

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104952; File No. SR-FICC-2026-002]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change to Enhance the Correlation Calculation for Bond Haircut Models and Make Other Changes

March 9, 2026.

I. INTRODUCTION

On January 27, 2026, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposed rule change SR-FICC-2026-002 (“Proposed Rule Change”)³ to make changes to the GSD Methodology Document – GSD Initial Market Risk Margin Model (“QRM Methodology Document”)⁴ in order to enhance the correlation calculation for bond haircut models and make other changes. The Proposed Rule Change was published for comment in the *Federal Register* on February 3, 2026.⁵ The Commission has received no comments on the proposed rule change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

⁵ *See* Securities Exchange Act Release No. 104735 (Jan. 29, 2026), 91 FR 4975 (Feb. 3, 2026) (File No. SR-FICC-2026-002) (“Notice of Filing”).

II. BACKGROUND

FICC's GSD provides trade comparison, netting, risk management, settlement, and central counterparty ("CCP") services for the U.S. Government securities market.⁶ As a CCP, FICC interposes itself as the buyer to every seller and seller to every buyer for the financial transactions it clears. As such, FICC is exposed to the risk that one or more of its members may fail to make a payment or to deliver securities.

A key tool that FICC uses to manage its credit exposures to its members is the daily collection of the Required Fund Deposit (*i.e.*, margin) from each member. A member's margin is designed to mitigate potential losses associated with liquidation of the member's portfolio in the event of that member's default. The aggregated amount of all GSD members' margin constitutes the Clearing Fund, which FICC would be able to access should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio.

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

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

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

⁸ *Id.*

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

a. VaR Charge and Other Margin Methodologies

The VaR Charge uses a sensitivity-based VaR methodology and is based on the potential price volatility of unsettled positions in a member's portfolio. It is designed to project the potential losses that could occur in connection with the liquidation of a defaulting member's portfolio, assuming the portfolio would take three days to liquidate in normal market conditions, and uses three inputs: (1) confidence level, (2) time horizon, and (3) historical market volatility.¹¹ The projected liquidation gains or losses are used to determine the amount of the VaR Charge for each portfolio, which is calculated to capture the market price risk associated with each portfolio at a 99 percent confidence level.¹²

Occasionally, a member's portfolio might contain classes of securities that reflect market price changes that are not consistently related to historical price moves. The value of such securities is often uncertain because the securities' market volume varies widely.

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

¹⁰ *Id.* The VaR Charge typically comprises the largest portion of a Member's Required Fund Deposit or Segregated Customer Margin Requirement amount.

¹¹ FICC uses historical simulations to estimate the impact of market volatilities on the Member's portfolio. See Notice of Filing, *supra* note 5, 91 FR at 4976.

¹² *See id.*

Because the volume and price information for such securities are not robust, a historical simulation approach would not generate VaR Charge amounts that adequately reflect the risk profile of such securities. For securities lacking sufficient data to employ the sensitivity-based VaR approach, a haircut method is applied.¹³ In addition, because the sensitivity-based VaR methodology relies on sensitivity data and historical risk factor time series data generated by an external vendor, FICC can utilize Margin Proxy as a back-up VaR Charge calculation in the event that FICC experiences a data disruption with its third-party vendor.¹⁴

b. *Bond Haircut Models – Short-term Bonds*

The QRM Methodology Document provides the methodology by which FICC calculates the VaR Charge.¹⁵ The QRM Methodology Document includes specific model inputs, parameters, assumptions, and other information.

The QRM Methodology Document provides a haircut model for securities lacking sufficient data to employ the sensitivity-based VaR approach.¹⁶ Specifically, all short-

¹³ See GSD Rule 1 (Definitions – VaR Charge) *supra* note 3; See also Securities Exchange Act Release No. 83362 (June 1, 2018), 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001). Specifically, FICC calculates the VaR Floor by multiplying the absolute value of the sum of the portfolio's net long positions and net short positions, grouped by product and remaining maturity, by a percentage designated by FICC for such group.

