

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-102532; File No. SR-FICC-2025-003)

March 5, 2025

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Adopt a Volatility Event 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 February 27, 2025, 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. 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”)³ to adopt a volatility event charge (“Volatility Event Charge”), as described in greater detail below.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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 adopt a Volatility Event Charge in order to further improve margin resilience under scheduled events that may impact market volatility by proactively managing its member-level credit risk exposure and backtesting performance.

Background

FICC, through GSD and MBSD, serves as a central counterparty and provider of clearance and settlement services for fixed income transactions. GSD provides central counterparty services in U.S. government securities, as well as repurchase and reverse repurchase transactions involving U.S. government securities,⁴ and MBSD provides such services to the U.S. mortgage-backed securities market. As part of its market risk management strategy, FICC manages its credit exposure to members by determining the appropriate Required Fund Deposit to the GSD and MBSD Clearing Funds (collectively, the "Clearing Fund") and by monitoring their sufficiency, as provided for in the Rules.⁵ The Required Fund Deposit serves as each member's margin.

⁴ GSD also clears and settles certain transactions on securities issued or guaranteed by U.S. government agencies and government sponsored enterprises.

⁵ See GSD Rule 4 (Clearing Fund and Loss Allocation) and MBSD Rule 4 (Clearing Fund and Loss Allocation), supra note 3. FICC's market risk

The objective of a member's Required Fund Deposit 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").⁶ The aggregate amount of all members' Required Fund Deposit constitutes the Clearing Fund. FICC would access the Clearing Fund should a defaulting member's own Required Fund Deposit be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio.

FICC regularly assesses market and liquidity risks as such risks relate to its margin methodologies to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market. For example, FICC employs daily backtesting to determine the adequacy of each member's Required Fund Deposit.⁷ FICC compares the Required Fund Deposit⁸ for each member with the

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).

⁶ The Rules 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.

⁷ The Model Risk Management Framework ("Model Risk Management Framework") sets forth the model risk management practices of FICC and states that Value at Risk ("VaR") and Clearing Fund requirement coverage backtesting would be performed on a daily basis or more frequently. 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).

⁸ Members may be required to post additional collateral to the Clearing Fund in addition to their Required Fund Deposit amount. See e.g., Section 7 of GSD Rule 3 (Ongoing Membership Requirements) and Section 6 of MBSD Rule 3 (Ongoing

simulated liquidation gains/losses, using the actual positions in the member's portfolio(s) and the actual historical security returns. A backtesting deficiency occurs when a member's Required Fund Deposit would not have been adequate to cover the projected liquidation losses and highlights exposure that could subject FICC to potential losses in the event that a member defaults.

FICC investigates the cause(s) of any backtesting deficiencies and determines if there is an identifiable cause of repeat backtesting deficiencies. FICC also evaluates whether multiple members may experience backtesting deficiencies for the same underlying reason.

Pursuant to the Rules, each member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by FICC, as identified within the Rules.⁹ At GSD, these components include the VaR Charge, Blackout Period Exposure Adjustment, Backtesting Charge, Holiday Charge, Excess Capital Premium, Intraday Supplemental Fund Deposit, Margin Liquidity Adjustment Charge, Portfolio Differential Charge, and special charge.¹⁰ At MBSD, these

Membership Requirements), supra note 3 (providing that adequate assurances of financial responsibility of a member may be required, such as increased Clearing Fund deposits). For backtesting comparisons, FICC uses the Required Fund Deposit amount, without regard to the actual, total collateral posted by the member to the Clearing Fund.

⁹ Supra note 3.

¹⁰ These margin components and the relevant defined terms are currently located in GSD Rules 1 (Definitions), 3 (Ongoing Membership Requirements) and 4 (Clearing Fund and Loss Allocation), supra note 3. FICC recently received regulatory approval to move the margin calculation methodology, including the margin components and the relevant defined terms, into a new Margin Component Schedule. See Securities Exchange Act Release Nos. 101695 (Nov. 21, 2024), 89 FR 93763 (Nov. 27, 2024) (File No. SR-FICC-2024-007) and

components include the VaR Charge, Backtesting Charge, Excess Capital Premium, Holiday Charge, Intraday Mark-to-Market Charge, Intraday VaR Charge, Margin Liquidity Adjustment Charge, and special charge.¹¹ The VaR Charge generally comprises the largest portion of a member's Required Fund Deposit amount.

