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

File No.* SR - 2019 - * 001

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) * ☐

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)

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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 *).

Amend the GSD and MBSD Methodology Documents and the MBSD Clearing Rules

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 * Kristen Last Name * Lam

Title * Director and Assistant General Counsel

E-mail * klam1@dtcc.com

Telephone * (212) 855-5258 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 04/05/2019

By Nikki Poulos

(Name *)

(Title *)

Managing Director and Deputy General Counsel

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

npoulos@dtcc.com

Required fields are shown with yellow backgrounds and asterisks.

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 Advance 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, security-based swap submission, or advance notice 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 Exhibit Sent As Paper Document ☐	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 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	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 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.

1. Text of the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation ("FICC") is annexed hereto as Exhibit 5.[1] The purpose of this rule filing is to amend the GSD Methodology Document – GSD Initial Market Risk Margin Model ("GSD QRM Methodology Document")[2] and the MBSD Methodology and Model Operations Document – MBSD Quantitative Risk Model[3] ("MBSD QRM Methodology Document," and together with the GSD QRM Methodology Document, the "QRM Methodology Documents") to remove specific references (and explanations relating thereto) to the look-back periods for (1) the alternative volatility calculation ("Margin Proxy")[4] of GSD and MBSD and (2) the two haircut rates that form the basis of the GSD haircut charge.[5] FICC would replace the specific references to the look-back

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1 Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the FICC Government Securities Division ("GSD") Rulebook ("GSD Rules") and the FICC Mortgage-Backed Securities Division ("MBSD," and together with GSD, the "Divisions") Clearing Rules ("MBSD Rules"), as applicable, available at http://www.dtcc.com/legal/rules-and-procedures.aspx.

2 The GSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for GSD sensitivity VaR. See Securities Exchange Act Release No. 83362 (June 1, 2018) 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001) ("GSD Approval Order") and Securities Exchange Act Release No. 83223 (May 11, 2018) 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801) ("GSD Advance Notice").

3 The MBSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for MBSD sensitivity VaR. See Securities Exchange Act Release No. 79868 (January 24, 2017) 82 FR 8780 (January 30, 2017) (SR-FICC-2016-007) ("MBSD Approval Order") and Securities Exchange Act Release No. 79843 (January 19, 2017) 82 FR 8555 (January 26, 2017) (SR-FICC-2016-801) ("MBSD Advance Notice").

4 FICC has adopted procedures that would govern in the event that the vendor fails to provide risk analytics data used by FICC to calculate the VaR Charge (which is defined in GSD Rule 1 and MBSD Rule 1). Supra note 1. These procedures include the application of the Margin Proxy. Specifically, each Division's Margin Proxy would be applied as an alternative volatility calculation for the VaR Charge (subject to the VaR Floor) if FICC determines that the data disruption will extend beyond five (5) business days. See GSD Approval Order and MBSD Approval Order, supra notes 2 and 3.

5 Occasionally, portfolios contain classes of securities that reflect market price changes that are not consistently related to historical risk factors. The value of these securities is often uncertain because the securities' market volume varies widely, thus the price histories are limited. Because the volume and price information for such securities is not robust, a historical simulation approach would not generate VaR Charge amounts that adequately reflect the risk profile of such securities. FICC utilizes a haircut method (hereinafter referred to as the "GSD haircut charge") based on the volatility of historic index returns

periods with more general language that would (i) refer to a monthly parameter report, (ii) specify the governance around changing the look-back periods, and (iii) state that the look-back period would not be less than one year. FICC is also proposing to make certain clarifications, corrections, and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document.

FICC is also proposing to make certain clarifications to the MBSD Rules. Specifically, FICC would add a definition of "Margin Proxy" and use such term in the definition of "VaR Charge," as described below. In addition, FICC would clarify the definition of "VaR Charge" in the MBSD Rules by adding the word "Clearing" before the word "Members."

FICC is requesting confidential treatment of the QRM Methodology Documents and has filed them separately with the Secretary of the U.S. Securities and Exchange Commission (the "Commission").[6]

(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 12, 2018.

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

(a) Purpose

The purpose of this rule filing is to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates. FICC would replace these specific references to the look-back periods with more general language as described below. FICC is also proposing to make certain clarifications, corrections and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document.

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for any security that lacks sufficient historical data to be incorporated into the sensitivity approach. See GSD Approval Order and MBSD Approval Order, supra notes 2 and 3. The GSD haircut charge consists of two haircut rates: (i) the haircut rate for mortgage-backed securities ("MBS") pools without sensitivity analytics data and (ii) the haircut rate for Treasury and Agency bonds without sensitivity analytics data (hereinafter, the "GSD Haircut Rates"). The proposal applies to the look-back periods for the GSD Haircut Rates.

