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Page 1 of \* 166

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. \* SR 2024 - \* 007

Amendment No. (req. for Amendments \*)

Filing by Fixed Income Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>
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Rule

<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934  
Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Modify the GSD Rules (i) Regarding the Separate Calculation, Collection and Holding of Margin for Proprietary Transactions and That for Indirect Participant Transactions, and (ii) to Address the Conditions of Note H to Rule 15c3-3a

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange of 1934, Fixed Income Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date  (Title \*)

By  (Name \*)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Date: 2024.03.14  
11:19:11 -04'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information \***

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PRC Narrative - GSD Account Segreg

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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PRC Exh 1A - GSD Account Segregat

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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Exh 5 - GSD Account Segregation, 15

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## 1. Text of Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is attached hereto as Exhibit 5 and consists of modifications to FICC’s Government Securities Division (“GSD”) Rulebook (“Rules”)<sup>1</sup> to (1) provide for FICC to calculate, collect, and hold margin for the proprietary transactions of a Netting Member separately and independently from the margin for transactions that the Netting Member submits to FICC on behalf of indirect participants; (2) simplify and revise the account types through which Members may record transactions at FICC and adopt a new Rule 2B to provide clearer public disclosures through the Rules regarding the GSD account structure; (3) allow Netting Members to elect for margin for indirect participant transactions to be calculated on a gross basis (*i.e.*, an indirect participant-by-indirect participant basis) and legally segregated from the margin for the Netting Member’s proprietary transactions (as well as those of other indirect participants); (4) align FICC’s margin calculation methodology with the expanded account types and enhance public disclosure through the Rules of that calculation methodology; and (5) simplify the requirements for brokered transactions so that they only apply to transactions executed by an Inter-Dealer Broker Netting Member on the trading platform offered by that Inter-Dealer Broker Netting Member.

These proposed rule changes are primarily designed to ensure that FICC has appropriate rules regarding the separate and independent calculation, collection, and holding of margin for proprietary transactions and that for indirect participant transactions in accordance with the requirements of Rule 17Ad-22(e)(6)(i) under the Securities Exchange Act of 1934, as amended (“Act”), and that FICC has appropriate rules to satisfy the conditions of Note H to Rule 15c3-3a under the Act for a broker-dealer to record a debit in the customer and broker-dealer proprietary account reserve formulas.<sup>2</sup>

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by FICC’s Board of Directors (“Board”) on February 14, 2024.

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<sup>1</sup> Terms not defined herein are defined in the Rules, available at [www.dtcc.com/~media/Files/Downloads/legal/rules/ficc\\_gov\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf).

<sup>2</sup> See Securities Exchange Act Release No. 99149 (Dec. 13, 2023), 89 FR 2714 (Jan. 16, 2024) (S7-23-22) (“Adopting Release”, and the rules adopted therein referred to herein as “Treasury Clearing Rules”). See also 17 CFR 240.15c3-3a.

### 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

#### Executive Summary of Proposed Changes

On December 13, 2023, the Securities and Exchange Commission (“Commission”) adopted amendments to the covered clearing agency standards that apply to covered clearing agencies that clear transactions in U.S. Treasury securities (each a “Treasury CCA”), including FICC.<sup>3</sup> These amendments require, among other things, that FICC “calculates, collects, and holds margin amounts from a direct participant for its proprietary positions in U.S. Treasury securities separately and independently from margin calculated and collected from that direct participant in connection with U.S. Treasury securities transactions by an indirect participant that relies on the services provided by the direct participant to access the covered clearing agency’s payment, clearing, or settlement facilities.”<sup>4</sup> As described below, the proposed rules are designed to comply with these requirements.

Additionally, in the Treasury Clearing Rules, the Commission amended its broker-dealer customer protection rule (“Rule 15c3-3”)<sup>5</sup> and the reserve formulas thereunder (“Rule 15c3-3a”)<sup>6</sup> to permit broker-dealers to include margin required and on deposit at a Treasury CCA as a debit item in the reserve formulas under certain conditions.<sup>7</sup> The proposed rules are also designed to satisfy these conditions and, therefore, would permit broker-dealer Netting Members of FICC to include margin collected from their customers and on deposit at a Treasury CCA as a debit item in the reserve formulas.

First, the proposed changes would provide for the separate and independent calculation, collection, and holding of (i) margin deposited by a Netting Member to support its proprietary transactions and (ii) margin deposited by a Netting Member to support the transactions of an indirect participant. Specifically, FICC would provide in a new Rule 2B that FICC can establish proprietary Accounts to record the transactions that the Netting Member enters into for its own benefit and separately establish indirect participant Accounts to record transactions that the Netting Member submits to FICC for clearance and settlement on behalf of an indirect participant. Under this proposed Rule 2B, only proprietary transactions may be recorded in a proprietary Account, and only indirect participant transactions may be recorded in an indirect participant Account. FICC is also proposing revisions in Rule 4 to identify what types of transactions may be included together in a Margin Portfolio that FICC utilizes to determine a

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<sup>3</sup> See supra note 2.

<sup>4</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>5</sup> 17 CFR 240.15c3-3.

<sup>6</sup> 17 CFR 240.15c3-3a.

<sup>7</sup> See supra note 2.

Netting Member's margin requirement. Specifically, FICC would revise the Margin Portfolio definition to make clear that a Margin Portfolio cannot include both proprietary and indirect participant Accounts. Because proposed Rule 2B would not permit transactions of indirect participants to be recorded in the same Account as a Netting Member's proprietary transactions, a Margin Portfolio would only be able to consist of the same type of proprietary or indirect participant transactions, not both. As a result, the transactions a Netting Member submits to FICC on behalf of an indirect participant would no longer be netted against a Netting Member's proprietary transactions for purposes of calculating a Netting Member's margin requirements. In addition, to ensure separate collection and holding of margin deposited for proprietary and indirect participant transactions, FICC is specifying its practice in Rule 4 that a Netting Member must identify the different Account types for which a deposit is made on its wire instructions.

In order to facilitate these proposed changes, the rule changes would clarify the types of accounts in which Netting Members may record transactions. FICC's "Accounts" are not custodial accounts in which FICC holds assets, but rather a mechanism for FICC to record and group transactions. These records are utilized by FICC in connection with its calculation of a Netting Member's margining, settlement, and other obligations. The proposed rule changes would provide greater clarity regarding the purpose and use of these accounts through the public disclosures in the Rules. The proposed rules would do this by revising the definition of "Account" in Rule 1 and changing the names of certain Accounts to better reflect their function. The proposed rule changes would also create in a new Rule 2B a roadmap of the types of Accounts FICC maintains and what is recorded in those Accounts.

Second, the proposed rule changes would allow for the segregation of certain customer margin in a manner that satisfies the conditions for a broker-dealer to record a debit in the customer or PAB reserve formula under recently added Note H to Rule 15c3-3a.<sup>8</sup> As noted above, the Commission amended Rule 15c3-3a to permit broker-dealers to include margin required and on deposit at a Treasury CCA as a debit item in the reserve formulas under certain conditions, including that the margin be collected in accordance with the rules of the Treasury CCA that impose the certain requirements.<sup>9</sup>

Such requirements are set forth in the Treasury Clearing Rules and Section (b)(2) of Note H to Rule 15c3-3a, and include, among other things, (1) the margin must be calculated separately for each customer and the broker-dealer must deliver that amount of margin for each customer on a gross basis; (2) the margin must be held in an account of the broker-dealer at the Treasury CCA that is segregated from any other account of the broker-dealer at the Treasury CCA and that is, among other things, used exclusively to clear, settle, novate, and margin U.S. Treasury securities transactions of the customers of the broker-dealer; and (3) the Treasury CCA has systems, controls, policies, and procedures to return the assets to the broker-dealer that are no longer needed to meet current margin requirements resulting from positions in U.S. Treasury

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<sup>8</sup> 17 CFR 240.15c3-3a.

<sup>9</sup> See supra note 2.

securities of the customers of the broker-dealer.<sup>10</sup> The proposed changes are designed to comply with these requirements.

Specifically, FICC is proposing to permit a Netting Member, including a non-broker-dealer Netting Member, to designate any of its indirect participants Accounts for segregation. For any Account so designated, FICC would calculate the margin requirements applicable to the Account on a gross basis, meaning that FICC would not net the transactions of one indirect participant against the transactions of another indirect participant. In addition, FICC would segregate the margin deposited to support the transactions in the Account from any margin securing a Netting Member's proprietary positions, both on FICC's own books and records and at FICC's custodians. FICC would only be able to use such segregated margin to satisfy the obligations of the customer for whom such margin is held. FICC would not be able to apply such margin to the proprietary obligations of the Netting Member that deposited it with FICC or to the obligations of any other Netting Member or participant. FICC would also set forth specific procedures to allow Netting Members to obtain the return of excess segregated margin. The aim of these changes is both to allow broker-dealer Netting Members to collect margin from customers and deposit it with FICC and to provide all customers, including those that access FICC through non-broker-dealers, to be able to segregate margin they deposit.

Third, the proposed rules would align the description of FICC's margin methodology with the revised Account types, consolidate the terms relating to margin calculation in a single, easily identifiable schedule, and make certain changes to the methodology to increase precision and predictability. To achieve these goals, the proposed rules would move the margin calculation methodology, including the relevant defined terms currently located in various Rules, into a new Margin Component Schedule. The proposed rules would also revise Rule 4 to make clear that a Netting Member's margin requirement is the sum of the margin amounts calculated for each type of Account in which transactions are recorded for the Netting Member. Further, the proposed rules would set forth a method for allocating net unsettled positions to individual indirect participants for purposes of calculating margin requirements. In addition, the proposed rules would revise and clarify the calculation of the excess capital premium component of the Clearing Fund, to cap such amount at two times the amount by which a Netting Member's VaR Charge exceeds its Netting Member Capital, clarify the capital amounts that are used in the calculation of such amount, limit FICC's discretion to waive the amount, and provide that FICC may calculate the premium based on updated available information. The proposed changes would also take steps to ensure that the excess capital premium does not result in differential treatment of indirect participants simply because of the particular capital level of the Netting Member providing access to FICC's clearance and settlement systems.

Lastly, the proposed rule changes would modify the terms relating to brokered transactions to require that only transactions that an Inter-Dealer Broker Netting Member executes on the Inter-Dealer Broker Netting Member's own trading platform benefit from

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<sup>10</sup> See 17 CFR 240.15c3-3a. Supra note 2.

favorable loss allocation treatment.<sup>11</sup> FICC believes that making these changes would improve FICC's risk management and promote access by ensuring that its differential treatment of different parties and transactions has a sound risk management justification.

## Background

FICC, through GSD, serves as a central counterparty and provider of clearance and settlement services for the U.S. government securities markets. Margin is a key tool that FICC uses to manage its credit exposures to its members. The aggregated amount of all GSD members' margin constitutes the GSD Clearing Fund (referred to herein as the "Clearing Fund"). The objective of the Clearing Fund is to mitigate potential losses to FICC associated with liquidating a member's portfolio in the event FICC ceases to act for that member (hereinafter referred to as a "default").<sup>12</sup>

Under Rule 4 (Clearing Fund and Loss Allocation), Netting Members are required to make deposits to the Clearing Fund in an amount ("Required Fund Deposit") determined by reference to certain components. In determining a Netting Member's Required Fund Deposit, FICC may consider not only the Netting Member's proprietary transactions, but also the transactions that the Netting Member submits on behalf of indirect participants. However, the treatment of the indirect participant transactions for purposes of calculating the Required Fund Deposit can vary depending on whether those transactions are cleared under the Sponsored Service or prime brokerage / correspondent clearing services. Netting Members are required to instruct FICC to record those transactions in one of the position-keeping accounts (each, an "Account") that FICC establishes and maintains for the Netting Member. The Account in which a transaction is recorded is relevant for determining the margin requirement associated with that transaction under the Rules. Currently, a Netting Member may instruct FICC to record in the same Account, currently known as a "Netting Member Account," both the proprietary transactions of the Netting Member and transactions that the Netting Member carries for indirect participants through the prime brokerage / correspondent clearing services. Sponsored Member Trades, discussed in greater detail below, must be recorded in a separate Account.

Under Rule 4, a Netting Member's Clearing Fund requirement, other than that arising from Sponsored Member Trades, is calculated on a net basis across all transactions recorded in the same Account of the Netting Member (or, if the Netting Member has elected to have multiple

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<sup>11</sup> See Rule 4, Section 7 ("Notwithstanding the foregoing, however, an Inter-Dealer Broker Netting Member, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account, shall not be subject to an aggregate loss allocation in an amount greater than \$5 million pursuant to this Section 7 for losses and liabilities resulting from an Event Period."), supra note 1.

<sup>12</sup> The Rules identify when FICC may cease to act for a member and the types of actions FICC may take. For example, FICC may suspend a firm's membership with FICC or prohibit or limit a member's access to FICC's services in the event that member defaults on a financial or other obligation to FICC. See Rule 21 (Restrictions on Access to Services), supra note 1.

Accounts form part of the same “Margin Portfolio,” all transactions recorded in all such Accounts).<sup>13</sup>

The Sponsored Service permits Netting Members that are approved to be “Sponsoring Members,” to sponsor certain institutional firms, referred to as “Sponsored Members,” into GSD membership.<sup>14</sup> FICC establishes and maintains a “Sponsoring Member Omnibus Account” on its books in which it records the transactions of the Sponsoring Member’s Sponsored Members (“Sponsored Member Trades”).<sup>15</sup> To determine a Sponsoring Member’s Clearing Fund requirement in relation to Sponsored Member Trades recorded in the Sponsoring Member’s Sponsoring Member Omnibus Account, FICC calculates the “VaR Charge”<sup>16</sup> and the “MLA Charge”<sup>17</sup> component for each Sponsored Member such that it does not net the Sponsored Member Trades of one Sponsored Member against the Sponsored Member Trades of another Sponsored Member, even though those Sponsored Member Trades are recorded in the same Sponsoring Member Omnibus Account.<sup>18</sup> For all of the other components, FICC calculates the components by reference to the Sponsoring Member Omnibus Account as a whole (*i.e.*, without regard to which Sponsored Member entered into which Sponsored Member Trade). In no instance does FICC net transactions recorded in a Sponsoring Member’s Sponsoring Member Omnibus Account against other transactions of the Sponsoring Member for purposes of calculating the Sponsoring Member’s Required Fund Deposit.

As an alternative to the Sponsored Service, a Netting Member (in such capacity, a “Submitting Member”) may submit to FICC eligible transactions on behalf of the Submitting Member’s customers (each, in such capacity, an “Executing Firm”) through FICC’s existing prime broker / correspondent clearing services.<sup>19</sup> As noted above, under the current Rules, a Submitting Member may instruct FICC to record such a transaction in the same Account at FICC as the Submitting Member’s proprietary transactions. Accordingly, if transactions a Submitting Member submits on behalf of Executing Firms through the prime broker / correspondent clearing services are recorded in the same Account as the Netting Member’s proprietary transactions (or in an Account that forms part of the same Margin Portfolio as an Account in which a Netting

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<sup>13</sup> See Rule 4, supra note 1.

<sup>14</sup> See Rule 3A, supra note 1.

<sup>15</sup> See Rule 1 (definition of “Sponsored Member Trades”), supra note 1.

<sup>16</sup> See Rule 1 (definition of “VaR Charge”), supra note 1.

<sup>17</sup> See Rule 1 (definition of “MLA Charge”), supra note 1.

<sup>18</sup> See Rule 3A, Section 10 (describing how the Required Fund Deposit for Sponsored Member Trades is calculated), supra note 1.

<sup>19</sup> See Rule 8, supra note 1.

Member's proprietary transactions are recorded), FICC nets such transactions against one another in calculating the Netting Member's Required Fund Deposit.<sup>20</sup>

As noted above, the proposed rules would implement the amendments to Rule 17Ad-22(e)(6)(i) that require FICC to calculate, collect, and hold margin from a direct participant for its proprietary transactions in U.S. Treasury securities separately and independently from the margin calculated and collected for the U.S. Treasury transactions of an indirect participant that relies on the services provided by the direct participant to access FICC's payment, clearing, or settlement facilities.<sup>21</sup> The proposed rules would also clarify and simplify FICC's account structure and improve the transparency of FICC's public disclosures of its margining methodology.

The proposed rules are also designed to allow broker-dealer Netting Members of FICC to collect margin from their customers and deposit that margin with FICC. As stated above, a Netting Member is responsible for the Clearing Fund obligations arising from the activity of indirect participant customers (*i.e.*, Sponsored Members and Executing Firms). FICC understands from engagement with broker-dealer Netting Members and their indirect participant customers that, due to the requirements of Rule 15c3-3<sup>22</sup> and Rule 15c3-3a,<sup>23</sup> broker-dealer Netting Members are effectively unable to deposit with FICC any margin collected from indirect participants to support those indirect participants' transactions and must instead use proprietary resources.

The Treasury Clearing Rules' recent amendments to Rule 15c3-3a permit broker-dealers to include margin required and on deposit at a Treasury CCA as a debit item in the reserve formulas under certain conditions.<sup>24</sup> As described in more detail below, the proposed changes

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<sup>20</sup> Contemporaneously with this proposed rule change, FICC has submitted a separate proposed rule change (File No. SR-FICC-2024-005) under which FICC is proposing to rename its primer broker / correspondent clearing services the "Agent Clearing Service," "Submitting Members" as "Agent Clearing Members", and "Executing Firms" as "Executing Firm Customers." This separate proposed rule change would require that a Netting Member using the Agent Clearing Service submit transactions for Executing Firm Customers through an Agent Clearing Member Omnibus Account, to be recorded separately from its other clearing activity, including its proprietary activity. It would also add a definition for transactions eligible to be submitted by an Agent Clearing Member on behalf of its Executing Firm Customers ("Agent Clearing Transactions"). These proposed terms are used throughout this filing. These proposed changes are pending regulatory approval. A copy of this proposed rule change is available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>21</sup> 17 CFR 240.17Ad-22(e)(6)(i). See supra note 2.

<sup>22</sup> 17 CFR 240.15c3-3.

<sup>23</sup> 17 CFR 240.15c3-3a.

<sup>24</sup> See supra note 2.

would address those conditions. Therefore, the proposal would allow broker-dealer Netting Members to collect margin from customers and deposit it with FICC and to permit all customers, including those that access FICC through non-broker-dealers, to segregate margin they deposit.

Finally, the proposed rule changes would address the treatment of transactions submitted to FICC by Inter-Dealer Broker Netting Members and certain Netting Members that operate similarly to Inter-Dealer Broker Netting Members (“Non-IDB Repo Brokers”). The Rules currently cap the amount of loss allocation that may applied to an Inter-Dealer Broker Netting Member or Non-IDB Repo Broker in respect of transactions submitted by such Netting Members to FICC for clearance and settlement (“Brokered Transactions”). This treatment is based on the more limited risk that Brokered Transactions present relative to other transactions.

## **Description of Proposed Rule Changes**

### 1. Segregate Indirect Participant Margin Requirements and Amend the GSD Account Structure

The proposed rule changes would provide for the separate calculation, collection, and holding of margin supporting a Netting Member’s Proprietary Transactions and the margin supporting the transactions a Netting Member submits on behalf of indirect participants, in accordance with the requirements of Rule 17Ad-22(e)(6)(i), adopted under the Treasury Clearing Rules.<sup>25</sup> In connection with these changes, the proposal would also clarify the types of accounts in which Netting Members may record transactions and adopt a roadmap to its account structure in a new Rule 2B.

#### A. Separately Calculate, Collect and Hold Indirect Participant and Proprietary Margin Requirements

##### i. Limit Margin Portfolios to Accounts of the Same Type

The separate calculation of proprietary and customer margin would be accomplished by clarifying that each Margin Portfolio may only include Accounts of the same Type (*i.e.*, Dealer Accounts, Broker Accounts, Agent Clearing Member Omnibus Account, and Sponsoring Member Omnibus Accounts).

FICC would make this clarification by amending the definition of “Margin Portfolio” in Rule 1 and revising Rule 4, Section 1a, which would be renumbered Section 1b in light of changes described below, to provide that each Margin Portfolio may not contain more than one Type of Account (even if such Accounts are both Segregated Indirect Participants Accounts).

By virtue of these changes, transactions recorded in different Types of Accounts could not be netted against each other when calculating Required Fund Deposit or Segregated Customer Margin Requirements. Since Proprietary Transactions and transactions submitted for indirect participants could not (by virtue of the changes described below) be recorded in the same Type of Account, the changes relating to Margin Portfolios would result in margin for a

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<sup>25</sup> 17 CFR 240.17Ad-22(e)(6)(i).

Netting Member's Proprietary Transactions being calculated separately and independently from margin calculated for the transactions that the Netting Member submits on behalf of indirect participants. As conforming changes, paragraphs (b) and (c) of Section 1b, which currently provide for such separate margin calculations in certain contexts, would no longer be needed since the Margin Portfolio definition and other changes described above would achieve such separate calculations.

ii. Required Fund Deposit Portions and Segregated Customer Margin Requirements

To further clarify how FICC would calculate and collect a Netting Member's margin requirements, the proposed rule changes would make other revisions to Rule 4. Specifically, Rule 4, Section 2, which currently describes a Netting Member's Required Fund Deposit requirement, would be revised to provide that a Netting Member's Required Fund Deposit consists of the sum of amounts (each, a "Required Fund Deposit Portion") calculated for each Type of Account, other than Segregated Indirect Participants Accounts. For Segregated Indirect Participants Accounts, there would, as mentioned below, be a Segregated Customer Margin Requirement, which would be the sum of the amounts calculated for the Netting Member's (i) Sponsoring Member Omnibus Accounts designated as Segregated Indirect Participants Accounts and (ii) Agent Clearing Member Omnibus Accounts designated as Segregated Indirect Participants Accounts.

In connection with these changes, FICC would add a corresponding definition of "Required Fund Deposit Portion" to Rule 1. FICC would also adopt a defined term referring to the Required Fund Deposit Portion for a Netting Member's Agent Clearing Member Omnibus Account ("Agent Clearing Member Omnibus Account Required Fund Deposit") and amend the defined term for the Required Fund Deposit Portion for a Netting Member's Sponsoring Member Omnibus Account (the Sponsoring Member Omnibus Account Required Fund Deposit). In addition, conforming changes would be made to the separately proposed Rule 8, Section 7(g) that would describe the requirement of an Agent Clearing Member to make and maintain an Agent Clearing Member Omnibus Account Required Deposit and that the calculation of such requirement would be performed separately from the calculation for Margin Portfolios consisting of the Agent Clearing Member's Proprietary Transactions. Similar conforming changes would be made to Rule 3A, Section 10 relating to a Sponsoring Member's Sponsoring Member Omnibus Account Required Fund Deposit.

iii. Separate Deposit IDs to Facilitate Separate Collection and Holding of Margin

To ensure that margin for Proprietary Transactions is not only calculated separately and independently but also collected and held separately and independently of margin for indirect participant transactions, a new Rule 4, Section 2a would be added to the Rules. This section would require each Required Fund Deposit Portion to be made to FICC using a separate Deposit ID, which is an existing operational mechanism used by Netting Members to identify the type of Account for which a Required Fund Deposit is being made.

A new Rule 4, Section 2b would impose a similar requirement in respect of Segregated Customer Margin Requirements. The use of these separate Deposit IDs would result in margin for each Type of Account being separately transferred to FICC and FICC recording on its books the separate margin amounts for each Type of Account. FICC would also adopt a definition of “Deposit ID” in Rule 1.

Rule 4, Sections 2a and 2b would also require FICC to report a Netting Member’s Required Fund Deposit and Segregated Customer Margin Requirement twice daily, which is the same timing interval on which FICC currently reports a Netting Member’s margin requirement. The report would also specify the amount of margin attributable to each Required Fund Deposit Portion or Segregated Indirect Participants Account, as applicable, so that the Netting Member can transfer the different margin amounts separately.

iv. Eliminate Permitted Margin Affiliates

In connection with these proposed rule changes, the proposal would eliminate the concept of Permitted Margin Affiliates, which allows a Member to elect to include its Accounts in the same Margin Portfolio with the Accounts of an affiliate that is also a Member, in accordance with the Rules.<sup>26</sup> In this way, a Member and its affiliate can net their transactions for purposes of calculating their margin requirements.

In order to support the proposed change described above, which are designed to provide for the separate calculation, collection, and holding of margin, FICC believes that retaining the option for Members to designate Permitted Margin Affiliates would create unnecessary complexity. No Netting Member currently has a Permitted Margin Affiliate, and FICC would need to examine how such a cross-affiliate margining arrangement would function within the context of the proposed revisions to the account structure and margin methodology in order to determine what steps would be needed to implement such an arrangement consistently with the standards applicable to covered clearing agencies. Therefore, FICC is proposing to eliminate the Permitted Margin Affiliate concept at this time.

In order to implement this change, the proposal would remove the definition of “Permitted Margin Affiliate” from Rule 1, and remove references to Permitted Margin Affiliates from Rule 4, Section 1a (to be renamed Section 1b, as noted above); Rule 4, Section 1b (which would be removed and replaced by disclosures in the proposed Margin Component Schedule, as discussed below); Rule 4, Sections 4 and 6; Rule 21, Section 1; Rule 22, Section 2; and Rule 29, Section (a).

B. Proposed Roadmap to Account Structure through New Rule 2B and Revision to Account Structure

FICC is proposing to adopt a new Rule 2B that would describe the types of Accounts FICC is able to maintain for Netting Members, identify the activity that would be recorded in

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<sup>26</sup> See Rule 1 (defining “Permitted Margin Affiliates”) and Rule 4, Section 1a(a) and (b) (permitting Members to include Accounts of their Permitted Margin Affiliates in their Margin Portfolio). Supra note 1.

each type of Account, and generally provide a roadmap to market participants of FICC's account structure.

i. Section 1 – Establishment of Proprietary Accounts

Rule 2B, Section 1 would provide that FICC can establish and maintain certain "Proprietary Accounts" to record transactions that a Netting Member enters into for its own benefit ("Proprietary Transactions"), rather than for the benefit of indirect participants. Proprietary transactions would not include transactions that a Netting Member enters into on behalf of an affiliate.

The Proprietary Accounts available for recording Proprietary Transactions would include "Dealer Accounts," which would be available for all Netting Members, and "Cash Broker Accounts" and "Repo Broker Accounts," which would only be available for Inter-Dealer Broker Netting Members. Dealer Accounts would be for purposes of recording a Netting Member's Proprietary Transactions (other than, in the case of an Inter-Dealer Broker Netting Member, its Brokered Transactions), while Cash Broker Accounts would be for purposes of recording an Inter-Dealer Broker Netting Member's Brokered Transactions (other than Brokered Repo Transactions), and Repo Broker Accounts would be for purposes of recording an Inter-Dealer Broker Netting Member's Brokered Repo Transactions. Rule 2B, Section 1 would make clear that, as under FICC's existing Rules, FICC can establish multiple Proprietary Accounts of the same Type for the Netting Member.

In connection with these changes, FICC is proposing to adopt new, corresponding definitions of Proprietary Transactions, Proprietary Accounts, and Cash Broker Accounts in Rule 1, and to make corresponding amendments to the definitions of Dealer Account and Repo Broker Account. FICC is also proposing to remove from Rule 1 the defined term "Netting Member Account" and replace references to such Account with references to Dealer Account.

ii. Section 2 – Establishment of Non-Proprietary Accounts

Rule 2B, Section 2 would provide that FICC can establish and maintain certain "Indirect Participants Accounts" to record transactions that a Netting Member submits to FICC on behalf of Sponsored Members and Executing Firm Customers. These Indirect Participants Accounts would include, in the case of a Sponsoring Member, Sponsoring Member Omnibus Accounts for purposes of recording Sponsored Member Trades, and, in the case of an Agent Clearing Member, Agent Clearing Member Omnibus Accounts for purposes of recording Agent Clearing Transactions of its Executing Firm Customers. Rule 2B, Section 2 would also make clear that FICC can establish multiple Indirect Participants Accounts of the same Type for the Netting Member.

In connection with these changes, FICC is proposing to add to Rule 1 a new definition of Indirect Participants Account, which would include Agent Clearing Member Omnibus Accounts and Sponsoring Member Omnibus Accounts, and to correspondingly amend the definition of Sponsoring Member Omnibus Accounts.

iii. Section 3 – Segregation Designations for Indirect Participants Accounts

Rule 2B, Section 3 would permit a Sponsoring Member or Agent Clearing Member to designate any of its Indirect Participants Accounts as a segregated customer account (a “Segregated Indirect Participants Account”). The purpose of such a designation, as further described below, would be to give Netting Members a mechanism to direct FICC to calculate and segregate margin deposited in connection with the Account in accordance with the conditions described in Note H to Rule 15c3-3a (“Note H”), as further described below.<sup>27</sup>

In connection with this revision, a new definition for “Segregated Indirect Participant” would be added to Rule 1 to mean a Sponsored Member or an Executing Firm Customer whose transactions are recorded in a Segregated Indirect Participants Account.

Rule 2B, Section 3 would provide that the designation of an Account as a Segregated Indirect Participants Account constitutes a representation to FICC by the Netting Member that the Netting Member intends to meet all margin requirements with respect to such Account using assets deposited by the Segregated Indirect Participants with the Netting Member, with the exception of temporary “prefunding” by the Netting Member while a margin call to the Segregated Indirect Participant is outstanding. The purpose of this representation is to ensure that only margin deposited by customers, not the Netting Member’s proprietary assets, is eligible for segregation.

Rule 2B, Section 3 would further provide that the margin requirement (“Segregated Customer Margin Requirement”) calculated for a Segregated Indirect Participants Account would equal the sum of the margin requirements that apply to each Segregated Indirect Participant whose transactions are recorded in the Account, as though each such Segregated Indirect Participant were a Netting Member. By virtue of this change and as further described below, in calculating the Segregated Customer Margin Requirement for a Segregated Indirect Participants Account, FICC would not net the transactions of multiple Segregated Indirect Participants against one another. A corresponding definition of “Segregated Customer Margin Requirement” would be added to Rule 1 to mean the amount of cash and securities that a Netting Member is required to deposit with FICC to support the obligations arising under transactions recorded in its Segregated Indirect Participants Accounts. As described in greater detail below, such amounts would be further described and addressed in Rule 4, Section 2(a)(v) and (vi).

iv. Section 4 – Designation of Account When Submitting Transactions

Lastly, Rule 2B, Section 4 would require a Netting Member, at the time it submits a Transaction to FICC for clearance and settlement, to designate the Account in which the particular transaction should be recorded. Any such designation would constitute a representation to FICC that the transaction is of a type that may be recorded in that Account in accordance with the Rules. The purpose of such representation would be to ensure that Netting Members record only their Proprietary Transactions in Proprietary Accounts, which separate recordation is

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<sup>27</sup> 17 CFR 240.15c3-3a.

necessary for the separate and independent calculation, collection, and holding of margin for direct participant and indirect participant transactions.

In addition, Rule 2B, Section 4 would provide that, when submitting a transaction on behalf of a Sponsored Member or Executing Firm Customer, a Netting Member must include an identifier for the applicable Sponsored Member or Executing Firm Customer. This requirement is consistent with an existing requirement in the Schedule of Required Data Submission Items in the Rules and ensures that FICC continues to have the ability to accurately calculate the Required Fund Deposit and Segregated Customer Margin Requirements appropriately. This requirement also facilitates FICC's ability to engage in risk management and market surveillance in accordance with the covered clearing agency standards.

In connection with these changes, FICC also proposes to remove from Rule 1 the term "Netting Member Account," as such defined term would no longer be used. References to Netting Member Accounts throughout the Rules would be revised to "Dealer Accounts", which would more clearly distinguish these Accounts from Broker Accounts, the other type of Proprietary Accounts. FICC would also remove Section 11 of Rule 3, which currently concern the types of Accounts that Netting Members may open. Rule 2B would now describe the Types of Accounts Netting Members may request as well as the transactions that may be recorded in such Accounts.

The foregoing changes are designed to ensure that proprietary and indirect participant transactions are recorded in separate Accounts. This would assist FICC in tracking and managing the risks associated with a Netting Member's proprietary and indirect participant transactions. It would also facilitate compliance with the revised covered clearing agency standards regarding the separate calculation, collection, and holding of indirect participant and proprietary margin, which is described in further detail below.

v. Simplification and Revision of Account Structure

To support the foregoing changes, FICC is proposing to provide further clarity on what an Account is for purposes of the Rules. Under the Rules, "Accounts" at FICC are not cash, securities, or other kinds of custodial accounts through which FICC holds assets for a Netting Member. Instead, FICC Accounts are a recordkeeping mechanism by which FICC records certain transactions submitted by Netting Members to FICC for clearance and settlement. This recordkeeping mechanism allows FICC to determine which transactions should be netted against one another in determining various obligations of the Netting Member, including its funds-only settlement amount and securities settlement obligations and its Required Fund Deposit. As discussed above, generally speaking, all transactions recorded in the same Account are netted for purposes of determining these obligations (though certain components of the Required Fund Deposit arising from Sponsored Member Trades are calculated on a gross basis, as described above). FICC is proposing to amend the definition of "Account" in Rule 1 to make clear that an "Account" means an account maintained by FICC to record transactions. In addition, FICC is proposing to adopt a new defined term, "Type of Account" or "Type," to refer to the different kinds of Accounts described above.

FICC is also proposing to eliminate the concept of a Market Professional Cross-Margining Account, which refers to an Account carried by FICC for a Netting Member that is limited to Eligible Positions of Market Professionals or an Account that is carried by a Netting Member for Market Professionals that are party to a Market-Professional Agreement for Cross-Margining. FICC does not currently have in place a cross-margining arrangement for market professional indirect participants and would need to examine how such an arrangement would function within the context of the proposed revisions to the Account structure and margin methodology in order to determine what steps would be needed to implement such an arrangement consistently with the standards applicable to covered clearing agencies. Therefore, FICC is proposing to eliminate the Market Professional Cross-Margining Account concept at this time.

In order to implement this change, the proposal would remove the definition of “Market Professional Cross-Margining Account” from Rule 1 and remove provisions concerning Market Professional Cross-Margining Accounts from Rule 1, Rule 4 and Rule 29.

2. Proposed Rule Changes Relating to Note H of Rule 15c3-3a

As described above, FICC would permit Netting Members to designate certain Indirect Participants Accounts as Segregated Indirect Participants Accounts. Such a designation would have the effect of causing FICC to calculate, collect, and hold the required margin for transactions recorded in such Accounts in accordance with the conditions for recording a debit in the customer reserve formula set forth in Note H of Rule 15c3-3a.<sup>28</sup>

A. Gross Calculation of Segregated Customer Margin Requirements

In order to satisfy the requirement of Section (b)(2)(i) of Note H to Rule 15c3-3a that the margin requirement be calculated on a gross basis,<sup>29</sup> new Rule 2B would, as noted above, provide that when calculating the Segregated Customer Margin Requirement, FICC would not net the transactions of multiple Segregated Indirect Participants, but would net the transactions of a single Segregated Indirect Participant that are recorded in the same Account.

In addition, the revised Rule 4, Section 1b would require FICC to calculate a Netting Member’s Segregated Customer Margin Requirement with respect to a particular Segregated Indirect Participants Account as the sum of the margin requirements applicable to each Segregated Indirect Participant whose transactions are recorded in such Account, as though each Segregated Indirect Participant were a separate Netting Member with a single Margin Portfolio consisting of such transactions. These provisions would result in FICC calculating separate margin amounts for each Segregated Indirect Participant and for such amounts to be collected on a gross basis.

FICC would also include language in the new Margin Component Schedule to achieve gross margining of Segregated Indirect Participants Accounts. Specifically, in Section 1 of the

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<sup>28</sup> 17 CFR 240.15c3-3a.

<sup>29</sup> Id.

new Margin Component Schedule discussed below, new language would require each Netting Member for which FICC maintains a Segregated Indirect Participants Account to deposit with FICC Segregated Customer Margin equal to the sum of the Segregated Customer Margin Requirements for all such Accounts. Such language would further provide that each Segregated Customer Margin Requirement will be calculated twice daily and equal the sum of the amounts calculated pursuant to Section 3 of the Margin Component Schedule for each Segregated Indirect Participant whose transactions are recorded in the relevant Segregated Indirect Participants Account.

Section 3 of the new Margin Component Schedule, in turn, would set out the methodology for calculating such margin amounts. That section would provide for FICC to perform substantially the same calculation it currently performs when determining a Netting Member's Required Fund Deposit, except (i) such calculation would be performed on a Segregated Indirect Participant-by-Segregated Indirect Participant basis as though each Segregated Indirect Participant represented a separate Margin Portfolio and (ii) FICC would not impose an Excess Capital Premium.

