

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104412; File No. SR-FICC-2025-015]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, to Modify the GSD Rulebook Relating to Default Management and Porting with Respect to Indirect Participant Activity

December 16, 2025.

On June 6, 2025, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-FICC-2025-015 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 enhance and clarify FICC’s default management rules as they apply to the Sponsored Service and Agent Clearing Service, and to facilitate the porting of indirect participant activity from one intermediary Netting Member to another intermediary Netting Member. The proposed rule change was published for public comment in the *Federal Register* on June 23, 2025.⁴

The Commission has received comments regarding the substance of the changes proposed in the proposed rule change.⁵ In addition, the Commission has received a letter

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

⁴ Securities Exchange Act Release No. 103282 (June 17, 2025), 90 FR 26656 (June 23, 2025) (File No. SR-FICC-2025-015) (“Notice of Filing”).

⁵ Comments on the Proposed Rule Change are *available at* <https://www.sec.gov/comments/sr-ficc-2025-015/srficc2025015.htm>.

from FICC in response to the public comments.⁶ On July 31, 2025, pursuant to Section 19(b)(2) of the Exchange Act,⁷ 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.⁸

On September 16, 2025, FICC filed Amendment No. 1 to the proposed rule change. Notice of FICC's filing of Amendment No. 1 was published for public comment in the *Federal Register* on September 23, 2025, whereupon the Commission also instituted proceedings to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.⁹ For the reasons discussed below, the Commission is approving the proposed rule change, as modified by Amendment No. 1.

I. DESCRIPTION OF THE PROPOSED RULE CHANGE

A. Background

FICC, through GSD, serves as a central counterparty ("CCP") and provider of clearance and settlement services for transactions in U.S. Treasury securities. As a CCP, FICC novates transactions between two counterparties, effectively becoming the buyer to every seller and the seller to every buyer, and guarantees settlement of the novated transactions. GSD's CCP services are available directly to entities that are approved under the GSD Rules to be Netting Members and indirectly to other market participants

⁶ See Letter from Laura Klimpel, Managing Director, Head of Fixed Income and Financing Solutions, The Depository Trust & Clearing Corporation ("DTCC") (Sept. 29, 2025) ("FICC Letter"), *supra* note 5.

⁷ 15 U.S.C. 78s(b)(2).

⁸ Securities Exchange Act Release No. 103557 (July 28, 2025), 90 FR 36088 (July 31, 2025) (File No. SR-FICC-2025-015).

⁹ Securities Exchange Act Release No. 104001 (Sept. 18, 2025), 90 FR 45850 (Sept. 23, 2025) (File No. SR-FICC-2025-015) ("Notice of Amendment No. 1").

through GSD's indirect access models, the Sponsored Service and Agent Clearing Service, described more fully below.

A CCP is exposed to a number of risks that arise from novating trades, including counterparty credit risk, because the CCP guarantees the performance of every novated trade and thereby becomes the entity exposed to potential financial loss if a counterparty defaults on its obligations to deliver cash and/or securities. FICC addresses these risks through a risk management framework that governs, among other things, various actions that FICC may take following the default of its Netting Members, including those Netting Members that act as intermediaries for indirect participants as either Sponsoring Members or Agent Clearing Members.

As described more fully below, FICC believes that enhancing the GSD Rules regarding default management (particularly for Agent Clearing Members) and porting would encourage greater participation in central clearing by improving market participants' understanding of how GSD would manage a default that may occur within GSD's indirect access models.¹⁰

GSD's Indirect Access Models

The GSD Rules provide for two indirect access models, the Sponsored Service and the Agent Clearing Service.¹¹ The Sponsored Service and the Agent Clearing Service

¹⁰ See Notice of Filing, *supra* note 4, 90 FR at 26656-57. During the Commission's review of FICC's recent proposed rule change to adopt and enhance GSD Rule provisions regarding access models (See Securities Exchange Act Release No. 101694 (Nov. 21, 2024), 89 FR 93784 (Nov. 27, 2024) (SR-FICC-2024-005)), the Commission received comments requesting that FICC disclose more information regarding the governance of default management under the various access models, indicating that the absence of explicit default management provisions in the GSD Rules presents an obstacle to greater participation in central clearing. Comments are *available at* <https://www.sec.gov/comments/sr-ficc-2024-005/srficc2024005.htm>.

¹¹ See GSD Rule 3A and GSD Rule 8, *supra* note 3.

provide Indirect Participants with different options to access FICC’s clearance and settlement services. The primary differences between the two services are that (1) Indirect Participants within the Sponsored Service must establish a limited purpose GSD membership, whereas Indirect Participants within the Agent Clearing Service do not establish any such membership, and (2) Sponsored Member Trades are margined on a gross basis, whereas Agent Clearing Transactions may be margined on a net basis when recorded in the same Agent Clearing Member Omnibus Account.

As described in GSD Rule 3A, the Sponsored Service permits Members that are approved to be Sponsoring Members to sponsor certain institutional firms (*i.e.*, Sponsored Members) into GSD membership.¹² For these relationships, FICC establishes and maintains a “Sponsoring Member Omnibus Account” on its books where it records the transactions of the Sponsoring Member’s Sponsored Members (“Sponsored Member Trades”).¹³ For purposes of managing the risks presented by Sponsored Member Trades, activity recorded in a Sponsoring Member Omnibus Account is margined on a gross (*i.e.*, Sponsored Member-by-Sponsored Member) basis and cannot be netted across Sponsored Members.¹⁴

Although a Sponsored Member is a limited member of GSD and the legal counterparty to FICC for any submitted transactions, the Sponsoring Member unconditionally guarantees to FICC the payment and performance of a Sponsored Member’s obligations to FICC (“Sponsoring Member Guaranty”).¹⁵ Therefore, FICC

¹² See GSD Rule 3A, *supra* note 3.

¹³ See GSD Rule 2B and GSD Rule 1 (definition of “Sponsored Member Trade”), *supra* note 3.

¹⁴ See Section 10 of GSD Rule 3A and GSD Rule 4, *supra* note 3.

¹⁵ See GSD Rule 1 (definition of “Sponsoring Member Guaranty”) and Section 2(c) of GSD Rule 3A, *supra* note 3.

relies on the financial resources of the Sponsoring Member in relying upon the Sponsoring Member Guaranty.

FICC's Agent Clearing Service facilitates agent-style trading by allowing Members that are approved to be Agent Clearing Members to submit trades of their customers (*i.e.*, Executing Firm Customers) to GSD for clearance and settlement.¹⁶ FICC establishes and maintains an "Agent Clearing Member Omnibus Account" on its books where it records the transactions of the Agent Clearing Member's Executing Firm Customers ("Agent Clearing Transactions").¹⁷ Unlike Sponsored Members, Executing Firm Customers do not become limited members of GSD. Agent Clearing Members act as both processing agent and credit intermediary for their customers in clearing, and Executing Firm Customers are identified on Agent Clearing Transactions when such activity is submitted to FICC. FICC may net the Agent Clearing Transactions of one or more Executing Firm Customers whose activity is recorded in the same Agent Clearing Member Omnibus Account for purposes of calculating the required margin deposits.

The activity for Indirect Participants must be recorded in GSD accounts that are separate from the accounts in which the intermediary Netting Members' own proprietary transactions are recorded.¹⁸ Additionally, both Sponsoring Members and Agent Clearing Members have the option of designating certain Indirect Participants as Segregated Indirect Participants. The activity for Segregated Indirect Participants must be recorded in

¹⁶ See GSD Rule 8, *supra* note 3.

¹⁷ See GSD Rule 2B and GSD Rule 1 (definition of "Agent Clearing Transactions"), *supra* note 3.

¹⁸ GSD Rule 2B governs the maintenance of separate Accounts and creates a framework for the separate calculation, collection, and holding of margin supporting a Netting Member's Proprietary Transactions and the margin supporting the transactions a Netting Member submits on behalf of Indirect Participants. See GSD Rule 2B, *supra* note 3.

a separate Segregated Indirect Participant Account, which allows the Sponsoring Member or Agent Clearing Member to direct FICC to calculate and segregate margin deposited in connection with these separate Accounts (“Segregated Customer Margin”) in accordance with the conditions in Note H to Rule 15c3-3a under the Exchange Act (“Note H”).¹⁹ In this way, all Segregated Customer Margin deposited with FICC to support the obligations arising under the transactions recorded in a given Segregated Indirect Participants Account must be recorded in a specific Segregated Customer Margin Custody Account maintained by FICC on its books and records for the Netting Member that deposited such Segregated Customer Margin, which account would be separate from any other accounts maintained by FICC for the Netting Member, including fellow Segregated Customer Margin Custody Accounts. Finally, Segregated Customer Margin deposits must be met using assets deposited by the Segregated Indirect Participants with the Netting Member, with a limited exception of temporary “prefunding” by the Netting Member while a margin call to the Segregated Indirect Participant is outstanding.²⁰

Default Management in the Current GSD Rules

The GSD Rules currently include default management provisions that describe the circumstances that would allow FICC to suspend, prohibit, or limit a Member’s access to FICC’s services.²¹ GSD Rule 21 enumerates the circumstances that would provide cause

¹⁹ See 17 CFR 240.15c3-3a. These conditions require, among other things, that activity of Segregated Indirect Participants be margined on a gross (*i.e.*, Segregated Indirect Participant-by-Segregated Indirect Participant) basis, and that the Segregated Customer Margin deposits be credited to a Segregated Customer Margin Custody Account to be used exclusively to settle and margin transactions in U.S. Treasury securities recorded in the corresponding Segregated Indirect Participants Account. See Section 1a of GSD Rule 4, *supra* note 3.

²⁰ See Section 3 of GSD Rule 2B, *supra* note 3.

²¹ See GSD Rule 21, *supra* note 3.

for FICC’s Board of Directors (“Board”) to suspend, prohibit, or limit a Member’s access to FICC’s services.²² Additionally, GSD Rule 22 enumerates the circumstances that would cause a Member to be treated as insolvent.²³ If any of the enumerated circumstances arise, FICC may suspend a Member from any service provided by FICC, either with respect to one or more particular transactions or with respect to transactions generally, or FICC may prohibit or limit such Member’s access to services offered by FICC.²⁴ When FICC restricts a Member’s access to services pursuant to GSD Rule 22A, FICC is said to have “ceased to act” for a Defaulting Member.²⁵

GSD Rule 22A describes the general default management procedures FICC follows once it has ceased to act for a Defaulting Member, including provisions for the treatment of the Defaulting Member’s pending transactions.²⁶ Unless FICC’s Board determines otherwise, from the time that FICC has ceased to act for the Defaulting Member, FICC would not process any trades that are not Compared Trades²⁷ to which the Defaulting Member is a party.²⁸ GSD Rule 22A also sets forth the close-out process that

²² *See id.* Such circumstances include a Member’s failure to perform any of its obligations to FICC, violation of the GSD Rules or any agreement with FICC, fraudulent or dishonest conduct, significant financial or operational difficulties, lack of bank credit, or suspension, prohibition, or limitation has been determined by FICC’s Board to be necessary to protect FICC or its membership. *See id.*

²³ *See* GSD Rule 22, *supra* note 3.

²⁴ *See id.*

²⁵ *See* GSD Rule 1 (definition of “Defaulting Member”), *supra* note 3.

²⁶ *See* GSD Rule 22A, *supra* note 3.

²⁷ The term Compared Trade means a trade, the data on which has been compared or deemed compared in the Comparison System pursuant to the GSD Rules, and the GSD Rules describe how a Compared Trade is Novated. *See* GSD Rule 1 (definition of Compared Trade) and 5, Section 8(a) (describing Novation of Compared Trades), *supra* note 3.

²⁸ *See* Section 2(a) of GSD Rule 22A, *supra* note 3.

FICC would follow upon ceasing to act for a Defaulting Member.²⁹ The close-out process starts with the creation of a “Final Net Settlement Position” for each Eligible Netting Security with a distinct CUSIP Number.³⁰ This position is a net of all outstanding Deliver Obligations and Receive Obligations of the Defaulting Member in each such security.³¹ FICC then buys, sells, or otherwise liquidates the Final Net Settlement Positions.³²

GSD Rule 3A incorporates the default management provisions described above into the Sponsored Service.³³ Thus, FICC may suspend, prohibit, or limit access to FICC’s services by Sponsoring Members and Sponsored Members when any of the applicable circumstances enumerated in GSD Rule 21 would provide cause for such action.³⁴ If FICC ceases to act for a Sponsoring Member or Sponsored Member, the relevant provisions of GSD Rule 22A would apply.³⁵ Additionally, if FICC ceases to act for a Sponsoring Member, GSD Rule 3A provides FICC with the discretion to determine whether to close-out any affected Sponsored Member Trades and/or permit the Sponsored Members to complete their settlement.³⁶ If FICC determines to complete settlement, the Sponsored Member Trades would settle pursuant to the GSD Rules in the normal course of business.³⁷ GSD Rule 3A also includes provisions that govern the

²⁹ See Section 2(a) of GSD Rule 22A, *supra* note 3.

