SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104116; File No. SR-FICC-2025-018]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Add Basis Risk Haircut Charge to Certain Models

September 29, 2025.

I. INTRODUCTION

On August 15, 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")[1] and Rule 19b-4 thereunder,[2] proposed rule change SR-FICC-2025-018 ("Proposed Rule Change")[3] to make changes to the GSD Methodology Document – GSD Initial Market Risk Margin Model ("QRM Methodology Document")[4] in order to incorporate the mortgage-backed securities ("MBS") pool/to-be-announced ("TBA") basis risk haircut charge into certain GSD margin models. The Proposed Rule Change was published for comment in the *Federal Register* on August 29, 2025.[5] The Commission has received no comments on the proposed rule change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

---

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

2 17 CFR 240.19b-4.

3 Capitalized terms not defined herein are defined in FICC's Government Securities Division ("GSD") Rulebook ("Rules"), *available at* www.dtcc.com/legal/rules-and-procedures.

4 As part of the Proposed Rule Change, FICC filed, as Exhibit 5, changes proposed to the QRM Methodology Document. Pursuant to 17 CFR 240.24b-2, FICC requested confidential treatment of Exhibit 5.

5 *See* Securities Exchange Act Release No. 103780 (Aug. 15, 2025), 90 FR 42284 (Aug. 29, 2025) (File No. SR-FICC-2025-018) ("Notice of Filing").

II. BACKGROUND

FICC is a central counterparty ("CCP"), which means it interposes itself as the buyer to every seller and seller to every buyer for the financial transactions it clears. FICC's GSD provides trade comparison, netting, risk management, settlement, and central counterparty services for the U.S. Government securities market.[6] 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 members' margin constitutes the Clearing Fund, 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.

FICC's Rules refer to margin in two ways, depending on the types of members and accounts involved. First, the Required Fund Deposit is the sum of each member's proprietary accounts and its indirect participant accounts not designated as Segregated Indirect Participant Accounts.[7] Second, the Segregated Customer Margin Requirement is the sum of the member's Sponsoring Member Omnibus Accounts and Agent Clearing Member Omnibus Accounts designated as Segregated Indirect Participant Accounts.[8]

---

6 FICC's Mortgage-Backed Securities Division provides similar services for mortgage-backed securities. For purposes of this Order, "FICC" refers to GSD.

7 *See* GSD Rule 4 (Clearing Fund and Loss Allocation), *supra* note 3.

8 *Id.*

Both the Required Fund Deposit and Segregated Customer Margin Requirement consist of several components, each of which is calculated to address specific risks faced by FICC arising out of its members' trading activity.[9] For both, the components include, among others, a VaR charge ("VaR Charge") designed to capture the potential market price risk associated with the securities in a member's portfolio.[10]

a. Sensitivity-based VaR Methodology and Other Margin Methodologies

The VaR Charge uses a sensitivity-based VaR methodology and is based on the potential price volatility of unsettled positions in a member's portfolio. It is designed to project the potential losses that could occur in connection with the liquidation of a defaulting member's portfolio, assuming the portfolio would take three days to liquidate in normal market conditions and uses three inputs: (1) confidence level, (2) a time horizon and (3) historical market volatility.[11] The projected liquidation gains or losses are used to determine the amount of the VaR Charge for each portfolio, which is calculated to capture the market price risk associated with each portfolio at a 99 percent confidence level.

Occasionally, a member's portfolio might contain classes of securities that reflect market price changes that are not consistently related to historical price moves. The value of such securities is often uncertain because the securities' market volume varies widely. Because the volume and price information for such securities are not robust, a historical simulation approach would not generate VaR Charge amounts that adequately reflect the

---

9 *See* GSD Rule Book, Margin Component Schedule, Sections 2 and 5, *supra* note 3.

