

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104374; File No. SR-FICC-2025-019]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change, as Modified by Partial Amendment No. 1, to Establish a New Collateral-in-Lieu Offering Within the Sponsored GC Service, and Expand the Sponsored GC Service to Allow a Sponsoring Member to Submit for Clearing a “Done-Away” Sponsored GC Trade

December 12, 2025.

On August 29, 2025, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-FICC-2025-019 pursuant to Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”)¹ and Rule 19b-4² thereunder to modify FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”)³ to incorporate rules to establish a new Collateral-in-Lieu offering within the Sponsored GC Service, and expand the Sponsored GC Service to allow a Sponsoring Member to submit for clearing a “done-away” Sponsored GC Trade. The proposed rule change was published for public comment in the *Federal Register* on September 15, 2025.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The GSD Rules are *available at* https://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf. Terms not otherwise defined herein are defined in the GSD Rules or in the proposed rule change.

⁴ See Exchange Act Release No. 103940 (Sept. 10, 2025), 90 FR 44408 (Sept. 15, 2025) (File No. SR-FICC-2025-019) (“Notice of Filing”).

On September 26, 2025, pursuant to Section 19(b)(2) of the Exchange Act,⁵ the Commission designated a longer period within which to approve, disapprove, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁶

On September 29, 2025, FICC filed Partial Amendment No. 1 to the proposed rule change⁷ to make conforming changes to GSD Rule 3A liquidation provisions for consistency with a separate pending proposed rule change that FICC amended after the Notice of Filing.⁸ The Proposed Rule Change was published for public comment in the *Federal Register* on November 20, 2025.⁹

The Commission has received no comments regarding the substance of the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

I. DESCRIPTION OF THE PROPOSED RULE CHANGE

A. Background

⁵ 15 U.S.C. 78s(b)(2).

⁶ Securities Exchange Act Release No. 104085 (Sept. 26, 2025), 90 FR 46981 (Sept. 30, 2025) (File No. SR-FICC-2025-019).

⁷ Text of the proposed changes made by the Partial Amendment No. 1 to the proposed rule change is *available at* <https://www.sec.gov/comments/sr-ficc-2025-019/srficc2025019-664907-1986975.pdf>. The proposed rule change, as modified by Partial Amendment No. 1, is hereinafter referred to as the “Proposed Rule Change.”

⁸ Specifically, FICC amended proposed rule change SR-FICC-2025-015 to include express language regarding the ability of a Sponsoring Member or FICC to liquidate an indirect participant’s done-away positions and to describe two ways that a Sponsoring Member may liquidate done-away transactions pursuant to FICC’s default management rules. *See* Securities Exchange Act Release No. 104001 (Sept. 18, 2025), 90 FR 45850 (Sept. 23, 2025) (File No. SR-FICC-2025-015). *See also* Securities Exchange Act Release No. 103282 (June 17, 2025), 90 FR 26656 (June 23, 2025) (File No. SR-FICC-2025-015).

⁹ Securities Exchange Act Release No. 104193 (November 17, 2025), 90 FR 52466 (Nov. 20, 2025) (File No. SR-FICC-2025-019).

FICC, through GSD, serves as a central counterparty (“CCP”) and provides real-time trade matching, clearing, risk management and netting for cash purchases and sales and repurchase and reverse repurchase transactions (“repos”) involving U.S. Treasury securities. Market participants that are not direct members of FICC may access FICC’s clearing services indirectly through a FICC direct member (*i.e.*, Netting Member). Through the Sponsored Service, one of FICC’s indirect participation offerings, FICC permits Netting Members, approved under the GSD Rules as “Sponsoring Members,” to sponsor certain firms, referred to as “Sponsored Members,” into a limited form of GSD membership.¹⁰ A Sponsoring Member is permitted to submit to FICC, for comparison, novation, and netting, certain eligible securities transactions of its Sponsored Members. FICC requires each Sponsoring Member to establish an omnibus account at FICC (separate from its regular netting account) for Sponsored Member trading activity. For operational and administrative purposes, a Sponsored Member appoints its Sponsoring Member to act as processing agent with respect to the Sponsored Member’s satisfaction of its securities and funds-only settlement obligations.¹¹

A Sponsored Member is the legal counterparty to FICC for any submitted transactions.¹² However, the Sponsoring Member unconditionally guarantees to FICC the Sponsored Member’s performance under a Sponsoring Member Guaranty, which guarantees to FICC the payment and performance of a Sponsored Member’s obligations

¹⁰ See Rule 3A, *supra* note 3.

¹¹ See GSD Rule 3A, *supra* note 3. An entity that chooses to become a Sponsoring Member retains its status as a Netting Member and can continue to submit any non-Sponsored Member activity to FICC as such.

¹² See GSD Rule 3A, section 7 (describing novation of Sponsored Member Trades) and section 2 (identifying membership types), *supra* note 3.

to FICC.¹³ Therefore, FICC relies on the financial resources of the Sponsoring Member as guarantor.

General collateral¹⁴ triparty repos between Sponsoring Members and Sponsored Members (*i.e.*, “done-with” trades) are eligible for clearing under FICC’s Sponsored GC Service within FICC’s Sponsored Service (“Sponsored GC Trades”).¹⁵ After the Start Leg settles away from FICC, the End Leg, or the concluding Sponsored GC Trade (*i.e.*, the “repurchase”), is novated to FICC and is eligible for netting against all other eligible trades of the GSD Member.¹⁶ FICC states that, to protect against the non-performance of the End Leg, certain cash lenders, such as registered investment companies (“RICs”), generally charge cash borrowers a haircut as additional collateral above 100% of the cash value lent at settlement of the Start Leg (hereinafter “collateral haircut”).¹⁷ Currently, this

¹³ See GSD Rule 3A, section 2 (describing the operation of the Sponsoring Member Guaranty) and GSD Rule 1 (defining the Sponsoring Member Guaranty), *supra* note 3.

¹⁴ General collateral, or GC, refers to a set of high-quality, liquid security issues, which trade in the repo market at the same or a very similar repo rate. These security issues can therefore be substituted for one another without changing the repo rate. In other words, the buyer in a general collateral repo is indifferent to which of the general collateral securities she will receive. The basket of security issues that form a particular general collateral repo market belong to the same class (e.g., government bonds) or sub-class (e.g., government bonds with no more than five years remaining to maturity). See International Capital Market Association, [FAQ] 8. *What is General Collateral (GC)?*, ICMA ERCC Publications (Jan. 2019), available at <https://www.icmagroup.org/market-practice-and-regulatory-policy/repo-and-collateral-markets/icma-erccpublications/frequently-asked-questions-on-repo/8-what-is-general-collateral-gc>.

¹⁵ See GSD Rule 3A, *supra* note 3. The Start Leg, or the initial trade of the general collateral triparty repo, is not centrally cleared and is settled on a trade-for-trade basis on the triparty repo platform of a Sponsored GC Clearing Agent Bank. BNY currently operates the tri-party platform that facilitates trades conducted through the Sponsored GC Service.

¹⁶ See GSD Rule 3A, *supra* note 3. Sponsored GC Trades are settled on the triparty repo platform of a Sponsored GC Clearing Agent Bank.

¹⁷ FICC states the haircut amount typically is set at 102%, although this amount may vary based on the commercial terms agreed upon by the counterparties involved. See Notice of Filing, *supra* note 4, at 44413.

haircut is charged away from FICC and is distinct from FICC's margin charge.¹⁸

Furthermore, FICC charges margin (*i.e.*, the member's Clearing Fund Requirement) on all trades, including any Sponsored GC Trades, novated to FICC.

