

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-98592; File No. SR-FICC-2023-014)

September 28, 2023

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the GSD and MBSD Schedules of Haircuts for Eligible Clearing Fund Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 22, 2023, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been primarily prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of modifications to 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”)<sup>3</sup> in order to modify the GSD and MBSD Schedules of Haircuts for Eligible Clearing Fund Securities and remove them from the respective Rules, and make other clarifying changes, as described in greater detail below.

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

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

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

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

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

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

1. Purpose

FICC is proposing to modify the GSD and MBSD Schedules of Haircuts for Eligible Clearing Fund Securities, and to remove them and the related concentration limits from the respective Rules, and make other clarifying changes, as described in greater detail below.

Background

FICC, through GSD and MBSD, serves as a central counterparty and provider of clearance and settlement services for the U.S. government securities and mortgage-backed securities markets. A key tool that FICC uses to manage its credit exposures to its members is the daily collection of margin from each member. The aggregated amount of all GSD and MBSD members' margin constitutes the GSD Clearing Fund and MBSD Clearing Fund (collectively referred to herein as the "Clearing Fund").

The objective of the Clearing Fund is to mitigate potential losses to FICC associated with liquidating a member's portfolio in the event FICC ceases to act for that

member (hereinafter referred to as a “default”).<sup>4</sup> FICC would access the Clearing Fund should a defaulting member’s own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member’s portfolio. The Clearing Fund reduces the risk that FICC would need to mutualize any losses among non-defaulting members during the liquidation process.

Under GSD Rule 4 (Clearing Fund and Loss Allocation) and MBSD Rule 4 (Clearing Fund and Loss Allocation), members are required to make deposits to the GSD and MBSD Clearing Funds, as applicable, with the amount of each member’s required deposit being determined by FICC in accordance with GSD Rule 4 and MBSD Rule 4, as applicable (the “Required Fund Deposit”).

A member may satisfy its Required Fund Deposit with cash or an open account indebtedness secured by Eligible Clearing Fund Securities.<sup>5</sup> Eligible Clearing Fund Securities, comprised of certain agency, mortgage-backed, and Treasury securities, are valued based on the prior Business Day’s closing market price, less a haircut, and may be subject to a concentration limit.<sup>6</sup> Haircuts are used to protect FICC and its members from

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<sup>4</sup> The GSD Rules and MBSD Rules each identify when FICC may cease to act for a member and the types of actions FICC may take. For example, FICC may suspend a firm’s membership with FICC or prohibit or limit a member’s access to FICC’s services in the event that member defaults on a financial or other obligation to FICC. See GSD Rule 21 (Restrictions on Access to Services) and MBSD Rule 14 (Restrictions on Access to Services), supra note 3.

<sup>5</sup> See GSD Rule 4, Section 3 (Form of Deposit) and MBSD Rule 4, Section 3 (Form of Deposit), supra note 3.

<sup>6</sup> See GSD Rule 1 (Definitions) and MBSD Rule 1 (Definitions) for applicable definitions, including Eligible Clearing Fund Securities and its components, which are Eligible Clearing Fund Agency Securities, Eligible Clearing Fund Mortgage-Backed Securities, and Eligible Clearing Fund Treasury Securities. Supra note 3.

price fluctuations, i.e., if FICC is required to liquidate collateral of an insolvent member and such collateral is worth less at the time of liquidation than when it is pledged to FICC. Concentration limits are intended to reduce FICC's risk by limiting the percentage of certain types of Eligible Clearing Fund Securities pledged by members to secure the Clearing Fund deposits. This is because when a member's portfolio contains large net unsettled positions in a particular group of securities with a similar risk profile or in a particular asset type, such securities could present additional risk to FICC.

