

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 19

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

File No. * SR 2024 - * 801

Amendment No. (req. for Amendments *) 1

Filing by Fixed Income Clearing Corporation

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

Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
---------------------------------------	--	--	--	---	---

Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	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 *).

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: 2024.04.04
16:03:50 -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

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

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

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

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.

Partial Amd No. 1 (Redacted) - GSD M

Amendment No. 1 to SR-FICC-2024-801

Fixed Income Clearing Corporation (“FICC”) is filing this partial amendment (“Amendment No. 1”) to SR-FICC-2024-801 (“Advance Notice”), which was filed with the Securities and Exchange Commission (“Commission”) on February 27, 2024.

The Advance Notice consists of modifications to FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”) to (1) enhance the VaR Floor by incorporating a “Minimum Margin Amount” and (2) expand the application of the enhanced VaR Floor to include Margin Proxy, as described therein.

In describing the below amendments to the Advance Notice, FICC has marked **bold, underlined** text to represent language to be added, and **~~bold, strikethrough~~** text to represent language to be deleted, by this Amendment No. 1.

Please replace the text on page 6 of the Advance Notice with the following text:

As a result of this proposal, Members may experience increases in their Required Fund Deposits to the Clearing Fund. Based on an impact study conducted by FICC, on average, at the Member level, the proposed Minimum Margin Amount would have increased the SOD VaR Charge by approximately \$~~22.45~~ **22.43** million, or ~~17.69~~**17.56**%, and the noon VaR Charge by approximately \$~~23.22~~ **23.25** million, or ~~17.44~~**17.43**%, over a 2-year impact study period.

Please replace the text on pages 16-18 of the Advance Notice with the following text:

Impact Study

FICC performed an impact study on Members’ Margin Portfolios for the period beginning July 1, 2021 through June 30, 2023 (“Impact Study Period”).^{1,2} If the proposed rule

¹ 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.

² GSD adopted a Portfolio Differential Charge (“PD Charge”) as an additional component to the GSD Required Fund Deposit on Oct. 30, 2023 (see Securities Exchange Act Release No. 98494 (Sep. 25, 2023), 88 FR 67394 (Sep. 29, 2023) (SR-

changes³ had been in place during the Impact Study Period compared to the existing GSD Rules, the aggregate average daily start-of-day (“SOD”) VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or ~~14.05~~ 14.06%, and the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46%.

The impact study indicated that if the proposed rule changes had been in place, the VaR model backtesting coverage would have increased from approximately 98.86% to 99.46% during the Impact Study Period. Specifically, if the proposed rule changes had been in place during the Impact Study Period, the number of VaR model backtesting deficiencies would have been reduced by ~~443~~ 441 (from 843 to ~~400~~ 402, or approximately ~~53~~ 52%).

The impact study also indicated that if the proposed rule changes had been in place, overall margin backtesting coverage would have increased from approximately 98.87% to 99.33% during the Impact Study Period. Specifically, if the proposed rule changes had been in place during the Impact Study Period, the number of overall margin backtesting deficiencies would have been reduced by 280 (from 685 to 405, or approximately 41%) and the overall margin backtesting coverage for 94 Members (approximately 72% of the GSD membership) would have improved with 36 Members who were below 99% coverage would be brought back to above 99%.

Impacts to Members over the Impact Study Period

On average, at the Member level, the proposed Minimum Margin Amount would have increased the SOD VaR Charge by approximately ~~\$22.45~~ 22.43 million, or ~~17.69~~ 17.56%, and the noon VaR Charge by approximately ~~\$23.22~~ 23.25 million, or ~~17.44~~ 17.43%, over the Impact Study Period. The largest average percentage increase in SOD VaR Charge for any Member would have been approximately 66.88%, or \$97,051 (0.21% of the Member’s average

FICC-2023-011)); however, for the purpose of this Impact Study, the PD Charge is assumed to be in effect for the entirety of the Impact Study period.

³ Margin Proxy was not deployed during the Impact Study Period; however, if the proposed rule changes had been in place and the Margin Proxy were deployed during the Impact Study Period, the aggregate average daily SOD VaR Charges would have increased by approximately \$4.2 4.16 billion or ~~20.98~~ 20.97%. The impact study also indicated that if the proposed rule changes had been in place and the Margin Proxy were deployed, the VaR model backtesting coverage would have increased from approximately 98.17% to 99.38% during the Impact Study Period. Specifically, if the proposed rule changes had been in place and the Margin Proxy were deployed during the Impact Study Period, the number of the VaR model backtesting deficiencies would have been reduced by ~~901~~ 899 (from 1358 to ~~457~~ 459, or approximately ~~66.3~~ 66.2%).

