Required fields are shown with yellow backgrounds and asterisks.

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

File No. * SR 2023 - * 011
Amendment No. (req. for Amendments *)

Filing by Fixed Income Clearing Corporation

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

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
✓	☐	☐	✓	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 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 *).

Adopt a Portfolio Differential Charge as an Additional Component to the Government Securities Division Required Fund Deposit

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 * [redacted] Last Name * [redacted]

Title * [redacted]

E-mail * RuleFilingAdmin@dtcc.com

Telephone * [redacted] 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 08/03/2023

By [redacted]
(Name *)

(Title *)
[redacted]

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: 2023.08.03 14:16:25 -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 EFFS website.

Form 19b-4 Information * Add Remove View Narrative - GSD Portfolio Differential -	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 * Add Remove View Exhibit 1A - GSD Portfolio Differential	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 * Add Remove View	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 Add Remove View	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 Add Remove View Exhibit 3 (Redacted) - GSD PD - 17 pa	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 Add Remove View	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 Add Remove View Exhibit 5 - GSD Portfolio Differential - (	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 Add Remove View	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 ("GSD Rules")[1] to adopt a Portfolio Differential Charge ("PD Charge") as an additional component to the GSD Required Fund Deposit, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee of FICC's Board of Directors on September 20, 2022.

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

(a) Purpose

FICC is proposing to enhance the methodology for calculating Required Fund Deposit to the GSD Clearing Fund by adopting a new component, the PD Charge, which would be calculated to mitigate the risk presented to FICC by period-over-period fluctuations in a Member's Margin Portfolio(s) that may occur between the collections of Member's Required Fund Deposits.

Background

FICC, through GSD, serves as a central counterparty and provider of clearance and settlement services for the U.S. Treasury securities, as well as repurchase and reverse repurchase transactions involving U.S. Treasury securities.[2] As part of its market risk management strategy, FICC manages its credit exposure to Members by determining the appropriate Required Fund Deposit to the GSD Clearing Fund and monitoring its sufficiency, as provided for in the GSD Rules.[3] The Required Fund Deposit serves as each Member's margin.

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1 Terms not defined herein are defined in the GSD Rules, available at www.dtcc.com/~/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf.

2 GSD also clears and settles certain transactions on securities issued or guaranteed by U.S. government agencies and government sponsored enterprises.

3 See GSD Rule 4 (Clearing Fund and Loss Allocation), supra note 1. FICC's market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Securities

The objective of a Member's margin 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").[4] The aggregate amount of all Members' margin constitutes the GSD Clearing Fund. FICC would access the GSD Clearing Fund should a defaulting Member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that Member's portfolio. Each Member's Required Fund Deposit is calculated at least twice daily at the start-of-day and noon on each Business Day.

FICC regularly assesses market and liquidity risks as such risks relate to its margin methodologies to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market. For example, FICC employs daily backtesting to determine the adequacy of each Member's Required Fund Deposit.[5] FICC compares the Required Fund Deposit[6] for each Member with the simulated liquidation gains/losses, using the actual positions in the Member's portfolio(s) and the actual historical security returns. A backtesting deficiency occurs when a Member's Required Fund Deposit would not have been adequate to cover the projected liquidation losses estimated from a Member's settlement activity based on the backtesting results. Backtesting deficiencies highlight exposure that could subject FICC to potential losses in the event that a Member defaults.

Exchange Act of 1934 ("Act"), where these risks are referred to as "credit risks." 17 CFR 240.17Ad-22(e)(4).

4 The GSD 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 GSD Rule 21 (Restrictions on Access to Services) of the GSD Rules, supra note 1.

5 The Model Risk Management Framework ("Model Risk Management Framework") sets forth the model risk management practices of FICC and states that Value at Risk ("VaR") and Clearing Fund requirement coverage backtesting would be performed on a daily basis or more frequently. See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 31, 2017) (SR-FICC-2017-014), 84458 (Oct. 19, 2018), 83 FR 53925 (Oct. 25, 2018) (SR-FICC-2018-010), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-FICC-2020-004), 92380 (Jul. 13, 2021), 86 FR 38140 (Jul. 19, 2021) (SR-FICC-2021-006), 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (SR-FICC-2022-001), and 97890 (Jul. 13, 2023), 88 FR 46287 (Jul. 19, 2023) (SR-FICC-2023-008).

6 Members may be required to post additional collateral to the GSD Clearing Fund in addition to their Required Fund Deposit amount. See e.g., Section 7 of GSD Rule 3 (Ongoing Membership Requirements), supra note 1 (providing that adequate assurances of financial responsibility of a member may be required, such as increased Clearing Fund deposits). For backtesting comparisons, FICC uses the Required Fund Deposit amount, without regard to the actual, total collateral posted by the member to the GSD Clearing Fund.

FICC investigates the cause(s) of any backtesting deficiencies and determines if there is an identifiable cause of repeat backtesting deficiencies. FICC also evaluates whether multiple Members may experience backtesting deficiencies for the same underlying reason.

Pursuant to the GSD Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by FICC, as identified within the GSD Rules.[7] These components include the VaR Charge, Blackout Period Exposure Adjustment, Backtesting Charge, Holiday Charge, Margin Liquidity Adjustment Charge, and special charge.[8] The VaR Charge generally comprises the largest portion of a Member's Required Fund Deposit amount.

