

**SECURITIES AND EXCHANGE COMMISSION**  
**[Release No. 34-102907; File No. SR-FICC-2025-003]**

**Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Adopt a Volatility Event Charge**

April 22, 2025.

On February 27, 2025, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> the proposed rule change SR-FICC-2025-003 (“Proposed Rule Change”) to amend FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”) and Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules,” and collectively with the GSD Rules, the “Rules”)<sup>3</sup> to adopt a volatility event charge (“Volatility Event Charge”). The proposed rule change was published for comment in the *Federal Register* on March 11, 2025.<sup>4</sup> The Commission has received no comments on the proposed rule change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

**I. BACKGROUND**

FICC, through its GSD and MBSD, is a central counterparty (“CCP”) and provider of clearance and settlement services for U.S. fixed income transactions.<sup>5</sup> In its role as a CCP, it interposes itself as the buyer to every seller and seller to every buyer for the financial

---

<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).

<sup>4</sup> See Securities Exchange Act Release No. 102530 (Mar. 5, 2025), 90 FR 11760 (Mar. 11, 2025) (File No. SR-FICC-2025-003) (“Notice of Filing”).

<sup>5</sup> GSD and MBSD maintain separate sets of rules, margin models, and clearing funds.

transactions it clears. GSD provides trade comparison, netting, risk management, settlement, and CCP services for the U.S. Government securities market. MBSD provides the same services for the U.S. mortgage-backed securities market. As such, FICC is exposed to the risk that one or more of its members may fail to make a payment or to deliver securities.

A key tool that FICC uses to manage its credit exposures to its members is the daily collection of the Required Fund Deposit (i.e., margin) from each member. A member's margin is designed to mitigate potential losses associated with liquidation of the member's portfolio in the event of that member's default. The aggregated amount of all GSD and MBSD members' margin constitutes the GSD Clearing Fund and MBSD Clearing Fund, respectively, which FICC would be able to access should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. Each member's margin consists of several components, each of which is designed to address specific risks faced by FICC arising out of its members' trading activity. Each member's margin includes a value-at-risk ("VaR") charge ("VaR Charge") designed to capture the potential market price risk<sup>6</sup> associated with the securities in a member's portfolio. The VaR Charge is typically the largest component of a member's margin requirement.

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<sup>7</sup> to determine the adequacy of each member's margin. A backtesting deficiency

---

<sup>6</sup> 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.

<sup>7</sup> Backtesting is an ex-post comparison of actual outcomes (i.e., the actual margin collected) with expected outcomes derived from the use of margin models. *See* 17 CFR 240.17Ad-22(a)(1).

occurs when a member's margin would not have been adequate to cover the projected liquidation losses estimated from the member's settlement activity based on the backtesting results.<sup>8</sup>

Backtesting deficiencies highlight exposure that could subject FICC to potential losses in the event of a member default. FICC investigates the cause(s) of any backtesting deficiencies to determine whether there is an identifiable cause of repeat backtesting deficiencies and/or whether multiple members may experience backtesting deficiencies for the same underlying reason.

FICC believes that its current VaR model has performed well in low to moderate volatility markets,<sup>9</sup> though it has not met FICC's performance targets during periods of extreme market volatility.<sup>10</sup> FICC performed an impact study on its members' margin portfolios covering the period beginning April 15, 2024 through August 2, 2024 ("Impact Study").<sup>11</sup> During the period of the Impact Study, FICC assessed its members a special charge equal to 10% of the member's VaR Charge during a specified coverage period leading up to and on the day of a list of scheduled economic events<sup>12</sup> when certain forward-looking market indicators and thresholds<sup>13</sup>

---

<sup>8</sup> FICC compares each member's margin with the simulated liquidation gains/losses, using the actual positions in the member's portfolio(s) and the actual historical security returns.

<sup>9</sup> See Notice of Filing, 90 FR at 11761.

<sup>10</sup> During the pandemic-related volatility in March 2020 and the successive interest rate hikes that began in March 2022, the VaR model fell below the 99 percent performance targets. See Notice of Filing, 90 FR at 11761-62.