With regard to the latter, FICC does not believe it would be appropriate to require an indirect participant to deposit with FICC additional margin on account of the capital position of its Netting Member. The Excess Capital Premium is designed to address the risk that a Netting Member with low capital relative to its VaR Charge will not be able to perform its obligations. However, Segregated Customer Margin cannot be applied to a Netting Member's obligations (other than to perform on behalf of the individual indirect participant for whom the Segregated Customer Margin is held). Accordingly, requiring indirect participants to deposit an additional Excess Capital Premium would not serve a risk management purpose. Further, requiring indirect participants who access FICC's clearance and settlement systems through a Netting Member with low capital to deposit more margin than indirect participants who access FICC's clearance and settlement system through other Netting Members would treat similarly situated indirect participants differently without an appropriate basis to do so. Moreover, it could lead to concentration among Netting Members, as indirect participants would be disincentivized to access clearing through smaller Netting Members, since smaller Netting Members typically have lower net capital.

For similar reasons, FICC would not add Segregated Customer Margin to Section 4 of the Margin Component Schedule, which describes FICC's ability to impose increased Required Fund Deposits under certain circumstances. However, when determining whether to increase the Required Fund Deposit of a Netting Member under the circumstances described in Section 4, FICC may consider the risk presented by a Netting Member in view of all activity it submits to FICC, including activity of indirect participants.

As a conforming change, FICC would revise the definitions of most of the components utilized for calculating a Netting Member's Segregated Customer Margin Requirement as well as associated definitions to provide that these apply to Segregated Indirect Participants on a Segregated Indirect Participant-by-Segregated Indirect Participant basis. These definitions include the Backtesting Charge, the Holiday Charge, the Intraday Supplemental Fund Deposit, the Margin Liquidity Adjustment or MLA Charge, the Margin Proxy, the Minimum Margin

Amount,<sup>30</sup> the Portfolio Differential Charge, the Unadjusted GSD Margin Portfolio Amount, and the VaR Charge.

B. Segregation of Customer Margin Deposits

In order to satisfy the segregation requirements of Section (b)(2)(iii) of Note H to Rule 15c3-3a,<sup>31</sup> FICC is proposing a number of changes to the Rules. First, FICC is proposing to adopt a new definition of “Segregated Customer Margin” in Rule 1, which definition would refer to “all securities and funds deposited by a Sponsoring Member or an Agent Clearing Member with the Corporation to satisfy its Segregated Customer Margin Requirement.” FICC would also adopt a new Rule 4, Section 1a. That provision would require a Netting Member to deposit Segregated Customer Margin with FICC equal to the Netting Member’s Segregated Customer Margin Requirement in accordance with the timing provisions generally applicable to Required Fund Deposits.

i. Establishment of Segregated Accounts

In order to satisfy the requirements of Section (b)(2)(iii) of Note H that margin “be held in an account of the broker or dealer at the qualified clearing agency that is segregated from any other account of the broker or dealer at the qualified clearing agency,”<sup>32</sup> Rule 4, Section 1a would provide for FICC to establish on its books and records for each Netting Member that deposits Segregated Customer Margin a “Segregated Customer Margin Custody Account” corresponding to each Segregated Indirect Participants Account of such Netting Member. Segregated Customer Margin Custody Account would be defined in Rule 1 as “a securities account within the meaning of the NYUCC maintained by the Corporation, in its capacity as securities intermediary as such term is used in the NYUCC, for an Agent Clearing Member or Sponsoring Member for the benefit of such Member’s Segregated Indirect Participants.” In other words, in contrast to the other FICC Accounts, which, as discussed above, are position record-keeping accounts rather than custodial accounts, each Segregated Customer Margin Custody Account would be a “securities account” within the meaning of the NYUCC.

As noted above, FICC is also proposing to amend the definition of “Account” in Rule 1 to make clear that such term refers only to an account maintained by FICC for a Netting Member to record transactions submitted by that Netting Member. FICC believes this change would help to distinguish “Accounts,” which are simply a transaction recordation mechanism, from the “Segregated Customer Margin Custody Account,” which is a traditional custodial account to which FICC would credit cash and securities.

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<sup>30</sup> FICC has filed a proposed rule change and related advance notice to adopt a Minimum Margin Amount at GSD (File Nos. SR-FICC-2024-003 and SR-FICC-2024-801). This proposal is pending regulatory approval, and the filings are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>31</sup> 17 CFR 240.15c3-3a.

<sup>32</sup> Id.

Rule 4, Section 1a would further provide that any assets credited to the Segregated Customer Margin Custody Account would be treated as financial assets within the meaning of the NYUCC. These changes would have the effect of making FICC the “securities intermediary” in respect of each Segregated Customer Margin Custody Account and the Netting Member, on behalf of its Segregated Indirect Participants, the “entitlement holder” under the NYUCC.<sup>33</sup> By virtue of these designations, the Segregated Customer Margin held by FICC would be reserved for the Netting Member (on behalf of its Segregated Indirect Participants), including in an FICC insolvency.<sup>34</sup>

Rule 4, Section 1a would further provide that all Segregated Customer Margin deposited with FICC to support the obligations arising under the transactions recorded in a given Segregated Indirect Participants Account be credited to the corresponding Segregated Customer Margin Custody Account. In other words, rather than treat Segregated Customer Margin as general Clearing Fund, FICC would record such margin in a specific Segregated Customer Margin Custody Account maintained by FICC on its books and records for the Netting Member that deposited such Segregated Customer Margin, which Account would be separate from any other Accounts maintained by FICC for the Netting Member, including fellow Segregated Customer Margin Custody Accounts. In furtherance of the goal of segregation, FICC would also amend Rule 4, Section 3a to provide that any interest on Segregated Customer Margin consisting of cash be paid to Netting Members.<sup>35</sup>

ii. Exclusive Use, Account Designation, and Exclusive Benefit

To satisfy the requirements of Section (b)(2)(iii)(A) of Note H that customer margin be “used exclusively to clear, settle, novate, and margin U.S. Treasury securities transactions of the customers of the broker or dealer;”<sup>36</sup> FICC would provide in Rule 4, Section 1a that the Segregated Customer Margin credited to a Segregated Customer Margin Custody Account would be used exclusively to settle and margin transactions in U.S. Treasury securities recorded in the corresponding Segregated Indirect Participants Account.

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<sup>33</sup> UCC § 8-102(7) (“‘Entitlement holder’ means a person identified in the records of a securities intermediary as the person having a security entitlement against the securities intermediary....”).

<sup>34</sup> See UCC § 8-503.

<sup>35</sup> Rule 4, Section 1a would also specify New York as the “securities intermediary’s jurisdiction” for purposes of the NYUCC and specify that New York law would govern all issues specified in Article 2(1) of the Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary, July 5, 2006, 17 U.S.T. 401, 46 I.L.M. 649 (entered into force Apr. 1, 2017) (the “Hague Securities Convention”). These changes are designed to ensure that New York law governs each Segregated Customer Margin Custody Account.

<sup>36</sup> 17 CFR 240.15c3-3a.

Rule 4, Section 1a would also provide that the Segregated Customer Margin Custody Account would be designated on FICC’s books and records as a “Special Clearing Account for the Exclusive Benefits of the Customers of [the relevant Sponsoring Member or Agent Clearing Member].” This is in accordance with the designation requirements of Section (b)(2)(iii)(B) of Note H.<sup>37</sup>

Section (b)(2)(iii)(C) of Note H requires that the account at the clearing agency to which customer margin is credited be subject to a written notice from the clearing agency to the broker-dealer stating that the margin credited to the account is being held “for the exclusive benefit of the customers of the broker or dealer in accordance with the regulations of the Commission and [is] being kept separate from any other accounts maintained by the broker or dealer or any other clearing member at the qualified clearing agency.”<sup>38</sup> Rule 4, Section 1a would provide for FICC to provide this notice to any Netting Member that is a Registered Broker or Registered Dealer and has designated an account as a Segregated Indirect Participants Account.

iii. Limitation on Permitted Liens and Use of Margin Deposits

FICC is also proposing changes to the Rules to satisfy the condition of Section (b)(2)(iii)(D) of Note H that the account established pursuant to Section (b)(2)(iii), *i.e.*, each Segregated Customer Margin Custody Account, be subject to a written contract providing that the customer margin in the account, *i.e.*, the Segregated Customer Margin, not be available to cover claims arising from the broker-dealer or any other clearing member defaulting on an obligation to the Treasury CCA, or be subject to any other right, charge, security interest, lien, or claim of any kind in favor of the qualified clearing agency or any person claiming through the qualified clearing agency, except a right, charge, security interest, lien, or claim resulting from a cleared U.S. Treasury securities transaction of a customer of the broker-dealer effected in the account.<sup>39</sup>

Specifically, FICC is proposing to amend the security interest each Netting Member provides to FICC under Rule 4, Section 4. That security interest, which is binding on the Netting Member and FICC through the incorporation of the Rules into the membership agreement between FICC and such Netting Member, currently applies to all cash and securities deposited by a Netting Member with FICC pursuant to Rule 4 and Rule 13 (defined in the Rules as the “Actual Deposit”) and secures all obligations of the Netting Member to FICC. FICC is proposing to amend Rule 4, Section 4 to exclude Segregated Customer Margin from the scope of the Actual Deposit. Such Segregated Customer Margin would instead be subject to a separate security interest pursuant to which the Segregated Customer Margin would secure only obligations arising out of Segregated Indirect Participants Accounts. FICC would also make a conforming change to Rule 3A, Section 10(f) to make clear that the security interest described therein only applies to the security interest granted in the Actual Deposit.

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<sup>37</sup> Id.

<sup>38</sup> Id.

<sup>39</sup> Id.

In addition, the bulk of the provisions of the Rules concerning Clearing Fund, including those relating to FICC's ability to use Clearing Fund, would not apply to Segregated Customer Margin since such margin would not form part of the Clearing Fund. The only exceptions are the language in Rule 3A, Section 10(f) stating that margin obligations are secured by the Actual Deposit; the language in Rule 3A, Section 10(g) concerning fines applicable to a failure to meet margin requirements; the language in Rule 4, Section 3a concerning the requirement that cash margin deposits be made in immediately available funds; the language in Rule 4, Section 3b regarding the haircutting, delivery, qualification, and substitution requirements for securities margin; and the language in Rule 4, Section 9 relating to the requirement of Netting Members to deliver margin. These changes would ensure that FICC's broad use rights in respect of Clearing Fund, *e.g.*, for loss mutualization, do not apply to Segregated Customer Margin.

In addition, FICC is proposing to amend Rule 4, Section 5 to provide that, on each Business Day, FICC would calculate the portion of Segregated Customer Margin that supports each Segregated Indirect Participant's transactions. FICC may only use such portion to secure or settle the performance of the obligations of that Segregated Indirect Participant (or its Sponsoring Member or Agent Clearing Member with respect to the Segregated Indirect Participant) or for permitted investment purposes described below. It would further provide that FICC would not be permitted to use Segregated Customer Margin supporting one Segregated Indirect Participant's transaction to secure or settle any other person's transactions, including those of a fellow Segregated Indirect Participant.

These changes would thus not only prohibit FICC from using Segregated Customer Margin to cover the obligations of the broker-dealer Netting Member in respect of its Proprietary Transactions or those of any other Netting Member in accordance with the requirements of Section (b)(2)(iii)(D) of Note H, but they would also limit "fellow customer risk" for Segregated Indirect Participants (*i.e.*, the risk that one customer incurs a loss on account of a default of another customer because the clearing organization applies margin deposited by the first customer to the second customer's obligations).<sup>40</sup> FICC believes these changes would facilitate greater access to its clearance and settlement services.

FICC is proposing to require that the Segregated Margin Requirement be no lower than \$1 million per Segregated Indirect Participant, and that the same form of deposit requirements set forth in Rule 4, Section 3 apply to Segregated Customer Margin such that no less than \$1 million per Segregated Indirect Participant consist of cash. These changes would be

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<sup>40</sup> In the event of the insolvency, resolution, or liquidation of a Netting Member, a Segregated Indirect Participant's ability to recover any funds or securities it has posted to its Netting Member in connection with an FICC-cleared transaction or that the Netting Member receives from FICC in connection with such a transaction will depend on the relevant insolvency, resolution, or liquidation regime. FICC would not, except as directed by the relevant insolvency, resolution, or liquidation officials in accordance with applicable law, make any payments or transfer any assets directly to an indirect participant.

accomplished through a new subsection (c) of Rule 4, Section 3 and reflected in the Margin Component Schedule.

First, this minimum requirement is consistent with the \$1 million minimum cash requirement applicable to each Margin Portfolio of a Netting Member. FICC believes it is appropriate to apply the same minimum cash requirement to each Segregated Indirect Participant that it currently applies to each Margin Portfolio because, as described above, FICC would be required to calculate the margin requirements for these participants on a gross basis, as if each Segregated Indirect Participant were a separate Margin Portfolio, and would be restricted from using these funds to address any losses other than losses resulting from the participant for whom the funds are held.

Second, because FICC would be restricted from using these funds to address any losses other than losses resulting from the indirect participant for whom these funds are deposited, FICC believes this minimum requirement is appropriate to mitigate the risk exposures presented by this limitation. FICC's daily backtesting of the sufficiency of Clearing Fund deposits has revealed a heightened likelihood of backtesting deficiencies for those Members with lower deposits that are not sufficient to mitigate any abrupt intraday change in their exposures.<sup>41</sup> Based on the analysis and impact studies FICC conducted in connection with a recent increase to minimum Required Fund Deposit for Netting Members,<sup>42</sup> FICC has determined that a \$1 million minimum requirement is the appropriate minimum amount to optimize the balance between financial impact of the requirement to Members and FICC's ability to continue to meet its regulatory obligation to maintain a backtesting performance coverage ratio above its 99 percent coverage target.

FICC is not able to predict how many indirect participants may elect to submit activity to FICC through a Segregated Indirect Participants Account, or the size and volume of that activity. However, because the margin requirements for each Segregated Indirect Participant would be calculated in the same manner as the requirements for each Margin Portfolio, it believes that these studies provide it with an appropriate approximation of the risks it may face if margin deposits for these Accounts are not subject to a minimum requirement.

#### C. Holding Segregated Customer Margin Deposits in Bank and FRBNY Accounts

To satisfy the eligible custodian conditions set forth in Section (b)(2)(iv) of Note H,<sup>43</sup> FICC is proposing to amend Rule 4, Section 1a to provide that all Segregated Customer Margin be held in an account of FICC at a bank within the meaning of the Act that is insured by the Federal Deposit Insurance Corporation, or at the Federal Reserve Bank of New York. Rule 4,

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<sup>41</sup> As a covered clearing agency, FICC is required under Rule 17Ad-22(e)(6)(vi) to conduct backtests of its margin model at least once a day. 17 CFR 240.17Ad-22(e)(6)(vi). FICC's backtesting performance target is 99 percent.

<sup>42</sup> See Securities Exchange Act Release No. 96136 (Oct. 24, 2022), 87 FR 65268 (Oct. 28, 2022) (SR-FICC-2022-006).

<sup>43</sup> 17 CFR 240.15c3-3a.

Section 1a would also provide that such account would be segregated from any other account of FICC and would be used exclusively to hold Segregated Customer Margin, in accordance with Section (b)(2)(iv)(A) of Note H to Rule 15c3-3a.<sup>44</sup> To satisfy the requirements of Sections (b)(2)(iv)(B) and (C) of Note H,<sup>45</sup> Rule 4, Section 1a would further provide that each such account would be subject to (i) a written notice of the bank or Federal Reserve Bank provided to and retained by FICC that the account is being held by the bank or Federal Reserve Bank pursuant to Rule 15c3-3 and is being kept separate from any other accounts maintained by FICC or any other person at the bank or Federal Reserve Bank and (ii) a written contract between FICC and the bank or Federal Reserve Bank which provides that the Segregated Customer Margin in the account is subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or Federal Reserve Bank or any person claiming through the bank or Federal Reserve Bank.

D. Investment Restrictions on Segregated Customer Margin Cash

In accordance with Section (b)(2)(ii) of Note H,<sup>46</sup> Rule 4, Section 1a would be amended to require FICC to only invest Segregated Customer Margin consisting of cash in U.S. Treasury securities with a maturity of one year or less. FICC will propose changes to the Clearing Agency Investment Policy by a separate proposed rule change filing to address the separate holding and investment of Segregated Customer Margin cash, consistent with the disclosures proposed to be added to Rule 4. Pursuant to those changes, FICC would only hold Segregated Customer Margin consisting of cash in a cash deposit account at the Federal Reserve Bank of New York or, pending the opening of such account, another FDIC-insured bank and does not intend to make any other investment of these funds.

E. Return of Segregated Customer Margin

Lastly, in order to satisfy the condition in section (b)(2)(v) of Note H that a Treasury CCA adopt rules requiring systems, controls, policies, and procedures to return excess customer margin to a broker-dealer,<sup>47</sup> FICC is proposing to adopt certain amendments to Rule 4, Section 10. Under the proposed rule changes, Rule 4, Section 10 would be revised to require FICC to calculate twice each Business Day the excess of a Netting Member's Segregated Customer Margin over the Segregated Customer Margin Requirement (such amount, the "Excess Segregated Customer Margin").<sup>48</sup> In addition, FICC would adopt a new Rule 4, Section 10(b) that would require FICC to return a Netting Member's Excess Segregated Customer Margin at

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<sup>44</sup> Id.

<sup>45</sup> Id.

<sup>46</sup> Id.

<sup>47</sup> Id.

<sup>48</sup> The twice each Business Day interval would also apply to the calculation of a Netting Member's excess Required Fund Deposit, since that is the interval on which FICC currently performs such calculation.

the Netting Member's request. In order to manage the risk of a Segregated Indirect Participant's transactions in accordance with the requirements of Rule 17Ad-22(e)(6) under the Act,<sup>49</sup> FICC would retain the discretion to retain such Excess Segregated Customer Margin if the Netting Member has any outstanding payment or margin obligation with respect to the transactions of any Segregated Indirect Participant.

However, proposed Section 10(b) of Rule 4 would provide that, unlike in the case with Clearing Fund, FICC would not be able to retain Excess Segregated Customer Margin due to any obligation of the Netting Member that is unrelated to the Segregated Indirect Participants Account, unless FICC is either required to do so by applicable law or is authorized to do so by the Commission.

3. *Align Margin Methodology with Proposed Account Structure and Enhance Public Disclosures of Margin Components and Clearing Fund Methodology*

FICC is proposing changes to the Rules to reorganize, clarify, and refine its margin calculation methodology. FICC is not changing the method by which it calculates the various margin components.

A. *Consolidate Margin Components and Clearing Fund Calculation Methodology in Proposed Margin Component Schedule*

In order to improve the clarity and transparency of its margin components and Clearing Fund calculation methodology, FICC is proposing to move the calculation methodology from Rule 4, Sections 1b, and 2a, Rule 3, Section 14, and Rule 3A, Section 10, as well as the associated definitions of the margin components and associated terms, including Backtesting Charge, Blackout Period Exposure Adjustment, Excess Capital Differential, Excess Capital Ratio, Excess Capital Premium, Holiday Charge, Intraday Supplemental Fund Deposit, Margin Liquidity Adjustment Charge or MLA Charge, Margin Proxy, Minimum Margin Amount,<sup>50</sup> Portfolio Differential Charge, Unadjusted GSD Margin Portfolio Amount, VaR Charge, VaR Floor and VaR Floor Percentage Amount to a new Margin Component Schedule. As noted above, this methodology would not change, and would continue to be substantively the same as that which currently exists under Rule 4 and Rule 3A, Section 10.

The Margin Component Schedule would include existing and refined descriptions of the manner and method by which FICC would calculate a Netting Member's Required Fund Deposit and Segregated Customer Margin Requirement. FICC believes that describing its margin calculation methodology in a single schedule would facilitate access to its clearing and settlement services by making it easier for market participants to identify and review that methodology. FICC would also make conforming changes to provisions of the Rules that reference the margin calculation methodology of Rule 4 so that such provisions reference the Schedule of Margin Components.

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<sup>49</sup> 17 CFR 240.17Ad-22(e)(6).

<sup>50</sup> Supra note 30.

Section 1 of the Margin Component Schedule would provide that both a Netting Member's Required Fund Deposit and its Segregated Customer Margin Requirement would be calculated twice each Business Day and that the Netting Member would be required to meet such requirements. This is the same time interval in which FICC currently calculates and collects a Netting Member's margin requirements. Section 2 of the Margin Component Schedule would set forth the methodology for calculating a Netting Member's Required Fund Deposit. As discussed above, Section 3 of the Margin Component Schedule would set forth the methodology for calculating a Netting Member's Segregated Customer Margin Requirement. Section 4 of the Margin Component Schedule would set forth the terms under which FICC may impose increased Required Fund Deposits. These terms would be substantively the same as those currently in Rule 4 and Rule 3A, Section 10.

Section 5 of the Margin Component Schedule would contain the relevant definitions for the margin methodology calculation. These would be substantively the same as the existing definitions in Rule 1, with certain changes. As noted above, the definitions of Backtesting Charge, Blackout Period Exposure Adjustment, Excess Capital Differential, Excess Capital Ratio, Excess Capital Premium, Holiday Charge, Intraday Supplemental Fund Deposit, Margin Liquidity Adjustment or MLA Charge, Margin Proxy, Minimum Margin Amount,<sup>51</sup> Portfolio Differential Charge, Unadjusted GSD Margin Portfolio Amount, VaR Charge, VaR Floor and VaR Floor Percentage Amount would be revised to provide for such charges to be calculated for purposes of Segregated Customer Margin Requirements on a Segregated Indirect Participant-by-Segregated Indirect Participant basis. In addition, the MLA Charge definition would be amended to provide that, if a Segregated Indirect Participant clears through multiple Accounts (including Accounts of different Netting Members), then the MLA Charge applicable to its transactions carried in a given Segregated Indirect Participants Account would equal the greater of (i) an amount calculated only with regard to the transactions maintained in that Account (*i.e.*, without regard to the other Accounts in which the Segregated Indirect Participant's transactions are recorded) and (ii) an amount calculated on a consolidated portfolio basis (*i.e.*, taking into account the transactions carried in each of the Accounts). This is currently the same methodology that is used for Sponsored Members that clear through multiple Accounts.

B. *Revise Definition of "Current Net Settlement Positions"*

In order to refine its margin calculation methodology, FICC is also proposing to amend the definition in Rule 1 of Current Net Settlement Positions to provide for Current Net Settlement Positions in a Sponsoring Member Omnibus Account or Segregated Indirect Participants Account that are not clearly allocable to an individual Sponsored Member or Segregated Indirect Participant to be allocated, for purposes of calculating margin requirements, pro rata to the Sponsored Members or Segregated Indirect Participants that had, as of the end of the preceding Business Day, positions in the same direction and CUSIP as the un-allocable Current Net Unsettled Positions. This situation could arise if, for example, a transaction recorded in a Sponsoring Member Omnibus Account or Segregated Indirect Participants Account fails to

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<sup>51</sup> Supra note 30.

settle. FICC believes this methodology facilitates a reasonable and fair allocation for purposes of calculating gross margin requirements.

FICC would make a corresponding deletion to the language of Rule 3A, Section 7 that addresses the treatment of such positions in Sponsoring Member Omnibus Accounts. Currently Rule 3A, Section 7(a)(i) provides that Net Settlement Positions per CUSIP shall be calculated for each Sponsored Member in the same manner set forth in Rule 11 for Netting Members. The proposed changes to the definition of Current Net Settlement Positions would, however, result in a different calculation of the Net Settlement Positions per CUSIP for Sponsored Members whose positions are recorded in a Sponsoring Member Omnibus Account than for Netting Members. Therefore, the statement in Rule 3A, Section 7 would no longer be correct and would be removed from the Rules.

C. Enhance the Methodology for Calculating the Excess Capital Premium

FICC is also proposing to amend the terms related to the Excess Capital Premium, one of the components of the Required Fund Deposit calculation, in order to make such calculation more precise and predictable. Currently, the Excess Capital Premium applicable to a Netting Member equals the Netting Member's "Excess Capital Ratio" (*i.e.*, its VaR Charge divided by its Netting Member Capital) multiplied by its "Excess Capital Differential" (*i.e.*, the amount by which a Netting Member's VaR Charge exceeds its Netting Member Capital). However, FICC currently reserves the right to collect less than this amount or to return some or all of this amount.

FICC is proposing to make the Excess Capital Premium more precise and predictable by revising the definition to (i) cap such amount at two times a Netting Member's Excess Capital Differential, (ii) provide that FICC would use the Netting Member Capital amounts set forth in the Netting Member's most recent Form X-17-A-5 (Financial and Operational Combined Uniform Single ("FOCUS") Report or Consolidated Report of Condition and Income ("Call Report"), as applicable, (iii) permit FICC in its discretion to accept updated amounts provided by a Netting Member prior to the issuance of the Netting Member's next financial report, and (iv) set forth a specific procedure through which FICC may waive the Excess Capital Premium. With regard to (iv), the proposed rule changes would provide that only a Managing Director in FICC's Group Chief Risk Office could grant waiver of an Excess Capital Premium and only in exigent circumstances if FICC observed extreme market conditions or other unexpected changes in factors, based on all relevant facts and circumstances, including the degree to which a Netting Member's capital position and trading activity compare or correlate to the prevailing exigent circumstances and whether FICC can effectively address the risk exposure presented by a Netting Member without the collection of the Excess Capital Premium from that Netting Member. Any such waiver would need to be documented in a written report made available to the relevant Netting Member. FICC believes that these changes, which are substantially similar to changes recently adopted by the National Securities Clearing Corporation, would enhance the

ability of Netting Members to identify what their Excess Capital Premium will be and to ensure such amount is accurately calibrated.<sup>52</sup>

FICC would also amend the defined term “Netting Member Capital” in Rule 1 to refer to a Netting Member’s Net Capital, Net Assets, or Equity Capital, as applicable based on the Netting Member’s type of regulation. The definition of “Net Capital,” in turn, would be revised to refer specifically to the net capital of a Netting Member as reported on its most recent FOCUS Report or, if a Netting Member is not required to file a FOCUS Report, on its most recent financial statements or equivalent reporting. “Equity Capital” would be defined in Rule 1 to mean the equity capital of a Netting Member as reported on its most recent Call Report, or if a Netting Member is not required to file a Call Report, on its most recent financial statements or equivalent reporting. FICC believes these changes would increase predictability and understanding of how FICC calculates the Excess Capital Premium.

FICC would also remove obsolete references to margin requirements for pending transactions since FICC does not apply margin requirements to such transactions.

D. *Exclude Segregated Customer Margin from Calculation of Excess Capital Premium Charge*

FICC is also proposing to revise the definitions of Excess Capital Ratio and Excess Capital Differential in the Margin Component Schedule to exclude the VaR Charge calculated with respect to Segregated Indirect Participants.

The VaR Charge assessed for each Segregated Indirect Participant would be satisfied by the Segregated Indirect Participant, and not by the Netting Member. As noted above, the Excess Capital Premium is designed to address the risk that a Netting Member with low capital relative to value-at-risk is not able to perform its obligations. However, Segregated Customer Margin cannot be applied to satisfy a Netting Member’s obligations (other than to perform on behalf of the individual indirect participant for whom the Segregated Customer Margin is held). Therefore, including the VaR Charge that is calculated for a Segregated Indirect Participant and is satisfied by the capital of that Segregated Indirect Participant in the calculation of the Netting Member’s Excess Capital Premium could result in assessing an Excess Capital Premium for that Netting Member that is greater than the amount required to mitigate the risk that the Excess Capital Premium is designed to address.

The proposed change is also designed to ensure that the Excess Capital Premium does not result in differential treatment of Netting Members that act as intermediaries for Segregated Indirect Participants.

E. *Other Clarifications and Conforming Changes*

In connection with the changes described above, FICC would make other clarifications and conforming changes to the Rules. First, FICC would move the definition of “Legal Risk”

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<sup>52</sup> See Securities Exchange Act Release No. 96786 (Feb. 1, 2023), 88 FR 8013 (Feb. 7, 2023) (SR-NSCC-2022-005).

from Rule 4 to the definitions in Rule 1. This term refers to the risk that FICC may be unable to either access Required Fund Deposits or take action following the insolvency or bankruptcy of a Netting Member as the result of a law, rule or regulation applicable to the Netting Member.<sup>53</sup> Because this term is used in multiple places in the Rules, including in the new Margin Component Schedule, moving the definition to Rule 1 would make it easier for a reader to find that definition.

FICC would also delete the definition of the term “Minimum Charge” from Rule 1 and move the use of this term from Rule 4 to Sections 2(c) and 3(c) of the Margin Component Schedule. While FICC would continue to apply a requirement that Netting Members maintain a minimum amount for each Margin Portfolio or Segregated Margin Requirement, as discussed above, FICC believes using a defined term for this concept is not necessary and could cause confusion about the requirement. The proposed change to remove the defined term and instead just explain the requirement in these sections of the Margin Component Guide would simplify and, therefore, clarify, the Rules in this regard.

#### 4. Clarifications to Treatment of Brokered Transactions

FICC is proposing to refine the definition of Brokered Transactions and remove conditions that Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers must meet in order to receive favorable loss allocation treatment.

Currently, Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers must meet a set of conditions described in Section 8 of Rule 3 to be subject to a cap on the application of FICC’s loss allocation procedure of no greater than \$5 million.<sup>54</sup> FICC believes this favorable loss allocation treatment is appropriate because the Netting Member is not undertaking a directional position with respect to the transactions. Instead, each transaction has a counterparty other than the Netting Member that will ultimately deliver the securities or pay the cash.

FICC is proposing to revise the Rules related to Brokered Transactions so that the favorable loss allocation treatment applies only to the transactions that present this limited risk. In particular, FICC is proposing to revise the definition of Brokered Transactions to only encompass transactions entered into by an Inter-Dealer Broker Netting Member on the Inter-Dealer Broker Netting Member’s own trading platform. This rule change would limit the definition of these transactions to transactions for which an Inter-Dealer Broker is standing in between two counterparties and is thus completely flat.

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<sup>53</sup> See Rule 4, Section 2(d), supra note 1.

<sup>54</sup> See Rule 3, Section 8 (such conditions require that an Inter-Dealer Broker Netting Member “(A) limit its business to acting exclusively as a Broker; (B) conduct all of its business in Repo Transactions with Netting Members; and (C) conduct at least 90 percent of its business in transactions that are not Repo Transactions, measured based on its overall dollar volume of submitted sides over the prior month, with Netting Members”) and Rule 4, Section 7, supra note 1.

In connection with this change, FICC would eliminate the conditions that Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers must meet in order to be subject to such favorable treatment. As noted above, the proposed Rule 2B would clarify that only Inter-Dealer Broker Netting Members are able to maintain Cash Broker Accounts or Repo Broker Accounts, and that only Brokered Transactions may be submitted through such Accounts, as appropriate. Therefore, FICC believes the revised definition of Brokered Transactions and the revisions to the Account structure would collectively serve the risk-mitigation function that the conditions in Rule 3, Section 8 achieve, but in a much more effective manner and in a manner that is easier for FICC to monitor. As such, those conditions would be removed from the Rules.

Finally, FICC would remove the category of Non-IDB Repo Brokers from the Rules. Non-IDB Repo Brokers are currently defined as Netting Members other than Inter-Dealer Broker Netting Members that operate in the same manner as a Broker and have agreed to meet the same requirements imposed on Inter-Dealer Broker Netting Members.<sup>55</sup> As described above, FICC believes the favorable loss allocation treatment is appropriate only for Inter-Dealer Broker Netting Members that submit Brokered Transactions, as such term would be defined. Therefore, FICC would delete the references to such parties and associated terms. In connection with these changes, the proposal would delete the defined term for “Non-IDB Repo Broker” as that term would no longer be used in the Rules.

### **Implementation Timeframe**

Subject to the completion of all regulatory actions required with respect to this proposal,<sup>56</sup> FICC expects to implement the proposal by no later than March 31, 2025, and would announce the effective date of the proposed changes by an Important Notice posted to FICC’s website.

#### **(b) Statutory Basis**

FICC believes the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, FICC believes the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act,<sup>57</sup>

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<sup>55</sup> Currently, only one Netting Member is a Non-IDB Repo Broker.

<sup>56</sup> FICC filed this proposed rule change as an advance notice (File No. SR-FICC-2024-802) with the Commission pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) under the Act, 17 CFR 240.19b-4(n)(1)(i). A copy of the advance notice is available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>57</sup> 15 U.S.C. 78q-1(b)(3)(F).

and Rules 17Ad-22(e)(4)(i), (e)(6)(i), (e)(18)(ii), (e)(18)(iii), (e)(18)(iv)(C), (e)(19), and (e)(23)(ii), each promulgated under the Act,<sup>58</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of FICC be designed, among other things, to promote, and remove impediments to, the prompt and accurate clearance and settlement of securities transactions and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.<sup>59</sup> As described in greater detail below, the proposed rule changes to clarify FICC's Account structure and margin calculation methodology would improve public understanding of FICC's margining and recordkeeping processes and thereby facilitate greater cooperation between Netting Members and indirect participants and improve access to FICC's clearance and settlement systems. The proposed changes would do this by revising the definition of "Account" to make clear that FICC Accounts are for purposes of recording transactions, providing a roadmap in Rule 2B identifying the types of Accounts FICC maintains for Netting Members and which transactions may be recorded in such Accounts, amending Rule 4 to clarify the types of transactions that may be included in a Margin Portfolio, and consolidating the components of FICC's margin calculation methodology currently in Rules 1 and 4 into an accessible Margin Component Schedule and refining the description of FICC's margin calculation methodology. The proposed change to eliminate the Permitted Margin Affiliates from the Rules would also lead to clearer Rules and, therefore, improved public understanding of FICC's margining practices by removing a concept that is not being used by Netting Members.

The collective impact of these changes would be to enhance the ability of Netting Members and indirect participants to calculate the costs of submitting various transactions and portfolios to FICC for clearance and settlement. This greater understanding would make it easier for market participants to price accessing FICC's clearance and settlement systems and negotiate the terms of clearing arrangements. More efficient pricing and greater understanding would eliminate barriers and make it easier for a wider and more diverse array of market participants, to access clearing.

The proposed changes to create a segregation arrangement for certain indirect participant margin would also facilitate broader access to FICC's clearance and settlement systems. Currently, broker-dealer Netting Members must finance the margin obligations of their indirect participants' transactions because they cannot record a debit in the Rule 15c3-3a formulas for margin deposited with FICC. From its engagement with market participants, FICC understands that this need to provide financing for margin makes it more expensive for broker-dealer Netting Members to provide indirect participants with access to FICC's clearance and settlement systems than would be the case if the broker-dealer Netting Member were able to collect margin from an indirect participant and deposit that margin with FICC. In addition, non-broker-dealer Netting Members may often need to finance the margin obligations of their indirect participants' transactions because the absence of a segregation arrangement makes it impossible or

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<sup>58</sup> 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), (e)(18)(ii), (e)(18)(iii), (e)(18)(iv)(C), (e)(19), and (e)(23)(ii).

<sup>59</sup> 15 U.S.C. 78q-1(b)(3)(F).

undesirable for indirect participants to use their own assets to satisfy such margin obligations. The proposed rules would facilitate greater access to FICC's clearance and settlement systems by creating a segregation arrangement that would allow broker-dealer and other Netting Members to collect margin from their indirect participants and deposit that margin with FICC. Such collection and depositing would reduce the costs to such Netting Members of providing access to FICC's clearance and settlement services and thereby facilitate greater cooperation between Netting Members and their indirect participants. Such cooperation would improve access to clearing, which would in turn increase the diversity and scope of market participants able to utilize FICC's central counterparty services. These services can reduce the costs of securities transactions through FICC's multilateral netting, its trade guaranty and centralized default management, and mitigate and manage counterparty risks. Therefore, the proposed changes would support FICC's compliance with Section 17A(b)(3)(F) of the Act by fostering cooperation and coordination between FICC's participants and promoting, and eliminating impediments to, the prompt and accurate clearance and settlement of securities.<sup>60</sup>

Section 17A(b)(3)(F) of the Act also requires that the rules of FICC be designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.<sup>61</sup> The proposed rule changes to separately and independently calculate the margin for a Netting Member's proprietary transactions from the margin for the transactions of indirect participants, to adopt a method for allocating net unsettled positions to individual indirect participants for purposes of calculating margin requirements and to set forth a segregation arrangement for certain margin collected from indirect participants and deposited with FICC would enhance FICC's risk management and its ability to assure the safe return of funds and securities. Those changes would reduce the potential risk to FICC arising from indirect participant transactions by ensuring that the margin requirements for such transactions are based solely on such transactions and not on the Netting Member's proprietary transactions and that such margin requirements take due and appropriate account of the risk arising from net unsettled positions.<sup>62</sup> The proposed changes would also provide FICC with a better understanding of the source of potential risk arising from the transactions that it clears by allowing FICC to identify separately the VaR Charges and other margin components for indirect participant transactions as compared to proprietary transactions. The proposed changes would also incentivize Netting Members to maintain more balanced proprietary portfolios, since such portfolios would lead to lower margin requirements. Such balanced portfolios, greater visibility, and carefully calibrated margin requirements would limit FICC's risk to a Netting Member default and thereby enhance its ability to return funds and securities to Netting Members. In addition, the proposed segregation arrangement would facilitate the return of margin posted by an indirect participant to its Netting Member and deposited with FICC by limiting FICC's ability to use such margin except to cover the indirect participant's own obligations. These features would support FICC's

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<sup>60</sup> Id.