The VaR Charge is based on the potential price volatility of unsettled positions using a sensitivity-based Value-at-Risk (VaR) methodology. The VaR methodology provides an estimate of the possible losses for a given portfolio based on: (1) confidence level, (2) a time horizon and (3) historical market volatility. The VaR methodology is intended to capture the risks related to market price that is associated with the Net Unsettled Positions in a Member's Margin Portfolios. This risk-based margin methodology is designed to project the potential losses that could occur in connection with the liquidation of a defaulting Member's Margin Portfolio, assuming a Margin Portfolio would take three days to liquidate in normal market conditions. The projected liquidation gains or losses are used to determine the amount of the VaR Charge to each Margin Portfolio, which is calculated to capture the market price risk[9] associated with each Member's Margin Portfolio(s) at a 99% confidence level. The start-of-day VaR component of the Required Fund Deposit addresses the risk presented by a Member's start-of-day positions. GSD also calculates VaR for intraday collection, which reflects the changes in a Member's positions and risk profile due to the submission of new trades and completed settlement activity from the start-of-day to noon.

The proposed change to include the PD Charge in the calculation of Required Fund Deposit to the GSD Clearing Fund is the result of FICC's regular review of the effectiveness of its margin methodology.

Proposed Change

The PD Charge is designed to capture variability in the VaR Charge collected from the Member over the look back period. FICC believes the proposed PD Charge would help mitigate the risks posed to FICC by the variability of clearing activity submitted to GSD throughout the day by measuring the historical period-over-period increases in the VaR Charge of a Member over a given time period.

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[7] Supra note 1.

[8] See GSD Rule 4 (Clearing Fund and Loss Allocation), Section 1b. Supra note 1.

[9] Market price risk refers to the risk that volatility in the market causes the price of a security to change between the execution of a trade and settlement of that trade. This risk is sometimes also referred to as volatility risk.

A Member's Margin Portfolio(s) may fluctuate significantly intraday as the Member executes trades throughout the day. Given that the trades are generally novated and guaranteed by FICC upon comparison,[10] they may result in a coverage gap due to large un-margined intraday portfolio fluctuations that may not be mitigated until the collection of the Required Fund Deposit occurs intraday, or on the next Business Day. This exposure may result in backtesting deficiencies, and the PD Charge is designed to mitigate such exposure.

The proposed PD Charge would increase Members' Required Fund Deposits by an amount designed to address the variability of clearing activity submitted to GSD throughout the day, based upon the Member's historical trading activity. The PD Charge would be calculated twice a day and, if applicable, charged as a part of each Member's Required Fund Deposit. Specifically, the PD Charge would look at historical period-over-period increases between the (i) start-of-day and the intraday VaR components and (ii) the intraday and the end-of-day VaR components, respectively, of a Member's Required Fund Deposit over a look-back period of no less than 100 days[11] with a decay factor of no greater than 1 and would be calculated to equal the exponentially weighted moving average ("EWMA") of such changes to the Member's VaR Charge during the look-back period, times a multiplier that is no less than 1 and no greater than 3, as determined by FICC from time to time based on backtesting results.[12] The array of VaR Charge increases would be exponentially weighted to emphasize more recent observations in determining the PD Charge. By addressing the period-over-period changes to each Member's VaR Charge, the PD Charge would help mitigate the risks posed to FICC by un-margined period-over-period fluctuations to a Member's portfolio resulting from trading activity that would be guaranteed during the coverage gap.

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[10] With respect to trades submitted in FICC's Sponsored GC service, novation of a trade occurs when all of the requirements set forth in GSD Rule 3A (Sponsoring Members and Sponsored Members), Section 7(b)(ii) are met. Supra note 1.

[11] Upon implementation, FICC would use a 100-day look-back period in conjunction with a decay factor of 0.97. FICC has determined that a 100-day look-back period with a decay factor of 0.97 would provide it with a sufficient time series to reflect the current market conditions. As market conditions shifts, FICC may modify the look-back period and/or the decay factor from time to time; however, any change in the look-back period and/or the decay factor would be subject to FICC's model governance process and announced by FICC via an Important Notice posted to its website.

[12] The uncertainty of the market condition and/or changes in Members' business model may lead to changes in Member activity pattern that would require a multiplier greater than 1 be invoked from time to time. FICC would determine whether to modify the multiplier based on the backtesting results to evaluate the effectiveness of PD Charge as a mitigant of the position change risk and may change the multiplier from time to time to maintain the effectiveness of the PD Charge in generating sufficient backtest coverage. Changes to the multiplier shall be approved through FICC's model governance process and would be announced by FICC via an Important Notice posted to its website.

Accordingly, FICC is proposing to add a definition of "Portfolio Differential Charge" to GSD Rule 1 (Definitions) that would provide that the terms "Portfolio Differential Charge" or "PD Charge" mean, with respect to each Margin Portfolio, an additional charge to be included in each Member's Required Fund Deposit. The proposed definition would also provide that 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 FICC from time to time based on backtesting results. Furthermore, the proposed definition would provide that FICC 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.

In addition, FICC is proposing to amend Section 1b of GSD Rule 4 (Clearing Fund and Loss Allocation) to include the PD Charge as an additional component in the calculation of each Member's Required Fund Deposit.

Impact Study

FICC has conducted an impact study for the period from November 2021 to October 2022 ("Impact Study").[13] The results of the Impact Study indicate that, if the proposed PD Charge had been in place during the Impact Study period, the change would have resulted in an average daily PD Charge of approximately $661 million for the start-of-day margin calculation (approximately 2.4% of the start-of-day average daily Clearing Fund deposit) and approximately $822 million for the noon margin calculation (approximately 3.0% of the noon average daily Clearing Fund deposit).The rolling 12-month Clearing Fund requirement backtesting coverage ratio would have improved by approximately 36 bps (from 98.47% to 98.83%) as of October 2022. Specifically, if the proposed PD Charge had been in place during the Impact Study period, the number of backtesting deficiencies would have been reduced by 107 (from 462 to 355 or approximately 23%) and the backtesting coverage for 49 Members (approximately 38% of the GSD membership) would have improved, with 14 Members who were below 99% coverage brought back to above 99%.