Currently, collateral haircuts applicable to relevant security types and remaining maturity terms are specified as fixed percentages in the Schedule of Haircuts for Eligible Clearing Fund Securities in the GSD Rules and MBSD Rules.<sup>7</sup> The sufficiency of collateral haircuts is evaluated through use of back-tests, stress-tests and market observations. To ensure the sufficiency of the collateral haircuts, a backtesting analysis of members' collateral deposits is conducted daily, and summary reviews are completed quarterly, each by the FICC market risk group pursuant to FICC's internal market risk management policies and procedures. FICC performs daily backtesting of collateral by comparing the collateral haircut for each member in simulated liquidations with the member's actual collateral held on deposit at FICC. Any exceptions noted are escalated to management daily to assess the root cause and determine whether further analysis and/or review would be appropriate. Specifically, if FICC determines that a particular

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<sup>7</sup> See Schedule of Haircuts for Eligible Clearing Fund Securities in the GSD Rules and MBSD Rules, supra note 3. The Schedule of Haircuts for Eligible Clearing Fund Securities in the GSD Rules and MBSD Rules was last modified in 2011 in order to harmonize with the increased haircuts on clearing fund collaterals at the National Securities Clearing Corporation, an affiliate of FICC. See Securities Exchange Act Release No. 64488 (May 13, 2011), 76 FR 29018 (May 19, 2011) (SR-FICC-2011-03).

security may present inherent volatility and/or liquidity risks that could likely result in an erosion in the value of the security exceeding the applicable collateral haircut, ad hoc reviews may be conducted by risk management pursuant to FICC's internal market risk management procedures. On a quarterly basis, FICC reviews and identifies instances where the simulated losses from available historical stress testing scenario dates have exceeded the collateral haircut values. In addition, each quarter, FICC reviews the composition of the Eligible Clearing Fund Securities that members have pledged to secure their Required Fund Deposits in order to assess the sufficiency of the collateral haircuts applied and whether any haircut changes would be needed.

In addition to collateral haircuts, FICC applies concentration limits to certain Eligible Clearing Fund Securities. Currently, the concentration limits applicable to certain Eligible Clearing Fund Securities are specified in GSD Rule 4, MBSD Rule 4, and the Schedule of Haircuts for Eligible Clearing Fund Securities in the GSD Rules and MBSD Rules. Specifically, Section 3b(b) of GSD Rule 4 and Section 3c(b) of MBSD Rule 4 each provides that no more than 20 percent of a member's Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer and no member may post as eligible collateral Eligible Clearing Fund Agency Securities of which it is the issuer. In addition, the Schedule of Haircuts for Eligible Clearing Fund Securities in the GSD Rules and MBSD Rules provides (i) any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25 percent of a member's Required Fund Deposit will be subject to a haircut that is twice the amount of the percentage noted in the haircut schedule and (ii) a member may deposit Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer,

however such securities will be subject to a premium haircut, with the initial haircut being 14 percent, and if a member also exceeds the 25 percent concentration limit, the haircut shall be 21 percent.

Changes to the collateral haircuts and concentration limits are currently subject to FICC's internal governance process and would remain so with respect to the haircut schedule changes made in accordance with this proposal. If FICC determines that, based on the analyses that it performs, there is insufficient/excessive collateral haircut/concentration due to an identifiable cause that affected multiple members and such cause would likely persist based on FICC's assessment of market conditions, such outcome or result could cause FICC to amend the haircuts/concentration limits in the haircut schedule. If FICC determines that a change to the haircut schedule is warranted, its market risk group would document the recommendation and rationale for the change at the time of such determination and obtain approval from an executive director or above with a notice to the risk management committee, in accordance with FICC's internal market risk management policies and procedures. Before making adjustments to the haircut schedule, FICC measures the potential impact of such adjustments to ensure any impact is both necessary and appropriate.