6 See 17 CFR 240-24b-2.

FICC is also proposing to make certain clarifications to the MBSD Rules. Specifically, FICC would add a definition of "Margin Proxy" and use such term in the definition of "VaR Charge," as described below. In addition, FICC is proposing to clarify the definition of "VaR Charge" in the MBSD Rules by adding the word "Clearing" before the word "Members."

(A) *Replacing Specific References to the Look-back Periods for the Margin Proxy of GSD and MBSD and the GSD Haircut Rates With More General Language in the QRM Methodology Documents*

Each of the QRM Methodology Documents provides the methodology by which FICC calculates the GSD and MBSD VaR Charges. The QRM Methodology Documents specify model inputs, parameters and assumptions, among other information. With respect to the Margin Proxy, each of the QRM Methodology Documents refers to the specific look-back periods that are in use today. Similarly, the GSD QRM Methodology Document refers to the specific look-back periods for the GSD Haircut Rates. FICC is proposing to amend the QRM Methodology Documents to remove the specific references to the current look-back periods in use and replace them with general language that would refer to a monthly parameter report (that would contain the specific look-back periods).

FICC has the discretion to change the look-back periods that are the subject of this proposal. Specifically, with respect to the GSD haircut charge, the GSD QRM Methodology Document provides that certain key model parameters, including the look-back periods for the GSD Haircut Rates, are subject to periodic review and recalibration.[7] With respect to the Margin Proxy, the rule filings for GSD sensitivity VaR and MBSD sensitivity VaR state that if FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the proposed VaR model (i.e., the sensitivity approach), or if the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level, management may recommend remedial actions to the Model Risk Governance Committee ("MRGC"), and to the extent necessary the Management Risk Committee ("MRC"), such as increasing the look-back period and/or applying an appropriate historical stressed period to the Margin Proxy calibration.[8] By replacing specific references to the look-back periods in the QRM Methodology Documents with general language, FICC would be acting within its existing discretion and would no longer need to submit subsequent rule filings to change these look-back periods unless such changes require an advance notice.

Under the proposal, the QRM Methodology Documents would provide that the look-back periods for the Margin Proxy and the two GSD Haircut Rates would be tracked in a monthly

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[7] Supra note 2.

[8] See Securities Exchange Act Release No. 82588 (January 26, 2018) 83 FR 4687, 4692 (February 1, 2018) (SR-FICC-2018-001) ("Notice of GSD Rule Filing"); Securities Exchange Act Release No. 79491 (December 7, 2016) 81 FR 90001, 90005 (December 13, 2016) (SR-FICC-2016-007) ("Notice of MBSD Rule Filing"); and MBSD Approval Order, supra note 3, at 8782-8783.

parameter report. The QRM Methodology Documents would also provide that these look-back periods shall not be less than one year. Finally, the QRM Methodology Documents would state that any changes to these look-back periods would be subject to the governance process set forth in the Clearing Agency Model Risk Management Framework (the "Framework).[9] The Framework provides that the Model Validation and Control Group ("MVC") prepares Model performance monitoring reports on both a monthly and daily basis. On a monthly basis, MVC (i) performs sensitivity analysis on each of FICC's Models,[10] (ii) reviews key parameters and assumptions for backtesting, and (iii) considers modifications to ensure that the backtesting practices of FICC are appropriate for determining the adequacy of its applicable margin resources.[11] The Framework states that MRGC will review the Model performance monitoring, which includes review of risk-based Models used to calculate margin requirements and relevant parameters/threshold indicators, sensitivity analysis, and Model backtesting results. Serious performance concerns will be escalated to the MRC.[12]

(B) ***Clarifications, Corrections, and Technical Changes to the GSD QRM Methodology Document, and a Clarification and Technical Changes to the MBSD QRM Methodology Document***

FICC is proposing to make certain clarifications, corrections, and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document, as described in detail below.

(1) *GSD QRM Methodology Document*

a. *Clarifications*

FICC would make certain clarifications to the GSD QRM Methodology Document, as described below.

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9 Securities Exchange Act Release No. 81485 (August 25, 2017) 82 FR 41433 (August 31, 2017) (SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008) ("Framework Approval Order"). In general, the Framework describes the model risk management practices adopted by FICC, National Securities Clearing Corporation and The Depository Trust Company. The Framework is designed to help identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework describes (i) governance of the Framework; (ii) key terms; (iii) model inventory procedures; (iv) model validation procedures; (v) model approval process; and (vi) model performance procedures. Id.