The average daily PD Charge in dollars per Member would be approximately $5.5 million (approximately 2.4% of the average daily Clearing Fund deposit per Member) for the start-of-day margin calculation and approximately $6.8 million (approximately 3.0% of the average daily Clearing Fund deposit per Member) for the noon margin calculation.

The three largest average daily PD Charge in dollars for Members would be $37.31 million (approximately 2.89% of its average daily Clearing Fund deposit), $33.55 million

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13 GSD increased the minimum Required Fund Deposit for Members to $1 million on Dec. 5, 2022 (see Securities Exchange Act Release No. 96136 (Oct. 24, 2022) 87 FR 65268 (Oct. 28, 2022) (SR-FICC-2022-006)); however, for the purpose of this Impact Study, the $1 million minimum Requirement Fund Deposit is assumed to be in effect for the entirety of the Impact Study period.

(approximately 10.10% of its average daily Clearing Fund deposit), and $28.80 million (approximately 7.01% of its average daily Clearing Fund deposit) for the start-of-day margin calculation and $86.59 million (approximately 4.26% of its average daily Clearing Fund deposit), $74.54 million (approximately 9.45% of its average daily Clearing Fund deposit), and $41.95 million (approximately 7.97% of its average daily Clearing Fund deposit) for the noon margin calculation.

The three largest average daily PD Charge for Members as percentages of the relevant Member's average daily Clearing Fund deposit would be 17.89% (PD Charge of $8.21 million), 16.78% (PD Charge of $1.52 million), and 16.70% (PD Charge of $3.84 million) for the start-of-day margin calculation and 39.96% (PD Charge $14.49 million), 24.71% (PD Charge of $23.17 million), and 24.64% (PD Charge of $23.49 million) for the noon margin calculation.

Implementation Timeframe

Subject to approval by the Securities and Exchange Commission ("Commission"), FICC expects to implement this proposal by no later than 60 Business Days after such approval and would announce the effective date of the proposed change by an Important Notice posted to FICC's website.

(b) Statutory Basis

FICC believes the proposed change is 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 change is consistent with Section 17A(b)(3)(F) of the Act,[14] and Rules 17Ad-22(e)(4)(i), (e)(6)(i), (e)(6)(iii), and (e)(23)(ii), each promulgated under the Act,[15] for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of FICC be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible and be designed to promote the prompt and accurate clearance and settlement of securities transactions.[16] FICC believes the proposed change to implement a PD Charge is designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible because it is designed to mitigate risks to FICC by un-margined period-over-period fluctuations to a Member's portfolio that could increase the risks to FICC related to liquidating a Member's portfolio following that Member's default. Specifically, the proposed PD Charge would allow FICC to collect financial resources to cover exposures that it may face due to fluctuations in a Member's portfolio that occur between collections of Required Fund Deposits.

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14 15 U.S.C. 78q-1(b)(3)(F).

15 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), (e)(6)(iii), and (e)(23)(ii).

16 15 U.S.C. 78q-1(b)(3)(F).

The Clearing Fund is a key tool that FICC uses to mitigate potential losses to FICC associated with liquidating a Member's portfolio in the event of Member default. Therefore, the proposed change to include a PD Charge among the GSD Clearing Fund components would enable FICC to better address period-over-period changes in a Member's portfolio that occur between collections of Required Fund Deposits, such that, in the event of Member default, FICC's operations would not be disrupted and non-defaulting Members would not be exposed to losses they cannot anticipate or control. In this way, the proposed change to implement the PD Charge is designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[17]

Rule 17Ad-22(e)(4)(i) under the Act requires, in part, 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, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[18] As described above, FICC believes the proposed change to adopt a PD Charge would enable it to better identify, measure, monitor, and, through the collection of Members' Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence. Specifically, FICC believes that the proposed PD Charge would effectively mitigate the risks to FICC by un-margined period-over-period fluctuations to a Member's portfolio and would address the increased risks FICC may face related to liquidating a Member's portfolio following that Member's default. Therefore, FICC believes the proposal would enhance FICC's ability to effectively identify, measure and monitor its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As such, FICC believes the proposed change to adopt a PD Charge is consistent with Rule 17Ad-22(e)(4)(i) under the Act.[19]

Rule 17Ad-22(e)(6)(i) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.[20] The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit FICC's credit exposures to Members. FICC's proposed change to introduce a PD Charge is designed to more effectively address the risks presented by un-margined period-over-period fluctuations to a Member's portfolio. FICC believes the addition of the PD Charge would enable FICC to assess a more appropriate level of margin that accounts for increases in these risks that may occur

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17 Id.

18 17 CFR 240.17Ad-22(e)(4)(i).