Net Capital),⁴ and the largest average percentage increase in noon VaR Charge for any Member would have been approximately 64.79%, or \$61,613 (0.13% of the Member's average Net Capital). The largest average dollar increase in SOD VaR Charge for any Member would have been approximately ~~\$268.35~~ **268.51** million (0.34% of the Member's average Net Capital), or ~~19.05~~ **19.06**%, and the largest dollar increase in noon VaR Charge for any Member would have been approximately ~~\$288.57~~ **289.00** million (1.07% of the Member's average Net Capital), or ~~13.65~~ **13.67**%. The top 10 Members based on the size of their average SOD VaR Charges and average noon VaR Charges would have contributed approximately ~~51.84~~ **51.87**% and ~~53.63~~ **53.64**% of the aggregated SOD VaR Charges and aggregated noon VaR Charges, respectively, during the Impact Study Period had the proposed Minimum Margin Amount been in place. The same Members would have contributed to ~~49.86~~ **50.08**% and ~~51.48~~ **51.52**% of the increase in aggregated SOD VaR Charges and aggregated noon VaR Charges, respectively, had the proposed Minimum Margin Amount been in place during the Impact Study Period.

Please replace the text on pages 21-23 of the Advance Notice with the following text:

(ii) *Consistency with Section 805(a)(2) of the Clearing Supervision Act*

Rule 17Ad-22(e)(4)(i) under the Act⁵ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those exposures 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. As described above, FICC believes that the proposed changes 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. More specifically, as indicated by backtesting studies, implementation of a Minimum Margin Amount by changing the GSD Rules and QRM Methodology as described herein would allow FICC to limit its credit exposures to Members in the event that the current VaR model yields too low a VaR Charge for such portfolios and improve backtesting performance. As indicated by the backtesting studies, the aggregate average daily SOD VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or ~~14.05~~ **14.06**%, the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or

⁴ The term "Net Capital" means, as of a particular date, the amount equal to the net capital of a broker or dealer as defined in SEC Rule 15c3-1(c)(2), or any successor rule or regulation thereto. See GSD Rule 1 (Definitions), supra note 1.

⁵ 17 CFR 240.17Ad-22(e)(4)(i).

64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. By identifying and providing for appropriate VaR Charges, adding the Minimum Margin Amount to the VaR Floor would help to ensure that the risk exposure during periods of extreme market volatility is adequately identified, measured and monitored. Similarly, the proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members is sufficient to mitigate the credit exposure presented by the Members. As a result, FICC believes that 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, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.⁶

Rule 17Ad-22(e)(6)(i) under the Act⁷ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market. FICC believes that the proposed changes to adjust the VaR Floor to include the Minimum Margin Amount by changing the GSD Rules and QRM Methodology as described herein are consistent with the requirements of Rule 17Ad-22(e)(6)(i) cited above. 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 is proposing changes that are designed to more effectively measure and address risk characteristics in situations where the risk factors used in the VaR method do not adequately predict market price movements. As reflected in backtesting studies, FICC believes the proposed changes would appropriately limit FICC's credit exposure to Members in the event that the VaR model yields too low a VaR Charge in such situations. Such backtesting studies indicate that the aggregate average daily SOD VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or ~~14.05~~ **14.06**%, the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. By identifying and providing for appropriate VaR Charges, adding the Minimum Margin Amount to the VaR Floor would help to ensure that margin levels are commensurate with the risk exposure of each portfolio during periods of extreme market volatility. Similarly, the proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin

⁶ Id.

⁷ 17 CFR 240.17Ad-22(e)(6)(i).

Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members is sufficient to mitigate the credit exposure presented by the Members. Overall, the proposed changes would allow FICC to more effectively address the risks presented by Members. In this way, the proposed changes enhance the ability of FICC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. As such, FICC believes that the proposed changes are consistent with the requirements of Rule 17Ad-22(e)(6)(i) under the Act.⁸

Please replace the text on page 28 of the Advance Notice with the following text:

As a result of this proposal, Members may experience increases in their Required Fund Deposits to the Clearing Fund. Based on an impact study conducted by FICC, on average, at the Member level, the proposed Minimum Margin Amount would have increased the SOD VaR Charge by approximately \$~~22.45~~ 22.43 million, or ~~17.69~~17.56%, and the noon VaR Charge by approximately \$~~23.22~~ 23.25 million, or ~~17.44~~17.43%, over a 2-year impact study period.

Please replace the text on pages 47-49 of the Advance Notice with the following text:

⁸

Id.