³⁰ See *id.*

³¹ See *id.*

³² See *id.*

³³ See Sections 13-18 of GSD Rule 3A, *supra* note 3.

³⁴ See *id.*

³⁵ See Sections 13-14 of GSD Rule 3A, *supra* note 3.

³⁶ See Section 14(c) of GSD Rule 3A, *supra* note 3.

³⁷ See *id.*

voluntary liquidation of done-with Sponsored Member Trades by either the Sponsoring Member or FICC.³⁸

The GSD Rules that describe the Agent Clearing Service currently do not contain provisions that would govern the default of an Agent Clearing Member.³⁹

The GSD Rules currently do not contain provisions that would permit the porting of indirect participant positions and margin between Netting Member intermediaries, neither in the regular course of business nor following the default of a Netting Member intermediary.

Finally, GSD Rule 22B describes the circumstances that would constitute a default by FICC (“Corporation Default”) and the actions that would follow such an event, including how novated transactions would be treated.⁴⁰ Specifically, following a Corporation Default, novated, unsettled transactions would be terminated, and Members would be required to take market action to close-out those positions and report the results of such action to FICC’s Board.⁴¹ GSD Rule 22B applies to activity that is cleared through the Sponsored Service and is incorporated into GSD Rule 3A by reference,⁴² but the provisions of GSD Rule 22B currently do not specify how Sponsored Member

³⁸ See Section 18 of GSD Rule 3A, *supra* note 3. Done-with transactions are those executed between an Indirect Participant and Indirect Participant’s Sponsoring Member or Agent Clearing Member. Done-away transactions are those executed between an Indirect Participant and a party other than the Indirect Participant’s Sponsoring Member or Agent Clearing Member (*i.e.*, either another Netting Member or Indirect Participant).

³⁹ See GSD Rule 8, *supra* note 3.

⁴⁰ See GSD Rule 22B, *supra* note 3.

⁴¹ See *id.*

⁴² See Section 17(a) of GSD Rule 3A, *supra* note 3.

Transactions, or other Indirect Participant activity, would be treated following a Corporation Default.⁴³

B. Proposed Changes

FICC proposes to expand the default management provisions in the GSD Rules applicable to the Sponsored Service and Agent Clearing Service to more fully address the default scenarios of Netting Member intermediaries, Indirect Participants, and FICC. Additionally, FICC proposes to add provisions to the GSD Rules that govern the porting of Indirect Participant activity between intermediary Netting Members, both in the normal course of business and following the default of an intermediary. Finally, FICC proposes several non-substantive technical updates and corrections to the GSD Rules.

FICC states that the proposed changes would encourage greater utilization of central clearing on the part of market participants by providing additional information in the GSD Rules regarding the rights and obligations of FICC's direct and indirect participants in the event of a default.⁴⁴ Additionally, FICC states that adding new porting provisions to the GSD Rules would provide indirect participants with a tool to manage their clearing activity and intermediary relationships and to manage their exposures to a defaulting intermediary.⁴⁵ FICC states that the proposed changes would thereby further facilitate access to GSD's clearance and settlement services.⁴⁶

1. Default Management Rules Governing the Sponsored Service

Sponsoring Member or Sponsored Member Default

⁴³ See GSD Rule 22B, *supra* note 3.

⁴⁴ See Notice of Filing, *supra* note 4, 90 FR at 26656.

⁴⁵ See Notice of Filing, *supra* note 4, 90 FR at 26657.

⁴⁶ See *id.*

Currently, Sections 13 through 16 of GSD Rule 3A address the default of a Sponsoring Member or Sponsored Member by incorporating GSD Rules 21, 22, and 22A, making those provisions applicable to Sponsoring Members, Sponsored Members, and Sponsored Member Trades.⁴⁷

As described above, in the event FICC ceases to act for a Sponsoring Member, Section 14(c) of GSD Rule 3A currently provides FICC with the discretion to either close-out affected Sponsored Member Trades and/or permit the Sponsored Members to complete their settlement.⁴⁸ FICC proposes to add a third alternative to the disposition of Sponsored Member Trades following a Sponsoring Member default – the porting (*i.e.*, transfer) of those positions to a different Sponsoring Member pursuant to proposed GSD Rule 26, discussed more fully below.⁴⁹

FICC also proposes to add a new Section 14(d)(i) to GSD Rule 3A to provide additional information regarding the operation of the settlement process.⁵⁰ Specifically, if FICC determines to permit the Sponsored Member of a defaulting Sponsoring Member to complete settlement with respect to affected Sponsored Member Trades, such settlement shall occur in accordance with Section 8 of GSD Rule 3A, as though the Sponsoring Member was not a Defaulting Member pursuant to GSD Rule 22A.⁵¹

⁴⁷ See Sections 14 and 16 of GSD Rule 3A, *supra* note 3. FICC also proposes to streamline these provisions by removing repetitive language and relocating the consolidated language in Sections 13 and 14 of GSD Rule 3A. See Notice of Filing, *supra* note 4, 90 FR at 26659.

⁴⁸ See Section 14(c) of GSD Rule 3A, *supra* note 3.

⁴⁹ See Notice of Filing, *supra* note 4, 90 FR at 26659.

⁵⁰ See *id.*

⁵¹ See *id.*

FICC also proposes to add a new Section 14(d)(ii) to GSD Rule 3A to provide additional information regarding the close-out process of Sponsored Member Trades.⁵² Specifically, if FICC determines to close-out the Sponsored Member Trades of a defaulting Sponsoring Member, FICC may net the positions of each Sponsored Member (including each Segregated Indirect Participant that is a Sponsored Member), in determining a Final Net Settlement Position.⁵³ However, FICC would not net the positions of one Sponsored Member (or Segregated Indirect Participant) against the positions of another Sponsored Member (or Segregated Indirect Participant).⁵⁴

Additionally, as originally filed, proposed Section 14(d)(ii) of GSD Rule 3A would provide that, with respect to any amount due to a Segregated Indirect Participant that is a Sponsored Member, FICC would make such payment to or as directed by the Sponsoring Member or its trustee or receiver.⁵⁵ In Amendment No. 1, FICC proposes to amend proposed Section 14(d)(ii) of GSD Rule 3A to clarify its applicability to Sponsored Members in general.⁵⁶ FICC's proposals to change Section 14(d) of GSD Rule 3A would not alter FICC's current processes.⁵⁷

Sponsoring Member's Ability to Close-Out Sponsored Member Trades

Currently, Section 18(b) of GSD Rule 3A allows a Sponsoring Member to terminate all, but not fewer than all, of a Sponsored Member's positions and

⁵² *See id.*

⁵³ *See id.*

⁵⁴ *See id.*

⁵⁵ *See id.*

⁵⁶ *See* Notice of Amendment No. 1, *supra* note 9, 90 FR at 45852.

⁵⁷ *See id.*

corresponding positions in the Sponsoring Member's Dealer Account.⁵⁸ In Amendment No. 1, FICC proposes to amend Section 18 (re-numbered Section 16) of GSD Rule 3A to provide Sponsoring Members the ability to close-out some or all of the relevant Sponsored Member Trades.⁵⁹ FICC states that providing such flexibility would better facilitate the ability of Sponsoring Members to provide clearing services to Sponsored Members.⁶⁰

Description of Additional Liquidation Mechanisms

Currently, Section 18 of GSD Rule 3A includes a provision that governs the voluntary liquidation of done-with Sponsored Member Trades by either the Sponsoring Member or FICC.⁶¹ In Amendment No. 1, FICC proposes to amend Section 18 (re-numbered Section 16) of GSD Rule 3A to describe additional mechanisms through which Sponsoring Members may liquidate both done-with and done-away transactions of Sponsored Members.⁶²

Specifically, FICC proposes to add a provision to Section 18 (re-numbered Section 16) of GSD Rule 3A that would describe two additional liquidation mechanisms ("SMP Liquidation Actions") available to Sponsoring Members to liquidate both done-with and done-away Sponsored Member Trades of a Sponsored Member.⁶³ First, to

⁵⁸ See Section 18(b) of GSD Rule 3A, *supra* note 3.

⁵⁹ See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45852.

⁶⁰ See *id.*

⁶¹ See Section 18 of GSD Rule 3A, *supra* note 3.

⁶² See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45851-52.

⁶³ See *id.* FICC states that both liquidation mechanisms are currently operationally available to Sponsoring Members. Amendment No. 1 would provide for these mechanisms explicitly in the GSD Rules, improving market participants' understanding of the actions available for Sponsoring Members to liquidate Sponsored Member Trades. See *id.*

liquidate positions resulting from Sponsored Member Trades other than Sponsored GC Trades, the Sponsoring Member may submit to FICC (to be recorded in the Sponsoring Member Omnibus Account) another Sponsored Member Trade that offsets, in whole or in part, any Net Settlement Position or Forward Net Settlement Position established in such Sponsoring Member Omnibus Account (the “Offsetting Transaction Mechanism”).⁶⁴ Second, for any Sponsored Member Trades, the Sponsoring Member may instruct FICC to transfer to a Proprietary Account of the Sponsoring Member any Net Settlement Position or Forward Net Settlement Position established in a Sponsoring Member Omnibus Account (the “Transfer Mechanism”). As a result of such instruction, the positions would become the proprietary positions of the Sponsoring Member.⁶⁵

2. Default Management Rules Governing the Agent Clearing Service

As described above, current GSD Rule 8 does not address default management within the Agent Clearing Service.⁶⁶ FICC proposes to adopt new provisions in GSD Rule 8 to govern the default of an Agent Clearing Member.⁶⁷ FICC also proposes to adopt new provisions in GSD Rule 8 that would align the default management processes across Indirect Participants (*i.e.*, Executing Firm Customers using the Agent Clearing Service and Sponsored Members using the Sponsored Service) where such alignment is appropriate.⁶⁸

⁶⁴ See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45852. This offsetting mechanism would not be available for Sponsored GC Trades because FICC settles Sponsored GC Trades on a gross basis and, therefore, an offsetting trade would not effectively liquidate a Sponsored GC Trade. *See id.*

⁶⁵ *See id.*

⁶⁶ See GSD Rule 8, *supra* note 3.

⁶⁷ See Notice of Filing, *supra* note 4, 90 FR at 26660.

⁶⁸ *See id.*

Voluntary Termination of Agent Clearing Member Status

Section 3(g) of GSD Rule 8 currently provides that an Agent Clearing Member may terminate its status as an Agent Clearing Member by providing notice to FICC.⁶⁹ However, this provision does not provide certainty regarding the treatment of the terminated Agent Clearing Member's unsettled Agent Clearing Transactions.⁷⁰ FICC proposes to expand Section 3(g) of GSD Rule 8 to include provisions aligned with those in Section 2(i) of GSD Rule 3A applicable to the voluntary termination of Sponsoring Member status.⁷¹ However, proposed Section 3(g) of GSD Rule 8 would reflect substantive differences between the voluntary termination of an Agent Clearing Member and a Sponsoring Member, including: (1) the Sponsoring Member Guaranty is not applicable within the Agent Clearing Service; and (2) FICC need not post an Important Notice when an Agent Clearing Member voluntarily terminates its status as such with respect to all Executing Firm Customers because FICC does not publish lists of Agent Clearing Members and their Executing Firm Customer relationships.⁷² Additionally, FICC proposes to expand Section 3(g) of GSD Rule 8 to include a more detailed description of the actions to be taken by both the Agent Clearing Member and FICC when an Agent Clearing Member voluntarily terminates its status as such.⁷³

Termination of Executing Firm Customer(s) Access to the Agent Clearing Service

⁶⁹ See Section 3(g) of GSD Rule 8, *supra* note 3.

⁷⁰ See *id.*

⁷¹ See Notice of Filing, *supra* note 4, 90 FR at 26660.