¹⁴ The Margin Proxy model calculates Margin Proxy, which is designed as an alternative volatility calculation in the event that the requisite vendor data used for the VaR model is unavailable for an extended period of time. See GSD Margin Component Schedule (definition of “Margin Proxy”), *supra* note 3; Securities Exchange Act Release Nos. 80341 (March 30, 2017), 82 FR 16644 (April 5, 2017) (SR-FICC-2017-801); Securities Exchange Act Release No. 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801).

¹⁵ See QRM Methodology Document, *supra* note 3.

¹⁶ See Notice of Filing, *supra* note 5, 91 FR at 4976.

term bonds¹⁷ and bonds that lack vendor provided sensitivity analytics data are subject to a haircut calculation.¹⁸ FICC calculates haircut charges for short-term bonds by grouping them into maturity buckets and using correlations to account for cross-bucket effects.¹⁹ These correlations are based on fixed income indices from a designated vendor.²⁰ However, FICC's designated vendor does not currently provide index data for three specific maturity buckets: Treasury 0-6 months, Treasury 6-12 months, and TIPS 0-12 months.²¹ As a result, FICC manually sets correlations involving these three maturity buckets to zero despite historical evidence that shows short-term maturity buckets are substantially intercorrelated.²²

III. DESCRIPTION OF THE PROPOSED RULE CHANGE

FICC is proposing to amend the QRM Methodology Document with respect to the correlation calculation for bond haircut models. FICC is also proposing a technical change to the QRM Methodology Document. FICC has requested confidential treatment of the QRM Methodology Document and has filed that document separately with the Commission. The changes being made to the confidentially filed QRM Methodology Document are described below.

¹⁷ Short-term bonds are generally bonds with maturity of one-year or less.

¹⁸ See Notice of Filing, *supra* note 5, 91 FR at 4976.

¹⁹ See *id.*

²⁰ See *id.*

²¹ See *id.*

²² See *id.*

First, in the subsection of QRM Methodology Document that describes the calculation of the haircut of Treasury and agency bonds that lack sensitivity analytics data, FICC is proposing to delete language related to correlation parameter alternatives. Next, FICC would replace the deleted language with new language that enables FICC to use data from another vendor to calculate the correlation for fixed income indices not provided by the designated vendor. Additionally, FICC would delete language that describes the current practice of assuming zero correlation for certain maturity buckets of short-term bonds. Finally, FICC is proposing a technical change that corrects a section reference.

As part of the Proposed Rule Change, FICC filed an impact study on the effects the Proposed Rule Change would have had on their members' VaR Charges and margin portfolios if it had been in place during the period beginning September 1, 2024 through August 31, 2025 ("Impact Study").²³ The Impact Study specifically considered Treasury 0-6 months, Treasury 6-12 months, and TIPS 0-12 months maturity buckets with a different correlation number than zero calculated based on index data provided by an alternate vendor. The Impact Study found that the average increase to aggregate VaR Charges at FICC would be approximately \$46 million or 0.09%, with the largest increase of approximately \$85 million or 0.15%.²⁴ The Impact Study indicated that the VaR model backtesting coverage would have remained unchanged at approximately 99.85%.²⁵ As for impacts on the member margin portfolio level, the Impact Study indicated that the

²³ FICC has requested confidential treatment of Exhibit 3, the Impact Study, pursuant to 17 CFR 240.24b-2.

²⁴ See Notice of Filing, *supra* note 5, 91 FR at 4976.

²⁵ See *id.*

Proposed Rule Change would have increased the start of day (“SOD”) VaR Charge by approximately \$0.22 million, or 0.09%.²⁶ The largest average percentage increase in SOD VaR Charge for any member margin portfolio would have been approximately 14.52%, or \$0.38 million, and the largest average dollar increase in SOD VaR Charge for any member margin portfolio would have been approximately \$5.91 million, or 0.79%.²⁷

Additionally, the Impact Study also examined the effects the Proposed Rule Change would have had on their members’ VaR Charges and margin portfolios if Margin Proxy were deployed during the covered time period.²⁸ The Impact Study found that that the average increase to the aggregate VaR Charges would be approximately \$88 million or 0.16%, with the largest increase of approximately \$163 million or 0.38%.²⁹ As for the impacts on members’ margin portfolios if Margin Proxy had been deployed, the Impact Study found that the Proposed Rule Change would have increased the SOD VaR Charge by approximately \$0.42 million, or 0.16%, with the largest average percentage increase for any member’s margin portfolio of approximately 23.18%, or \$0.59 million.³⁰ The largest average dollar increase in SOD VaR Charge for any member margin portfolio would have been approximately \$17.35 million, or 0.34%.³¹

IV. DISCUSSION AND COMMISSION FINDINGS

²⁶ See Notice of Filing, *supra* note 5, 91 FR at 4977.