19 Id.

20 17 CFR 240.17Ad-22(e)(6)(i).

between collections of Required Fund Deposits. This proposed change is designed to assist FICC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant portfolio. Therefore, FICC believes the proposed change to adopt a PD Charge is consistent with Rule 17Ad-22(e)(6)(i) under the Act.[21]

Rule 17Ad-22(e)(6)(iii) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.[22] The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit FICC's credit exposures to Members. FICC's proposed change to introduce a PD Charge is designed to more effectively address the risks presented by un-margined period-over-period fluctuations to a Member's portfolio. FICC believes the addition of the PD Charge would enable FICC to assess a more appropriate level of margin that accounts for increases in these risks that may occur between collections of Required Fund Deposits. This proposed change is designed to assist FICC in maintaining a risk-based margin system that produces margin levels sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Therefore, FICC believes the proposed change to adopt a PD Charge is consistent with Rule 17Ad-22(e)(6)(iii) under the Act.[23]

Rule 17Ad-22(e)(23)(ii) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for providing sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.[24] FICC is proposing to amend the GSD Rules to include a description of the PD Charge, including the method by which FICC would calculate that charge. Through these proposed amendments to the GSD Rules, the proposal would assist FICC in providing its Members with sufficient information to identify and evaluate the risks and costs, in the form of Required Fund Deposits to the GSD Clearing Fund, that they incur by participating in FICC. In this way, FICC believes the proposed change is consistent with Rule 17Ad-22(e)(23)(ii) under the Act.[25]

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[21] Id.

[22] 17 CFR 240.17Ad-22(e)(6)(iii).

[23] Id.

[24] 17 CFR 240.17Ad-22(e)(23)(ii).

[25] Id.

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

FICC believes that the proposed change to adopt a PD Charge could have an impact on competition. Specifically, FICC believes the proposed charge could burden competition because it could result in Members being assessed a higher Required Fund Deposit than they would have been assessed under the current GSD Clearing Fund formula.

The impact of this proposal on a particular Member would depend on the period-over-period change in the size and composition of the Member's portfolio. The proposed change is not designed in a way that is intended to or expected to impact Members of a certain legal entity type or size or who employ a particular business model. FICC expects that Members that present similar pattern in portfolio changes, regardless of the type or size of the Member or a Member's particular business practices, would have similar impact on their Required Fund Deposit amounts as a result of the proposal.

When the proposal results in a larger Required Fund Deposit, the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, the increase in Required Fund Deposit would be in direct relation to the specific risks presented by each Member's portfolio, and each Member's Required Fund Deposit would continue to be calculated with the same parameters and at the same confidence level for each Member. Therefore, because the impact of the proposal on a Member is relative to the specific risks presented by that Member's clearing activity and not on the type or size of a Member, FICC believes that any burden on competition imposed by the proposed change would be both necessary and appropriate, as permitted by Section 17A(b)(3)(I) of the Act for the reasons described in this filing and further below.[26]

FICC believes the above described burden on competition that may be created by the proposed PD Charge would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act.[27] As stated above, the proposed PD Charge is designed to address the risks to FICC by un-margined period-over-period fluctuations to a Member's portfolio that could increase the costs to FICC of liquidating a Member portfolio in the event of the Member's default. Specifically, the proposed PD Charge would allow FICC to collect sufficient financial resources to cover exposure that it may face due to fluctuations in Members' portfolios that occur between collections of margin. Therefore, FICC believes this proposed change is necessary and appropriate in furtherance of the requirements of Section 17A(b)(3)(F) of the Act, which requires that the GSD Rules be designed to assure the safeguarding of securities and funds that are in FICC's custody or control or which it is responsible.[28]

FICC believes the proposed change would also support FICC's compliance with Rules 17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iii) under the Act, which require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x)

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[26] 15 U.S.C. 78q-1(b)(3)(I).

[27] 15 U.S.C. 78q-1(b)(3)(F).

[28] Id.

effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence; (y) cover its credit exposures to its participants by establishing a risk based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market; and (z) cover its credit exposures to its participants by establishing a risk based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.[29]

As described above, FICC believes the introduction of the PD Charge would allow FICC to employ a risk-based methodology that would address the increased risks to FICC by period-over-period fluctuations to a Member's portfolio that may occur between collections of the Required Fund Deposits. Therefore, the proposed change would better limit FICC's credit exposures to Members, necessary in furtherance of the requirements of Rules 17Ad-22(e)(4)(i), (e)(6)(i) and (e)(6)(iii) under the Act. [30]

FICC believes that the above-described burden on competition that could be created by the proposed change would be appropriate in furtherance of the Act because, as described above, such change has been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, as required by Section 17A(b)(3)(F) of the Act.[31] Specifically, the proposed change would improve the risk-based margining methodology that FICC employs to set margin requirements and better limit FICC's credit exposures to its Members. As described above, the proposed PD Charge would enable FICC to produce margin levels more commensurate with the risks and particular attributes of each Member's portfolio. The proposed PD Charge would do this by measuring the historical period-over-period increases in the VaR Charge of the Member. Therefore, because the proposed PD Charge is designed to provide FICC with an appropriate measure of the risk presented by Members' portfolios, FICC believes the proposed change is appropriately designed to meet its risk management goals and regulatory obligations.

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

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[29] 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iii).

[30] Id.

[31] 15 U.S.C. 78q-1(b)(3)(F).

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. 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 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[32] 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

The proposed PD Charge is similar to the margin requirement differential ("MRD") charge with respect to the volatility component[33] ("MRD Volatility") at the National Securities Clearing Corporation ("NSCC"), an FICC affiliate, with one difference as described below.

While both the MRD Volatility component at NSCC and the proposed PD Charge are designed to mitigate risks from position changes, the MRD Volatility component is calculated once a day and measures the risks posed to NSCC by day-over-day fluctuations in a member's portfolio while the proposed PD Charge is calculated twice a day and would mitigate the risks posed to FICC by period-over-period fluctuations in a Member's portfolio. This difference is

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32 15 U.S.C. 78s(b)(2).