⁷² See *id.*

⁷³ See *id.*

FICC proposes to add a new Section 3(h) to GSD Rule 8 that would permit FICC to terminate the access of one or more Executing Firm Customers to the Agent Clearing Service.⁷⁴ FICC states that it may take such action, for example, if an Executing Firm Customer is subject to sanctions that would restrict or prohibit FICC from processing the Executing Firm Customer's transactions.⁷⁵

FICC's Right to Offset Agent Clearing Member Obligations

FICC proposes to add a new Section 5(f) to GSD Rule 8 to provide that when any obligation of an Agent Clearing Member arises under the GSD Rules to pay or perform with respect to an Executing Firm Customer, FICC may exercise a right to offset and net any such obligation against any obligations of FICC to the Agent Clearing Member in respect of such Agent Clearing Member's Proprietary Accounts.⁷⁶ This provision would align with Section 11 of GSD Rule 3A applicable to the Sponsored Service, except with respect to the Sponsoring Member Guaranty, which is not applicable to the Agent Clearing Service.⁷⁷

Application of GSD's Loss Allocation Provisions to the Agent Clearing Service

FICC proposes to expand Section 7(f) of GSD Rule 8 to state that Executing Firm Customers shall not be obligated for allocations of loss or liability incurred by FICC pursuant to GSD Rule 4.⁷⁸ To the extent a loss or liability is determined by FICC to arise in connection with Agent Clearing Transactions (*i.e.*, in connection with the insolvency

⁷⁴ *See id.*

⁷⁵ *See id.*

⁷⁶ *See* Notice of Filing, *supra* note 4, 90 FR at 26660-61.

⁷⁷ *See id.*

⁷⁸ *See* Notice of Filing, *supra* note 4, 90 FR at 26661.

or default of an Agent Clearing Member), the Executing Firm Customers shall not be responsible for, or considered in, the loss allocation calculation and such obligation would be the responsibility of the Agent Clearing Member.⁷⁹ These provisions would align with Section 12(a) of GSD Rule 3A applicable to the Sponsored Service, except with respect to Off-the-Market Transactions, which are not applicable to Agent Clearing Transactions.⁸⁰

Agent Clearing Member Default

FICC proposes to add Section 8 to GSD Rule 8 to describe the default management process that would govern the default of an Agent Clearing Member.⁸¹ These proposed provisions would align with Section 14 of GSD Rule 3A applicable to the Sponsored Service, as appropriate.⁸² Section 8 of GSD Rule 8 would address an Agent Clearing Member default by incorporating GSD Rules 21, 22, and 22A, making those provisions applicable to Agent Clearing Members and Agent Clearing Transactions.⁸³ Additionally, in the event FICC ceases to act for an Agent Clearing Member, Section 8(c) of GSD Rule 8 would provide FICC with the discretion to either close-out affected Agent Clearing Transactions, permit the Executing Firm Customers to complete their settlement, or port (*i.e.*, transfer) all or part of those positions to a different Agent Clearing Member pursuant to proposed GSD Rule 26, discussed more fully below.⁸⁴ Section 8(d) of GSD Rule 8 would provide that if FICC determines to permit the

⁷⁹ *See id.*

⁸⁰ *See id.*

⁸¹ *See* Notice of Filing, *supra* note 4, 90 FR at 26661-62.

⁸² *See id.*

⁸³ *See id.*

⁸⁴ *See* Notice of Filing, *supra* note 4, 90 FR at 26661.

Executing Firm Customers of the defaulting Agent Clearing Member to complete settlement with respect to affected Agent Clearing Transactions, settlement shall occur as if the Agent Clearing Member was not a Defaulting Member pursuant to GSD Rule 22A.⁸⁵ Section 8(e) of GSD Rule 8 would provide that FICC may net the positions of Executing Firm Customers (other than Segregated Indirect Participants) against the positions of other Executing Firm Customers that are recorded in the same Agent Clearing Member Omnibus Account in determining a Final Net Settlement Position.⁸⁶ Finally, Section 8(e) of GSD Rule 8 would provide that with respect to any amount due to a Segregated Indirect Participant that is an Executing Firm Customer, FICC would make such payment to or as directed by the Agent Clearing Member or its trustee or receiver.⁸⁷

Liquidation of Agent Clearing Transactions

FICC proposes to add a new Section 9 to GSD Rule 8 to describe the ability of FICC and Agent Clearing Members to liquidate the done-with Agent Clearing Transactions of an Executing Firm Customer and outline the operation of that liquidation.⁸⁸ Overall, proposed Section 9 of GSD Rule 8 would align with the parallel provisions in GSD Rule 3A that address the voluntary liquidation of Sponsored Member Trades, except with respect to the Sponsoring Member Guaranty and to reflect that unlike Sponsored Members, Executing Firm Customers are not GSD members.⁸⁹

⁸⁵ *See id.*

⁸⁶ *See id.*

⁸⁷ *See* Notice of Filing, *supra* note 4, 90 FR at 26661-62.

⁸⁸ *See* Notice of Filing, *supra* note 4, 90 FR at 26662-63.

⁸⁹ *See id.*

Section 9(a) of GSD Rule 8 would provide that liquidation can only occur if the Agent Clearing Member is not a Defaulting Member, FICC has not ceased to act for the Agent Clearing Member, and no Corporation Default has occurred.⁹⁰ Section 9(b) of GSD Rule 8 would provide that either the Agent Clearing Member or FICC may terminate the long and short Net Settlement Positions and Forward Net Settlement Positions of the Executing Firm Customer and the corresponding positions of the Agent Clearing Member.⁹¹ Section 9(b) of GSD Rule 8 would further provide that terminations would be finalized through the creation of a Final Net Settlement Position, representing the net obligations of the parties for each Eligible Netting Security.⁹² As originally filed, Section 9 of GSD Rule 8 would allow FICC to terminate some or all of the done-with Agent Clearing Transactions of an Executing Firm Customer. In Amendment No. 1, FICC would amend Section 9 of GSD Rule 8, as originally proposed, to remove FICC's ability to liquidate Agent Clearing Transactions under this provision.⁹³ Unlike Sponsored Members, Executing Firm Customers are not limited members of FICC.⁹⁴ Therefore, under the amended proposal, FICC would only have the ability to settle, close-out, or (if the proposed rule change is approved) transfer Agent Clearing Transactions in the event FICC has ceased to act for an Agent Clearing Member.⁹⁵

⁹⁰ See Notice of Filing, *supra* note 4, 90 FR at 26662.

⁹¹ See *id.*

⁹² See *id.*

⁹³ See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45853.

⁹⁴ See *id.*

⁹⁵ See *id.*

Section 9(c) of GSD Rule 8 would provide for the calculation and settlement of liquidation amounts.⁹⁶ Specifically, the Executing Firm Customer Liquidation Amount and the corresponding Agent Clearing Member Liquidation Amount would be determined based on net positions, market prices, and any gains, losses, or costs incurred by the Agent Clearing Member.⁹⁷ Additionally, payments would be processed through a designated Agent Clearing Funds-Only Omnibus Account, with obligations automatically set off between FICC and the Agent Clearing Member.⁹⁸ Section 9(d) of GSD Rule 8 would require the Agent Clearing Member to indemnify FICC against any claims by Executing Firm Customers challenging the liquidation calculations.⁹⁹

As originally filed, Section 9 of GSD Rule 8 describes how Agent Clearing Members may liquidate an Executing Firm Customer's done-with Agent Clearing Transactions. In Amendment No. 1, FICC would amend Section 9 of GSD Rule 8, as originally proposed, to describe additional mechanisms through which Agent Clearing Members may liquidate both done-with and done-away transactions of Executing Firm Customers.¹⁰⁰ FICC proposes to add a new Section 9(c) to GSD Rule 8 regarding the Agent Clearing Service to include the same two additional liquidation mechanisms (*i.e.*, the Offsetting Transaction Mechanism and the Transfer Mechanism, collectively, the "ACM Liquidation Actions") that FICC proposes to add to GSD Rule 3A regarding the Sponsored Service described above.¹⁰¹

⁹⁶ See Notice of Filing, *supra* note 4, 90 FR at 26662-63.

⁹⁷ See *id.*

⁹⁸ See *id.*

⁹⁹ See Notice of Filing, *supra* note 4, 90 FR at 26663.

¹⁰⁰ See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45851-52.

¹⁰¹ See *id.*

3. Close-Out Rules for Indirect Participant Activity

FICC proposes to expand the descriptions of the procedures set forth in GSD Rule 22A that apply following a Netting Member Default.¹⁰² Specifically, Section 2(a) of GSD Rule 22A would exclude from scope any Sponsored Member Trades or Agent Clearing Transactions that FICC determines to settle pursuant to GSD Rule 3A or GSD Rule 8.¹⁰³ Section 2(b) of GSD Rule 22A would address how FICC would close-out Indirect Participant activity.¹⁰⁴ These provisions would apply the close-out procedures to positions recorded in an Indirect Participants Account and specify how Final Net Settlement Positions would be determined, permitting FICC to net positions on an Indirect Participant-by Indirect Participant (*i.e.*, gross) basis and across Executing Firm Customers in a manner consistent with the proposed parallel provisions in GSD Rules 3A and 8 described above.¹⁰⁵

Additionally, FICC proposes to amend GSD Rule 22A to refine its authority to take market action on each Final Net Settlement Position of a Defaulting Member, including the discretion to decline to take market action when a Final Net Settlement Position has opposite directionality to another position established in the same security for the Defaulting Member or its Indirect Participants.¹⁰⁶ In such circumstances, FICC would determine the value of the positions through other market actions or by reference to available market data.¹⁰⁷

¹⁰² See Notice of Filing, *supra* note 4, 90 FR at 26663.

¹⁰³ See *id.*

¹⁰⁴ See *id.*

¹⁰⁵ See *id.*

¹⁰⁶ See *id.*

¹⁰⁷ See *id.*

FICC also proposes to clarify that Indirect Participants may, but are not obligated to, take market action to close-out any outstanding positions that FICC determines to close-out pursuant to GSD Rule 3A or GSD Rule 8.¹⁰⁸ In Amendment No. 1, FICC would clarify its treatment of market action by Indirect Participants.¹⁰⁹ Specifically, Amendment No. 1 would amend GSD Rule 22A to provide that, with respect to any market action taken by an Indirect Participant, FICC will not require the Indirect Participant to report the data on any such market action to FICC (except to the extent otherwise set forth in the GSD Rules).¹¹⁰ Additionally, FICC will not incorporate such data into its calculation of any amount owing by or to the Defaulting Member or Indirect Participant to any greater extent than it would have done so in the absence of the statement proposed to be added to GSD Rule 22A by the proposed rule change.¹¹¹

FICC further proposes to expand the existing provision that allows FICC to offset losses with gains, which currently applies only to a Defaulting Member's Market Professional Cross-Margining Account, to provide that FICC may use gains realized from closing-out a Defaulting Member's Proprietary Transactions to offset losses associated with the close-out of Indirect Participant activity.¹¹² Finally, GSD Rule 22A would specify that FICC would include, without limitation, all costs and fees incurred in closing-out Final Net Settlement Positions when determining any resulting loss or liability, without changing FICC's existing rights or obligations.¹¹³

¹⁰⁸ *See id.*

¹⁰⁹ *See* Notice of Amendment No. 1, *supra* note 9, 90 FR at 45853.

¹¹⁰ *See id.*

¹¹¹ *See id.*

¹¹² *See* Notice of Filing, *supra* note 4, 90 FR at 26663.

¹¹³ *See id.*

4. Default Management Rules Governing a Corporation Default

FICC proposes to amend GSD Rule 22A to clarify how Indirect Participant activity would be treated in the event of a Corporation Default.¹¹⁴ Specifically, GSD Rule 22B would apply to all Sponsored Member Trades and Agent Clearing Transactions, and the phrase “each relevant Member” would include Sponsored Members.¹¹⁵ Additionally, only Members with outstanding Novated Transactions would be required to take market action.¹¹⁶ Sponsored Members may appoint Sponsoring Members as agent to act on their behalf, and Agent Clearing Members may act for their Executing Firm Customers unless otherwise agreed.¹¹⁷ Either the Member or its agent would report market action results to FICC’s Board.¹¹⁸

FICC also proposes to expand GSD Rule 22B to clarify how net amounts payable to or from a Member would be calculated.¹¹⁹ Indirect Participant claims would not be netted against amounts owed by their Sponsoring Member or Agent Clearing Member.¹²⁰ Activity in Agent Clearing Member Omnibus Accounts (excluding Segregated Indirect Participant Accounts) would be netted across all Executing Firm Customers.¹²¹ Activity in Sponsoring Member Omnibus Accounts and Segregated Indirect Participant Accounts would be netted on an Indirect Participant-by-Indirect Participant (*i.e.*, gross) basis.¹²²

¹¹⁴ See Notice of Filing, *supra* note 4, 90 FR at 26663-64.