<sup>61</sup> Id.

<sup>62</sup> See Adopting Release, *supra* note **Error! Bookmark not defined.**, at 144.

compliance with Section 17A(b)(3)(F) by further assuring FICC's safeguarding of securities and funds in its control and for which it is responsible.<sup>63</sup>

Rule 17Ad-22(e)(4)(i) under the Act requires that FICC establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.<sup>64</sup> The proposed rule changes to separately and independently calculate, collect, and hold the margin for a Netting Member's proprietary transactions from the margin for the transactions of indirect participants, to limit Brokered Transactions to those entered into by an Inter-Dealer Broker Netting Member on its own trading platform, and to increase the precision of the Excess Capital Premium would enhance FICC's risk management. These changes would ensure that the quantum of margin that FICC collects from a Netting Member reflects the separate risk profiles of the Netting Member's portfolio of Proprietary Transactions and portfolio transactions that the Netting Member submits to FICC on behalf of indirect participants, ensure that only those transactions that present the limited risk for which FICC's Brokered Transactions provisions are designed benefit from favorable loss allocation treatment, and calibrate the Excess Capital Premium based on the most readily available information.

Collectively, these changes would enhance the ability of FICC to manage the risk of the transactions it clears and settles and cover its credit exposure to its participants with a high degree of confidence.

The proposed change to require a minimum cash requirement of \$1 million per Segregated Indirect Participant would mitigate the greater risk exposure presented to FICC by the limitations on its use of these deposits. As discussed above, FICC's daily backtesting of the sufficiency of Clearing Fund deposits has revealed a heightened likelihood of backtesting deficiencies for those Members with lower deposits that are not sufficient to mitigate any abrupt intraday change in their exposures, and a \$1 million minimum requirement was appropriate to mitigate the risks of backtesting deficiencies while balancing the financial impact of this requirement on Members.<sup>65</sup> Because FICC is required to calculate the margin requirements for Segregated Indirect Participants on a gross basis, as if each Segregated Indirect Participant were a separate Margin Portfolio, it believes it is also appropriate to apply the same minimum requirement that it applies to each Margin Portfolio. By maintaining sufficient resources to cover its credit exposures fully with a high degree of confidence, the proposed change supports FICC's ability to identify, measure, monitor, and, through the collection of Segregated Customer Margin, manage its credit exposures to these indirect participants. Therefore, FICC believes

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<sup>63</sup> Id.

<sup>64</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>65</sup> Supra note 42.

adopting this minimum requirement is consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.<sup>66</sup>

Rule 17Ad-22(e)(6)(i) under the Act requires FICC to establish written policies and procedures reasonably designed to calculate, collect, and hold margin amounts from a direct participant for its proprietary positions in Treasury securities separately and independently from margin calculated and collected from that direct participant in connection with U.S. Treasury securities transactions by an indirect participant that relies on the services provided by the direct participant to access FICC's payment, clearing, or settlement facilities.<sup>67</sup> The proposed rule changes would require that each Margin Portfolio only consist of activity from the same Type of Account, ensuring that proprietary transactions and transactions submitted to FICC on behalf of indirect participants are margined separately, and to require Netting Members to use separate Deposit IDs for different transaction types. As noted above, the proposed changes to Rule 2B, Section 3 would require FICC to calculate the Segregated Customer Margin Requirement for a particular Segregated Indirect Participants Account as the sum of the requirements applicable to each Segregated Indirect Participant whose transactions are recorded in such Account, as though each Segregated Indirect Participant were a separate Netting Member with a single Margin Portfolio consisting of such transactions. These provisions would result in FICC calculating separate margin amounts for each Segregated Indirect Participant and for such amounts to be collected on a gross basis. Finally, the proposed changes to Rule 4, Section 1a would provide for FICC to establish on its books and records for each Netting Member that deposits Segregated Customer Margin a "Segregated Customer Margin Custody Account" corresponding to each Segregated Indirect Participants Account of such Netting Member. Collectively, these proposed changes would ensure that a Netting Member's proprietary transactions are not netted with indirect participant transactions for purposes of margin calculation and that margin for indirect participant transactions is collected and held separately and independently from margin for a Netting Member's proprietary transactions.

Rule 17Ad-22(e)(18)(ii) under the Act requires FICC to establish objective, risk-based, and publicly disclosed criteria for participation, which require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in FICC.<sup>68</sup> The proposed changes to consolidate FICC's margin methodology in a Margin Component Schedule, to identify the particular Required Fund Deposit Portions and Segregated Customer Margin Requirements, and to elaborate on the calculation of the Excess Capital Premium and the circumstances in which FICC would waive the application of such premium would improve public disclosure of FICC's margin methodology and the obligations that Netting Members and their indirect participants would have as a result of their participation in FICC's clearance and settlement system. In particular, the proposed changes would provide Netting Members and their indirect participants with a single, standalone schedule that they can review in order to understand how FICC would calculate margin obligations for their transactions. The

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<sup>66</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>67</sup> 17 CFR 240.17Ad-22(e)(6).

<sup>68</sup> 17 CFR 240.17Ad-22(e)(18)(ii).

proposed changes would also improve public disclosure by allowing Netting Members and their indirect participants to see how the various Accounts and Margin Portfolios give rise to separate inputs into the total margin calculation and how and when a Netting Member may face an increase in margin on account of the Excess Capital Premium.

Rule 17Ad-22(e)(18)(iii) under the Act requires that FICC establish written policies and procedures reasonably designed to monitor compliance with its participant requirements on an ongoing basis.<sup>69</sup> The proposed changes to require Netting Members to designate the Account in which a transaction is to be recorded and to identify the Sponsored Member or Executing Firm Customer for whom the transaction is submitted on that transaction record would help facilitate FICC's ability to monitor which transactions are being entered into by which entities. This enhanced monitoring of participant activity would thus allow FICC to better monitor participants' compliance with FICC's various requirements in accordance with Rule 17Ad-22(e)(18)(iii).<sup>70</sup>

Rule 17Ad-22(e)(18)(iv)(C) under the Act requires, among other things, that FICC, as a covered clearing agency that provides central counterparty services for transactions in U.S. Treasury securities, ensure that it has appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.<sup>71</sup> FICC believes that the proposed changes giving Netting Members the ability to elect for margin deposited by indirect participants and deposited with FICC to be segregated would facilitate access to FICC's clearance and settlement systems by giving indirect participants greater optionality. The proposed rule changes would allow a Netting Member and its indirect participant to choose whether (i) the indirect participant will post margin under a customer protection framework that is similar to that which exists in other cleared contexts,<sup>72</sup> (ii) the Netting Member will finance the margin for the indirect participant's

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<sup>69</sup> 17 CFR 240.17Ad-22(e)(18)(iii).

<sup>70</sup> Id.

<sup>71</sup> 17 CFR 240.17Ad-22(e)(18)(iv)(C). Contemporaneously with this proposed rule change, FICC and its affiliates, National Securities Clearing Corporation and The Depository Trust Company, have submitted separate proposed rule changes (File Nos. SR-FICC-2024-006, SR-NSCC-2024-003 and SR-DTC-2024-003) under which they are proposing to amend the Clearing Agency Risk Management Framework to address the requirement under Rule 17Ad-22(e)(18)(iv)(C) that FICC's Board review its policies and procedures related to compliance with that rule on an annual basis. These proposed changes are pending regulatory approval. Copies of the proposed rule changes are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>72</sup> Both the Options Clearing Corporation and the U.S. derivatives clearing organizations allow for, or require, the segregation of customer margin and/or positions. See generally OCC By-Laws Sections 3, 27 (outlining the various accounts that OCC may maintain for a clearing member and the extent to which the positions and margin recorded to such accounts may applied to other obligations); 7 U.S.C. 6d (outlining the segregation rules

transactions, or (iii) the indirect participant will deposit margin but without the protection (or higher margin requirements) associated with a segregation arrangement. FICC believes that such optionality would facilitate access in accordance with Rule 17Ad-22(e)(18)(iv)(C) by allowing Netting Members and their indirect participants to adopt a margining arrangement that is most consistent with their business objectives and applicable regulatory, operational, and practical constraints.

Rule 17Ad-22(e)(19) under the Act requires that FICC identify, monitor, and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants in FICC rely on the services provided by direct participants to access FICC's clearance and settlement facilities.<sup>73</sup> The proposed changes to separately and independently calculate margin for proprietary and indirect participant transactions, adopt a method for allocating net unsettled positions to individual indirect participants for purposes of calculating margin requirements and require a Netting Member to represent that margin deposited in relation to a Segregated Indirect Participants Account is generally margin collected from an indirect participant would reduce the potential risk to FICC arising from indirect participant transactions.

These changes would ensure that the margin FICC collects from a Netting Member reflects the separate risk profiles of the Netting Member's proprietary portfolio and the portfolio of transactions it submits to FICC on behalf of indirect participants. They would also provide FICC with a better understanding of the source of potential risk arising from the transactions that it clears and incentivize Netting Members to maintain more balanced proprietary portfolios, since such portfolios would lead to lower margin requirements. In addition, the proposed representation by Netting Members that they generally intend to satisfy Segregated Customer Margin Requirements with assets collected from indirect participants rather than proprietary assets would reduce the risk of FICC's proposed margin segregation arrangement by limiting such arrangement to indirect participant assets and ensuring that proprietary assets a Netting Member deposits with FICC are available for loss mutualization purposes.

Rule 17Ad-22(e)(23)(ii) under the Act requires FICC to establish written policies and procedures providing sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.<sup>74</sup> The proposed rule changes to consolidate and clarify FICC's margin calculation methodology in the proposed Margin Component Schedule, adopt a method for allocating net unsettled positions to individual

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applicable to commodity futures and cleared swap transactions); Order Granting Conditional Exemptions under the Securities Exchange Act of 1934 in Connection with the Portfolio Margining of Cleared Swaps and Security-Based Swaps that are Credit Default Swaps, Securities Exchange Release No. 93501 (Nov. 1, 2021), 86 FR 61357 (Nov. 5, 2021) (S7-13-12) (providing that certain cleared security-based swaps may be portfolio margined in a cleared swaps account subject to the rules generally applicable to cleared swaps).

<sup>73</sup> 17 CFR 240.17Ad-22(e)(19).

<sup>74</sup> 17 CFR 240.17Ad-22(e)(23)(ii).

indirect participants for purposes of calculating margin requirements and to clarify the calculation of the Excess Capital Premium would make it easier for both Netting Members and indirect participants to identify and price the potential margining costs associated with how one chooses to submit transactions to FICC for clearance and settlement.

#### **4. Self-Regulatory Organization's Statement on Burden on Competition**

FICC believes that the proposed rule changes described in this filing would promote competition by improving market participants' understanding of FICC's account structure and margin calculation methodology. By providing Members and other market participants with clearer definitions and consolidated margining and Account terms, the proposed changes would make it easier for existing Netting Members to offer competitive prices. The proposal additionally would make it easier for potential future Netting Member applicants to calibrate the resources they would need to provide intermediation services to indirect participants. These two forces should not only increase the number of Netting Members available to provide indirect participants with access to FICC's clearance and settlement services, but may also reduce some of the costs to indirect participants of accessing such services. In addition, such greater understanding and transparency would make it easier for indirect participants to negotiate terms of clearing arrangements since they would be able to calibrate what the margin requirements would be for their positions.

The proposed change to require a minimum cash margin deposit of \$1 million for each Segregated Indirect Participant could impose a burden on competition if it results in a larger cash requirement for those Segregated Indirect Participants and the Netting Members who provide intermediation services to those participants. However, FICC believes that any burden on competition imposed by this proposed change would be necessary and appropriate in furtherance of FICC's efforts to mitigate risks and maintain compliance with its regulatory risk obligations under the Act.

FICC understands some indirect participants may not elect to submit activity through a Segregated Indirect Participants Account due to the size of that activity relative to this minimum requirement. Such participants may, instead, submit activity through a Sponsoring Member Omnibus Account or Agent Clearing Member Omnibus Account that is not segregated and is not required to be calculated on a gross basis, subject to the applicable limitations.

As described above, FICC's daily backtesting of the sufficiency of its Clearing Fund revealed a heightened likelihood of backtesting deficiencies for those Members with lower deposits that are not sufficient to mitigate any abrupt intraday change in their exposures.<sup>75</sup> FICC recently increased the minimum Required Deposit for Netting Members to the current \$1 million cash deposit following this discovery and after analyzing impact study data that indicated a \$1 million minimum requirement is the appropriate minimum amount to optimize the balance between financial impact of the requirement to Members and FICC's ability to continue to meet

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<sup>75</sup> Supra note 42.

its regulatory obligation to maintain a backtesting performance coverage ratio above its 99 percent coverage target.

The proposed minimum requirement that would apply to Segregated Indirect Participants is the same minimum requirement that FICC currently applies to each Margin Portfolio.<sup>76</sup> Because FICC is required to calculate the margin requirements for these participants on a gross basis, as if each Segregated Indirect Participant were a separate Margin Portfolio, and would be restricted from using these funds to address any losses other than losses resulting from the indirect participant for whom the funds are held, FICC believes it is also appropriate to apply the same minimum requirement.

FICC believes that the proposed margin segregation arrangement would promote competition because it would allow Netting Members to offer greater varieties of possible clearing arrangements to indirect participants. Netting Members could offer arrangements under which they finance the margin or under which the indirect participant satisfies the margin requirement. Such greater offerings would improve competition by enhancing the available ways to access clearing. In addition, the arrangement would place broker-dealer Netting Members on a more level playing field with other Netting Members. Currently, only non-broker-dealer Netting Members may collect margin from indirect participants and deposit it with FICC. By virtue of the proposed changes, broker-dealer Netting Members would likewise be able to collect margin and deposit such margin with FICC.

FICC further believes that the proposed changes to separately and independently calculate, collect, and hold margin for proprietary transactions from margin for indirect participant transactions would not place a burden on competition. These proposed changes work together with the proposed margin segregation changes discussed above, and FICC believes that the combination of these proposed changes would allow Netting Members to offer greater varieties of possible clearing arrangements to indirect participants. With respect to the specific changes around separately and independently calculating, collecting, and holding margin for proprietary and indirect transactions, FICC further believes that such changes would serve to ensure that a Netting Member's margin requirement separately accounts for the risk profiles of its proprietary portfolio of transactions and the transactions it submits to FICC on behalf of indirect participants. These changes should not give particular Netting Members an advantage over one another or disadvantage indirect participants relative to one another. Instead, they would simply serve to limit the risk to FICC of such transactions and provide FICC with a better understanding of the source of potential risk arising from the transactions that it clears.

Lastly, FICC believes that the proposed changes to redefine Brokered Transactions as those entered into by an Inter-Dealer Broker Netting Member on its own trading platform would promote competition by limiting the scope of transactions eligible for uniquely favorable loss allocation treatment. Such limitations would ensure that similarly situated Netting Members are

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<sup>76</sup> As noted above, FICC recently increased this minimum requirement as applied to Netting Members following Commission approval of a proposed rule change. Supra note 42.

subject to similar requirements with regard to similar transactions and that only transactions that present relatively lower levels of risk are eligible for appropriately differential treatment.

**5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

FICC has not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at [www.sec.gov/regulatory-actions/how-to-submit-comments](http://www.sec.gov/regulatory-actions/how-to-submit-comments). General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

FICC reserves the right not to respond to any comments received.

**6. Extension of Time Period for Commission Action**

FICC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2024-007)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Modify the GSD Rules (i) Regarding the Separate Calculation, Collection and Holding of Margin for Proprietary Transactions and That for Indirect Participant Transactions, and (ii) to Address the Conditions of Note H to Rule 15c3-3a

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March \_\_, 2024, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of modifications to FICC’s Government Securities Division (“GSD”) Rulebook (“Rules”)<sup>4</sup> to (1) provide for FICC to calculate, collect, and hold margin for the proprietary transactions of a Netting Member separately

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> FICC filed this proposed rule change as an advance notice (SR-FICC-2024-802) with the Commission pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b-4(n)(1)(i) under the Act, 17 CFR 240.19b-4(n)(1)(i). A copy of the advance notice is available at [dtcc.com/legal/sec-rule-filings](http://dtcc.com/legal/sec-rule-filings).

<sup>4</sup> Terms not defined herein are defined in the Rules, available at [www.dtcc.com/~media/Files/Downloads/legal/rules/ficc\\_gov\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf).

and independently from the margin for transactions that the Netting Member submits to FICC on behalf of indirect participants; (2) simplify and revise the account types through which Members may record transactions at FICC and adopt a new Rule 2B to provide clearer public disclosures through the Rules regarding the GSD account structure; (3) allow Netting Members to elect for margin for indirect participant transactions to be calculated on a gross basis (*i.e.*, an indirect participant-by-indirect participant basis) and legally segregated from the margin for the Netting Member's proprietary transactions (as well as those of other indirect participants); (4) align FICC's margin calculation methodology with the expanded account types and enhance public disclosure through the Rules of that calculation methodology; and (5) simplify the requirements for brokered transactions so that they only apply to transactions executed by an Inter-Dealer Broker Netting Member on the trading platform offered by that Inter-Dealer Broker Netting Member.

These proposed rule changes are primarily designed to ensure that FICC has appropriate rules regarding the separate and independent calculation, collection, and holding of margin for proprietary transactions and that for indirect participant transactions in accordance with the requirements of Rule 17Ad-22(e)(6)(i) under the Act, and that FICC has appropriate rules to satisfy the conditions of Note H to Rule 15c3-3a under the Act for a broker-dealer to record a debit in the customer and broker-dealer proprietary account reserve formulas.<sup>5</sup>

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<sup>5</sup> See Securities Exchange Act Release No. 99149 (Dec. 13, 2023), 89 FR 2714 (Jan. 16, 2024) (S7-23-22) ("Adopting Release", and the rules adopted therein referred to herein as "Treasury Clearing Rules"). See also 17 CFR 240.15c3-3a.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

**Executive Summary of Proposed Changes**

On December 13, 2023, the Commission adopted amendments to the covered clearing agency standards that apply to covered clearing agencies that clear transactions in U.S. Treasury securities (each a “Treasury CCA”), including FICC.<sup>6</sup> These amendments require, among other things, that FICC “calculates, collects, and holds margin amounts from a direct participant for its proprietary positions in U.S. Treasury securities separately and independently from margin calculated and collected from that direct participant in connection with U.S. Treasury securities transactions by an indirect participant that relies on the services provided by the direct participant to access the covered clearing agency’s payment, clearing, or settlement facilities.”<sup>7</sup> As described below, the proposed rules are designed to comply with these requirements.

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<sup>6</sup> See supra note 5.

<sup>7</sup> 17 CFR 240.17Ad-22(e)(6)(i).

Additionally, in the Treasury Clearing Rules, the Commission amended its broker-dealer customer protection rule (“Rule 15c3-3”)<sup>8</sup> and the reserve formulas thereunder (“Rule 15c3-3a”)<sup>9</sup> to permit broker-dealers to include margin required and on deposit at a Treasury CCA as a debit item in the reserve formulas under certain conditions.<sup>10</sup> The proposed rules are also designed to satisfy these conditions and, therefore, would permit broker-dealer Netting Members of FICC to include margin collected from their customers and on deposit at a Treasury CCA as a debit item in the reserve formulas.

First, the proposed changes would provide for the separate and independent calculation, collection, and holding of (i) margin deposited by a Netting Member to support its proprietary transactions and (ii) margin deposited by a Netting Member to support the transactions of an indirect participant. Specifically, FICC would provide in a new Rule 2B that FICC can establish proprietary Accounts to record the transactions that the Netting Member enters into for its own benefit and separately establish indirect participant Accounts to record transactions that the Netting Member submits to FICC for clearance and settlement on behalf of an indirect participant. Under this proposed Rule 2B, only proprietary transactions may be recorded in a proprietary Account, and only indirect participant transactions may be recorded in an indirect participant Account. FICC is also proposing revisions in Rule 4 to identify what types of transactions may be included together in a Margin Portfolio that FICC utilizes to determine a Netting

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<sup>8</sup> 17 CFR 240.15c3-3.

<sup>9</sup> 17 CFR 240.15c3-3a.

<sup>10</sup> See supra note 5.

Member's margin requirement. Specifically, FICC would revise the Margin Portfolio definition to make clear that a Margin Portfolio cannot include both proprietary and indirect participant Accounts. Because proposed Rule 2B would not permit transactions of indirect participants to be recorded in the same Account as a Netting Member's proprietary transactions, a Margin Portfolio would only be able to consist of the same type of proprietary or indirect participant transactions, not both. As a result, the transactions a Netting Member submits to FICC on behalf of an indirect participant would no longer be netted against a Netting Member's proprietary transactions for purposes of calculating a Netting Member's margin requirements. In addition, to ensure separate collection and holding of margin deposited for proprietary and indirect participant transactions, FICC is specifying its practice in Rule 4 that a Netting Member must identify the different Account types for which a deposit is made on its wire instructions.

In order to facilitate these proposed changes, the rule changes would clarify the types of accounts in which Netting Members may record transactions. FICC's "Accounts" are not custodial accounts in which FICC holds assets, but rather a mechanism for FICC to record and group transactions. These records are utilized by FICC in connection with its calculation of a Netting Member's margining, settlement, and other obligations. The proposed rule changes would provide greater clarity regarding the purpose and use of these accounts through the public disclosures in the Rules. The proposed rules would do this by revising the definition of "Account" in Rule 1 and changing the names of certain Accounts to better reflect their function. The proposed

rule changes would also create in a new Rule 2B a roadmap of the types of Accounts FICC maintains and what is recorded in those Accounts.

Second, the proposed rule changes would allow for the segregation of certain customer margin in a manner that satisfies the conditions for a broker-dealer to record a debit in the customer or PAB reserve formula under recently added Note H to Rule 15c3-3a.<sup>11</sup> As noted above, the Commission amended Rule 15c3-3a to permit broker-dealers to include margin required and on deposit at a Treasury CCA as a debit item in the reserve formulas under certain conditions, including that the margin be collected in accordance with the rules of the Treasury CCA that impose the certain requirements.<sup>12</sup>

Such requirements are set forth in the Treasury Clearing Rules and Section (b)(2) of Note H to Rule 15c3-3a, and include, among other things, (1) the margin must be calculated separately for each customer and the broker-dealer must deliver that amount of margin for each customer on a gross basis; (2) the margin must be held in an account of the broker-dealer at the Treasury CCA that is segregated from any other account of the broker-dealer at the Treasury CCA and that is, among other things, used exclusively to clear, settle, novate, and margin U.S. Treasury securities transactions of the customers of the broker-dealer; and (3) the Treasury CCA has systems, controls, policies, and procedures to return the assets to the broker-dealer that are no longer needed to meet current margin requirements resulting from positions in U.S. Treasury securities of the

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<sup>11</sup> 17 CFR 240.15c3-3a.

<sup>12</sup> See supra note 5.

customers of the broker-dealer.<sup>13</sup> The proposed changes are designed to comply with these requirements.

Specifically, FICC is proposing to permit a Netting Member, including a non-broker-dealer Netting Member, to designate any of its indirect participants Accounts for segregation. For any Account so designated, FICC would calculate the margin requirements applicable to the Account on a gross basis, meaning that FICC would not net the transactions of one indirect participant against the transactions of another indirect participant. In addition, FICC would segregate the margin deposited to support the transactions in the Account from any margin securing a Netting Member's proprietary positions, both on FICC's own books and records and at FICC's custodians. FICC would only be able to use such segregated margin to satisfy the obligations of the customer for whom such margin is held. FICC would not be able to apply such margin to the proprietary obligations of the Netting Member that deposited it with FICC or to the obligations of any other Netting Member or participant. FICC would also set forth specific procedures to allow Netting Members to obtain the return of excess segregated margin. The aim of these changes is both to allow broker-dealer Netting Members to collect margin from customers and deposit it with FICC and to provide all customers, including those that access FICC through non-broker-dealers, to be able to segregate margin they deposit.

Third, the proposed rules would align the description of FICC's margin methodology with the revised Account types, consolidate the terms relating to margin calculation in a single, easily identifiable schedule, and make certain changes to the

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<sup>13</sup> See 17 CFR 240.15c3-3a. Supra note 5.

methodology to increase precision and predictability. To achieve these goals, the proposed rules would move the margin calculation methodology, including the relevant defined terms currently located in various Rules, into a new Margin Component Schedule. The proposed rules would also revise Rule 4 to make clear that a Netting Member's margin requirement is the sum of the margin amounts calculated for each type of Account in which transactions are recorded for the Netting Member. Further, the proposed rules would set forth a method for allocating net unsettled positions to individual indirect participants for purposes of calculating margin requirements. In addition, the proposed rules would revise and clarify the calculation of the excess capital premium component of the Clearing Fund, to cap such amount at two times the amount by which a Netting Member's VaR Charge exceeds its Netting Member Capital, clarify the capital amounts that are used in the calculation of such amount, limit FICC's discretion to waive the amount, and provide that FICC may calculate the premium based on updated available information. The proposed changes would also take steps to ensure that the excess capital premium does not result in differential treatment of indirect participants simply because of the particular capital level of the Netting Member providing access to FICC's clearance and settlement systems.

Lastly, the proposed rule changes would modify the terms relating to brokered transactions to require that only transactions that an Inter-Dealer Broker Netting Member executes on the Inter-Dealer Broker Netting Member's own trading platform benefit from favorable loss allocation treatment.<sup>14</sup> FICC believes that making these changes would

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<sup>14</sup> See Rule 4, Section 7 ("Notwithstanding the foregoing, however, an Inter-Dealer Broker Netting Member, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account, shall not be subject to an aggregate loss allocation in

improve FICC's risk management and promote access by ensuring that its differential treatment of different parties and transactions has a sound risk management justification.

## **Background**

FICC, through GSD, serves as a central counterparty and provider of clearance and settlement services for the U.S. government securities markets. Margin is a key tool that FICC uses to manage its credit exposures to its members. The aggregated amount of all GSD members' margin constitutes the GSD Clearing Fund (referred to herein as the "Clearing Fund"). The objective of the Clearing Fund is to mitigate potential losses to FICC associated with liquidating a member's portfolio in the event FICC ceases to act for that member (hereinafter referred to as a "default").<sup>15</sup>

Under Rule 4 (Clearing Fund and Loss Allocation), Netting Members are required to make deposits to the Clearing Fund in an amount ("Required Fund Deposit") determined by reference to certain components. In determining a Netting Member's Required Fund Deposit, FICC may consider not only the Netting Member's proprietary transactions, but also the transactions that the Netting Member submits on behalf of indirect participants. However, the treatment of the indirect participant transactions for purposes of calculating the Required Fund Deposit can vary depending on whether those transactions are cleared under the Sponsored Service or prime brokerage / correspondent

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an amount greater than \$5 million pursuant to this Section 7 for losses and liabilities resulting from an Event Period."), supra note 4.

<sup>15</sup> The Rules identify when FICC may cease to act for a member and the types of actions FICC may take. For example, FICC may suspend a firm's membership with FICC or prohibit or limit a member's access to FICC's services in the event that member defaults on a financial or other obligation to FICC. See Rule 21 (Restrictions on Access to Services), supra note 4.

clearing services. Netting Members are required to instruct FICC to record those transactions in one of the position-keeping accounts (each, an “Account”) that FICC establishes and maintains for the Netting Member. The Account in which a transaction is recorded is relevant for determining the margin requirement associated with that transaction under the Rules. Currently, a Netting Member may instruct FICC to record in the same Account, currently known as a “Netting Member Account,” both the proprietary transactions of the Netting Member and transactions that the Netting Member carries for indirect participants through the prime brokerage / correspondent clearing services. Sponsored Member Trades, discussed in greater detail below, must be recorded in a separate Account.

Under Rule 4, a Netting Member’s Clearing Fund requirement, other than that arising from Sponsored Member Trades, is calculated on a net basis across all transactions recorded in the same Account of the Netting Member (or, if the Netting Member has elected to have multiple Accounts form part of the same “Margin Portfolio,” all transactions recorded in all such Accounts).<sup>16</sup>

The Sponsored Service permits Netting Members that are approved to be “Sponsoring Members,” to sponsor certain institutional firms, referred to as “Sponsored Members,” into GSD membership.<sup>17</sup> FICC establishes and maintains a “Sponsoring Member Omnibus Account” on its books in which it records the transactions of the Sponsoring Member’s Sponsored Members (“Sponsored Member Trades”).<sup>18</sup> To

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<sup>16</sup> See Rule 4, supra note 4.

<sup>17</sup> See Rule 3A, supra note 4.

<sup>18</sup> See Rule 1 (definition of “Sponsored Member Trades”), supra note 4.

determine a Sponsoring Member's Clearing Fund requirement in relation to Sponsored Member Trades recorded in the Sponsoring Member's Sponsoring Member Omnibus Account, FICC calculates the "VaR Charge"<sup>19</sup> and the "MLA Charge"<sup>20</sup> component for each Sponsored Member such that it does not net the Sponsored Member Trades of one Sponsored Member against the Sponsored Member Trades of another Sponsored Member, even though those Sponsored Member Trades are recorded in the same Sponsoring Member Omnibus Account.<sup>21</sup> For all of the other components, FICC calculates the components by reference to the Sponsoring Member Omnibus Account as a whole (*i.e.*, without regard to which Sponsored Member entered into which Sponsored Member Trade). In no instance does FICC net transactions recorded in a Sponsoring Member's Sponsoring Member Omnibus Account against other transactions of the Sponsoring Member for purposes of calculating the Sponsoring Member's Required Fund Deposit.

As an alternative to the Sponsored Service, a Netting Member (in such capacity, a "Submitting Member") may submit to FICC eligible transactions on behalf of the Submitting Member's customers (each, in such capacity, an "Executing Firm") through FICC's existing prime broker / correspondent clearing services.<sup>22</sup> As noted above, under the current Rules, a Submitting Member may instruct FICC to record such a transaction

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<sup>19</sup> See Rule 1 (definition of "VaR Charge"), supra note 4.

<sup>20</sup> See Rule 1 (definition of "MLA Charge"), supra note 4.

<sup>21</sup> See Rule 3A, Section 10 (describing how the Required Fund Deposit for Sponsored Member Trades is calculated), supra note 4.

<sup>22</sup> See Rule 8, supra note 4.

in the same Account at FICC as the Submitting Member's proprietary transactions. Accordingly, if transactions a Submitting Member submits on behalf of Executing Firms through the prime broker / correspondent clearing services are recorded in the same Account as the Netting Member's proprietary transactions (or in an Account that forms part of the same Margin Portfolio as an Account in which a Netting Member's proprietary transactions are recorded), FICC nets such transactions against one another in calculating the Netting Member's Required Fund Deposit.<sup>23</sup>

As noted above, the proposed rules would implement the amendments to Rule 17Ad-22(e)(6)(i) that require FICC to calculate, collect, and hold margin from a direct participant for its proprietary transactions in U.S. Treasury securities separately and independently from the margin calculated and collected for the U.S. Treasury transactions of an indirect participant that relies on the services provided by the direct participant to access FICC's payment, clearing, or settlement facilities.<sup>24</sup> The proposed

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<sup>23</sup> Contemporaneously with this proposed rule change, FICC has submitted a separate proposed rule change (File No. SR-FICC-2024-005) under which FICC is proposing to rename its primer broker / correspondent clearing services the "Agent Clearing Service," "Submitting Members" as "Agent Clearing Members", and "Executing Firms" as "Executing Firm Customers." This separate proposed rule change would require that a Netting Member using the Agent Clearing Service submit transactions for Executing Firm Customers through an Agent Clearing Member Omnibus Account, to be recorded separately from its other clearing activity, including its proprietary activity. It would also add a definition for transactions eligible to be submitted by an Agent Clearing Member on behalf of its Executing Firm Customers ("Agent Clearing Transactions"). These proposed terms are used throughout this filing. These proposed changes are pending regulatory approval. A copy of this proposed rule change is available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>24</sup> 17 CFR 240.17Ad-22(e)(6)(i). See supra note 5.

rules would also clarify and simplify FICC's account structure and improve the transparency of FICC's public disclosures of its margining methodology.

The proposed rules are also designed to allow broker-dealer Netting Members of FICC to collect margin from their customers and deposit that margin with FICC. As stated above, a Netting Member is responsible for the Clearing Fund obligations arising from the activity of indirect participant customers (*i.e.*, Sponsored Members and Executing Firms). FICC understands from engagement with broker-dealer Netting Members and their indirect participant customers that, due to the requirements of Rule 15c3-3<sup>25</sup> and Rule 15c3-3a,<sup>26</sup> broker-dealer Netting Members are effectively unable to deposit with FICC any margin collected from indirect participants to support those indirect participants' transactions and must instead use proprietary resources.

The Treasury Clearing Rules' recent amendments to Rule 15c3-3a permit broker-dealers to include margin required and on deposit at a Treasury CCA as a debit item in the reserve formulas under certain conditions.<sup>27</sup> As described in more detail below, the proposed changes would address those conditions. Therefore, the proposal would allow broker-dealer Netting Members to collect margin from customers and deposit it with FICC and to permit all customers, including those that access FICC through non-broker-dealers, to segregate margin they deposit.

Finally, the proposed rule changes would address the treatment of transactions submitted to FICC by Inter-Dealer Broker Netting Members and certain Netting

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<sup>25</sup> 17 CFR 240.15c3-3.

<sup>26</sup> 17 CFR 240.15c3-3a.

<sup>27</sup> See supra note 5.

Members that operate similarly to Inter-Dealer Broker Netting Members (“Non-IDB Repo Brokers”). The Rules currently cap the amount of loss allocation that may be applied to an Inter-Dealer Broker Netting Member or Non-IDB Repo Broker in respect of transactions submitted by such Netting Members to FICC for clearance and settlement (“Brokered Transactions”). This treatment is based on the more limited risk that Brokered Transactions present relative to other transactions.

### **Description of Proposed Rule Changes**

1. *Segregate Indirect Participant Margin Requirements and Amend the GSD Account Structure*

The proposed rule changes would provide for the separate calculation, collection, and holding of margin supporting a Netting Member’s Proprietary Transactions and the margin supporting the transactions a Netting Member submits on behalf of indirect participants, in accordance with the requirements of Rule 17Ad-22(e)(6)(i), adopted under the Treasury Clearing Rules.<sup>28</sup> In connection with these changes, the proposal would also clarify the types of accounts in which Netting Members may record transactions and adopt a roadmap to its account structure in a new Rule 2B.

A. *Separately Calculate, Collect and Hold Indirect Participant and Proprietary Margin Requirements*

i. *Limit Margin Portfolios to Accounts of the Same Type*

The separate calculation of proprietary and customer margin would be accomplished by clarifying that each Margin Portfolio may only include Accounts of the same Type (*i.e.*, Dealer Accounts, Broker Accounts, Agent Clearing Member Omnibus Account, and Sponsoring Member Omnibus Accounts).

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<sup>28</sup> 17 CFR 240.17Ad-22(e)(6)(i).

FICC would make this clarification by amending the definition of “Margin Portfolio” in Rule 1 and revising Rule 4, Section 1a, which would be renumbered Section 1b in light of changes described below, to provide that each Margin Portfolio may not contain more than one Type of Account (even if such Accounts are both Segregated Indirect Participants Accounts).

