SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83223; File No. SR-FICC-2018-801) 

May 11, 2018 

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Amendment No. 1 and Notice of No Objection to Advance Notice Filing, as Modified by Amendment No. 1, to Implement Changes to the Method of Calculating Netting Members’ Margin in the Government Securities Division Rulebook 


The Commission extended the review period of the Advanced Notice for an additional 60 days on March 7, 2018. The Commission received eight comments on the proposal.


Letter from Robert E. Pooler, Chief Financial Officer, Ronin Capital LLC (“Ronin”), dated February 22, 2018, to Robert W. Errett, Deputy Secretary, Commission (“Ronin Letter I”); letter from Michael Santangelo, Chief Financial Officer, Amherst Pierpont Securities LLC (“Amherst”), dated February 22, 2018, to Brent J. Fields, Secretary, Commission (“Amherst Letter I”); letter from Timothy Cuddihy, Managing Director, FICC, dated March 19, 2018, to Robert W. Errett, Deputy Secretary, Commission (“FICC Letter I”); letter from James Tabacchi, Chairman, Independent Dealer and Trader Association (“IDTA”), dated March 29, 2018, to Eduardo A. Aleman, Assistant Secretary, Commission (“IDTA Letter”); letter from Michael Santangelo, Chief Financial Officer, Amherst Pierpont Securities LLC, dated April 4, 2018, to Brent J. Fields, Secretary, Commission (“Amherst Letter II”); letter from Levent Kahraman, Chief Executive Officer, KGS-Alpha Capital Markets (“KGS”), dated April 4, 2018, to Brent J. Fields, Secretary, Commission (“KGS Letter”); letter from Timothy Cuddihy, Managing Director, FICC, dated April 13, 2018, to Robert W. Errett, Deputy Secretary, Commission (“FICC Letter II”); and letter from Robert E. Pooler, Chief Financial Officer, Ronin, dated April 13, 2018, to Eduardo A. Aleman, Assistant Secretary, Commission (“Ronin Letter II”). Since the proposal contained in the Advance Notice was also filed as a Proposed Rule Change, supra note 3, the Commission is considering all public comments received on the proposal regardless of whether the comments were submitted to the Advance Notice or the Proposed Rule Change.

Several commenters state that some of the changes proposed in the Advance Notice would impose an unfair burden on competition. That issue is relevant to the Commission’s evaluation of the related Proposed Rule Change, which is conducted under the Exchange Act, but not to the Commission’s evaluation of the Advance Notice, which, as discussed below in Section II, is conducted under the Clearing Supervision Act and generally considers whether the proposal will mitigate systemic risk and promote financial stability. Accordingly, concerns regarding burden on competition are not discussed herein but will be addressed in the Commission’s review of the related Proposed Rule Change, as applicable, under the Exchange Act.
On April 25, 2018, FICC filed Amendment No.1 to the Advance Notice (“Amendment No. 1”). The Commission is publishing this notice to solicit comment on Amendment No. 1 from interested persons and to serve as written notice that the Commission does not object to the changes set forth in the Advance Notice, as modified by Amendment No. 1.

I. **Description of the Advance Notice**

FICC proposes to change the FICC GSD Rulebook (“GSD Rules”) to adjust GSD’s method of calculating GSD members’ (“Members”) margin. Specifically, FICC proposes to (1) change GSD’s method of calculating the Value-at-Risk (“VaR”) Charge component; (2) add a new component referred to as the “Blackout Period Exposure Adjustment;” (3) eliminate the existing Blackout Period Exposure Charge and the Coverage Charge components; (4) adjust the existing Backtesting Charge component to (i) include the backtesting deficiencies of certain GCF Counterparties during the Blackout Period, and (ii) give GSD the ability to assess the Backtesting Charge on an intraday basis for all Netting Members; and (5) adjust the calculation for determining the existing Excess Capital Premium for Broker Members, Inter-Dealer Broker Members, and Dealer Members. In addition, FICC proposes to provide transparency with respect to GSD’s existing authority to calculate and assess Intraday Supplemental Fund Deposit

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8 Notice, supra note 3, at 9055.

9 Id.
amounts. The proposed QRM Methodology document would reflect the proposed VaR Charge calculation and the proposed Blackout Period Exposure Adjustment calculation.

A. Changes to GSD’s VaR Charge Component

FICC states that the changes proposed in the Advance Notice are designed to improve GSD’s current VaR Charge so that it responds more effectively to market volatility. Specifically, FICC proposes to (1) replace GSD’s current full revaluation approach with a sensitivity approach; (2) employ the existing Margin Proxy as an alternative (i.e., a back-up) VaR Charge calculation; (3) use an evenly-weighted 10-year look-back period, instead of the current front-weighted one-year look-back period; (4) eliminate GSD’s current augmented volatility adjustment multiplier; (5) utilize a haircut

10 Id. Pursuant to the GSD Rules, FICC has the existing authority and discretion to calculate an additional amount on an intraday basis in the form of an Intraday Supplemental Clearing Fund Deposit. See GSD Rules 1 and 4, supra note 5.

11 Id.

12 Id. Notice, supra note 3, at 9056. FICC proposes to change its calculation of GSD’s VaR Charge because during the fourth quarter of 2016, FICC’s current methodology for calculating the VaR Charge did not respond effectively to the market volatility that existed at that time. Id. As a result, the VaR Charge did not achieve backtesting coverage at a 99 percent confidence level and, therefore, yielded backtesting deficiencies beyond FICC’s risk tolerance. Id.


method for securities cleared by GSD that lack sufficient historical data; and (6) establish a VaR Floor calculation that would serve as a minimum VaR Charge for Members, as discussed below.\textsuperscript{15}

For the proposed sensitivity approach to the VaR Charge, FICC would source sensitivity data and relevant historical risk factor time series data generated by an external vendor based on its econometric, risk, and pricing models.\textsuperscript{16} FICC would

\begin{itemize}
\item key rate measures the sensitivity of a price change to changes in interest rates;
\item convexity measures the degree of curvature in the price/yield relationship of key interest rates;
\item implied inflation rate measures the difference between the yield on an ordinary bond and the yield on an inflation-indexed bond with the same maturity;
\item agency spread is yield spread that is added to a benchmark yield curve to discount an Agency bond’s cash flows to match its market price;
\item mortgage-backed securities spread is the yield spread that is added to a benchmark yield curve to discount a to-be-announced (“TBA”) security’s cash flows to match its market price;
\item volatility reflects the implied volatility observed from the swaption market to estimate fluctuations in interest rates;
\item mortgage basis captures the basis risk between the prevailing mortgage rate and a blended Treasury rate; and
\end{itemize}

\begin{footnotes}
\textsuperscript{15} Id.
\textsuperscript{16} See Notice, supra note 3, at 9057. The following risk factors would be incorporated into GSD’s proposed sensitivity approach: key rate, convexity, implied inflation rate, agency spread, mortgage-backed securities spread, volatility, mortgage basis, and time risk factor. These risk factors are defined as follows:
\begin{itemize}
\item key rate measures the sensitivity of a price change to changes in interest rates;
\item convexity measures the degree of curvature in the price/yield relationship of key interest rates;
\item implied inflation rate measures the difference between the yield on an ordinary bond and the yield on an inflation-indexed bond with the same maturity;
\item agency spread is yield spread that is added to a benchmark yield curve to discount an Agency bond’s cash flows to match its market price;
\item mortgage-backed securities spread is the yield spread that is added to a benchmark yield curve to discount a to-be-announced (“TBA”) security’s cash flows to match its market price;
\item volatility reflects the implied volatility observed from the swaption market to estimate fluctuations in interest rates;
\item mortgage basis captures the basis risk between the prevailing mortgage rate and a blended Treasury rate; and
\end{itemize}
conduct independent data checks to verify the accuracy and consistency of the data feed received from the vendor.\textsuperscript{17} In the event that the external vendor is unable to provide the sourced data in a timely manner, FICC would employ its existing Margin Proxy as a back-up VaR Charge calculation.\textsuperscript{18}

Additionally, FICC proposes to change the look-back period from a front-weighted one-year look-back to an evenly-weighted 10-year look-back period that would include, to the extent applicable, an additional stressed period. FICC states that the proposed extended look-back period would help to ensure that the historical simulation contains a sufficient number of historical market conditions.\textsuperscript{19} In the event FICC

\begin{itemize}
  \item time risk factor accounts for the time value change (or carry adjustment) over the assumed liquidation period. \textsuperscript{Id.}
\end{itemize}

The above-referenced risk factors are similar to the risk factors currently utilized in MBSD’s sensitivity approach; however, GSD has included other risk factors that are specific to the U.S. Treasury securities, Agency securities and mortgage-backed securities cleared through GSD. \textsuperscript{Id.} Concerning U.S. Treasury securities and Agency securities, FICC would select the following risk factors: key rates, convexity, agency spread, implied inflation rates, volatility, and time. \textsuperscript{Id.} For mortgage-backed securities, each security would be mapped to a corresponding TBA forward contract and FICC would use the risk exposure analytics for the TBA as an estimate for the mortgage-backed security’s risk exposure analytics. \textsuperscript{Id.} FICC would use the following risk factors to model a TBA security: key rates, convexity, mortgage-backed securities spread, volatility, mortgage basis, and time. \textsuperscript{Id.} To account for differences between mortgage-backed securities and their corresponding TBA, FICC would apply an additional basis risk adjustment. \textsuperscript{Id.}

\textsuperscript{17} \textit{See} Notice, \textit{supra} note 3, at 9058.