¹¹⁵ See Notice of Filing, *supra* note 4, 90 FR at 26664.

¹¹⁶ See *id.*

¹¹⁷ See *id.*

¹¹⁸ See *id.*

¹¹⁹ See *id.*

¹²⁰ See *id.*

¹²¹ See *id.*

¹²² See *id.*

Multiple net amounts may be calculated for a Netting Member intermediary to reflect separate amounts for its Indirect Participants.¹²³ Finally, FICC proposes to make corresponding changes to Section 17(a) (re-numbered Section 15(a)) of GSD Rule 3A to ensure payments to Sponsored Members following a Corporation Default would be made on a net basis for each Sponsored Member and Segregated Indirect Participant.¹²⁴

5. Porting Indirect Participant Activity

FICC proposes to adopt a new GSD Rule 26 that would describe the process by which an Indirect Participant's activity and, when applicable, Segregated Customer Margin, could be transferred between Sponsoring Members or Agent Clearing Members, both in the normal course of business and following the default of a Sponsoring Member or Agent Clearing Member.¹²⁵

Porting in the Normal Course of Business

Section 1 of GSD Rule 26 would govern the transfer of an Indirect Participant's activity and, where applicable, Segregated Customer Margin between Sponsoring Members or Agent Clearing Members in the normal course of business.¹²⁶ Section 1 of GSD Rule 26 would permit the transfer of all or part of an Indirect Participant's activity from a Sending Member (*i.e.*, the originating Sponsoring Member or Agent Clearing Member) to a Receiving Member (*i.e.*, the recipient Sponsoring Member or Agent Clearing Member).¹²⁷ Indirect Participants would only be able to transfer activity within

¹²³ *See id.*

¹²⁴ *See id.*

¹²⁵ *See* Notice of Filing, *supra* note 4, 90 FR at 26664-65.

¹²⁶ *See id.*

¹²⁷ *See* Notice of Filing, *supra* note 4, 90 FR at 26664.

the same type of Indirect Participants Account.¹²⁸ A Sending Member would submit the trades to FICC's real-time trade matching system, and the Receiving Member would be deemed to accept the transfer by submitting matching data by the published deadline.¹²⁹ Transfers submitted by the deadline would be effective by the close of business on that day, while later submissions would take effect the following business day.¹³⁰

Section 1 of GSD Rule 26 would establish conditions for the transfer of Indirect Participant Activity, including (1) the Indirect Participant has completed onboarding with the Receiving Member, (2) the trades have been novated but not yet included in a Net Settlement Position, and (3) the Sending Member and Receiving Member have submitted and accepted the required trade data.¹³¹ FICC would maintain its lien on the Sending Member's Clearing Fund and, where applicable, Segregated Customer Margin until the Receiving Member satisfies the relevant margin requirements.¹³²

Additionally, Section 1 of GSD Rule 26 would establish conditions necessary for a Sending Member to transfer the Segregated Customer Margin deposits of a Segregated Indirect Participant to a Receiving Member.¹³³ Such conditions include that (1) all of the activity of the Segregated Indirect Participant is transferred from the Sending Member to a Segregated Indirect Participants Account of the Receiving Member, (2) the Sending Member has identified to FICC the cash deposit and Eligible Clearing Fund Securities to

¹²⁸ *See id.*

¹²⁹ *See id.*

¹³⁰ *See id.*

¹³¹ *See* Notice of Filing, *supra* note 4, 90 FR at 26664-65.

¹³² *See* Notice of Filing, *supra* note 4, 90 FR at 26665.

¹³³ *See id.* Note H of Rule 15c3-3 under the Exchange Act requires Segregated Customer Margin to be funded with the cash and eligible securities of the Segregated Indirect Participant. *See* 17 CFR 240.15c3-3a.

be transferred to the Receiving Member, and (3) the transfer is submitted to FICC in accordance within the applicable timeframes.¹³⁴ FICC would not process the transfer of Segregated Customer Margin if any of the foregoing conditions are not met.¹³⁵

Porting Following a Sponsoring Member or Agent Clearing Member Default

Section 2 of GSD Rule 26 would govern the transfer of Indirect Participant activity and, where applicable, Segregated Customer Margin, following the default of a Sponsoring Member or Agent Clearing Member.¹³⁶ Subject to applicable law, FICC would attempt to transfer all or part of the Defaulting Member's Indirect Participant transactions to alternate Sponsoring Members or Agent Clearing Members.¹³⁷ FICC would retain discretion over such transfers, recognizing that circumstances such as bankruptcy court orders could limit FICC's ability to transfer activity, but the provisions would document in the GSD Rules FICC's intention to effect such transfers when possible and appropriate.¹³⁸

Section 2 of GSD Rule 26 would also provide that FICC's lien on a Defaulting Member's Clearing Fund would continue to secure the obligations of any transferred activity until the Receiving Member meets the required Sponsoring Member or Agent Clearing Member omnibus account deposits.¹³⁹ This provision would enable FICC to continue to manage the risks of such transferred activity.¹⁴⁰

¹³⁴ See Notice of Filing, *supra* note 4, 90 FR at 26665.

¹³⁵ See *id.*

¹³⁶ See *id.*

¹³⁷ See *id.*

¹³⁸ See *id.*

¹³⁹ See *id.*

¹⁴⁰ See *id.*

As originally filed, Section 2 of GSD Rule 26 does not define what constitutes a “default” of a Netting Member intermediary that may result in involuntary porting of Indirect Participant positions. In Amendment No. 1, FICC would clarify that proposed Section 2 of GSD Rule 26 would apply in the event FICC ceases to act for a Sponsoring Member or Agent Clearing Member under the GSD Rules.¹⁴¹ Amendment No. 1 would also clarify that any transfer under Section 2 of GSD Rule 26 would require the consent of the Receiving Member.¹⁴²

6. Technical Updates and Corrections

FICC proposes several non-substantive technical changes and corrections to the GSD Rules.¹⁴³ FICC proposes to add a defined term for “Indirect Participant” to GSD Rule 1 that would refer to any Sponsored Member or Executing Firm Customer.¹⁴⁴ FICC also proposes to add a reference to proposed GSD Rule 26 in Section 17(b) (re-numbered Section 15(b)) of GSD Rule 3A applicable to Sponsoring Members and Sponsored Members.¹⁴⁵ Additionally, FICC proposes to change existing references to the term “Member” in GSD Rule 22A to “Defaulting Member” for accuracy.¹⁴⁶ FICC proposes to create additional subsections in Section 2 of GSD Rule 22A to improve its readability.¹⁴⁷

Finally, FICC would make a grammatical correction to Section 14(a) of GSD Rule 3A, correct a section reference in Section 18(e) (re-numbered Section 16(e)) of GSD

¹⁴¹ See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45853.

¹⁴² See *id.*

¹⁴³ See Notice of Filing, *supra* note 4, 90 FR at 26665.

¹⁴⁴ See *id.*

¹⁴⁵ See *id.*

¹⁴⁶ See *id.*

¹⁴⁷ See *id.*

Rule 3A, correct a typographical error in Section 2(b) of GSD Rule 8, and remove an unnecessary heading at the top of GSD Rule 22B.¹⁴⁸

II. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Exchange Act¹⁴⁹ 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 thereunder applicable to such organization. After carefully considering the proposed rule change, as modified by Amendment No. 1, the Commission finds that the proposed rule change, as modified by Amendment No. 1, 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, as modified by Amendment No. 1, is consistent with Section 17A(b)(3)(F) of the Exchange Act¹⁵⁰ and Rules 17ad-22(e)(13), (e)(18)(iv)(C), (e)(19), and (e)(23)(i) thereunder.¹⁵¹

A. Consistency with Section 17A(b)(3)(F)

Section 17A(b)(3)(F) of the Exchange Act requires that the rules of a clearing agency, such as FICC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions, and assure the safeguarding of securities and funds which are in the control of the clearing agency or for which it is responsible, and protect investors and the public interest.¹⁵²

¹⁴⁸ See *id.*

¹⁴⁹ 15 U.S.C. 78s(b)(2)(C).

¹⁵⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵¹ 17 CFR 240.17Ad-22(e)(13), 17 CFR 240.17Ad-22(e)(18)(iv)(C), 17 CFR 240.17Ad-22(e)(19), and 17 CFR 240.17Ad-22(e)(23)(i).

¹⁵² 15 U.S.C. 78q-1(b)(3)(F).

As described above in Section I.B., FICC proposes to expand the default management provisions in the GSD Rules applicable to the Sponsored Service and Agent Clearing Service to more fully address the default scenarios of Netting Member intermediaries, Indirect Participants, and FICC. Additionally, FICC proposes to add provisions to the GSD Rules that govern the porting of Indirect Participant activity between intermediary Netting Members, both in the normal course of business and following the default of an intermediary. Finally, FICC proposes several non-substantive technical updates and corrections to the GSD Rules.

As described above in Section I.B., FICC proposes changes to the GSD Rules that are designed to encourage and facilitate the utilization of GSD's clearance and settlement services by a greater number of market participants for transactions in U.S. Treasury securities, including for done-with and done-away transactions. Specifically, the proposed changes to adopt and expand the default management provisions in the GSD Rules would encourage participation in central clearing by improving market participants' understanding of FICC's default management procedures applicable to indirect access models and should help market participants better evaluate the fitness of such models for their individual needs. Currently, the GSD rules do not address the default of an Agent Clearing Member. These proposed changes should make clear how such a default would be administered. Additionally, the proposed changes to adopt rules that would govern porting Indirect Participant activity between intermediary Netting Members would further encourage participation in central clearing by providing market participants with a useful tool to manage their clearing relationships and trading activity.

The proposed changes should help extend the benefits of central clearing to a broader segment of the market, particularly to firms that would offer or participate through FICC's indirect access models. Bringing more securities transactions into central clearing would promote the prompt and accurate clearance and settlement of such transactions, providing benefits to FICC, FICC's participants, and the broader market. To the extent that the proposed changes would encourage greater participation in central clearing and improved understanding of the default management processes at FICC, the overall amount of counterparty credit risk in the securities markets would decrease. FICC would be able to risk-manage more transactions centrally, pursuant to risk management procedures that the Commission has reviewed and approved,¹⁵³ and FICC would guarantee trade settlement in the event of a default.

Additionally, more central clearing would help market participants avoid potential disorderly default scenarios. A CCP, which has guaranteed both sides of a trade, is uniquely positioned to coordinate a defaulting participant's trades. The CCP's non-defaulting participants can rely on the CCP to complete the defaulting participant's trades and cover any resulting losses using the defaulting participant's resources and/or other default management tools. By contrast, defaults in bilaterally settled trades are likely to be less orderly and subject to variable default management techniques because bilaterally settled trades are not subject to default management processes that are required to be in place and publicly disclosed by a CCP, such as FICC.¹⁵⁴ Moreover, the increased

¹⁵³ See Section 19(b) of the Exchange Act and Rule 19b-4 thereunder.

¹⁵⁴ A covered clearing agency, such as FICC, is required to establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, ensure that it has the authority and operational capacity to contain losses and liquidity demands and continue to meet its obligations, which must be tested annually, and publicly disclose all relevant rules and material

specificity regarding FICC's default management processes should promote prompt and accurate clearance and settlement of securities transactions by ensuring that FICC and its participants can manage a default smoothly and with less risk to the market.

CCP rules that are clear, comprehensible, and more effectively describe the CCP's risk management procedures to market participants 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.¹⁵⁵ The proposed rule change, as modified by Amendment No.1, is consistent with those objectives because improving market participants' understanding of FICC's default management procedures and providing market participants with porting tools to manage their clearing relationships and trading activity would encourage greater participation in central clearing, thereby ensuring that a greater proportion of securities transactions are subject to the risk mitigation benefits of central clearing described above.

Moreover, the proposed changes to adopt and expand the default management provisions in the GSD Rules would provide clarity to better prepare market participants to deal with a participant default, resulting in a more orderly management of such an event, minimizing default losses and reducing potential risk to FICC and its non-defaulting participants. Accordingly, the proposed changes would ensure the

procedures, including key aspects of its default rules and procedures. *See* Rule 17ad-22(e)(13) and (e)(23)(i). *See also* Covered Clearing Agency Standards Proposing Release, Exchange Act Release No. 71699 (Mar. 12, 2014), 79 FR 29507, 29545 (May 27, 2014) (stating that a CCP's default management procedures would provide certainty and predictability about the measures available to a CCP in the event of a default which would, in turn facilitate the orderly handling of member defaults and would enable members to understand their obligations to the CCP in extreme circumstances).