By virtue of these changes, transactions recorded in different Types of Accounts could not be netted against each other when calculating Required Fund Deposit or Segregated Customer Margin Requirements. Since Proprietary Transactions and transactions submitted for indirect participants could not (by virtue of the changes described below) be recorded in the same Type of Account, the changes relating to Margin Portfolios would result in margin for a Netting Member’s Proprietary Transactions being calculated separately and independently from margin calculated for the transactions that the Netting Member submits on behalf of indirect participants. As conforming changes, paragraphs (b) and (c) of Section 1b, which currently provide for such separate margin calculations in certain contexts, would no longer be needed since the Margin Portfolio definition and other changes described above would achieve such separate calculations.

ii. Required Fund Deposit Portions and Segregated Customer Margin Requirements

To further clarify how FICC would calculate and collect a Netting Member’s margin requirements, the proposed rule changes would make other revisions to Rule 4. Specifically, Rule 4, Section 2, which currently describes a Netting Member’s Required Fund Deposit requirement, would be revised to provide that a Netting Member’s Required Fund Deposit consists of the sum of amounts (each, a “Required Fund Deposit

Portion”) calculated for each Type of Account, other than Segregated Indirect Participants Accounts. For Segregated Indirect Participants Accounts, there would, as mentioned below, be a Segregated Customer Margin Requirement, which would be the sum of the amounts calculated for the Netting Member’s (i) Sponsoring Member Omnibus Accounts designated as Segregated Indirect Participants Accounts and (ii) Agent Clearing Member Omnibus Accounts designated as Segregated Indirect Participants Accounts.

In connection with these changes, FICC would add a corresponding definition of “Required Fund Deposit Portion” to Rule 1. FICC would also adopt a defined term referring to the Required Fund Deposit Portion for a Netting Member’s Agent Clearing Member Omnibus Account (“Agent Clearing Member Omnibus Account Required Fund Deposit”) and amend the defined term for the Required Fund Deposit Portion for a Netting Member’s Sponsoring Member Omnibus Account (the Sponsoring Member Omnibus Account Required Fund Deposit). In addition, conforming changes would be made to the separately proposed Rule 8, Section 7(g) that would describe the requirement of an Agent Clearing Member to make and maintain an Agent Clearing Member Omnibus Account Required Deposit and that the calculation of such requirement would be performed separately from the calculation for Margin Portfolios consisting of the Agent Clearing Member’s Proprietary Transactions. Similar conforming changes would be made to Rule 3A, Section 10 relating to a Sponsoring Member’s Sponsoring Member Omnibus Account Required Fund Deposit.

iii. Separate Deposit IDs to Facilitate Separate Collection and Holding of Margin

To ensure that margin for Proprietary Transactions is not only calculated separately and independently but also collected and held separately and independently of margin for indirect participant transactions, a new Rule 4, Section 2a would be added to the Rules. This section would require each Required Fund Deposit Portion to be made to FICC using a separate Deposit ID, which is an existing operational mechanism used by Netting Members to identify the type of Account for which a Required Fund Deposit is being made.

A new Rule 4, Section 2b would impose a similar requirement in respect of Segregated Customer Margin Requirements. The use of these separate Deposit IDs would result in margin for each Type of Account being separately transferred to FICC and FICC recording on its books the separate margin amounts for each Type of Account. FICC would also adopt a definition of “Deposit ID” in Rule 1.

Rule 4, Sections 2a and 2b would also require FICC to report a Netting Member’s Required Fund Deposit and Segregated Customer Margin Requirement twice daily, which is the same timing interval on which FICC currently reports a Netting Member’s margin requirement. The report would also specify the amount of margin attributable to each Required Fund Deposit Portion or Segregated Indirect Participants Account, as applicable, so that the Netting Member can transfer the different margin amounts separately.

iv. Eliminate Permitted Margin Affiliates

In connection with these proposed rule changes, the proposal would eliminate the concept of Permitted Margin Affiliates, which allows a Member to elect to include its

Accounts in the same Margin Portfolio with the Accounts of an affiliate that is also a Member, in accordance with the Rules.<sup>29</sup> In this way, a Member and its affiliate can net their transactions for purposes of calculating their margin requirements.

In order to support the proposed change described above, which are designed to provide for the separate calculation, collection, and holding of margin, FICC believes that retaining the option for Members to designate Permitted Margin Affiliates would create unnecessary complexity. No Netting Member currently has a Permitted Margin Affiliate, and FICC would need to examine how such a cross-affiliate margining arrangement would function within the context of the proposed revisions to the account structure and margin methodology in order to determine what steps would be needed to implement such an arrangement consistently with the standards applicable to covered clearing agencies. Therefore, FICC is proposing to eliminate the Permitted Margin Affiliate concept at this time.

In order to implement this change, the proposal would remove the definition of “Permitted Margin Affiliate” from Rule 1, and remove references to Permitted Margin Affiliates from Rule 4, Section 1a (to be renamed Section 1b, as noted above); Rule 4, Section 1b (which would be removed and replaced by disclosures in the proposed Margin Component Schedule, as discussed below); Rule 4, Sections 4 and 6; Rule 21, Section 1; Rule 22, Section 2; and Rule 29, Section (a).

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<sup>29</sup> See Rule 1 (defining “Permitted Margin Affiliates”) and Rule 4, Section 1a(a) and (b) (permitting Members to include Accounts of their Permitted Margin Affiliates in their Margin Portfolio). Supra note 4.

B. *Proposed Roadmap to Account Structure through New Rule 2B and Revision to Account Structure*

FICC is proposing to adopt a new Rule 2B that would describe the types of Accounts FICC is able to maintain for Netting Members, identify the activity that would be recorded in each type of Account, and generally provide a roadmap to market participants of FICC's account structure.

i. Section 1 – Establishment of Proprietary Accounts

Rule 2B, Section 1 would provide that FICC can establish and maintain certain "Proprietary Accounts" to record transactions that a Netting Member enters into for its own benefit ("Proprietary Transactions"), rather than for the benefit of indirect participants. Proprietary transactions would not include transactions that a Netting Member enters into on behalf of an affiliate.

The Proprietary Accounts available for recording Proprietary Transactions would include "Dealer Accounts," which would be available for all Netting Members, and "Cash Broker Accounts" and "Repo Broker Accounts," which would only be available for Inter-Dealer Broker Netting Members. Dealer Accounts would be for purposes of recording a Netting Member's Proprietary Transactions (other than, in the case of an Inter-Dealer Broker Netting Member, its Brokered Transactions), while Cash Broker Accounts would be for purposes of recording an Inter-Dealer Broker Netting Member's Brokered Transactions (other than Brokered Repo Transactions), and Repo Broker Accounts would be for purposes of recording an Inter-Dealer Broker Netting Member's Brokered Repo Transactions. Rule 2B, Section 1 would make clear that, as under FICC's existing Rules, FICC can establish multiple Proprietary Accounts of the same Type for the Netting Member.

In connection with these changes, FICC is proposing to adopt new, corresponding definitions of Proprietary Transactions, Proprietary Accounts, and Cash Broker Accounts in Rule 1, and to make corresponding amendments to the definitions of Dealer Account and Repo Broker Account. FICC is also proposing to remove from Rule 1 the defined term “Netting Member Account” and replace references to such Account with references to Dealer Account.

ii. Section 2 – Establishment of Non-Proprietary Accounts

Rule 2B, Section 2 would provide that FICC can establish and maintain certain “Indirect Participants Accounts” to record transactions that a Netting Member submits to FICC on behalf of Sponsored Members and Executing Firm Customers. These Indirect Participants Accounts would include, in the case of a Sponsoring Member, Sponsoring Member Omnibus Accounts for purposes of recording Sponsored Member Trades, and, in the case of an Agent Clearing Member, Agent Clearing Member Omnibus Accounts for purposes of recording Agent Clearing Transactions of its Executing Firm Customers. Rule 2B, Section 2 would also make clear that FICC can establish multiple Indirect Participants Accounts of the same Type for the Netting Member.

In connection with these changes, FICC is proposing to add to Rule 1 a new definition of Indirect Participants Account, which would include Agent Clearing Member Omnibus Accounts and Sponsoring Member Omnibus Accounts, and to correspondingly amend the definition of Sponsoring Member Omnibus Accounts.

iii. Section 3 – Segregation Designations for Indirect Participants Accounts

Rule 2B, Section 3 would permit a Sponsoring Member or Agent Clearing Member to designate any of its Indirect Participants Accounts as a segregated customer

account (a “Segregated Indirect Participants Account”). The purpose of such a designation, as further described below, would be to give Netting Members a mechanism to direct FICC to calculate and segregate margin deposited in connection with the Account in accordance with the conditions described in Note H to Rule 15c3-3a (“Note H”), as further described below.<sup>30</sup>

In connection with this revision, a new definition for “Segregated Indirect Participant” would be added to Rule 1 to mean a Sponsored Member or an Executing Firm Customer whose transactions are recorded in a Segregated Indirect Participants Account.

Rule 2B, Section 3 would provide that the designation of an Account as a Segregated Indirect Participants Account constitutes a representation to FICC by the Netting Member that the Netting Member intends to meet all margin requirements with respect to such Account using assets deposited by the Segregated Indirect Participants with the Netting Member, with the exception of temporary “prefunding” by the Netting Member while a margin call to the Segregated Indirect Participant is outstanding. The purpose of this representation is to ensure that only margin deposited by customers, not the Netting Member’s proprietary assets, is eligible for segregation.

Rule 2B, Section 3 would further provide that the margin requirement (“Segregated Customer Margin Requirement”) calculated for a Segregated Indirect Participants Account would equal the sum of the margin requirements that apply to each Segregated Indirect Participant whose transactions are recorded in the Account, as though each such Segregated Indirect Participant were a Netting Member. By virtue of this

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<sup>30</sup> 17 CFR 240.15c3-3a.

change and as further described below, in calculating the Segregated Customer Margin Requirement for a Segregated Indirect Participants Account, FICC would not net the transactions of multiple Segregated Indirect Participants against one another. A corresponding definition of “Segregated Customer Margin Requirement” would be added to Rule 1 to mean the amount of cash and securities that a Netting Member is required to deposit with FICC to support the obligations arising under transactions recorded in its Segregated Indirect Participants Accounts. As described in greater detail below, such amounts would be further described and addressed in Rule 4, Section 2(a)(v) and (vi).

iv. Section 4 – Designation of Account When Submitting Transactions

Lastly, Rule 2B, Section 4 would require a Netting Member, at the time it submits a Transaction to FICC for clearance and settlement, to designate the Account in which the particular transaction should be recorded. Any such designation would constitute a representation to FICC that the transaction is of a type that may be recorded in that Account in accordance with the Rules. The purpose of such representation would be to ensure that Netting Members record only their Proprietary Transactions in Proprietary Accounts, which separate recordation is necessary for the separate and independent calculation, collection, and holding of margin for direct participant and indirect participant transactions.

In addition, Rule 2B, Section 4 would provide that, when submitting a transaction on behalf of a Sponsored Member or Executing Firm Customer, a Netting Member must include an identifier for the applicable Sponsored Member or Executing Firm Customer. This requirement is consistent with an existing requirement in the Schedule of Required Data Submission Items in the Rules and ensures that FICC continues to have the ability

to accurately calculate the Required Fund Deposit and Segregated Customer Margin Requirements appropriately. This requirement also facilitates FICC's ability to engage in risk management and market surveillance in accordance with the covered clearing agency standards.

In connection with these changes, FICC also proposes to remove from Rule 1 the term "Netting Member Account," as such defined term would no longer be used. References to Netting Member Accounts throughout the Rules would be revised to "Dealer Accounts", which would more clearly distinguish these Accounts from Broker Accounts, the other type of Proprietary Accounts. FICC would also remove Section 11 of Rule 3, which currently concern the types of Accounts that Netting Members may open. Rule 2B would now describe the Types of Accounts Netting Members may request as well as the transactions that may be recorded in such Accounts.

The foregoing changes are designed to ensure that proprietary and indirect participant transactions are recorded in separate Accounts. This would assist FICC in tracking and managing the risks associated with a Netting Member's proprietary and indirect participant transactions. It would also facilitate compliance with the revised covered clearing agency standards regarding the separate calculation, collection, and holding of indirect participant and proprietary margin, which is described in further detail below.

v. Simplification and Revision of Account Structure

To support the foregoing changes, FICC is proposing to provide further clarity on what an Account is for purposes of the Rules. Under the Rules, "Accounts" at FICC are not cash, securities, or other kinds of custodial accounts through which FICC holds assets

for a Netting Member. Instead, FICC Accounts are a recordkeeping mechanism by which FICC records certain transactions submitted by Netting Members to FICC for clearance and settlement. This recordkeeping mechanism allows FICC to determine which transactions should be netted against one another in determining various obligations of the Netting Member, including its funds-only settlement amount and securities settlement obligations and its Required Fund Deposit. As discussed above, generally speaking, all transactions recorded in the same Account are netted for purposes of determining these obligations (though certain components of the Required Fund Deposit arising from Sponsored Member Trades are calculated on a gross basis, as described above). FICC is proposing to amend the definition of “Account” in Rule 1 to make clear that an “Account” means an account maintained by FICC to record transactions. In addition, FICC is proposing to adopt a new defined term, “Type of Account” or “Type,” to refer to the different kinds of Accounts described above.

FICC is also proposing to eliminate the concept of a Market Professional Cross-Margining Account, which refers to an Account carried by FICC for a Netting Member that is limited to Eligible Positions of Market Professionals or an Account that is carried by a Netting Member for Market Professionals that are party to a Market-Professional Agreement for Cross-Margining. FICC does not currently have in place a cross-margining arrangement for market professional indirect participants and would need to examine how such an arrangement would function within the context of the proposed revisions to the Account structure and margin methodology in order to determine what steps would be needed to implement such an arrangement consistently with the standards

applicable to covered clearing agencies. Therefore, FICC is proposing to eliminate the Market Professional Cross-Margining Account concept at this time.

In order to implement this change, the proposal would remove the definition of “Market Professional Cross-Margining Account” from Rule 1 and remove provisions concerning Market Professional Cross-Margining Accounts from Rule 1, Rule 4 and Rule 29.

2. *Proposed Rule Changes Relating to Note H of Rule 15c3-3a*

As described above, FICC would permit Netting Members to designate certain Indirect Participants Accounts as Segregated Indirect Participants Accounts. Such a designation would have the effect of causing FICC to calculate, collect, and hold the required margin for transactions recorded in such Accounts in accordance with the conditions for recording a debit in the customer reserve formula set forth in Note H of Rule 15c3-3a.<sup>31</sup>

A. *Gross Calculation of Segregated Customer Margin Requirements*

In order to satisfy the requirement of Section (b)(2)(i) of Note H to Rule 15c3-3a that the margin requirement be calculated on a gross basis,<sup>32</sup> new Rule 2B would, as noted above, provide that when calculating the Segregated Customer Margin Requirement, FICC would not net the transactions of multiple Segregated Indirect Participants, but would net the transactions of a single Segregated Indirect Participant that are recorded in the same Account.

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<sup>31</sup> 17 CFR 240.15c3-3a.

<sup>32</sup> Id.

In addition, the revised Rule 4, Section 1b would require FICC to calculate a Netting Member's Segregated Customer Margin Requirement with respect to a particular Segregated Indirect Participants Account as the sum of the margin requirements applicable to each Segregated Indirect Participant whose transactions are recorded in such Account, as though each Segregated Indirect Participant were a separate Netting Member with a single Margin Portfolio consisting of such transactions. These provisions would result in FICC calculating separate margin amounts for each Segregated Indirect Participant and for such amounts to be collected on a gross basis.

FICC would also include language in the new Margin Component Schedule to achieve gross margining of Segregated Indirect Participants Accounts. Specifically, in Section 1 of the new Margin Component Schedule discussed below, new language would require each Netting Member for which FICC maintains a Segregated Indirect Participants Account to deposit with FICC Segregated Customer Margin equal to the sum of the Segregated Customer Margin Requirements for all such Accounts. Such language would further provide that each Segregated Customer Margin Requirement will be calculated twice daily and equal the sum of the amounts calculated pursuant to Section 3 of the Margin Component Schedule for each Segregated Indirect Participant whose transactions are recorded in the relevant Segregated Indirect Participants Account.

Section 3 of the new Margin Component Schedule, in turn, would set out the methodology for calculating such margin amounts. That section would provide for FICC to perform substantially the same calculation it currently performs when determining a Netting Member's Required Fund Deposit, except (i) such calculation would be performed on a Segregated Indirect Participant-by-Segregated Indirect Participant basis

as though each Segregated Indirect Participant represented a separate Margin Portfolio and (ii) FICC would not impose an Excess Capital Premium.

With regard to the latter, FICC does not believe it would be appropriate to require an indirect participant to deposit with FICC additional margin on account of the capital position of its Netting Member. The Excess Capital Premium is designed to address the risk that a Netting Member with low capital relative to its VaR Charge will not be able to perform its obligations. However, Segregated Customer Margin cannot be applied to a Netting Member's obligations (other than to perform on behalf of the individual indirect participant for whom the Segregated Customer Margin is held). Accordingly, requiring indirect participants to deposit an additional Excess Capital Premium would not serve a risk management purpose. Further, requiring indirect participants who access FICC's clearance and settlement systems through a Netting Member with low capital to deposit more margin than indirect participants who access FICC's clearance and settlement system through other Netting Members would treat similarly situated indirect participants differently without an appropriate basis to do so. Moreover, it could lead to concentration among Netting Members, as indirect participants would be disincentivized to access clearing through smaller Netting Members, since smaller Netting Members typically have lower net capital.

For similar reasons, FICC would not add Segregated Customer Margin to Section 4 of the Margin Component Schedule, which describes FICC's ability to impose increased Required Fund Deposits under certain circumstances. However, when determining whether to increase the Required Fund Deposit of a Netting Member under the circumstances described in Section 4, FICC may consider the risk presented by a

Netting Member in view of all activity it submits to FICC, including activity of indirect participants.

As a conforming change, FICC would revise the definitions of most of the components utilized for calculating a Netting Member's Segregated Customer Margin Requirement as well as associated definitions to provide that these apply to Segregated Indirect Participants on a Segregated Indirect Participant-by-Segregated Indirect Participant basis. These definitions include the Backtesting Charge, the Holiday Charge, the Intraday Supplemental Fund Deposit, the Margin Liquidity Adjustment or MLA Charge, the Margin Proxy, the Minimum Margin Amount,<sup>33</sup> the Portfolio Differential Charge, the Unadjusted GSD Margin Portfolio Amount, and the VaR Charge.

B. Segregation of Customer Margin Deposits

In order to satisfy the segregation requirements of Section (b)(2)(iii) of Note H to Rule 15c3-3a,<sup>34</sup> FICC is proposing a number of changes to the Rules. First, FICC is proposing to adopt a new definition of "Segregated Customer Margin" in Rule 1, which definition would refer to "all securities and funds deposited by a Sponsoring Member or an Agent Clearing Member with the Corporation to satisfy its Segregated Customer Margin Requirement." FICC would also adopt a new Rule 4, Section 1a. That provision would require a Netting Member to deposit Segregated Customer Margin with FICC

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<sup>33</sup> FICC has filed a proposed rule change and related advance notice to adopt a Minimum Margin Amount at GSD (File Nos. SR-FICC-2024-003 and SR-FICC-2024-801). This proposal is pending regulatory approval, and the filings are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>34</sup> 17 CFR 240.15c3-3a.

equal to the Netting Member's Segregated Customer Margin Requirement in accordance with the timing provisions generally applicable to Required Fund Deposits.

i. Establishment of Segregated Accounts

In order to satisfy the requirements of Section (b)(2)(iii) of Note H that margin “be held in an account of the broker or dealer at the qualified clearing agency that is segregated from any other account of the broker or dealer at the qualified clearing agency,”<sup>35</sup> Rule 4, Section 1a would provide for FICC to establish on its books and records for each Netting Member that deposits Segregated Customer Margin a “Segregated Customer Margin Custody Account” corresponding to each Segregated Indirect Participants Account of such Netting Member. Segregated Customer Margin Custody Account would be defined in Rule 1 as “a securities account within the meaning of the NYUCC maintained by the Corporation, in its capacity as securities intermediary as such term is used in the NYUCC, for an Agent Clearing Member or Sponsoring Member for the benefit of such Member's Segregated Indirect Participants.” In other words, in contrast to the other FICC Accounts, which, as discussed above, are position record-keeping accounts rather than custodial accounts, each Segregated Customer Margin Custody Account would be a “securities account” within the meaning of the NYUCC.

As noted above, FICC is also proposing to amend the definition of “Account” in Rule 1 to make clear that such term refers only to an account maintained by FICC for a Netting Member to record transactions submitted by that Netting Member. FICC believes this change would help to distinguish “Accounts,” which are simply a transaction

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<sup>35</sup>

Id.

recordation mechanism, from the “Segregated Customer Margin Custody Account,” which is a traditional custodial account to which FICC would credit cash and securities.

Rule 4, Section 1a would further provide that any assets credited to the Segregated Customer Margin Custody Account would be treated as financial assets within the meaning of the NYUCC. These changes would have the effect of making FICC the “securities intermediary” in respect of each Segregated Customer Margin Custody Account and the Netting Member, on behalf of its Segregated Indirect Participants, the “entitlement holder” under the NYUCC.<sup>36</sup> By virtue of these designations, the Segregated Customer Margin held by FICC would be reserved for the Netting Member (on behalf of its Segregated Indirect Participants), including in an FICC insolvency.<sup>37</sup>

Rule 4, Section 1a would further provide that all Segregated Customer Margin deposited with FICC to support the obligations arising under the transactions recorded in a given Segregated Indirect Participants Account be credited to the corresponding Segregated Customer Margin Custody Account. In other words, rather than treat Segregated Customer Margin as general Clearing Fund, FICC would record such margin in a specific Segregated Customer Margin Custody Account maintained by FICC on its books and records for the Netting Member that deposited such Segregated Customer Margin, which Account would be separate from any other Accounts maintained by FICC for the Netting Member, including fellow Segregated Customer Margin Custody

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<sup>36</sup> UCC § 8-102(7) (“Entitlement holder’ means a person identified in the records of a securities intermediary as the person having a security entitlement against the securities intermediary....”).

<sup>37</sup> See UCC § 8-503.

Accounts. In furtherance of the goal of segregation, FICC would also amend Rule 4, Section 3a to provide that any interest on Segregated Customer Margin consisting of cash be paid to Netting Members.<sup>38</sup>

ii. Exclusive Use, Account Designation, and Exclusive Benefit

To satisfy the requirements of Section (b)(2)(iii)(A) of Note H that customer margin be “used exclusively to clear, settle, novate, and margin U.S. Treasury securities transactions of the customers of the broker or dealer;”<sup>39</sup> FICC would provide in Rule 4, Section 1a that the Segregated Customer Margin credited to a Segregated Customer Margin Custody Account would be used exclusively to settle and margin transactions in U.S. Treasury securities recorded in the corresponding Segregated Indirect Participants Account.

Rule 4, Section 1a would also provide that the Segregated Customer Margin Custody Account would be designated on FICC’s books and records as a “Special Clearing Account for the Exclusive Benefits of the Customers of [the relevant Sponsoring Member or Agent Clearing Member].” This is in accordance with the designation requirements of Section (b)(2)(iii)(B) of Note H.<sup>40</sup>

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<sup>38</sup> Rule 4, Section 1a would also specify New York as the “securities intermediary’s jurisdiction” for purposes of the NYUCC and specify that New York law would govern all issues specified in Article 2(1) of the Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary, July 5, 2006, 17 U.S.T. 401, 46 I.L.M. 649 (entered into force Apr. 1, 2017) (the “Hague Securities Convention”). These changes are designed to ensure that New York law governs each Segregated Customer Margin Custody Account.

<sup>39</sup> 17 CFR 240.15c3-3a.

<sup>40</sup> Id.

Section (b)(2)(iii)(C) of Note H requires that the account at the clearing agency to which customer margin is credited be subject to a written notice from the clearing agency to the broker-dealer stating that the margin credited to the account is being held “for the exclusive benefit of the customers of the broker or dealer in accordance with the regulations of the Commission and [is] being kept separate from any other accounts maintained by the broker or dealer or any other clearing member at the qualified clearing agency.”<sup>41</sup> Rule 4, Section 1a would provide for FICC to provide this notice to any Netting Member that is a Registered Broker or Registered Dealer and has designated an account as a Segregated Indirect Participants Account.

iii. Limitation on Permitted Liens and Use of Margin Deposits

FICC is also proposing changes to the Rules to satisfy the condition of Section (b)(2)(iii)(D) of Note H that the account established pursuant to Section (b)(2)(iii), *i.e.*, each Segregated Customer Margin Custody Account, be subject to a written contract providing that the customer margin in the account, *i.e.*, the Segregated Customer Margin, not be available to cover claims arising from the broker-dealer or any other clearing member defaulting on an obligation to the Treasury CCA, or be subject to any other right, charge, security interest, lien, or claim of any kind in favor of the qualified clearing agency or any person claiming through the qualified clearing agency, except a right, charge, security interest, lien, or claim resulting from a cleared U.S. Treasury securities transaction of a customer of the broker-dealer effected in the account.<sup>42</sup>

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<sup>41</sup> Id.

<sup>42</sup> Id.

Specifically, FICC is proposing to amend the security interest each Netting Member provides to FICC under Rule 4, Section 4. That security interest, which is binding on the Netting Member and FICC through the incorporation of the Rules into the membership agreement between FICC and such Netting Member, currently applies to all cash and securities deposited by a Netting Member with FICC pursuant to Rule 4 and Rule 13 (defined in the Rules as the “Actual Deposit”) and secures all obligations of the Netting Member to FICC. FICC is proposing to amend Rule 4, Section 4 to exclude Segregated Customer Margin from the scope of the Actual Deposit. Such Segregated Customer Margin would instead be subject to a separate security interest pursuant to which the Segregated Customer Margin would secure only obligations arising out of Segregated Indirect Participants Accounts. FICC would also make a conforming change to Rule 3A, Section 10(f) to make clear that the security interest described therein only applies to the security interest granted in the Actual Deposit.

In addition, the bulk of the provisions of the Rules concerning Clearing Fund, including those relating to FICC’s ability to use Clearing Fund, would not apply to Segregated Customer Margin since such margin would not form part of the Clearing Fund. The only exceptions are the language in Rule 3A, Section 10(f) stating that margin obligations are secured by the Actual Deposit; the language in Rule 3A, Section 10(g) concerning fines applicable to a failure to meet margin requirements; the language in Rule 4, Section 3a concerning the requirement that cash margin deposits be made in immediately available funds; the language in Rule 4, Section 3b regarding the haircutting, delivery, qualification, and substitution requirements for securities margin; and the language in Rule 4, Section 9 relating to the requirement of Netting Members to deliver

margin. These changes would ensure that FICC's broad use rights in respect of Clearing Fund, *e.g.*, for loss mutualization, do not apply to Segregated Customer Margin.

In addition, FICC is proposing to amend Rule 4, Section 5 to provide that, on each Business Day, FICC would calculate the portion of Segregated Customer Margin that supports each Segregated Indirect Participant's transactions. FICC may only use such portion to secure or settle the performance of the obligations of that Segregated Indirect Participant (or its Sponsoring Member or Agent Clearing Member with respect to the Segregated Indirect Participant) or for permitted investment purposes described below. It would further provide that FICC would not be permitted to use Segregated Customer Margin supporting one Segregated Indirect Participant's transaction to secure or settle any other person's transactions, including those of a fellow Segregated Indirect Participant.

These changes would thus not only prohibit FICC from using Segregated Customer Margin to cover the obligations of the broker-dealer Netting Member in respect of its Proprietary Transactions or those of any other Netting Member in accordance with the requirements of Section (b)(2)(iii)(D) of Note H, but they would also limit "fellow customer risk" for Segregated Indirect Participants (*i.e.*, the risk that one customer incurs a loss on account of a default of another customer because the clearing organization applies margin deposited by the first customer to the second customer's obligations).<sup>43</sup>

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<sup>43</sup> In the event of the insolvency, resolution, or liquidation of a Netting Member, a Segregated Indirect Participant's ability to recover any funds or securities it has posted to its Netting Member in connection with an FICC-cleared transaction or that the Netting Member receives from FICC in connection with such a transaction will depend on the relevant insolvency, resolution, or liquidation regime. FICC would not, except as directed by the relevant insolvency,

FICC believes these changes would facilitate greater access to its clearance and settlement services.

FICC is proposing to require that the Segregated Margin Requirement be no lower than \$1 million per Segregated Indirect Participant, and that the same form of deposit requirements set forth in Rule 4, Section 3 apply to Segregated Customer Margin such that no less than \$1 million per Segregated Indirect Participant consist of cash. These changes would be accomplished through a new subsection (c) of Rule 4, Section 3 and reflected in the Margin Component Schedule.

First, this minimum requirement is consistent with the \$1 million minimum cash requirement applicable to each Margin Portfolio of a Netting Member. FICC believes it is appropriate to apply the same minimum cash requirement to each Segregated Indirect Participant that it currently applies to each Margin Portfolio because, as described above, FICC would be required to calculate the margin requirements for these participants on a gross basis, as if each Segregated Indirect Participant were a separate Margin Portfolio, and would be restricted from using these funds to address any losses other than losses resulting from the participant for whom the funds are held.

Second, because FICC would be restricted from using these funds to address any losses other than losses resulting from the indirect participant for whom these funds are deposited, FICC believes this minimum requirement is appropriate to mitigate the risk exposures presented by this limitation. FICC's daily backtesting of the sufficiency of Clearing Fund deposits has revealed a heightened likelihood of backtesting deficiencies

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resolution, or liquidation officials in accordance with applicable law, make any payments or transfer any assets directly to an indirect participant.

for those Members with lower deposits that are not sufficient to mitigate any abrupt intraday change in their exposures.<sup>44</sup> Based on the analysis and impact studies FICC conducted in connection with a recent increase to minimum Required Fund Deposit for Netting Members,<sup>45</sup> FICC has determined that a \$1 million minimum requirement is the appropriate minimum amount to optimize the balance between financial impact of the requirement to Members and FICC's ability to continue to meet its regulatory obligation to maintain a backtesting performance coverage ratio above its 99 percent coverage target.

FICC is not able to predict how many indirect participants may elect to submit activity to FICC through a Segregated Indirect Participants Account, or the size and volume of that activity. However, because the margin requirements for each Segregated Indirect Participant would be calculated in the same manner as the requirements for each Margin Portfolio, it believes that these studies provide it with an appropriate approximation of the risks it may face if margin deposits for these Accounts are not subject to a minimum requirement.

C. Holding Segregated Customer Margin Deposits in Bank and FRBNY Accounts

To satisfy the eligible custodian conditions set forth in Section (b)(2)(iv) of Note H,<sup>46</sup> FICC is proposing to amend Rule 4, Section 1a to provide that all Segregated

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<sup>44</sup> As a covered clearing agency, FICC is required under Rule 17Ad-22(e)(6)(vi) to conduct backtests of its margin model at least once a day. 17 CFR 240.17Ad-22(e)(6)(vi). FICC's backtesting performance target is 99 percent.

<sup>45</sup> See Securities Exchange Act Release No. 96136 (Oct. 24, 2022), 87 FR 65268 (Oct. 28, 2022) (SR-FICC-2022-006).

<sup>46</sup> 17 CFR 240.15c3-3a.

Customer Margin be held in an account of FICC at a bank within the meaning of the Act that is insured by the Federal Deposit Insurance Corporation, or at the Federal Reserve Bank of New York. Rule 4, Section 1a would also provide that such account would be segregated from any other account of FICC and would be used exclusively to hold Segregated Customer Margin, in accordance with Section (b)(2)(iv)(A) of Note H to Rule 15c3-3a.<sup>47</sup> To satisfy the requirements of Sections (b)(2)(iv)(B) and (C) of Note H,<sup>48</sup> Rule 4, Section 1a would further provide that each such account would be subject to (i) a written notice of the bank or Federal Reserve Bank provided to and retained by FICC that the account is being held by the bank or Federal Reserve Bank pursuant to Rule 15c3-3 and is being kept separate from any other accounts maintained by FICC or any other person at the bank or Federal Reserve Bank and (ii) a written contract between FICC and the bank or Federal Reserve Bank which provides that the Segregated Customer Margin in the account is subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or Federal Reserve Bank or any person claiming through the bank or Federal Reserve Bank.

D. Investment Restrictions on Segregated Customer Margin Cash

In accordance with Section (b)(2)(ii) of Note H,<sup>49</sup> Rule 4, Section 1a would be amended to require FICC to only invest Segregated Customer Margin consisting of cash in U.S. Treasury securities with a maturity of one year or less. FICC will propose changes to the Clearing Agency Investment Policy by a separate proposed rule change filing to

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<sup>47</sup> Id.

<sup>48</sup> Id.

<sup>49</sup> Id.

address the separate holding and investment of Segregated Customer Margin cash, consistent with the disclosures proposed to be added to Rule 4. Pursuant to those changes, FICC would only hold Segregated Customer Margin consisting of cash in a cash deposit account at the Federal Reserve Bank of New York or, pending the opening of such account, another FDIC-insured bank and does not intend to make any other investment of these funds.

E. Return of Segregated Customer Margin

Lastly, in order to satisfy the condition in section (b)(2)(v) of Note H that a Treasury CCA adopt rules requiring systems, controls, policies, and procedures to return excess customer margin to a broker-dealer,<sup>50</sup> FICC is proposing to adopt certain amendments to Rule 4, Section 10. Under the proposed rule changes, Rule 4, Section 10 would be revised to require FICC to calculate twice each Business Day the excess of a Netting Member's Segregated Customer Margin over the Segregated Customer Margin Requirement (such amount, the "Excess Segregated Customer Margin").<sup>51</sup> In addition, FICC would adopt a new Rule 4, Section 10(b) that would require FICC to return a Netting Member's Excess Segregated Customer Margin at the Netting Member's request. In order to manage the risk of a Segregated Indirect Participant's transactions in accordance with the requirements of Rule 17Ad-22(e)(6) under the Act,<sup>52</sup> FICC would retain the discretion to retain such Excess Segregated Customer Margin if the Netting

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<sup>50</sup> Id.

<sup>51</sup> The twice each Business Day interval would also apply to the calculation of a Netting Member's excess Required Fund Deposit, since that is the interval on which FICC currently performs such calculation.

<sup>52</sup> 17 CFR 240.17Ad-22(e)(6).

Member has any outstanding payment or margin obligation with respect to the transactions of any Segregated Indirect Participant.

However, proposed Section 10(b) of Rule 4 would provide that, unlike in the case with Clearing Fund, FICC would not be able to retain Excess Segregated Customer Margin due to any obligation of the Netting Member that is unrelated to the Segregated Indirect Participants Account, unless FICC is either required to do so by applicable law or is authorized to do so by the Commission.

3. *Align Margin Methodology with Proposed Account Structure and Enhance Public Disclosures of Margin Components and Clearing Fund Methodology*

FICC is proposing changes to the Rules to reorganize, clarify, and refine its margin calculation methodology. FICC is not changing the method by which it calculates the various margin components.

A. *Consolidate Margin Components and Clearing Fund Calculation Methodology in Proposed Margin Component Schedule*

In order to improve the clarity and transparency of its margin components and Clearing Fund calculation methodology, FICC is proposing to move the calculation methodology from Rule 4, Sections 1b, and 2a, Rule 3, Section 14, and Rule 3A, Section 10, as well as the associated definitions of the margin components and associated terms, including Backtesting Charge, Blackout Period Exposure Adjustment, Excess Capital Differential, Excess Capital Ratio, Excess Capital Premium, Holiday Charge, Intraday Supplemental Fund Deposit, Margin Liquidity Adjustment Charge or MLA Charge, Margin Proxy, Minimum Margin Amount,<sup>53</sup> Portfolio Differential Charge, Unadjusted GSD Margin Portfolio Amount, VaR Charge, VaR Floor and VaR Floor Percentage

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<sup>53</sup> Supra note 33.

Amount to a new Margin Component Schedule. As noted above, this methodology would not change, and would continue to be substantively the same as that which currently exists under Rule 4 and Rule 3A, Section 10.

The Margin Component Schedule would include existing and refined descriptions of the manner and method by which FICC would calculate a Netting Member's Required Fund Deposit and Segregated Customer Margin Requirement. FICC believes that describing its margin calculation methodology in a single schedule would facilitate access to its clearing and settlement services by making it easier for market participants to identify and review that methodology. FICC would also make conforming changes to provisions of the Rules that reference the margin calculation methodology of Rule 4 so that such provisions reference the Schedule of Margin Components.

Section 1 of the Margin Component Schedule would provide that both a Netting Member's Required Fund Deposit and its Segregated Customer Margin Requirement would be calculated twice each Business Day and that the Netting Member would be required to meet such requirements. This is the same time interval in which FICC currently calculates and collects a Netting Member's margin requirements. Section 2 of the Margin Component Schedule would set forth the methodology for calculating a Netting Member's Required Fund Deposit. As discussed above, Section 3 of the Margin Component Schedule would set forth the methodology for calculating a Netting Member's Segregated Customer Margin Requirement. Section 4 of the Margin Component Schedule would set forth the terms under which FICC may impose increased Required Fund Deposits. These terms would be substantively the same as those currently in Rule 4 and Rule 3A, Section 10.