\textsuperscript{18} \textit{See} Notice, \textit{supra} note 3, at 9059. In the event that the data used for the sensitivity approach is unavailable for a period of more than five days, FICC proposes to revert back to the Margin Proxy as an alternative VaR Charge calculation. \textsuperscript{Id.}

\textsuperscript{19} Notice, \textit{supra} note 3, at 9059.
observes that the 10-year look-back period does not contain a sufficient number of stressed market conditions, FICC would have the ability to include an additional period of historically observed stressed market conditions to a 10-year look-back period or adjust the length of look-back period.\textsuperscript{20}

FICC also proposes to look at the historical changes of specific risk factors during the look-back period in order to generate risk scenarios to arrive at the market value changes for a given portfolio.\textsuperscript{21} A statistical probability distribution would be formed from the portfolio’s market value changes, then the VaR calculation would be calibrated to cover the projected liquidation losses at a 99 percent confidence level.\textsuperscript{22} The portfolio risk sensitivities and the historical risk factor time series data would then be used by FICC’s risk model to calculate the VaR Charge for each Member.\textsuperscript{23}

FICC also proposes to eliminate the augmented volatility adjustment multiplier. FICC states that the multiplier would not be necessary because the proposed sensitivity approach would have a longer look-back period and the ability to include an additional stressed market condition to account for periods of market volatility.\textsuperscript{24}

According to FICC, in the event that a portfolio contains classes of securities that do not have sufficient volume and price information available, a historical simulation approach would not generate VaR Charge amounts that reflect the risk profile of such

\textsuperscript{20} Id.
\textsuperscript{21} Notice, supra note 3, at 9058.
\textsuperscript{22} Id.
\textsuperscript{23} Id.
\textsuperscript{24} Notice, supra note 3, at 9059.
securities. Therefore, FICC proposes to calculate the VaR Charge for these securities by utilizing a haircut approach based on a market benchmark with a similar risk profile as the related security. The proposed haircut approach would be calculated separately for U.S. Treasury/Agency securities and mortgage-backed securities.

Finally, FICC proposes to adjust the existing calculation of the VaR Charge to include a VaR Floor, which would be the amount used as the VaR Charge when the sum of the amounts calculated by the proposed sensitivity approach and haircut method is less than the proposed VaR Floor. The VaR Floor would be calculated as the sum of (1) a U.S. Treasury/Agency bond margin floor and (2) a mortgage-backed securities margin floor.

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25 Notice, supra note 3, at 9060.
26 Id.
27 Id.
28 Id.
29 Notice, supra note 3, at 9061. The U.S. Treasury/Agency bond margin floor would be calculated by mapping each U.S. Treasury/Agency security to a tenor bucket, then multiplying the gross positions of each tenor bucket by its bond floor rate, and summing the results. Id. The bond floor rate of each tenor bucket would be a fraction (initially set at 10 percent) of an index-based haircut rate for such tenor bucket. Id.
30 Id. The mortgage-backed securities margin floor would be calculated by multiplying the gross market value of the total value of mortgage-backed securities in a Member’s portfolio by a designated amount, referred to as the pool floor rate, (initially set at 0.05 percent). Id.
B. Addition of the Blackout Period Exposure Adjustment Component

FICC proposes to add a new component to GSD’s margin calculation – the Blackout Period Exposure Adjustment.\textsuperscript{31} FICC states that the Blackout Period Exposure Adjustment would be calculated to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions\textsuperscript{32} during a Blackout Period.\textsuperscript{33} A Blackout Period is the period between the last business day of the prior month and the date during the current month upon which a government-sponsored entity that issues mortgage-backed securities publishes its updated Pool Factors.\textsuperscript{34} The proposed Blackout Period Exposure Adjustment would result in a charge that either increases a Member’s VaR Charge or a credit that decreases the VaR Charge.\textsuperscript{35}

\textsuperscript{31} Id. The proposed Blackout Period Exposure Adjustment would be calculated by (1) projecting an average pay-down rate of mortgage loan pools (based on historical pay down rates) for the government sponsored enterprises (Fannie Mae and Freddie Mac) and the Government National Mortgage Association (Ginnie Mae), respectively, then (2) multiplying the projected pay-down rate by the net positions of mortgage-backed securities in the related program, and (3) summing the results from each program. Id.

\textsuperscript{32} Id. GCF Repo Transactions refer to transactions made on FICC’s GCF Repo Service that enables dealers to trade general collateral repos, based on rate, term, and underlying product, throughout the day, without requiring intra-day, trade-for-trade settlement on a Delivery-versus-Payment basis. Id.

\textsuperscript{33} Notice, \textit{supra} note 3, at 9061.

\textsuperscript{34} Id. Pool Factors are the percentage of the initial principal that remains outstanding on the mortgage loan pool underlying a mortgage-backed security, as published by the government-sponsored entity that is the issuer of such security. Id.

\textsuperscript{35} Id.
C. **Elimination of the Blackout Period Exposure Charge and Coverage Charge Components**

FICC proposes to eliminate the existing Blackout Period Exposure Charge component from GSD’s margin calculation.\(^{36}\) The Blackout Period Exposure Charge only applies to Members with GCF Repo Transactions that have two or more backtesting deficiencies during the Blackout Period and whose overall 12-month trailing backtesting coverage falls below the 99 percent coverage target.\(^{37}\) FICC would eliminate this charge because the proposed Blackout Period Exposure Adjustment would apply to all Members with GCF Repo Transactions collateralized with mortgage-backed securities during the Blackout Period.\(^{38}\)

FICC also proposes to eliminate the existing Coverage Charge component from GSD’s margin calculation.\(^{39}\) FICC would eliminate the Coverage Charge because, as FICC states, the proposed sensitivity approach would provide overall better margin coverage, rendering the Coverage Charge unnecessary.\(^{40}\)

D. **Adjustment to the Backtesting Charge Component**

FICC proposes to amend GSD’s existing Backtesting Charge component of its margin calculation to (1) include the backtesting deficiencies of certain Members during

\(^{36}\) Notice, supra note 3, at 9062.

\(^{37}\) Id.

\(^{38}\) Id.

\(^{39}\) Id.

\(^{40}\) Id.
the Blackout Period and (2) give GSD the ability to assess the Backtesting Charge on an intraday basis.\textsuperscript{41}

Currently, the Backtesting Charge does not apply to Members with mortgage-backed securities during the Blackout Period because such Members would be subject to a Blackout Period Exposure Charge.\textsuperscript{42} In response to FICC’s proposal to eliminate the Blackout Period Exposure Charge, FICC proposes to adjust the applicability of the Backtesting Charge.\textsuperscript{43} Specifically, FICC proposes to apply the Backtesting Charge to Members with backtesting deficiencies that also experience backtesting deficiencies that are attributed to the Member’s GCF Repo Transactions collateralized with mortgage-backed securities during the Blackout Period within the prior 12-month rolling period.\textsuperscript{44}

FICC also proposes to adjust the Backtesting Charge to apply to Members that experience backtesting deficiencies during the trading day because of such Member’s intraday trading activities.\textsuperscript{45} The Intraday Backtesting Charge would be assessed on Members with portfolios that experience at least three intraday backtesting deficiencies over the prior 12-month period and would generally equal a Member’s third largest historical intraday backtesting deficiency.\textsuperscript{46}

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\textsuperscript{41} Id.
\textsuperscript{42} Id.
\textsuperscript{43} Id.
\textsuperscript{44} Id. Additionally, during the Blackout Period, the proposed Blackout Period Exposure Adjustment Charge, as described in Section I.C, above, would be applied to all applicable Members. Id.
\textsuperscript{45} Id.
\textsuperscript{46} Notice, supra note 3, at 9063.
E. Adjustment to the Excess Capital Premium Charge

FICC proposes to adjust GSD’s calculation for determining the Excess Capital Premium. Currently, GSD assesses the Excess Capital Premium when a Member’s VaR Charge exceeds the Member’s Excess Capital.\(^{47}\) Only Members that are brokers or dealers are required to report Excess Net Capital figures to FICC while other Members report net capital or equity capital, based on the type of regulation to which the Member is subject.\(^{48}\) If a Member is not a broker or dealer, FICC uses the net capital or equity capital in order to calculate each Member’s Excess Capital Premium.\(^{49}\) FICC proposes to move to a net capital measure for broker Members, inter-dealer broker Members, and dealer Members.\(^{50}\) FICC states that such a change would make the Excess Capital Premium for those Members more consistent with the equity capital measure that is used for other Members in the Excess Capital Premium calculation.\(^{51}\)

F. Additional Transparency Surrounding the Intraday Supplemental Fund Deposit

Separate from the above changes to GSD’s margin calculation, FICC proposes to provide transparency in the GSD Rules with respect to GSD’s existing calculation of the

\(^{47}\) Id. The term “Excess Capital” means Excess Net Capital, net assets, or equity capital as applicable, to a Member based on its type of regulation. GSD Rules, Rule 1, supra note 5.