Proposed Volatility Event Charge

The VaR Charge is based on the potential price volatility of unsettled positions using a sensitivity-based Value-at-Risk (VaR) methodology. The VaR methodology provides an estimate of the possible losses for a given portfolio based on: (1) confidence level, (2) a time horizon and (3) historical market volatility. The VaR methodology is intended to capture the risks related to market price that are associated with the net unsettled positions in a member's portfolios. This risk-based margin methodology is designed to project the potential losses that could occur in connection with the liquidation of a defaulting member's portfolio, assuming a portfolio would take three days to liquidate in normal market conditions. The projected liquidation gains or losses are used to determine the amount of the VaR Charge to each portfolio, which is calculated to capture the market price risk¹² associated with each member's portfolio(s) at a 99% confidence level.

101675 (Nov. 21, 2024), 89 FR 93735 (Nov. 27, 2024) (File No. SR-FICC-2024-802).

¹¹ These margin components and the relevant defined terms are currently located in MBSD Rules 1 (Definitions), 3 (Ongoing Membership Requirements) and 4 (Clearing Fund and Loss Allocation), supra note 3.

¹² Market price risk refers to the risk that volatility in the market causes the price of a security to change between the execution of a trade and settlement of that trade. This risk is sometimes also referred to as volatility risk.

FICC's VaR model is designed to provide a margin calculation that covers the market risk in a member's portfolio. The VaR model calculates the risk profile of each GSD and MBSD member's portfolio by applying certain representative risk factors to measure the degree of responsiveness of the portfolio's value to the changes of these risk factors over a historical lookback period of at least 10 years that may be supplemented with an additional stressed period.

The VaR model has been shown to perform well in low to moderate volatility markets; however, the market events during the two arguably most stressful market periods, i.e., the COVID period during March of 2020 and the successive interest rate hikes that began in March 2022, have resulted in significant market volatility in the fixed income market that exceeded the 99-percentile of the observed historical data set. As a result, FICC VaR backtesting metrics fell below the performance target due to unprecedented levels of extreme market volatility. This highlighted the need for FICC to further enhance its margin methodology by adopting a more proactive approach to manage its backtesting performance and member-level market risk exposure arising from extreme market volatility.¹³

FICC considered and evaluated various market risk measures as well as conducted a comparative impact analysis that included (i) the correlation between historical backtest breaches and impact volatility or other market factors during stress, (ii) comparative evaluation of the relative merits of historical versus implied volatility

¹³ Currently FICC mitigates this risk by assessing a special charge of 10% of a member's VaR Charge at both GSD and MBSD on the two days prior to, and on the day of, certain scheduled market events if one or more stated conditions are triggered. This proposal would enable FICC to codify this practice in the Rules.

measures in forecasting future volatility levels and specific stress events, and (iii) consideration of alternative preventative mechanisms in adjusting margin and improving performance. In addition, FICC explored several forward-looking market indicators, including implied volatility, both in isolation and in combination with key market or economic event dates. Based on the assessment, FICC is proposing to adopt the Volatility Event Charge at GSD and MBSD. FICC believes the Volatility Event Charge would allow FICC to proactively cope with the potential outsized adverse market reactions to the outcome of a scheduled event.

The Volatility Event Charge is designed to provide a proactive measure to complement the GSD and MBSD VaR models by managing FICC's member-level market risk exposure and backtesting performance. It would be assessed with respect to each member portfolio at GSD and MBSD, as well as each Segregated Indirect Participant at GSD, for periods in which markets are heavily influenced by anticipation and resolution of a scheduled event, e.g., major elections, Federal Open Market Committee meetings, and major economic data releases, such as CPI and unemployment, with the potential for large market moves once the event's outcome is known in the marketplace.

As proposed, the Volatility Event Charge would be an additional charge that is collected from members to mitigate FICC's exposures arising from potential adverse market impact due to a scheduled event that has the potential to impact market volatility, such as the release of an economic indicator or a national election. The Volatility Event

Charge would be assessed twice a day at GSD and once a day at MBSD,¹⁴ beginning on the day of the coverage period when one or more of the forward-looking market volatility indicators exceed the threshold(s) specified by FICC and ending on the day of the scheduled event.