¹⁵⁵ 15 U.S.C. 78q-1(b)(3)(F).

safeguarding of securities and funds in FICC’s custody or control, consistent with Section 17A(b)(3)(F) of the Exchange Act.¹⁵⁶

Finally, FICC’s proposed technical updates and corrections to the GSD Rules would promote the prompt and accurate clearance and settlement of securities transactions and protect investors and the public interest by ensuring that the GSD Rules are clear and comprehensible, which would enable market participants to readily understand their rights and obligations in connection with FICC’s clearance and settlement services.¹⁵⁷

1. Comments on Default Management Provisions for Done-Away Trades

As described above in Section I.B., the proposed rule change, as originally filed, would include default management provisions explicitly in the GSD Rules for cleared done-with trades. In that regard, commenters support the proposed rule change.¹⁵⁸

However, commenters request that FICC amend the proposed rule change to provide liquidation mechanisms in the GSD Rules for cleared done-away trades as well.¹⁵⁹ One such commenter states that FICC should amend the GSD Rules to provide

¹⁵⁶ See *id.*

¹⁵⁷ See *id.*

¹⁵⁸ See Letter from Allison Lurton, General Counsel and Chief Legal Officer, FIA (July 14, 2025) (“FIA Letter”) at 2-3, *supra* note 5; Letter from Katherine Darras, General Counsel, ISDA (July 14, 2025) (“ISDA Letter I”) at 1, *supra* note 5.

¹⁵⁹ See ISDA Letter I at 2, *supra* note 158 (stating that such rules would be critical to ensuring the viability of done-away clearing at FICC); FIA Letter at 2-8, *supra* note 158 (stating that the absence of such rules would: leave Netting Member intermediaries without clear authority to close-out or otherwise manage a defaulting customer’s done-away trades; render done-away clearing unacceptably risky because Netting Member intermediaries would be unable to effectively plan for a customer default; create doubts as to whether done-away trades would be treated as subject to a “qualifying master netting agreement” (“QMNA”) – a precondition to obtaining favorable netting and regulatory capital treatment; and make it more challenging to price done-away clearing services because Netting Member intermediaries would not know their protections in a customer default scenario).

default procedures and close-out rules for done-away trading similar to those already established by derivatives clearing organizations, where done-away clearing is the norm.¹⁶⁰ The commenter requests that FICC amend the GSD Rules to expressly permit Netting Member intermediaries to either settle, transfer, liquidate, or offset a defaulting customer's done-away trades.¹⁶¹

Although FICC disagrees that the absence of express language in the GSD Rules regarding a Netting Member intermediary's ability to liquidate a customer's done-away trades precludes intermediaries from engaging in done-away clearing,¹⁶² FICC acknowledges that adding such provisions to the GSD Rules can further facilitate done-away clearing by providing market participants with greater clarity on the subject.¹⁶³ Accordingly, in Amendment No. 1 to the proposed rule change, FICC proposes to amend the GSD Rules to expressly provide for done-away clearing.¹⁶⁴ As described above in Section I.B., FICC proposes to add language to the GSD Rules that describes the SMP Liquidation Actions that Netting Member intermediaries may take to liquidate done-away

¹⁶⁰ See FIA Letter at 6-7 (citing the rulebooks of LCH SwapClear ("LCH") and ICE Clear Credit ("ICE"), *supra* note 158).

¹⁶¹ See FIA Letter at 2, 5-8 (stating that Netting Member intermediaries should have the ability to: transfer one or more positions of a defaulting customer to the Netting Member's proprietary account; transfer one or more positions of a defaulting customer to the proprietary account of another Netting Member or another Netting Member's customer; credit one or more positions to the customer's account that would offset or otherwise flatten the customer's open positions; or immediately settle the customer's positions by entering into offsetting trades (effectively liquidating such positions)); *see also* Letter from Katherine Darras, General Counsel, ISDA (Oct. 14, 2025) ("ISDA Letter II") at 2 (stating that Agent Clearing Members should have the ability to: cause FICC to transfer positions between the Agent Clearing Member's proprietary account and its Agent Clearing Member Omnibus Account; and continue to settle in the ordinary course one or more positions), *supra* note 5.

¹⁶² See FICC Letter at 5 (highlighting that a number of CCPs either do not include express liquidation mechanisms in their rulebooks, or include substantially more limited provisions than the commenter requests from FICC), *supra* note 6.

¹⁶³ See FICC Letter at 5, *supra* note 6.

¹⁶⁴ See Notice of Amendment No. 1, *supra* note 9, 90 FR at 45851-52.

transactions, *i.e.*, the Offsetting Transaction Mechanism and the Transfer Mechanism. FICC states that the Offsetting Transaction Mechanism is the principal means that clearing members at other CCPs have historically used to liquidate done-away customer positions.¹⁶⁵ FICC states that the Transfer Mechanism is an alternative preferred by market participants in certain circumstances.¹⁶⁶

FICC states that it is not necessary, at this time, to describe additional liquidation mechanisms in the GSD Rules to facilitate done-away clearing.¹⁶⁷ Regarding the commenter's specific requests (*e.g.*, liquidation via settlement), FICC states that the commenter has not described how such mechanisms would function or what use-case such mechanisms would serve.¹⁶⁸ FICC acknowledges the possibility that other mechanisms may be necessary or beneficial to provide market participants with greater flexibility or to address particular regulatory or operational requirements.¹⁶⁹ However, before proposing an additional liquidation mechanism in the GSD Rules, FICC cites the need to ensure that it has the operational capacity to support such mechanism and an understanding of how the mechanism would operate from a risk-management, legal, operational, and practical perspective.¹⁷⁰

¹⁶⁵ See FICC Letter at 7, *supra* note 6.

¹⁶⁶ See *id.* (describing situations in which a customer's portfolio is too large and complex, such that transferring the portfolio to the clearing member's proprietary account would enable the clearing member to use portfolio hedges and macro-unwinds rather than offsetting transactions or in which the customer is from a jurisdiction where the legal regime does not clearly support an offsetting mechanism).

¹⁶⁷ See FICC Letter at 7-8, *supra* note 6.

¹⁶⁸ See *id.*

¹⁶⁹ See *id.*

¹⁷⁰ See *id.*

The proposed changes in Amendment No. 1 to include explicit liquidation provisions for done-away transactions in the GSD Rules largely address the commenters' requests.¹⁷¹ The Commission agrees that the proposed changes in Amendment No. 1 provide greater clarity and certainty to enable market participants to offer and engage in done-away clearing.

Additionally, the Commission agrees that FICC need not amend the GSD Rules to include additional liquidation mechanisms for done-away transactions at this time. First, express liquidation provisions are not necessary to permit Netting Member intermediaries to effect transactions otherwise permitted under the GSD Rules. As cited by FICC above, the GSD Rules currently permit a Netting Member intermediary to liquidate a customer's positions by entering into offsetting transactions in the customer's account or settling a customer's transactions.¹⁷² Second, FICC expresses a willingness to consider adding other liquidation mechanisms to the GSD Rules in the future, based on fully developed use-cases and analyses of the risk-management, legal, operational, and practical implications of such mechanisms.¹⁷³ The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.¹⁷⁴ The absence of additional done-away liquidation mechanisms from the GSD Rules does not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

¹⁷¹ Indeed, following FICC's filing of Amendment No. 1, one commenter submitted a supportive follow-up comment letter, urging the Commission's approval and FICC's implementation of the amended proposed rule change. *See* ISDA Letter II at 1, *supra* note 161.

¹⁷² *See* FICC Letter at 5-6 (citing Section 6-9 of GSD Rule 3A and Sections 5(a), 6(b), and 6(d) of GSD Rule 8), *supra* note 6.

¹⁷³ *See* FICC Letter at 7-8, *supra* note 6.

¹⁷⁴ *See* 15 U.S.C. 78s(b)(2)(C)(i).

One commenter requests that FICC amend the GSD Rules to contain provisions allowing Netting Member intermediaries to engage in any liquidation mechanism without the consent of a defaulting customer. In response, FICC states that the bilateral agreement between the Netting Member and its customer should govern such terms between the parties, not the GSD Rules.¹⁷⁵

The Commission agrees that FICC need not amend the GSD Rules to expressly permit Netting Member intermediaries to liquidate customer positions without customer consent. Market participants should generally have the flexibility to determine the negotiable aspects of their relationships in their bilateral agreements.¹⁷⁶

Commenters also request that FICC amend the GSD Rules to clarify that a Netting Member intermediary acts as principal (*i.e.*, not as agent) for a defaulting customer when the Netting Member intermediary closes-out or otherwise takes action with respect to the defaulting customer's trades.¹⁷⁷ Commenters state that this clarification would ensure the enforceability of the Netting Member's remedies across an array of jurisdictions.¹⁷⁸

¹⁷⁵ See FICC Letter at 8-9, *supra* note 6.

¹⁷⁶ See *e.g.*, 2024 SIFMA Master Treasury Securities Clearing Agreement: Done-With ("SIFMA Treasury Clearing Agreement"), Section 4(b)(i), *available at* <https://www.sifma.org/wp-content/uploads/2024/09/2024-SIFMA-Master-Treasury-Securities-Clearing-Agreement-Done-With.pdf> (providing the Clearing Member sole discretion to exercise termination, liquidation, and other rights in the event of a customer default); *see also* Account Treatment for UST Repo Transactions Cleared Through FICC, (Sept. 11, 2025), *available at* https://www.sifma.org/wp-content/uploads/2025/09/Public-SIFMA-Accounting-UST-Clearing-Whitepaper_final.pdf ("Accounting White Paper") at 2 (assuming that the bilateral agreement between intermediaries and customers would permit intermediaries to liquidate customer positions without customer consent in the event of a customer default).

¹⁷⁷ See FIA Letter at 2, 7-8, *supra* note 158; ISDA Letter II at 1, *supra* note 161.

¹⁷⁸ See *id.*

In response, FICC states that whether a Netting Member intermediary acts as an agent for its customer or as principal generally depends on the bilateral agreement and substance of the relationship between the two parties, not on the views or intent of a third party, such as FICC.¹⁷⁹ To support its position, FICC cites the absence of such provisions from other CCP rulebooks.¹⁸⁰ Additionally, FICC notes that the Accounting Committee Working Group of the Securities Industry and Financial Markets Association (“SIFMA”) recently published a white paper to facilitate market participants’ accounting analyses of FICC-cleared transactions including done-away trades.¹⁸¹ The Accounting White Paper’s conclusions are premised on certain assumptions and understandings regarding the capacity in which an Agent Clearing Member acts when submitting, carrying, and clearing Agent Cleared Transactions and the terms contained in the bilateral agreement between the Agent Clearing Member and its Executing Firm Customer.¹⁸² FICC states that it would not be appropriate or consistent with FICC’s regulatory requirements to prescribe capacity requirements that could disrupt or raise a question about a Netting Member intermediary’s ability to structure its relationship in a manner consistent with the Accounting White Paper.¹⁸³

The Commission agrees that FICC need not amend the GSD Rules to expressly provide that a Netting Member acts as principal (*i.e.*, not as agent) when liquidating a customer’s transactions. Market participants should generally have the flexibility to

¹⁷⁹ *See id.*

¹⁸⁰ *See* FICC Letter at 9-10, *supra* note 6 (citing the rulebooks of CME, ICE, and OCC), *supra* note 158.

¹⁸¹ *See id.* (citing Accounting White Paper), *supra* note 176.

¹⁸² *See* FICC Letter at 9-10, *supra* note 6.

¹⁸³ *See id.*

determine the negotiable aspects of their relationships in their bilateral agreements.¹⁸⁴

This is consistent with the Commission’s discussion in the Treasury Clearing Rules Adopting Release regarding the importance of not removing the ability of such intermediaries to determine which risks to take with respect to guaranteeing transactions to a CCP, in order to encourage Netting Member intermediaries to provide services that enable customers to access central clearing.¹⁸⁵

2. Comments on “Market Action” in Close-Out Scenarios

As described above in Section I.B., the proposed rule change, as originally filed, would amend GSD Rule 22A to clarify that FICC’s right to take market action with respect to each Final Net Settlement Position of a Defaulting Member would include the right to decline to take market action to the extent that such position has opposite directionality to another position established in the same security for the Defaulting Member or its Indirect Participants. One commenter supports this clarification to the extent it provides greater detail regarding FICC’s default management procedures.¹⁸⁶

However, the commenter notes that the term “market action” is not a defined term in the GSD Rules.¹⁸⁷ Additionally, the proposed rule change, as originally filed, would amend GSD Rule 22A to allow – but not require – the Indirect Participants of a

¹⁸⁴ See e.g., SIFMA Treasury Clearing Agreement, Section 4(b)(i) (providing the Clearing Member sole discretion to exercise termination, liquidation, and other rights in the event of a customer default), *supra* note 176; see also Accounting White Paper at 2 (assuming that the bilateral agreement between intermediaries and customers would permit intermediaries to liquidate customer positions without customer consent in the event of a customer default), *supra* note 176.