\(^{48}\) See Notice, supra note 3, at 9063.

\(^{49}\) Id.

\(^{50}\) Id.

\(^{51}\) Id.
Intraday Supplemental Fund Deposit. FICC proposes to provide more detail in the GSD rules surrounding both GSD’s calculation of the Intraday Supplemental Fund Deposit charge and its determination of whether to assess the charge.

FICC calculates the Intraday Supplemental Fund Deposit by tracking three criteria for each Member. The first criterion, the “Dollar Threshold,” evaluates whether a Member’s Intraday VaR Charge equals or exceeds a set dollar amount when compared to the VaR Charge that was included in the most recent margin collection. The second criterion, the “Percentage Threshold,” evaluates whether the Intraday VaR Charge equals or exceeds a percentage increase of the VaR Charge that was included in the most recent margin collection. The third criterion, the “Coverage Target,” evaluates whether a Member is experiencing backtesting results below a 99 percent confidence level. In the event that a Member’s additional risk exposure breaches all three criteria, FICC assess an Intraday Supplemental Fund Deposit. FICC also assess an Intraday Supplemental Fund Deposit if, under certain market conditions, a Member’s Intraday VaR Charge breaches both the Dollar Threshold and the Percentage Threshold.

52 Id.
53 See Notice, supra note 3, at 9064.
54 Id.
55 Id.
56 Id.
57 Id.
58 Id.
59 Id.
G. Description of the QRM Methodology

The QRM Methodology document provides the methodology by which FICC would calculate the VaR Charge, with the proposed sensitivity approach, as well as other components of the Members’ margin calculation. The QRM Methodology document specifies (i) the model inputs, parameters, assumptions and qualitative adjustments; (ii) the calculation used to generate margin amounts; (iii) additional calculations used for benchmarking and monitoring purposes; (iv) theoretical analysis; (v) the process by which the VaR methodology was developed as well as its application and limitations; (vi) internal business requirements associated with the implementation and ongoing monitoring of the VaR methodology; (vii) the model change management process and governance framework (which includes the escalation process for adding a stressed period to the VaR calculation); (viii) the haircut methodology; (ix) the Blackout Period Exposure Adjustment calculations; (x) intraday margin calculation; and (xi) the Margin Proxy calculation.

H. Description of Amendment No. 1

In Amendment No. 1, FICC proposed three things. First, FICC proposed to stagger the implementation of the proposed Blackout Period Exposure Adjustment and the proposed removal of the Blackout Period Exposure Charge. Specifically, on a date that is approximately three weeks after the later of the Commission’s notice of no

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60 Id.
61 Amendment No. 1, supra note 6.
objection to the Advance Notice or its issuance of an order approving the related Proposed Rule Change (“Implementation Date”), FICC would charge Members only 50 percent of any amount calculated under the proposed Blackout Period Exposure Adjustment, while, at the same time, decreasing by 50 percent any amount charge under the Blackout Period Exposure Charge.\textsuperscript{62} Then, no later than September 30, 2018, FICC would increase any amount charged under the Blackout Period Exposure Adjustment to 75 percent, while, at the same time, decreasing by 75 percent any amount charge under the Blackout Period Exposure Charge.\textsuperscript{63} Finally, no later than December 31, 2018, FICC would increase any amount charged under the Blackout Period Exposure Adjustment to 100 percent, while, at the same time, eliminating the Blackout Period Exposure Charge.

FICC states that it is proposing this amendment to address concerns raised by several Members that the implementation of the proposed Blackout Period Exposure Adjustment would have a material impact on their liquidity planning and margin charge.\textsuperscript{64} FICC states that the staggered implementation would give Members the opportunity to assess and further prepare for the impact of the proposed Blackout Period Exposure Adjustment. FICC states the proposed VaR Charge calculation and the existing Blackout Period Exposure Charge would appropriately mitigate the potential mortgage-backed securities pay-down on a short-term basis, given FICC’s assessment of mortgage-backed securities pay-down projections for this calendar year.\textsuperscript{65}

\textsuperscript{62} \textit{Id.}
\textsuperscript{63} \textit{Id.}
\textsuperscript{64} \textit{Id.}
\textsuperscript{65} \textit{Id.}
Second, FICC proposes to amend the implementation date for the remainder of the proposed changes in the Advance Notice. Specifically, FICC proposes that such remaining changes would become operative on the Implementation Date, as opposed to the originally proposed 45 business days after the later of the Commission’s notice of no objection to the Advance Notice or its issuance of an order approving the related Proposed Rule Change. FICC states that it is proposing this amendment because FICC is primarily concerned that the look-back period that is currently used in calculating the VaR Charge under the Margin Proxy may not calculate sufficient margin amounts to cover GSD’s exposure to a defaulting Member.

Third, FICC proposes to correct an incorrect description of the calculation of the Excess Capital Premium that appears once in the narrative to the Advance Notice, as well as in the corresponding location in the Exhibit 1A to the Advance Notice. Specifically, FICC proposes to change the term “Required Fund Deposit” to “VaR Charge” in the description at issue, as “Required Fund Deposit” was incorrectly used in that instance.
II. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views and arguments concerning whether Amendment No. 1 is consistent with the Clearing Supervision Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2018-801 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FICC-2018-801. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of
the filing also will be available for inspection and copying at the principal office of FICC and on DTCC’s website (http://dtcc.com/legal/sec-rule-filings.aspx). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2018-801 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

III. Discussion and Commission Findings

Although the Clearing Supervision Act does not specify a standard of review for an advance notice, its stated purpose is instructive: to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.71

Section 805(a)(2) of the Clearing Supervision Act72 authorizes the Commission to prescribe regulations containing risk-management standards for the payment, clearing, and settlement activities of designated clearing entities engaged in designated activities for which the Commission is the supervisory agency. Section 805(b) of the Clearing Supervision Act73 provides the following objectives and principles for the Commission’s risk-management standards prescribed under Section 805(a):

• promote robust risk management;

73 12 U.S.C. 5464(b).
• promote safety and soundness;
• reduce systemic risks; and
• support the stability of the broader financial system.

Section 805(c) of the Clearing Supervision Act provides, in addition, that the Commission’s risk-management standards may address such areas as risk-management and default policies and procedures, among others areas.74

The Commission has adopted risk-management standards under Section 805(a)(2) of the Clearing Supervision Act75 and Section 17A of the Exchange Act (“Rule 17Ad-22”).76 Rule 17Ad-22 requires each covered clearing agency, among other things, to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk-management practices on an ongoing basis.77 Therefore, it is appropriate for the Commission to review proposed changes in advance notices for consistency with the objectives and principles of the risk-management standards described in Section 805(b) of the Clearing Supervision Act78 and against Rule 17Ad-22.79

74 12 U.S.C. 5464(c).
77 17 CFR 240.17Ad-22.
78 12 U.S.C. 5464(b).
A. **Consistency with Section 805(b) of the Clearing Supervision Act**

The Commission believes that the changes proposed in the Advance Notice are consistent with each of the objectives and principles described in Section 805(b) of the Clearing Supervision Act. Specifically, as discussed below, the Commission believes that the changes proposed in the Advance Notice to the VaR Charge component of the margin calculation and the proposed changes to other components of the margin calculation are consistent with promoting robust risk management in the area of credit risk and promoting safety and soundness, which in turn, would help reduce systemic risk and support the stability of the broader financial system.

First, as described above, FICC currently calculates the VaR Charge component of each Member’s margin using a VaR calculation that relies on a full revaluation approach. FICC proposes to instead implement a sensitivity approach to its VaR Charge calculation, with, at minimum, an evenly-weighted 10-year look-back period. The proposed sensitivity approach would leverage an external vendor’s expertise in supplying market risk attributes (i.e., sensitivity data) used to calculate the VaR Charge. Relying on such sensitivity data with a 10-year look-back period would help correct deficiencies in FICC’s existing VaR Charge calculation, thus enabling FICC to better account for market risk in calculating the VaR Charge and better limit its credit exposure to Members.

Second, as described above, FICC proposes to implement the existing Margin Proxy as a back-up methodology to the proposed sensitivity approach to the VaR Charge calculation. This proposed change would help FICC to better limit its credit exposure to

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80 12 U.S.C. 5464(b).
Members’ by continuing to calculate each Member’s VaR Charge in the event that FICC experiences a data disruption with the vendor that supplies the sensitivity data.