The coverage period shall generally include the two Business Days prior to, as well as the day of, a scheduled event; however, based on FICC's assessment of the market volatility and/or backtesting coverage, FICC may elect to either extend or reduce the coverage period by one Business Day. For example, FICC may extend the coverage by one Business Day when more than one forward-looking market volatility indicators exceed the thresholds specified. Similarly, FICC may reduce the coverage period by one Business Day by including only the two Business Days prior to a scheduled event but not the day of the scheduled event if, based on its assessment, FICC does not anticipate the scheduled event itself to impact market volatility. If FICC determines that a change to the coverage period 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, in accordance with FICC's internal market risk management policies and procedures. As proposed, FICC believes the Volatility Event Charge would enable FICC's VaR models to incorporate market data on the day the event occurs such that the application of the Volatility Event Charge would no longer be required after the day the event occurs, thus avoiding duplicative charges.

¹⁴ FICC currently calculates and assesses a member's margin requirement at least twice a day for GSD Members (start-of-day and noon) and once per day (start-of-day) for MBSD Members.

The Volatility Event Charge would be calculated by multiplying the VaR Charge of the relevant member portfolio at GSD and MBSD or Segregated Indirect Participant at GSD, as applicable, by no less than 10 percent and no greater than 30 percent, as determined by FICC from time to time based on factors such as backtesting coverage and/or backtesting deficiencies. The lower bound of 10% is determined based on FICC’s historical experience with the special charges that were imposed on members following the regional banking crisis in 2023. The upper bound of 30% is determined based on FICC’s observation from the magnitude of historical backtesting deficiencies under various stress events. As an initial matter, FICC would calculate the Volatility Event Charge by multiplying the VaR Charge of the relevant member portfolio at GSD and MBSD or Segregated Indirect Participant at GSD,¹⁵ as applicable, by 10 percent.

FICC would conduct ongoing monitoring of the efficacy of the proposed Volatility Event Charge and perform a review of the results at least monthly. If FICC determines that any modifications to the list of scheduled events, forward-looking market volatility indicators and associated thresholds, and/or applicable VaR Charge percentage, the FICC market risk group would document the recommendation and rationale for the change at the time of such determination and obtain approval from FICC management

¹⁵ FICC recently received regulatory approval to make changes to the GSD Rules regarding the separate calculation, collection, and holding of margin for indirect participant transactions of GSD members. As proposed, a new defined term “Segregated Indirect Participant” would be added to GSD Rule 1 (Definitions) to refer to a GSD member’s indirect participants whose transactions are recorded in a Segregated Indirect Participant Account. See Securities Exchange Act Release Nos. 101695 (Nov. 21, 2024), 89 FR 93763 (Nov. 27, 2024) (File No. SR-FICC-2024-007) and 101675 (Nov. 21, 2024), 89 FR 93735 (Nov. 27, 2024) (File No. SR-FICC-2024-802). Therefore, FICC is proposing to also assess the Volatility Event Charge with respect to the Segregated Indirect Participants.

committee, in accordance with FICC’s internal market risk management policies and procedures.

FICC would provide members with a list of applicable scheduled events, forwarding-looking market volatility indicators and associated thresholds, as well as any changes to the applicable VaR Charge percentage and coverage period via a quarterly Important Notice to be issued no less than one Business Day prior to the start of either the quarter or the coverage period of the first scheduled event in the quarter, whichever is earlier.

Proposed Rule Change

In connection with adopting the Volatility Event Charge at GSD, FICC would modify the GSD Rules to:

- I. Add a definition of “Volatility Event Charge” in GSD Rule 1 (Definitions) and define it in the Margin Component Schedule, Section 5.¹⁶ As proposed, the term “Volatility Event Charge” would mean an additional charge that is collected from a GSD member or Segregated Indirect Participant¹⁷ to mitigate FICC’s exposures to market volatility that may arise from a scheduled event, such as the release of an economic indicator or a national election. The proposed definition would also provide that the Volatility Event Charge shall be assessed twice a day, beginning on the day of the coverage period when one or more of the forward-looking market volatility indicators exceed the threshold(s) specified by FICC and

¹⁶ Supra note 10.