FICC states that certain market participants have identified a number of constraints on the ability of RICs and other cash providers to access FICC's clearance and settlement services.¹⁹ First, Sponsoring Members, who are either borrowing cash or intermediating the trade on behalf of a cash borrower on a done-with basis, currently are charged a collateral haircut by the RIC or other cash provider, away from FICC.²⁰ Because that collateral haircut cannot be on-posted to FICC, Sponsoring Members must also pay margin to FICC in relation to the cash provider's obligations under the Sponsored GC Trade.²¹ Second, FICC states Sponsoring Members face regulatory capital requirements associated with providing the Sponsoring Member Guaranty on behalf of the RICs and other cash providers it sponsors into FICC membership, which may limit Sponsoring Members' ability to provide clearing services for these trades on either a done-with or done-away basis.²² Third, FICC understands certain RICs and other cash providers may face operational constraints on making or receiving Funds-Only Settlement Amount payments twice daily; therefore, it is common practice for the

¹⁸ See Notice of Filing, *supra* note 4, at 44411.

¹⁹ See Notice of Filing, *supra* note 4, at 44421.

²⁰ See Letter from Ken Bentsen, President & CEO, SIFMA, et al. to Mark Uyeda, Jan. 24, 2025, in Release No. 34-95763, File No. S7-23-22, at 2, *available at* <https://www.sifma.org/wp-content/uploads/2025/01/SIFMA-Extension-Request-USTreasury-Clearing-Mandate-FINAL-Clean.pdf> (describing "SEC-registered fund rules that effectively require double margining for cleared repos" as a critical issue that needs to be resolved in advance of the compliance date of the Commission's Treasury Clearing Rule).

²¹ See *id.*

²² See Notice of Filing, *supra* note 4, at 44421.

Sponsoring Member to agree to pay the amounts due on behalf of the Sponsored Member.²³ Fourth, there are timing constraints around allocations that limit a Sponsoring Member’s ability to submit to FICC triparty repo transactions entered into through joint trading accounts, as detailed below.²⁴ Additionally, market participants have expressed interest in being able to clear “done-away” Sponsored GC Trades between the Sponsored Member and either a Netting Member other than the Sponsoring Member or another Indirect Participant of any Netting Member.²⁵

B. Proposed Changes²⁶

FICC proposes two sets of changes to address these issues. First, FICC proposes to expand its Sponsored Service to add a new Collateral-in-Lieu offering to its Sponsored GC Service, in which FICC will take a lien on the collateral in lieu of charging margin.

²³ *See id.*

²⁴ *See* Notice of Filing, *supra* note 4, at 44417.

²⁵ *See, e.g.*, Letter from Joanna Mallers, Secretary, FIA Principal Traders Group to Vanessa Countryman, Apr. 17, 2024, in Release No. 34–99844, File No. SR–FICC–2024–007, at 3, available at <https://www.sec.gov/comments/sr-ficc-2024-007/srficc2024007-459391-1190934.pdf> (emphasizing the negative consequences of a lack of “done-away” clearing); Letter from Jennifer Han, Executive Vice President, Chief Counsel and Head of Global Regulatory Affairs, Managed Funds Association to Vanessa Countryman, Apr. 17, 2024, in Release No. 34–99844, File No. SR–FICC–2024–007, at 5, available at <https://www.sec.gov/comments/sr-ficc-2024-007/srficc2024007-461691-1208034.pdf> (emphasizing that indirect participants require a robust “done-away” clearing market); Letter from Jiri Krol, Deputy CEO, Global Head of Government Affairs, Alternative Investment Management Association to Vanessa Countryman, Apr. 23, 2024, in Release No. 34–99844, File No. SR–FICC–2024–007, at 4, available at <https://www.sec.gov/comments/sr-ficc-2024-007/srficc2024007-462091-1209374.pdf> (noting that indirect participants need done-away clearing to access clearing and settlement services); Letter from William Thum, Managing Director and Assistant General Counsel, SIFMA Asset Management Group to Vanessa Countryman, May 24, 2024, in Release No. 34–99844, File No. SR–FICC–2024–007, at 5, available at <https://www.sec.gov/comments/sr-ficc-2024-007/srficc2024007-477851-1366734.pdf> (noting that FICC must facilitate “done-away” trading in a manner that fulfills the Access Requirement).

²⁶ For a detailed description of each proposed change, please refer generally to the Notice of Filing, *supra* note 4.

The lien on collateral generally will obviate FICC’s need to collect margin or the Funds Only Settlement Amount payments and to obtain the Sponsoring Member Guaranty on these trades.²⁷ Second, FICC proposes to allow a Sponsoring Member to submit for clearance and settlement a “done-away” Sponsored GC Trade. As discussed further below, the purpose of this expansion is to facilitate access to central clearing for market participants, particularly RICs including money market funds and other cash providers.²⁸

1. Expand the Sponsored GC Service for a New Collateral-in-Lieu Offering (“CIL Service”)

CIL Service Offering

Under the proposed CIL Service, a Sponsoring Member would be eligible to submit to FICC for clearance and settlement a GC triparty repo (“Sponsored GC CIL Trade”) entered into by its Sponsored Member as cash provider (“CIL Funds Lender”).²⁹ FICC proposes that Sponsored GC CIL Trades would be recorded in a new type of Indirect Participants Account, called a “Sponsored GC CIL Omnibus Account.” FICC states the reason for the separate Sponsored GC CIL Omnibus Account is that the margin requirements for Sponsored GC CIL Trades would be calculated differently from those for general Sponsored Member Trades.³⁰ In addition, since one of the principal purposes

²⁷ See Notice of Filing, *supra* note 4, at 44410.

²⁸ See *id.*

²⁹ FICC states that by proposing the CIL Service under its existing Sponsored GC Service, it would leverage much of the legal and operational framework applicable to the existing Sponsored GC Service, including the process for trade submission, the use of Generic CUSIP Numbers, and the process for settling the transactions through the triparty platform of the Sponsored GC Clearing Agent Bank. See Notice of Filing, *supra* note 4, at 44409.

³⁰ See *id.* at 44411.

of the CIL Service is to address the inability of CIL Funds Lenders to post margin, and the margin for Segregated Indirect Participants Accounts must generally consist of Indirect Participant assets, the Rules would not permit a Sponsored GC CIL Omnibus Account to be a Segregated Indirect Participants Account.³¹

Risk Management Under New CIL Service

FICC proposes to require each CIL Funds Lender to collect a haircut and to grant FICC a lien on the Purchased GC Repo Securities subject to the Sponsored GC CIL Trade. FICC states that the purpose of the lien would be to allow FICC to acquire the Purchased GC Repo Securities and use them to settle with the GC Funds Borrower in the event FICC ceases to act for the CIL Funds Lender or its Sponsoring Member.³² FICC proposes to amend the Rules to provide that if FICC ceases to act for a CIL Funds Lender, FICC may, in lieu of closing out the Sponsored GC CIL Trades (or a portion of any such trades), exercise its right as a secured party in relation to the Purchased GC Repo Securities and instruct the Sponsored GC Clearing Agent Bank to remove such Purchased GC Repo Securities from the account of such CIL Funds Lender.