Third, as described above, FICC proposes to eliminate the augmented volatility adjustment multiplier from its current VaR Charge calculation. This proposed change would enable FICC to remove a component from the VaR Charge calculation that would no longer be needed under the proposed changes, specifically the addition of the proposed 10-year look-back period that has the option of an additional stress period.

Fourth, as described above, FICC proposes to implement a haircut method for securities with inadequate historical pricing data and, thus, lack sufficient sensitivity data to apply the proposed sensitivity approach to FICC’s VaR calculation. Employing a haircut on such securities would help FICC limit its credit exposure to Members’ that transact in the securities by establishing a way to better capture their risk profile.

Fifth, as described above, FICC proposes to implement a VaR Floor. The proposed VaR Floor would be triggered in the event that the proposed sensitivity VaR model calculates too low of a VaR Charge because of offsets applied by the model from certain offsetting long and short positions. In other words, the VaR Floor would serve as a backstop to the proposed sensitivity approach to FICC’s VaR calculation, which would help ensure that FICC continues to limit its credit exposure to Members. Altogether, these proposed changes to the VaR Charge component of the margin calculation would enable FICC to view and respond more effectively to market volatility by attributing market price moves to various risk factors and more effectively limiting FICC’s credit exposure to Members in market conditions that reflect a rapid decrease in market price volatility levels.
In addition to these changes to the VaR Charge component of the margin calculation, FICC proposes to make a number of changes to other components of the margin calculation that would promote robust risk management at FICC. Specifically, as described above, FICC proposes to (1) add the Blackout Period Exposure Adjustment component to FICC’s margin calculation to help address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (2) make changes to the existing Backtesting Charge component to help ensure that the charge will apply to (i) all Members that experience backtesting deficiencies attributable to the Member’s GCF Repo Transactions that are collateralized with mortgage-backed securities during the Blackout Period, and (ii) all Members that experience backtesting deficiencies during the trading day because of such Member’s intraday trading activities; (3) provide more detail in the GSD Rules regarding FICC’s calculation of the existing Intraday Supplemental Fund Deposit charge and its determination of whether to assess the charge; and (4) remove the Coverage Charge and Blackout Period Exposure Charge components because the risk these components addressed would be addressed by the other proposed changes to the margin calculation, specifically the proposed sensitivity approach to FICC’s VaR calculation and the proposed Blackout Period Exposure Adjustment component, respectively.

Taken together, the above mentioned proposed changes to the components of the margin calculation would enhance FICC’s current method for calculating each Member’s margin. The enhancement would enable FICC to produce margin levels more commensurate with the risks associated with its Members’ portfolios in a broader range
of scenarios and market conditions, and, thus, more effectively cover its credit exposure to its Members. Therefore, the Commission believes that the changes proposed in the Advance Notice would help promote robust risk management, consistent with Section 805(b) of the Clearing Supervision Act. 81

The Commission also believes that the proposed changes would help promote safety and soundness at FICC, which, in turn, would help reduce systemic risk and support the stability of the broader financial system. As described above, the proposed changes are designed to better limit FICC’s credit exposure to Members in the event of a Member default through an enhanced VaR Charge calculation. By better limiting credit exposure to its Members, FICC’s proposed changes are designed to help ensure that, in the event of a Member default, FICC’s operations would not be disrupted and non-defaulting Members would not be exposed to losses that they cannot anticipate or control.

Therefore, for the above reasons, the Commission believes that the changes proposed in the Advance Notice would help promote safety and soundness, which in turn, would help reduce systemic risks and support the stability of the broader financial system, consistent with Section 805(b) of the Clearing Supervision Act. 82

B. Consistency with Rule 17Ad-22(e)(4)(i) of the Exchange Act

The Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(4)(i) under the Exchange Act. 82

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81 Id.
82 Id.
requires each covered clearing agency\textsuperscript{83} to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.\textsuperscript{84}

As described above, FICC proposes a number of changes to the way it addresses credit exposure to its Members through its margin calculation. Specifically, FICC proposes to (1) replace its existing full revaluation VaR Charge calculation with a sensitivity approach to the VaR Charge calculation that uses an evenly-weighted 10-year look-back period; (2) utilize the existing Margin Proxy as a back-up VaR Charge calculation to the proposed sensitivity in the event that FICC experiences a data disruption with the third-party vendor; (3) implement a haircut method for securities that are ineligible for the sensitivity approach to FICC’s VaR calculation due to inadequate historical pricing data; (4) establish the VaR Floor; (5) establish the Blackout Period Exposure Adjustment component; (6) adjust the existing Backtesting Charge component; and (7) use Net Capital instead of Excess Capital when calculating the Excess Capital

\textsuperscript{83} A “covered clearing agency” means, among other things, a clearing agency registered with the Commission under Section 17A of the Exchange Act (15 U.S.C. 78q-1 et seq.) that is designated systemically important by FSOC pursuant to the Clearing Supervision Act (12 U.S.C. 5461 et seq.). See 17 CFR 240.17Ad-22(a)(5)-(6). Because FICC is a registered clearing agency with the Commission that has been designated systemically important by FSOC, supra note 1, FICC is a covered clearing agency.

\textsuperscript{84} 17 CFR 240.17Ad-22(e)(4)(i).
Premium, as applicable, for broker Members, inter-dealer broker Members, and dealer Members.

Two commenters expressed concerns regarding the proposed change to the Excess Capital Premium.\textsuperscript{85} IDTA states that FICC needs to provide further clarification and justification for the Excess Capital Premium because the Excess Capital Premium under the proposed sensitivity approach to the VaR Charge calculation could result in additional margin for some Members “without sufficient explanation in the proposed rule change.”\textsuperscript{86} Additionally, IDTA states that the use of Net Capital in the denominator of the Excess Capital Premium will result in some additional Members being assessed the charge, specifically Dealer Members.\textsuperscript{87} IDTA states that Dealer Members should be able to use net worth, as compared to Net Capital, because a bank Member’s capital figure is based on assets without any haircut for certain positions.\textsuperscript{88} On the other hand, IDTA states that dealers must include haircuts on certain positions before calculating Net Capital.\textsuperscript{89} IDTA also states that FICC should allow dealer Members to calculate Net Capital for purposes of the Excess Capital Premium to not include a haircut on U.S. Government securities cleared at FICC.\textsuperscript{90} Finally, IDTA states that the Excess Capital Premium should instead be used to trigger a credit review for Members because, in

\textsuperscript{85} IDTA Letter and Amherst Letter II.
\textsuperscript{86} IDTA Letter at 9.
\textsuperscript{87} Id.
\textsuperscript{88} Id. at 10.
\textsuperscript{89} Id. at 10.
\textsuperscript{90} Id. at 10.
conjunction with the other proposed changes, the Excess Capital Premium would not be a “sound measure” of a Member’s credit risk.\textsuperscript{91} Similarly, Amherst notes that FICC should review further how it can allow dealer Members to be compared similarly to bank Members for Excess Capital Premium purposes to account for the haircut on assets that dealers must account for in their Net Capital calculation.\textsuperscript{92}

In response, FICC states that the Excess Capital Premium is used to more effectively manage the risk posed by a Member whose activity causes it to have a margin requirement that is greater than its excess regulatory capital.\textsuperscript{93} FICC notes that for a majority of Members, the proposed sensitivity VaR Charge calculation would be higher than the current VaR Charge calculation, excluding the Margin Proxy, and that the higher VaR Charge could result in a higher Excess Capital Premium.\textsuperscript{94} Where there is an increase, FICC states that this increase is appropriate for the exposure that the Excess Capital Premium is designed to mitigate.\textsuperscript{95} However, FICC notes that even with the potential increase in the proposed VaR Charge, the majority of Members would not incur the Excess Capital Premium.\textsuperscript{96} Additionally, FICC states that the proposed change to Net

\textsuperscript{91} Id.
\textsuperscript{92} Amherst Letter II at 4.
\textsuperscript{94} FICC Letter II at 11.
\textsuperscript{95} Id.
\textsuperscript{96} Id.
Capital for the Excess Capital Premium would reduce the impact to Members.\textsuperscript{97} For example, for period of December 18, 2017 through April 2, 2018, FICC states that by using Net Capital instead of Excess Net Capital, the Member with the largest number of instances of the Excess Capital Premium would have had a 27 percent reduction in the number of instances and, on average, an 82 percent decrease in the dollar value of the charge on the days such Excess Capital Premium occurred.\textsuperscript{98}