¹⁸⁵ 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”) at 2756-57 (rejecting a commenter’s suggestion that would require clearing agencies to require their direct participants to transact with their customers in specific ways and limit their ability to offer certain types of pricing services).

¹⁸⁶ See FIA Letter at 8, *supra* note 158.

¹⁸⁷ See FIA Letter at 8-9, *supra* note 158.

Defaulting Netting Member intermediary to take market action to close-out any outstanding positions that FICC has determined to close-out. The commenter states that without defining the term “market action,” the proposed rule change creates confusion and could create a chaotic wind-down process.¹⁸⁸ The commenter states that FICC’s use of the Indirect Participant’s market actions to determine the price of closed-out securities when FICC calculates Final Net Settlement Positions could yield inaccurate results and potential losses to FICC.¹⁸⁹ Moreover, the commenter states that there is no need for the GSD Rules to allow Indirect Participants to take market action because they are already free to do so when such action does not otherwise violate the GSD Rules.¹⁹⁰ Accordingly, the commenter requests that FICC amend the GSD Rules to define the term market action to clarify the actions that Indirect Participants and FICC may take pursuant to the relevant provisions of GSD Rule 22A.¹⁹¹

FICC agrees that Indirect Participants are generally free to utilize cash and securities they receive under FICC-cleared transactions as they see fit, and that the proposed language in GSD Rule 22A to allow Indirect Participants to take market action to close-out positions would not alter their rights under the GSD Rules.¹⁹² However, FICC states that market participants have indicated it would be helpful for the GSD Rules to specify the circumstances in which an Indirect Participant may wish to take market action to limit its losses after FICC has ceased to act for the Indirect Participant’s Netting

¹⁸⁸ *See id.* Specifically, confusion stems from the possibility that Indirect Participants might arrive at different pricing using a variety of methods with little visibility, consistency, or clarity.

¹⁸⁹ *See id.*

¹⁹⁰ *See id.*

¹⁹¹ *See id.*

¹⁹² *See* FICC Letter at 11, *supra* note 6.

Member intermediary.¹⁹³ Additionally, FICC states that nothing in the proposed rule change would provide for FICC to incorporate the results of any market action taken by an Indirect Participant into FICC's calculation of any amount owing by or to the Defaulting Member, contrary to the commenter's concerns.¹⁹⁴ Nonetheless, FICC states that adding further clarifying language to GSD Rule 22A regarding the treatment of market action by Indirect Participants would help market participants better understand FICC's intent.¹⁹⁵ Accordingly, as described above in Section I.B., Amendment No. 1 to the proposed rule would clarify GSD Rule 22A to provide that an Indirect Participant shall not (except to the extent otherwise set forth in the GSD Rules) be required to report the data on any market action taken pursuant to GSD Rule 22A to FICC, and FICC shall not incorporate such data into its calculation of any amount owing by or to the Defaulting Member or Indirect Participant to any greater extent than it would in the absence of the explicit language in the GSD Rules authorizing the Indirect Participant to take such market actions.

Furthermore, FICC states that it would not be appropriate or consistent with its regulatory obligations to dictate the manner in which an Indirect Participant may take market action.¹⁹⁶ FICC states that based on its engagement with market participants, FICC understands that the standards to be followed by customers when taking market action following the default of a Netting Member intermediary is a matter that market

¹⁹³ *See id.*

¹⁹⁴ *See id.*

¹⁹⁵ *See id.*

¹⁹⁶ *See* FICC Letter at 12, *supra* note 6.

participants may wish to negotiate between themselves within the context of their bilateral agreements.¹⁹⁷

The Commission agrees that if Indirect Participants have indicated that it is not always clear when they may wish to take market action to mitigate their losses, it is reasonable for FICC to clarify GSD Rule 22A to provide that the Indirect Participant may – but would not be required to – take market action after FICC has ceased to act for the Netting Member intermediary. Additionally, by explicitly clarifying GSD Rule 22A to provide that FICC would neither request nor use data regarding Indirect Participant market action, FICC’s proposal in Amendment No. 1 should address the commenter’s concern that FICC might use such data to determine Final Net Settlement Positions following a Netting Member intermediary default. Finally, consistent with the Commission’s position that Netting Member intermediaries should have the flexibility to determine which risks to take when providing their customers access to central clearing,¹⁹⁸ the Commission agrees that Netting Member intermediaries and their customers should have the flexibility to determine between themselves the allowable types of market action Indirect Participants may take, rather than FICC prescribing a set of standards in the GSD Rules.

3. Comments on Porting

As described above in Section I.B., the proposed rule change, as originally filed, would add provisions to the GSD Rules that govern the porting of Indirect Participant

¹⁹⁷ See FICC Letter at 12-13 (citing SIFMA Treasury Clearing Agreement, Sections 4(f)(i) and 4(g), which address these matters and allow the parties to select certain options and agree on their preferred terms), *supra* note 6.

¹⁹⁸ See Adopting Release at 2756-57, *supra* note 185.

activity between Netting Member intermediaries, both in the normal course of business and following an intermediary default. One commenter generally supports having clear, pre-established porting rules and arrangements in the GSD Rules.¹⁹⁹ However, the commenter states that some of the porting provisions, as proposed in the original filing, would magnify risk for Netting Member intermediaries and, therefore, need revision.²⁰⁰

a. Default Porting; Receiving Member's Consent

Proposed Section 2 of GSD Rule 26 (regarding porting following an intermediary default), as originally filed, would not require a Receiving Member's consent to a Sending Member's transfer of Indirect Participant activity. The commenter requests that FICC revise the proposed rule change to require, as a condition of transfer under Section 2 of GSD Rule 26, the Receiving Member's consent to the transfer of the Indirect Participant's activity.²⁰¹ This clarification would help market participants avoid uncertainty and ensure that the necessary documentation and account structure is in place between the Indirect Participant and Receiving Member.²⁰²

FICC agrees that the commenter's suggestion would provide greater clarity regarding its default porting provisions and proposes to revise the GSD Rules accordingly.²⁰³ Specifically, as described above in Section I.B., Amendment No. 1 would revise proposed Section 2 of GSD Rule 26 to clarify that any transfer would require the

¹⁹⁹ See FIA Letter at 10, *supra* note 158.

²⁰⁰ See *id.*

²⁰¹ See *id.*

²⁰² See *id.*

²⁰³ See FICC Letter at 16, *supra* note 6.

Receiving Member's consent. The Commission agrees that the proposed changes in Amendment No. 1 provide greater clarity and address the commenter's request.

b. Indirect Participants Designating Preferred Receiving Members

The commenter requests that FICC revise the proposed rule change to permit Indirect Participants to designate, as a preference, another Netting Member intermediary as Receiving Member in the event FICC chooses to port the Indirect Participant's activity following an intermediary default.²⁰⁴ The commenter states that this revision would make porting more predictable for Indirect Participants, the Receiving Member, and FICC.²⁰⁵

FICC states that before proposing a specific mechanism to designate a preferred Receiving Member, FICC and market participants should engage to determine how to structure such a mechanism to ensure it achieves its intended purpose and the costs would not outweigh the benefits.²⁰⁶ FICC notes that it currently does not interface directly with Indirect Participants.²⁰⁷ Therefore, FICC would either need to build a system to enable an Indirect Participant to notify FICC of its designation, or FICC would need to receive such designation from the Indirect Participant's current Netting Member intermediary, which could be challenging given the commercially sensitive nature of the designation.²⁰⁸ Additionally, FICC states that in a default scenario, FICC would likely need to transfer the positions of a potentially large number of Indirect Participants in an extremely short timeframe.²⁰⁹ FICC states that such challenges may limit the benefits of Indirect

²⁰⁴ See FIA Letter at 10, *supra* note 158.

²⁰⁵ See FIA Letter at 10-11, *supra* note 158.

²⁰⁶ See FICC Letter at 15, *supra* note 6.

²⁰⁷ See *id.*

²⁰⁸ See *id.*

²⁰⁹ See *id.*

Participants designating their preferred Receiving Members.²¹⁰ Nonetheless, FICC states that such designations could facilitate either bulk or individual transfers to preferred Receiving Members, thereby assisting FICC in managing a default and enabling Indirect Participants to face their preferred Receiving Members.²¹¹

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²¹² The absence of a provision in the GSD Rules allowing Indirect Participants to designate their preferred Receiving Members would not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

c. Default Porting; All or Part of Indirect Participant's Transactions

Proposed Section 2 of GSD Rule 26, as originally filed, provides that FICC may transfer all or part of an Indirect Participant's transactions of a defaulting intermediary, along with associated Segregated Customer Margin. The commenter states that FICC's transfer of some Indirect Participant activity could result in a margin deficiency or otherwise expose the defaulting intermediary to additional loss.²¹³ Accordingly, the commenter requests that FICC revise the proposed rule change to provide that FICC may only transfer Indirect Participant activity to the extent it would not result in a margin deficiency and would be risk-mitigating for the defaulting intermediary.²¹⁴

²¹⁰ *See id.*

²¹¹ *See id.*

²¹² *See* 15 U.S.C. 78s(b)(2)(C)(i).

²¹³ *See* FIA Letter at 11 (describing a scenario in which a Defaulting Member's Sponsored Member has two offsetting Sponsored Member Trades, of which FICC decides to transfer only one to another Netting Member, causing the Defaulting Member to incur margin obligations for the trade that was not transferred), *supra* note 158.

²¹⁴ *See id.*

FICC states that such a restriction on its ability to effectuate a transfer is unnecessary considering that FICC’s regulatory obligations already preclude FICC from unnecessarily increasing risk to itself or its participants.²¹⁵ FICC also states that such a restriction is not appropriate because managing a default requires flexibility.²¹⁶ FICC states that in light of its regulatory obligations to minimize risk,²¹⁷ FICC would not generally anticipate effectuating porting in a way that would result in a margin deficiency or otherwise increase risk to FICC or a Defaulting Member.²¹⁸ However, considering the potential volatility of a default scenario, FICC states it would not be beneficial from a risk management perspective to constrain its ability to port positions as the commenter suggested.²¹⁹ Instead, FICC states that it needs flexibility (within its regulatory guiderails) to address unique default scenarios in a manner that would limit losses to FICC and its participants.²²⁰

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²²¹ The lack of provisions in the GSD Rules that FICC may only

²¹⁵ See FICC Letter at 13-15, *supra* note 6.

²¹⁶ See *id.*

²¹⁷ See e.g., 17 CFR 240.17ad-22(e)(3) (requirement to maintain a sound risk management framework for comprehensively managing...risks that arise in or are borne by the covered clearing agency); 17 CFR 240.17ad-22(e)(6) (requirement to cover credit exposures to participants by establishing a risk-based margin system); 17 CFR 240.17ad-22(e)(16) (requirement to safeguard its own and its participants’ assets); 17 CFR 240.17ad-22(e)(19) (requirement to identify, monitor, and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants...rely on the services provided by direct participants to access its payment, clearing, or settlement facilities).

²¹⁸ See FICC Letter at 13-15, *supra* note 6.

²¹⁹ See *id.*

²²⁰ See *id.*

²²¹ See 15 U.S.C. 78s(b)(2)(C)(i).

transfer Indirect Participant activity to the extent it would not result in a margin deficiency and would be risk-mitigating for the defaulting intermediary is not inconsistent with the Act and the rules thereunder.

The Commission agrees that FICC's regulatory obligations would generally preclude FICC from taking action that would unnecessarily cause a participant's margin deficiency or otherwise expose the participant to additional loss.²²² Additionally, Section 17A(b)(3)(F) of the Exchange Act requires that the rules of a clearing agency, such as FICC, be designed to, among other things, assure the safeguarding of securities and funds which are in the control of the clearing agency or for which it is responsible.²²³ The Commission agrees that FICC should be able to manage a default flexibly, consistent with its regulatory obligations.

d. Normal Course Porting; All Segregated Customer Margin

Proposed Section 1(a) of GSD Rule 26 (regarding voluntary porting in the normal course of business), as originally filed, provides that all or a portion of an Indirect Participant's activity may be ported to a Receiving Member. However, proposed Section 1(d) of GSD Rule 26 only permits a transfer of Segregated Customer Margin if all of the Indirect Participant's activity is ported to the Receiving Member. The commenter states it does not understand why FICC believes all of the activity must be ported to effect the transfer of Segregated Customer Margin.²²⁴ Additionally, the commenter states that limiting the ability of an Indirect Participant to transfer a portion of its Segregated Customer Margin could result in delays and uncertainty because the Receiving Member

²²² See *supra* note 217.