<sup>11</sup> The Impact Study, filed confidentially as Exhibit 3, includes the following information covering each day of the period from April 15, 2024 through August 2, 2024 for each member margin assessment period for GSD and MBSD members: total amount of special charges; the backtesting deficiency counts; backtesting deficiency amounts; eliminated backtesting deficiency count; eliminated backtesting deficiency amount; reduced backtesting deficiency count; and reduced backtesting deficiency amount.

<sup>12</sup> See Notice of Filing, 90 FR at 11763. Table 1 includes a list of schedule economic events, including: Consumer Price Index (CPI); Personal Consumption Expenditures (CPE) Price Index; Non-Farm Payrolls (NFP) and Unemployment Rate; Federal Funds Target Rate; and Minutes of the Federal Open Market Committee Meeting.

<sup>13</sup> See Notice of Filing, 90 FR at 11764. Table 2 includes a list of indicators and corresponding thresholds required to trigger the special charge during the coverage period.

were exceeded during the coverage period. The results of the Impact Study demonstrated that the assessment of the special charge eliminated a number of backtesting deficiencies at both GSD and MBSD. Specifically, during start-of-day and noon margin cycles at GSD the number of backtesting deficiencies eliminated was reduced by approximately 7% and 10%, respectively, and by approximately 13% at MBSD.<sup>14</sup> FICC states that the results of the Impact Study highlighted the need to enhance its margin methodology and adopt a more proactive approach to manage its backtesting deficiencies and member-level market risk exposure during periods of extreme market volatility.<sup>15</sup>

## **II. DESCRIPTION OF THE PROPOSED RULE CHANGE**

FICC proposes to add a new margin component, the Volatility Event Charge, to its methodology for calculating GSD and MBSD members' margin. FICC designed the Volatility Event Charge to address the heightened market risks associated with scheduled economic events which can lead to significant market volatility.<sup>16</sup> This charge would provide a proactive mechanism to complement FICC's VaR model by helping to mitigate FICC's exposures to potential adverse market reactions arising from certain scheduled economic events.<sup>17</sup>

The Volatility Event Charge would be assessed for each member portfolio at GSD and MBSD, as well as for each Segregated Indirect Participant at GSD, during periods in which FICC's forward-looking market volatility indicators exceed predefined thresholds. The charge

---

<sup>14</sup> See Notice of Filing, 90 FR at 11764. Further, FICC states that in addition to backtesting deficiencies that were eliminated by the special charge, other deficiencies were also reduced but not eliminated altogether.

<sup>15</sup> See Notice of Filing, 90 FR at 11764.

<sup>16</sup> See Notice of Filing, 90 FR at 11765.

<sup>17</sup> See Notice of Filing, 90 FR at 11762.

would be assessed twice a day at GSD and once a day at MBSD<sup>18</sup> during the coverage period, generally beginning two business days prior to a scheduled event and extending through the event date. However, based on an assessment of market conditions and backtesting coverage, FICC may extend the coverage period by an additional business day if multiple market indicators exceed threshold levels, or reduce the coverage period if the scheduled event itself is not expected to materially impact market volatility. Any changes to the coverage periods would be documented and approved in accordance with FICC's internal market risk management policies.

The Volatility Event Charge would be calculated by multiplying the VaR Charge of the affected member's portfolio by no less than 10 percent and no greater than 30 percent, as determined by FICC from time to time based on various factors such as backtesting coverage and/or backtesting deficiencies. The initial multiplier would be set at 10 percent, based on FICC's prior experience with special charges imposed following the 2023 regional banking crisis.<sup>19</sup> The upper bound of 30 percent is informed by FICC's analysis of historical backtesting deficiencies under various stress events. FICC would conduct ongoing monitoring of the charge's efficacy, with at least monthly reviews to determine whether any adjustments are necessary to the list of scheduled events, volatility indicators, or applicable percentage multipliers.<sup>20</sup> Any modifications would be documented and approved by FICC's market risk group in accordance with its internal policies.<sup>21</sup>

---

<sup>18</sup> 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.