Additionally, two commenters noted that the proposed sensitivity approach to the VaR Charge calculation is not needed at this time because the Margin Proxy\textsuperscript{99} is sufficient to cover any gaps in margin requirements. Specifically, Amherst states that FICC has not presented the Commission with the full impact analysis of the supplemental Margin Proxy calculation and that the full analysis would reveal that the current margining process, inclusive of the Margin Proxy, has already significantly and materially increased Netting Members’ Required Fund Deposit amounts. Therefore, Amherst states that a full analysis of the current supplemental Margin Proxy calculation would reveal that the Margin Proxy enables FICC to collect adequate levels of margin to protect itself during stressed periods.\textsuperscript{100} Similarly, IDTA states that the Margin Proxy allows GSD to maintain its backtesting goal at the 99 percent confidence level.\textsuperscript{101}

\textsuperscript{97} Id.
\textsuperscript{98} Id.
\textsuperscript{99} Supra note 12.
\textsuperscript{100} Amherst II Letter at 2.
\textsuperscript{101} IDTA Letter at 3-4.
In response, FICC states that the Margin Proxy has historically provided a more accurate VaR Charge calculation than the full valuation approach, but the current VaR Charge as supplemented by the Margin Proxy calculation reflects relatively low market price volatility that has been present in the mortgage-backed securities market since the beginning of 2017. As such, FICC states that this current approach contains an insufficient amount of look-back data to ensure that the backtesting will remain above 99 percent if volatility returns to levels seen beyond the one-year look-back period that is currently used to calibrate the Margin Proxy for MBS.\footnote{102} Additionally, in order to help ensure that it is calculating adequate margin, FICC filed Amendment No. 1 to accelerate the implementation of all the proposed changes, except for the proposed Blackout Period Exposure Adjustment and the removal of the existing Blackout Period Exposure Charge, which FICC proposes to implement in phases, through the remainder of 2018, in response to commenters. In Amendment No. 1, FICC states that it has been discussing the proposed changes with Members since August 2017 in order to help Members prepare for and understand why FICC proposed the rule changes.\footnote{103} FICC states that it is primarily concerned that the look-back period that is currently used in calculating the VaR Charge under the Margin Proxy may not calculate sufficient margin amounts to cover GSD’s exposure to a defaulting Member.\footnote{104} Therefore, FICC proposes to accelerate the implementation of all the proposed changes, except for the proposed Blackout Period

\footnote{102}{FICC Letter II at 3.}
\footnote{103}{Id.}
\footnote{104}{Id.}
Exposure Adjustment and the removal of the existing Blackout Period Exposure Charge.\textsuperscript{105}

The Commission believes that these proposed changes are designed to help FICC better identify, measure, monitor, and manage its credit exposure to its Members by calculating more precisely the risk presented by Members, which would enable FICC to assess a more reliable VaR Charge. Specifically, FICC’s proposed change to (1) switch to a sensitivity approach to the VaR Charge calculation, with a 10-year look-back period, would help the calculation respond more effectively to market volatility by attributing market price moves to various risk factors; (2) use the Margin Proxy as a back-up to the proposed sensitivity calculation would help ensure that FICC is able to assess a VaR Charge, even if its unable to receive sensitivity data from the third-party vendor; (3) apply a haircut on securities that are ineligible for the sensitivity VaR Charge calculation would enable FICC to better account for the risk presented by such securities; (4) establish the VaR Floor would enable FICC to better calculate a VaR Charge for portfolios where the proposed sensitivity approach would yield too low a VaR Charge; (5) establish the Blackout Period Exposure Adjustment component would enable FICC to better address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (6) adjust the existing Backtesting Charge component would ensure that the charge applied to all Members, as appropriate, and to Member’s intraday trading activities; and (7) use Net Capital instead of Excess Capital when calculating the Excess Capital Premium would make the Excess Capital Premium calculation for broker\textsuperscript{105}

\textsuperscript{105} Id.
Members, inter-dealer broker Members, and dealer Members more consistent with the equity capital measure that is used for other Members.

In response to commenters concerns regarding the proposed change to the Excess Capital Premium calculation, the Commission notes that this proposed change would only modify the denominator used in the calculation. Specifically, the denominator would become larger, as the proposal to use Net Capital (proposed denominator) is a larger amount than the current use of Excess Net Capital (current denominator).\(^\text{106}\) The effect, holding all else constant, would be to lower those Members’ Excess Capital Premium.

Of course, if the numerator in the calculation (i.e., a Member’s VaR Charge amount) would increase, then the Excess Capital Premium could increase. However, FICC does not propose to change the numerator used for calculating the Excess Capital Premium. The Commission notes that under the Advance Notice the numerator used for calculating the Excess Capital Premium would be calculated using the proposed sensitivity approach to the VaR Charge calculation. As described further below, the proposed sensitivity approach would calculate margin commensurate with the risks associated with a Member’s portfolio.

In response to the comments that the proposed sensitivity approach to the VaR Charge calculation is not necessary at this time in light of the Margin Proxy, the Commission disagrees. In considering these comments, the Commission thoroughly reviewed (i) the Advance Notice, including the supporting exhibits that provided

confidential information on the performance of the proposed sensitivity calculation, impact analysis, and backtesting results; (ii) the comments received; and (iii) the Commission’s own understanding of the performance of the current VaR Charge calculation, with which the Commission has experience from its general supervision of FICC, compared to the proposed sensitivity calculation. More specifically, the confidential Exhibit 3 submitted by FICC includes (i) 12-month rolling coverage backtesting results; (ii) intraday backtesting impact analysis; (iii) a breakdown of coverage percentages and dollar amounts, for each Member, under the current margin model with and without Margin Proxy and under the proposed sensitivity model; and (iv) an impact study of the proposed changes detailing the margin amounts required per Member during Blackout Periods and non-Blackout Periods.

On a Member basis, the Commission notes that there is not a sizeable change in the amount of margin collected under the current margin model, supplemented by the Margin Proxy, compared to the proposed sensitivity model. The Commission also notes that the Margin Proxy was implemented as a temporary solution to issues identified with the current model, as it only has a one year look-back period. Additionally, the Commission believes that the sensitivity approach is simpler and more accurate as it uses a broad spectrum of sensitivity data that is tailored to the specific risks associated with Members’ portfolios. Ultimately, the Commission finds that the proposed sensitivity approach, and the related implementation schedule proposed in Amendment No. 1, would provide FICC with a more robust margin calculation in FICC’s efforts to meet the applicable regulatory requirements for margin coverage.

107 See supra note 15.
Therefore, for the reasons discussed above, the Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(4)(i) under the Exchange Act.\textsuperscript{108}

C. **Consistency with Rule 17Ad-22(e)(6)(i) of the Exchange Act**

The Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(i) under the Exchange Act. Rule 17Ad-22(e)(6)(i) requires each covered clearing agency to 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.\textsuperscript{109}

As described above, FICC proposes a number of changes to how it calculates Members’ margin charge through a risk-based margin system that considers the risks and attributes of securities that GSD clears. Specifically, FICC proposes to (1) move to a sensitivity approach to the VaR Charge calculation; (2) move from a front-weighted one-year look-back period to an evenly-weighted 10-year look-back period with the option for an additional stress period; (3) use the existing Margin Proxy as a back-up methodology to the proposed sensitivity approach to the VaR Charge calculation; (4) implement a haircut method for securities with insufficient sensitivity data due to inadequate historical pricing; (5) establish the VaR Floor; (6) establish the Blackout Period Exposure Adjustment component; (7) adjust the existing Backtesting Charge component; and (8)

\textsuperscript{108} 17 CFR 240.17Ad-22(e)(4)(i).
\textsuperscript{109} 17 CFR 240.17Ad-22(e)(6)(i).
eliminate the Blackout Period Exposure Charge, Coverage Charge, and augmented volatility adjustment multiplier components.

Several commenters raised concerns that the proposed changes to the margin calculation would not produce a margin charge commensurate with the risks and particular attributes of Members’ complete portfolios. Specifically, Ronin states that the use of the proposed sensitivity approach to the VaR Charge calculation only uses a subset of a Member’s entire portfolio (i.e., it does not incorporate data from other clearing agencies) to calculate the Member’s risk to FICC.\(^\text{110}\) Ronin suggests that the implementation of data sharing and cross margining between FICC’s Mortgaged-Backed Securities Division ("MBSD"), GSD, and the Chicago Mercantile Exchange ("CME") would provide FICC with a more accurate representation of the risk associated with a Member’s portfolio.\(^\text{111}\) Ronin also states that the existing cross-margin agreement between FICC and CME needs an update to provide true cross-margin relief for all GSD Members.\(^\text{112}\) Similarly, IDTA states that FICC cannot accurately identify the risk associated with a Member’s portfolio due to the lack of incentive to share data with other clearing agencies.\(^\text{113}\) IDTA suggests that FICC should develop cross-margining ability between GSD and MBSD and improve cross-margining with CME.\(^\text{114}\) KGS and Amherst make similar arguments. KGS states that in order to more effectively analyze and

\(^{110}\) Ronin Letter I at 1.

\(^{111}\) Id. at 2.

\(^{112}\) Ronin Letter II at 2.

\(^{113}\) IDTA Letter at 11.