Once FICC ceases to act for a CIL Funds Lender, FICC would only be permitted, under the GSD Rules, to instruct the Sponsored GC Clearing Agent Bank to remove the Purchased GC Repo Securities from the account of the CIL Funds Lender in two scenarios. First, FICC would be able to remove such securities if such removal is against cash in an amount equal to the amount payable to the CIL Funds Lender (*i.e.*, against the repurchase price due back to the CIL Funds Lender in final settlement of the Sponsored

³¹ See *id.* at 44411-12.

³² See *id.* at 44412.

GC CIL Trade). Second, FICC would be able to remove the amount of Purchased GC Repo Securities necessary to satisfy the CIL Funds Lender's obligation to return excess Purchased GC Repo Securities³³ or to return Purchased GC Repo Securities for which the GC Funds Borrower has exercised its right to make a substitution.³⁴

To ensure that the Sponsored GC Clearing Agent Bank acts on such instructions and to perfect FICC's security interest in the Purchased GC Repo Securities, the CIL Custodial Agreement Supplement would contain an agreement by the Sponsored GC Clearing Agent Bank to comply with FICC's instructions except following delivery by the CIL Funds Lender to the Sponsored GC Clearing Agent Bank of a notice of a Corporation Default (a "GC CIL Notice of Default").³⁵ FICC states the reason the Sponsored GC Clearing Agent Bank would agree not to act on FICC's instructions following the delivery by the CIL Funds Lender of a CIL GC Notice of Default is to ensure that, the CIL Funds Lender would be able to exercise remedies against the

³³ FICC states that this instruction right is consistent with the Sponsored GC Service in which the cash borrower is generally entitled to the return of excess margin. Such excess would generally arise due to an increase in the market value of the Purchased GC Repo Securities since the Sponsored GC CIL Trade was executed. *See* Notice of Filing, *supra* note 4, at 44412.

³⁴ The GC Funds Borrower would be entitled to effectuate, and a CIL Funds Lender would be required to process, a substitution for some or all of the Purchased GC Repo Securities of the same Generic CUSIP Number.

³⁵ The lien would be documented in a "CIL Custodial Agreement Supplement" between a Sponsored GC Clearing Agent Bank, a CIL Funds Lender, FICC, and the GC Funds Borrower. The Rules would require that each CIL Custodial Agreement Supplement include, at a minimum, the terms set forth in the Rules and no terms inconsistent with such terms. The CIL Custodial Agreement Supplement would supplement the existing custodial undertaking or similar agreement ("Custody Agreement") governing the account in which the Sponsored GC Clearing Agent Bank maintains the Purchased GC Repo Securities for the CIL Funds Lender ("Buyer's GC CIL Trade Account"). *See* Notice of Filing, *supra* note 4, at 44412.

Purchased GC Repo Securities promptly upon a Corporation Default without potential competing instructions from FICC.³⁶

FICC states that the lien on the Purchased GC Repo Securities generally will obviate FICC's need to collect margin or the Funds Only Settlement Amount payments and to obtain the Sponsoring Member Guaranty on these trades.³⁷ In the context of a reverse repurchase transaction ("reverse repo"), FICC collects margin to ensure that it has sufficient resources in the event it ceases to act for the reverse repo buyer or its Sponsoring Member, to purchase the relevant securities and deliver them to the non-defaulting pre-Novation counterparty.³⁸ However, if FICC can acquire the securities without taking market action by virtue of a lien on such securities, FICC states that it would not need margin to secure the CIL Funds Lender's obligations because FICC would generally be able to settle with the GC Funds Borrower and CIL Funds Lender even if FICC ceased to act for the CIL Funds Lender's Sponsoring Member.³⁹

FICC states that, nonetheless, certain limited circumstances could prevent FICC from effectuating such settlement, namely, if the GC Funds Borrower on the Sponsored GC CIL Trade is the defaulting Sponsoring Member or an Indirect Participant of that Sponsoring Member or its Affiliate.⁴⁰ In such a default scenario, FICC may not be able to

³⁶ See Notice of Filing, *supra* note 4, at 44413.

³⁷ See *id.*

³⁸ See *id.*

³⁹ See *id.*

⁴⁰ See *id.*

settle the Sponsored GC CIL Trade at all.⁴¹ In other cases, FICC may be able to complete only partial settlement notwithstanding the fact that it has ceased to act for the Sponsoring Member.⁴²

To address these possibilities, FICC proposes to provide that, if FICC ceases to act for the Sponsoring Member, and the GC Funds Borrower is the defaulting Sponsoring Member or one of its Indirect Participants, FICC may, as an alternative to effectuating settlement or exercising rights under its lien, terminate the Sponsored GC CIL Trade (or portion thereof). In that situation, the CIL Funds Lender would be permitted to take such market action in relation to the relevant Purchased GC Repo Securities as it determines in its discretion.⁴³ Were FICC to terminate a Sponsored GC CIL Trade (or a portion thereof), FICC would calculate a liquidation amount owing in respect thereof pursuant to GSD Rule 22A. If the liquidation amount is owed by the CIL Funds Lender to FICC, FICC would require resources to ensure the CIL Funds Lender can satisfy its obligation to pay such amount.⁴⁴

⁴¹ See *id.* For example, if the GC Funds Borrower is an Indirect Participant of the defaulting Sponsoring Member and the Sponsoring Member's trustee or bankruptcy receiver refuses to perform its obligation as processing agent for such Indirect Participant to complete settlement, FICC would not be able to settle. See Notice of Filing, *supra* note 4, at 44413.

⁴² See *id.* For instance, if the Sponsoring Member were the GC Funds Borrower but entered into a back-to-back FICC-cleared transaction involving some of the Purchased GC Repo Securities with a Netting Member or an Indirect Participant of a third party Netting Member, the Sponsoring Member's obligations would net out, and FICC would not be able to complete settlement with the Sponsoring Member's pre-Novation counterparty on the back-to-back transaction.

⁴³ In furtherance of the foregoing, the CIL Custodial Agreement Supplement would permit the CIL Funds Lender to instruct the Sponsored GC Clearing Agent Bank in relation to any Purchased GC Repo Securities that FICC has informed the Sponsored GC Clearing Agent Bank FICC does not intend to use to complete settlement with the relevant GC Funds Borrower.

⁴⁴ To the extent the Sponsoring Member posted Clearing Fund to secure the obligations of the GC Funds Borrower, that Clearing Fund could serve as such resources. Accordingly, FICC proposes to amend the Rules to allow it to look to such Clearing Fund deposits to address a CIL Funds Lender's obligations in the event FICC closes out the Sponsored GC CIL Trades. However, if the GC Funds Borrower is an Indirect Participant that has posted Segregated Customer Margin, such

FICC proposes to address such need for additional resources in two ways. First, FICC proposes to require that a Sponsored GC CIL Trade have an Initial Haircut no less than 2 percent of the Contract Value of the Start Leg or such other amount determined by FICC (“CIL Required Haircut”). FICC states that this requirement would be broadly consistent with the market practice of how uncleared triparty repos of RICs are overcollateralized today.⁴⁵ FICC would provide Netting Members with at least 30 Business Days’ advance notice of any changes to the CIL Required Haircut.