33 See NSCC's Rules & Procedures, Procedure XV, Sections I.(A)(1)(e) and I.(A)(2)(d), available at https://www.dtcc.com/-/media/Files/Downloads/legal/rules/nscc_rules.pdf.

due to the difference in frequency of margin collection between FICC and NSCC, whereby FICC collects margins twice a day while NSCC does it once a day.

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 3a – Summary of Impact Study. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3a being requested pursuant to 17 CFR 240.24b-2.***

Exhibit 3b – GSD Portfolio Differential Model Development Document. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3b being requested pursuant to 17 CFR 240.24b-2.***

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the GSD Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_________]; File No. SR-FICC-2023-011)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Adopt a Portfolio Differential Charge as an Additional Component to the Government Securities Division Required Fund Deposit

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on August __, 2023, 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. 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") in order to adopt a Portfolio Differential Charge ("PD Charge") as an additional component to the GSD Required Fund Deposit, as described in greater detail below.[3]

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Terms not defined herein are defined in the GSD Rules, available at www.dtcc.com/~/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf.

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

FICC is proposing to enhance the methodology for calculating Required Fund Deposit to the GSD Clearing Fund by adopting a new component, the PD Charge, which would be calculated to mitigate the risk presented to FICC by period-over-period fluctuations in a Member's Margin Portfolio(s) that may occur between the collections of Member's Required Fund Deposits.

Background

FICC, through GSD, serves as a central counterparty and provider of clearance and settlement services for the U.S. Treasury securities, as well as repurchase and reverse repurchase transactions involving U.S. Treasury securities.[4] As part of its market risk management strategy, FICC manages its credit exposure to Members by determining the appropriate Required Fund Deposit to the GSD Clearing Fund and monitoring its

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4 GSD also clears and settles certain transactions on securities issued or guaranteed by U.S. government agencies and government sponsored enterprises.

sufficiency, as provided for in the GSD Rules.[5] The Required Fund Deposit serves as each Member's margin.

The objective of a Member's margin 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").[6] The aggregate amount of all Members' margin constitutes the GSD Clearing Fund. FICC would access the GSD Clearing Fund should a defaulting Member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that Member's portfolio. Each Member's Required Fund Deposit is calculated at least twice daily at the start-of-day and noon on each Business Day.

FICC regularly assesses market and liquidity risks as such risks relate to its margin methodologies to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market. For example, FICC employs daily backtesting to determine the adequacy of each Member's Required

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5 See GSD Rule 4 (Clearing Fund and Loss Allocation), supra note 3. FICC's market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as "credit risks." 17 CFR 240.17Ad-22(e)(4).

6 The GSD 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 GSD Rule 21 (Restrictions on Access to Services) of the GSD Rules, supra note 3.

Fund Deposit.[7] FICC compares the Required Fund Deposit[8] for each Member with the simulated liquidation gains/losses, using the actual positions in the Member's portfolio(s) and the actual historical security returns. A backtesting deficiency occurs when a Member's Required Fund Deposit would not have been adequate to cover the projected liquidation losses estimated from a Member's settlement activity based on the backtesting results. Backtesting deficiencies highlight exposure that could subject FICC to potential losses in the event that a Member defaults.

FICC investigates the cause(s) of any backtesting deficiencies and determines if there is an identifiable cause of repeat backtesting deficiencies. FICC also evaluates whether multiple Members may experience backtesting deficiencies for the same underlying reason.

Pursuant to the GSD Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address

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7 The Model Risk Management Framework ("Model Risk Management Framework") sets forth the model risk management practices of FICC and states that Value at Risk ("VaR") and Clearing Fund requirement coverage backtesting would be performed on a daily basis or more frequently. See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 31, 2017) (SR-FICC-2017-014), 84458 (Oct. 19, 2018), 83 FR 53925 (Oct. 25, 2018) (SR-FICC-2018-010), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-FICC-2020-004), 92380 (Jul. 13, 2021), 86 FR 38140 (Jul. 19, 2021) (SR-FICC-2021-006), 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (SR-FICC-2022-001), and 97890 (Jul. 13, 2023), 88 FR 46287 (Jul. 19, 2023) (SR-FICC-2023-008).

8 Members may be required to post additional collateral to the GSD Clearing Fund in addition to their Required Fund Deposit amount. See e.g., Section 7 of GSD Rule 3 (Ongoing Membership Requirements), supra note 3 (providing that adequate assurances of financial responsibility of a member may be required, such as increased Clearing Fund deposits). For backtesting comparisons, FICC uses the Required Fund Deposit amount, without regard to the actual, total collateral posted by the member to the GSD Clearing Fund.

specific risks faced by FICC, as identified within the GSD Rules.[9] These components include the VaR Charge, Blackout Period Exposure Adjustment, Backtesting Charge, Holiday Charge, Margin Liquidity Adjustment Charge, and special charge.[10] The VaR Charge generally comprises the largest portion of a Member's Required Fund Deposit amount.

The VaR Charge is based on the potential price volatility of unsettled positions using a sensitivity-based Value-at-Risk (VaR) methodology. The VaR methodology provides an estimate of the possible losses for a given portfolio based on: (1) confidence level, (2) a time horizon and (3) historical market volatility. The VaR methodology is intended to capture the risks related to market price that is associated with the Net Unsettled Positions in a Member's Margin Portfolios. This risk-based margin methodology is designed to project the potential losses that could occur in connection with the liquidation of a defaulting Member's Margin Portfolio, assuming a Margin Portfolio would take three days to liquidate in normal market conditions. The projected liquidation gains or losses are used to determine the amount of the VaR Charge to each Margin Portfolio, which is calculated to capture the market price risk[11] associated with each Member's Margin Portfolio(s) at a 99% confidence level. The start-of-day VaR component of the Required Fund Deposit addresses the risk presented by a Member's start-of-day positions. GSD also calculates VaR for intraday collection, which reflects

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9 Supra note 3.