10 The term "Model" refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. Id.

11 Id. at 41435.

12 Id.

In the section of the GSD QRM Methodology Document that describes key parameters (where the look-back periods are currently listed), FICC proposes to rearrange the list so that the look-back periods associated with sensitivity VaR are grouped together and the look-back periods for GSD Haircut Rates are grouped together. FICC also proposes to add sub-headings to enhance readability and clarity.

In addition, in the section of the GSD QRM Methodology Document that describes key parameters, FICC would amend the language describing the GSD Haircut Rates to correspond to the language used in later sections for clarity and consistency.

Where the GSD QRM Methodology Document references the governance practice regarding the review and recalibration of the look-back periods, FICC also proposes to specifically reference the Framework. FICC would provide additional clarity by adding language describing types of data that would be used to determine key model parameters.[13] FICC would also clarify the GSD QRM Methodology Document by adding language stating that management may implement any approved changes.

With respect to the descriptions of some of the GSD Haircut Rates, FICC would (i) add clarifying terminology and (ii) delete duplicative explanations and replace them with a cross-reference to the appendix, which contains the same explanation.

b. *Corrections*

FICC also proposes to make certain corrections to the GSD QRM Methodology Document. FICC would correct a typographical error in the description of key parameters by revising a reference from MBSD to MBS. In addition, to correct an omission in the GSD QRM Methodology Document, FICC would add that if FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the VaR model, management may recommend remedial actions (as was stated in the GSD sensitivity VaR rule filing).[14]

c. *Technical Changes*

Finally, FICC proposes to make certain technical changes (e.g., word usage, spacing corrections, grammar changes, and revising certain references from singular to plural) to the GSD QRM Methodology Document. For example, for consistency, FICC proposes to revise a reference from “window” to “period” in the description of key parameters and all references from “lookback” to “look-back” and from “TBA/pool” to “Pool-TBA.”

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[13] Supra note 9.

[14] See Notice of GSD Rule Filing, supra note 8, at 4692.

(2) *MBSD QRM Methodology Document*

a. *Clarification*

FICC proposes to clarify the MBSD Methodology Document by adding language stating that management may implement any approved changes.

b. *Technical Changes*

FICC proposes to make certain technical changes to the MBSD QRM Methodology Document (e.g., grammar changes and revising certain references from singular to plural). FICC would also revise a reference from "lookback" to "look-back" for consistency. In addition, FICC would remove the revision history because it is solely administrative and would not affect the calculation of margin or Clearing Members' substantive rights or obligations.

(C) *Clarifications to the MBSD Rules*

FICC is also proposing to make certain clarifications to the MBSD Rules. Specifically, FICC would add a definition of "Margin Proxy" and use such term in the definition of "VaR Charge." In addition, FICC would clarify the definition of "VaR Charge" in the MBSD Rules by adding the word "Clearing" before the word "Members."

(b) Statutory Basis

FICC believes that this proposal is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes to the QRM Methodology Documents and the MBSD Rules described above are consistent with Section 17A(b)(3)(F) of the Act, for the reasons described below.[15] FICC also believes that the proposed changes to the MBSD Rules are consistent with Rule 17Ad-22(e)(23)(ii), as promulgated under the Act, for the reasons described below.[16]

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed "to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible."[17]

FICC believes that amending the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) the GSD Haircut Rates and replace them with more general language as described above would enhance clarity and consistency for FICC. Specifically, the proposed

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

[16] 17 CFR 240.17Ad-22(e)(23)(ii).

[17] 15 U.S.C. 78q-1(b)(3)(F).

changes would ensure that the QRM Methodology Documents (which have been filed confidentially) are in line with the understanding of FICC's risk management group ("FICC Risk Management") that, if FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the VaR model, or if the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level, then, subject to its MRGC/MRC governance process described above, FICC may change the look-back periods for the GSD and MBSD Margin Proxy as long as the look-back periods are not less than one year. Similarly, if FICC observes that the asset class backtesting performance associated with the GSD Haircut Rates is not at the 99% confidence level, then, subject to its MRGC/MRC governance process described above, FICC may change the look-back periods for the GSD Haircut Rates as long as the look-back periods are not less than one year. FICC believes that enhancing clarity and consistency within FICC with respect to changes to the aforementioned look-back periods would help to ensure that FICC calculates and collects adequate margin from its Clearing Members and Netting Members and would thereby 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) the Act.[18]

