

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99462; File No. SR-FICC-2024-002)

February 2, 2024

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Clarify How FICC Applies the Minimum Charge

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 25, 2024, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(4) thereunder.⁴ 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 the FICC Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules”) to clarify how

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4).

FICC applies the Minimum Charge (as defined below) at MBSD, as well as make certain technical changes, as described in greater detail below.⁵

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 changes that would clarify the disclosures in the MBSD Rules related to FICC’s application of Minimum Charge at MBSD.

Background

As part of its market risk management strategy, FICC manages its credit exposure to Clearing Members by determining the appropriate Required Fund Deposit to the Clearing Fund and monitoring its sufficiency, as provided for in the MBSD Rules.⁶ The

⁵ Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the MBSD Rules, available at www.dtcc.com/legal/rules-and-procedures.aspx.

⁶ See MBSD Rule 4 (Clearing Fund and Loss Allocation), supra note 5. FICC’s market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as “credit risks.” 17 CFR 240.17Ad-22(e)(4).

Required Fund Deposit serves as each Clearing Member's margin. The objective of a Clearing Member's Required Fund Deposit is to mitigate potential losses to FICC associated with liquidation of a Clearing Member's portfolio in the event FICC ceases to act for that Clearing Member (hereinafter referred to as a "default").⁷ The aggregate of all Clearing Member's Required Fund Deposits, together with certain other deposits required under the MBSD Rules, constitutes the Clearing Fund, which FICC would access, among other instances, should a defaulting Clearing Member's own Clearing Fund deposit be insufficient to satisfy losses to FICC caused by the liquidation of that Clearing Member's portfolio.

Pursuant to the MBSD Rules, each Clearing Member's Required Fund Deposit amount consists of a number of applicable components, each of which is designed to address specific risks faced by FICC, as identified within MBSD Rule 4.⁸ Specifically, MBSD Rule 4, Section 2(b) currently states that each Clearing Member's Required Fund Deposit amount consists of the greater of (i) the Minimum Charge⁹ or (ii) the sum of the following components: the VaR Charge, the six days' interest for Fails item, a special charge (to the extent determined by FICC to be appropriate),¹⁰ and, if applicable, the

⁷ See MBSD Rule 17 (Procedures for When the Corporation Ceases to Act), supra note 5.

⁸ MBSD Rule 4. Supra note 5.

⁹ Section 2(b) of MBSD Rule 4 provides the Minimum Charge for each margin portfolio of a Clearing Member shall be no less than \$100,000, and the Minimum Charge for each margin portfolio of an Unregistered Investment Pool Clearing Member shall be no less than \$1 million.

¹⁰ In order to mitigate exposure from certain market conditions and other financial and operational capabilities of a Clearing Member, FICC may impose a special charge.

Backtesting Charge, Holiday Charge, Intraday Mark-to-Market Charge, Intraday VaR Charge, and the Margin Liquidity Adjustment Charge.

Some of these components are calculated at the margin portfolio level while other components are calculated at the member level. In particular, the Minimum Charge, the VaR Charge and the six days' interest for Fails item are calculated for each margin portfolio of a Clearing Member, while the special charge and, if applicable, the Backtesting Charge, Holiday Charge, Intraday Mark-to-Market Charge, Intraday VaR Charge, and the Margin Liquidity Adjustment Charge are assessed with respect to each Clearing Member.

Given that these components are calculated at varying levels, i.e., margin portfolio level vs. member level, FICC currently follows a two-step process when determining the Required Fund Deposit amount for a Clearing Member. Specifically, when calculating the Required Fund Deposit amount for a Clearing Member, FICC first assesses the applicable charge with respect to each and every margin portfolio of the Clearing Member. FICC determines whether or not to apply the Minimum Charge to the margin portfolio by comparing (i) the relevant Minimum Charge for the margin portfolio with (ii) the sum of the VaR Charge and the six days' interest for Fails item of the margin portfolio. FICC only applies the Minimum Charge as the applicable charge for a margin portfolio when the Minimum Charge for the margin portfolio exceeds the sum of the VaR Charge and the six days' interest for Fails item of the margin portfolio, otherwise FICC uses the sum of the VaR Charge and the six days' interest for Fails item of the margin portfolio as the applicable charge for the margin portfolio.