<sup>19</sup> *See* Notice of Filing, 90 at 11762.

<sup>20</sup> *See* Notice of Filing, 90 at 11762.

<sup>21</sup> *See* Notice of Filing, 90 at 11762. FICC states they will conduct ongoing monitoring of the efficacy of the charge and review results at least monthly to determine if changes to the list of scheduled events, forward-looking market volatility indicators and thresholds, and/or the applicable VaR Charge percentage. The

To ensure transparency, FICC would notify members of applicable scheduled events, forward-looking market volatility indicators, and associated charge parameters through a quarterly Important Notice. This notice would be issued no less than one business day before the start of the relevant quarter or the coverage period of the first scheduled event in that quarter, whichever is earlier.

In connection with adopting the Volatility Event Charge, FICC proposes amendments to the GSD and MBSD rules to formally define the charge, incorporate it into the calculation of the Required Fund Deposit and Segregated Customer Margin Requirement, and establish the parameters for its assessment and administration. FICC states that the adoption of the Volatility Event Charge and corresponding rule changes are intended to enhance FICC's ability to improve margin resilience during scheduled market events that may impact market volatility by proactively managing GSD and MBSD member-level credit risk exposure and backtesting performance.<sup>22</sup>

### **III. DISCUSSION AND COMMISSION FINDINGS**

Section 19(b)(2)(C) of the Act<sup>23</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the Proposed

---

market risk group would document the recommendation and rationale for such change and obtain approval from FICC's management committee.

<sup>22</sup> See Notice of Filing, 90 at 11764.

<sup>23</sup> 15 U.S.C. 78s(b)(2)(C).

Rule Changes are consistent with Section 17A(b)(3)(F)<sup>24</sup> of the Act and Rules 17ad-22(e)(4)(i) and (e)(6)(i) each promulgated under the Act.<sup>25</sup>

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

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as FICC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>26</sup> The Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As described above in Section II, FICC proposes to add the Volatility Event Charge to the margin requirements that FICC may collect. As discussed in more detail in Section III.B *infra*, by adding the Volatility Event Charge to FICC's margin methodology, the Proposed Rule Change would help ensure that FICC collects sufficient margin to manage member-level credit risk exposure and backtesting performance associated with certain scheduled economic events that may impact market volatility. By helping FICC to collect sufficient margin, the Proposed Rule Change would better ensure that, in the event of a member default, FICC's operation of its critical clearance and settlement services would not be disrupted because of insufficient financial resources. Accordingly, the Proposed Rule Change should help FICC to continue providing prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>27</sup>

---

<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>25</sup> 17 CFR 240.17ad-22(e)(4)(i) and (e)(6)(i).

<sup>26</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>27</sup> 15 U.S.C. 78q-1(b)(3)(F).

Moreover, as described above in Section II, FICC would access the mutualized Clearing Fund should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. Because FICC's proposal to adopt the Volatility Event Charge should help ensure that FICC has collected sufficient margin from members, the Proposed Rule Change should also help minimize the likelihood that FICC would have to access the Clearing Fund, thereby limiting non-defaulting members' exposure to mutualized losses. By helping to limit the exposure of FICC's non-defaulting members to mutualized losses, the Proposed Rule Change should help FICC assure the safeguarding of securities and funds which are in its custody or control, consistent with Section 17A(b)(3)(F) of the Act.<sup>28</sup>

For these reasons, the Proposed Rule Change is 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, consistent with Section 17A(b)(3)(F) of the Act.<sup>29</sup>

B. Consistency with Rule 17ad-22(e)(4)(i)

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.<sup>30</sup> The Proposed Rule Change is consistent with Rule 17Ad-

---

<sup>28</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>29</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>30</sup> 17 CFR 240.17Ad-22(e)(4)(i).

22(e)(4)(i) under the Act for the reasons stated below.