10 *Id.*

11 FICC uses historical simulations to estimate the impact of market volatilities on the Member's portfolio. *See* Notice of Filing, *supra* note 5, 90 FR at 42285.

risk profile of such securities. For securities lacking sufficient data to employ the sensitivity-based VaR approach, a haircut method is applied.[12]

VaR Charges (i.e., the sum of the sensitivity-based VaR and any haircuts applied in lieu thereof) are subject to FICC's Minimum Margin Amount ("MMA") model,[13] which is designed to address the risk that the VaR model may calculate a VaR Charge that is too low when current market conditions significantly deviate from historical observations.[14] In addition, because the sensitivity-based VaR methodology relies on sensitivity data and historical risk factor time series data generated by an external vendor, FICC can utilize Margin Proxy as a back-up VaR Charge calculation in the event that FICC experiences a data disruption with its third-party vendor. [15]

b. *MBS Pool/TBA Basis Risk Haircut Charge*

---

12 *See* GSD Rule 1 (Definitions –VaR Charge) *supra* note 3; *See also* Securities Exchange Act Release No. 83362 (June 1, 2018), 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001). Specifically, FICC calculates the VaR Floor by multiplying the absolute value of the sum of the portfolio's net long positions and net short positions, grouped by product and remaining maturity, by a percentage designated by FICC for such group. For U.S. Treasury and agency securities, such percentage shall be a fraction, no less than 10 percent, of the historical minimum volatility of a benchmark fixed income index for such group by product and remaining maturity. For mortgage-backed securities, such percentage shall be a fixed percentage that is no less than 0.05 percent.

13 The MMA model calculates MMA, which is designed to supplement the sensitivity-based VaR methodology model and improve its responsiveness and resilience to extreme market volatility. *See* GSD Margin Component Schedule (definition of MMA), *supra* note 3.

14 *See* Notice of Filing, *supra* note 5, 90 FR at 42285.

15 *See id.* The Margin Proxy model calculates Margin Proxy, which is designed as an alternative volatility calculation in the event that the requisite vendor data used for the VaR model is unavailable for an extended period of time. *See* GSD Margin Component Schedule (definition of "Margin Proxy"), *supra* note 3; Securities Exchange Act Release Nos. 80341 (March 30, 2017), 82 FR 16644 (April 5, 2017) (SR-FICC-2017-801); Securities Exchange Act Release No. 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801).

The QRM Methodology Document provides the methodology by which FICC calculates the VaR Charge, MMA, and Margin Proxy.[16] The QRM Methodology Document includes specific model inputs, parameters, assumptions, and other information.

Under the sensitivity-based VaR methodology, each MBS pool position is mapped to a corresponding TBA position.[17] FICC then uses the risk analytics for the TBA as a proxy for estimating the MBS pool position's risk exposure analytics.[18] To account for the differences in returns between an MBS pool position and the corresponding TBA, FICC applies a basis risk adjustment (i.e., the MBS pool/TBA basis risk haircut charge).

For any MBS pool position that cannot be mapped to a TBA,[19] FICC applies a haircut to the MBS pool position (i.e., MBS haircut model). Unlike the sensitivity-based VaR methodology, the MBS haircut model does not incorporate differences in returns between an MBS pool position and the TBA (i.e., it does not reflect the MBS pool/TBA basis spread risk). FICC is proposing changes to incorporate the MBS pool/TBA basis risk haircut charge into the MBS haircut model.

III. DESCRIPTION OF THE PROPOSED RULE CHANGE

---

16 *See* QRM Methodology Document. *supra* note 3.

17 The vast majority of agency MBS trading occurs in a forward market, on a "to-be announced" or "TBA" basis. In a TBA trade, the seller agrees on a sale price, but does not specify which particular securities will be delivered to the buyer on settlement day. Instead, only a few basic characteristics of the securities are agreed upon, such as the MBS program, maturity, coupon rate, and the face value of the bonds to be delivered.

18 *See* Notice of Filing, *supra* note 5, 90 FR at 42285.

19 The majority of fixed-rate mortgage ("FRM") pools can be mapped to TBAs; however, all adjustable-rate mortgage ("ARM") pools and a small portion of the FRM pools cannot be mapped to TBAs.

FICC is proposing to amend the QRM Methodology Document to incorporate the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model. FICC is also proposing certain technical and clarification changes to the QRM Methodology Document.

First, FICC is proposing to add new language in several subsections of the QRM Methodology Document to reflect the addition of the MBS pool/TBA basis risk haircut charge to the MBS haircut model, MMA model, and Margin Proxy model. Specifically, FICC would amend the subsection of the QRM Methodology Document that describes risk between MBS pools and TBA by adding two new paragraphs that reflect that the basis risk charge would be included in haircut charges calculated for (1) MBS haircut model with respect to MBS pools that cannot be mapped to a TBA and (2) Margin Proxy model with respect to all MBS pools. Additionally, FICC is proposing to amend the subsection of the QRM Methodology Document that describes the program of money-ness[20] of a pool by adding a new paragraph regarding the applicable basis haircut charge for ARM pools. FICC is also proposing to amend the subsection of the QRM Methodology Document that describes the basis risk calculation for Margin Proxy by adding a new paragraph to note certain similarities and potential differences between the basis risk charge calculation for Margin Proxy model as compared to the other models.

