2023, the Commission has had sufficient time to review and consider Amendment No.1 as part of its analysis of the Proposed Rule Change. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,[72] to approve the Proposed Rule Change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of notice of Amendment No. 1 in the Federal Register.

## VII. CONCLUSION

On the basis of the foregoing, the Commission finds that the Proposed Rule Change, as modified by Amendment No. 1, is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act[73] and the rules and regulations promulgated thereunder.

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[72] Id.

[73] 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[74] that proposed rule change SR-FICC-2023-012, be, and hereby is, APPROVED.[75]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[76]

**Sherry R. Haywood,**

*Assistant Secretary.*

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[74] 15 U.S.C. 78s(b)(2).

[75] In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[76] 17 CFR 200.30-3(a)(12).