¹⁷ Supra note 15.

ending on the day of the scheduled event. The coverage period shall generally include the two Business Days prior to, as well as the day of, a scheduled event; however, based on its assessment of the market volatility and/or backtesting coverage, FICC may elect to either extend or reduce the coverage period by one Business Day. In addition, as proposed, the definition would provide that the Volatility Event Charge, with respect to each Margin Portfolio or Segregated Indirect Participant, shall be calculated by multiplying the VaR Charge of the Margin Portfolio or Segregated Indirect Participant, as applicable, by no less than 10 percent and no greater than 30 percent, as determined by FICC from time to time based on factors such as backtesting coverage and/or backtesting deficiencies. Furthermore, the proposed definition would require FICC to provide GSD members with a list of applicable scheduled events, forwarding-looking market volatility indicators and associated thresholds, as well as any changes to the applicable VaR Charge percentage and coverage period via a quarterly Important Notice to be issued no less than one Business Day prior to the start of either the quarter or the coverage period of the first scheduled event in the quarter, whichever is earlier.

II. Add the “Volatility Event Charge” as an additional charge in calculating the Required Fund Deposit and the Segregated Customer Margin Requirement¹⁸ in the Margin Component Schedule, Sections 2(b) and

¹⁸ FICC recently received regulatory approval to make changes to the GSD Rules regarding the separate calculation, collection, and holding of margin for indirect participant transactions of GSD members. The margin requirement for a GSD

3(b).

III. Correct a typographical error in Section 3(b) of the Margin Component Schedule.

In connection with adopting the Volatility Event Charge at MBSD, FICC would modify the MBSD Rules to:

- I. Add a definition of “Volatility Event Charge” in MBSD Rule 1 (Definitions). As proposed, the term “Volatility Event Charge” would mean an additional charge that is collected from an MBSD member to mitigate FICC’s exposures to market volatility that may arise from a scheduled event, such as the release of an economic indicator or a national election. The proposed definition would also provide that the Volatility Event Charge shall be assessed once a day, beginning on the day of the coverage period when one or more of the forward-looking market volatility indicators exceed the threshold(s) specified by FICC and ending on the day of the scheduled event. The coverage period shall generally include the two Business Days prior to, as well as the day of, a scheduled event; however, based on its assessment of the market volatility and/or backtesting coverage, FICC may elect to either extend or reduce the coverage period by one Business Day. In addition, as proposed, the

member’s segregated indirect participant transactions would be referred to as the Segregated Customer Margin Requirements. See Securities Exchange Act Release Nos. 101695 (Nov. 21, 2024), 89 FR 93763 (Nov. 27, 2024) (File No. SR-FICC-2024-007) and 101675 (Nov. 21, 2024), 89 FR 93735 (Nov. 27, 2024) (File No. SR-FICC-2024-802). Therefore, FICC is proposing to also include the Volatility Event Charge as an additional charge in calculating the proposed Segregated Customer Margin Requirement.

definition would provide that the Volatility Event Charge, with respect to each margin portfolio, shall be calculated by multiplying the VaR Charge of the margin portfolio, as applicable, by no less than 10 percent and no greater than 30 percent, as determined by FICC from time to time based on factors such as backtesting coverage and backtesting deficiencies.

Furthermore, the proposed definition would require FICC to provide MBSD members with a list of applicable scheduled events, forwarding-looking market volatility indicators and associated thresholds, as well as any changes to the applicable VaR Charge percentage and coverage period via a quarterly Important Notice to be issued no less than one Business Day prior to the start of either the quarter or the coverage period of the first scheduled event in the quarter, whichever is earlier.

- II. Add the “Volatility Event Charge” as an additional charge in calculating the Required Fund Deposit for each Clearing Member in Section 2(b) of MBSD Rule 4 (Clearing Fund and Loss Allocation).

Impact Study

From April 15, 2024 to August 2, 2024 (the “Impact Study Period”), FICC assessed a special charge¹⁹ on each GSD and MBSD members in an amount of 10% of the member’s VaR Charge with respect to the scheduled events listed below in Table 1 (Scheduled Economic Events Table) during the coverage periods listed below in Table 3 (Application of the Special Charge During the Impact Study Period). As indicated in

¹⁹ The proposal would enable FICC to codify this special charge as the Volatility Event Charge in the Rules.