Through its review, FICC has observed that under volatile market conditions with elevated frequency and magnitude of securities price movements, the collateral value of Eligible Clearing Fund Securities may shift in a relatively short period of time and the current haircuts may not sufficiently account for the change in value. When the erosion in the value of the Eligible Clearing Fund Securities exceeds the relevant haircuts, FICC is exposed to increased risk of potential losses associated with liquidating a member's

portfolio in the event of a member default when the defaulting member's own margin is insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. Similarly, when a member's portfolio contains large net unsettled positions in a particular group of securities with a similar risk profile or in a particular asset type, such securities could present additional risk to FICC. The additional risk exposures associated with liquidating a member's portfolio in the event of a member default could lead to an increase in the likelihood that FICC would need to mutualize losses among non-defaulting members during the liquidation process. However, any changes to the haircuts and/or concentration limits currently requires a proposed rule change to be filed with the Commission. In order to provide FICC with more flexibility in adjusting the haircuts and concentration limits so FICC can respond to changing market conditions more promptly in order to mitigate the additional risk exposure, FICC is proposing to remove the GSD and MBSD Schedules of Haircuts for Eligible Clearing Fund Securities and concentration limits from the respective Rules, and to publish the haircuts and concentration limits in a haircut schedule on FICC's website.

Specifically, FICC is proposing to delete subsections (a), (b) and (c) of Section 3b (Special Provisions Relating to Deposits of Eligible Clearing Fund Securities) in GSD Rule 4 and Section 3c (Special Provisions Relating to Deposits of Eligible Clearing Fund Securities) in MBSD Rule 4, respectively.

Currently, subsections (a) and (c) of Section 3b in GSD Rule 4 and Section 3c in MBSD Rule 4, respectively, set out certain concentration limits for Eligible Clearing Fund Agency Securities and Eligible Clearing Fund Mortgage-Backed Securities. Subsection (a) provides that any deposits of Eligible Clearing Fund Agency Securities or

Eligible Clearing Fund Mortgage-Backed Securities, respectively, in excess of 25 percent of a member's Required Fund Deposit will be subject to an additional haircut equal to twice the percentage as specified in the haircut schedule. Subsection (c) provides that a member may post as eligible collateral Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer; however, such collateral will be subject to a premium haircut as specified in the haircut schedule. The same language from subsections (a) and (c) is also currently in the respective GSD and MBSD haircut schedules. Having this language in both the Rules and the proposed haircut schedules is unnecessary and could potentially create confusion for members. As such, FICC is proposing to eliminate this duplication by deleting subsections (a) and (c) from Section 3b in GSD Rule 4 and Section 3c in MBSD Rule 4, respectively, and including this language in the proposed haircut schedule.

Subsection (b) of Section 3b in GSD Rule 4 and Section 3c in MBSD Rule 4, respectively, currently sets out an additional concentration limit with respect to Eligible Clearing Fund Agency Securities. Specifically, subsection (b) provides that no more than 20 percent of the Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer and no member may post as eligible collateral Eligible Clearing Fund Agency Securities of which it is the issuer. FICC is proposing to delete the language in subsection (b) and move it to the proposed haircut schedule. For clarity, FICC is also proposing to revise the language in the proposed haircut schedule to provide that no more than 20 percent of a member's Required Fund Deposit may be secured by pledged Eligible Clearing Fund Agency Securities of a single



issuer, and no member may pledge Eligible Clearing Fund Agency Securities of which it is the issuer to secure its Required Fund Deposit.

Furthermore, FICC is proposing to add language in Section 3b in GSD Rule 4 and Section 3c in MBSD Rule 4, respectively, that makes it clear that all Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be subject to a haircut and may be subject to a concentration limit. The proposed language would provide that FICC shall determine the applicable haircuts and any concentration limits from time to time in accordance with its internal policy and governance process, based on factors determined to be relevant by FICC, which may include, for example, backtesting results and FICC's assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The proposed language would also provide that the haircuts and any concentration limits prescribed by FICC shall be set forth in a haircut schedule that is published on FICC's website. Furthermore, the proposed language would make it clear that it shall be the member's responsibility to retrieve the haircut schedule, and FICC would provide members with at a minimum one Business Day's advance notice of any change in the haircut schedule.