10 See GSD Rule 4 (Clearing Fund and Loss Allocation), Section 1b. Supra note 3.

11 Market price risk refers to the risk that volatility in the market causes the price of a security to change between the execution of a trade and settlement of that trade. This risk is sometimes also referred to as volatility risk.

the changes in a Member's positions and risk profile due to the submission of new trades and completed settlement activity from the start-of-day to noon.

The proposed change to include the PD Charge in the calculation of Required Fund Deposit to the GSD Clearing Fund is the result of FICC's regular review of the effectiveness of its margin methodology.

Proposed Change

The PD Charge is designed to capture variability in the VaR Charge collected from the Member over the look back period. FICC believes the proposed PD Charge would help mitigate the risks posed to FICC by the variability of clearing activity submitted to GSD throughout the day by measuring the historical period-over-period increases in the VaR Charge of a Member over a given time period.

A Member's Margin Portfolio(s) may fluctuate significantly intraday as the Member executes trades throughout the day. Given that the trades are generally novated and guaranteed by FICC upon comparison,[12] they may result in a coverage gap due to large un-margined intraday portfolio fluctuations that may not be mitigated until the collection of the Required Fund Deposit occurs intraday, or on the next Business Day. This exposure may result in backtesting deficiencies, and the PD Charge is designed to mitigate such exposure.

The proposed PD Charge would increase Members' Required Fund Deposits by an amount designed to address the variability of clearing activity submitted to GSD throughout the day, based upon the Member's historical trading activity. The PD Charge

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[12] With respect to trades submitted in FICC's Sponsored GC service, novation of a trade occurs when all of the requirements set forth in GSD Rule 3A (Sponsoring Members and Sponsored Members), Section 7(b)(ii) are met. Supra note 3.

would be calculated twice a day and, if applicable, charged as a part of each Member's Required Fund Deposit. Specifically, the PD Charge would look at historical period-over-period increases between the (i) start-of-day and the intraday VaR components and (ii) the intraday and the end-of-day VaR components, respectively, of a Member's Required Fund Deposit over a look-back period of no less than 100 days[13] with a decay factor of no greater than 1 and would be calculated to equal the exponentially weighted moving average ("EWMA") of such changes to the Member's VaR Charge during the look-back period, times a multiplier that is no less than 1 and no greater than 3, as determined by FICC from time to time based on backtesting results.[14] The array of VaR Charge increases would be exponentially weighted to emphasize more recent observations in determining the PD Charge. By addressing the period-over-period changes to each Member's VaR Charge, the PD Charge would help mitigate the risks

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[13] Upon implementation, FICC would use a 100-day look-back period in conjunction with a decay factor of 0.97. FICC has determined that a 100-day look-back period with a decay factor of 0.97 would provide it with a sufficient time series to reflect the current market conditions. As market conditions shifts, FICC may modify the look-back period and/or the decay factor from time to time; however, any change in the look-back period and/or the decay factor would be subject to FICC's model governance process and announced by FICC via an Important Notice posted to its website.

[14] The uncertainty of the market condition and/or changes in Members' business model may lead to changes in Member activity pattern that would require a multiplier greater than 1 be invoked from time to time. FICC would determine whether to modify the multiplier based on the backtesting results to evaluate the effectiveness of PD Charge as a mitigant of the position change risk and may change the multiplier from time to time to maintain the effectiveness of the PD Charge in generating sufficient backtest coverage. Changes to the multiplier shall be approved through FICC's model governance process and would be announced by FICC via an Important Notice posted to its website.

posed to FICC by un-margined period-over-period fluctuations to a Member's portfolio resulting from trading activity that would be guaranteed during the coverage gap.

Accordingly, FICC is proposing to add a definition of "Portfolio Differential Charge" to GSD Rule 1 (Definitions) that would provide that the terms "Portfolio Differential Charge" or "PD Charge" mean, with respect to each Margin Portfolio, an additional charge to be included in each Member's Required Fund Deposit. The proposed definition would also provide that 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 FICC from time to time based on backtesting results. Furthermore, the proposed definition would provide that FICC 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.

In addition, FICC is proposing to amend Section 1b of GSD Rule 4 (Clearing Fund and Loss Allocation) to include the PD Charge as an additional component in the calculation of each Member's Required Fund Deposit.

Impact Study

FICC has conducted an impact study for the period from November 2021 to October 2022 ("Impact Study").[15] The results of the Impact Study indicate that, if the

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[15] GSD increased the minimum Required Fund Deposit for Members to $1 million on Dec. 5, 2022 (see Securities Exchange Act Release No. 96136 (Oct. 24, 2022) 87 FR 65268 (Oct. 28, 2022) (SR-FICC-2022-006)); however, for the purpose of

proposed PD Charge had been in place during the Impact Study period, the change would have resulted in an average daily PD Charge of approximately $661 million for the start-of-day margin calculation (approximately 2.4% of the start-of-day average daily Clearing Fund deposit) and approximately $822 million for the noon margin calculation (approximately 3.0% of the noon average daily Clearing Fund deposit).The rolling 12-month Clearing Fund requirement backtesting coverage ratio would have improved by approximately 36 bps (from 98.47% to 98.83%) as of October 2022. Specifically, if the proposed PD Charge had been in place during the Impact Study period, the number of backtesting deficiencies would have been reduced by 107 (from 462 to 355 or approximately 23%) and the backtesting coverage for 49 Members (approximately 38% of the GSD membership) would have improved, with 14 Members who were below 99% coverage brought back to above 99%.