Section 5 of the Margin Component Schedule would contain the relevant definitions for the margin methodology calculation. These would be substantively the same as the existing definitions in Rule 1, with certain changes. As noted above, the definitions of Backtesting Charge, Blackout Period Exposure Adjustment, Excess Capital Differential, Excess Capital Ratio, Excess Capital Premium, Holiday Charge, Intraday Supplemental Fund Deposit, Margin Liquidity Adjustment or MLA Charge, Margin Proxy, Minimum Margin Amount,<sup>54</sup> Portfolio Differential Charge, Unadjusted GSD Margin Portfolio Amount, VaR Charge, VaR Floor and VaR Floor Percentage Amount would be revised to provide for such charges to be calculated for purposes of Segregated Customer Margin Requirements on a Segregated Indirect Participant-by-Segregated Indirect Participant basis. In addition, the MLA Charge definition would be amended to provide that, if a Segregated Indirect Participant clears through multiple Accounts (including Accounts of different Netting Members), then the MLA Charge applicable to its transactions carried in a given Segregated Indirect Participants Account would equal the greater of (i) an amount calculated only with regard to the transactions maintained in that Account (*i.e.*, without regard to the other Accounts in which the Segregated Indirect Participant's transactions are recorded) and (ii) an amount calculated on a consolidated portfolio basis (*i.e.*, taking into account the transactions carried in each of the Accounts). This is currently the same methodology that is used for Sponsored Members that clear through multiple Accounts.

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<sup>54</sup> Supra note 33.

B. Revise Definition of “Current Net Settlement Positions”

In order to refine its margin calculation methodology, FICC is also proposing to amend the definition in Rule 1 of Current Net Settlement Positions to provide for Current Net Settlement Positions in a Sponsoring Member Omnibus Account or Segregated Indirect Participants Account that are not clearly allocable to an individual Sponsored Member or Segregated Indirect Participant to be allocated, for purposes of calculating margin requirements, pro rata to the Sponsored Members or Segregated Indirect Participants that had, as of the end of the preceding Business Day, positions in the same direction and CUSIP as the un-allocable Current Net Unsettled Positions. This situation could arise if, for example, a transaction recorded in a Sponsoring Member Omnibus Account or Segregated Indirect Participants Account fails to settle. FICC believes this methodology facilitates a reasonable and fair allocation for purposes of calculating gross margin requirements.

FICC would make a corresponding deletion to the language of Rule 3A, Section 7 that addresses the treatment of such positions in Sponsoring Member Omnibus Accounts. Currently Rule 3A, Section 7(a)(i) provides that Net Settlement Positions per CUSIP shall be calculated for each Sponsored Member in the same manner set forth in Rule 11 for Netting Members. The proposed changes to the definition of Current Net Settlement Positions would, however, result in a different calculation of the Net Settlement Positions per CUSIP for Sponsored Members whose positions are recorded in a Sponsoring Member Omnibus Account than for Netting Members. Therefore, the statement in Rule 3A, Section 7 would no longer be correct and would be removed from the Rules.

C. Enhance the Methodology for Calculating the Excess Capital Premium

FICC is also proposing to amend the terms related to the Excess Capital Premium, one of the components of the Required Fund Deposit calculation, in order to make such calculation more precise and predictable. Currently, the Excess Capital Premium applicable to a Netting Member equals the Netting Member's "Excess Capital Ratio" (*i.e.*, its VaR Charge divided by its Netting Member Capital) multiplied by its "Excess Capital Differential" (*i.e.*, the amount by which a Netting Member's VaR Charge exceeds its Netting Member Capital). However, FICC currently reserves the right to collect less than this amount or to return some or all of this amount.

FICC is proposing to make the Excess Capital Premium more precise and predictable by revising the definition to (i) cap such amount at two times a Netting Member's Excess Capital Differential, (ii) provide that FICC would use the Netting Member Capital amounts set forth in the Netting Member's most recent Form X-17-A-5 (Financial and Operational Combined Uniform Single ("FOCUS") Report or Consolidated Report of Condition and Income ("Call Report")), as applicable, (iii) permit FICC in its discretion to accept updated amounts provided by a Netting Member prior to the issuance of the Netting Member's next financial report, and (iv) set forth a specific procedure through which FICC may waive the Excess Capital Premium. With regard to (iv), the proposed rule changes would provide that only a Managing Director in FICC's Group Chief Risk Office could grant waiver of an Excess Capital Premium and only in exigent circumstances if FICC observed extreme market conditions or other unexpected changes in factors, based on all relevant facts and circumstances, including the degree to which a Netting Member's capital position and trading activity compare or correlate to

the prevailing exigent circumstances and whether FICC can effectively address the risk exposure presented by a Netting Member without the collection of the Excess Capital Premium from that Netting Member. Any such waiver would need to be documented in a written report made available to the relevant Netting Member. FICC believes that these changes, which are substantially similar to changes recently adopted by the National Securities Clearing Corporation, would enhance the ability of Netting Members to identify what their Excess Capital Premium will be and to ensure such amount is accurately calibrated.<sup>55</sup>

FICC would also amend the defined term “Netting Member Capital” in Rule 1 to refer to a Netting Member’s Net Capital, Net Assets, or Equity Capital, as applicable based on the Netting Member’s type of regulation. The definition of “Net Capital,” in turn, would be revised to refer specifically to the net capital of a Netting Member as reported on its most recent FOCUS Report or, if a Netting Member is not required to file a FOCUS Report, on its most recent financial statements or equivalent reporting. “Equity Capital” would be defined in Rule 1 to mean the equity capital of a Netting Member as reported on its most recent Call Report, or if a Netting Member is not required to file a Call Report, on its most recent financial statements or equivalent reporting. FICC believes these changes would increase predictability and understanding of how FICC calculates the Excess Capital Premium.

FICC would also remove obsolete references to margin requirements for pending transactions since FICC does not apply margin requirements to such transactions.

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<sup>55</sup> See Securities Exchange Act Release No. 96786 (Feb. 1, 2023), 88 FR 8013 (Feb. 7, 2023) (SR-NSCC-2022-005).

D. *Exclude Segregated Customer Margin from Calculation of Excess Capital Premium Charge*

FICC is also proposing to revise the definitions of Excess Capital Ratio and Excess Capital Differential in the Margin Component Schedule to exclude the VaR Charge calculated with respect to Segregated Indirect Participants.

The VaR Charge assessed for each Segregated Indirect Participant would be satisfied by the Segregated Indirect Participant, and not by the Netting Member. As noted above, the Excess Capital Premium is designed to address the risk that a Netting Member with low capital relative to value-at-risk is not able to perform its obligations. However, Segregated Customer Margin cannot be applied to satisfy a Netting Member's obligations (other than to perform on behalf of the individual indirect participant for whom the Segregated Customer Margin is held). Therefore, including the VaR Charge that is calculated for a Segregated Indirect Participant and is satisfied by the capital of that Segregated Indirect Participant in the calculation of the Netting Member's Excess Capital Premium could result in assessing an Excess Capital Premium for that Netting Member that is greater than the amount required to mitigate the risk that the Excess Capital Premium is designed to address.

The proposed change is also designed to ensure that the Excess Capital Premium does not result in differential treatment of Netting Members that act as intermediaries for Segregated Indirect Participants.

E. *Other Clarifications and Conforming Changes*

In connection with the changes described above, FICC would make other clarifications and conforming changes to the Rules. First, FICC would move the definition of "Legal Risk" from Rule 4 to the definitions in Rule 1. This term refers to the

risk that FICC may be unable to either access Required Fund Deposits or take action following the insolvency or bankruptcy of a Netting Member as the result of a law, rule or regulation applicable to the Netting Member.<sup>56</sup> Because this term is used in multiple places in the Rules, including in the new Margin Component Schedule, moving the definition to Rule 1 would make it easier for a reader to find that definition.

FICC would also delete the definition of the term “Minimum Charge” from Rule 1 and move the use of this term from Rule 4 to Sections 2(c) and 3(c) of the Margin Component Schedule. While FICC would continue to apply a requirement that Netting Members maintain a minimum amount for each Margin Portfolio or Segregated Margin Requirement, as discussed above, FICC believes using a defined term for this concept is not necessary and could cause confusion about the requirement. The proposed change to remove the defined term and instead just explain the requirement in these sections of the Margin Component Guide would simplify and, therefore, clarify, the Rules in this regard.

4. *Clarifications to Treatment of Brokered Transactions*

FICC is proposing to refine the definition of Brokered Transactions and remove conditions that Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers must meet in order to receive favorable loss allocation treatment.

Currently, Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers must meet a set of conditions described in Section 8 of Rule 3 to be subject to a cap on the application of FICC’s loss allocation procedure of no greater than \$5 million.<sup>57</sup> FICC

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<sup>56</sup> See Rule 4, Section 2(d), supra note 4.

<sup>57</sup> See Rule 3, Section 8 (such conditions require that an Inter-Dealer Broker Netting Member “(A) limit its business to acting exclusively as a Broker; (B) conduct all of its business in Repo Transactions with Netting Members; and (C) conduct at least 90 percent of its business in transactions that are not Repo Transactions,

believes this favorable loss allocation treatment is appropriate because the Netting Member is not undertaking a directional position with respect to the transactions. Instead, each transaction has a counterparty other than the Netting Member that will ultimately deliver the securities or pay the cash.

FICC is proposing to revise the Rules related to Brokered Transactions so that the favorable loss allocation treatment applies only to the transactions that present this limited risk. In particular, FICC is proposing to revise the definition of Brokered Transactions to only encompass transactions entered into by an Inter-Dealer Broker Netting Member on the Inter-Dealer Broker Netting Member's own trading platform. This rule change would limit the definition of these transactions to transactions for which an Inter-Dealer Broker is standing in between two counterparties and is thus completely flat.

In connection with this change, FICC would eliminate the conditions that Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers must meet in order to be subject to such favorable treatment. As noted above, the proposed Rule 2B would clarify that only Inter-Dealer Broker Netting Members are able to maintain Cash Broker Accounts or Repo Broker Accounts, and that only Brokered Transactions may be submitted through such Accounts, as appropriate. Therefore, FICC believes the revised definition of Brokered Transactions and the revisions to the Account structure would collectively serve the risk-mitigation function that the conditions in Rule 3, Section 8

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measured based on its overall dollar volume of submitted sides over the prior month, with Netting Members”) and Rule 4, Section 7, supra note 4.

achieve, but in a much more effective manner and in a manner that is easier for FICC to monitor. As such, those conditions would be removed from the Rules.

Finally, FICC would remove the category of Non-IDB Repo Brokers from the Rules. Non-IDB Repo Brokers are currently defined as Netting Members other than Inter-Dealer Broker Netting Members that operate in the same manner as a Broker and have agreed to meet the same requirements imposed on Inter-Dealer Broker Netting Members.<sup>58</sup> As described above, FICC believes the favorable loss allocation treatment is appropriate only for Inter-Dealer Broker Netting Members that submit Brokered Transactions, as such term would be defined. Therefore, FICC would delete the references to such parties and associated terms. In connection with these changes, the proposal would delete the defined term for “Non-IDB Repo Broker” as that term would no longer be used in the Rules.

### **Implementation Timeframe**

Subject to the completion of all regulatory actions required with respect to this proposal,<sup>59</sup> FICC expects to implement the proposal by no later than March 31, 2025, and would announce the effective date of the proposed changes by an Important Notice posted to FICC’s website.

#### **2. Statutory Basis**

FICC believes the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, FICC believes the proposed rule changes are consistent with Section

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<sup>58</sup> Currently, only one Netting Member is a Non-IDB Repo Broker.

<sup>59</sup> Supra note 3.

17A(b)(3)(F) of the Act,<sup>60</sup> and Rules 17Ad-22(e)(4)(i), (e)(6)(i), (e)(18)(ii), (e)(18)(iii), (e)(18)(iv)(C), (e)(19), and (e)(23)(ii), each promulgated under the Act,<sup>61</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of FICC be designed, among other things, to promote, and remove impediments to, the prompt and accurate clearance and settlement of securities transactions and to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.<sup>62</sup> As described in greater detail below, the proposed rule changes to clarify FICC's Account structure and margin calculation methodology would improve public understanding of FICC's margining and recordkeeping processes and thereby facilitate greater cooperation between Netting Members and indirect participants and improve access to FICC's clearance and settlement systems. The proposed changes would do this by revising the definition of "Account" to make clear that FICC Accounts are for purposes of recording transactions, providing a roadmap in Rule 2B identifying the types of Accounts FICC maintains for Netting Members and which transactions may be recorded in such Accounts, amending Rule 4 to clarify the types of transactions that may be included in a Margin Portfolio, and consolidating the components of FICC's margin calculation methodology currently in Rules 1 and 4 into an accessible Margin Component Schedule and refining the description of FICC's margin calculation methodology. The

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<sup>60</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>61</sup> 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), (e)(18)(ii), (e)(18)(iii), (e)(18)(iv)(C), (e)(19), and (e)(23)(ii).

<sup>62</sup> 15 U.S.C. 78q-1(b)(3)(F).

proposed change to eliminate the Permitted Margin Affiliates from the Rules would also lead to clearer Rules and, therefore, improved public understanding of FICC's margining practices by removing a concept that is not being used by Netting Members.

The collective impact of these changes would be to enhance the ability of Netting Members and indirect participants to calculate the costs of submitting various transactions and portfolios to FICC for clearance and settlement. This greater understanding would make it easier for market participants to price accessing FICC's clearance and settlement systems and negotiate the terms of clearing arrangements. More efficient pricing and greater understanding would eliminate barriers and make it easier for a wider and more diverse array of market participants, to access clearing.

The proposed changes to create a segregation arrangement for certain indirect participant margin would also facilitate broader access to FICC's clearance and settlement systems. Currently, broker-dealer Netting Members must finance the margin obligations of their indirect participants' transactions because they cannot record a debit in the Rule 15c3-3a formulas for margin deposited with FICC. From its engagement with market participants, FICC understands that this need to provide financing for margin makes it more expensive for broker-dealer Netting Members to provide indirect participants with access to FICC's clearance and settlement systems than would be the case if the broker-dealer Netting Member were able to collect margin from an indirect participant and deposit that margin with FICC. In addition, non-broker-dealer Netting Members may often need to finance the margin obligations of their indirect participants' transactions because the absence of a segregation arrangement makes it impossible or undesirable for indirect participants to use their own assets to satisfy such margin

obligations. The proposed rules would facilitate greater access to FICC's clearance and settlement systems by creating a segregation arrangement that would allow broker-dealer and other Netting Members to collect margin from their indirect participants and deposit that margin with FICC. Such collection and depositing would reduce the costs to such Netting Members of providing access to FICC's clearance and settlement services and thereby facilitate greater cooperation between Netting Members and their indirect participants. Such cooperation would improve access to clearing, which would in turn increase the diversity and scope of market participants able to utilize FICC's central counterparty services. These services can reduce the costs of securities transactions through FICC's multilateral netting, its trade guaranty and centralized default management, and mitigate and manage counterparty risks. Therefore, the proposed changes would support FICC's compliance with Section 17A(b)(3)(F) of the Act by fostering cooperation and coordination between FICC's participants and promoting, and eliminating impediments to, the prompt and accurate clearance and settlement of securities.<sup>63</sup>

Section 17A(b)(3)(F) of the Act also requires that the rules of FICC be designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.<sup>64</sup> The proposed rule changes to separately and independently calculate the margin for a Netting Member's proprietary transactions from the margin for the transactions of indirect participants, to adopt a method for allocating net unsettled positions to individual indirect participants for purposes of calculating

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<sup>63</sup> Id.

<sup>64</sup> Id.

margin requirements and to set forth a segregation arrangement for certain margin collected from indirect participants and deposited with FICC would enhance FICC's risk management and its ability to assure the safe return of funds and securities. Those changes would reduce the potential risk to FICC arising from indirect participant transactions by ensuring that the margin requirements for such transactions are based solely on such transactions and not on the Netting Member's proprietary transactions and that such margin requirements take due and appropriate account of the risk arising from net unsettled positions.<sup>65</sup> The proposed changes would also provide FICC with a better understanding of the source of potential risk arising from the transactions that it clears by allowing FICC to identify separately the VaR Charges and other margin components for indirect participant transactions as compared to proprietary transactions. The proposed changes would also incentivize Netting Members to maintain more balanced proprietary portfolios, since such portfolios would lead to lower margin requirements. Such balanced portfolios, greater visibility, and carefully calibrated margin requirements would limit FICC's risk to a Netting Member default and thereby enhance its ability to return funds and securities to Netting Members. In addition, the proposed segregation arrangement would facilitate the return of margin posted by an indirect participant to its Netting Member and deposited with FICC by limiting FICC's ability to use such margin except to cover the indirect participant's own obligations. These features would support FICC's compliance with Section 17A(b)(3)(F) by further assuring FICC's safeguarding of securities and funds in its control and for which it is responsible.<sup>66</sup>

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<sup>65</sup> See Adopting Release, supra note **Error! Bookmark not defined.**, at 144.

<sup>66</sup> Id.

Rule 17Ad-22(e)(4)(i) under the Act requires that FICC establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.<sup>67</sup> The proposed rule changes to separately and independently calculate, collect, and hold the margin for a Netting Member's proprietary transactions from the margin for the transactions of indirect participants, to limit Brokered Transactions to those entered into by an Inter-Dealer Broker Netting Member on its own trading platform, and to increase the precision of the Excess Capital Premium would enhance FICC's risk management. These changes would ensure that the quantum of margin that FICC collects from a Netting Member reflects the separate risk profiles of the Netting Member's portfolio of Proprietary Transactions and portfolio transactions that the Netting Member submits to FICC on behalf of indirect participants, ensure that only those transactions that present the limited risk for which FICC's Brokered Transactions provisions are designed benefit from favorable loss allocation treatment, and calibrate the Excess Capital Premium based on the most readily available information.

Collectively, these changes would enhance the ability of FICC to manage the risk of the transactions it clears and settles and cover its credit exposure to its participants with a high degree of confidence.

The proposed change to require a minimum cash requirement of \$1 million per Segregated Indirect Participant would mitigate the greater risk exposure presented to

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<sup>67</sup> 17 CFR 240.17Ad-22(e)(4)(i).

FICC by the limitations on its use of these deposits. As discussed above, FICC's daily backtesting of the sufficiency of Clearing Fund deposits has revealed a heightened likelihood of backtesting deficiencies for those Members with lower deposits that are not sufficient to mitigate any abrupt intraday change in their exposures, and a \$1 million minimum requirement was appropriate to mitigate the risks of backtesting deficiencies while balancing the financial impact of this requirement on Members.<sup>68</sup> Because FICC is required to calculate the margin requirements for Segregated Indirect Participants on a gross basis, as if each Segregated Indirect Participant were a separate Margin Portfolio, it believes it is also appropriate to apply the same minimum requirement that it applies to each Margin Portfolio. By maintaining sufficient resources to cover its credit exposures fully with a high degree of confidence, the proposed change supports FICC's ability to identify, measure, monitor, and, through the collection of Segregated Customer Margin, manage its credit exposures to these indirect participants. Therefore, FICC believes adopting this minimum requirement is consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.<sup>69</sup>

Rule 17Ad-22(e)(6)(i) under the Act requires FICC to establish written policies and procedures reasonably designed to calculate, collect, and hold margin amounts from a direct participant for its proprietary positions in Treasury securities separately and independently from margin calculated and collected from that direct participant in connection with U.S. Treasury securities transactions by an indirect participant that relies on the services provided by the direct participant to access FICC's payment, clearing, or

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<sup>68</sup> Supra note 45.

<sup>69</sup> 17 CFR 240.17Ad-22(e)(4)(i).

settlement facilities.<sup>70</sup> The proposed rule changes would require that each Margin Portfolio only consist of activity from the same Type of Account, ensuring that proprietary transactions and transactions submitted to FICC on behalf of indirect participants are margined separately, and to require Netting Members to use separate Deposit IDs for different transaction types. As noted above, the proposed changes to Rule 2B, Section 3 would require FICC to calculate the Segregated Customer Margin Requirement for a particular Segregated Indirect Participants Account as the sum of the requirements applicable to each Segregated Indirect Participant whose transactions are recorded in such Account, as though each Segregated Indirect Participant were a separate Netting Member with a single Margin Portfolio consisting of such transactions. These provisions would result in FICC calculating separate margin amounts for each Segregated Indirect Participant and for such amounts to be collected on a gross basis. Finally, the proposed changes to Rule 4, Section 1a would provide for FICC to establish on its books and records for each Netting Member that deposits Segregated Customer Margin a “Segregated Customer Margin Custody Account” corresponding to each Segregated Indirect Participants Account of such Netting Member. Collectively, these proposed changes would ensure that a Netting Member’s proprietary transactions are not netted with indirect participant transactions for purposes of margin calculation and that margin for indirect participant transactions is collected and held separately and independently from margin for a Netting Member’s proprietary transactions.

Rule 17Ad-22(e)(18)(ii) under the Act requires FICC to establish objective, risk-based, and publicly disclosed criteria for participation, which require participants to have

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<sup>70</sup> 17 CFR 240.17Ad-22(e)(6).

sufficient financial resources and robust operational capacity to meet obligations arising from participation in FICC.<sup>71</sup> The proposed changes to consolidate FICC's margin methodology in a Margin Component Schedule, to identify the particular Required Fund Deposit Portions and Segregated Customer Margin Requirements, and to elaborate on the calculation of the Excess Capital Premium and the circumstances in which FICC would waive the application of such premium would improve public disclosure of FICC's margin methodology and the obligations that Netting Members and their indirect participants would have as a result of their participation in FICC's clearance and settlement system. In particular, the proposed changes would provide Netting Members and their indirect participants with a single, standalone schedule that they can review in order to understand how FICC would calculate margin obligations for their transactions. The proposed changes would also improve public disclosure by allowing Netting Members and their indirect participants to see how the various Accounts and Margin Portfolios give rise to separate inputs into the total margin calculation and how and when a Netting Member may face an increase in margin on account of the Excess Capital Premium.

Rule 17Ad-22(e)(18)(iii) under the Act requires that FICC establish written policies and procedures reasonably designed to monitor compliance with its participant requirements on an ongoing basis.<sup>72</sup> The proposed changes to require Netting Members to designate the Account in which a transaction is to be recorded and to identify the Sponsored Member or Executing Firm Customer for whom the transaction is submitted

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<sup>71</sup> 17 CFR 240.17Ad-22(e)(18)(ii).

<sup>72</sup> 17 CFR 240.17Ad-22(e)(18)(iii).

on that transaction record would help facilitate FICC's ability to monitor which transactions are being entered into by which entities. This enhanced monitoring of participant activity would thus allow FICC to better monitor participants' compliance with FICC's various requirements in accordance with Rule 17Ad-22(e)(18)(iii).<sup>73</sup>

Rule 17Ad-22(e)(18)(iv)(C) under the Act requires, among other things, that FICC, as a covered clearing agency that provides central counterparty services for transactions in U.S. Treasury securities, ensure that it has appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.<sup>74</sup> FICC believes that the proposed changes giving Netting Members the ability to elect for margin deposited by indirect participants and deposited with FICC to be segregated would facilitate access to FICC's clearance and settlement systems by giving indirect participants greater optionality. The proposed rule changes would allow a Netting Member and its indirect participant to choose whether (i) the indirect participant will post margin under a customer protection framework that is similar to that which exists in other cleared

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<sup>73</sup> Id.

<sup>74</sup> 17 CFR 240.17Ad-22(e)(18)(iv)(C). Contemporaneously with this proposed rule change, FICC and its affiliates, National Securities Clearing Corporation and The Depository Trust Company, have submitted separate proposed rule changes (File Nos. SR-FICC-2024-006, SR-NSCC-2024-003 and SR-DTC-2024-003) under which they are proposing to amend the Clearing Agency Risk Management Framework to address the requirement under Rule 17Ad-22(e)(18)(iv)(C) that FICC's Board review its policies and procedures related to compliance with that rule on an annual basis. These proposed changes are pending regulatory approval. Copies of the proposed rule changes are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

contexts,<sup>75</sup> (ii) the Netting Member will finance the margin for the indirect participant's transactions, or (iii) the indirect participant will deposit margin but without the protection (or higher margin requirements) associated with a segregation arrangement. FICC believes that such optionality would facilitate access in accordance with Rule 17Ad-22(e)(18)(iv)(C) by allowing Netting Members and their indirect participants to adopt a margining arrangement that is most consistent with their business objectives and applicable regulatory, operational, and practical constraints.

Rule 17Ad-22(e)(19) under the Act requires that FICC identify, monitor, and manage the material risks to the covered clearing agency arising from arrangements in which firms that are indirect participants in FICC rely on the services provided by direct participants to access FICC's clearance and settlement facilities.<sup>76</sup> The proposed changes to separately and independently calculate margin for proprietary and indirect participant transactions, adopt a method for allocating net unsettled positions to individual indirect participants for purposes of calculating margin requirements and require a Netting Member to represent that margin deposited in relation to a Segregated Indirect

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<sup>75</sup> Both the Options Clearing Corporation and the U.S. derivatives clearing organizations allow for, or require, the segregation of customer margin and/or positions. See generally OCC By-Laws Sections 3, 27 (outlining the various accounts that OCC may maintain for a clearing member and the extent to which the positions and margin recorded to such accounts may applied to other obligations); 7 U.S.C. 6d (outlining the segregation rules applicable to commodity futures and cleared swap transactions); Order Granting Conditional Exemptions under the Securities Exchange Act of 1934 in Connection with the Portfolio Margining of Cleared Swaps and Security-Based Swaps that are Credit Default Swaps, Securities Exchange Release No. 93501 (Nov. 1, 2021), 86 FR 61357 (Nov. 5, 2021) (S7-13-12) (providing that certain cleared security-based swaps may be portfolio margined in a cleared swaps account subject to the rules generally applicable to cleared swaps).

<sup>76</sup> 17 CFR 240.17Ad-22(e)(19).

Participants Account is generally margin collected from an indirect participant would reduce the potential risk to FICC arising from indirect participant transactions.

These changes would ensure that the margin FICC collects from a Netting Member reflects the separate risk profiles of the Netting Member's proprietary portfolio and the portfolio of transactions it submits to FICC on behalf of indirect participants. They would also provide FICC with a better understanding of the source of potential risk arising from the transactions that it clears and incentivize Netting Members to maintain more balanced proprietary portfolios, since such portfolios would lead to lower margin requirements. In addition, the proposed representation by Netting Members that they generally intend to satisfy Segregated Customer Margin Requirements with assets collected from indirect participants rather than proprietary assets would reduce the risk of FICC's proposed margin segregation arrangement by limiting such arrangement to indirect participant assets and ensuring that proprietary assets a Netting Member deposits with FICC are available for loss mutualization purposes.

Rule 17Ad-22(e)(23)(ii) under the Act requires FICC to establish written policies and procedures providing sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.<sup>77</sup> The proposed rule changes to consolidate and clarify FICC's margin calculation methodology in the proposed Margin Component Schedule, adopt a method for allocating net unsettled positions to individual indirect participants for purposes of calculating margin requirements and to clarify the calculation of the Excess Capital Premium would make it easier for both Netting Members and indirect participants to identify and price the

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<sup>77</sup> 17 CFR 240.17Ad-22(e)(23)(ii).

potential margining costs associated with how one chooses to submit transactions to FICC for clearance and settlement.

(B) Clearing Agency's Statement on Burden on Competition

FICC believes that the proposed rule changes described in this filing would promote competition by improving market participants' understanding of FICC's account structure and margin calculation methodology. By providing Members and other market participants with clearer definitions and consolidated margining and Account terms, the proposed changes would make it easier for existing Netting Members to offer competitive prices. The proposal additionally would make it easier for potential future Netting Member applicants to calibrate the resources they would need to provide intermediation services to indirect participants. These two forces should not only increase the number of Netting Members available to provide indirect participants with access to FICC's clearance and settlement services, but may also reduce some of the costs to indirect participants of accessing such services. In addition, such greater understanding and transparency would make it easier for indirect participants to negotiate terms of clearing arrangements since they would be able to calibrate what the margin requirements would be for their positions.

The proposed change to require a minimum cash margin deposit of \$1 million for each Segregated Indirect Participant could impose a burden on competition if it results in a larger cash requirement for those Segregated Indirect Participants and the Netting Members who provide intermediation services to those participants. However, FICC believes that any burden on competition imposed by this proposed change would be

necessary and appropriate in furtherance of FICC's efforts to mitigate risks and maintain compliance with its regulatory risk obligations under the Act.

FICC understands some indirect participants may not elect to submit activity through a Segregated Indirect Participants Account due to the size of that activity relative to this minimum requirement. Such participants may, instead, submit activity through a Sponsoring Member Omnibus Account or Agent Clearing Member Omnibus Account that is not segregated and is not required to be calculated on a gross basis, subject to the applicable limitations.

As described above, FICC's daily backtesting of the sufficiency of its Clearing Fund revealed a heightened likelihood of backtesting deficiencies for those Members with lower deposits that are not sufficient to mitigate any abrupt intraday change in their exposures.<sup>78</sup> FICC recently increased the minimum Required Deposit for Netting Members to the current \$1 million cash deposit following this discovery and after analyzing impact study data that indicated a \$1 million minimum requirement is the appropriate minimum amount to optimize the balance between financial impact of the requirement to Members and FICC's ability to continue to meet its regulatory obligation to maintain a backtesting performance coverage ratio above its 99 percent coverage target.

The proposed minimum requirement that would apply to Segregated Indirect Participants is the same minimum requirement that FICC currently applies to each

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<sup>78</sup> Supra note 45.

Margin Portfolio.<sup>79</sup> Because FICC is required to calculate the margin requirements for these participants on a gross basis, as if each Segregated Indirect Participant were a separate Margin Portfolio, and would be restricted from using these funds to address any losses other than losses resulting from the indirect participant for whom the funds are held, FICC believes it is also appropriate to apply the same minimum requirement.

FICC believes that the proposed margin segregation arrangement would promote competition because it would allow Netting Members to offer greater varieties of possible clearing arrangements to indirect participants. Netting Members could offer arrangements under which they finance the margin or under which the indirect participant satisfies the margin requirement. Such greater offerings would improve competition by enhancing the available ways to access clearing. In addition, the arrangement would place broker-dealer Netting Members on a more level playing field with other Netting Members. Currently, only non-broker-dealer Netting Members may collect margin from indirect participants and deposit it with FICC. By virtue of the proposed changes, broker-dealer Netting Members would likewise be able to collect margin and deposit such margin with FICC.

FICC further believes that the proposed changes to separately and independently calculate, collect, and hold margin for proprietary transactions from margin for indirect participant transactions would not place a burden on competition. These proposed changes work together with the proposed margin segregation changes discussed above, and FICC believes that the combination of these proposed changes would allow Netting Members to offer greater varieties of possible clearing arrangements to indirect

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<sup>79</sup> As noted above, FICC recently increased this minimum requirement as applied to Netting Members following Commission approval of a proposed rule change. Supra note 45.

participants. With respect to the specific changes around separately and independently calculating, collecting, and holding margin for proprietary and indirect transactions, FICC further believes that such changes would serve to ensure that a Netting Member's margin requirement separately accounts for the risk profiles of its proprietary portfolio of transactions and the transactions it submits to FICC on behalf of indirect participants. These changes should not give particular Netting Members an advantage over one another or disadvantage indirect participants relative to one another. Instead, they would simply serve to limit the risk to FICC of such transactions and provide FICC with a better understanding of the source of potential risk arising from the transactions that it clears.

Lastly, FICC believes that the proposed changes to redefine Brokered Transactions as those entered into by an Inter-Dealer Broker Netting Member on its own trading platform would promote competition by limiting the scope of transactions eligible for uniquely favorable loss allocation treatment. Such limitations would ensure that similarly situated Netting Members are subject to similar requirements with regard to similar transactions and that only transactions that present relatively lower levels of risk are eligible for appropriately differential treatment.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment

submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at [www.sec.gov/regulatory-actions/how-to-submit-comments](http://www.sec.gov/regulatory-actions/how-to-submit-comments). General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

FICC reserves the right not to respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the 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](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2024-007 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2024-007. 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 proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change 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 ([dtcc.com/legal/sec-rule-filings](http://dtcc.com/legal/sec-rule-filings)). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold

entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FICC-2024-007 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>80</sup>

Secretary

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<sup>80</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

**Bold and underlined text** indicates proposed new language.

~~**Bold and strikethrough text**~~ indicates proposed deleted language.

**Green highlighted, bold and underlined text** indicates language proposed to be added by SR-FICC-2024-005.

~~**Green highlighted, bold and strikethrough text**~~ indicates language proposed to be deleted by the SR-FICC-2024-005.

~~**Green highlighted, bold and strikethrough red text**~~ indicates proposed deletions to language proposed to be added by SR-FICC-2024-005.

**Yellow highlighted, bold and underlined text** indicates language proposed to be added by SR-FICC-2024-003 and SR-FICC-2024-801.

~~**Yellow highlighted, bold and strikethrough text**~~ indicates language proposed to be deleted by SR-FICC-2024-003 and SR-FICC-2024-801.

~~**Yellow highlighted, bold and strikethrough red text**~~ indicates proposed deletions to language proposed to be added by SR-FICC-2024-003 and SR-FICC-2024-801.

**FIXED INCOME CLEARING CORPORATION  
GOVERNMENT SECURITIES DIVISION RULEBOOK**

## RULE 1 – DEFINITIONS\*

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified.

### Account

The term “Account” means any account maintained by **the Corporation for a Member to record Transactions submitted by the Member pursuant to the Rules.**

\* \* \*

### **Agent Clearing Member Omnibus Account Required Fund Deposit**

**The term “Agent Clearing Member Omnibus Account Required Fund Deposit” means the Agent Clearing Member’s Required Fund Deposit Portion that is calculated on the basis of the Agent Clearing Member’s Agent Clearing Member Omnibus Account(s) other than their Segregated Indirect Participants Account(s).**

\* \* \*

### Backtesting Charge

~~The term “Backtesting Charge” shall have the meaning given that term in the Margin Component Schedule means an additional charge that may be added to a Netting Member’s VaR Charge to mitigate exposures to the Corporation caused by settlement risks that may not be adequately captured by the Corporation’s portfolio volatility model. The Corporation may assess this charge on a Netting Member’s start of the day portfolio (the “Regular Backtesting Charge”) and/or its intraday portfolios (the “Intraday Backtesting Charge”), as needed, to enable the Corporation to achieve its backtesting coverage target. The Regular Backtesting Charge and the Intraday Backtesting Charge may apply to Netting Members that have 12-month trailing backtesting coverage below the 99 percent backtesting coverage target, excluding deficiencies attributable to Blackout Period exposures. The Regular Backtesting Charge and the Intraday Backtesting Charge, as applicable, shall generally be equal to the Netting Member’s third largest deficiency that occurred during the previous 12 months. Deficiencies attributable to Blackout Period exposures would be included only during the Blackout Period. The Corporation may in its discretion adjust such~~

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\* All products and services provided by the Corporation referenced in these Rules are either registered trademarks or servicemarks of, or trademarks or servicemarks of, The Depository Trust & Clearing Corporation or its affiliates. Other names of companies, products or services appearing in these Rules are the trademarks or servicemarks of their respective owners.

~~charge if the Corporation determines that circumstances particular to a Netting Member's settlement activity and/or market price volatility warrant a different approach to determining or applying such charge in a manner consistent with achieving the Corporation's backtesting coverage target.~~

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### **Blackout Period Exposure Adjustment**

The term "Blackout Period Exposure Adjustment" shall have the meaning given that term in the Margin Component Schedule ~~means an additional charge or a reduction that may be added to a GCF Counterparty's VaR Charge to mitigate exposures to the Corporation that may arise due to potential overvaluation of mortgage-backed securities pledged to collateralize GCF Repo Transactions during the Blackout Period. The Blackout Period Exposure Adjustment shall apply to GCF Counterparties that are exposed to potential overvaluation of mortgage-backed securities pledged as collateral during the Blackout Period. The Blackout Period Exposure Adjustment shall be based on a projected average pay-down rate of the applicable mortgage-backed securities. The Corporation may in its discretion adjust or waive such adjustment if the Corporation determines that circumstances particular to the GCF Counterparty's use of mortgage-backed security pledges or to the mortgage-backed securities so pledged warrant a different approach to determining or applying such adjustment in a manner consistent with achieving the Corporation's backtesting coverage target.~~

\* \* \*

### **Broker Account**

The term "Broker Account" means ~~an Account maintained for an Inter-Dealer Broker Netting Member~~ a Cash Broker Account or a Repo Broker Account ~~or a Segregated Repo Account of a Non-IDB Repo Broker.~~

\* \* \*

### **Brokered Repo Transaction**

The term "Brokered Repo Transaction" means a Repo Transaction, including a GCF Repo Transaction, that is a Brokered Transaction a party to which is Repo Broker.