After FICC assesses the applicable charge with respect to each and every margin portfolio of the Clearing Member, FICC aggregates these charges and add the components that are calculated at the member level, i.e., special charge, if any, and, if applicable, the Backtesting Charge, Holiday Charge, Intraday Mark-to-Market Charge, Intraday VaR Charge, and the Margin Liquidity Adjustment Charge, to determine the Required Fund Deposit amount of the Clearing Member.

Proposed Rule Changes

In order to better reflect FICC's current process in determining the Required Fund Deposit amount of a Clearing Member, particularly with respect to FICC's application of Minimum Charge, FICC is proposing the following clarifying rule changes.

Specifically, FICC is proposing to revise the Minimum Margin definition in the MBSD Rule 1 (Definitions) to state the term "Minimum Charge" means the minimum amount of required deposit to the Clearing Fund with respect to each margin portfolio of a Clearing Member. FICC is proposing this change to make it clearer that the Minimum Margin is determined with respect to each and every margin portfolio of a Clearing Member.

FICC is also proposing to modify the definition of the Required Fund Deposit in MBSD Rule 1 to make it clearer that Required Fund Deposit means the amount of each Clearing Member's required deposit to the Clearing Fund as determined by the FICC pursuant to Section 2 of Rule 4 and other applicable Rules.

In addition, FICC is proposing to revise Section 2 of MBSD Rule 4 (Clearing Fund and Loss Allocation) to more clearly delineate components that are calculated at the margin portfolio level versus those that are calculated at the member level when determining the Required Fund Deposit amount of each Clearing Member. Furthermore,

FICC is proposing language to clarify that, when determining the amount of Required Fund Deposit with respect to each margin portfolio of a Clearing Member, FICC would use an amount equal to the greater of (i) the Minimum Charge and (ii) the sum of the VaR Charge and the six days' interest for Fails item of the margin portfolio.

To further enhance the clarity of MBSD Rules, FICC is also proposing a number of technical changes and one conforming change.

These proposed rule changes are intended to better reflect FICC's current process in determining the Required Fund Deposit amount of a Clearing Member but would not change the Required Fund Deposit amount of the Clearing Member or the methodology used to calculate the Required Fund Deposit.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the MBSD Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹¹ FICC believes the proposed clarifying and technical changes to the MBSD Rules would allow FICC to help promote prompt and accurate clearance and settlement of securities transactions. This is because the proposed changes to the MBSD Rules would clarify and improve the transparency of the MBSD Rules. Enhancing the clarity and transparency of the MBSD Rules would help Clearing Members to better understand their rights and obligations regarding FICC's clearance and settlement services. FICC believes that when Clearing Members better understand their rights and obligations regarding FICC's clearance and settlement services, they can act in accordance with the MBSD Rules. FICC believes that better enabling Clearing Members

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

to comply with the MBSD Rules would promote the prompt and accurate clearance and settlement of securities transactions by FICC. As such, FICC believes the proposed clarifying and technical changes are consistent with Section 17A(b)(3)(F) of the Act.¹²

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

FICC does not believe the proposed rule changes would have any impact on competition. The proposed rule changes would enhance the MBSD Rules by providing additional clarity and transparency, particularly regarding disclosures related to FICC's application of Minimum Charge at MBSD. The proposed rule changes would not advantage or disadvantage any particular Clearing Member of FICC or unfairly inhibit access to FICC's services. FICC therefore does not believe these proposed changes would have any impact, or impose any burden, 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.

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.

¹² Id.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at 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 or 202-551-5777.

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)¹³ of the Act and paragraph (f)¹⁴ of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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 (www.sec.gov/rules/sro.shtml); or

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2024-002 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-2024-002. 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 (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 (www.dtcc.com/legal/sec-rule-filings.aspx). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject

to copyright protection. All submissions should refer to File Number SR-FICC-2024-002 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.¹⁵

Sherry R. Haywood
Assistant Secretary

¹⁵ 17 CFR 200.30-3(a)(12).