The average daily PD Charge in dollars per Member would be approximately $5.5 million (approximately 2.4% of the average daily Clearing Fund deposit per Member) for the start-of-day margin calculation and approximately $6.8 million (approximately 3.0% of the average daily Clearing Fund deposit per Member) for the noon margin calculation.

The three largest average daily PD Charge in dollars for Members would be $37.31 million (approximately 2.89% of its average daily Clearing Fund deposit), $33.55 million (approximately 10.10% of its average daily Clearing Fund deposit), and $28.80 million (approximately 7.01% of its average daily Clearing Fund deposit) for the start-of-day margin calculation and $86.59 million (approximately 4.26% of its average daily

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this Impact Study, the $1 million minimum Requirement Fund Deposit is assumed to be in effect for the entirety of the Impact Study period.

Clearing Fund deposit), $74.54 million (approximately 9.45% of its average daily Clearing Fund deposit), and $41.95 million (approximately 7.97% of its average daily Clearing Fund deposit) for the noon margin calculation.

The three largest average daily PD Charge for Members as percentages of the relevant Member's average daily Clearing Fund deposit would be 17.89% (PD Charge of $8.21 million), 16.78% (PD Charge of $1.52 million), and 16.70% (PD Charge of $3.84 million) for the start-of-day margin calculation and 39.96% (PD Charge $14.49 million), 24.71% (PD Charge of $23.17 million), and 24.64% (PD Charge of $23.49 million) for the noon margin calculation.

Implementation Timeframe

Subject to approval by the Commission, FICC expects to implement this proposal by no later than 60 Business Days after such approval and would announce the effective date of the proposed change by an Important Notice posted to FICC's website.

2. Statutory Basis

FICC believes the proposed change is 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 change is consistent with Section 17A(b)(3)(F) of the Act,[16] and Rules 17Ad-22(e)(4)(i), (e)(6)(i), (e)(6)(iii), and (e)(23)(ii), each promulgated under the Act,[17] for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of FICC be designed to, among other things, assure the safeguarding of securities and funds which are in the

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[16] 15 U.S.C. 78q-1(b)(3)(F).

[17] 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), (e)(6)(iii), and (e)(23)(ii).

custody or control of the clearing agency or for which it is responsible and be designed to promote the prompt and accurate clearance and settlement of securities transactions.[18] FICC believes the proposed change to implement a PD Charge is designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible because it is designed to mitigate risks to FICC by un-margined period-over-period fluctuations to a Member's portfolio that could increase the risks to FICC related to liquidating a Member's portfolio following that Member's default. Specifically, the proposed PD Charge would allow FICC to collect financial resources to cover exposures that it may face due to fluctuations in a Member's portfolio that occur between collections of Required Fund Deposits.

The Clearing Fund is a key tool that FICC uses to mitigate potential losses to FICC associated with liquidating a Member's portfolio in the event of Member default. Therefore, the proposed change to include a PD Charge among the GSD Clearing Fund components would enable FICC to better address period-over-period changes in a Member's portfolio that occur between collections of Required Fund Deposits, such that, in the event of Member default, FICC's operations would not be disrupted and non-defaulting Members would not be exposed to losses they cannot anticipate or control. In this way, the proposed change to implement the PD Charge is designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[19]

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[18] 15 U.S.C. 78q-1(b)(3)(F).

[19] Id.

Rule 17Ad-22(e)(4)(i) under the Act requires, in part, 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, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[20] As described above, FICC believes the proposed change to adopt a PD Charge would enable it to better identify, measure, monitor, and, through the collection of Members' Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence. Specifically, FICC believes that the proposed PD Charge would effectively mitigate the risks to FICC by un-margined period-over-period fluctuations to a Member's portfolio and would address the increased risks FICC may face related to liquidating a Member's portfolio following that Member's default. Therefore, FICC believes the proposal would enhance FICC's ability to effectively identify, measure and monitor its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As such, FICC believes the proposed change to adopt a PD Charge is consistent with Rule 17Ad-22(e)(4)(i) under the Act.[21]

Rule 17Ad-22(e)(6)(i) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system

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[20] 17 CFR 240.17Ad-22(e)(4)(i).

[21] Id.

that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.[22] The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit FICC's credit exposures to Members. FICC's proposed change to introduce a PD Charge is designed to more effectively address the risks presented by un-margined period-over-period fluctuations to a Member's portfolio. FICC believes the addition of the PD Charge would enable FICC to assess a more appropriate level of margin that accounts for increases in these risks that may occur between collections of Required Fund Deposits. This proposed change is designed to assist FICC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant portfolio. Therefore, FICC believes the proposed change to adopt a PD Charge is consistent with Rule 17Ad-22(e)(6)(i) under the Act.[23]

Rule 17Ad-22(e)(6)(iii) under the Act requires, in part, that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.[24] The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit FICC's

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22 17 CFR 240.17Ad-22(e)(6)(i).

23 Id.

24 17 CFR 240.17Ad-22(e)(6)(iii).

credit exposures to Members. FICC's proposed change to introduce a PD Charge is designed to more effectively address the risks presented by un-margined period-over-period fluctuations to a Member's portfolio. FICC believes the addition of the PD Charge would enable FICC to assess a more appropriate level of margin that accounts for increases in these risks that may occur between collections of Required Fund Deposits. This proposed change is designed to assist FICC in maintaining a risk-based margin system that produces margin levels sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Therefore, FICC believes the proposed change to adopt a PD Charge is consistent with Rule 17Ad-22(e)(6)(iii) under the Act.[25]

Rule 17Ad-22(e)(23)(ii) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for providing sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.[26] FICC is proposing to amend the GSD Rules to include a description of the PD Charge, including the method by which FICC would calculate that charge. Through these proposed amendments to the GSD Rules, the proposal would assist FICC in providing its Members with sufficient information to identify and evaluate the risks and costs, in the form of Required Fund Deposits to the GSD Clearing Fund, that they incur by participating in FICC. In this

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[25] Id.