Table 3, FICC assessed the special charge beginning on the day when one or more of the forward-looking market indicators listed below in Table 2 (Forward-Looking Market Indicator and Associated Thresholds) exceeded the threshold(s), also listed in Table 2, during the coverage period and ending on the day of the scheduled event. Overall, FICC assessed the special charge on 19 out of the 77 Business Days during the Impact Study Period, or approximately 25% (see Table 3).

Table 1 – Scheduled Economic Events²⁰

➤ Consumer Price Index (CPI)
➤ Personal Consumption Expenditures (CPE) Price Index
➤ Non-Farm Payrolls (NFP) and Unemployment Rate
➤ Federal Funds Target Rate
➤ Minutes of the Federal Open Market Committee Meeting

Table 2 – Forward-Looking Market Indicator and Associated Thresholds

Indicator	Threshold
MOVE Index	Previous Business Day MOVE Index closed above 100
MOVE Index vs. 10-YR Yield EWMA	Difference between MOVE Index and 10-Year Treasury EWMA > 15 bps
Fed Funds Implied Rate Change	Difference between 3-month Fed Funds Future and spot > 50 bps

Table 3 – Application of the Special Charge During the Impact Study Period

Economic Indicator	Event Date	Coverage Period	Special Charges Applied*
Personal Consumption Expenditures (PCE) Price Index	04/26/2024	04/24/2024 - 04/26/2024	Yes
Federal Funds Target Rate	05/01/2024	04/29/2024 - 05/01/2024	Yes
Non-Farm Payrolls (NFP) / Unemployment Rate	05/03/2024	05/01/2024 - 05/03/2024	Yes
Consumer Price Index (CPI)	05/15/2024	05/13/2024 - 05/15/2024	Yes

²⁰ On January 30, 2025, based on further analysis, FICC has updated the Scheduled Economic Events to include only the Non-Farm Payrolls (NFP) and Unemployment Rate, removing all other scheduled events, for the application of the special charge.

Minutes of the Federal Open Market Committee Meeting	05/22/2024	05/20/2024 - 05/22/2024	No
Personal Consumption Expenditures (PCE) Price Index	05/31/2024	05/29/2024 - 05/31/2024	No
Non-Farm Payrolls (NFP) / Unemployment Rate	06/07/2024	06/05/2024 - 06/07/2024	Yes
Federal Funds Target Rate, Consumer Price Index (CPI)	06/12/2024	06/10/2024 - 06/12/2024	No
Personal Consumption Expenditures (PCE) Price Index	06/28/2024	06/26/2024 - 06/28/2024	No
Minutes of the Federal Open Market Committee Meeting	07/03/2024	07/01/2024 - 07/03/2024	No
Non-Farm Payrolls (NFP) / Unemployment Rate	07/05/2024	07/02/2024 - 07/05/2024	Yes
Consumer Price Index (CPI)	07/11/2024	07/09/2024 - 07/11/2024	No
Personal Consumption Expenditures (PCE) Price Index	07/26/2024	07/24/2024 - 07/26/2024	No
Federal Funds Target Rate	07/31/2024	07/29/2024 - 07/31/2024	No
Non-Farm Payrolls (NFP) / Unemployment Rate	08/02/2024	07/31/2024 - 08/02/2024	Yes

*FICC applied the special charge on at least one day during the coverage period

The average special charge assessed during the Impact Study Period is approximately \$3.75 billion and \$4.00 billion for the start-of-day and noon margin cycles, respectively, at GSD, and \$911.30 million at MBSD. The number of backtesting deficiencies at GSD was reduced by 4 (from 61 to 57, or approximately 7%) and 7 (from 69 to 62, or approximately 10%) for the start-of-day and noon margin cycles, respectively, and the number of backtesting deficiencies at MBSD was reduced by 3 (from 23 to 20, or approximately 13%). In addition to the backtesting deficiencies that were eliminated by the special charge, other deficiencies were reduced such that the magnitude of the observed deficiency was less than without the special charge.

Based on the above, FICC believes the proposal would enable FICC to further improve its margin resilience under scheduled events that may impact market volatility by proactively managing its member-level credit risk exposure and backtesting performance.

Implementation Timeframe

FICC would implement the proposed rule change by no later than 60 Business Days after the approval of the proposed rule change by the Commission. FICC would

announce the effective date of the proposed changes by an Important Notice posted to its website.