\(^{114}\) Id.
address Members’ portfolio risks, there should be cross margining for Members that hold offsetting positions in GSD and MBSD, stating that not having such an intra-DTCC cross-margining process will have a distortive effect on GSD’s margining system, forcing members to reduce their use of GSD and reduce their positions cleared through GSD, in effect reducing market liquidity.\textsuperscript{115} Amherst states that not implementing cross-margin capabilities will inflate the margin requirements and distort the liquidity profile of the Member.\textsuperscript{116}

In response, FICC disagrees with Amherst’s statement that FICC’s failure to implement a cross-margining arrangement would be inconsistent with the requirements of Rule 17Ad-22(e)(6) under the Exchange Act.\textsuperscript{117} FICC notes that it operates under two divisions, GSD and MBSD, each of which has its own rules and members.\textsuperscript{118} As a registered clearing agency, FICC notes that it is subject to the requirements that are contained in the Exchange Act and in the Commission’s regulations and rules thereunder.\textsuperscript{119}

Nevertheless, FICC states that it agrees with commenters that data sharing and cross-margining would be beneficial to its Members and is exploring data sharing and cross-margining opportunities outside of the Advance Notice.\textsuperscript{120} FICC states it is in the

\textsuperscript{115} KGS Letter at 1.
\textsuperscript{116} Amherst Letter II at 2.
\textsuperscript{117} FICC Letter II at 12.
\textsuperscript{118} Id.
\textsuperscript{119} Id.
\textsuperscript{120} FICC Letter I at 5.
process of completing a proposal that would enable a margin reduction for Members with mortgaged-backed securities ("MBS") positions that offset between GSD and MBSD. FICC also states it will continue to develop a framework with CME that will enhance FICC’s existing cross-margining arrangement with the CME. Finally, FICC notes that the proposed changes to the GSD margin methodology are necessary because they provide appropriate risk mitigation that must be in place before FICC can fully evaluate potential cross-margining opportunities.

Separate from those comments, two commenters also raised concerns with the proposed extended look-back period. Ronin states that FICC’s assumption of adding a continued stress period to the 10-year look-back calculation is employing "statistical bias" because it treats every day as if the market is in "the midst of a financial crisis" and creates over margining. Similarly, IDTA states the addition of an arbitrary year to the look-back period is statistically biased and makes the “most volatile day” permanent and therefore, the calculations are not addressing the actual risk of a portfolio. IDTA believes that a shorter look-back period of five years without an additional stress period would sufficiently margin Members for the risk of their portfolios.

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121 FICC Letter II at 12.
122 Id.
123 Id.
124 Ronin Letter I at 4 and Ronin Letter 2 at 5.
125 IDTA Letter I at 7.
126 Id.
In response, FICC states that a longer look-back period will produce a more stable VaR estimate that adequately reflects extreme market moves ensuring the VaR Charge does not decrease as quickly during periods of low volatility nor increase as sharply during periods of a market crisis. 127 Additionally, FICC states that an extended look-back period including stressed market conditions are necessary to calculate margin requirements that achieve a 99 percent confidence level. 128 As part of FICC’s model validation report, FICC performed a benchmark analysis of its calculation of the VaR Charge. FICC analyzed a 10-year look-back period, a five-year look-back period, and a one-year look-back period using all Netting Member portfolios from January 1, 2013 through April 28, 2017. 129 The results of FICC’s analysis showed that a 10-year look-back period, which included a stress period, provides backtesting coverage above 99 percent while a five-year look-back period and a one-year look-back period did not. 130

The Commission believes that these proposed changes are designed to help FICC better cover its credit exposures to its Members, as the changes would help establish a risk-based margin system that considers and produces margin levels commensurate with the risks and particular attributes of the products cleared in GSD. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would enable the VaR calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors; (2) establish an evenly-

127 FICC Letter I at 4.
128 Id.
129 FICC Letter II at 9.
130 Id.
weighted 10-year look-back period, with the option to add an additional stress period, would help FICC to ensure that the proposed sensitivity VaR Charge calculation contains a sufficient number of historical market conditions, to include stressed market conditions; (3) use the existing Margin Proxy as a back-up methodology system would help ensure FICC is able to calculate a VaR Charge for Members despite a not being able to receive sensitivity date; (4) to implement a haircut method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; (5) establish the VaR Floor would help ensure that FICC assess a VaR Charge where the proposed sensitivity calculation has produce too low of a VaR Charge; (6) establish the Blackout Period Exposure Adjustment component would enable FICC to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (7) adjust the existing Backtesting Charge component would enable FICC to ensure that the charge applies to all Members, as appropriate, and to Members intraday trading activities that could pose a risk to FICC in the event that such Members default during the trading day; and (8) eliminate the Blackout Period Exposure Charge, Coverage Charge, and augmented volatility adjustment multiplier components would ensure that FICC did not maintain elements of the prior margin calculation that would unnecessarily increase Members’ margin under the proposed margin calculation.

In responses to comments regarding cross-margining and its potential impact upon membership levels and market liquidity, the Commission notes that the Advance Notice does not propose to establish or change any cross-margining agreements, whether between GSD and MBSD or between GSD, MBSD, and another clearing agency. As
such, cross-margining is not one of the proposed changes under the Commission’s review. The Commission further notes that GSD and MBSD have different members (although a member of one could, and some have, apply and become a member of the other), offer different services, and clear different products. To the extent there is consistency in products, the products are still cleared by different services. Accordingly, FICC maintains not only separate rulebooks for each division but also separate liquidity resources.

Therefore, the Commission believes that the absence of a proposed change in the Advance Notice to establish cross-margining between GSD and MBSD, or to expanding cross-margining between GSD and another clearing agency, does not render the specific changes proposed in the Advance Notice for GSD inconsistent with the Clearing Supervision Act or the applicable rules discussed herein. Rather, the Commission believes that the proposed changes to GSD’s margin calculation are designed to be tailored to the specific risks associated with the products and services offered by GSD and that the proposed GSD margin calculation is commensurate with the risks associated with portfolios held by Members in GSD.

In response to comments about the proposed look-back period, the Commission believes that an evenly-weighted 10-year look-back period, plus an additional stress period, as needed, is an appropriate approach to help ensure that the proposed sensitivity VaR Charge calculation accounts for historical market observations of the securities cleared by GSD, so that FICC is in a better position to maintain backtesting coverage above 99 percent for GSD.
Therefore, for the above discussed reasons, the Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(i) under the Exchange Act.131

D. Consistency with Rule 17Ad-22(e)(6)(ii) of the Exchange Act

The Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(ii) under the Exchange Act. Rule 17Ad-22(e)(6)(ii) requires each covered clearing agency to 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, marks participant positions to market and collects margin, including variation margin or equivalent charges if relevant, at least daily and includes the authority and operational capacity to make intraday margin calls in defined circumstances.132

As described above, FICC proposes to adjust the existing Backtesting Charge component. Specifically, FICC proposes to collect the charge from all Members on a daily basis, as applicable, as well as from Members that have backtesting deficiencies during the trading day due to large fluctuations of intraday trading activity that could pose risk to FICC in the event that such Members defaults during the trading day.

The change is designed to help improve FICC’s risk-based margin system by authorizing FICC to assess this specific margin charge on all Members at least daily, as needed, and on an intra-day basis, as needed. Therefore, the Commission believes that

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131 17 CFR 240.17Ad-22(e)(6)(i).
the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(ii) under the Exchange Act.\textsuperscript{133}

E. Consistency with Rule 17Ad-22(e)(6)(iv) of the Exchange Act

The Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(iv) under the Exchange Act. Rule 17Ad-22(e)(6)(iv) requires each covered clearing agency to 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, uses reliable sources of timely price data and procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.\textsuperscript{134}

As described above, FICC proposes a number of changes to its margin calculation that are designed to use reliable price data and address circumstances in which pricing data may not be available or reliable. Specifically, FICC proposes to (1) replace its existing full revaluation VaR Charge calculation with the proposed sensitivity approach that relies upon the expertise of a third-party vendor to produce the needed sensitivity data; (2) utilize the existing Margin Proxy as a back-up to the proposed sensitivity VaR Charge calculation in the event that FICC experiences a data disruption with the third-party vendor; (3) implement a haircut method for securities that are ineligible for the proposed sensitivity approach to the VaR Charge calculation due to inadequate historical pricing data; and (4) establish the VaR Floor.

\textsuperscript{133} Id.

\textsuperscript{134} 17 CFR 240.17Ad-22(e)(6)(iv).
The Commission believes that these proposed changes are designed to help FICC better cover its credit exposures to its Members, as the changes would help establish a risk-based margin system that considers and produces margin levels commensurate with the risks and particular attributes of the products cleared in GSD. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would not only enable the VaR calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors but also would enable FICC to employ the expertise of a third-party vendor to supply applicable sensitivity data; (2) use the existing Margin Proxy as a back-up methodology system would help ensure FICC is able to calculate a VaR Charge for Members despite any difficulty in receiving sensitivity data from the third-party vendor; (3) implement a haircut method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; and (4) establish the VaR Floor would help ensure that FICC assess a VaR Charge where the proposed sensitivity VaR Charge calculation produces too low of a VaR Charge.