\* \* \*

### **Brokered Transaction**

The term "Brokered Transaction" means any transaction, including a Repo Transaction, calling for the delivery of an Eligible Netting Security, or the posting of cash or an Eligible Netting Security as collateral, that an Inter-Dealer Broker Netting Member enters into

with another Netting Member or a Sponsored Member or Executing Firm Customer through the Inter-Dealer Broker Netting Member's own trading platform.

~~the data on which has been submitted to the Corporation by Members, to which transaction (i) an Inter-Dealer Broker, or (ii) a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account, is a party. The mere fact that an Inter-Dealer Broker, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account, has submitted data to the Corporation on a transaction is not, solely of itself, determinative of whether such Broker is a party to the transaction.~~

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### Cash Broker Account

The term "Cash Broker Account" means an Account maintained by the Corporation for an Inter-Dealer Broker Netting Member to record Brokered Transactions, other than Brokered Repo Transactions, submitted to the Corporation by the Inter-Dealer Broker Netting Member.

\* \* \*

### Clearing Fund

The term "Clearing Fund" means the Clearing Fund established by the Corporation pursuant to these Rules, which shall be comprised of the aggregate of all ~~Required Fund~~ Actual Deposits and all other deposits, including Cross-Guaranty Repayment Deposits, to the Clearing Fund.

\* \* \*

### Current Net Settlement Positions

The term "Current Net Settlement Positions" means those Net Settlement Positions that are scheduled to settle on the Business Day with respect to which the calculation is made. Notwithstanding the foregoing, if a Current Net Settlement Position recorded in a Sponsoring Member Omnibus Account or Segregated Indirect Participants Account is not clearly allocable to an individual Sponsored Member or Segregated Indirect Participant, including because one or more transactions recorded in the Account did not settle on its original Scheduled Settlement Date, then, for purposes of calculating the relevant Netting Member's Sponsoring Member Omnibus Account Required Fund Deposit or Segregated Customer Margin Requirement for such Account, the Corporation shall at the securities Fedwire opening on each Business Day and then throughout the Business Day allocate the Current Net Settlement Position to the Sponsored Members or Segregated Indirect Participants whose positions are carried in the Account as follows:

(i) If the Current Net Settlement Positions of such account is long in a particular CUSIP, then the Current Net Settlement Positions shall be allocated on a

**pro rata basis to each Sponsored Member or Segregated Indirect Participant, as applicable, that had long positions in the relevant CUSIP in the Account as of the end of the preceding Business Day.**

**(ii) If the Current Net Settlement Positions of such Account is short in a particular CUSIP, then the Current Net Settlement Positions shall be allocated on a pro rata basis to each Sponsored Member or Segregated Indirect Participant, as applicable, that had short positions in the relevant CUSIP in the Account as of the end of the preceding Business Day.**

\* \* \*

### **Dealer Account**

The term “Dealer Account” means an Account maintained by **the Corporation for a Netting Member to record Proprietary Transactions, other than Brokered Transactions, submitted to the Corporation by the Netting Member, that is not a Broker.**

\* \* \*

### **Deposit ID**

**The term “Deposit ID” means an operational mechanism used by the Corporation to identify the Account for which a deposit is being made with the Corporation pursuant to Rule 4 and to facilitate the separate holding of such deposits on the Corporation’s books and records.**

\* \* \*

### **Equity Capital**

**The term “Equity Capital” means, as of a particular date, the amount equal to the equity capital as reported on the Netting Member’s most recent Consolidated Report of Condition and Income (“Call Report”), or, if the Netting Member is not required to file a Call Report, then as reported on its most recent financial statements or equivalent reporting).**

\* \* \*

### **Excess Capital Differential**

The term “Excess Capital Differential” **shall have the meaning given that term in the Margin Component Schedule means the amount by which a Netting Member’s VaR Charge exceeds its Netting Member Capital.**

## Excess Capital Ratio

The term “Excess Capital Ratio” shall have the meaning given that term in the Margin Component Schedule ~~means the quotient, rounded to the nearest two decimal places, resulting from dividing the amount of a Netting Member’s VaR Charge by the amount of its Netting Member Capital that it maintains.~~

\* \* \*

## Hague Securities Convention

The term “Hague Securities Convention” means the Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary, July 5, 2006, 17 U.S.T. 401, 46 I.L.M. 649 (entered into force April 1, 2017).

\* \* \*

## Holiday Charge

The term “Holiday Charge” shall have the meaning given that term in the Margin Component Schedule ~~means an additional charge that may be added to Netting Members’ VaR Charge on the Business Day prior to a Holiday. The Holiday Charge approximates the exposure that a Netting Member’s trading activity on the applicable Holiday could pose to the Corporation. Since the Corporation cannot collect margin on the Holiday, the Holiday Charge is due on the Business Day prior to the applicable Holiday.~~

~~The methodology for calculating a Holiday Charge shall be determined by the Corporation in advance of each applicable Holiday. The Holiday Charge approximates each Netting Member’s Required Fund Deposit to address the exposure such Netting Member’s trading activity on the applicable Holiday could pose to the Corporation. The Corporation shall have the discretion to calculate the Holiday Charge based on its assessment of market conditions at the time the Holiday Charge is calculated (such as, for example, significant market occurrences that could impact market price volatility). The Corporation shall inform Netting Members of the methodology it will use to calculate the Holiday Charge by an Important Notice issued no later than 10 Business Days prior to the day on which the applicable Holiday Charge is applied. Examples of potential methodologies for the Holiday Charge may include, but shall not be limited to, time scaling of the VaR Charge or a stress scenario that reflects potential market price volatility on the Holiday.~~

\* \* \*

## Indirect Participants Account

The term “Indirect Participants Account” means a Sponsoring Member Omnibus Account or an Agent Clearing Member Omnibus Account, including any Account

that has been designated as a Segregated Indirect Participants Account pursuant to Rule 2B, except as otherwise expressly stated in the Rules.

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### Intraday Supplemental Fund Deposit

The term “Intraday Supplemental Fund Deposit” shall have the meaning given that term in the Margin Component Schedule ~~means the additional deposit to the Clearing Fund required by the Corporation from a Member intraday pursuant to the provisions of Rule 4.~~

\* \* \*

### Legal Risk

The term “Legal Risk” means the risk that the Corporation, as a result of a law, rule or regulation applicable to a Netting Member, including a Netting Member’s insolvency or bankruptcy, may be delayed or prohibited from: (i) accessing any portion of the Netting Member’s Required Fund Deposit, (ii) netting, closing out or liquidating transactions, or setting off obligations, or taking any other action contemplated by Rule 4 (Clearing Fund and Loss Allocation), Rule 21 (Restrictions on Access to Services), Rule 22 (Insolvency of a Member) or Rule 22A (Procedures for When the Corporation Ceases to Act), or (iii) otherwise exercising its rights pursuant to these Rules shall have the meaning given that term in Section 2 of Rule 4.

\* \* \*

### Margin Liquidity Adjustment Charge or MLA Charge

The terms “Margin Liquidity Adjustment Charge” or “MLA Charge” shall have the meaning given such terms in the Margin Component Schedule. ~~mean, with respect to each Margin Portfolio, an additional charge applied to Net Unsettled Positions of a Member. The MLA Charge shall be calculated daily and shall be included in each Member’s Required Fund Deposit.~~

~~For purposes of calculating this charge, Net Unsettled Positions shall be categorized into the following asset groups: (a) U.S. Treasury securities, which shall be further categorized into subgroups by maturity; (b) Treasury Inflation Protected Securities (“TIPS”), which shall be further categorized into subgroups by maturity; (c) U.S. agency bonds; and (d) mortgage pools, which may be further categorized into subgroups by mortgage pool types.~~

~~The asset groups and subgroups shall be set forth in a schedule that is published on the Corporation’s website. It shall be the Member’s responsibility to retrieve the schedule. The Corporation will provide Members with at a minimum 5 Business Days’ advance notice of any change to the schedule via an Important Notice.~~

~~The Corporation shall first calculate a measurement of market impact cost for Net Unsettled Positions in each of the asset groups/subgroups, as described below:~~

- ~~(i) For Net Unsettled Positions in U.S. Treasury securities maturing in less than one year and TIPS, the directional market impact cost should be used, which is a function of the Net Unsettled Position's net directional market value.~~
- ~~(ii) For all other Net Unsettled Positions, two components shall be added together: (1) the directional market impact cost, as described above, and (2) the basis cost, which is based on the Net Unsettled Position's gross market value.~~

~~For all asset groups/subgroups, the net directional market value and the gross market value shall be divided by the average daily volumes of the securities in that asset group/subgroup over a lookback period.~~

~~The calculated market impact cost for Net Unsettled Positions in an asset group/subgroup shall be compared to a portion of the VaR Charge that is allocated to that asset group/subgroup. If the ratio of the calculated market impact cost to a portion of the VaR Charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA Charge will be applied to that asset group/subgroup. If the ratio of these two amounts is equal to or less than this threshold, the MLA Charge will not be applied to that asset group/subgroup.~~

~~When applicable, an MLA Charge for each asset group/subgroup would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to a portion of the VaR Charge allocated to that asset group/subgroup exceeds the threshold, and (2) a portion of the VaR Charge allocated to that asset group/subgroup.~~

~~Each applicable MLA Charge for each asset group/subgroup shall be added together to result in one total MLA Charge.~~

~~The Corporation may apply a downward adjusting scaling factor based on the ratio of the calculated market impact cost to a portion of the VaR Charge to result in a final MLA Charge, where a higher ratio would trigger a larger downward adjustment of the MLA Charge and a lower ratio would trigger no downward adjustment of the MLA Charge.~~

~~If a Sponsored Member clears through multiple accounts sponsored by multiple Sponsoring Members, for each such account, the Corporation shall calculate both (1) an MLA Charge for each asset group/subgroup in the account on a standalone basis, as provided above, and (2) an MLA Charge for each asset group/subgroup in the account as part of a consolidated portfolio, as provided below, with the higher amount applied as the MLA Charge for the relevant asset group/subgroup. The applicable MLA Charge for each asset group/subgroup shall be added together to result in one total MLA Charge for the account.~~

~~For purposes of calculating the MLA Charge for each asset group/subgroup in the account as part of a consolidated portfolio, the market impact cost for the asset group/subgroup is calculated based on the aggregate Net Unsettled Positions of that asset group/subgroup in the consolidated portfolio. The calculated market impact cost for each asset group/subgroup in the consolidated portfolio shall be allocated on a pro rata basis to each asset group/subgroup in each of the accounts based on the market impact cost of that asset group/subgroup in the account.~~

~~The allocated market impact cost for an asset group/subgroup shall be compared to a portion of the VaR Charge that is allocated to that asset group/subgroup in the account. If the ratio of the allocated market impact cost to a portion of the VaR Charge is greater than a threshold to be determined by the Corporation from time to time, an MLA Charge will be applied to that asset group/subgroup. If the ratio of these two amounts is equal to or less than this threshold, the MLA Charge will not be applied to that asset group/subgroup.~~

~~When applicable, the MLA Charge for each asset group/subgroup in the account as part of a consolidated portfolio would be calculated as a proportion of the product of (1) the amount by which the ratio of the allocated market impact cost for the asset group/subgroup to the portion of the VaR Charge allocated to that asset group/subgroup exceeds a threshold, to be determined by the Corporation from time to time, and (2) a portion of the VaR Charge allocated to that asset group/subgroup.~~

\* \* \*

## Margin Portfolio

The term “Margin Portfolio” means one or more Accounts of the same Type ~~and, as applicable, a Market Professional Cross Margining Account~~, as a Netting Member shall designate in accordance with the provisions of Rule 4 and/or any applicable Cross-Margining Arrangement for the purpose of calculating the Member’s Required Fund Deposit ~~and, as applicable, the Member’s Market Professional Required Fund Deposit.~~

## Margin Proxy

The term “Margin Proxy” shall have the meaning given such term in the Margin Component Schedule ~~means, with respect to each Margin Portfolio, an alternative volatility calculation for specified Net Unsettled Positions of a Netting Member, calculated using historical market price changes of such U.S. Treasury and agency pass-through mortgage-backed securities indices determined by the Corporation. The Margin Proxy would be applied by the Corporation as an alternative to the model-based volatility calculation of the VaR Charge for each Netting Member’s Margin Portfolio. The Margin Proxy shall cover such range of historical market price moves and parameters as the Corporation from time to time deems appropriate.~~

\* \* \*

### **Market Professional Cross-Margining Account**

~~The term “Market Professional Cross-Margining Account” means, as applicable: (i) a cross-margined Account that is carried for a Netting Member by the Corporation and that is limited to Eligible Positions and margin of Market Professionals; or (ii) an Account that is carried by a Netting Member for, and that is limited to, Eligible Positions and margin of, Market Professionals that are party to a Market Professional Agreement for Cross-Margining.~~

\* \* \*

### **Minimum Charge**

~~The term “Minimum Charge” means the minimum amount of each Member’s Required Fund Deposit, as applicable, before application of special premiums and amounts applicable under these rules.~~

\* \* \*

### **Minimum Margin Amount<sup>[1]</sup>**

~~The term “Minimum Margin Amount” shall have the meaning given such term in the Margin Component Schedule. means, with respect to each Margin Portfolio, a minimum volatility calculation for specified Net Unsettled Positions of a Netting Member as of the time of such calculation.~~

~~The Minimum Margin Amount shall use historical price returns to represent risk and be calculated as the sum of the following:~~

- ~~(a) — amounts calculated using a filtered historical simulation approach to assess volatility by scaling historical market price returns to current market volatility, with market volatility being measured by applying exponentially weighted moving average to the historical market price returns with a decay factor between 0.93 and 0.99, as determined by the Corporation from time to time based on sensitivity analysis, macroeconomic conditions, and/or backtesting performance,~~
- ~~(b) — amounts calculated using a haircut method to measure the risk exposure of those securities that lack sufficient historical market price return data, and~~
- ~~(c) — amounts calculated to incorporate risks related to (i) repo interest volatility (“repo interest volatility charge”) and (ii) transaction costs related to~~

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<sup>[1]</sup> ~~Subject to approval by the SEC, the red text in this Exhibit 5 would be incorporated into the proposed Margin Component Schedule. Upon implementation of the proposed rule change, this footnote will automatically be removed.]~~

~~bid-ask spread in the market that could be incurred when liquidating a portfolio (“bid-ask spread risk charge”).~~

~~The Corporation will provide Members with at a minimum one Business Day advance notice of any change to the decay factor via an Important Notice.~~

\* \* \*

## Net Capital

The term “Net Capital” means, as of a particular date, the amount equal to the net capital as reported on the Netting Member’s most recent Form X-17-A-5 (Financial and Operational Combined Uniform Single (“FOCUS”) Report) or, if the Netting Member is not required to file a FOCUS Report, then as reported on its most recent financial statements or equivalent reporting of a broker or dealer as defined in SEC Rule 15c3-1(c)(2), or any successor rule or regulation thereto.

\* \* \*

## ~~Netting Member Account~~

~~The term “Netting Member Account” shall mean an Account maintained by the Netting Member that contains the activity of the Netting Member that is submitted to the Corporation. A Netting Member may elect to establish one or more Netting Member Accounts.~~

\* \* \*

## Netting Member Capital

The term “Netting Member Capital” means Net Capital, ~~n~~Net ~~a~~Assets or ~~e~~Equity ~~e~~Capital as applicable, to a Netting Member based on its type of regulation.

\* \* \*

## ~~Non-IDB Repo Broker~~

~~The term “Non-IDB Repo Broker” means a Netting Member that is not an Inter-Dealer Broker Netting Member and that the Corporation has determined: (a) operates in the same manner as a Broker, with regard to activity in its Segregated Repo Account and (b) has agreed to, and does, participate in the repo netting service operated by the Corporation pursuant to the same requirements imposed under the Rules on Inter-Dealer Broker Netting Members that participate in that service.~~

\* \* \*

### **Permitted Margin Affiliate**

~~The term “Permitted Margin Affiliate” means an affiliate of a Member that is also a member of this Government Securities Division of the Corporation and that directly or indirectly controls such particular Member, or that is directly or indirectly controlled by or under common control with such particular Member. Ownership of more than 50% of the common stock of the relevant entity (or equivalent equity interests in the case of a form of entity that does not issue common stock) will be conclusively deemed prima facie control of such entity for purposes of this definition.~~

\* \* \*

### **Portfolio Differential Charge ~~or PD Charge~~**

~~The terms “Portfolio Differential Charge” or “PD Charge” shall have the meaning given such term in the Margin Component Schedule mean, with respect to each Margin Portfolio, an additional charge to be included in each Member’s Required Fund Deposit.~~

~~The PD Charge shall be calculated twice each Business Day as the exponentially weighted moving average (“EWMA”) of the historical increases in the Member’s VaR Charge that occur between collections of Required Fund Deposits over a lookback period of no less than 100 days with a decay factor of no greater than 1, times a multiplier that is no less than 1 and no greater than 3, as determined by the Corporation from time to time based on backtesting results. The Corporation will provide Members with at a minimum 10 Business Days advance notice of any change to the lookback period, the decay factor and/or the multiplier via an Important Notice.~~

\* \* \*

### **Proprietary Account**

The term “Proprietary Account” means a Dealer Account, Cash Broker Account, or Repo Broker Account.

\* \* \*

### **Proprietary Transaction**

The term “Proprietary Transaction” means a Transaction entered into by a Netting Member for its own benefit, rather than on behalf of an Executing Firm Customer or Sponsored Member. A Transaction entered into by a Netting Member for the benefit of an Affiliate is not a Proprietary Transaction.

\* \* \*

## **Repo Broker**

The term “Repo Broker” means ~~(i) an Inter-Dealer Broker Netting Member, or (ii) a Non-IDB Repo Broker~~ with respect to activity in its ~~Segregated-Repo~~ Broker Account.

\* \* \*

## **Segregated-Repo Broker Account**

The term “~~Segregated-Repo~~ Broker Account” means ~~an~~ Broker Account maintained by the Corporation for an Inter-Dealer Broker Netting Member in its capacity as a Repo Broker to record Brokered Repo Transactions submitted to the Corporation by the Inter-Dealer Broker Netting Member operated by a Non-IDB Repo Broker in which all trading is executed on a brokered basis with Netting Members on each side.

\* \* \*

## **Required Fund Deposit Portion**

The term “Required Fund Deposit Portion” means each of the items listed in Section 2(a)(i)–(iv) of Rule 4.

\* \* \*

## **Segregated Customer Margin**

The term “Segregated Customer Margin” means all securities and funds deposited by a Sponsoring Member or an Agent Clearing Member with the Corporation to satisfy its Segregated Customer Margin Requirement.

## **Segregated Customer Margin Custody Account**

The term “Segregated Customer Margin Custody Account” means a securities account within the meaning of the NYUCC maintained by the Corporation, in its capacity as securities intermediary as such term is used in the NYUCC, for an Agent Clearing Member or Sponsoring Member for the benefit of such Member’s Segregated Indirect Participants.

## **Segregated Customer Margin Requirement**

The term “Segregated Customer Margin Requirement” means the amount of cash or Eligible Clearing Fund Securities that an Agent Clearing Member or Sponsoring Member is required to deposit with the Corporation to support the obligations arising from Transactions recorded in its Segregated Indirect Participants Accounts. A Netting Member’s Segregated Customer Margin Requirement shall be the sum of the items listed in Section 2(a)(v) and (vi) of Rule 4. References to Segregated Customer Margin Requirement “for” or “with respect to” a particular Segregated Indirect Participants Account or Segregated Indirect Participant (or similar language) mean

the portion of a Netting Member's Segregated Customer Margin Requirement arising from such Account or Segregated Indirect Participant.

### Segregated Indirect Participant

The term "Segregated Indirect Participant" means a Sponsored Member or an Executing Firm Customer whose Transactions are recorded in a Segregated Indirect Participants Account.

### Segregated Indirect Participants Account

The term "Segregated Indirect Participants Account" means an Indirect Participants Account maintained by the Corporation for a Sponsoring Member or an Agent Clearing Member that has been designated as such by such Member pursuant to Rule 2B.

\* \* \*

### Sponsoring Member Omnibus Account

The term "Sponsoring Member Omnibus Account" ~~shall mean~~ an Account maintained by the Corporation for a Sponsoring Member that contains to record the activity Sponsored Member Trades submitted to the Corporation by the Sponsoring Member on behalf of its Sponsored Members, that is submitted to the Corporation. A Sponsoring Member may elect to establish one or more Sponsoring Member Omnibus Accounts. Each Sponsoring Member Omnibus Account may contain all types of Sponsored Member Trades. The Sponsoring Member Omnibus Account shall be separate from the Accounts associated with the Sponsoring Member's activity as a Netting Member except as contemplated by Sections 10, 11 and 12 of Rule 3A and under the Sponsoring Member Guaranty.

### Sponsoring Member Omnibus Account Required Fund Deposit

The term "Sponsoring Member Omnibus Account Required Fund Deposit" means the Sponsoring Member's Required Fund Deposit Portion that is calculated on the basis of the Sponsoring Member's Sponsoring Member Omnibus Account(s) other than Segregated Indirect Participants Account(s) shall have the meaning given to that term in Section 10 of Rule 3A.

\* \* \*

### Type of Account

The terms "Type of Account" and "Type" mean any one of a Dealer Account, Broker Account, Sponsoring Member Omnibus Account, Agent Clearing Member Omnibus Account, or Segregated Indirect Participants Account.

\* \* \*

## Unadjusted GSD Margin Portfolio Amount

The term “Unadjusted GSD Margin Portfolio Amount” shall have the meaning given such term in the Margin Component Schedule ~~means, with respect to each Margin Portfolio, the amount greater than zero determined by the Corporation in accordance with the provisions of Rule 4.~~

## VaR Charge<sup>21</sup>

The term “VaR Charge” shall have the meaning given such term in the Margin Component Schedule ~~means, with respect to each Margin Portfolio, a calculation of the volatility of specified Net Unsettled Positions of a Netting Member as of the time of such calculation. Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such observable market data as the Corporation deems reasonable, and shall cover such range and assessment of volatility as the Corporation from time to time deems appropriate. To the extent that the primary source of such market data becomes unavailable for an extended period of time, the Corporation shall utilize the Margin Proxy as an alternative volatility calculation. In its assessment of volatility, the Corporation shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following risk groups: (a) mortgage pool transactions; (b) TIPS; (c) U.S. agency bonds; and (d) U.S. Treasury securities, which shall be further categorized by maturity—those maturing in (i) less than five years, (ii) equal to or more than five years and less than ten years, and (iii) equal to or more than ten years.~~

If the volatility calculation ~~(or the Margin Proxy, when applicable)~~ is lower than an amount designated by the Corporation (the “VaR Floor”), then the VaR Floor will be utilized as ~~the such Netting Member’s VaR Charge~~ **of the Margin Portfolio**.

## VaR Floor<sup>31</sup>

**The term “VaR Floor” means, with respect to each Margin Portfolio, the greater of (i) the VaR Floor Percentage Amount and (ii) the Minimum Margin Amount.**

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<sup>21</sup> *Id.*

<sup>31</sup> *Id.*

**VaR Floor Percentage Amount** <sup>[4]</sup>

~~Such VaR Floor will be determined by multiplying~~ **The term “VaR Floor Percentage Amount” means** ~~the absolute value of the sum of Net Long Positions and Net Short Positions of Eligible Securities, grouped by product and remaining maturity, multiplied by a percentage designated by the Corporation from time to time for such group. For U.S. Treasury and agency securities, such percentage shall be a fraction, no less than 10%, of the historical minimum volatility of a benchmark fixed income index for such group by product and remaining maturity. For mortgage-backed securities, such percentage shall be a fixed percentage that is no less than 0.05%.~~

\* \* \*

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<sup>[4]</sup> Id.

## RULE 2A – INITIAL MEMBERSHIP REQUIREMENTS

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

### Section 4 – Membership Qualifications and Standards for Netting Members

\* \* \*

(b) Financial Responsibility – The applicant shall:

(i) have sufficient financial ability to make anticipated required deposits to the Clearing Fund **and Segregated Customer Margin** as provided for in Rule 4 **and calculated pursuant to the Margin Component Schedule**, and anticipated Funds-Only Settlement Amounts, and to meet all of its other obligations to the Corporation in a timely manner; and

\* \* \*

### Section 5 – Application Documents

\* \* \*

If the Corporation determines that a legal opinion, or update thereto, submitted by an applicant, indicates that the Corporation could be subject to Legal Risk ~~(as defined in Section 2 of Rule 4)~~ with respect to such applicant, the Corporation shall have the right to take, and/or require the applicant to take, appropriate action(s) to mitigate such Legal Risk, including, but not limited to, requiring the applicant to post additional Clearing Fund as set forth in **Section 2 of Rule 4 the Margin Component Schedule**.

\* \* \*

## RULE 2B – ACCOUNTS

[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]

### Section 1 – Establishment of Proprietary Accounts

The Corporation can establish and maintain one or more of the following Proprietary Accounts to record the Netting Member’s Proprietary Transactions:

(i) A Dealer Account for purposes of recording Proprietary Transactions of the Netting Member (other than Brokered Transactions if the Netting Member is an Inter-Dealer Broker Netting Member);

(ii) If the Netting Member is an Inter-Dealer Broker Netting Member, a Cash Broker Account for purposes of recording Brokered Transactions (other than Brokered Repo Transactions) of the Inter-Dealer Broker Netting Member; and

(iii) If the Netting Member is an Inter-Dealer Broker Netting Member, a Repo Broker Account for purposes of recording the Brokered Repo Transactions of the Inter-Dealer Broker Netting Member.

The Corporation can establish more than one Proprietary Account of the same Type for the Netting Member (e.g., two Dealer Accounts).

### Section 2 – Establishment of Indirect Participants Accounts

The Corporation can establish and maintain one or more of the following Indirect Participants Accounts to record Transactions submitted to the Corporation on behalf of others (including the Netting Member’s Affiliates):

(i) If the Netting Member is a Sponsoring Member, a Sponsoring Member Omnibus Account for purposes of recording Sponsored Member Trades of the Sponsoring Member’s Sponsored Members; and

(ii) If the Netting Member is an Agent Clearing Member, an Agent Clearing Member Omnibus Account for purposes of recording Agent Clearing Transactions of the Agent Clearing Member’s Executing Firm Customers.

A Netting Member may request that the Corporation establish more than one Indirect Participants Account of the same Type for the Netting Member.

### Section 3 – Segregation Designations for Indirect Participants Accounts

A Netting Member may designate any of its Indirect Participants Accounts as a Segregated Indirect Participants Account. Any such designation of an Account shall

constitute a representation to the Corporation by the Netting Member that the Netting Member intends to meet all Segregated Customer Margin Requirements for such Account using cash or securities deposited by Segregated Indirect Participants with the Netting Member, except to the extent the Netting Member temporarily uses its own securities in accordance with the conditions set forth in Section (b)(1)(iii) of Note H to SEC Rule 15c3-3a. A Netting Member shall be deemed to repeat this representation each time it deposits Segregated Customer Margin. Only Transactions in U.S. Treasury securities may be recorded in a Segregated Indirect Participants Account.

As a result, in calculating the Segregated Customer Margin Requirement for a Segregated Indirect Participants Account, the Corporation will not net the Transactions of multiple Segregated Indirect Participants against one another. However, the Corporation will net the Transactions recorded in such Account for purposes of calculating the Segregated Customer Margin Requirement to the extent those Transactions belong to the same Segregated Indirect Participant.

Unless otherwise expressly stated in the Rules, all references to a Sponsoring Member Omnibus Account and Agent Clearing Member Omnibus Account shall also apply to Segregated Indirect Participants Accounts.

#### Section 4 – Designation of Account When Submitting Transactions

When submitting a Transaction to the Corporation, a Member shall designate the Account in which the Transaction shall be recorded. Any such designation shall constitute a representation to the Corporation that the Transaction is of a type that may be recorded in such Account in accordance with the Rules.

In addition, when submitting a Transaction to the Corporation on behalf of a Sponsored Member or Executing Firm Customer, the Netting Member shall include an identifier of the applicable Sponsored Member or Executing Firm Customer, as required by the Schedule of Required Data Submission Items.

\* \* \*

### RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

#### Section 2 – Reports by Netting Members

\* \* \*

(b) if the Member is a broker or dealer registered under Section 15 of the Exchange Act, or a Government Securities Broker or Government Securities Dealer registered under Section 15C of the Exchange Act, (i) a copy of the Member's ~~Financial and Operational Combined Uniform Single Report~~ ("FOCUS Report") or Report on Finances and Operations of Government Securities Brokers and Dealers ("FOGS Report"), as the case may be, submitted to its Designated Examining Authority, (ii) a report of the Member's independent auditors on internal controls, and (iii) any supplemental reports required to be filed with the SEC pursuant to Exchange Act Rule 17a-11 or 17 C.F.R. Section 405.3;

(c) if the Member is a U.S. bank or trust company, a copy of the Member's ~~Consolidated Report of Condition and Income~~ ("Call Report") submitted to its Appropriate Regulatory Agency and, to the extent not contained within such Call Reports (or to the extent that Call Reports are not required to be filed), information containing each of the Member's capital levels and ratios, as such levels and ratios are required to be provided to the Member's Appropriate Regulatory Agency (or, if such Member's Appropriate Regulatory Agency does not require such information, as would be required to be provided, if such Member's Appropriate Regulatory Agency were the Board of Governors of the Federal Reserve System);

\* \* \*

If the Corporation determines that a legal opinion, or update thereto, submitted by a Member, indicates that the Corporation could be subject to Legal Risk ~~(as defined in Section 2 of Rule 4)~~ with respect to such Member, the Corporation shall have the right to take, and/or require the Member to take, appropriate action(s) to mitigate such Legal Risk, including, but not limited to, requiring the Member to post additional Clearing Fund as set forth in ~~Section 2 of Rule 4~~ the Margin Component Schedule.

\* \* \*

#### Section 8 – Specific Continuance Standards

\* \* \*

~~(e) — An Inter-Dealer Broker Netting Member shall: (A) limit its business to acting exclusively as a Broker; (B) conduct all of its business in Repo Transactions with Netting~~

~~Members; and (C) conduct at least 90 percent of its business in transactions that are not Repo Transactions, measured based on its overall dollar volume of submitted sides over the prior month, with Netting Members. If an Inter-Dealer Broker Netting Member fails to comply with this scope of business standard, then, for a period beginning on the date on which it fell out of compliance with this standard and continuing until the date on which it returned to compliance with such standard, such Member shall be considered by the Corporation for purposes of these Rules to be a Dealer Netting Member. Notwithstanding anything to the contrary above, if such Inter-Dealer Broker Netting Member continues to act exclusively as a Broker, it shall continue to be subject to the provisions of Section 7 of Rule 4 as if it were an Inter-Dealer Broker Netting Member, until and unless the Corporation determines, in its sole discretion, that such Member should be treated for purposes of that Section as if it were a Dealer Netting Member and so informs such Member. Moreover, notwithstanding anything to the contrary above, if such Inter-Dealer Broker Netting Member does not return to compliance with its applicable scope of business standard within 90 calendar days from the date on which it fell below such standard, such Member shall permanently become a Dealer Netting Member for purposes of these Rules, until and unless it applies to the Corporation to return to its Inter-Dealer Broker Netting Member status and such application is approved by the Board; and~~

~~(fe)~~ If a Government Securities Issuer Netting Member, Insurance Company Netting Member, Registered Clearing Agency Netting Member, or Registered Investment Company Netting Member falls out of compliance with any minimum admission or continuance standard that may be set for it by the Corporation pursuant to these Rules, it shall, for a period beginning on the date on which it fell below such standard and continuing until the later of the 90th calendar day after the date on which (i) it returned to compliance with such standard, or (ii) the Corporation received notice of the applicable violation, have a Required Fund Deposit equal to the greater of either: (x) the sum of the normal calculation of its Required Fund Deposit plus \$1,000,000, or (y) 125 percent of the normal calculation of its Required Fund Deposit.

~~(gf)~~ If a Foreign Netting Member falls out of compliance with the minimum financial requirements that the Corporation has determined are applicable to it pursuant to these Rules, the consequences under this Section of such noncompliance shall be determined by the Corporation in its sole discretion.

\* \* \*

#### ~~Section 11—Additional Accounts Requested by Members~~

~~(a) — The Corporation may permit a Member to maintain one or more additional accounts at the request of a Member if the Corporation determines that doing so will not subject the Corporation to material legal, financial or operational risk.~~

~~(b) — The Corporation may permit a Netting Member to open additional netting accounts for the Netting Member itself or for wholly owned subsidiaries of the Netting Member.~~

~~(e) — The Corporation may permit a Netting Member to open an additional account for its Market Professional customers. Such account must be in furtherance of a Cross-Margining Arrangement and must meet the requirements of the applicable Cross-Margining Agreement and Rule 43. Such account must meet all obligations under these Rules unless otherwise specified herein.~~

~~(d) — All other additional netting accounts requested by Netting Members for Non-Members not otherwise permitted under these Rules shall require the approval of the Board. Netting Members shall not be permitted to maintain additional accounts for comparison-only activities unless they can demonstrate that doing so will not violate Section 3 of Rule 11.~~

~~(e) — Additional accounts that are opened for a Member pursuant to this Section 11 of Rule 3 shall be opened solely for the administrative convenience of the Member or in furtherance of the Cross-Margining Arrangements between the Corporation and an FCO, and no other person or entity shall have any rights, obligations or liabilities with respect to any of the Member's accounts with the Corporation. Only Members shall be entitled to process transactions through the Corporation and to participate in the services offered by the Corporation for which they have been approved. A Member that processes through the Corporation any contract or other transaction for an entity that is a Non-Member shall, so far as the rights of the Corporation and of other Members are concerned, be liable as principal on such transaction. A Non-Member who processes transactions through a Member shall not possess any of the rights or benefits of a Member.~~

~~(f) — The Corporation may, in its sole discretion, at any time and without prior notice (but being obligated to give notice as soon as possible thereafter) and whether or not the Member is in default of its obligations to the Corporation, apply Required Fund Deposits made by a Member pursuant to its obligations under one of its accounts, as necessary, to ensure that the Member meets all of its obligations to the Corporation under its other account(s), and otherwise exercise all rights to offset and net any obligations among any or all of the accounts, whether or not a non-Member is deemed to have any interest in the Member's account(s), notwithstanding the terms of this Rule.~~

~~(g) — This section shall not apply to Repo Brokers who are required to maintain Segregated Repo Accounts pursuant to Section 2 of Rule 19.~~

Section 121 – Ongoing Monitoring

\* \* \*

(e) The Corporation may require a Netting Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with the Margin Component Schedule provisions of Rule 4 (which additional deposit shall constitute a portion of the Netting Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member. The Corporation may also retain any Excess Clearing Fund Deposits of a Netting

Member that has been placed on the Watch List as provided in Section 10 of Rule 4. Moreover, as regards a Netting Member that has been placed on the Watch List by the Corporation, the Corporation may suspend, during all or a portion of the time period that such Member is on the Watch List, its right under these Rules to collect a Credit Forward Mark Adjustment Payment. Moreover, if a Netting Member on the Watch List has a Collateral Allocation Entitlement as the result of its GCF Repo Transaction activity, the Corporation may, in its sole discretion, maintain possession of the securities and/or cash that comprise such Collateral Allocation Entitlement.

\* \* \*

### Section 132 – Voluntary Termination

\* \* \*

### Section 14 – Excess Capital Premium

~~If a Netting Member maintains an Excess Capital Ratio greater than 1.0, then the Corporation may require the Netting Member to make and maintain an additional deposit to the Clearing Fund in an amount equal to the product of its Excess Capital Differential multiplied by its Excess Capital Ratio. Any such additional deposit required by the Corporation shall be considered included as part of the Netting Member's Required Fund Deposit.~~

~~The Corporation also will reserve the right to: (i) collect an amount less than the Excess Capital Premium (including no premium) based on specific circumstances (such as a Netting Member being subject to an unexpected haircut or capital charge that does not fundamentally change its risk profile), and (ii) return all or a portion of the Excess Capital Premium (or such lesser amount) if it believes that the Netting Member's risk profile does not require the maintenance of that amount.<sup>5</sup>~~

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~~<sup>5</sup> FICC has identified the following guidelines, which are intended to be illustrative, but not limited, where the premium will not be imposed: management will look to see whether the premium results from unusual or non-recurring circumstances where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison that would otherwise reduce the margined position if timely submitted or an unexpected haircut or capital charge that does not fundamentally change its risk profile.~~

## RULE 3A – SPONSORING MEMBERS AND SPONSORED MEMBERS

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

### Section 2 – Qualifications of Sponsoring Members, the Application Process and Continuance Standards

(a) A Netting Member **shall be eligible to apply to become a Category 1 Sponsoring Member if it:** ~~(i) is a Bank Netting Member, (ii) has a level of equity capital of at least \$5 billion, (iii) is Well Capitalized, and (iv) has a bank holding company that is registered under the Bank Holding Company Act of 1956, as amended, such bank holding company is also Well Capitalized. A Netting Member~~ that is a Tier One Netting Member, other than an Inter-Dealer Broker Netting Member, ~~or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account,~~ shall be eligible to apply to become a **Category 2** Sponsoring Member. The Corporation may require that a Person be a Netting Member for a time period deemed necessary by the Corporation before that Person may be considered to become a Sponsoring Member.