Lastly, FICC is proposing to delete a sentence from Section 3b in GSD Rule 4 and Section 3c in MBSD Rule 4, respectively, that references haircuts set forth in the Rules, and add a general reference to applicable haircuts so that it is clear to members that the valuation of Eligible Clearing Fund Securities is subject to applicable haircuts.

FICC believes that the proposed change to move the haircuts and concentration limits from the Rules to the website would enable FICC to adjust the haircuts and concentration limits without undergoing a rule filing process.<sup>8</sup> By being able to make appropriate and timely adjustments to the haircuts and concentration limits, FICC would have the flexibility to respond to changing market conditions more promptly. Having the flexibility to respond to changing market conditions more promptly would in turn help better ensure that FICC collects sufficient margin from members as well as risk manages its credit exposures to its members. The proposed change would also align FICC with the manner in which its affiliate, The Depository Trust Company (“DTC”), provides haircut schedules to participants.<sup>9</sup>

Concurrent with moving the haircuts and concentration limits from the Rules to the website, FICC is also proposing to reconfigure the categories relating to Treasury securities haircuts by moving the Treasury Inflation-Protected Securities (“TIPS”) to a separate category and increasing the haircut levels for TIPS. The proposed change to TIPS is reflected in Exhibit 3c to this filing. TIPS are a type of Treasury security issued by the U.S. government that are indexed to inflation such that the principal value of the security rises as inflation rises.

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<sup>8</sup> Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 19b-4(n)(1)(i) under the Act, if a change materially affects the nature or level of risks presented by FICC, then FICC is required to file an advance notice. 12 U.S.C. 5465(e)(1) and 17 CFR 240.19b-4(n)(1)(i).

<sup>9</sup> DTC also allows its participants to pledge eligible collateral as a portion of the participant fund; however, instead of being in the DTC rulebook, the collateral haircut schedules are published periodically by Important Notice to DTC participants.

In connection with FICC's assessments of its collateral haircuts, FICC employs daily backtesting to determine the adequacy of each member's collateral haircuts. FICC compares the collateral haircuts for each member with the simulated liquidation gains/losses using the actual positions in the member's portfolio, and the actual historical security returns. A backtesting deficiency occurs when a member's collateral haircuts would not have been adequate to cover the simulated liquidation losses.

In connection with such assessments, FICC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time. This is because TIPS are indexed to the inflation rate, and prices on TIPS move inversely to their yields, e.g., when the inflation rate increases, prices on TIPS decrease. When the decline in market value of TIPS exceeds the haircut for TIPS, FICC would be exposed to potential liquidation losses. Specifically, during the period from September 1, 2021 to August 31, 2022, with TIPS comprising less than 10 percent of the total collateral value across the GSD and MBSD divisions at FICC, FICC has observed 29 backtesting deficiencies at FICC,<sup>10</sup> 26 at GSD and 3 at MBSD, where the collateral value that FICC attributed to the TIPS that were posted by members as margin (inclusive of the applicable current haircuts) was insufficient to cover the liquidation of such securities by FICC without incurring a loss. Accordingly, FICC is proposing to reconfigure and modify the haircut information that would be posted on FICC's website to ensure that the haircut levels would be commensurate with the particular risk attributes of TIPS.

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<sup>10</sup> The 29 backtesting deficiencies represent a sum total of approximately \$9.4 million across four days during the impact study period, less than 0.1% of the total collateral value at FICC on each of those days.