Therefore, for these reasons, the Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(iv) under the Exchange Act.\(^\text{135}\)

F. Consistency with Rule 17Ad-22(e)(6)(v) of the Exchange Act

The Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(v) under the Exchange Act. Rule 17Ad-22(e)(6)(v) requires each covered clearing agency to establish, implement, maintain and enforce \(^\text{135}\) Id.
written policies and procedures reasonably designed to use an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products.\textsuperscript{136}

As described above, FICC proposes a number of changes to its margin calculation that are designed to help ensure that FICC accounts for the relevant product risk factors and portfolio effects across GSD’s products when measuring its credit exposure to Members. Specifically, FICC proposes to (1) replace its existing full revaluation VaR Charge calculation with the proposed sensitivity approach to the VaR Charge calculation; (2) implement a haircut method for securities that are ineligible for the proposed sensitivity approach due to inadequate historical pricing data; and (3) establish the Blackout Period Exposure Adjustment component.

Two commenters raised concerns regarding the Blackout Period Exposure Adjustment.\textsuperscript{137} Specifically, IDTA states that the Blackout Period Exposure Adjustment results in an inaccurate measurement of risk and excessive margin charges.\textsuperscript{138} First, IDTA states that the Blackout Period should run from the first business day of the current month to the morning of the fifth business day to more accurately capture FICC’s exposure.\textsuperscript{139} Second, IDTA states that the Blackout Period Exposure Adjustment should be calculated using historical pay-down rates for the MBS pools held in each Members’ portfolio, rather than historical pay-down rates for all active MBS pools. Finally, IDTA

\textsuperscript{136} 17 CFR 240.17Ad-22(e)(6)(v).
\textsuperscript{137} IDTA Letter and Amherst Letter II.
\textsuperscript{138} IDTA Letter at 12.
\textsuperscript{139} Id.
states that FICC should apply a credit-risk weighting to the Blackout Period Exposure Adjustment instead of assuming a 100 percent probability of GCF counterparty default across all Members.140

Amherst similarly states that using historical pay-down rates for all active MBS pools, rather than using historical pay-down rates for the MBS pools held in each Members’ portfolio, in calculating the Blackout Period Exposure Adjustment would eliminate “prudent risk and position management” that Members can undertake to reduce FICC’s exposure.141 Amherst states that FICC should retain its current approach that provides incentives for Members to “manage the prepay characteristics of the mortgaged-backed securities held within FICC.”142

In response, FICC states that Blackout Period Exposure Adjustment collections that occur after the MBS collateral pledge would not mitigate the risk that a Member defaults after the collateral is pledged but before such Member satisfies the next day’s margin.143 Therefore, FICC states that IDTA’s proposed change to the timing of the Blackout Period Exposure Adjustment would be inconsistent with FICC’s requirements under the Exchange Act.144 Additionally, FICC states it considered different approaches for determining the calculation of the Blackout Period Exposure Adjustment that would ensure FICC has sufficient backtesting coverage, and give Members transparency and the

140 Id.
141 Amherst Letter II at 5.
142 Id.
143 FICC Letter II at 13.
144 Id.
ability to plan for the Blackout Period Exposure Adjustment requirements.\textsuperscript{145} FICC notes that MBS pay-down rates are influenced by several factors that can be projected at the loan level, however, such projections would be dependent on several assumptions that may not be predictable and transparent to Members.\textsuperscript{146} Thus, FICC states that the proposed Blackout Period Exposure Adjustment applies weighted averages of pay-down rates for all active mortgage pools of the related program during the three most recent preceding months, and FICC believes that this approach would allow Members to effectively plan for the Blackout Period Exposure Adjustment.\textsuperscript{147} Finally, FICC disagrees with IDTA’s suggestion that a probability of default approach would be more appropriate because a probability of default approach would provide lower margin coverage than the current approach.\textsuperscript{148} FICC notes this lower margin would not be sufficient to maintain the margin coverage at a 99 percent confidence level.\textsuperscript{149}

The Commission believes that these proposed changes are designed to help FICC use an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products cleared by GSD. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would enable the VaR calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors; (2) to implement a haircut

\textsuperscript{145} Id.  
\textsuperscript{146} Id.  
\textsuperscript{147} Id.  
\textsuperscript{148} Id.  
\textsuperscript{149} Id.
method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; and (3) establish the Blackout Period Exposure Adjustment component would enable FICC to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period.

In response to commenters’ concerns regarding the Blackout Period Exposure Adjustment collection cycle, the Commission notes the proposed cycle follows the same cycle currently used for the Blackout Period Exposure Charge, which FICC proposes to eliminate on account of the proposed Blackout Period Exposure Adjustment. For both the current and proposed cycle, the Commission understands, based on its experience and expertise, that FICC’s application of the charge on the last business day of the month, as opposed to the first business day of the following month, is an appropriate way to ensure that FICC collects the funds before realizing the risk that the charge is intended to mitigate (i.e., a Member defaults during the Blackout Period). Similarly, FICC’s extension of the charge through the end of the day on the Factor Date, as opposed to releasing the charge during FICC’s standard intraday margin calculation on the Factor Date, also is an appropriate way to mitigate the risk exposure to FICC because, operationally, the MBS are not released and revalued with the update factors by the applicable clearing bank until after FICC has already completed the intraday margin calculation. In response to commenters’ concerns regarding the calculation of the Blackout Period Exposure Adjustment, the Commission agrees with FICC. Specifically, the Commission agrees that (i) given the number assumptions that one would need to make with respect to the various factors that influence MBS pay-down rates, the
weighted-average approach would provide Members more transparency and certainty around the charge, and (ii) a credit-risk weighting would not likely produce a sufficient charge amount in the event of an actual Member default, as the approach would assume something less than a 100 percent probability of default in calculating the charge.

Therefore, for these reasons, the Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(6)(v) under the Exchange Act.\textsuperscript{150}

G. Consistency with Rule 17Ad-22(e)(6)(vi)(B) of the Exchange Act

Rule 17Ad-22(e)(6)(vi)(B) under the Exchange Act requires each covered clearing agency to 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, is monitored by management on an ongoing basis and is regularly reviewed, tested, and verified by conducting a sensitivity analysis\textsuperscript{151} of its margin model and a review of its parameters and assumptions for backtesting on at least a monthly basis, and considering modifications to ensure the

\textsuperscript{150} 17 CFR 240.17Ad-22(e)(6)(v).

\textsuperscript{151} Rule 17Ad-22(a)(16)(i) under the Exchange Act defines sensitivity analysis to include an analysis that involves analyzing the sensitivity model to its assumptions, parameters, and inputs that consider the impact on the model of both moderate and extreme changes in a wide range of inputs, parameters, and assumptions, including correlations of price movements or returns if relevant, which reflect a variety of historical and hypothetical market conditions. 17 CFR 240.17Ad-22(a)(16)(i). Sensitivity analysis must use actual portfolios and, where applicable, hypothetical portfolios that reflect the characteristics of proprietary positions and customer positions. \textit{Id.}
backtesting practices are appropriate for determining the adequacy of the covered clearing agency's margin resources.\(^{152}\)

Some of the commenters raise concerns that two of the presumptions assumed by FICC for backtesting, in order to determine the adequacy of the FICC's margin resources, are inaccurate.\(^{153}\) First, Ronin and IDTA claim that FICC incorrectly assumes that it would take three days to liquidate or hedge the portfolio of a defaulting Member in normal market conditions. Specifically, Ronin states that FICC’s assumption that it would take three days to liquidate or hedge the portfolio of a defaulted Member is incorrect because FICC incorrectly assumes that liquidity needs following a default will be identical for all Members.\(^{154}\) Ronin states that the three-day liquidation period creates an “arbitrary and extremely high hurdle” for historical backtesting by overestimating the closeout-period risk posed to FICC by many of its Members by “triple-counting” a single event.\(^{155}\) Similarly, IDTA notes that it is arbitrary to apply the same liquidation period across all Members because smaller Member portfolios can be more easily liquidated or hedged in a short period of time.\(^{156}\) IDTA believes FICC should link the liquidation period to the portfolio size of the Member.\(^{157}\)

\(^{152}\) 17 CFR 240.17Ad-22(e)(6)(vi)(B).
\(^{153}\) Ronin Letter I at 2-4 and IDTA Letter at 6, 7.
\(^{154}\) Ronin Letter I at 2-3 and Ronin Letter II at 1.
\(^{155}\) Ronin Letter I at 3.
\(^{156}\) IDTA Letter at 6 and Ronin Letter II at 2.
\(^{157}\) Id.
In its response, FICC states that the three-day liquidation period is an accurate assumption of the length of time it would take to liquidate a portfolio given the volume and types of securities that can be found in a Member’s portfolio at any given time.\textsuperscript{158} Further, FICC notes that it validates the three-day liquidation period, at least annually, through FICC’s simulated close-out, which is augmented with statistical and economic analysis to reflect potential liquidation costs of sample portfolios of various sizes.\textsuperscript{159} FICC also notes that idiosyncratic exposures cannot be mitigated quickly and that the risk associated with idiosyncratic exposures is present in large and small portfolios.\textsuperscript{160} Finally, FICC states that although a single market price shock will influence a three-day portfolio price return, the mark-to-market calculation will vary daily based on the day’s positions and margin collection for each Member.\textsuperscript{161}

The Commission believes that FICC’s assumption that it could take three days to liquidate the portfolio of a defaulted Member, regardless of the size of the portfolio or the type of Member, is appropriate. To the extent there is a difference in the time required for FICC to liquidate various GSD products over a three-day period, the Commission believes that such time is appropriate in order for FICC to focus on the overall risk management of the defaulted Member without creating a liquidation methodology that is overly complex and susceptible to flaws.