Second, FICC proposes to subject the CIL Funds Lender’s Sponsoring Member to a Clearing Fund requirement for a Sponsored GC CIL Omnibus Account (“Sponsored GC CIL Omnibus Account Required Fund Deposit”) when necessary to ensure that FICC would have resources, in the form of Clearing Fund deposits or Purchased GC Repo Securities, no less than the Clearing Fund FICC would otherwise collect in relation to the transaction.⁴⁶

The Sponsored GC CIL Omnibus Account Required Fund Deposit would be the greater of a \$1 million minimum and the sum of all applicable charges, with margin calculated in the same manner as when calculated with respect to a Sponsoring Member Omnibus Account. The VaR Charge would be calculated for each CIL Funds Lender as the positive difference between (1) the amount of VaR Charge that FICC would have

margin would only be available to cover the GC Funds Borrower’s obligations and could not be used to address the obligations of a CIL Funds Lender. FICC would therefore require other resources to cover such liquidation amount. *See* Notice of Filing, *supra* note 4, at 44413.

⁴⁵ *See id.*

⁴⁶ FICC states this would only occur in situations where (1) the Sponsored GC CIL Omnibus Account has been enabled to record Sponsored GC CIL Trades for which the GC Funds Borrower is its Sponsoring Member or a Segregated Indirect Participant of its Sponsoring Member; and (2) that Sponsoring Member or its Affiliate has a Segregated Indirect Participants Account. *See id.*

collected if the Sponsored GC CIL Trades of that CIL Funds Lender had been subject to the calculation of a Sponsoring Member Omnibus Account Required Fund Deposit, and (2) the aggregate of all CIL Required Haircuts on that CIL Funds Lender's Sponsored GC CIL Trades.⁴⁷

FICC states that its security interest in Purchased GC Repo Securities subject to Sponsored GC CIL Trades would also generally remove the need for the Sponsoring Member to guarantee to FICC the performance by the CIL Funds Lender of its obligations under the Sponsored GC CIL Trades, since FICC's lien generally would allow it to obtain the Purchased GC Repo Securities and perform to the GC Funds Borrower.⁴⁸ Accordingly, FICC proposes to amend the Rules to provide that, notwithstanding anything to the contrary set forth in any Sponsoring Member Guaranty, the Sponsoring Member does not guarantee to FICC and, except as expressly set forth in the Rules, shall not be responsible for, the obligations of a Sponsored Member arising under any Sponsored GC CIL Trade for which the Sponsored Member is the CIL Funds Lender.

Because FICC would generally anticipate addressing a CIL Funds Lender default by utilizing the lien to settle with the GC Funds Borrower, FICC proposes to amend Section 16 of Rule 3A, which generally allows a Sponsoring Member to liquidate a done-with Sponsored Member Trade,⁴⁹ to provide that a Sponsoring Member may only trigger

⁴⁷ In addition to the VaR Charge, the Sponsored GC CIL Omnibus Account Required Fund Deposit would include a Portfolio Differential Charge, Backtesting Charge, Holiday Charge, Margin Liquidity Adjustment Charge and Intraday Supplemental Deposit. *See* GSD Margin Component Schedule, *supra* note 3.

⁴⁸ *See id.*, at 44414.

⁴⁹ *See* GSD Rule 3A, Section 16, *supra* note 3.

that provision if FICC has not exercised its rights as a secured party. In addition, FICC is proposing to amend the GSD Rules to provide that, in the event that the Sponsoring Member did exercise its rights to terminate any done-with Sponsored GC CIL Trades, the Sponsoring Member would be responsible for any Sponsored Member Liquidation Amount owed by the CIL Funds Lender.

FICC states that the CIL Service would not present additional or new liquidity risks to FICC.⁵⁰ FICC would incorporate Sponsored GC CIL Trades into its liquidity risk management calculations and the calculation of Sponsoring Members' obligations for the Capped Contingency Liquidity Facility ("CCLF"), using the same methodology, logic and parameters that FICC uses with respect to Sponsored GC Trades.⁵¹

Under the existing Sponsored GC Service, the only Funds-Only Settlement Amounts that the pre-Novation counterparties to a Sponsored GC Trade are obligated to pay to FICC and entitled to receive from FICC are the Forward Mark Adjustment Payment⁵² and Interest Adjustment Payment.⁵³ FICC exchanges such amounts with the pre-Novation counterparties to address the risk that the pre-Novation counterparty (or its Sponsoring Member or Agent Clearing Member, as applicable) defaults and FICC needs

⁵⁰ See Notice of Filing, *supra* note 4, at 44415.

⁵¹ See GSD Rule 22A Section 2a(b), *supra* note 3.

⁵² FICC states that the Forward Mark Adjustment Payment captures the loss or gain to FICC and the defaulting pre-Novation counterparty of such greater or lower costs and thereby ensures that FICC and the pre-Novation counterparty are made whole in the event FICC ceases to act for the pre-Novation counterparty. See Notice of Filing, *supra* note 4, at 44418.

⁵³ FICC states that the Interest Adjustment Payment serves to compensate the payer of the Forward Mark Adjustment Payment for the time value of the payment. See *id.*

to enter into a replacement transaction at market interest rates, which may have changed since the date of Novation, in order to perform to the other pre-Novation counterparty.⁵⁴

According to FICC, in the context of the CIL Service, FICC's lien on the Purchased GC Repo Securities and ability to instruct the Sponsored GC Clearing Agent Bank to transfer such securities would effectively ensure that FICC never needs to enter into a replacement transaction to address the default of a CIL Funds Lender (or its Sponsoring Member). Rather, FICC would rely upon its lien and instruction right to settle with the GC Funds Borrower or, if the GC Funds Borrower is the Sponsoring Member or its Indirect Participant, possibly terminate both the transaction with the CIL Funds Lender and GC Funds Borrower such that no replacement transaction is required.⁵⁵ FICC is therefore proposing for FICC not to pay or collect Funds-Only Settlement Amounts to or from a CIL Funds Lender (or its Sponsoring Member) in relation to a Sponsored GC CIL Trade.⁵⁶ FICC states that, in turn, this change would facilitate the ability of RICs and other cash providers to access FICC's clearance and settlement services because, without the need for these obligations, Sponsoring Members would have more capacity and therefore could be better able provide access to clearance and settlement services for these indirect participants.⁵⁷

⁵⁴ *See id.*

⁵⁵ *See id.*

⁵⁶ FICC states it would still collect Funds-Only Settlement Amounts from the GC Funds Borrower in relation to the Sponsored GC CIL Trade because, in the event the GC Funds Borrower (or its Sponsoring Member or Agent Clearing Member, as applicable) defaults, FICC might need to enter into a replacement transaction to perform to the CIL Funds Lender. However, FICC would not pay Funds-Only Settlement Amounts to the GC Funds Borrower because FICC would not be collecting such amounts from the CIL Funds Lender. *See id.*

⁵⁷ *See* Notice of Filing, *supra* note 4, at 44411.

Joint Trading Accounts Under the CIL Service

FICC states that RICs and other cash providers that have engaged a common investment adviser may seek to enter into triparty repo transactions using joint trading accounts.⁵⁸ The investment adviser acts as agent for the joint trading account, and the obligations of the investment adviser and a cash provider in relation to the joint trading account are typically set out in an agreement between the investment adviser and the cash provider.⁵⁹

FICC states that one of the obligations of an investment adviser that acts on behalf of a joint trading account is to “allocate” transactions entered into through the joint trading account to the individual participants.⁶⁰ The allocation serves to cause the transaction to constitute separate individual transactions between the counterparty and each participant based on the participant’s allocated portion.⁶¹ However, prior to such allocation, the transaction remains a single transaction, with each participant having a pro rata interest in it and being liable for a pro rata share of the obligations.⁶² Regardless of whether a transaction has been allocated, each participant’s entitlement to the purchased securities in the triparty account corresponds to its portion of the relevant transaction.