2. Statutory Basis

FICC believes the proposed change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, FICC believes the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,²¹ and Rules 17ad-22(e)(4)(i) and (e)(6)(i), each promulgated under the Act,²² for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the GSD Rules be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible and be designed to promote the prompt and accurate clearance and settlement of securities transactions.²³ FICC believes the proposed change to adopt the Volatility Event Charge is designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible because it is designed to mitigate FICC's risk exposure by enabling FICC to adopt a more proactive approach in managing its backtesting performance and member-level market risk exposure arising out of potential outsized adverse market reactions to the outcome of a scheduled event. Specifically, the proposed Volatility Event Charge would allow FICC to collect financial resources to cover risk

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² 17 CFR 240.17ad-22(e)(4)(i) and (e)(6)(i).

²³ 15 U.S.C. 78q-1(b)(3)(F).

exposures during the periods leading up to the scheduled event that potentially can adversely impact the market.

The Clearing Fund is a key tool that FICC uses to mitigate potential losses to FICC associated with liquidating a Member's portfolio in the event of Member default. Therefore, the proposed change to include a Volatility Event Charge among the GSD and MBSD Clearing Fund components would enable FICC to better address significant adverse market changes in a member's portfolio such that, in the event of 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 change to adopt the Volatility Event Charge is designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.²⁴

The proposed change to make a technical correction to the Rules would ensure that the Rules remain accurate and clear, which in turn would enable all stakeholders to readily understand their rights and obligations in connection with FICC's clearance and settlement of securities transactions. Therefore, FICC believes that this proposed change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.²⁵

The proposed rule change with respect to the adoption of the Volatility Event Charge has also been designed to be consistent with Rules 17ad-22(e)(4)(i) and (e)(6)(i)

²⁴ Id.

²⁵ Id.

under the Act.²⁶ Rule 17ad-22(e)(4)(i) under the Act²⁷ 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, the proposed Volatility Event Charge would help address the identification, measurement, monitoring and management of credit exposures that may arise from potential outsized adverse market reactions to the outcome of a scheduled event. By incorporating the Volatility Event Charge into the GSD and MBSD Rules, the proposed change would enable FICC to have rule provisions that are reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to members and those exposures arising from its payment, clearing, and settlement processes, which FICC believes is consistent with Rule 17ad-22(e)(4)(i). Moreover, the proposed change would enable it to better identify, measure, monitor, and, through the collection of members' Required Fund Deposits and proposed Segregated Customer Margin Requirements, manage its credit exposures to members by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence. Adopting the Volatility Event Charge would help to ensure that the risk exposure during periods of extreme market volatility is adequately identified, measured and monitored. It would help ensure that the margin that FICC collects from members is sufficient to mitigate the credit

²⁶ 17 CFR 240.17ad-22(e)(4)(i) and (e)(6)(i).

²⁷ 17 CFR 240.17ad-22(e)(4)(i).

exposure presented by the members. As a result, FICC believes that the proposal would enhance FICC's ability to effectively identify, measure, and monitor its credit exposures and would enhance its ability to maintain 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.²⁸

Rule 17ad-22(e)(6)(i) under the Act²⁹ requires a covered clearing agency to 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 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 Volatility Event Charge is consistent with the requirements of Rule 17ad-22(e)(6)(i) cited above. The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit FICC's credit exposures to members. FICC is proposing a proactive measure that is designed to complement the GSD and MBSD VaR models by more effectively measuring and addressing risk characteristics in situations where the risk factors used in the VaR method do not adequately predict market price movements. Adopting the Volatility Event Charge at GSD and MBSD would help to ensure that margin levels are commensurate with the risk exposure of each member portfolio due to potential outsized and adverse market reactions to the outcome of a scheduled event. It would help ensure that the margin that FICC collects from members is sufficient to mitigate the credit

²⁸ Id.

²⁹ 17 CFR 240.17ad-22(e)(6)(i).

exposure presented by the members. Overall, the proposed change would allow FICC to more effectively address the risks presented by members. In this way, the proposed change to adopt the Volatility Event Charge would enhance the ability of FICC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. As such, FICC believes that the proposed change is consistent with the requirements of Rule 17ad-22(e)(6)(i) under the Act.³⁰

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

FICC believes the proposed rule change to adopt the Volatility Event Charge could impose a burden on competition. As a result of the proposed rule change, participants may experience increases in their Required Fund Deposits and/or Segregated Customer Margin Requirements. Such increases could burden participants that have lower operating margins or higher costs of capital than other participants. It is not clear whether the burden on competition would necessarily be significant because it would depend on whether the affected participants were similarly situated in terms of business type and size. Regardless of whether the burden on competition is significant, FICC believes that any burden on competition would be necessary and appropriate in furtherance of the purposes of the Act.