²⁷ See *id.*

²⁸ Margin Proxy was not actually deployed during the time period of the Impact Study. See Notice of Filing, *supra* note 5, 91 FR at 4976.

²⁹ See *id.*

³⁰ See Notice of Filing, *supra* note 5, 91 FR at 4977.

³¹ See *id.*

Section 19(b)(2)(C) of the Act³² directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to such organization. After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act,³³ and Rules 17Ad-22(e)(4)(i) and (e)(6)(i)³⁴ thereunder, as described in detail below.

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

Section 17A(b)(3)(F) of the Act requires the rules of a clearing agency to be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.³⁵ The Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons discussed below.

As described above in Section III, FICC proposes to amend the QRM Methodology Document to revise the correlation calculation for bond haircut models and to make a technical change. As discussed above in more detail in Section II.B, by using

³² 15 U.S.C. 78s(b)(2)(C).

³³ 15 U.S.C. 78q-1(b)(3)(F).

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

³⁵ 15 U.S.C. 78q-1(b)(3)(F).

index data from an alternate vendor when the designated vendor does not provide such data, rather than defaulting to a zero correlation assumption, FICC should be able to better capture the actual correlation between short-term maturity buckets, which historical evidence shows are substantially intercorrelated.³⁶ Relatedly, the Proposed Rule Change should help ensure that FICC collects sufficient margin to manage member-level credit risk exposure and backtesting performance associated with short-term bond positions in member portfolios. By helping FICC to collect sufficient margin, the Proposed Rule Change should, in turn, better ensure that, in the event of a member default, FICC's operation of its critical clearance and settlement services would not be disrupted because of insufficient financial resources. Accordingly, the Proposed Rule Change should help FICC to continue providing prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.³⁷

Moreover, as described above in Section II, FICC would access the mutualized Clearing Fund should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. FICC's proposal to enhance the correlation calculation for bond haircut models in the QRM Methodology Document, specifically, as it relates to short-term bonds, should help ensure that FICC has collected sufficient margin from members. The Proposed Rule Change should, in turn, help minimize the likelihood that FICC would have to access the Clearing Fund, thereby limiting non-defaulting members' exposure to mutualized losses. By helping to limit the exposure of FICC's non-defaulting members to mutualized losses, the Proposed

³⁶ See Notice of Filing, *supra* note 5, 91 FR at 4976.

³⁷ 15 U.S.C. 78q-1(b)(3)(F).

Rule Change should help FICC assure the safeguarding of securities and funds which are in its custody or control, consistent with Section 17A(b)(3)(F) of the Act.³⁸

For these reasons, the Proposed Rule Change is designed to promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.³⁹

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

Rule 17ad-22(e)(4)(i) under the Act requires that a covered clearing agency, like FICC, establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.⁴⁰ The Proposed Rule Change is consistent with Rule 17Ad-22(e)(4)(i) under the Act for the reasons stated below.

FICC's proposal to amend the correlation calculation for bond haircut models should enable FICC to better manage its credit exposures to members by maintaining sufficient resources to cover their credit exposures more fully with a high degree of confidence. The Commission has reviewed and analyzed the materials filed by FICC, including FICC's Impact Study and backtesting results,⁴¹ which show the effects of using

³⁸ 15 U.S.C. 78q-1(b)(3)(F).

³⁹ 15 U.S.C. 78q-1(b)(3)(F).

⁴⁰ 17 CFR 240.17ad-22(e)(4)(i).