To facilitate the ability of CIL Funds Lenders to access FICC’s clearance and settlement systems in relation to transactions executed through a joint trading account,

⁵⁸ See Notice of Filing, *supra* note 4, at 44417.

⁵⁹ See *id.*

⁶⁰ See *id.*

⁶¹ See *id.*

⁶² See *id.*

FICC proposes to permit two or more CIL Funds Lenders to be represented by an agent (a “CIL Joint Account Agent”) that has been approved by FICC. Each such CIL Funds Lender and CIL Joint Account Agent would need to sign and deliver to FICC a “CIL Joint Account Agent Agreement” in such form as may be prescribed by FICC. FICC further proposes to amend its Rules to permit a Sponsoring Member to submit to FICC for Novation a Sponsored GC CIL Trade entered into by a CIL Joint Account Agent on behalf of multiple CIL Funds Lenders (each such Sponsored GC CIL Trade, a “CIL Joint Account Block”).

Each such CIL Funds Lender on whose behalf a CIL Joint Account Block has been submitted would only be entitled to, and liable for, its respective portion of the rights and obligations arising under or in connection with the CIL Joint Account Block. The GSD Rules would provide that, if the CIL Joint Account Agent has performed such allocation, the entitlement of each CIL Funds Lender to, and liability of each such CIL Funds Lender for, the rights and obligations arising under or in connection with such CIL Joint Account Block shall be limited to the amount of such CIL Joint Account Block allocated to each such CIL Funds Lender. If the CIL Joint Account Agent has not performed such allocation, the CIL Funds Lender would be liable for its pro rata portion of the transaction.

FICC proposes to provide in the GSD Rules that, in a default of a CIL Funds Lender on whose behalf a CIL Joint Account Block has been submitted, FICC would, to the extent it determines doing so is feasible and consistent with applicable law, exercise remedies in a way that would have no significant adverse impact on the interest of any non-defaulting CIL Funds Lender in such CIL Joint Account Block or the Purchased GC

Repo Securities related thereto.⁶³ As discussed above, in relation to a defaulting CIL Funds Lender, such exercise would constitute an exercise of remedies as a secured party. In relation to any non-defaulting CIL Funds Lender, such exercise of remedies would constitute settlement of its portion of the CIL Joint Account Block in relation to mark-to-market, substitution, or final settlement obligations with respect thereto.

In order to ensure that FICC knows the respective interests of the defaulting and non-defaulting CIL Funds Lenders in a CIL Joint Account Block, FICC proposes to require that a CIL Joint Account Agent provide FICC with certain information in the event FICC ceases to act for a CIL Funds Lender on whose behalf a CIL Joint Account Agent acts. In particular, the Rules would provide that, in the event FICC ceases to act for a CIL Funds Lender that is a participant in a CIL Joint Account Block, the relevant CIL Joint Account Agent must promptly notify FICC whether such CIL Joint Account Block had been allocated and, if so, the respective allocation to the defaulting CIL Funds Lender. The Rules would further provide that the CIL Joint Account Agent would not be permitted to change the allocation information with respect to the defaulting CIL Funds Lender following such notification. FICC does not propose to require the CIL Joint Account Agent to provide allocation information outside the context of a default by a CIL Funds Lender because, in light of FICC's lien on the Purchased GC Repo Securities and

⁶³ If FICC determines that its exercise of remedies would have a significant adverse impact on the interest of any non-defaulting CIL Funds Lender (e.g., if the CIL Joint Account Block has not been allocated), then FICC would refrain from exercising its remedies against the CIL Funds Lender in relation to such CIL Joint Account Block or Purchase GC Repo Securities, including its rights under its security interest in the Purchased GC Repo Securities, as long as it determines that such non-action is allowed, and would not prejudice its rights under, applicable law and is necessary to preserve the interest of any non-defaulting CIL Funds Lenders. In this scenario, the only actions FICC would take would be to (1) facilitate the movement of an Margin Excess Amount or (2) cause the transfer of the Purchased GC Repo Securities against the amount due under the CIL Joint Account Block. *See* Notice of Filing, *supra* note 4, at 44417.

instruction right, FICC does not require such information to risk manage the Sponsored GC CIL Trade or to effectuate settlement thereof.⁶⁴

2. Expand the Sponsored GC Service to Allow for “Done-Away” Trades

Currently, a Sponsoring Member may submit only done-with transactions to FICC under the Sponsored GC Service.⁶⁵ FICC proposes to amend its Rules to permit a Sponsoring Member to submit to FICC for clearing under the existing Sponsored GC Service done-away transactions. FICC is proposing to effectuate this change by revising a number of defined terms and certain sections in Rule 3A to make clear that counterparties to a Sponsored GC Trade do not need to be a Sponsored Member and its Sponsoring Member, but instead can be a Sponsored Member and any Netting Member or its Indirect Participant. FICC states that allowing for the submission of done-away transactions should facilitate greater access by allowing a Sponsored Member to submit more of their eligible secondary market transactions and to do so without entering into clearing agreements with each of their execution counterparties.⁶⁶

FICC states that its risk management and liquidity requirements in respect of done-away Sponsored GC Trades would not be different from those in respect of other

⁶⁴ See Notice of Filing, *supra* note 4, at 44417-18.

⁶⁵ See Rule 1, *supra* note 3 (defining a Sponsored GC Trade as “a Sponsored Member Trade that is a Repo Transaction between a Sponsored Member and its Sponsoring Member involving securities represented by a Generic CUSIP Number the data on which are submitted to [FICC] by the Sponsoring Member pursuant to the provisions of Rule 6A, for Novation to [FICC] pursuant to Section 7(b)(ii) of Rule 3A” in connection with the Sponsored GC Service; and defining a Sponsored Member Trade as “(a) a transaction that satisfies the requirements of Section 5 of Rule 3A and that is (i) between a Sponsored Member and its Sponsoring Member or (ii) between a Sponsored Member and a Netting Member or (b) a Sponsored GC Trade.”).

⁶⁶ See Notice of Filing, *supra* note 4, at 44422.

done-away sponsored trades.⁶⁷ Done-away Sponsored GC Trades would be subject to all applicable requirements as done-with Sponsored GC Trades. Furthermore, as with existing Sponsored Member Trades, the liquidation provision in the GSD Rules would only be applicable to done-with Sponsored GC Trades.⁶⁸

In connection with this proposed change, FICC is also proposing to extend the deadline set forth in the Schedule of Sponsored GC Trade Timeframes for (i) full settlement of the Start Leg of Sponsored GC Trades, (ii) substitutions of Purchased GC Repo Securities, and (iii) satisfaction of GC Collateral Return Obligations and cash payment obligations associated with GC Collateral Return Entitlements by GC Funds Lenders and GC Funds Borrowers. The current deadline for these actions is 5:30 p.m. and the proposal would move this deadline to 7:00 p.m. (New York City times), which would align with the close of the Fedwire Funds Service at the Federal Reserve Bank of New York. Currently, Sponsored GC Trades for which funds are delivered between 5:30 p.m. and 7:00 p.m. do not settle until the next Business Day. FICC states that aligning these two deadlines would facilitate additional settlement of Sponsored GC Trades.⁶⁹

II. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Exchange Act⁷⁰ 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 rules and regulations

⁶⁷ See Notice of Filing, *supra* note 4, at 44419.