Specifically, FICC believes that the proposed rule change would be necessary in furtherance of the Act, as described in this filing and further below. FICC believes that the above-described burden on competition that may be created by the proposed changes is necessary. This is because the GSD Rules must be designed to assure the safeguarding of securities and funds that are in FICC's custody or control or which it is responsible,

³⁰ Id.

consistent with Section 17A(b)(3)(F). As described above, FICC believes that the adoption of the Volatility Event Charge would enable FICC to further improve margin resilience under scheduled events that may impact market volatility by proactively managing its member-level credit risk exposure and backtesting performance such that, in the event of member default, FICC's operations would not be disrupted and non-defaulting members would not be exposed to losses they cannot anticipate or control. As such, the proposed changes to adopt the Volatility Event Charge are designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.

FICC also believes these proposed changes to adopt the Volatility Event Charge are necessary to support FICC's compliance with Rules 17ad-22(e)(4)(i) and (e)(6)(i) under the Act,³¹ which require FICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes and (y) cover 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.

As described above, FICC believes that adopting the Volatility Event Charge would allow FICC to better mitigate risk exposure by more proactively coping with the potential outsized adverse market reactions to the outcome of a scheduled event. Accordingly, FICC believes that this proposed change to adopt the Volatility Event

³¹ 17 CFR 240.17ad-22(e)(4)(i) and (e)(6)(i).

Charge would allow FICC to effectively identify, measure, monitor, and manage its credit exposures to participants and better limit FICC's credit exposures to participants and cover its credit exposures to its participants by producing margin levels commensurate with the risks and particular attributes of each relevant product and portfolio, consistent with the requirements of Rules 17ad-22(e)(4)(i) and (e)(6)(i) under the Act.³²

FICC also believes that the above-described burden on competition that could be created by the proposed changes would be appropriate in furtherance of the Act because such changes have been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, as described in detail above. The proposed changes to adopt the Volatility Event Charge is specifically designed to cover significant risk exposures that warrant the collection of additional margin, i.e., when one or more of the forward-looking market volatility indicators exceed the specified threshold(s). Any increase in Required Fund Deposit and/or Segregated Customer Margin Requirement as a result of such proposed change for a particular participant would be in direct relation to the specific risks presented by such participant's portfolio, and each participant's Required Fund Deposit and/or Segregated Customer Margin Requirement would continue to be calculated with the same parameters and at the same confidence level. Therefore, participants with portfolios that present similar risks, regardless of the type of participant, would have similar impacts on their Required Fund Deposit and/or Segregated Customer Margin Requirement amounts. In addition, the proposed changes to adopt the Volatility Event Charge would improve the

³² Id.

risk-based margining methodology that FICC employs to set margin requirements and better limit FICC's credit exposures to its participants. Impact studies indicate that the proposed Volatility Event Charge would result in a reduction in backtesting deficiencies, which in turn would result in backtesting coverage that more appropriately addresses the risks presented by each participant's portfolio(s). Therefore, because the proposed changes are designed to provide FICC with a more appropriate and complete measure of the risks presented by participants' portfolios, FICC believes the proposals are appropriately designed to meet its risk management goals and its regulatory obligations.

Accordingly, FICC does not believe that the proposed changes to adopt the Volatility Event Charge would impose any burden on competition that is not necessary or appropriate in furtherance of the Act.³³

FICC does not believe the proposed change to make a technical correction to the Rules would present any burden or have a material impact on competition. The proposed change is to ensure that the Rules remain accurate. The proposed change would neither change the current practices of FICC nor affect FICC member's rights or obligations. Therefore, FICC does not believe that this proposed change would 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.

³³ 15 U.S.C. 78q-1(b)(3)(I).

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 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

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
(<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>);
or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2025-003 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-2025-003. 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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>). 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 a.m. and 3 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). 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-2025-003 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁴

Vanessa A. Countryman,
Secretary.

³⁴ 17 CFR 200.30-3(a)(12).