---

20 The changes of spread are parameterized according to the difference between the underlying weighted average coupon and the current prevailing mortgage rate. This difference is also referred to as the "moneyness." *See* Securities Exchange Act Release No. 88266 (Feb. 24, 2020), 85 FR 11413, 11414 (Feb. 27, 2020) (SR-FICC-2020-801).

Second, FICC is proposing to make changes to a table in the MMA section of the QRM Methodology Document to reflect the addition of the MBS pool/TBA basis risk haircut charge in the MMA calculation for MBS pool positions.

Third, FICC is proposing to make changes to update a formula in the Margin Proxy section of the QRM Methodology Document to incorporate the MBS pool/TBA basis risk haircut charge.

Finally, FICC is proposing certain clarifying and technical changes to the QRM Methodology Document. Specifically, FICC would clarify that the application of the MBS pool/TBA basis risk haircut charge would not be limited to mapped MBS pool positions in the subsection of the QRM Methodology Document that describes market risks associated with products cleared by GSD. Additionally, FICC would clarify that that the applicability of the money-ness formula would not be limited to mapped MBS pool positions in the subsection of the QRM Methodology Document that describes the program and money-ness of a pool. FICC is also proposing a technical change to replace an outdated section reference in the list of key parameters section and correct a typographical error in the haircut formula for unmapped MBS pools in the haircut methodology section of the QRM Methodology Document.

As part of the Proposed Rule Change, FICC filed an impact study on the effects the Proposed Rule Change would have had on their members' VaR Charges and margin portfolios if it had been in place during the period beginning April 1, 2024 through March 31, 2025 ("Impact Study").[21] Specifically, the Impact Study found that that the

[21] FICC has requested confidential treatment of Exhibit 3, the Impact Study, pursuant to 17 CFR 240.24b-2.

aggregated average daily start-of-day ("SOD") VaR Charges would have increased by approximately $56.31 million or 0.12%.[22] The Impact Study indicated that the VaR model backtesting coverage would have remained unchanged at approximately 99.72% while the number of VaR model backtesting deficiencies would also have remained unchanged at 115. As for the impacts on members' margin portfolios, the Impact Study found that the Proposed Rule Change would have increased the SOD VaR Charge by approximately $0.27 million, or 0.31%, with the largest average percentage increase for any member's margin portfolio of approximately 35.15%, or $0.34 million. The largest average dollar increase in SOD VaR Charges for any member margin portfolio would have been $8.3 million, or 0.19%.

Additionally, the Impact Study also examined the effects the Proposed Rule Change would have had on their members' VaR Charges and margin portfolios if Margin Proxy were deployed during the covered time period.[23] Specifically, the Impact Study found that that the aggregated average daily SOD VaR Charges would have increased by approximately $2.13 billion or 4.94%.[24] The Impact Study indicated that the VaR model backtesting coverage would have increased from approximately 99.68% to 99.71% and backtesting deficiencies would have been reduced from 130 to 119, or approximately 8.5%. As for the impacts on members' margin portfolios if Margin Proxy had been deployed, the Impact Study found that the Proposed Rule Change would have increased the SOD VaR Charge by approximately $10.32 million, or 4.04%, with the largest

---

22 *See* Notice of Filing, *supra* note 5, 90 FR at 42286.

23 Margin Proxy was not actually deployed during the time period of the Impact Study. *See id*.

24 *See id*.

average percentage increase for any member's margin portfolio of approximately 110.5%, or $175.30 million. The largest average dollar increase in SOD VaR Charge for any member margin portfolio would have been $187.17 million, or 14.97%.

IV. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act[25] 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 Exchange Act and the 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 Exchange Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act,[26] and Rules 17Ad-22(e)(4)(i) and (e)(6)(ii)[27] thereunder, as described in detail below.

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

Section 17A(b)(3)(F) of the Act, requires the rules of a clearing agency to 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.[28] The Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons discussed below.

---

25 15 U.S.C. 78s(b)(2)(C).