⁶⁸ See Rule 3A, Section 18, *supra* note 3.

⁶⁹ See Notice of Filing, *supra* note 4, at 44420.

⁷⁰ 15 U.S.C. 78s(b)(2)(C).

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 Act⁷¹ and the rules and regulations thereunder applicable to FICC.⁷² In particular, the Commission finds that the Proposed Rule Change is consistent with Sections 17A(b)(3)(F)⁷³ of the Exchange Act and Rules 17ad-22(e)(4)(i), (e)(6), (e)(7), (e)(18)(iv)(C), (e)(19), and (e)(21) thereunder.⁷⁴

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

Section 17A(b)(3)(F) of the Exchange Act⁷⁵ requires that the rules of a clearing agency, such as FICC, be designed to, among other things, (i) promote the prompt and accurate clearance and settlement of securities transactions, (ii) 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 (iii) protect investors and the public interest.

As described above in Section I.B., the Proposed Rule Change changes to the GSD Rules that are designed to encourage and facilitate a greater number of market participants to utilize GSD's clearance and settlement systems for transactions in U.S. securities, including for done-with and done-away transactions. As described above in Section I.A, and as market participants have indicated to the Commission, RICs and other cash providers may face certain issues when seeking to access FICC's clearance and

⁷¹ 15 U.S.C. 78q-1(b)(3)(F).

⁷² 17 CFR 240.17ad-22(e)(4)(i), (6), (18)(ii), (e)(18)(iv)(C), (e)(19), and (e)(23)(ii).

⁷³ 15 U.S.C. 78q-1(b)(3)(F).

⁷⁴ 17 CFR 240.17ad-22(e)(4)(i), (6), (18)(ii), (e)(18)(iv)(C), (e)(19), and (e)(23)(ii).

⁷⁵ 15 U.S.C. 78q-1(b)(3)(F).

settlement services.⁷⁶ As described above in Section I.B, by creating the CIL Service, FICC generally would eliminate margin requirements and Funds Only Settlement Payments by taking a perfected security interest in the Purchased GC Repo Securities. The lien would also allow FICC not to require a Sponsoring Member to guarantee the obligations of a CIL Funds Lender under a Sponsored GC CIL Trade. The elimination of such guarantee requirement would have substantial capital savings for the Sponsoring Member (and corresponding cost savings for the CIL Funds Lender). FICC would also accommodate the clearance and settlement of Sponsored GC CIL Trades entered into through a joint trading account even before such transactions have been allocated. Accordingly, the proposed changes are designed to address these issues for RICs and other cash providers to access FICC's clearance and settlement services, which should increase the number of triparty repo trades centrally cleared by FICC. In turn, this would promote the prompt and accurate clearance and settlement of securities transactions because securities transactions that might otherwise be conducted outside of central clearing would benefit from FICC's risk management and guarantee of settlement.⁷⁷

The Proposed Rule Change would encourage and facilitate greater participation in central clearing, while still providing sound risk management which would promote the

⁷⁶ See Letter from Eric J. Pan, President & CEO, and Paul Cellupica, General Counsel, ICI to Mark Uyeda, Feb. 21, 2025, in Release No. 34-95763, File No. S7-23-22, *available at* <https://www.ici.org/system/files/2025-02/25-cl-extension-treasury-compliance-dates.pdf> (describing “margin issues associated with registered funds’ Treasury repo transactions” and “to develop done-away capabilities” as critical issues that need to be resolved in advance of the compliance date of the Commission’s Treasury Clearing Rule).

⁷⁷ See Letter from Robert Toomey, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association (June 18, 2021) at 2 (commenting on the benefits to market participants resulting from the expected increase in greater central clearing of tri-party repos via the Sponsored GC Service).

prompt and accurate clearance and settlement of securities transactions, and would protect investors and the public interest. On December 13, 2023, the Commission adopted amendments to the standards applicable to covered clearing agencies, such as FICC,⁷⁸ requiring each such clearing agency for U.S. Treasury securities to have written policies and procedures reasonably designed to, among other things, ensure that it has appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of the clearing agency’s indirect participants.⁷⁹ As the Commission explained when adopting the Treasury Clearing Rules, U.S. Treasury securities play a critical and unique role in the U.S. and global economy, serving as a significant investment instrument and hedging vehicle for investors, a risk-free benchmark for other financial instruments, and an important mechanism for the Federal Reserve’s implementation of monetary policy.⁸⁰ Consequently, confidence in the U.S. Treasury market, and in its ability to function efficiently is critical to the stability of the global financial system. In central clearing, through novating transactions (*i.e.*, becoming the counterparty to both sides of a transaction), a CCP addresses concerns about counterparty risk by substituting its own creditworthiness and liquidity for the creditworthiness and liquidity of the

⁷⁸ A “covered clearing agency” is, among other things, a registered clearing agency that provides the services of a CCP, and a CCP is a clearing agency that interposes itself between the counterparties to securities transactions, acting functionally as the buyer to every seller and the seller to every buyer. 17 CFR 240.17ad-22(a); *see also* 15 U.S.C. 78c(a)(23) (defining a clearing agency). FICC is a clearing agency registered with the Commission under Section 17A of the Exchange Act (15 U.S.C. 78q-1), and it acts as a CCP.

⁷⁹ 17 CFR 240.17ad-22(e)(18)(iv)(C). *See* Securities Exchange Act Release No. 99149 (Dec. 13, 2023), 89 FR 2714 (Jan. 16, 2024) (“Adopting Release,” and the rules adopted therein referred to herein as “Treasury Clearing Rules”).

⁸⁰ *See id.* at 2715-17.

counterparties.⁸¹ A CCP thereby enables market participants to effectively reduce costs, increase operational efficiency, and manage risks.⁸² Moreover, a CCP provides a centralized system of default management that can mitigate the potential for a single market participant's failure to destabilize other market participants or the financial system more broadly.⁸³ The Commission adopted the Treasury Clearing Rules, in part, to help reduce contagion risk to the CCP and bring the benefits of central clearing to more transactions involving U.S. Treasury securities, thereby lowering overall systemic risk in the market.⁸⁴

Furthermore, CCP rules that are clear and comprehensible, increase operational efficiency, and more effectively manage risks, like the Proposed Rule Change, should encourage a broader scope of market participants to utilize the CCP's services, thereby promoting the prompt and accurate clearance and settlement of securities transactions, and protecting investors and the public interest, consistent with Section 17A(b)(3)(F) of the Exchange Act. The Proposed Rule Change is consistent with those objectives because it encourages and supports greater participation in GSD's central clearing services for RICs and other cash lenders and for done-away transactions. Accordingly, the Proposed

⁸¹ *See id.* at 2716.

⁸² *See id.* (citing Covered Clearing Agency Standards Proposing Release, Exchange Act Release No. 71699 (Mar. 12, 2014), 79 FR 29507, 29587 (May 27, 2014) ("CCA Standards Proposing Release")).

⁸³ *See id.* at 2716 (citing Order Granting Temporary Exemptions Under the Securities Exchange Act of 1934 in Connection with Request of Liffe Administration and Management and Lch.Clearnet Ltd. Related to Central Clearing of Credit Default Swaps, and Request for Comments, Exchange Act Release No. 59164 (Dec. 24, 2008), 74 FR 139, 140 (Jan. 2, 2009) ("Liffe Order")).