²²³ 15 U.S.C. 78q-1(b)(3)(F).

²²⁴ See FIA Letter at 11-12, *supra* note 158.

would likely need to recalculate the associated Segregated Customer Margin Requirement and send it separately.²²⁵ Accordingly, the commenter requests that FICC revise the proposed rule change to allow the transfer of a portion of an Indirect Participant's Segregated Customer Margin.²²⁶

In response, FICC notes that Segregated Customer Margin is calculated on a portfolio basis (*i.e.*, in a way that recognizes risk offsets across the Segregated Indirect Participant's positions).²²⁷ As a result, if a portion of the Segregated Indirect Participant's positions were ported, the aggregate margin requirement for the ported and remaining positions would likely change.²²⁸ Accordingly, the partial transfer of Segregated Customer Margin would give rise to complexities regarding how to calculate that portion.²²⁹ FICC would also need to consider the risks to itself and its participants, as well as its regulatory obligations and potentially significant operational changes to FICC's collateral management and risk systems.²³⁰ Moreover, FICC disagrees with the commenter's assertion that the limitation on partial porting of Segregated Customer Margin would cause delays due to the need for a Receiving Member to recalculate margin requirements.²³¹ First, as explained above, the Segregated Customer Margin requirement applicable to the ported positions would already need to be recalculated

²²⁵ *See id.*

²²⁶ *See id.*

²²⁷ *See* FICC Letter at 17, *supra* note 6.

²²⁸ *See id.* For example, if the ported positions offset the risk of the remaining positions, the transfer could cause the aggregate margin requirements to increase.

²²⁹ *See* FICC Letter at 17, *supra* note 6.

²³⁰ *See id.*

²³¹ *See id.*

based on the risk profile of the resulting portfolio. Second, FICC performs such calculations, not the Receiving Member.

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²³² The absence of provisions in the GSD Rules allowing the transfer of a portion of an Indirect Participant's Segregated Customer Margin would not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

e. Excess Segregated Customer Margin

Proposed Section 1(a) of GSD Rule 26, as originally filed, provides for the movement of excess Segregated Customer Margin from the Sending Member to the Receiving Member. The commenter states this it is unclear what FICC means by "excess" in that context.²³³ Therefore, the commenter requests that FICC revise the proposed rule change to remove the word "excess" and instead, provide that FICC will update its books and records to reflect the movement of Segregated Customer Margin associated with the ported activity of the Segregated Indirect Participant.²³⁴

FICC explains that pursuant to proposed Section 1(a) of GSD Rule 26, Segregated Customer Margin would transfer from Sending Member to Receiving Member at the start of the Business Day following the Transfer Effective Time.²³⁵ At that time, the margin would be excess Segregated Customer Margin from the perspective of the Sending

²³² See 15 U.S.C. 78s(b)(2)(C)(i).

²³³ See FIA Letter at 11-12, *supra* note 158.

²³⁴ See *id.*

²³⁵ See FICC Letter at 17, *supra* note 6.

Member.²³⁶ Accordingly, FICC states that the word “excess” provides important clarity and should remain in proposed Section 1(a) of GSD Rule 26.²³⁷

The Commission agrees that the use of the word “excess” provides clarity regarding the operation of the proposed porting rules.

f. Transferring Proprietary U.S. Treasury Securities

The commenter notes that a Netting Member intermediary is permitted to temporarily use proprietary U.S. Treasury securities to meet its Segregated Customer Margin Requirement in accordance with Section (b)(1)(iii) of Note H to SEC Rule 15c3-3a and Section 3 of GSD Rule 2B. The commenter requests that FICC clarify that any transfer of Segregated Customer Margin pursuant to proposed GSD Rule 26 would not include such proprietary U.S. Treasury securities (or any other assets that the SEC may permit Netting Member intermediaries to use temporarily for purposes of Note H).²³⁸

FICC states that such a prohibition would not be appropriate because it would constrain the ability of Netting Member intermediaries and their customers to agree bilaterally upon the circumstances and conditions of a transfer.²³⁹ As an example, FICC cites the SIFMA Treasury Clearing Agreement, which provides flexibility for intermediaries and their customers to agree on porting provisions, including limitations on the ability of customers to transfer prefunded margin.²⁴⁰ FICC also notes that other major U.S. CCP rulebooks do not prescribe such limitations.²⁴¹ Additionally, as noted

²³⁶ See *id.*

²³⁷ See *id.*

²³⁸ See FIA Letter at 12, *supra* note 158.

²³⁹ See FICC Letter at 18, *supra* note 6.

²⁴⁰ See *id.*; SIFMA Treasury Clearing Agreement, Section 3(e)(iv), *supra* note 176.

²⁴¹ See FICC Letter at 18, *supra* note 6.

above, proposed Section 1(d) of GSD Rule 26 would not allow partial transfers of Segregated Customer Margin. Therefore, a requirement that the entirety of transferred Segregated Customer Margin consist of Indirect Participant assets could limit or eliminate the ability of Indirect Participants to port their Segregated Customer Margin.²⁴² Finally, FICC states that imposing the commenter's requested limitation would require a significant operational build because FICC currently does not track whether Segregated Customer Margin contains such proprietary securities.²⁴³

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²⁴⁴ The absence of provisions in the GSD Rules precluding the transfer of proprietary U.S. Treasury securities as Segregated Customer Margin would not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

g. Timing of Receiving Member's Margin Obligations

Proposed Section 1(c) of GSD Rule 26, as originally filed, provides that a Sending Member's Clearing Fund and Segregated Customer Margin will continue to secure obligations arising from transferred Indirect Participant activity until the Receiving Member satisfies those requirements. The commenter expresses concern that the Sending Member would be required to fund the Receiving Member's margin obligations with respect to the transferred activity despite no longer carrying such

²⁴² See *id.*

²⁴³ See *id.*

²⁴⁴ See 15 U.S.C. 78s(b)(2)(C)(i).

activity.²⁴⁵ Therefore, the commenter requests that FICC revise the proposed rule change to provide that the transfer of Indirect Participant activity is conditional on the Receiving Member's posting sufficient margin to support the transferred activity by the Transfer Effective Time.²⁴⁶

FICC states that such a condition would not be appropriate because it would constrain the ability of Netting Member intermediaries and their customers to agree bilaterally upon the circumstances and conditions of a transfer.²⁴⁷ While intermediaries may prefer the commenter's condition, FICC explains that a customer may not, because waiting for the Receiving Member to post margin could delay the transfer, thereby diminishing the utility of the porting provisions.²⁴⁸ FICC states that such matters should be determined bilaterally between the parties based on their commercial, operational, regulatory, and risk requirements.²⁴⁹

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²⁵⁰ The absence of provisions in the GSD Rules precluding the transfer of proprietary U.S. Treasury securities as Segregated Customer Margin would not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

h. Defaulting Member Status

²⁴⁵ See FIA Letter at 12, *supra* note 158.

²⁴⁶ See *id.*

²⁴⁷ See FICC Letter at 19, *supra* note 6.

²⁴⁸ See *id.*

²⁴⁹ See *id.*

²⁵⁰ See 15 U.S.C. 78s(b)(2)(C)(i).

Proposed Section 2 of GSD Rule 26, as originally filed, does not define what constitutes a “default” of a Netting Member intermediary that may result in involuntary porting of Indirect Participant positions. The commenter requests that FICC revise the proposed rule change to clarify that Section 2 of rule 26 would only apply in the event a Netting Member intermediary is a Defaulting Member as defined in the GSD Rules.²⁵¹

FICC agrees that the commenter’s suggestion would provide greater clarity regarding its default porting provisions and proposes to revise the GSD Rules accordingly.²⁵² Specifically, as described above in Section I.B., Amendment No. 1 would revise the proposed rule change to clarify that Section 2 of GSD Rule 26 would apply in the event FICC ceases to act for a Netting Member intermediary. The Commission agrees that the proposed changes in Amendment No. 1 provide greater clarity and address the commenter’s request.

4. Other Comments

a. FICC Liquidation of Agent Clearing Transactions

As described above in Section I.B., proposed Section 9 of GSD Rule 8, as originally filed, would allow FICC to terminate some or all of the done-with Agent Clearing Transactions of an Executing Firm Customer, provided that the Agent Clearing Member is not a Defaulting Member, FICC has not ceased to act for the Agent Clearing Member, and a Corporation Default has not occurred. In contrast, the parallel provision in GSD Rule 3A regarding the Sponsored Service allows FICC to terminate the done-with Sponsored Member Trades if similar conditions are met, plus the additional condition that

²⁵¹ See FIA Letter at 12-13, *supra* note 158.

²⁵² See FICC Letter at 16, *supra* note 6.

the Sponsoring Member has not performed its obligations under the Sponsoring Member Guaranty.²⁵³ In the Notice of Filing, FICC explains that it did not propose a similar limitation in proposed Section 9 of GSD Rule 8 because there is no equivalent to the Sponsoring Member Guaranty in the Agent Clearing Service.²⁵⁴

One commenter expresses concern that FICC's discretion to liquidate done-with Agent Clearing Transactions is too broad.²⁵⁵ Therefore, the commenter requests that FICC revise the proposed rule change to provide that FICC shall only have the right to terminate the positions of an Executing Firm Customer if (1) FICC has provided the notice described in proposed Section 3(h) of GSD Rule 8, and (2) the Agent Clearing Member has not performed its obligations relating to the Agent Clearing Transactions done on behalf of that Executing Firm Customer.²⁵⁶ Additionally, the commenter states FICC should not have the ability to terminate "some or all" of the positions of an Executing Firm Customer, even if FICC revises the proposed rule change to include the commenter's requested limitation above, because FICC's termination of some positions could result in the Agent Clearing Member facing a margin deficiency or other form of loss.²⁵⁷ Accordingly, the commenter requests that FICC revise proposed Section 9 of GSD Rule 8 to provide that FICC is permitted to terminate "all, but not fewer than all," of the positions of an Executing Firm Customer.²⁵⁸

²⁵³ See Section 18(a)-(b) of GSD Rule 3A, *supra* note 3.

²⁵⁴ See Notice of Filing, *supra* note 4, 90 FR at 26662.

²⁵⁵ See FIA Letter at 13, *supra* note 158.

²⁵⁶ See *id.*

²⁵⁷ See FIA Letter at 13-14, *supra* note 158.

²⁵⁸ See *id.*

FICC responds that its intent in proposed Section 9 of GSD Rule 8 was for the liquidation mechanism to be available exclusively to Agent Clearing Members, not FICC.²⁵⁹ Accordingly, as described above in Section I.B., Amendment No. 1 would revise the proposed rule change to remove the language allowing FICC to trigger a termination under Section 9 of GSD Rule 8. The Commission agrees that the proposed changes in Amendment No. 1 address the commenter's concern.

b. Intermediary Ability to Liquidate Some or All Positions

As described above in Section I.B., proposed Section 9 of GSD Rule 8, as originally filed, would allow an Agent Clearing Member to terminate some or all of the done-with Agent Clearing Transactions of an Executing Firm Customer and corresponding positions in the Agent Clearing Member's Dealer Account. However, the parallel provision in Section 18(b) of GSD Rule 3A currently allows a Sponsoring Member to terminate all, but not fewer than all, of a Sponsored Member's positions and corresponding positions in the Sponsoring Member's Dealer Account.²⁶⁰ One commenter notes that FICC provides no explanation for this distinction between the Sponsored Service and Agent Clearing Service.²⁶¹ The commenter states that the flexibility to close-out some or all of an Indirect Participant's positions would benefit both types of Netting Member intermediaries.²⁶² Accordingly, the commenter requests that FICC revise Section

²⁵⁹ See FICC Letter at 20, *supra* note 6. FICC states that it would resolve the default of an Agent Clearing Member pursuant to other applicable GSD Rules (e.g., GSD Rule 22A, proposed GSD Rule 26), pursuant to which FICC may cease to act for an Agent Clearing Member. *See id.*

²⁶⁰ See Section 18(b) of GSD Rule 3A, *supra* note 3.

²⁶¹ See FIA Letter at 14, *supra* note 158.