Specifically, FICC would list TIPS of various maturity groupings in a separate category from Treasury bills, notes and bonds. In addition, FICC would change the haircut level applicable for TIPS as follows:

	<b>Maturity</b>	<b>Current</b>	<b>Proposed</b>
<b>TIPS</b>	Zero to 1 year	2.0%	2.0%
	1 year to 2 years	2.0%	3.0%
	2 years to 5 years	3.0%	5.0%
	5 years to 10 years	4.0%	7.0%
	10 years to 15 years	6.0%	7.0%
	15 years or greater	6.0%	10.0%

In determining the appropriate haircut levels for TIPS, FICC conducted a review of TIPS haircuts at other registered clearing agencies and foreign central counterparty clearing houses (“CCPs”) to compare FICC’s current TIPS haircuts with that required by registered clearing agencies and foreign CCPs when TIPS are deposited to their clearing funds, or the equivalent thereof. The results of the review and comparison indicated that FICC’s current haircut levels for TIPS are generally lower than the TIPS haircuts required by other clearing agencies and foreign CCPs, particularly with respect to maturity ranges of 10 years or longer. While the TIPS haircut requirement at such other entities is not dispositive as to the risk borne by FICC or the proper TIPS haircut levels to offset such risk, it is indicative of the TIPS haircuts being applied to users of other similarly situated entities in order to use the services of the clearing agencies and foreign CCPs and the impact to such users. The chart below shows the haircut that participants of other clearing agencies and foreign CCPs are currently subject to when using TIPS to meet their margin requirements, as compared with the existing TIPS haircut required at FICC.

<b>TIPS Remaining Maturity (Years)</b>	<b>FICC Current Collateral Haircut</b>	<b>ICE<sup>11</sup></b>	<b>LCH<sup>12</sup></b>	<b>CME<sup>13</sup></b>	<b>OCC<sup>14</sup></b>
<1	2.00%	2.00%	0.63%	1.00%	0.50%
1	2.00%	3.50%	2.38%	2.00%	2.00%
2					
3	3.00%	5.00%	3.00%	3.00%	2.00%
5					
7	4.00%	6.75%	4.75%	4.50%	3.50%
10					
15	6.00%	11.25%	10.75%	8.00%	5.00%
20					
30					

FICC is not proposing any changes to the concentration limits at this time.

#### Impact Study

FICC conducted an impact study for the period from September 1, 2021 through August 31, 2022 (“Impact Study”). The results of the Impact Study indicate that, if the haircut changes for TIPS had been in place, all 29 backtesting deficiencies would have been eliminated.

<sup>11</sup> See ICE Clear U.S. Acceptable Collateral and Haircuts, available at [www.theice.com/publicdocs/clear\\_us/ICUS\\_Collateral\\_Information.pdf](http://www.theice.com/publicdocs/clear_us/ICUS_Collateral_Information.pdf).

<sup>12</sup> See LCH LTD-Margin Collateral Haircut Schedule, available at [www.lch.com/system/files/media\\_root/Collateral/Acceptable%20Collateral%20Haircuts%20LCH%20Ltd\\_0.pdf](http://www.lch.com/system/files/media_root/Collateral/Acceptable%20Collateral%20Haircuts%20LCH%20Ltd_0.pdf).

<sup>13</sup> See CME Group Acceptable Performance Bond Collateral for Base Guaranty Fund Products, available at [www.cmegroup.com/clearing/files/acceptable-collateral-futures-options-select-forwards.pdf](http://www.cmegroup.com/clearing/files/acceptable-collateral-futures-options-select-forwards.pdf).

<sup>14</sup> See OCC Collateral Haircut Schedule, available at [www.theocc.com/clearance-and-settlement/acceptable-collateral-haircuts](http://www.theocc.com/clearance-and-settlement/acceptable-collateral-haircuts).