⁸⁴ *See id.* at 2716 (citing Proposing Release, Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities, Exchange Act Release No. 95763 (Sept. 14, 2022), 87 FR 64610, 64614 (Oct. 25, 2022) ("Proposing Release")).

Rule Change would promote the prompt and accurate clearance and settlement of securities transactions, and protect investors and the public interest, because by encouraging greater participation in central clearing, the proposals would extend the benefits of operational efficiency and risk management to a greater segment of the U.S. Treasury securities market.

In addition, although the proposed amendments would not provide FICC with custody of any additional securities, as described above in Section I.B.1, the proposed CIL Custodial Agreement Supplement would provide FICC with “control” of Purchased GC Repo Securities subject to a Sponsored GC CIL Trade.⁸⁵ FICC’s lien and control are specifically designed so that FICC can complete settlement of Sponsored GC CIL Trades even in a default of the CIL Funds Lender or Sponsoring Member. Furthermore, the CIL Custodial Agreement Supplement would prohibit any withdrawals of the Purchased GC Repo Securities by the CIL Funds Lender other than to allow for ordinary course settlement, in a Corporation Default, or in respect of securities that FICC does not intend to use to complete settlement with the GC Funds Borrower on the Sponsored GC CIL Trade. Accordingly, the proposed changes should ensure that the Purchased GC Repo Securities subject to FICC’s control remain safeguarded in the Buyer’s GC CIL Trade Account at the Sponsored GC Clearing Agent Bank until such time as they are needed for settlement or the Sponsored GC CIL Trade is terminated.

More broadly, the proposed changes are designed to ensure that FICC calculates and has sufficient resources to cover potential losses from a default on a done-away

⁸⁵ Control would be established as a matter of the Uniform Commercial Code as in effect in the State of New York. UCC 8-106(d)(2).

Sponsored GC Trade or on a Sponsored GC CIL Trade.⁸⁶ In the case of Sponsored GC CIL Trades, FICC’s perfected security interest in the Purchased GC Repo Securities subject to the Sponsored GC CIL Trades, as supplemented by the Clearing Fund posted by the Sponsoring Member for its Sponsored GC CIL Omnibus Account, the mandatory CIL Required Haircut, and any Sponsored GC CIL Omnibus Account Required Fund Deposit, is designed to ensure that FICC has sufficient resources to address a default of a CIL Funds Lender or its Sponsoring Member. As noted above, the perfected security interest as well as FICC’s right to instruct the Sponsored GC Clearing Agent Bank in relation to such securities would ensure that FICC can settle with the GC Funds Borrower in a CIL Funds Lender default or the default of its Sponsoring Member, provided that the Sponsoring Member or its Indirect Participant is not the GC Funds Borrower. If the Sponsoring Member or its Indirect Participant is the GC Funds Borrower, FICC may need to terminate the Sponsored GC Trade in whole or in part and rely upon the Sponsoring Member’s Clearing Fund, the CIL Required Haircut, or the Sponsored GC CIL Omnibus Account Required Fund Deposit to cover any losses resulting from the liquidation. Such amounts, however, would never be less than the Clearing Fund FICC would have available for a Sponsored GC Trade. Therefore, the proposed changes would enhance FICC’s ability to safeguard funds and securities which are in the custody or control of FICC or for which it is responsible.

⁸⁶ See Securities Exchange Act Release No. 101695 (Nov. 21, 2024), 89 FR 93763 (Nov. 27, 2024) (SR-FICC-2024-007) (stating the margin requirements of done-away trades “limit FICC’s risk to a Netting Member or indirect participant default and thereby enhance its ability to safeguard securities and funds in its control and for which it is responsible”).

For the foregoing reasons, the Commission finds that the Proposed Rule Change is designed to promote the prompt and accurate clearance and settlement of securities transactions, safeguard securities and funds that are in the custody or control of FICC, and protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Exchange Act.⁸⁷

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

Rule 17ad-22(e)(4)(i) under the Act requires that 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.⁸⁸

First, as described above in Section I.B.1, the proposed changes relating to the risk and default management mechanism for the CIL Service, *i.e.*, FICC's perfected security interest in the Purchased GC Repo Securities subject to the Sponsored GC CIL Trades, supplemented by the Clearing Fund for the Sponsoring Member's Sponsoring Member Omnibus Account, the mandatory CIL Required Haircut, and the Sponsored GC CIL Omnibus Account Required Fund Deposit requirement, should ensure that the resources available to FICC to manage the default on a Sponsored GC CIL Trade would accurately reflect FICC's credit exposures to participants in the CIL Service, and that

⁸⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸⁸ 17 CFR 240.17ad-22(e)(4)(i).

FICC would be able to use such resources to cover its credit exposure in the event of a default by the CIL Funds Lender or its Sponsoring Member.

Second, as described in Section I.B.2, the done-away Sponsored GC Trades (other than Sponsored GC CIL Trades), which present the same credit and market risk profile as done-with Sponsored GC Trades, would be margined in the same manner as done-with Sponsored GC Trades using methodologies that have been approved by the Commission.⁸⁹

Therefore, collectively, these changes should enhance the ability of FICC to cover its credit exposure to its participants with a high degree of confidence. Accordingly, the Proposed Rule Change is consistent with Rule 17ad-22(e)(4)(i) under the Act.

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

Rule 17ad-22(e)(6) under the Act requires, in part, that 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.⁹⁰ As described in Section I.B.1, the Proposed Rule Change is designed to ensure that FICC has sufficient resources to perform to non-defaulting participants in a participant default. In particular, the proposed changes would provide FICC, in the form of its lien on Purchased GC Repo Securities and the potential to require Clearing Fund deposits as needed in circumstances described above, with resources to address a CIL Funds Lender default that are equal to, or in excess of, the resources FICC calculates using its established and approved risk-based models as necessary to address the default of a

⁸⁹ See Exchange Act Release No. 92808 (Aug. 30, 2021), 86 FR 49580 (Sept. 3, 2021) (File No. SR-FICC-2021-003) (“2021 Sponsored GC Order”).

⁹⁰ 17 CFR 240.17ad-22(e)(6).

Sponsored Member under a Sponsored GC Trade. Additionally, as described above in Section I.B.2, the done-away Sponsored GC Trades (other than Sponsored GC CIL Trades), which present the same credit and market risk profile as done-with Sponsored GC Trades, would be margined in the same manner as done-with Sponsored GC Trades using methodologies that have been approved by the Commission.⁹¹

Accordingly, the Proposed Rule Change would ensure FICC covers its credit exposures to its participants consistent with Rule 17ad-22(e)(6) under the Act.

D. Consistency with Rule 17ad-22(e)(7)

Rule 17Ad-22(e)(7) under the Act requires a covered clearing agency, such as FICC, to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency.⁹²

As discussed above in Section I.B.1, FICC would incorporate Sponsored GC CIL Trades into its liquidity risk management calculations and into the calculation of Sponsoring Members' obligations with respect to CCLF, using the same methodology, logic and parameters that FICC uses with respect to Sponsored GC Trades.⁹³ Additionally, as discussed above in Section I.B.2, done-away Sponsored GC Trades, which present the same liquidity risks as other done-away transactions, would be treated identically to such other done-away transactions for purposes of calculating a Sponsoring Member's CCLF obligations. Therefore, collectively, these changes should enhance

⁹¹ See 2021 Sponsored GC Order, *supra* note 92.