\* \* \*

(h) ~~If a Category 1 Sponsoring Member falls below one or more of the required minimum financial standards for being a Sponsoring Member set forth in subsection (a) above, it shall, for the period beginning on the day on which it fell below such level and continuing until the later of the 90<sup>th</sup> calendar day after the date on which (i) it returned to compliance with such standard, or (ii) the Corporation received notice of the applicable violation, have a Sponsoring Member Omnibus Account Required Fund Deposit equal to the greater of either: (x) the sum of the normal calculation of its Sponsoring Member Omnibus Account Required Fund Deposit plus \$1,000,000, or (y) 125 percent of the normal calculation of its Sponsoring Member Omnibus Account Required Fund Deposit. If, in the case of a Category 2 Sponsoring Member,~~ the sum of the VaR Charges of ~~its a Sponsoring Member's~~ Sponsoring Member Omnibus Account(s) and its ~~Netting Member Dealer~~ Accounts exceeds its Netting Member Capital, the **Category 2** Sponsoring Member shall not be permitted to submit activity into its Sponsoring Member Omnibus Account(s), unless otherwise determined by the Corporation in order to promote orderly settlement.

\* \* \*

### Section 6 – Trade Submission and the Comparison System

\* \* \*

(c) The enhanced comparison processes regarding the presumed match of data set forth in Rule 10 shall apply to Sponsored Member Trades. A special enhanced comparison process shall

be applicable to Sponsored Member Trades that are submitted for Bilateral Comparison as follows: If all other required fields are valid and match but the executing firm field on the side representing the ~~Netting Member Dealer~~ Account of the Sponsoring Member has been omitted and the executing firm field on the side representing the Sponsoring Member Omnibus Account is valid, then the Corporation shall compare the Sponsored Member Trade based on the valid executing firm field.

\* \* \*

#### Section 7 – The Netting System and Novation

(a) The following provisions apply to Sponsored Member Trades other than Sponsored GC Trades:

(i) The Sponsored Member Trades of each Sponsored Member shall be Novated and netted in the same manner as set forth in Section 8 of Rule 5 and Sections 1, 4 and 6 of Rule 11 for Netting Member trades as long as such Sponsored Member Trades meet the requirements of Section 2 of Rule 11. ~~Net Settlement Positions per CUSIP shall be calculated for each Sponsored Member in the same manner set forth in Rule 11 for Netting Members.~~ The Sponsoring Member shall act as processing agent for performing all functions and receiving Reports and information set forth in Rule 11 on behalf of its Sponsored Members. The Corporation's provision of such Reports and information to the Sponsoring Member shall constitute satisfaction of the Corporation's obligations to provide such Reports and information to the affected Sponsored Members.

\* \* \*

#### Section 10 – Clearing Fund Obligations

(a) To support the activity in its Sponsoring Member Omnibus Accounts, Each Sponsoring Member shall, ~~make and maintain~~ so long as such Member is a Sponsoring Member, be responsible for making and maintaining a deposit to the Clearing Fund as a Required Fund Deposit to support the activity in the Sponsoring Member Omnibus Account (the "Sponsoring Member Omnibus Account Required Fund Deposit"). ~~equal to the Sponsoring Member Omnibus Account Required Fund Deposit or, in the case of a Sponsoring Member Omnibus Account that is designated as a Segregated Indirect Participants Account, depositing with the Corporation Segregated Customer Margin equal to the Segregated Customer Margin Requirement for such Account, in each case subject to the provisions of Rule 4 and calculated pursuant to the Margin Component Schedule.~~ Deposits to the Clearing Fund shall be held by the Corporation or its designated agents, to be applied as provided in the Rules.

(b) For purposes of satisfying the Sponsoring Member's Clearing Fund requirements under the Rules for both its Netting Member activity and its Sponsoring Member activity, the Sponsoring Member's ~~Netting Member Dealer~~ Accounts and its Sponsoring Member Omnibus Account shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation shall have the right to apply a Sponsoring

Member's Clearing Fund deposits to any obligations of that Sponsoring Member as otherwise permitted pursuant to Rule 4.

~~(c) — The amount of the Sponsoring Member Omnibus Account Required Fund Deposit to be made and maintained by each Sponsoring Member on each Business Day shall be determined as follows: A Required Fund Deposit calculation shall be performed for each Sponsored Member whose activity is represented in the Sponsoring Member Omnibus Account pursuant to Rule 4, subject to the provisions of this Section 10 of this Rule 3A. The Sponsoring Member Omnibus Account Required Fund Deposit shall be equal to the greater of: (i) \$1 million or (ii) the sum of the following: (1) the sum of the VaR Charges for all of the Sponsored Members whose activity is represented in the Sponsoring Member Omnibus Account as derived pursuant to Section 1b(a)(i) of Rule 4, and (2) all amounts derived pursuant to the provisions of Rule 4 other than pursuant to Section 1b(a)(i) of Rule 4 computed at the level of the Sponsoring Member Omnibus Account. For purposes of calculating the Unadjusted GSD Margin Portfolio Amount applicable to a Sponsoring Member Omnibus Account, the Corporation shall apply the higher of the Required Fund Deposit calculation as of the beginning of the current Business Day and intraday on the current Business Day.~~

~~(d) — The lesser of \$5,000,000 or 10 percent of the total amount arrived at in subsection (c) of this Section 10, with a minimum of \$1 million must be made and maintained in cash, with the remaining portion to be made and maintained in the form specified in, and subject to the requirements of, Section 3 of Rule 4, and subject to subsection (e) of Section 2 of Rule 4.~~

~~(e) — The Corporation shall have the right to increase the Sponsoring Member Omnibus Account Required Fund Deposit in the same way and for the same reasons as set forth in (d) of Section 2 of Rule 4.~~

~~(f)~~ Sections ~~2a~~, 3, 3a, 3b, 4, 5, 8, 9, 10 and 11 of Rule 4 shall apply to the Sponsoring Member Omnibus Account Required Fund Deposit with respect to obligations of a Sponsoring Member under the Rules, including its obligations arising under the Sponsoring Member Omnibus Account, and the obligations of a Sponsoring Member under its Sponsoring Member Guaranty to the same extent as such Sections apply to any Required Fund Deposit and any other obligations of a Member. For purposes of Section 4 of Rule 4, obligations and liabilities of a Netting Member to the Corporation that shall be secured by the Actual Deposit shall include, without limitation, a Netting Member's obligations as a Sponsoring Member under the Rules, including, without limitation, any obligation of any such Sponsoring Member to provide the Sponsoring Member Omnibus Account Required Fund Deposit or the Segregated Customer Margin Requirement, such Sponsoring Member's obligations arising under the Sponsoring Member Omnibus Account of such Sponsoring Member and such Sponsoring Member's obligations under its Sponsoring Member Guaranty.

~~(g)~~ A Sponsoring Member shall be subject to a fine pursuant to the applicable Fine Schedule in these Rules for any late satisfaction of a Clearing Fund deficiency call or a call for Segregated Customer Margin.

(~~he~~) Sponsoring Members, with respect to their Sponsoring Member Omnibus Accounts, shall not be eligible to participate in any Cross-Margining Arrangements.

(if) For purposes of the application of Rule 4 **and the Margin Component Schedule** to a Sponsoring Member Omnibus Account, each Sponsored GC Trade shall be treated as a GCF Repo Transaction, each GC Funds Lender and GC Funds Borrower shall be treated as a GCF Counterparty, and each Sponsored GC Clearing Agent Bank shall be treated as a GCF Clearing Agent Bank.

#### Section 11 – Right of Offset

In the ordinary course, with respect to satisfaction of any Sponsored Member’s obligations under the Rules, the Sponsoring Member’s **Netting Member-Dealer** Accounts and its Sponsoring Member Omnibus Account shall be treated separately, as if they were Accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time any obligation of the Sponsoring Member arises under the Sponsoring Member Guaranty to pay or perform thereunder with respect to any Sponsored Member, exercise a right of offset and net any such obligation of the Sponsoring Member under its Sponsoring Member Guaranty against any obligations of the Corporation to the Sponsoring Member in respect of such Sponsoring Member’s **Netting Member-Dealer** Accounts.

\* \* \*

#### Section 18 – Liquidation of Sponsored Member and Related Sponsoring Member Positions

(b) Subject to the provisions of subsection (a) of this Section 18, on any Business Day, the Sponsoring Member or the Corporation may by written notice to the other cause the immediate termination of all, but not fewer than all, of the long and short Net Settlement Positions and Forward Net Settlement Positions of the Sponsored Member established in the Sponsoring Member’s Sponsoring Member Omnibus Account. Any such notice shall also cause the immediate termination of all of the corresponding, offsetting long and short Net Settlement Positions and Forward Net Settlement Positions of the Sponsoring Member established in the Sponsoring Member’s **Netting Member-Dealer** Account(s). Each such termination shall be effected by the Sponsoring Member’s establishment of a final Net Settlement Position for each Eligible Netting Security with a distinct CUSIP number that shall equal the net of all outstanding deliver obligations and receive obligations of the parties thereto in each such Eligible Netting Security including those that arise from Forward Net Settlement Positions (hereinafter, the “Final Net Settlement Position”).

\* \* \*

## RULE 4 – CLEARING FUND AND LOSS ALLOCATION

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

### Section 1 – Required Fund Deposits

Each Netting Member shall make and maintain on an ongoing basis a deposit to the Clearing Fund. The amount of each Netting Member’s required **Clearing Fund** deposit shall be determined by the Corporation in accordance with this Rule **and the Margin Component Schedule** and shall be referred to as the Required Fund Deposit. The timing of payment of the Required Fund Deposit shall be determined in accordance with the provisions of Section 9 of this Rule.

A Netting Member may in its discretion maintain additional deposits at the Corporation, subject to any requirements the Corporation may establish for such excess amounts pursuant to, **and subject to the requirements set forth in**, Section 10 of this Rule. For purposes of these Rules, such additional deposits shall be deemed to be part of the Clearing Fund and the Netting Member’s Actual Deposit but shall not be deemed to be part of the Netting Member’s Required Fund Deposit.

The Corporation shall not be required to segregate each Netting Member’s Actual Deposit, but shall maintain books and records concerning the assets that constitute each Netting Member’s Actual Deposit.

### Section 1a – Segregated Customer Margin

**Each Netting Member shall deposit Segregated Customer Margin with the Corporation in an amount equal to its Segregated Customer Margin Requirement, which requirement shall be determined in accordance with this Rule and the Margin Component Schedule. The timing of the satisfaction of the Segregated Customer Margin Requirement shall be determined in accordance with the provisions of Section 9 of this Rule.**

**The Corporation shall establish and maintain on its books and records a Segregated Customer Margin Custody Account corresponding to each Segregated Indirect Participants Account. All Segregated Customer Margin deposited with the Corporation to support the obligations arising under the Transactions recorded in a Segregated Indirect Participants Account shall be credited to the corresponding Segregated Customer Margin Custody Account. The Segregated Customer Margin credited to a Segregated Customer Margin Custody Account shall be used exclusively to settle and margin Transactions in U.S. Treasury securities recorded in the corresponding Segregated Indirect Participants Account. Each Segregated Customer Margin Custody Account shall be titled or otherwise designated on the Corporation’s books and records a “Special Clearing Account for the Exclusive Benefits of the Customers of [the relevant Sponsoring Member or Agent Clearing Member].” The Corporation will provide to each Netting Member that is a Registered Broker or Registered Dealer and has designated an Account as a Segregated Indirect Participants Account, a**

notice that Segregated Customer Margin deposited by the Netting Member with the Corporation is being held by the Corporation for the exclusive benefit of the Segregated Indirect Participants of the Netting Member in accordance with the regulations of the SEC and is being kept separate from any other accounts maintained by the Netting Member or any other Member at the Corporation.

All assets credited to each Segregated Customer Margin Custody Account shall be treated as “financial assets” within the meaning of Article 8 of the NYUCC. New York is the “securities intermediary’s jurisdiction” for purposes of the NYUCC and New York law shall govern all issues specified in Article 2(1) of the Hague Securities Convention.

The Corporation shall hold all Segregated Customer Margin in an account of the Corporation at a bank within the meaning of the Exchange Act that is insured by the Federal Deposit Insurance Corporation, or at the Federal Reserve Bank of New York, which account shall be segregated from any other account of the Corporation and shall be used exclusively to hold Segregated Customer Margin. Each such account shall be subject to a written notice of the bank or Federal Reserve Bank provided to and retained by the Corporation that the Segregated Customer Margin in the account is being held by the bank or Federal Reserve Bank pursuant to SEC Rule 15c3-3 and is being kept separate from any other accounts maintained by the Corporation or any other person at the bank or Federal Reserve Bank. Each such account shall also be subject to a written contract between the Corporation and the bank or Federal Reserve Bank which provides that the Segregated Customer Margin in the account is subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or Federal Reserve Bank or any person claiming through the bank or Federal Reserve Bank.

#### Section 1**ab** – Margin Portfolios

(a) ~~A Margin Portfolio shall consist of such Accounts of the Member and of Permitted Margin Affiliates of the Member as the Member shall designate in accordance with the Rules and Procedures of the Corporation. Each Margin Portfolio shall not contain more than one Type of Account. Sponsoring Member Omnibus Accounts that are designated as Segregated Indirect Participants Accounts shall not be included in the same Margin Portfolio as Agent Clearing Member Omnibus Accounts that have been designated as Segregated Indirect Participants Accounts.~~

~~(b) — A Sponsoring Member Omnibus Account shall not be grouped in a Margin Portfolio with any other Accounts. An Account of a Tier Two Member shall not be grouped in a Margin Portfolio with any Accounts of a Tier One Netting Member. A Bank Netting Member shall not be permitted to group any of its Accounts in a Margin Portfolio with Accounts of a Permitted Margin Affiliate unless it can demonstrate to the satisfaction of the Corporation that, in doing so, it is in compliance with regulatory requirements applicable to it.~~

~~(c) — A Broker Account shall not be grouped in a Margin Portfolio with Dealer Accounts.~~

**(db)** The Corporation shall calculate a Member's Required Fund Deposit with reference to the Margin Portfolios of the Member (other than those consisting of Segregated Indirect Participants Accounts) as set forth in ~~this Rule 4~~ the Margin Component Schedule. The Corporation shall calculate a Member's Segregated Customer Margin Requirement for a given Segregated Indirect Participants Account as the sum of the requirements applicable to each Segregated Indirect Participant whose Transactions are recorded in such Account, as though each such Segregated Indirect Participant were a separate Netting Member with a single Margin Portfolio consisting of such Transactions, in accordance with the Margin Component Schedule.

~~Section 1b—Unadjusted GSD Margin Portfolio Amount~~

~~(a) Each Business Day, the Corporation shall determine, with respect to each Margin Portfolio, an Unadjusted GSD Margin Portfolio Amount as the sum of the following:~~

~~(i) the VaR Charge,~~

~~minus~~

~~(ii) in the case of a Margin Portfolio of a Cross Margining Participant that is subject to one or more Cross Margining Arrangements, in the discretion of the Corporation, an amount not to exceed the sum of any applicable Cross Margining Reductions, calculated on the current Business Day for such Cross Margining Participant in accordance with the applicable Cross Margining Agreements,~~

~~plus or minus~~

~~(iii) in the case of a Margin Portfolio of a GCF Counterparty, the Blackout Period Exposure Adjustment, if applicable, during the monthly Blackout Period or until the applicable GCF Clearing Agent Bank updates the Pool Factors used for collateral valuation,~~

~~plus~~

~~(iv) in the case of a Netting Member with backtesting deficiencies, the Backtesting Charge, if applicable,~~

~~plus~~

~~(v) the Holiday Charge, if applicable, on the Business Day prior to a Holiday,~~

~~plus~~

~~(vi) a Margin Liquidity Adjustment Charge and an MLA Excess Amount, if applicable,~~

~~plus~~

~~(vii) — an additional payment (“special charge”) applicable to a Margin Portfolio as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time,~~

~~plus~~

~~(viii) — a Portfolio Differential Charge, if applicable.~~

~~The Corporation shall determine a separate Unadjusted GSD Margin Portfolio Amount for a Netting Member’s Market Professional Cross Margining Account.~~

~~The Corporation shall have the discretion to not apply the VaR calculation(s) to Net Unsettled Positions in classes of securities whose volatility is less amenable to statistical analysis, or to Term Repo Transactions and Forward Starting Repo Transactions (including term and forward starting GCF Repo Transactions) whose term repo rate volatility is less amenable to statistical analysis. In lieu of such calculation, the component required with respect to such transactions shall instead be determined utilizing a haircut method based on a historic index volatility model.~~

~~The Corporation shall take into account the VaR confidence level applicable to the Member in calculating the VaR Charge. In the case of a Margin Portfolio containing accounts of Permitted Margin Affiliates, the Corporation shall apply the highest VaR confidence level applicable to the Member or its Permitted Margin Affiliates.~~

~~The Corporation shall calculate the Unadjusted GSD Margin Portfolio Amount applicable to a Sponsoring Member Omnibus Account, and the Sponsoring Member Omnibus Account Required Fund Deposit, subject to the provisions set forth in Section 10 of Rule 3A.~~

Section 2 – Required Fund Deposit Requirements and Segregated Customer Margin Requirements

(a) Each Business Day, each Netting Member shall be required to make a deposit with the Corporation its Required Fund Deposit to the Clearing Fund and Segregated Customer Margin Requirement consisting of:

Required Fund Deposit:

- (i) an amount calculated with respect to the Netting Member’s Margin Portfolios that include one or more Dealer Accounts;
- (ii) an amount calculated with respect to the Netting Member’s Margin Portfolios that includes one or more Broker Accounts;
- (iii) an amount calculated with respect to the Netting Member’s Margin Portfolios that include one or more Agent Clearing Member Omnibus

Accounts other than Agent Clearing Member Omnibus Accounts that have been designated as Segregated Indirect Participants Accounts;

- (iv) an amount calculated with respect to the Netting Member's Margin Portfolios that include one or more Sponsoring Member Omnibus Accounts other than Sponsoring Member Omnibus Accounts that have been designated as Segregated Indirect Participants Accounts;

Segregated Customer Margin Requirement:

- (v) an amount calculated with respect to the Netting Member's Segregated Indirect Participants Accounts constituting Sponsoring Member Omnibus Accounts; and
- (vi) an amount calculated with respect to the Netting Member's Segregated Indirect Participants Accounts constituting Agent Clearing Member Omnibus Accounts.

Section 2a – Required Fund Deposit

(a) Each Required Fund Deposit Portion shall be made to the Corporation through a separate Deposit ID established by the Netting Member.

~~equal to the greater of: (i) the Minimum Charge or (ii) the amounts derived pursuant to the provisions of Sections 1, 1a and 1b of this Rule 4 (hereinafter, the "Total Amount"). A Netting Member that has a Margin Portfolio that consists of a Market Professional Cross-Margining Account shall be required to make an additional Required Fund Deposit to the Clearing Fund associated with the activity of such Margin Portfolio. Unless otherwise expressly provided, references in these Rules that pertain to Required Fund Deposits shall apply to the Required Fund Deposits associated with a Netting Member's Market Professional Cross-Margining Account.~~

~~—The Minimum Charge applicable to each Netting Member, other than a Repo Broker, shall be no less than \$1 million. The Minimum Charge applicable to each Repo Broker shall be no less than \$5 million for each Margin Portfolio with Broker Account(s) and no less than \$1 million for each Margin Portfolio with Dealer Account(s).~~

~~Once applicable Minimum Charges have been applied, the Corporation shall apply any applicable additional payments, charges and premiums set forth in these Rules.~~

(b) A Netting Member's Required Fund Deposit shall be reported to Netting Members twice daily and such Reports shall specify the amounts owed for each of the Required Fund Deposit Portions listed in Section 2(a) above.

~~, and p~~Payment shall be due by the Required Fund Deposit Deadline and shall be made through a separate Deposit ID established by the Netting Member for each separate and applicable Required Fund Deposit Portion. time specified in the Corporation's procedures; however,

Such payment shall not be due on a given day if: (a) the difference between the amount of a Member's Required Fund Deposit **Portion** as reported on that day, and the amount then on deposit towards satisfaction thereof is less than both (i) \$250,000, and (ii) 25 percent of the amount then on deposit; and (b) the Member is not on the Watch List.

~~(b) — The Corporation shall calculate the Sponsoring Member Omnibus Account Required Fund Deposit in the manner set forth in Section 10 of Rule 3A.~~

(c) The initial Required Fund Deposit of each Netting Member, other than an **Inter-Dealer Repo Broker Netting Member**, shall be set by the Corporation based upon the expected nature and level of such Member's activity.

~~(d) — Notwithstanding anything to the contrary in this Rule, the Corporation may require a Netting Member to make and maintain a higher Required Fund Deposit than the amount as noted above, if the Corporation determines that such higher Required Fund Deposit is necessary to protect the Corporation and its Members from the risk (hereinafter, the "Legal Risk") that the Corporation, as a result of a law, rule or regulation applicable to a Netting Member, including a Netting Member's insolvency or bankruptcy, may be delayed or prohibited from: (i) accessing any portion of the Netting Member's Required Fund Deposit, (ii) netting, closing out or liquidating transactions, or setting off obligations, or taking any other action contemplated by Rule 4 (Clearing Fund and Loss Allocation), Rule 21 (Restrictions on Access to Services), Rule 22 (insolvency of a Member) or Rule 22A (Procedures for When the Corporation Ceases to Act), or (iii) otherwise exercising its rights pursuant to these Rules.~~

~~(e) — Notwithstanding anything to the contrary in this Rule, the Corporation may require a Netting Member's Required Fund Deposit to be in proportions of cash, Eligible Clearing Fund Securities and Eligible Letters of Credit that the Corporation determines to be necessary to protect itself and its Members from Legal Risk.~~

~~(f) — Notwithstanding anything to the contrary above, the Corporation, in its sole discretion, may secure a loan made to a Repo Broker for purposes of satisfying that Repo Broker's Funds Only Settlement Amount obligation with that Repo Broker's Clearing Fund deposit made to the Corporation.~~

#### ~~Section 2a — Intraday Calculation of VaR Amounts — Intraday Supplemental Fund Deposit~~

~~Pursuant to procedures established by the Corporation, the Corporation shall recalculate intraday, each Business Day, at the times established by the Corporation for this purpose, the amount of the intraday VaR Charge applicable to each Margin Portfolio of a Member, based upon the open positions in such Margin Portfolio at a designated time intraday, for purposes of establishing whether a Member shall be required to make payment of an additional amount (hereinafter, the Member's "Intraday Supplemental Fund Deposit") to its Required Fund Deposit. Such additional amount shall be deemed part of the Member's Required Fund Deposit for all purposes under these Rules.~~

~~The Corporation shall establish procedures for collection of an amount calculated in respect of a Member's Intraday Supplemental Fund Deposit, including parameters~~

~~regarding threshold amounts that require payment, and the form and time by which payment is required to be made to the Corporation. The Corporation reserves the right to require a Member or Members generally to make additional Intraday Supplemental Fund Deposits if the Corporation determines it to be necessary to protect itself and its Members in response to factors such as market conditions or financial or operational capabilities affecting a Member or Members generally.~~

~~In addition to the above, Repo Parties will also be subject to the provisions of this Section 2a with respect to their pending (non-DK'ed) Demand Trades with Repo Brokers.~~

### Section 2b – Segregated Customer Margin Requirement

(a) Each Netting Member shall deposit any Segregated Customer Margin with the Corporation by the Required Fund Deposit Deadline through a separate Deposit ID established by the Netting Member for each Segregated Indirect Participants Account.

(b) The Corporation shall report the Segregated Customer Margin Requirements to each Netting Member twice daily in a Report which shall specify the Segregated Customer Margin Requirement for each Segregated Indirect Participants Account.

### Section 3 – Form of Deposit

~~(a) Subject to the provisions of Section 2 of this Rule governing the computation of a Netting Member's Required Fund Deposit, and the limitations requirements of this Section 3, Section 3a and Section 3b, a Netting Member's deposits to the Clearing Fund may be in the form of: (a)(i) cash, or (b)(ii) an open account indebtedness fully secured by Eligible Clearing Fund Securities. Subject to the requirements of this Section 3, Section 3a and Section 3b, Segregated Customer Margin may be in the form of cash or Eligible Clearing Fund Securities.~~

(b) The following requirements shall apply to each Member's Required Fund Deposit Portion.

- (i) A minimum of 40 percent of ~~the any Netting Member's~~ Required Fund Deposit Portion shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.
- (ii) The lesser of \$5,000,000 or 10 percent of ~~the any~~ Required Fund Deposit Portion, with a minimum of \$1 million, must be made and maintained in cash, with the remaining portion of the Required Fund Deposit Portion to be made and maintained in the form specified in this Section 3.

~~The previous sentence shall also apply to a Sponsoring Member Omnibus Account, but shall not apply to the individual Sponsored Members whose activity is presented by such Account.~~

**(c) The following requirements shall apply to each Segregated Customer Margin Requirement for a particular Segregated Indirect Participants Account.**

- (i) A minimum of 40 percent of the Segregated Customer Margin Requirement for such Account shall be satisfied with cash and/or Eligible Clearing Fund Treasury Securities.**
- (ii) The lesser of \$5,000,000 or 10 percent of the Segregated Customer Margin Requirement for the Account must be made and maintained in cash.**
- (iii) A minimum of the product of \$1 million and the number of Segregated Indirect Participants whose Transactions are recorded in such Segregated Indirect Participants Account must be made and maintained in cash.**

**Notwithstanding anything to the contrary in this Rule, the Corporation may require a Netting Member's Required Fund Deposit or Segregated Customer Margin Requirement to be in proportions of cash, Eligible Clearing Fund Securities and Eligible Letters of Credit that the Corporation determines to be necessary to protect itself and its Members from Legal Risk.**

**Section 3a – Special Provisions Related to Deposits of Cash**

Cash deposits to the Clearing Fund **and Segregated Customer Margin consisting of cash** shall be made in immediately-available funds. The Corporation may invest any cash in the Clearing Fund, including (i) cash deposited by a Netting Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, "Clearing Fund Cash") in accordance with the Clearing Agency Investment Policy adopted by the Corporation.

Each Netting Member shall be entitled to any interest earned or paid on Clearing Fund cash deposits. **Any interest earned on Segregated Customer Margin consisting of cash shall be paid to the Netting Member.**

**Section 3b – Special Provisions Related to Eligible Clearing Fund Securities**

All Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits **or constituting Segregated Customer Margin** shall, for collateral valuation purposes, be subject to a haircut and may be subject to a concentration limit. The Corporation shall determine the applicable haircuts and any concentration limits from time to time in accordance with its internal policy and governance process, based on factors determined to be relevant by the Corporation, which may include, for example, backtesting results and the Corporation's assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The haircuts

and any concentration limits prescribed by the Corporation shall be set forth in a haircut schedule that is published on the Corporation's website. It shall be the Member's responsibility to retrieve the haircut schedule. The Corporation will provide Members with at a minimum one Business Day's advance notice of any change in the haircut schedule.

Eligible Clearing Fund Securities that are used to secure an open account indebtedness **and Segregated Customer Margin consisting of Eligible Clearing Fund Securities** must be pledged to the Corporation on such terms and conditions as it may require, and be delivered to the Corporation or to the Corporation's account at a financial institution designated by the Corporation. The valuation of such Eligible Clearing Fund Securities shall be at current market value, which shall be determined by the Corporation not less frequently than on a daily basis, less an applicable haircut. The Corporation has the right, in its discretion, to refuse to accept a particular type of Eligible Clearing Fund Security as a permissible form of Clearing Fund deposit **or Segregated Customer Margin**.

Upon appropriate notice to the Corporation, pursuant to procedures that the Corporation establishes for such purpose, and subject to reasonable time constraints imposed by the Corporation based on its operational and administrative capacities, a Netting Member may substitute and/or withdraw Eligible Clearing Fund Securities from pledge and deposit, provided that the Netting Member has, effective immediately prior to the withdrawal, taken appropriate action to maintain its Required Fund Deposit **and satisfy its Segregated Customer Margin Requirement**. Notwithstanding the above sentence, the Corporation may decline to permit a substitution or withdrawal on a given Business Day later than one hour prior to the close of the securities Fedwire on such day. Any interest on Eligible Clearing Fund Securities deposited by a Netting Member to secure a Clearing Fund open account indebtedness **or as Segregated Customer Margin** that is received by the Corporation shall be credited to the Netting Member's cash deposits to the Clearing Fund **or the associated Segregated Customer Margin Custody Account, as applicable**, except **in the case of Clearing Fund** in the event of a default by such Netting Member on any obligations to the Corporation under these Rules, in which case the Corporation may exercise its rights under Section 6 of this Rule.

\* \* \*

#### Section 4 – Lien

**(a)** As security for any and all obligations and liabilities of a Netting Member to the Corporation, including, without limitation, ~~the obligations of the Netting Member's Permitted Margin Affiliate to the Corporation~~, any obligation or liability of a Netting Member pursuant to a Cross-Margining Agreement, any Reimbursement Obligation of a Cross-Margining Participant to the Corporation pursuant to Section 3 of Rule 43, any obligation of a Cross-Margining Beneficiary Participant to reimburse the Corporation pursuant to Section 7 of Rule 43, any obligation of a Cross-Guaranty Defaulting Member to reimburse the Corporation pursuant to Section 2 of Rule 41 or any obligation of a Cross-Guaranty Beneficiary Member to reimburse the Corporation pursuant to Section 5 of Rule 41, each such Netting Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Netting Member's open account indebtedness or placed by a Netting Member in the possession of the Corporation (or its

agents acting on its behalf), including all securities and cash on deposit with the Corporation or its agents pursuant to this Rule and Rule 13, ~~(collectively with~~ any Eligible Letters of Credit issued on behalf of a Netting Member in favor of the Corporation, **except for Segregated Customer Margin (collectively,** the Netting Member's "Actual Deposit"). The Corporation shall be entitled to exercise the rights of a pledgee under common law and a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such assets.

**(b) As security for any and all obligations and liabilities of a Netting Member, any Sponsored Member, and any Executing Firm Customer to the Corporation arising out of or in connection with any Segregated Indirect Participants Accounts of such Netting Member or Transactions recorded therein, each such Netting Member grants to the Corporation a first priority perfected security interest in its right, title and interest in all Segregated Customer Margin, each Segregated Customer Margin Custody Account, and all distributions thereon and proceeds thereof. The Corporation shall be entitled to exercise the rights of a pledgee under common law and a secured party under Articles 8 and 9 of the NYUCC with respect to such assets.**

#### Section 5 – Use of Clearing Fund **and Segregated Customer Margin**

The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including, without limitation, each Member's obligations with respect to any loss allocations as set forth in Section 7 of this Rule and any obligations arising from a Cross-Guaranty Agreement pursuant to Rule 41 or a Cross-Margining Agreement pursuant to Rule 43, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in Section 3a of this Rule.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the Close of Business on the 30th calendar day (or on the first Business Day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 7 of this Rule.

**On each Business Day, the Corporation shall calculate the portion of Segregated Customer Margin that supports each Segregated Indirect Participant's Transactions. The Corporation shall only use that portion (i) to secure or settle the performance of the obligations of that Segregated Indirect Participant, and the performance of the obligations of the Sponsoring Member or the Agent Clearing Member, as applicable, with respect to the obligations of that Segregated Indirect Participant; and (ii) for investment in U.S. Treasury securities with a maturity of one year or less. The Corporation may not use Segregated Customer Margin supporting one Segregated Indirect Participant's Transactions to secure or settle another Segregated Indirect Participant's Transactions or any other Transactions of any other person.**

Section 6 – Application of Clearing Fund Deposits and Other Amounts to Defaulting Members’ Obligations

Any loss or liability incurred by the Corporation as the result of the failure of a Defaulting Member to fulfill its obligations to the Corporation shall be satisfied as set forth in this Section 6.

The Corporation shall apply (a) any Clearing Fund deposits, Funds-Only Settlement Amounts, and any other collateral or assets held by the Corporation securing such Defaulting Member’s obligations to the Corporation, (b) ~~any Clearing Fund deposits, Funds-Only Settlement Amounts, and other collateral held by the Corporation with respect to a Permitted Margin Affiliate of the Defaulting Member,~~ (c) any proceeds of any of the foregoing, and ~~(d)~~ the following additional resources set forth in paragraphs (i) and (ii) below as are applicable to the Defaulting Member:

- (i) If the Defaulting Member is a Cross-Margining Participant, the Corporation shall apply any amounts available from an FCO under a Cross-Margining Guaranty either upon receipt or at the time described in Section 5(b) of Rule 43.
- (ii) If the Defaulting Member is a Cross-Guaranty Defaulting Member, the Corporation shall apply any amounts available under a Cross-Guaranty Agreement (subject to an applicable Cross-Margining Agreement) either upon receipt or at the time described in Section 3(b) of Rule 41.

\* \* \*

Section 7 – Loss Allocation Waterfall, Off-the-Market Transactions

\* \* \*

**Tier One Netting Members**

\* \* \*

Notwithstanding the foregoing, however, an Inter-Dealer Broker Netting Member, ~~or a Non-IDB Repo Broker~~ with respect to activity in its Segregated Repo Broker Account(s), shall not be subject to an aggregate loss allocation in an amount greater than \$5 million pursuant to this Section 7 for losses and liabilities resulting from an Event Period.

\* \* \*

Section 9 – Initial Required Fund Deposit and Segregated Customer Margin Requirement and Changes in Members’ Required Fund Deposits and Segregated Customer Margin Requirements

The initial Required Fund Deposit and Segregated Customer Margin Requirement (if applicable) of a Netting Member shall be required to be deposited into the Clearing Fund or deposited with the Corporation prior to the no later than 5 Business Days prior to the

**Business Day** on which such Person becomes a Netting Member in accordance with the Corporation's procedures.

A Netting Member must increase the amount of its deposit to the Clearing Fund (by the deposit of cash, Eligible Netting Securities, and/or Eligible Letters of Credit subject to the requirements of this Rule) **and deposit Segregated Customer Margin** by the Required Fund Deposit Deadline on any Business Day that such Netting Member's Actual Deposit **or Segregated Customer Margin** is less than its Required Fund Deposit **or Segregated Customer Margin Requirement, as applicable**, as set forth in the Report listing such, subject to the conditions included in ~~Section 2 of~~ this Rule 4. If there is an increase in a Netting Member's Required Fund Deposit **or Segregated Customer Margin Requirement**, at the time the increase becomes effective, the Netting Member's obligations to the Corporation shall be determined in accordance with the increased Required Fund Deposit **or Segregated Customer Margin Requirement** whether or not the Netting Member has satisfied such increased amount.

If the Corporation applies a Netting Member's Clearing Fund deposits as permitted pursuant to this Rule, the Corporation may take any and all actions with respect to the Netting Member's Actual Deposit, including assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate. If such application **or the use of any Segregated Customer Margin in accordance with these Rules** results in any deficiency in the Netting Member's Required Fund Deposit **or Segregated Customer Margin Requirement**, the Netting Member shall immediately replenish it. If the Netting Member fails to do so, the Corporation may take disciplinary action against such Netting Member pursuant to Rule 21 or Rule 48. Any disciplinary action that the Corporation takes pursuant to Rule 21 or Rule 48, or the voluntary or involuntary cessation of membership shall not affect the Netting Member's obligations to the Corporation or any remedy to which the Corporation may be entitled under applicable law.

The Corporation retains discretion to extend the Required Fund Deposit Deadline on any Business Day if there are operational or system difficulties that would reasonably prevent Members from satisfying Required Fund Deposit **or Segregated Customer Margin Requirement** deficits by the time specified in the Corporation's procedures.

Notwithstanding the foregoing, the Corporation may require a Netting Member or Netting Members generally to deposit additional amounts to their Clearing Fund deposit on an intraday basis if the Corporation believes such action is necessary to protect itself and its Members.