²⁶² *See id.*

18(b) of GSD Rule 3A to allow a Sponsoring Member to terminate some or all of a Sponsored Member's positions.²⁶³

FICC agrees that the flexibility in proposed Section 9 of GSD Rule 8 that would allow an Agent Clearing Member to liquidate some or all Agent Clearing Transactions should also be available to Sponsoring Members.²⁶⁴ Accordingly, as described above in Section I.B., Amendment No. 1 would revise Section 18 (re-numbered Section 16) of GSD Rule 3A to provide Sponsoring Members the ability to liquidate some or all of the relevant Sponsored Member Trades. The Commission agrees that the proposed changes in Amendment No. 1 address the commenter's request.

c. Offsetting Agent Clearing Transactions and Sponsored Member Trades

One commenter notes that an Indirect Participant could be the customer of a Netting Member intermediary under both the Sponsored Service and the Agent Clearing Service.²⁶⁵ When such an Indirect Participant has amounts owing to or by FICC, the commenter states that to offset such amounts would be consistent with FICC's default management goals.²⁶⁶ The commenter requests that FICC revise the GSD Rules to allow a Netting Member intermediary to offset an Executing Firm Customer's Liquidation Amount against a Sponsored Member Liquidation Amount with respect to the same Indirect Participant.²⁶⁷

²⁶³ See *id.*

²⁶⁴ See FICC Letter at 20-21, *supra* note 6.

²⁶⁵ See FIA Letter at 14-15, *supra* note 158.

²⁶⁶ See *id.*

²⁶⁷ See *id.*

FICC disagrees and states that the ability of a Netting Member intermediary to net amounts owed between Agent Clearing Transactions and Sponsored Member Trades is not relevant to FICC's default management because FICC risk manages those portfolios separately and FICC's netting rights are independent of those of the intermediary.²⁶⁸ Additionally, FICC states that whether or not an intermediary may net such amounts is a question that should be resolved between the intermediary and its customer in their bilateral agreement.²⁶⁹ Specifically, the parties should determine between themselves whether the intermediary may look to one portfolio of positions to satisfy the obligations arising from a separate portfolio based on the parties' respective legal, credit, regulatory, commercial, and other considerations.²⁷⁰ FICC does not believe it should prescribe rules that would prevent market participants from resolving such issues bilaterally.²⁷¹

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²⁷² The absence of provisions in the GSD Rules for netting amounts owed between an Indirect Participant's separate portfolios in the Agent Clearing Service and the Sponsored Service would not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

d. Clarification of Trade Status

²⁶⁸ See FICC Letter at 21, *supra* note 6.

²⁶⁹ See *id.*

²⁷⁰ See *id.*

²⁷¹ See *id.*

²⁷² See 15 U.S.C. 78s(b)(2)(C)(i).

One commenter requests that FICC revise the GSD Rule to clarify which done-with Sponsored Member Trades and Agent Clearing Transactions are eligible to be liquidated and which are considered settled.²⁷³ For example, the commenter states that FICC could clarify whether trades of an Indirect Participant that are in opposite directions on the same CUSIP offset or are considered settled (by virtue of their offset), and whether a trade is considered settled if the Netting Member intermediary's proprietary position with FICC originally linked with the Indirect Participant has settled.²⁷⁴

FICC responds that it does not understand what clarification the commenter seeks, but FICC expresses a willingness to engage further with the commenter (and other market participants) to address the commenter's specific concern.²⁷⁵

The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the Exchange Act and the rules thereunder.²⁷⁶ The absence of clarification in the GSD Rules regarding which done-with Sponsored Member Trades and Agent Clearing Transactions are eligible to be liquidated and which are considered settled would not render the proposed rule change inconsistent with the Exchange Act or the rules thereunder.

e. Remove Reference to Segregated Indirect Participants

As described above in Section I.B., proposed Section 14(d)(ii) of GSD Rule 3A (regarding the close-out of Sponsored Member Trades), as originally filed, provides that “if any amount is due to a Segregated Indirect Participant that is a Sponsored Member,

²⁷³ See FIA Letter at 15, *supra* note 158.

²⁷⁴ See *id.*

²⁷⁵ See FICC Letter at 22, *supra* note 6.

²⁷⁶ See 15 U.S.C. 78s(b)(2)(C)(i).

the Corporation shall make such payment to or as directed by the Sponsoring Member or its trustee or receiver.” One commenter states that FICC’s intent is unclear because payment to a Segregated Indirect Participant that is a Sponsored Member would always be directed by the Sponsoring Member, its trustee, or receiver.²⁷⁷ Therefore, the commenter requests that FICC clarify the intent of that provision.²⁷⁸

FICC agrees that if an amount is calculated and owing to the Sponsored Member, FICC would pay such amount to or as directed by the Sponsoring Member or its trustee or receiver, regardless of whether the Sponsored Member is a Segregated Indirect Participant.²⁷⁹ Accordingly, as described above in Section I.B., Amendment No. 1 would revise Section 14(d)(ii) of GSD Rule 3A to apply to Sponsored Members. The Commission agrees that the proposed changes in Amendment No. 1 address the commenter’s request.

5. Conclusion

The proposed rule change, as modified by Amendment No. 1, would encourage greater participation in central clearing by improving market participants’ understanding of FICC’s default management procedures and providing market participants with porting tools to manage their clearing relationships and trading activity. Greater participation in central clearing would ensure that more securities transactions are subject to the risk mitigation benefits of central clearing. Accordingly, the proposed rule change, as modified by Amendment No. 1, is consistent with Section 17A(b)(3)(F) of the Exchange

²⁷⁷ See FIA Letter at 15, *supra* note 158.

²⁷⁸ See *id.*

²⁷⁹ See FICC Letter at 22, *supra* note 6.

Act because extending the benefits of central clearing to more securities transactions would ensure the prompt and accurate clearance and settlement of those transactions.²⁸⁰

Additionally, the proposed rule change, as modified by Amendment No. 1, would better prepare market participants to deal with default scenarios, resulting in more orderly management of such events, minimizing default losses and reducing potential risk to FICC and its non-defaulting participants. Accordingly, the proposed rule change, as modified by Amendment No. 1, would ensure the safeguarding of securities and funds in FICC's custody or control, consistent with Section 17A(b)(3)(F) of the Exchange Act.²⁸¹

B. Consistency with Rule 17ad-22(e)(13)

Rule 17ad-22(e)(13) under the Exchange Act requires that a covered clearing agency, such as FICC, establish, implement, maintain, and enforce written policies and procedures reasonably designed to ensure that the covered clearing agency has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations.²⁸²

As described above in Section I.B., FICC proposes to expand the default management provisions in the GSD Rules applicable to the Sponsored Service and Agent Clearing Service to more fully address the default scenarios of Netting Member intermediaries, Indirect Participants, and FICC. Additionally, FICC proposes to add provisions to the GSD Rules that govern the porting of Indirect Participant activity between intermediary Netting Members, both in the normal course of business and following the default of an intermediary.

²⁸⁰ See 15 U.S.C. 78q-1(b)(3)(F).

²⁸¹ See *id.*

²⁸² 17 CFR 240.17ad-22(e)(13).

Expanding the default management provisions in the GSD Rules would improve market participants' understanding of FICC's default management procedures. Adding provisions to the GSD Rules that govern porting would provide market participants with useful tools to manage their clearing relationships and trading activity, including in default scenarios. Together, FICC's proposals would better prepare market participants to deal with default scenarios, resulting in more orderly management of such events, minimizing default losses and reducing potential risk to FICC and its non-defaulting participants.

Accordingly, the proposed rule change, as modified by Amendment No. 1, is consistent with Rule 17ad-22(e)(13) because implementing rules that govern default management procedures would help ensure that FICC has the authority and capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations.²⁸³

C. 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, establish, implement, maintain, and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which, when the covered clearing agency provides central counterparty services for transactions in U.S. Treasury securities, ensure that it has appropriate means to facilitate access to clearance and settlement services of all

²⁸³ See 17 CFR 240.17ad-22(e)(13).

eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.²⁸⁴

As described above in Section I.B., FICC proposes to expand the default management provisions in the GSD Rules applicable to the Sponsored Service and Agent Clearing Service to more fully address the default scenarios of Netting Member intermediaries, Indirect Participants, and FICC. Additionally, FICC proposes to add provisions to the GSD Rules that govern the porting of Indirect Participant activity between intermediary Netting Members, both in the normal course of business and following the default of an intermediary.

As described above in Section I.A., the Commission received comments on FICC's recent access model enhancement proposal requesting that FICC provide greater detail in the GSD Rules regarding the default management procedures under the indirect access models, including the ability to port Indirect Participant positions and margin between intermediaries.²⁸⁵ Commenters suggested that the absence of GSD Rule provisions that provide certainty to market participants regarding FICC's default management procedures (including porting) presents an obstacle to greater participation in central clearing.²⁸⁶

By enhancing the GSD Rules regarding the default management provisions applicable to FICC's indirect access models, the proposed rule change, as modified by Amendment No. 1, would encourage greater participation in central clearing by improving market participants' understanding of how GSD would manage a default that

²⁸⁴ 17 CFR 240.17ad-22(e)(18)(iv)(C).

²⁸⁵ *See supra* note 10.

²⁸⁶ *See id.*

may occur within GSD's indirect access models. Accordingly, the proposed rule change, as modified by Amendment No. 1, is consistent with Rule 17ad-22(e)(18)(iv)(C) because it would help facilitate access to FICC's clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.²⁸⁷

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

Rule 17ad-22(e)(19) under the Exchange Act requires that a covered clearing agency, such as 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.²⁸⁸

As described above in Section I.B., FICC proposes to expand the default management provisions in the GSD Rules applicable to the Sponsored Service and Agent Clearing Service to more fully address the default scenarios of Netting Member intermediaries, Indirect Participants, and FICC. Additionally, FICC proposes to add provisions to the GSD Rules that govern the porting of Indirect Participant activity between intermediary Netting Members, both in the normal course of business and following the default of an intermediary.

²⁸⁷ See 17 CFR 240.17ad-22(e)(18)(iv)(C).

²⁸⁸ 17 CFR 240.17ad-22(e)(19).

Expanding the default management provisions in the GSD Rules would improve market participants' understanding of FICC's default management procedures. Adding provisions to the GSD Rules that govern porting would provide market participants with useful tools to manage their clearing relationships and trading activity, including in default scenarios. Together, FICC's proposals would better prepare market participants to deal with default scenarios, resulting in more orderly management of such events, minimizing default losses and reducing potential risk to FICC and its non-defaulting participants.

Accordingly, the proposed rule change, as modified by Amendment No. 1, is consistent with Rule 17ad-22(e)(19) because enhancing the GSD Rules regarding the default management provisions applicable to FICC's indirect access models would better enable FICC to manage the material risks arising from arrangements in which indirect participants rely on direct participants to access FICC's payment, clearing, and settlement facilities.²⁸⁹

E. Consistency with Rule 17ad-22(e)(23)(i)

Rule 17ad-22(e)(23)(i) under the Exchange Act requires that a covered clearing agency, such as FICC, establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for publicly disclosing all relevant rules and material procedures, including key aspects of its default rules and procedures.²⁹⁰

As described above in Section I.B., FICC proposes to expand the default management provisions in the GSD Rules applicable to the Sponsored Service and Agent

²⁸⁹ See 17 CFR 240.17ad-22(e)(19).

²⁹⁰ 17 CFR 240.17ad-22(e)(23)(i).

Clearing Service to more fully address the default scenarios of Netting Member intermediaries, Indirect Participants, and FICC. Additionally, FICC proposes to add provisions to the GSD Rules that govern the porting of Indirect Participant activity between intermediary Netting Members, both in the normal course of business and following the default of an intermediary.

The proposed rule change, as modified by Amendment No. 1, is consistent with Rule 17ad-22(e)(23)(i) because it would more fully disclose key aspects of FICC's default rules and procedures.²⁹¹

III. CONCLUSION

On the basis of the foregoing, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Exchange Act and in particular with the requirements of Section 17A of the Exchange Act²⁹² and the rules and regulations promulgated thereunder.

²⁹¹ See 17 CFR 240.17ad-22(e)(23)(i).

²⁹² 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act²⁹³ that proposed rule change SR-FICC-2025-015, as modified by Amendment No. 1, be, and hereby is, APPROVED.²⁹⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹⁵

Sherry R. Haywood,

Assistant Secretary.

²⁹³ 15 U.S.C. 78s(b)(2).

²⁹⁴ In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁹⁵ 17 CFR 200.30-3(a)(12).