FICC's proposal to add the Volatility Event Charge to its margin methodology would enable FICC to better manage its credit exposures to members by maintaining sufficient resources to cover their credit exposures more fully with a high degree of confidence. Specifically, the proposed Volatility Event Charge would allow FICC to more effectively identify, measure, monitor, and manage GSD and MBSD member-level credit exposure during periods of market volatility during scheduled economic events. As discussed above in Section II, the Volatility Event Charge would be assessed proactively for each member portfolio at GSD and MBSD, as well as for each Segregated Indirect Participant at GSD, during coverage periods leading up to scheduled economic events in which FICC's forward-looking market volatility indicators exceed predefined thresholds. The Volatility Event Charge should help FICC mitigate such credit exposures and decrease backtesting deficiencies during those coverage periods.

The Commission has reviewed and analyzed the materials filed by FICC, including FICC's Impact Study and backtesting results,<sup>31</sup> which show the effect of a special charge assessed during the time period of the Impact Study designed to operate in the same way as the Volatility Event Charge. The Impact Study shows that this special charge reduced the number of backtesting deficiencies, as well as decreasing the magnitude of persistent backtesting deficiencies, and thereby better enabled FICC to collect margin sufficient to meet its coverage requirements. Accordingly, for the reasons discussed above, the Proposed Rule Change is reasonably designed to better enable FICC to effectively identify, measure, monitor, and manage its credit exposure to members, and those arising from its payment, clearing, and settlement

---

<sup>31</sup> See *supra* note 11.

processes, including by maintaining sufficient financial resources to cover its credit exposure to each member fully with a high degree of confidence consistent with Rule 17Ad-22(e)(4)(i).<sup>32</sup>

C. Consistency with Rule 17ad-22(e)(6)(i)

Rule 17Ad-22(e)(6)(i) under the Act requires that each covered clearing agency that provides central counterparty services, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.<sup>33</sup> The Proposed Rule Change is consistent with Rule 17Ad-22(e)(6)(i) under the Act for the reason stated below.

FICC's proposal to add the Volatility Event Charge to its margin methodology would enable FICC to more effectively address the risks posed to FICC by certain scheduled economic events that have the potential to lead to significant market volatility. As noted above, FICC provided an Impact Study regarding the impacts of a special charge on each GSD and MBSD members in the amount of 10% of the member's VaR Charge during the coverage periods leading up to scheduled economic events when certain forward-looking market indicators exceeded predefined thresholds that had been in place from April 15, 2024 to August 2, 2024.<sup>34</sup> Specifically, the Impact Study shows that the special charge reduced the number of backtesting deficiencies at GSD by approximately 7% and 10% for the start-of-day and noon margin cycles, respectively, and reduced the number of backtesting deficiencies at MBSD by approximately

---

<sup>32</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>33</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>34</sup> *See supra* note 11.

13%.<sup>35</sup> 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. By adding the Volatility Event Charge to FICC's margin methodology, FICC would more effectively mitigate the risks attributable to potential outsized and adverse market reactions to the outcome of a scheduled economic event. As a result, implementing the Proposed Rule Change should better enable FICC to collect margin amounts at levels commensurate with FICC's credit exposures to its members.

Accordingly, the Proposed Rule Change is consistent with Rule 17Ad-22(e)(6)(i) under the Act because it is designed to assist FICC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks of portfolios that experience significant market volatility because of certain scheduled economic events.<sup>36</sup>

---

<sup>35</sup> *See id.*

<sup>36</sup> 17 CFR 240.17Ad-22(e)(6)(i).

#### **IV. CONCLUSION**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>37</sup> and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act<sup>38</sup> that proposed rule change SR-FICC-2025-003, be, and hereby is, APPROVED.<sup>39</sup>

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

**Sherry R. Haywood,**

*Assistant Secretary.*

---

<sup>37</sup> 15 U.S.C. 78q-1.

<sup>38</sup> 15 U.S.C. 78s(b)(2).

<sup>39</sup> In approving the Proposed Rule Changes, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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