FICC believes that the proposed changes, which constitute certain clarifications, corrections, and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document, would also enhance the clarity of the QRM Methodology Documents for FICC. As the QRM Methodology Documents are used by FICC Risk Management personnel regarding the calculation of margin requirements, it is important for the accurate and smooth functioning of the margining process that FICC Risk Management understands when look-back periods can change and the governance process associated with them. The changes referenced in this paragraph would promote such understanding. This would, in turn, allow FICC Risk Management to charge an appropriate level of margin. As such, FICC believes that enhancing the clarity of the QRM Methodology Documents would 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) the Act.[19]

FICC believes the proposed clarifications to Rule 1 of the MBSD Rules would help ensure that the calculation of margin is clear and transparent to Clearing Members and FICC, and thereby, help ensure that FICC calculates and collects adequate margin from Clearing Members and that Clearing Members understand the relevant definition. As such, FICC believes that the proposed clarifications to Rule 1 of the MBSD Rules would also assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) the Act.[20]

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[18] Id.

[19] Id.

[20] Id.

Rule 17Ad-22(e)(23)(ii) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency.[21] FICC believes the proposed clarifications to Rule 1 of the MBSD Rules would help ensure that the calculation of margin is transparent and clear to Clearing Members, thereby enabling Clearing Members to better understand the calculation of margin as well as providing them with increased predictability and certainty regarding their obligations. As such, FICC believes that the proposed rule changes are consistent with Rule 17Ad-22(e)(23)(ii) under the Act.[22]

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

FICC believes that the proposed changes to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates and replace them with more general language (as described above) could have an impact on competition. Specifically, FICC believes that the proposed change could burden competition because changes to the look-back periods could result in larger Required Fund Deposits amounts for some Members than the amount currently calculated.

When the proposal results in a larger Required Fund Deposit for Members, the proposed changes could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. Whether such burden on competition would be significant would depend on each Member's financial status and the specific risks presented by each Member's portfolio. Regardless of whether the burden on competition would be significant, FICC believes that any burden on competition imposed by the proposed changes would be both necessary and appropriate in furtherance of FICC's efforts to mitigate risks and meet the requirements of the Act,[23] as described in this filing and further below.

FICC believes the above-described burden on competition that may be created by the proposed changes to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates and replace them with more general language would be necessary in furtherance of the Act.[24] As stated above, with respect to the Margin Proxy, the proposed change would address situations where FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the VaR model, or where the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level. Similarly, with respect to the GSD Haircut Rates, the proposed changes would

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[21] 17 CFR 240.17Ad-22(e)(23)(ii).

[22] Id.

[23] 15 U.S.C. 78q-1(b)(3)(I).

[24] Id.

address situations where FICC observes that asset class backtesting performance is not at the 99% confidence level. Specifically, the proposed changes would help ensure that the QRM Methodology Documents (which have been filed confidentially) are in line with FICC Risk Management's understanding that, in those circumstances, FICC may change the look-back periods for the GSD and MBSD Margin Proxy and GSD Haircut Rates as long as the look-back periods are not less than one year. FICC believes that enhancing clarity and consistency within FICC with respect to changes to the aforementioned look-back periods would help to ensure that FICC calculates and collects adequate margin from its Clearing Members and Netting Members and would thereby 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) the Act.[25]

FICC also believes that the above-described burden on competition that could be created by the proposed change to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates and replace them with more general language would be appropriate in furtherance of the Act.[26] FICC believes these proposed changes would be appropriate in furtherance of the Act because they have been designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible. The proposal achieves this purpose by providing for FICC to act in circumstances where the 99% confidence level is not being met. Specifically, FICC would only change the look-back periods in certain circumstances (i.e., where FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the sensitivity VaR model, or where the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level), and/or where FICC observes that the asset class backtesting performance is not at the 99% confidence level. Furthermore, FICC believes these proposed changes are appropriate because they would be consistent with the discretion (subject to FICC's governance) that FICC has to make changes to the look-back periods consistent with the GSD and MBSD sensitivity VaR filings and GSD QRM Methodology Document.[27] As such, FICC believes these proposed changes would help to ensure that FICC calculates and collects adequate margin from its Clearing Members and Netting Members, and therefore, are designed to assure the safeguarding of securities and funds, consistent with Section 17A(b)(3)(F) the Act.[28]

In addition, FICC does not believe the proposed clarifications, corrections, and technical changes to the GSD QRM Methodology Document and the proposed clarification and technical changes to the MBSD QRM Methodology Document described above would have any impact on competition because these proposed changes would enhance the clarity and accuracy of the

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[25] 15 U.S.C. 78q-1(b)(3)(F).

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

[27] Supra notes 2, 3, and 8.

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

QRM Methodology Documents and would not affect the substantive rights of Netting Members and Clearing Members.