#### Section 10 – Excess Clearing Fund Deposits **or Segregated Customer Margin**

The Corporation shall determine ~~with such frequency as it shall from time to time specify~~, **twice each Business Day** whether the amount deposited by a Member in the Clearing Fund is in excess of its Required Fund Deposit (~~hereinafter~~, "Excess Clearing Fund Deposit"); **and shall separately determine whether the amount of Segregated Customer Margin supporting a Segregated Indirect Participant's Transactions is in excess of the Segregated Customer Margin Requirement for such Segregated Indirect Participant ("Excess Segregated Customer Margin")**. On any day that the Corporation has determined that an Excess Clearing Fund Deposit **or Excess Segregated Customer Margin** exists ~~with respect to any~~

**Member**, the Corporation will, in the form and manner required by the Corporation, notify each such Member of such excess.

**The provisions of this section shall not limit the rights or remedies of the Corporation as provided in Section 7 of Rule 3.**

**(a)** Subject to the Corporation's rights under these Rules to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member ~~such amount of its excess cash on deposit~~ **its Excess Clearing Fund Deposits** (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value on the day of such withdrawal) as the Member requests. Notwithstanding the foregoing, at the discretion of the Corporation, some or all of the Excess Clearing Fund Deposit may not be returned if the Member has an outstanding payment obligation to the Corporation, if the Corporation determines that the Member's anticipated Funds-Only Settlement Amounts or Net Settlement Positions in the near future may reasonably be expected to be materially different than those of the recent past, or if the Member is on the Watch List.

In addition, the return of an Excess Clearing Fund Deposit amount to any Member is subject to the following limitations: (1) such return of Excess Clearing Fund Deposit shall not be done in a manner that would cause the Member to violate any other Section of these Rules; (2) Excess Clearing Fund Deposit shall not be returned to a Member to the extent that such return would reduce the amount of the Member's Cross-Guaranty Repayment Deposit to the Clearing Fund below the amount required to be maintained pursuant to Section 4 of Rule 41; and (3) Excess Clearing Fund Deposit shall not be returned to a Member to the extent that such return would reduce the amount of the Member's Cross-Margining Repayment Deposit to the Clearing Fund below the amount required to be maintained pursuant to Section 6 of Rule 43.

**(b) Upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member its Excess Segregated Customer Margin subject to the minimum amount of cash or Eligible Clearing Fund Securities required to be maintained pursuant to the Rules (valued at their collateral value on the day of such withdrawal) as the Member requests. Except to the extent required by applicable law or authorized by the SEC, the Corporation shall not retain Excess Segregated Customer Margin due to any obligations of the Member unrelated to a Segregated Indirect Participants Account of such Member.**

**Notwithstanding the foregoing, at the discretion of the Corporation, some or all of the Excess Segregated Customer Margin shall not be returned if the Member has an outstanding payment or margin obligation to the Corporation with respect to the Transactions of any Segregated Indirect Participant.**

\* \* \*

**RULE 8 – AGENT CLEARING SERVICE EXECUTING FIRM TRADES**

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

**Section 7 – Agent Clearing Transactions Processing Rules**

\* \* \*

**(f) To the extent the Corporation incurs a loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event and a loss allocation obligation arises that would be the responsibility of an Agent Clearing Member, the Corporation shall calculate such loss allocation obligation as if the affected Executing Firm Customers were subject to such allocations pursuant to Section 7 of Rule 4, but the Agent Clearing Member shall, as principal, be responsible for satisfying such obligations.**

**(g) Agent Clearing Members shall make and maintain an Agent Clearing Member Omnibus Account Required Fund Deposit pursuant to Rule 4 and calculated pursuant to the Margin Component Schedule. For purposes of satisfying ~~the Agent Clearing Member's Clearing Fund~~ such requirements ~~under the Rules for both its Netting Member activity and its Agent Clearing Member activity~~, the Agent Clearing Member's ~~Dealer Accounts maintained by it in its capacity as a Netting Member and its separate Agent Clearing Member Omnibus Account~~ through which it processes Agent Clearing Transactions shall be treated separately from any other Accounts maintained by the Agent Clearing Member, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, and other than with respect to any Segregated Indirect Participants Accounts, the Corporation shall have the right to apply an Agent Clearing Member's Clearing Fund deposits to any obligations of that Agent Clearing Member as otherwise permitted pursuant to Rule 4.**

\* \* \*

**RULE 15 – SPECIAL PROVISIONS FOR ~~CERTAIN NETTING MEMBERS~~  
~~REPO-BROKERS~~ INTER-DEALER BROKER NETTING MEMBERS**

[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]

**Section 1 – Submitting Members**

~~A Submitting Member that has submitted to the Corporation pursuant to these Rules data on a trade on behalf of an Executing Firm shall be obligated to the Corporation pursuant to these Rules (including, if the trade is netted and settled through the Netting System, as regards the calculation of payment of Required Fund Deposit and Funds-Only Settlement Amounts) in connection with such trades to the same degree as if it itself had executed such trades.~~

**Section 2 – Repo Brokers**

At the request of the Corporation, each ~~Repo~~ **Inter-Dealer Broker Netting Member** shall submit to the Corporation, data on all of its trades in Eligible Netting Securities, including trades done with ~~customers Non-Members~~. Such request may include such data as is necessary to indicate, by reference number, a buy side that matches in par amount, and is bound to, one or more sell sides, and vice versa. Moreover, for every trade done by an ~~Repo~~ **Inter-Dealer Broker Netting Member** involving an Eligible Netting Security, including trades done with ~~customers Non-Members~~, the identity of each buy side and sell side counterparty shall be disclosed to the Corporation, in the form and manner prescribed by the Corporation for such disclosure. The requirements of this paragraph shall not apply to Repo Transactions.

If an ~~Repo~~ **Inter-Dealer Broker Netting Member** fails to comply with the requirements of this Section, the Corporation, in its sole discretion, may treat such Member for purposes of these Rules as if it were a Dealer Netting Member, upon providing notice of such to the Member.

Notwithstanding anything to the contrary elsewhere in these Rules, including Rule 1, trades by an ~~Repo~~ **Inter-Dealer Broker Netting Member** with a ~~customer Non-Members~~ that clears all of its trades in Eligible Netting Securities through one or more Netting Members (excluding Netting Members that are ~~Repo~~ **Inter-Dealer Brokers Netting Members**), each of which in turn submits all of such trades of the ~~Repo~~ **Inter-Dealer Broker Netting Member** to the Corporation for netting and settlement through the Netting System, shall be treated by the Corporation for purposes of determining the status of the ~~Repo~~ **Inter-Dealer Broker Netting Member** as if they were trades with a Netting Member.

\* \* \*

## RULE 18 – SPECIAL PROVISIONS FOR REPO TRANSACTIONS

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

### Section 3 – Collateral Substitutions

\* \* \*

(f) Upon receipt of a request for such substitution where the information regarding the New Securities Collateral has not been provided to the Corporation, a Generic CUSIP Number will be applied to the substitution until the information regarding the New Securities Collateral has been provided. Until such time as the Corporation has been notified of a substitution of the New Securities Collateral to be substituted, the Corporation shall base margining with respect to the New Securities Collateral on the applicable Generic CUSIP Number using the methodology that is used for securities whose volatility is less amenable to statistical analysis set forth in ~~Section 1b of Rule 4~~ **the Margin Component Schedule**.

The Corporation shall have no obligation to ensure the acceptability to the Reverse Repo Party of any New Securities Collateral transferred pursuant to this Section, nor shall the Corporation record, authenticate or monitor the number of collateral substitutions performed in accordance with the Right of Substitution.

## RULE 19 – SPECIAL PROVISIONS FOR BROKERED REPO TRANSACTIONS

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

### Section 1 – General

**The ~~obligations of the Corporation~~ provisions of this Rule 19 shall apply to the Brokered Repo Transactions of each Inter-Dealer Broker Netting Member acting as a Repo Broker and each Netting Member that is a counterparty to such ~~regarding~~ Brokered Repo Transactions ~~are subject to the special provisions of this Rule, and such provisions supersede any conflicting provisions of any other Rule.~~**

### Section 2 – Responsibilities of Repo Brokers

**~~If a Repo Broker wishes to submit to the Corporation data on a Brokered Repo Transaction, it must do so through a second Account, which the Corporation will assign to it. With respect to a Non-IDB Repo Broker, this separate account shall be its Segregated Repo Account.~~**

A Repo Broker shall submit to the Corporation data on a Brokered Repo Transaction only upon written agreement, and compliance, with the following conditions: (a) the Repo Broker's establishment of a separate account, with a separate Fedwire address, at a clearing bank that will be used exclusively for the settlement by the parties to the transaction of the Start Leg, and (b) the Repo Broker's granting of the necessary permissions to allow this account to be subject to review by the Corporation. The requirements of subsections (a) and (b) above shall not apply to Repo Brokers ~~with Segregated Repo Accounts~~ that elect to settle their Same-Day Settling Trades with the Corporation.

A Repo Broker that submits to the Corporation data on Brokered Repo Transactions shall be responsible for responding promptly and in good faith to notifications submitted by the Corporation and/or Netting Member counterparties to it of errors with such data, by modifying or canceling and replacing any incorrect data.

\* \* \*

### Section 4 – Calculation of Funds-Only Settlement Amounts for Repo Brokers

Repo Brokers must satisfy, each business day, their Funds-Only Settlement Amount obligations including Forward Mark Adjustment Payments, according to the following parameters:

- (i) Any Debit Forward Mark Adjustment Payment or Credit Forward Mark Adjustment Payment up to a dollar amount cap (the "Cap") that will be determined by the Corporation from time to time, shall be automatically collected from, or paid to the Repo Broker, as applicable.

(ii) If the Repo Broker represents to the Corporation that it is unable to pay the amount of a Debit Forward Mark Adjustment Payment in excess of the Cap, the Corporation may, in its sole discretion, finance such amount. In such case, the Repo Broker shall be responsible for: (i) any costs incurred by the Corporation in arranging the financing (i.e., an administrative fee set forth in the Fee Structure) and (ii) reimbursing the Corporation for the financing costs incurred. The Repo Broker's Clearing Fund deposit shall secure such financing.

(iii) The Corporation may, in its sole discretion, retain any amount of a Credit Forward Mark Adjustment Payment that is in excess of the Cap.

Repo Brokers maintaining more than one ~~Segregated~~ Repo Broker Account must aggregate Debit Forward Mark Adjustment Payments and Credit Forward Mark Adjustment Payments in those Accounts for purposes of the Cap. The Corporation will retain the right to assess any and all Funds-Only Settlement amounts to the Netting Member counterparty of the Repo Broker in accordance with Section 3 above.

#### Section 5 – Assumption of Blind Brokered Fails

With respect to a fail of the Start Leg of a Brokered Repo Transaction (notwithstanding Section 2(v) of Rule 11) or End Leg of a Brokered Repo Transaction (notwithstanding Section 2(v) of Rule 11), the Corporation may, in its sole discretion in order to facilitate the settlement of such Leg, assume responsibility for such fail from the Repo Broker whether or not the Transaction has been compared. If the Corporation assumes responsibility for such Transaction, it shall become part of the counterparty's Fail Deliver Obligation or Fail Receive Obligation as the case may be. This Section 5 will only apply to Repo Brokers ~~with Segregated Repo Accounts~~ that do not elect to settle Same-Day Settling Trades with the Corporation.

\* \* \*

**RULE 21 – RESTRICTIONS ON ACCESS TO SERVICES**

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

Section 1 – Cause for Action by the Corporation

\* \* \*

(a) the Member ~~or its Permitted Margin Affiliate~~ has failed to perform any of its obligations to the Corporation arising under these Rules or under the Procedures or has materially violated any Rule or Procedure of, or any agreement with, the Corporation or those of an FCO with which the Corporation has entered into a Cross-Margining Agreement;

\* \* \*

**RULE 21A – WIND-DOWN OF A NETTING MEMBER**

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

(viii) Calculating the Required Fund Deposit of the Wind-Down Member in a manner different from that provided in ~~Rule 4~~**the Margin Component Schedule**, in order to more appropriately reflect the risk presented by the Wind-Down Member to the Corporation, such as, for example, not applying certain components of the Required Fund Deposit calculation; or

\* \* \*

**RULE 22 – INSOLVENCY OF A MEMBER**

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

\* \* \*

Section 2 – Determination of Insolvency

\* \* \*

~~(e) A Member may be treated as insolvent by the Corporation, in its sole discretion, if a Permitted Margin Affiliate of the Member defaults in its obligations to the Corporation.~~

\* \* \*

**RULE 29 – RELEASE OF CLEARING DATA**

**[Changes to this Rule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Rule.]**

(a) Absent valid legal process or as provided elsewhere in this Rule, the Corporation will only release Clearing Data relating to transactions of a particular Member to: (i) such Member and its ~~Permitted Margin Affiliate or~~ Cross-Margining Affiliate, as applicable, (ii) such Member's Sponsoring Member, if such Member is a Sponsored Member, (iii) the Securities and Exchange Commission, (iv) the Federal Reserve Bank of New York for market surveillance purposes, or to an FCO and its regulators pursuant to a Cross-Margining Arrangement. ~~Data released to an FCO and its regulators pursuant to a Cross-Margining Arrangement will include information and data pertaining to the Member's Market Professional customers if applicable under the Arrangement.~~

\* \* \*

## MARGIN COMPONENT SCHEDULE

[Changes to this Schedule, as amended by File Nos. SR-FICC-2024-007 and SR-FICC-2024-802, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. By no later than March 31, 2025 these changes will be implemented, and this legend will be automatically removed from this Schedule.]

### Section 1 – Overview

Each Business Day, each Netting Member shall be required to deposit with the Corporation an amount equal to the sum of all applicable Required Fund Deposit Portions, calculated twice daily pursuant to this Schedule and subject to the provisions of Rule 4.

Each Business Day, each Netting Member for which the Corporation maintains a Segregated Indirect Participants Account shall be required to deposit with the Corporation Segregated Customer Margin equal to the sum of all Segregated Customer Margin Requirements for all such Accounts. Each Segregated Customer Margin Requirement shall equal the sum of the amounts calculated pursuant to Section 3 below for each Segregated Indirect Participant whose Transactions are recorded in the relevant Segregated Indirect Participants Account. Each such calculation shall be performed twice daily pursuant to this Schedule and subject to the provisions of Rule 4.

### Section 2 – Required Fund Deposit Calculations

#### (a) Unadjusted GSD Margin Portfolio Amount

Each Business Day, the Corporation shall determine, with respect to each Margin Portfolio that includes one or more of either Dealer Accounts, Broker Accounts, Sponsoring Member Omnibus Accounts or Agent Clearing Member Omnibus Accounts, an Unadjusted GSD Margin Portfolio Amount as the sum of the following, as applicable, which the Corporation shall adjust such that the Unadjusted GSD Margin Portfolio Amount is equal to or greater than zero:

(i) the VaR Charge,

plus or minus

(ii) in the case of a Margin Portfolio of a GCF Counterparty, the Blackout Period Exposure Adjustment during the monthly Blackout Period or until the applicable Pool Factors used for collateral valuation are updated,

plus

(iii) the Portfolio Differential Charge.

**(b) Additional Charges**

**The Corporation shall add the following to the Unadjusted GSD Margin Portfolio Amount, as applicable:**

**(i) in the case of a Netting Member with backtesting deficiencies, the Backtesting Charge,**

**plus**

**(ii) the Holiday Charge, on the Business Day prior to a Holiday,**

**plus**

**(iii) a Margin Liquidity Adjustment Charge,**

**plus**

**(iv) Excess Capital Premium,**

**plus**

**(v) Intraday Supplemental Fund Deposit.**

**(c) Minimum Charges and Total Required Fund Deposit Amounts**

**The Required Fund Deposit for a Netting Member's Margin Portfolios that contain Dealer Accounts shall be equal to the greater of (i) the sum of the Unadjusted GSD Margin Portfolio Amount and all applicable additional charges; and (ii) a minimum charge of \$1 million.**

**For each Margin Portfolio that includes Broker Accounts, the Corporation shall determine the greater of (i) the sum of the Unadjusted GSD Margin Portfolio Amount and all applicable additional charges; and (ii) a minimum charge of \$5 million. The Required Fund Deposit for a Netting Member's Margin Portfolios that include Broker Accounts shall be the sum of the amounts calculated for each such Margin Portfolio pursuant to this paragraph.**

**The Sponsoring Member Omnibus Account Required Fund Deposit shall be equal to the greater of (i) the sum of the Unadjusted GSD Margin Portfolio Amount and all applicable additional charges; and (ii) a minimum charge of \$1 million.**

**The Agent Clearing Member Omnibus Account Required Fund Deposit shall be equal to the greater of (i) the sum of the Unadjusted GSD Margin Portfolio Amount and all applicable additional charges; and (ii) a minimum charge of \$1 million.**

**Section 3 – Segregated Customer Margin Requirement Calculations**

**(a) Unadjusted GSD Margin Portfolio Amount**

**Each Business Day, the Corporation shall determine, with respect to each Segregated Indirect Participant's Transactions recorded in a given Segregated Indirect Participants Account, an Unadjusted GSD Margin Portfolio Amount as the sum of the following, as applicable, which the Corporation shall adjust such that the Unadjusted GSD Margin Portfolio Amount is equal to or greater than zero:**

**(i) the VaR Charge,**

**plus or minus**

**(ii) in the case of a Segregated Indirect Participant that is a GCF Counterparty, the Blackout Period Exposure Adjustment during the monthly Blackout Period or until the Pool Factors used for collateral valuation are updated,**

**plus**

**(iii) a Portfolio Differential Charge.**

**(b) Additional Charges**

**The Corporation shall add the following to the Unadjusted GSD Margin Portfolio Amount, as applicable:**

**(i) in the case of a Segregated Indirect Participant with backtesting deficiencies, the Backtesting Charge, if applicable,**

**plus**

**(ii) the Holiday Charge, on the Business Day prior to a Holiday,**

**plus**

**(iii) a Margin Liquidity Adjustment Charge,**

**plus**

**(v) Intraday Supplemental Fund Deposit.**

**(c) Minimum Charge and Total Required Fund Deposit Amount**

**For each Segregated Indirect Participant, the Corporation shall determine the greater of (i) the sum of the Unadjusted GSD Margin Portfolio Amount and all applicable additional charges; and (ii) a minimum charge of \$1 million. The Segregated Indirect**

**Participants Account Required Fund Deposit shall be the sum of the amounts calculated for each Segregated Indirect Participant pursuant to this paragraph.**

#### **Section 4 – Increased Required Fund Deposits**

**(a) Notwithstanding anything to the contrary in the Rules, the Corporation may require a Netting Member to make and maintain a higher Required Fund Deposit than the amount calculated pursuant to this Schedule, if the Corporation determines that such higher Required Fund Deposit is necessary to protect the Corporation and its Members from Legal Risk.**

**(b) The Corporation may require a Netting Member to make an additional payment (“special charge”) applied to its Required Fund Deposit as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time.**

**(c) The Corporation may require a Netting Member that has been placed on the Watch List to make and maintain an additional deposit applied to its Required Fund Deposit over and above the amount determined in accordance with this Schedule, as provided for in Section 11 of Rule 3.**

**(d) The Corporation may require a Netting Member to make additional deposits or to make and maintain a higher Required Fund Deposit pursuant to the Rules.**

**(e) The Corporation shall apply the higher of the Required Fund Deposit calculation as of the beginning of the current Business Day and Intraday on the current Business Day for the Sponsoring Member Omnibus Account.**

#### **Section 5 – Definitions and Calculations of Clearing Fund Components**

##### **Backtesting Charge**

**The term “Backtesting Charge” means an additional charge that may be added to a Netting Member’s Required Fund Deposit or Segregated Customer Margin Requirement to mitigate exposures to the Corporation caused by settlement risks that may not be adequately captured by the Corporation’s portfolio volatility model. The Corporation may assess this charge on the start of the day portfolio of a Netting Member or Segregated Indirect Participant (the “Regular Backtesting Charge”) and/or its intraday portfolios (the “Intraday Backtesting Charge”), as needed, to enable the Corporation to achieve its backtesting coverage target. The Regular Backtesting Charge and the Intraday Backtesting Charge may apply to Netting Members or Segregated Indirect Participants that have 12-month trailing backtesting coverage below the 99 percent backtesting coverage target, excluding deficiencies attributable to Blackout Period exposures. The Regular Backtesting Charge and the Intraday Backtesting Charge, as applicable, shall generally be equal to the third largest deficiency of the Netting Member or Segregated Indirect Participant that occurred during the previous 12 months. Deficiencies attributable to Blackout Period**

exposures would be included only during the Blackout Period. The Corporation may in its discretion adjust such charge if the Corporation determines that circumstances particular to the settlement activity of a Netting Member or Segregated Indirect Participant and/or market price volatility warrant a different approach to determining or applying such charge in a manner consistent with achieving the Corporation's backtesting coverage target.

#### Blackout Period Exposure Adjustment

The term "Blackout Period Exposure Adjustment" means an additional charge or a reduction that may be added to a GCF Counterparty's Unadjusted GSD Margin Portfolio Amount to mitigate exposures to the Corporation that may arise due to potential overvaluation of mortgage-backed securities pledged to collateralize GCF Repo Transactions during the Blackout Period. The Blackout Period Exposure Adjustment shall apply to GCF Counterparties that are exposed to potential overvaluation of mortgage-backed securities pledged as collateral during the Blackout Period. The Blackout Period Exposure Adjustment shall be based on a projected average pay-down rate of the applicable mortgage-backed securities. The Corporation may in its discretion adjust or waive such adjustment if the Corporation determines that circumstances particular to the GCF Counterparty's use of mortgage-backed security pledges or to the mortgage-backed securities so pledged warrant a different approach to determining or applying such adjustment in a manner consistent with achieving the Corporation's backtesting coverage target.

#### Excess Capital Differential

The term "Excess Capital Differential" means the amount by which a Netting Member's VaR Charge, other than the VaR Charges calculated for such Member's Segregated Indirect Participants Accounts, exceeds its Netting Member Capital.

#### Excess Capital Ratio

The term "Excess Capital Ratio" means the result from dividing the amount of a Netting Member's VaR Charge, other than the VaR Charges calculated for such Member's Segregated Indirect Participants Accounts, by the amount of Netting Member Capital that it maintains.

#### Excess Capital Premium

The term "Excess Capital Premium" shall mean an additional charge that may be added to a Netting Member's Required Fund Deposit if such Netting Member maintains an Excess Capital Ratio greater than 1.0.

An Excess Capital Premium shall be calculated as the product of: (a) the amount by which the Netting Member's VaR Charge exceeds its Net Capital, multiplied by (b) its Excess Capital Ratio, which shall be no more than 2.0.

For purposes of calculating an Excess Capital Premium, the Corporation shall use, as applicable, the Net Capital amount reported by a Netting Member on its most recent FOCUS Report, or the Equity Capital amount reported by a Netting Member on its most recent Call Report.<sup>6</sup> The Corporation may, in its sole discretion, accept an updated Net Capital or Equity Capital amount provided by a Netting Member prior to the issuance of its next applicable financial report for purposes of calculating an Excess Capital Premium.

The Corporation may waive the collection of an Excess Capital Premium of a Netting Member in exigent circumstances when the Corporation, in its sole discretion, observes extreme market conditions or other unexpected changes in factors such as market volatility, trading volumes or other similar factors.

In determining whether it is appropriate to waive the collection of an Excess Capital Premium in such circumstances, the Corporation would review all relevant facts, circumstances and other information available to it at the time of such determination, including the degree to which a Netting Member's capital position and trading activity compare or correlate to the prevailing exigent circumstances and whether the Corporation can effectively address the risk exposure presented by a Netting Member without the collection of the Excess Capital Premium from that Netting Member.

The collection of an Excess Capital Premium may be waived by a Managing Director in the Group Chief Risk Office and such waiver shall be documented in a written report that is made available to the Netting Member impacted by the waiver upon request.

### Holiday Charge

The term "Holiday Charge" means an additional charge that may be added to the Required Fund Deposit or Segregated Customer Margin Requirement on the Business Day prior to a Holiday. The Holiday Charge approximates the exposure that the trading activity of a Netting Member or Segregated Indirect Participant on the applicable Holiday could pose to the Corporation. Since the Corporation cannot collect margin on the Holiday, the Holiday Charge is due on the Business Day prior to the applicable Holiday.

The methodology for calculating a Holiday Charge shall be determined by the Corporation in advance of each applicable Holiday. The Holiday Charge approximates each Netting Member's Required Fund Deposit or Segregated Customer Margin Requirement to address the exposure that could be posed to the Corporation by the trading activity of the Netting Member or Segregated Indirect Participant. The Corporation shall have the discretion to calculate the Holiday Charge based on its assessment of market conditions at the time the Holiday Charge

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<sup>6</sup> If a Netting Member is not required to file a FOCUS Report or a Call Report, the Corporation shall use the Net Capital or Equity Capital amount, as applicable, provided on the Netting Member's most recent financial statements or equivalent reporting delivered to the Corporation pursuant to Rule 3.

is calculated (such as, for example, significant market occurrences that could impact market price volatility). The Corporation shall inform Netting Members of the methodology it will use to calculate the Holiday Charge by an Important Notice issued no later than 10 Business Days prior to the day on which the applicable Holiday Charge is applied. Examples of potential methodologies for the Holiday Charge may include, but shall not be limited to, time scaling of the VaR Charge or a stress scenario that reflects potential market price volatility on the Holiday.

#### Intraday Supplemental Fund Deposit

The term “Intraday Supplemental Fund Deposit” means an additional charge that may be included in each Member’s Required Fund Deposit or Segregated Customer Margin Requirement intraday. The Corporation shall re-calculate intraday, each Business Day, at the times established by the Corporation for this purpose, the amount of the intraday VaR Charge applicable to each Margin Portfolio of a Member and to each Segregated Indirect Participant, based upon the open positions of the Margin Portfolio or Segregated Indirect Participant at a designated time intraday, for purposes of establishing whether a Member shall be required to make an Intraday Supplemental Fund Deposit.

The Corporation shall establish procedures for collection of an amount calculated in respect of a Member’s Intraday Supplemental Fund Deposit, including parameters regarding threshold amounts that require payment, and the form and time by which payment is required to be made to the Corporation. The Corporation reserves the right to require a Member or Members generally to make additional Intraday Supplemental Fund Deposits if the Corporation determines it to be necessary to protect itself and its Members in response to factors such as market conditions or financial or operational capabilities affecting a Member or Members generally.

#### Margin Liquidity Adjustment Charge or MLA Charge

The terms “Margin Liquidity Adjustment Charge” or “MLA Charge” mean, with respect to each Margin Portfolio, Sponsored Member, or Segregated Indirect Participant, an additional charge applied to Net Unsettled Positions of a Member, Sponsored Member, or Segregated Indirect Participant. The MLA Charge shall be calculated daily and shall be included in each Member’s Required Fund Deposit or Segregated Customer Margin Requirement, as applicable.

For purposes of calculating this charge, Net Unsettled Positions shall be categorized into the following asset groups: (a) U.S. Treasury securities, which shall be further categorized into subgroups by maturity; (b) Treasury-Inflation Protected Securities (“TIPS”), which shall be further categorized into subgroups by maturity; (c) U.S. agency bonds; and (d) mortgage pools, which may be further categorized into subgroups by mortgage pool types.

The asset groups and subgroups shall be set forth in a schedule that is published on the Corporation’s website. It shall be the Member’s responsibility to retrieve the

schedule. The Corporation will provide Members with at a minimum 5 Business Days' advance notice of any change to the schedule via an Important Notice.

The Corporation shall first calculate a measurement of market impact cost for Net Unsettled Positions in each of the asset groups/subgroups, as described below:

(i) For Net Unsettled Positions in U.S. Treasury securities maturing in less than one year and TIPS, the directional market impact cost should be used, which is a function of the Net Unsettled Position's net directional market value;

(ii) For all other Net Unsettled Positions, two components shall be added together: (1) the directional market impact cost, as described above, and (2) the basis cost, which is based on the Net Unsettled Position's gross market value.

For all asset groups/subgroups, the net directional market value and the gross market value shall be divided by the average daily volumes of the securities in that asset group/subgroup over a lookback period.

The calculated market impact cost for Net Unsettled Positions in an asset group/subgroup shall be compared to a portion of the VaR Charge that is allocated to that asset group/subgroup. If the ratio of the calculated market impact cost to a portion of the VaR Charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA Charge will be applied to that asset group/subgroup. If the ratio of these two amounts is equal to or less than this threshold, the MLA Charge will not be applied to that asset group/subgroup.

When applicable, an MLA Charge for each asset group/subgroup would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to a portion of the VaR Charge allocated to that asset group/subgroup exceeds the threshold, and (2) a portion of the VaR Charge allocated to that asset group/subgroup.

Each applicable MLA Charge for each asset group/subgroup shall be added together to result in one total MLA Charge.

The Corporation may apply a downward adjusting scaling factor based on the ratio of the calculated market impact cost to a portion of the VaR Charge to result in a final MLA Charge, where a higher ratio would trigger a larger downward adjustment of the MLA Charge and a lower ratio would trigger no downward adjustment of the MLA Charge.

If a Sponsored Member or Segregated Indirect Participant clears through multiple Accounts, for each such Account, the Corporation shall calculate both (1) an MLA Charge for each asset group/subgroup in the account on a standalone basis, as provided above, and (2) an MLA Charge for each asset group/subgroup in the Account as part of a consolidated portfolio, as provided below, with the higher

amount applied as the MLA Charge for the relevant asset group/subgroup. The applicable MLA Charge for each asset group/subgroup shall be added together to result in one total MLA Charge for the Account.

For purposes of calculating the MLA Charge for each asset group/subgroup in the Account as part of a consolidated portfolio, the market impact cost for the asset group/subgroup is calculated based on the aggregate Net Unsettled Positions of that asset group/subgroup in the consolidated portfolio. The calculated market impact cost for each asset group/subgroup in the consolidated portfolio shall be allocated on a pro rata basis to each asset group/subgroup in each of the accounts based on the market impact cost of that asset group/subgroup in the Account.

The allocated market impact cost for an asset group/subgroup shall be compared to a portion of the VaR Charge that is allocated to that asset group/subgroup in the Account. If the ratio of the allocated market impact cost to a portion of the VaR Charge is greater than a threshold to be determined by the Corporation from time to time, an MLA Charge will be applied to that asset group/subgroup. If the ratio of these two amounts is equal to or less than this threshold, the MLA Charge will not be applied to that asset group/subgroup.

When applicable, the MLA Charge for each asset group/subgroup in the Account as part of a consolidated portfolio would be calculated as a proportion of the product of (1) the amount by which the ratio of the allocated market impact cost for the asset group/subgroup to the portion of the VaR Charge allocated to that asset group/subgroup exceeds a threshold, to be determined by the Corporation from time to time, and (2) a portion of the VaR Charge allocated to that asset group/subgroup.

### Margin Proxy

The term “Margin Proxy” means, with respect to each Margin Portfolio, Sponsored Member or Segregated Indirect Participant, an alternative volatility calculation for specified Net Unsettled Positions of a Netting Member, Sponsored Member or Segregated Indirect Participant, calculated using historical market price changes of such U.S. Treasury and agency pass-through mortgage-backed securities indices determined by the Corporation. The Margin Proxy would be applied by the Corporation as an alternative to the model-based volatility calculation of the VaR Charge for each Netting Member’s Margin Portfolio or for each Sponsored Member or Segregated Indirect Participant. The Margin Proxy shall cover such range of historical market price moves and parameters as the Corporation from time to time deems appropriate.

### Minimum Margin Amount

The term “Minimum Margin Amount” means, with respect to each Margin Portfolio, Sponsored Member or Segregated Indirect Participant, a minimum volatility calculation for specified Net Unsettled Positions of the Margin Portfolio, Sponsored

Member, or Segregated Indirect Participant, respectively, as of the time of such calculation.

The Minimum Margin Amount shall use historical price returns to represent risk and be calculated as the sum of the following:

(i) amounts calculated using a filtered historical simulation approach to assess volatility by scaling historical market price returns to current market volatility, with market volatility being measured by applying exponentially weighted moving average to the historical market price returns with a decay factor between 0.93 and 0.99, as determined by the Corporation from time to time based on sensitivity analysis, macroeconomic conditions, and/or backtesting performance,

(ii) amounts calculated using a haircut method to measure the risk exposure of those securities that lack sufficient historical market price return data, and

(iii) amounts calculated to incorporate risks related to (i) repo interest volatility (“repo interest volatility charge”) and (ii) transaction costs related to bid-ask spread in the market that could be incurred when liquidating a portfolio (“bid-ask spread risk charge”).

The Corporation will provide Members with at a minimum one Business Day advance notice of any change to the decay factor via an Important Notice.

#### Portfolio Differential Charge

The term “Portfolio Differential Charge” means, with respect to each Margin Portfolio or Segregated Indirect Participant, an additional charge to be included in each Member’s Required Fund Deposit or Segregated Customer Margin Requirement.

The Portfolio Differential Charge shall be calculated twice each Business Day as the exponentially weighted moving average (“EWMA”) of the historical increases in the VaR Charge of the Member or Segregated Indirect Participant that occur between collections of Required Fund Deposits or Segregated Customer Margin Requirement over a lookback period of no less than 100 days with a decay factor of no greater than 1, times a multiplier that is no less than 1 and no greater than 3, as determined by the Corporation from time to time as applicable to each Type of Account based on backtesting results. The Corporation will provide Members with at a minimum 10 Business Days advance notice of any change to the lookback period, the decay factor and/or the multiplier via an Important Notice.

### Unadjusted GSD Margin Portfolio Amount

The term “Unadjusted GSD Margin Portfolio Amount” means, with respect to each Margin Portfolio or Segregated Indirect Participant, the amount greater than or equal to zero determined by the Corporation in accordance with this Schedule.

### VaR Charge

The term “VaR Charge” means, with respect to each Margin Portfolio, Sponsored Member or Segregated Indirect Participant, a calculation of the volatility of specified Net Unsettled Positions of the Margin Portfolio, Sponsored Member, or Segregated Indirect Participant, respectively, as of the time of such calculation. Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such observable market data as the Corporation deems reasonable, and shall cover such range and assessment of volatility as the Corporation from time to time deems appropriate. To the extent that the primary source of such market data becomes unavailable for an extended period of time, the Corporation shall utilize the Margin Proxy as an alternative volatility calculation. In its assessment of volatility, the Corporation shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following risk groups: (a) mortgage pool transactions; (b) TIPS; (c) U.S. agency bonds; and (d) U.S. Treasury securities, which shall be further categorized by maturity – those maturing in (i) less than five years, (ii) equal to or more than five years and less than ten years, and (iii) equal to or more than ten years.

If the volatility calculation (or the Margin Proxy, when applicable) is lower than the VaR Floor, then the VaR Floor will be utilized as the VaR Charge of the Margin Portfolio, Sponsored Member or Segregated Indirect Participant.

The Corporation shall have the discretion to not apply the VaR calculation(s) to Net Unsettled Positions in classes of securities whose volatility is less amenable to statistical analysis, or to Term Repo Transactions and Forward-Starting Repo Transactions (including term and forward-starting GCF Repo Transactions) whose term repo rate volatility is less amenable to statistical analysis. In lieu of such calculation, the component required with respect to such transactions shall instead be determined utilizing a haircut method based on a historic index volatility model.

The Corporation shall take into account the VaR confidence level applicable to the Member or Segregated Indirect Participant in calculating the VaR Charge.

In the case of a Margin Portfolio of a Cross Margining Participant that is subject to one or more Cross-Margining Arrangements, in the discretion of the Corporation,

**the VaR Charge may be reduced by an amount not to exceed the any thresholds set forth in the applicable Cross-Margining Agreement and calculated on the current Business Day for such Cross-Margining Participant in accordance with the applicable Cross-Margining Agreements.**

**VaR Floor**

**The term “VaR Floor” means, with respect to each Margin Portfolio, Sponsored Member or Segregated Indirect Participant, the greater of (i) the VaR Floor Percentage Amount and (ii) the Minimum Margin Amount.**

**VaR Floor Percentage Amount**

**The term “VaR Floor Percentage Amount” means the absolute value of the sum of Net Long Positions and Net Short Positions of Eligible Securities, grouped by product and remaining maturity, multiplied by a percentage designated by the Corporation from time to time for such group. For U.S. Treasury and agency securities, such percentage shall be a fraction, no less than 10%, of the historical minimum volatility of a benchmark fixed income index for such group by product and remaining maturity. For mortgage-backed securities, such percentage shall be a fixed percentage that is no less than 0.05%.**