Impact Study

FICC performed an impact study on Members' Margin Portfolios for the period beginning July 1, 2021 through June 30, 2023 ("Impact Study Period").^{9,10} If the proposed rule changes¹¹ had been in place during the Impact Study Period compared to the existing GSD Rules, the aggregate average daily start-of-day ("SOD") VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or ~~14.05~~ 14.06%, and the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46%.

The impact study indicated that if the proposed rule changes had been in place, the VaR model backtesting coverage would have increased from approximately 98.86% to 99.46% during the Impact Study Period. Specifically, if the proposed rule changes had been in place

⁹ 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.

¹⁰ GSD adopted a Portfolio Differential Charge ("PD Charge") as an additional component to the GSD Required Fund Deposit on Oct. 30, 2023 (see Securities Exchange Act Release No. 98494 (Sep. 25, 2023), 88 FR 67394 (Sep. 29, 2023) (SR-FICC-2023-011)); however, for the purpose of this Impact Study, the PD Charge is assumed to be in effect for the entirety of the Impact Study period.

¹¹ Margin Proxy was not deployed during the Impact Study Period; however, if the proposed rule changes had been in place and the Margin Proxy were deployed during the Impact Study Period, the aggregate average daily SOD VaR Charges would have increased by approximately ~~\$4.2~~ 4.16 billion or ~~20.98~~ 20.97%. The impact study also indicated that if the proposed rule changes had been in place and the Margin Proxy were deployed, the VaR model backtesting coverage would have increased from approximately 98.17% to 99.38% during the Impact Study Period. Specifically, if the proposed rule changes had been in place and the Margin Proxy were deployed during the Impact Study Period, the number of the VaR model backtesting deficiencies would have been reduced by ~~901~~ 899 (from 1358 to ~~457~~ 459, or approximately ~~66.3~~ 66.2%).

during the Impact Study Period, the number of VaR model backtesting deficiencies would have been reduced by ~~443~~ 441 (from 843 to ~~400~~ 402, or approximately ~~53~~ 52%).

The impact study also indicated that if the proposed rule changes had been in place, overall margin backtesting coverage would have increased from approximately 98.87% to 99.33% during the Impact Study Period. Specifically, if the proposed rule changes had been in place during the Impact Study Period, the number of overall margin backtesting deficiencies would have been reduced by 280 (from 685 to 405, or approximately 41%) and the overall margin backtesting coverage for 94 Members (approximately 72% of the GSD membership) would have improved with 36 Members who were below 99% coverage would be brought back to above 99%.

Impacts to Members over the Impact Study Period

On average, at the Member level, the proposed Minimum Margin Amount would have increased the SOD VaR Charge by approximately ~~\$22.45~~ 22.43 million, or ~~17.69~~ 17.56%, and the noon VaR Charge by approximately ~~\$23.22~~ 23.25 million, or ~~17.44~~ 17.43%, over the Impact Study Period. The largest average percentage increase in SOD VaR Charge for any Member would have been approximately 66.88%, or \$97,051 (0.21% of the Member's average Net Capital),¹² and the largest average percentage increase in noon VaR Charge for any Member would have been approximately 64.79%, or \$61,613 (0.13% of the Member's average Net Capital). The largest average dollar increase in SOD VaR Charge for any Member would have been approximately ~~\$268.35~~ 268.51 million (0.34% of the Member's average Net Capital), or ~~19.05~~ 19.06%, and the largest dollar increase in noon VaR Charge for any Member

¹² The term "Net Capital" means, as of a particular date, the amount equal to the net capital of a broker or dealer as defined in SEC Rule 15c3-1(c)(2), or any successor rule or regulation thereto. See GSD Rule 1 (Definitions), *supra* note 4.

would have been approximately \$~~288.57~~ 289.00 million (1.07% of the Member's average Net Capital), or ~~13.65~~ 13.67%. The top 10 Members based on the size of their average SOD VaR Charges and average noon VaR Charges would have contributed approximately ~~51.84~~ 51.87% and ~~53.63~~ 53.64% of the aggregated SOD VaR Charges and aggregated noon VaR Charges, respectively, during the Impact Study Period had the proposed Minimum Margin Amount been in place. The same Members would have contributed to ~~49.86~~ 50.08% and ~~51.48~~ 51.52% of the increase in aggregated SOD VaR Charges and aggregated noon VaR Charges, respectively, had the proposed Minimum Margin Amount been in place during the Impact Study Period.