⁹² 17 CFR 240.17Ad-22(e)(7).

⁹³ See 2021 Sponsored GC Order, *supra* note 92.

FICC’s ability to manage the liquidity risks arising from the Sponsored GC CIL Trades it clears and settles.

Accordingly, the Proposed Rule Change is consistent with Rule 17ad-22(e)(7) under the Act.

E. Consistency with Rule 17ad-22(e)(18)(iv)(C)

Rule 17ad-22(e)(18)(iv)(C) under the Exchange Act requires that a covered clearing agency, such as FICC, when providing CCP services for transactions in U.S Treasury securities, establish objective, risk-based, and publicly disclosed criteria for participation, which ensure that it has appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.⁹⁴

As described above in Section I.B.1, the Proposed Rule Change is designed to facilitate increased access to FICC’s clearing and settlement services for triparty repo transactions by eliminating or ameliorating certain existing impediments to access that RICs and other cash providers face.

First, FICC’s security interest in the Purchased GC Repo Securities would address what market participants have referred to as “double margining” that increases the costs (and thereby decreases the ability of) a Sponsoring Member to provide clearance and settlement services to RICs and other cash providers.⁹⁵ The lien would also eliminate the need for a Sponsoring Member to guarantee the obligations of a CIL Funds Lender. The elimination of the guarantee should reduce the capital requirements associated with a

⁹⁴ 17 CFR 240.17ad-22(e)(18)(iv)(C).

⁹⁵ See Letter from Ken Bentsen, *supra* note 23.

Sponsoring Member providing access to FICC's clearance and settlement systems, and thus the costs of providing such access.

Second, the CIL Service would allow a Sponsoring Member to submit to FICC for clearance and settlement transactions that have been entered into by multiple RICs or other CIL Funds Lenders using a joint trading account. Such transactions may be ineligible for submission to FICC today because investment advisers are unable to complete final allocations to individual cash providers by the FICC submission deadline. As a result, the proposed changes should facilitate the ability of RICs and other cash providers to access FICC's clearance and settlement services in relation to transactions that they are currently only able to clear bilaterally.

Third, the CIL Service would not include the exchange of Funds-Only Settlement Amounts between FICC and a CIL Funds Lender (or its Sponsoring Member). This proposed change should facilitate access to central clearing by eliminating the possibility of such Funds-Only Settlement Amount obligations and entitlements giving rise to operational or regulatory impediments for RICs, other cash providers, and their Sponsoring Members. As such, the CIL Service would facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.⁹⁶

Moreover, as described in Section 1.B.2, the proposed changes to provide for clearing of done-away Sponsored GC Trades and to extend its settlement deadline for Sponsored GC Trades would promote access to FICC's clearance and settlement systems in respect of eligible secondary market transactions in U.S. Treasury securities.

⁹⁶ 17 CFR 240.17ad-22(e)(18)(iv)(C).

Currently, a Sponsoring Member may submit only done-with transactions to FICC under the Sponsored GC Service. Allowing for the submission of done-away transactions should facilitate greater access by allowing a Sponsored Member to submit more of their eligible secondary market transactions and to do so without entering into clearing agreements with each of their execution counterparties. The proposed change to align FICC's settlement and substitution deadlines for Sponsored GC Trades with the close of the Fedwire Funds Service at 7:00 p.m. (New York City time) would support the settlement of additional tri-party activity and, therefore, also promote access to FICC's clearance and settlement systems in respect of eligible secondary market transactions. As such, these proposed changes should facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities.⁹⁷

Accordingly, for the reasons above, the Proposed Rule Change is consistent with Rule 17ad-22(e)(18)(iv)(C).⁹⁸

F. Consistency with Rule 17ad-22(e)(19)

Rule 17ad-22(e)(19) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants in the covered clearing agency rely on the services provided by direct participants to access the covered clearing agency's payment, clearing, or settlement facilities.⁹⁹ The proposed changes relating to

⁹⁷ *Id.*

⁹⁸ *See* 17 CFR 240.17ad-22(e)(18)(iv)(C).

⁹⁹ 17 CFR 240.17ad-22(e)(19).

the CIL Service contain specific risk management features to address FICC's exposure to CIL Funds Lenders, including (i) a lien on the Purchased GC Repo Securities subject to the Sponsored GC CIL Trades, (ii) provisions describing how FICC would enforce remedies and otherwise address such a default, and (iii) the Clearing Fund, mandatory CIL Required Haircut, and Sponsored GC CIL Omnibus Account Required Fund Deposit that FICC would require. These risk management features should ensure that FICC has sufficient resources to cover simultaneous default of both a CIL Funds Lender and its Sponsoring Member and would allow FICC to settle with the GC Funds Borrower even in a CIL Funds Lender default.

Because of these features, the proposed changes would promote FICC's ability to identify, monitor, and manage the material risks arising from indirect participants' (*i.e.*, the CIL Funds Lenders) access to its payment, clearing, or settlement facilities and is therefore consistent with Rule 17ad-22(e)(19).

G. Consistency with Rule 17ad-22(e)(21)

Rule 17Ad-22(e)(21) under the Act requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, including the clearing agency's clearing and settlement arrangements and the scope of products cleared or settled.¹⁰⁰

As described above in Sections I.A. and I.B.1, market participants have stated that FICC's current Sponsored GC Service does not accommodate certain aspects of how

¹⁰⁰ 17 CFR 240.17Ad-22(e)(21).

RICs and other cash providers currently conduct repo transactions in U.S. Treasury securities, including current industry practices in which RICs and other cash providers collect a haircut from cash borrowers. The proposed changes relating to the CIL Service contain features to address these issues, including a lien on the Purchased GC Repo Securities subject to the Sponsored GC CIL Trades that generally would obviate FICC's need to collect margin or Fund-Only Settlement Amounts from CIL Funds Lenders or their Sponsors as well as the need to obtain a Sponsoring Member Guaranty on Sponsored GC CIL Trades. Moreover, by providing FICC a lien on the Purchased GC Repo Securities in lieu of FICC margin charges generally, the proposed changes would accommodate current industry practices in which RICs and other cash providers collect a haircut from cash borrowers. Additionally, as described above in Section I.B.2, FICC's proposed CIL Service would accommodate both done-with and done-away Sponsored GC CIL Trades.

By expanding the Sponsored GC Service in these ways, the Proposed Rule Change is designed to address the feedback FICC has received from market participants regarding their needs to facilitate access to FICC's clearance and settlement services through a Sponsoring Member. For these reasons, the Proposed Rule Change is consistent with Rule 17Ad-22(e)(21)¹⁰¹ because it is responsive to the requests from FICC's members for the ability to trade centrally cleared tri-party repos in a manner that is efficient and effective in meeting the operational requirements of FICC's members.

III. CONCLUSION

¹⁰¹ Id.

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Exchange Act and in particular with the requirements of Section 17A of the Exchange Act¹⁰² and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act¹⁰³ that proposed rule change SR-FICC-2025-019, be, and hereby is, APPROVED.¹⁰⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰⁵

Sherry R. Haywood,

Assistant Secretary.

¹⁰² 15 U.S.C. 78q-1.

¹⁰³ 15 U.S.C. 78s(b)(2).

¹⁰⁴ In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁰⁵ 17 CFR 200.30-3(a)(12).