[26] 17 CFR 240.17Ad-22(e)(23)(ii).

way, FICC believes the proposed change is consistent with Rule 17Ad-22(e)(23)(ii) under the Act.[27]

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

FICC believes that the proposed change to adopt a PD Charge could have an impact on competition. Specifically, FICC believes the proposed charge could burden competition because it could result in Members being assessed a higher Required Fund Deposit than they would have been assessed under the current GSD Clearing Fund formula.

The impact of this proposal on a particular Member would depend on the period-over-period change in the size and composition of the Member's portfolio. The proposed change is not designed in a way that is intended to or expected to impact Members of a certain legal entity type or size or who employ a particular business model. FICC expects that Members that present similar pattern in portfolio changes, regardless of the type or size of the Member or a Member's particular business practices, would have similar impact on their Required Fund Deposit amounts as a result of the proposal.

When the proposal results in a larger Required Fund Deposit, the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, the increase in Required Fund Deposit would be in direct relation to the specific risks presented by each Member's portfolio, and each Member's Required Fund Deposit would continue to be calculated with the same parameters and at the same confidence level for each Member. Therefore, because the impact of the proposal on a Member is relative to the specific risks presented

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27 Id.

by that Member's clearing activity and not on the type or size of a Member, FICC believes that any burden on competition imposed by the proposed change would be both necessary and appropriate, as permitted by Section 17A(b)(3)(I) of the Act for the reasons described in this filing and further below.[28]

FICC believes the above described burden on competition that may be created by the proposed PD Charge would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act.[29] As stated above, the proposed PD Charge is designed to address the risks to FICC by un-margined period-over-period fluctuations to a Member's portfolio that could increase the costs to FICC of liquidating a Member portfolio in the event of the Member's default. Specifically, the proposed PD Charge would allow FICC to collect sufficient financial resources to cover exposure that it may face due to fluctuations in Members' portfolios that occur between collections of margin. Therefore, FICC believes this proposed change is necessary and appropriate in furtherance of the requirements of Section 17A(b)(3)(F) of the Act, which requires that the GSD Rules be designed to assure the safeguarding of securities and funds that are in FICC's custody or control or which it is responsible.[30]

FICC believes the proposed change would also support FICC's compliance with Rules 17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iii) under the Act, which require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to

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[28] 15 U.S.C. 78q-1(b)(3)(I).

[29] 15 U.S.C. 78q-1(b)(3)(F).

[30] Id.

participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence; (y) cover its credit exposures to its participants by establishing a risk based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market; and (z) cover its credit exposures to its participants by establishing a risk based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.[31]

As described above, FICC believes the introduction of the PD Charge would allow FICC to employ a risk-based methodology that would address the increased risks to FICC by period-over-period fluctuations to a Member's portfolio that may occur between collections of the Required Fund Deposits. Therefore, the proposed change would better limit FICC's credit exposures to Members, necessary in furtherance of the requirements of Rules 17Ad-22(e)(4)(i), (e)(6)(i) and (e)(6)(iii) under the Act.[32]

FICC believes that the above-described burden on competition that could be created by the proposed change would be appropriate in furtherance of the Act because, as described above, such change has been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for

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[31] 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iii).

[32] Id.

which it is responsible, as required by Section 17A(b)(3)(F) of the Act.[33] Specifically, the proposed change would improve the risk-based margining methodology that FICC employs to set margin requirements and better limit FICC's credit exposures to its Members. As described above, the proposed PD Charge would enable FICC to produce margin levels more commensurate with the risks and particular attributes of each Member's portfolio. The proposed PD Charge would do this by measuring the historical period-over-period increases in the VaR Charge of the Member. Therefore, because the proposed PD Charge is designed to provide FICC with an appropriate measure of the risk presented by Members' portfolios, FICC believes the proposed change is appropriately designed to meet its risk management goals and regulatory obligations.

(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.

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33 15 U.S.C. 78q-1(b)(3)(F).

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. 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 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.

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. Please include File Number SR-FICC-2023-011 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-2023-011. 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 (http://www.dtcc.com/legal/sec-rule-filings.aspx). 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-2023-011 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.[34]

Secretary

[34] 17 CFR 200.30-3(a)(12).

EXHIBIT 3

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EXHIBIT 5

Bold and underlined text indicates proposed added language

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

FIXED INCOME CLEARING CORPORATION

GOVERNMENT SECURITIES DIVISION RULEBOOK

RULE 1 – DEFINITIONS

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[Changes to this Rule, as amended by File No. SR-FICC-2023-011, are available at 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 [insert date 60 Business Days after the approval of SR-FICC-2023-011], these changes will be implemented and this legend will be automatically removed from this Rule.]

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Portfolio Differential Charge or PD Charge

The terms "Portfolio Differential Charge" or "PD Charge" 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.

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RULE 4 - CLEARING FUND AND LOSS ALLOCATION

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[Changes to this Rule, as amended by File No. SR-FICC-2023-011, are available at 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 [insert date 60 Business Days after the approval of SR-FICC-2023-011], these changes will be implemented and this legend will be automatically removed from this Rule.]

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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:

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plus

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

plus

(**vii** ~~viii~~) 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.

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