26 15 U.S.C. 78q-1(b)(3)(F).

27 17 CFR 240.17ad-22(e)(4)(i); 17 CFR 240.17ad-22(e)(6)(i).

28 15 U.S.C. 78q-1(b)(3)(F).

As described above in Section III, FICC proposes to amend the QRM Methodology Document to incorporate the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model, along with other clarifying and technical changes. As discussed above in more detail in Section III.B, by incorporating the MBS pool/TBA basis risk haircut charge into these models, the Proposed Rule Change should help ensure that FICC collects sufficient margin to manage member-level credit risk exposure and backtesting performance associated with MBS pool/TBA basis spread risk from MBS pool positions in member portfolios. By helping FICC to collect sufficient margin, the Proposed Rule Change should 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.[29]

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 incorporate the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model 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

---

[29] 15 U.S.C. 78q-1(b)(3)(F).

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.[30]

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.[31]

B. Rule 17Ad-22(e)(4)(i)

Rule 17ad-22(e)(4)(i) under the Act requires that a covered clearing agency, like 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 by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[32] The Proposed Rule Change is consistent with Rule 17Ad-22(e)(4)(i) under the Act for the reasons stated below.

FICC's proposal to incorporate the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model should 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. The Commission has reviewed and analyzed the materials filed by FICC, including FICC's

---

30 15 U.S.C. 78q-1(b)(3)(F).

31 15 U.S.C. 78q-1(b)(3)(F).

32 17 CFR 240.17ad-22(e)(4)(i).

Impact Study and backtesting results,[33] which show the effects of incorporating the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model during the time period of the Impact Study. Specfcially, the Impact Study shows that this charge would have increased the aggregated average SOD VaR Charges and increased member margin portfolio levels, on average, during the coverage period. Additionally, if Margin Proxy would have been deployed during this coverage period, the Impact Study shows this charge would have also increased aggregated average daily SOD VaR Charges and increased member margin portfolio levels, on average. The Impact Study also shows that VaR model backtesting coverage would have increased and VaR model backtesting deficiencies would have been reduced during the covered period if Margin Proxy had been deployed. By incorporating the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model, FICC should be able to more effectively identify, measure, monitor, and manage the risk posed to GSD members' VaR Charges and margin portfolios due to exposure to MBS pool positions. 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 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).[34]

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

---

[33] *See supra* note 21.

[34] 17 CFR 240.17Ad-22(e)(4)(i).

Rule 17ad-22(e)(6)(i) under the Act requires that a 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.[35] 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 incorporate the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model should enable FICC to more effectively address the risks posed by the risk exposure to certain MBS pool positions in members' portfolios. As discussed above in Section II, FICC applies a haircut to any MBS pool position that cannot be mapped to a TBA. However, unlike the sensitivity-based VaR methodology, the MBS haircut model currently does not incorporate differences in returns between an MBS pool position and the TBA. The Impact Study reviewed and analyzed by the Commission shows the effects of incorporating the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model during the time period of the Impact Study.[36]

Specifcially, the Impact Study shows that this charge would have increased the aggregated average SOD VaR Charges and increased member margin portfolio levels, on average, during the coverage period. Additionally, if Margin Proxy would have been deployed during this coverage period, the Impact Study shows this charge would have

---

[35] 17 CFR 240.17ad-22(e)(6)(i).

[36] *See supra* note 21.

also increased aggregated average daily SOD VaR Charges and increased member margin portfolio levels, on average. The Impact Study also shows that VaR model backtesting coverage would have increased and VaR model backtesting deficiencies would have been reduced during the covered period if Margin Proxy had been deployed.

Incorporating the MBS pool/TBA basis risk haircut charge into the MBS haircut model, MMA model, and Margin Proxy model should help FICC better cover its credit exposures to its participants and produce margin levels commensurate with, the risks and particular attributes of each MBS pool position. 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 credit exposures to certain MBS pool positions in members' portfolios.[37]

---

[37] 17 CFR 240.17Ad-22(e)(6)(i).

V. 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[38] and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[39] that proposed rule change SR-FICC-2025-018, be, and hereby is, APPROVED.[40]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[41]

Sherry R. Haywood,

Assistant Secretary.

---

38 15 U.S.C. 78q-1.

39 15 U.S.C. 78s(b)(2).

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

41 17 CFR 200.30-3(a)(12).