If the proposed haircut adjustments had been in place during the Impact Study period, the changes would have resulted in an aggregate average daily increase for all members of \$40.75 million (approximately 0.15%) in the Clearing Fund for GSD and an aggregate average daily increase of \$16.60 million (approximately 0.14%) in the Clearing Fund for MBSD. The three largest daily average dollar increases to GSD Members would be \$11.1 million (approximately 0.91%), \$8.3 million (approximately 1.07%) and \$4.3 million (approximately 1.26%). The three largest daily average percentage increases for GSD Members would be 1.78%, 1.76% and 1.29%. The three largest daily average dollar increases to MBSD would be \$4.08 million (approximately 0.30%), \$4.04 million (approximately 0.46%) and \$3.99 million (approximately 0.51%). The three largest daily average percentage increases for MBSD Members would be 1.35%, 0.71% and 0.51%. During the Impact Study period, 33 of 132 GSD Members and 11 of 80 MBSD Members would have experienced an increase in their respective Clearing Fund deposits had the proposed changes been in place.

#### Implementation Timeframe

Subject to approval by the Commission, FICC expects to implement this proposal by no later than 60 Business Days after such approval and would announce the effective date of the proposed changes by an Important Notice posted to FICC's website.

#### 2. Statutory Basis

FICC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes described above are consistent with Section

17A(b)(3)(F) of the Act,<sup>15</sup> and Rules 17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v), each promulgated under the Act,<sup>16</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to 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.<sup>17</sup> As described above, FICC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide FICC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, FICC would have the flexibility to respond to changing market conditions more promptly. FICC believes that having this additional flexibility to respond to changing market conditions more promptly would help better ensure that FICC (i) collects sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, FICC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move the collateral haircuts and concentration

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

<sup>16</sup> 17 CFR 240.17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v).

<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

limits from the Rules to the website would assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.<sup>18</sup>

FICC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. FICC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Having haircut levels for TIPS that are commensurate with the particular risk attributes of TIPS would enable FICC to collect sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios such that, in the event of a member default, FICC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.<sup>19</sup>

FICC believes that the proposed clarifying changes would help to ensure that the Rules are clear to members. When members better understand their rights and obligations regarding the Rules, members are more likely to act in accordance with the Rules, which FICC believes would promote the prompt and accurate clearance and settlement of

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<sup>18</sup> Id.

<sup>19</sup> Id.



securities transactions. As such, FICC believes that the proposed clarifying changes would be consistent with Section 17A(b)(3)(F) of the Act.<sup>20</sup>

Rule 17Ad-22(e)(4)(i) under the Act<sup>21</sup> requires a covered clearing agency to 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 exposures arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As described above, FICC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide FICC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, FICC would have the flexibility to respond to changing market conditions more promptly. FICC believes that having this additional flexibility to respond to changing market conditions more promptly would help ensure that FICC (i) collects sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, FICC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change

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<sup>20</sup> Id.

<sup>21</sup> 17 CFR 240.17Ad-22(e)(4)(i).

to move the collateral haircuts and concentration limits from the Rules to the website would help ensure that FICC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.<sup>22</sup>

FICC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. FICC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time and more conservative haircuts for TIPS are warranted. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would in turn help ensure that FICC requires members to maintain sufficient margin to cover the credit exposures that FICC may face related to its ability to liquidate members' portfolios in the event of a member default. In this way, the proposed rule change to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that FICC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.<sup>23</sup>

Rule 17Ad-22(e)(5) under the Act<sup>24</sup> requires, in part, a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably

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<sup>22</sup> Id.

<sup>23</sup> Id.

<sup>24</sup> 17 CFR 240.17Ad-22(e)(5).

designed to set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure. As described above, FICC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide FICC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, FICC would have the flexibility to respond to changing market conditions more promptly. FICC believes that having this additional flexibility to respond to changing market conditions more promptly would help better ensure that FICC (i) collects sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, FICC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. Specifically, FICC would have the ability to promptly set and enforce conservative collateral haircuts and concentration limits that are reflective of the current market conditions. In this way, the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would help FICC set and enforce appropriately conservative collateral haircuts and concentration limits, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.<sup>25</sup>

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<sup>25</sup>

Id.