\textsuperscript{158} FICC Letter I at 3.
\textsuperscript{159} Id. at 3-4.
\textsuperscript{160} Id. at 4.
\textsuperscript{161} Id.
Therefore, the Commission believes that the Advance Notice is consistent with Rule 17Ad-22(e)(6)(vi)(B) under the Exchange Act.\textsuperscript{162}

H. Consistency with Rule 17Ad-22(e)(23)(ii) of the Exchange Act

Rule 17Ad-22(e)(23)(ii) under the Exchange Act requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency.\textsuperscript{163}

Three commenters expressed concerns regarding the limited time in which Members have had to evaluate the data provided by FICC and the effects of the proposed changes.\textsuperscript{164} IDTA states that the proposed changes are complex and warrant adequate testing and transparency between FICC and its Members.\textsuperscript{165} IDTA states that FICC has not provided Members with adequate time to review and evaluate the potential impacts of the proposed changes on a Member’s portfolio.\textsuperscript{166} IDTA suggests that FICC (i) provide more time for Members to adapt to the change, (ii) launch a calculator that enables Members to input sample portfolios to determine the margin required, and (iii) provide full disclosure of the methodology used.\textsuperscript{167}

\begin{enumerate}
\item \textsuperscript{162} 17 CFR 240.17Ad-22(e)(6)(vi)(B).
\item \textsuperscript{163} 17 CFR 240.17Ad-22(e)(23)(ii).
\item \textsuperscript{164} See Amherst Letter II, IDTA Letter, and Ronin II Letter.
\item \textsuperscript{165} IDTA Letter at 5.
\item \textsuperscript{166} Id.
\item \textsuperscript{167} Id.
\end{enumerate}
Similarly, Amherst states that the proposed changes should not be implemented until Members have had the appropriate time and sufficient information to complete a comparison between the current margin methodology and the proposed changes.\textsuperscript{168} Amherst requests that FICC provide the appropriate tools and information to replicate the new sensitivity model in order to manage the risks to Members that may be introduced as a result of the proposed changes.\textsuperscript{169} Amherst also requests that FICC provide transparency surrounding the effects of the Blackout Period Exposure Adjustment and the Excess Capital Premium calculations in order to assess the impacts of the proposed changes.\textsuperscript{170}

Similarly, Ronin states that FICC has heavily relied on parallel and historical studies when providing its Members with data, but Members lack the necessary tools to conduct their own scenario analysis.\textsuperscript{171} Ronin notes that when trading activity or market conditions deviate from assumptions made under the various studies conducted by the FICC, Members are forced to react rather than proactively manage capital needs.\textsuperscript{172} Ronin, therefore, states it is significantly more difficult to manage the capital needs of a business when a clearing agency does not provide appropriate tools for calculating projected margin requirements in advance.\textsuperscript{173}

\textsuperscript{168} Amherst Letter II at 2.
\textsuperscript{169} Id.
\textsuperscript{170} Id., at 5, 6.
\textsuperscript{171} Ronin Letter II at 3.
\textsuperscript{172} Id.
\textsuperscript{173} Id.
In response, FICC states that its Members have been provided with sufficient time and information to assess the impact of the proposed changes. FICC states that it has provided Members with numerous opportunities to gather information including (i) holding customer forums in August 2017, (ii) making individual impact studies available in September 2017 and December 2017, (iii) providing parallel reporting on a daily basis since December 18, 2017, and (iv) meeting and speaking with Members on an individual basis and responding to request for additional information since August 2017. Separately, FICC agrees with commenters that launching a calculator that enables Members to input sample portfolios to determine the margin required would be beneficial to its Members and is exploring creating such a calculator outside of the changes proposed in the Advance Notice. Additionally, in order to provide Members with more time, FICC filed Amendment No. 1 to delay implementation of the Blackout Period Exposure Adjustment and the removal of the Blackout Period Exposure Charge. Such changes now would be implemented in phases throughout the remainder of 2018.

In response to commenters, the Commission notes that the disclosure requirements of Rule 17Ad-22(e)(23)(ii) under the Exchange Act should not be conflated with the filing requirements for advance notices under Section 806(e)(1) of the

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174 FICC Letter I at 5; FICC Letter II at 8-9.
175 FICC Letter I at 5; FICC Letter II at 8-9.
176 FICC Letter I at 5.
177 Amendment No. 1, supra note 6.
178 Id.
Clearing Supervision Act\textsuperscript{180} and Rule 19b-4(n) under the Exchange Act\textsuperscript{181} Section 806(e)(1)(A) of the Clearing Supervision Act requires a designated clearing agency to provide its Supervisory Agency (here, the Commission) 60 days advance notice of any proposed change to its rules, procedures, or operations that could material affect the nature or level of risks presented by the clearing agency,\textsuperscript{182} which FICC did in this case.\textsuperscript{183} Meanwhile, Rule 19b-4(n) under the Exchange Act not only states how a designated clearing agency should make an advance notice filing with the Commission,\textsuperscript{184} but it also requires the Commission to publish notice of the advance notice,\textsuperscript{185} which the Commission did,\textsuperscript{186} and requires the designated clearing agency to post the advance notice, and any amendments thereto, on its website within two business days after filing with the Commission,\textsuperscript{187} which FICC did in this case.\textsuperscript{188}

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{180} 12 U.S.C. 5465(e)(1).
\item\textsuperscript{181} 17 CFR 240.19b-4(n).
\item\textsuperscript{182} 12 U.S.C. 5465(e)(1)(A).
\item\textsuperscript{183} See Notice, supra note 3.
\item\textsuperscript{184} See 17 CFR 240.19b-4(n)(1)(i).
\item\textsuperscript{185} See id.
\item\textsuperscript{186} See Notice, supra note 3.
\item\textsuperscript{187} See 17 CFR 240.19b-4(n)(3).
\item\textsuperscript{188} Available at http://www.dtcc.com/legal/sec-rule-filings.
\end{enumerate}
\end{footnotesize}
Until the Commission has not objected to the changes proposed in an advance notice, either through written notice before the end of the review period\textsuperscript{189} or through the expiration of the review period,\textsuperscript{190} disclosure of the proposed changes under Rule 17Ad-22(e)(23)(ii) is not yet applicable, as there would not yet be (and there may not be if the Commission objects to the proposed changes) any risks, fees, or other material costs incurred with respect to the proposed changes. Nevertheless, the Commission notes that FICC has conducted outreach to Members, as described above, and has proposed a staggered implementation of the proposed Blackout Period Exposure Adjustment and removal of the Blackout Period Exposure Charge in response to commenters. The Commission believes that the absence of a longer period of time to review the Advance Notice does not render the proposed changes inconsistent with the Clearing Supervision Act or the applicable rules discussed herein.

Therefore, the Commission believes that the changes proposed in the Advance Notice are consistent with Rule 17Ad-22(e)(23)(ii) under the Exchange Act.\textsuperscript{191}

IV. Conclusion

IT IS THEREFORE NOTICED, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,\textsuperscript{192} that the Commission DOES NOT OBJECT to advance notice SR-FICC-2018-801, as modified by Amendment No. 1, and that FICC is AUTHORIZED to implement the proposed change as of the date of this notice or the date of an order by the

\textsuperscript{189} 12 U.S.C. 5465(e)(1)(I).

\textsuperscript{190} 12 U.S.C. 5465(e)(1)(G).

\textsuperscript{191} 17 CFR 240.17Ad-22(e)(23)(ii).

\textsuperscript{192} 12 U.S.C. 5465(e)(1)(I).
Commission approving proposed rule change SR-FICC-2018-001, as modified by Amendment No. 1, that reflects rule changes that are consistent with this Advance Notice, as modified by Amendment No. 1, whichever is later.

By the Commission.

Brent J. Fields
Secretary