⁴¹ See Impact Study, *supra* note 23.

a correlation number other than zero calculated based on index data provided by an alternate vendor for the following maturity buckets of short-term bonds: Treasury 0-6 months, Treasury 6-12 months, and TIPS 0-12 months.⁴² Specifically, the Impact Study shows that this change would have increased the aggregate VaR Charges at GSD and increased member margin portfolio levels, on average, during the coverage period. Additionally, if Margin Proxy would have been deployed during this coverage period, the Impact Study shows this charge would have also increased aggregate VaR Charges at GSD and increased member margin portfolio levels, on average.⁴³ By enhancing the correlation of bond haircut models by using fixed income data from an alternate vendor when none is provided by a designated vendor, specifically for short-term bond maturity buckets whose correlation calculation was set to zero, FICC should be able to more effectively identify, measure, monitor, and manage the risk posed to GSD members' VaR Charges and margin portfolios due to exposure to short-term bond positions.

Accordingly, for the reasons discussed above, the Proposed Rule Change is reasonably designed to better enable FICC to effectively identify, measure, monitor, and manage its credit exposure to members, and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each member fully with a high degree of confidence consistent with Rule 17Ad-22(e)(4)(i).⁴⁴

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

⁴² *See id.*

⁴³ *See id.*

⁴⁴ 17 CFR 240.17Ad-22(e)(4)(i).

Rule 17ad-22(e)(6)(i) under the Act requires that a covered clearing agency that provides central counterparty services, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.⁴⁵ The Proposed Rule Change is consistent with Rule 17Ad-22(e)(6)(i) under the Act for the reasons stated below.

FICC's proposal to amend the correlation calculation for bond haircut models should enable FICC to more effectively address the risks posed by the exposure to short-term bond positions in members' portfolios. As discussed above in Section II, FICC applies a haircut calculation to all short-term bonds and bonds with no vendor provided sensitivity analytics data. The haircut calculation is determined by placing the bonds into relevant maturity buckets, then using correlations to account for cross-bucket effects. Currently, although short-term bonds are substantially intercorrelated, FICC manually set the correlation calculation of the maturity buckets for short-terms bonds to zero due to a lack of data from a designated vendor.⁴⁶ The Impact Study reviewed and analyzed by the Commission shows the effects of using a correlation number other than zero calculated based on index data provided by an alternate vendor for the following maturity buckets of short-term bonds: Treasury 0-6 months, Treasury 6-12 months, and TIPS 0-12 months.⁴⁷ The Impact Study shows that enhancing the correlation calculation for bond haircut

⁴⁵ 17 CFR 240.17ad-22(e)(6)(i).

⁴⁶ See Notice of Filing, *supra* note 5, 91 FR at 4976.

⁴⁷ See Impact Study, *supra* note 23.

models would have increased the aggregate VaR Charges at GSD and increased member margin portfolio levels, on average, during the coverage period.⁴⁸ Additionally, if Margin Proxy would have been deployed during this coverage period, the Impact Study shows this charge would have also increased aggregate VaR Charges at GSD and increased member margin portfolio levels, on average.⁴⁹

By revising the correlation of bond haircut models to use fixed income data from an alternate vendor when none is provided by a designated vendor, specifically for short-term bond maturity buckets whose correlation calculation was set to zero, FICC should be able to better cover its credit exposures to its participants and produce margin levels commensurate with the risks and particular attributes of short-term bond positions held in members' portfolio. As a result, implementing the Proposed Rule Change should better enable FICC to collect margin amounts at levels commensurate with FICC's credit exposures to its members.

Accordingly, the Proposed Rule Change is consistent with Rule 17Ad-22(e)(6)(i) under the Act because it is designed to assist FICC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks of short-term bond positions in members' portfolios.⁵⁰

V. CONCLUSION

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and in particular with the

⁴⁸ See Impact Study, *supra* note 23.

⁴⁹ See Impact Study, *supra* note 23.

⁵⁰ 17 CFR 240.17Ad-22(e)(6)(i).

requirements of Section 17A of the Act⁵¹ and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act⁵² that proposed rule change SR-FICC-2026-002, be, and hereby is, APPROVED.⁵³

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵⁴

Sherry R. Haywood,

Assistant Secretary.

⁵¹ 15 U.S.C. 78q-1.

⁵² 15 U.S.C. 78s(b)(2).

⁵³ In approving the Proposed Rule Changes, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁵⁴ 17 CFR 200.30-3(a)(12).