Please replace the text on pages 54-58 of the Advance Notice with the following text:

(ii) *Consistency with Section 805(a)(2) of the Clearing Supervision Act*

Rule 17Ad-22(e)(4)(i) under the Act¹³ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those exposures 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. As described above, FICC believes that the proposed changes 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. More

¹³ 17 CFR 240.17Ad-22(e)(4)(i).

specifically, as indicated by backtesting studies, implementation of a Minimum Margin Amount by changing the GSD Rules and QRM Methodology as described herein would allow FICC to limit its credit exposures to Members in the event that the current VaR model yields too low a VaR Charge for such portfolios and improve backtesting performance. As indicated by the backtesting studies, the aggregate average daily SOD VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or ~~14.05~~ 14.06%, the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. By identifying and providing for appropriate VaR Charges, adding the Minimum Margin Amount to the VaR Floor would help to ensure that the risk exposure during periods of extreme market volatility is adequately identified, measured and monitored. Similarly, the proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members is sufficient to mitigate the credit exposure presented by the Members. As a result, FICC believes that 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, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.¹⁴

Rule 17Ad-22(e)(6)(i) under the Act¹⁵ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market. FICC believes that the proposed changes to adjust the VaR Floor to include the Minimum Margin Amount by changing the GSD Rules and QRM Methodology as described herein are consistent with the requirements of Rule 17Ad-22(e)(6)(i) cited above. 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 is proposing changes that are designed to more effectively measure and address risk characteristics in situations where the risk factors used in the VaR method do not adequately predict market price movements. As reflected in backtesting studies, FICC believes the proposed changes would appropriately limit FICC's credit exposure to Members in the event that the VaR model yields too low a VaR Charge in such situations. Such backtesting studies indicate that the aggregate average daily SOD VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or ~~14.05~~ 14.06%, the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month

¹⁴ Id.

¹⁵ 17 CFR 240.17Ad-22(e)(6)(i).

trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. By identifying and providing for appropriate VaR Charges, adding the Minimum Margin Amount to the VaR Floor would help to ensure that margin levels are commensurate with the risk exposure of each portfolio during periods of extreme market volatility. Similarly, the proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members is sufficient to mitigate the credit exposure presented by the Members. Overall, the proposed changes would allow FICC to more effectively address the risks presented by Members. In this way, the proposed changes enhance the ability of FICC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. As such, FICC believes that the proposed changes are consistent with the requirements of Rule 17Ad-22(e)(6)(i) under the Act.¹⁶

On pages 61-64 of the Advance Notice, please replace Exhibit 3 (FICC Impact Study) in its entirety with the information on the following pages, which have been redacted and filed separately with the Commission. Confidential treatment of such pages is being requested pursuant to 17 CFR 240.24b-2.

¹⁶

Id.

EXHIBIT 3

The information contained in this Exhibit 3 is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) the supervision of Fixed Income Clearing Corporation (FICC), a financial institution. This Exhibit 3 contains electronic files, each embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded files is not intended for public disclosure. Accordingly, this Exhibit 3 has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission. Notwithstanding the request for confidential treatment, FICC believes the substance of this Exhibit 3 is clearly and adequately described in the accompanying Exhibit 1A and Form 19b-4 narrative to this filing, thus allowing for meaningful public comment.

Embedded Files:

- FICC Impact Study; spreadsheet file; FICC Impact Analysis – VaR Results.
- FICC Impact Study; spreadsheet file; FICC Impact Analysis – Margin Proxy Results.
- FICC Impact Study; spreadsheet file; FICC Impact Analysis – Backtest Results.

PAGE REDACTED IN ITS ENTIRETY

PAGE REDACTED IN ITS ENTIRETY

PAGE REDACTED IN ITS ENTIRETY

On pages 68-69 of the Advance Notice, please replace Exhibit 5b (Proposed changes to the QRM Methodology) in its entirety with the information on the following page, which has been redacted and filed separately with the Commission. Confidential treatment of such page is being requested pursuant to 17 CFR 240.24b-2.

EXHIBIT 5b

The information contained in this Exhibit 5b is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) the supervision of Fixed Income Clearing Corporation (FICC), a financial institution. This Exhibit 5b contains one electronic file embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded file is not intended for public disclosure. Accordingly, this Exhibit 5b has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission. Notwithstanding the request for confidential treatment, FICC believes the substance of this Exhibit 5b is clearly and adequately described in the accompanying Exhibit 1A and Form 19b-4 narrative to this filing, thus allowing for meaningful public comment.

Embedded File:

- Proposed changes to the QRM Methodology; 26 pages; proposed changes to Methodology Document – GSD Initial Market Risk Margin Model.

PAGE REDACTED IN ITS ENTIRETY