FICC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. FICC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time and more conservative haircuts for TIPS are warranted. Specifically, FICC would have the ability to set and enforce conservative collateral haircuts that are commensurate with the particular risk attributes of TIPS. In this way, the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help FICC set and enforce appropriately conservative collateral haircuts, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.<sup>26</sup>

Rule 17Ad-22(e)(6)(i) under the Act<sup>27</sup> requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market. FICC believes that the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide FICC with more flexibility to respond to changing market conditions because FICC would be able to make appropriate adjustments to the haircuts and concentration limits without a rule change. By being able to make appropriate

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<sup>26</sup> Id.

<sup>27</sup> 17 CFR 240.17Ad-22(e)(6)(i).

and timely adjustments to the haircuts and concentration limits, FICC would have the flexibility to respond to changing market conditions more promptly. FICC believes that having this additional flexibility to respond to changing market conditions more promptly would enable FICC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, thus allowing FICC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, FICC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.<sup>28</sup>

FICC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. FICC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time and more conservative haircuts for TIPS are warranted. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would allow FICC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, FICC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.<sup>29</sup>

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<sup>28</sup> Id.

<sup>29</sup> Id.

Rule 17Ad-22(e)(6)(v) under the Act<sup>30</sup> requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products. FICC believes that the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide FICC with more flexibility to respond to changing market conditions more promptly because FICC would be able to make appropriate adjustments to the haircuts and concentration limits without a rule change. Having this additional flexibility would enable FICC to better risk manage its credit exposure to its members because FICC would then be able to make appropriate and timely adjustments to the haircuts and concentration limits, as described above. Being able to adjust the haircuts and concentration limits appropriately and timely would allow FICC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, thus producing margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, FICC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.<sup>31</sup>

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<sup>30</sup> 17 CFR 240.17Ad-22(e)(6)(v).

<sup>31</sup> Id.

FICC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. Specifically, as proposed, FICC would have collateral haircuts that are commensurate with the particular risk attributes of TIPS. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would allow FICC to produce margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, FICC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.<sup>32</sup>

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

Section 17A(b)(3)(I) of the Act requires that the rules of FICC do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.<sup>33</sup> FICC does not believe the proposed rule changes to move the haircuts and concentration limits from the Rules to the website would impose a burden on competition. These proposed changes are designed to enable FICC to timely respond to increases in market volatility with haircut requirements and concentration limits that are more reflective of the current credit exposures to FICC. As discussed above, these proposed changes would allow FICC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that FICC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a

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<sup>32</sup> Id.

<sup>33</sup> 15 U.S.C. 78q-1(b)(3)(I).

similar risk profile or in a particular asset type, such that, in the event of a member default, FICC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. These proposed changes would not unfairly inhibit access to FICC's services, or disadvantage or favor any particular member in relationship to another member. The proposed changes would allow FICC to adjust the haircuts and concentration limits more promptly and would not otherwise affect members' access to FICC's services. In addition, any changes to the haircuts or concentration limits would be directly related to the perceived risk related to members' collateral based on back-tests, stress-tests and market observations, and would be applied uniformly to all members. Accordingly, FICC believes that these proposed changes would not impose any burden or have any impact on competition.

Similarly, FICC does not believe the proposed rule changes to move TIPS haircuts into a separate category would impose a burden on competition. These proposed changes are designed to improve the clarity and presentation of the haircut information. These proposed changes would not unfairly inhibit access to FICC's services or disadvantage or favor any particular member in relationship to another member, and the changes would be applied uniformly to all members. Accordingly, FICC believes that these proposed changes would not impose any burden or have any impact on competition.

FICC believes the proposed changes to raise certain TIPS haircut levels may have an impact on competition because these changes could result in members' Eligible Clearing Fund Securities being subject to higher haircuts than they would have been under the current GSD and MBSD Schedules of Haircuts for Eligible Clearing Fund Securities. FICC believes that the proposed change could burden competition by



potentially increasing these members' operating costs by requiring members who are using TIPS as collateral to pledge additional collateral. Nonetheless, FICC believes any burden on competition imposed by the proposed changes would not be significant and, regardless of whether such burden on competition could be deemed significant, would be necessary and appropriate, as permitted by Section 17A(b)(3)(I) of the Act for the reasons described in this filing and further below.<sup>34</sup>

FICC believes any burden on competition presented by the proposed changes to the TIPS haircut levels would not be significant. As discussed above, if the proposed changes to the TIPS haircut levels had been in place during the Impact Study period, the three largest daily average dollar increases to GSD Members would have been \$11.1 million (approximately 0.91%), \$8.3 million (approximately 1.07%), and \$4.3 million (approximately 1.26%); and the three largest daily average dollar increases to MBSD Members would have been \$4.08 million (approximately 0.30%), \$4.04 million (approximately 0.46%), and \$3.99 million (approximately 0.51%). In addition, FICC believes that the proposed changes to the TIPS haircut levels are comparable with what is being required of users of other similar registered clearing agencies and foreign CCPs when posting TIPS as collateral.

FICC believes any burden on competition that may be imposed by the proposed changes to the TIPS haircut levels would be necessary because, as described above, the proposed changes would help ensure that the collateral values attributed to TIPS would be commensurate with the particular risk attributes of TIPS. Making sure proper collateral values are attributed to TIPS that are used as margin would thus help better ensure that FICC

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<sup>34</sup> Id.

collects sufficient margin from members and thereby assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.<sup>35</sup>

In addition, FICC believes the proposed changes to the TIPS haircut levels are necessary to support FICC's compliance with Rules 17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v) under the Act. Specifically, as described above, FICC believes these proposed changes would ensure that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS. Having haircut levels for TIPS that are commensurate with the particular risk attributes of TIPS would ensure proper collateral valuation for TIPS used as margin. Ensuring proper collateral valuation for TIPS used as margin would help FICC better measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.<sup>36</sup> Ensuring proper collateral valuation for TIPS used as margin would also allow FICC to set and enforce appropriately conservative collateral haircuts, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.<sup>37</sup> It would also help FICC cover its credit exposures to its participants, consistent with the requirements of Rules 17Ad-22(e)(6)(i) and (e)(6)(v) under the Act.<sup>38</sup>

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<sup>35</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>36</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>37</sup> 17 CFR 240.17Ad-22(e)(5).

<sup>38</sup> 17 CFR 240.17Ad-22(e)(6)(i) and (e)(6)(v).

FICC also believes that any burden on competition that may be imposed by the proposed changes to the TIPS haircut levels would be appropriate in furtherance of the Act because these proposed changes have been specifically designed to assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, as required by Section 17A(b)(3)(F) of the Act.<sup>39</sup> As described above, FICC believes these proposed changes would help better ensure that FICC collects sufficient margin from members, thus enabling FICC to produce margin levels more commensurate with the risks it faces as a central counterparty. Accordingly, FICC believes these proposed changes are appropriately designed to meet its risk management goals and regulatory obligations.

FICC does not believe the proposed clarifying changes to the Rules would impact competition. These changes would help to ensure that the Rules remain clear. In addition, the changes would facilitate members' understanding of the Rules and their obligations thereunder. These changes would not affect FICC's operations or the rights and obligations of the membership. As such, FICC believes the proposed clarifying changes would not have any impact on competition.

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

FICC has not received or solicited any written comments relating to this proposal. If any additional written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

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<sup>39</sup> 15 U.S.C. 78q-1(b)(3)(F).

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

FICC reserves the right to not respond to any comments received.

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

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

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

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2023-014 on the subject line.

##### Paper Comments:

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

All submissions should refer to File Number SR-FICC-2023-014. 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 from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC’s website (dtcc.com/legal/sec-rule-filings). 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-2023-014 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>40</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>40</sup> 17 CFR 200.30-3(a)(12).