FICC also does not believe that the proposed clarifications to the MBSD Rules would have any impact on competition because these proposed changes would enhance the clarity and accuracy of the MBSD Rules and would not affect the substantive rights of Clearing Members.

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. FICC will notify the Commission of any written comments received by FICC.

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[29] for Commission action.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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[29] 15 U.S.C. 78s(b)(2).

11. Exhibits

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5A – Proposed changes to the GSD QRM Methodology Document. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5A pursuant to 17 CFR 240.24b-2 being requested.**

Exhibit 5B – Proposed changes to the MBSD QRM Methodology Document. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5B pursuant to 17 CFR 240.24b-2 being requested.**

Exhibit 5C – Proposed changes to the MBSD Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_________]; File No. SR-FICC-2019-001)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend the GSD and MBSD Methodology Documents and the MBSD Clearing Rules

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 April __, 2019, 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[3] consists of amendments to the GSD Methodology Document – GSD Initial Market Risk Margin Model ("GSD QRM Methodology Document")[4] and the MBSD Methodology and Model Operations Document – MBSD

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

2 17 CFR 240.19b-4.

3 Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the FICC Government Securities Division ("GSD") Rulebook ("GSD Rules") and the FICC Mortgage-Backed Securities Division ("MBSD," and together with GSD, the "Divisions") Clearing Rules ("MBSD Rules"), as applicable, available at http://www.dtcc.com/legal/rules-and-procedures.aspx.

4 The GSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for GSD sensitivity VaR. See Securities Exchange Act Release No. 83362 (June 1, 2018) 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001) ("GSD Approval Order") and Securities Exchange Act Release No.

Quantitative Risk Model[5] ("MBSD QRM Methodology Document," and together with the GSD QRM Methodology Document, the "QRM Methodology Documents") to remove specific references (and explanations relating thereto) to the look-back periods for (1) the alternative volatility calculation ("Margin Proxy")[6] of GSD and MBSD and (2) the two haircut rates that form the basis of the GSD haircut charge.[7] FICC would replace the specific references to the look-back periods with more general language that

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83223 (May 11, 2018) 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801) ("GSD Advance Notice").

5 The MBSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for MBSD sensitivity VaR. See Securities Exchange Act Release No. 79868 (January 24, 2017) 82 FR 8780 (January 30, 2017) (SR-FICC-2016-007) ("MBSD Approval Order") and Securities Exchange Act Release No. 79843 (January 19, 2017) 82 FR 8555 (January 26, 2017) (SR-FICC-2016-801) ("MBSD Advance Notice").

6 FICC has adopted procedures that would govern in the event that the vendor fails to provide risk analytics data used by FICC to calculate the VaR Charge (which is defined in GSD Rule 1 and MBSD Rule 1). Supra note 3. These procedures include the application of the Margin Proxy. Specifically, each Division's Margin Proxy would be applied as an alternative volatility calculation for the VaR Charge (subject to the VaR Floor) if FICC determines that the data disruption will extend beyond five (5) business days. See GSD Approval Order and MBSD Approval Order, supra notes 4 and 5.

7 Occasionally, portfolios contain classes of securities that reflect market price changes that are not consistently related to historical risk factors. The value of these securities is often uncertain because the securities' market volume varies widely, thus the price histories are limited. Because the volume and price information for such securities is not robust, a historical simulation approach would not generate VaR Charge amounts that adequately reflect the risk profile of such securities. FICC utilizes a haircut method (hereinafter referred to as the "GSD haircut charge") based on the volatility of historic index returns for any security that lacks sufficient historical data to be incorporated into the sensitivity approach. See GSD Approval Order and MBSD Approval Order, supra notes 4 and 5. The GSD haircut charge consists of two haircut rates: (i) the haircut rate for mortgage-backed securities ("MBS") pools without sensitivity analytics data and (ii) the haircut rate for Treasury and Agency bonds without sensitivity analytics data (hereinafter, the "GSD Haircut Rates"). The proposal applies to the look-back periods for the GSD Haircut Rates.

would (i) refer to a monthly parameter report, (ii) specify the governance around changing the look-back periods, and (iii) state that the look-back period would not be less than one year. FICC is also proposing to make certain clarifications, corrections, and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document.

FICC is also proposing to make certain clarifications to the MBSD Rules. Specifically, FICC would add a definition of "Margin Proxy" and use such term in the definition of "VaR Charge," as described below. In addition, FICC would clarify the definition of "VaR Charge" in the MBSD Rules by adding the word "Clearing" before the word "Members."

FICC is requesting confidential treatment of the QRM Methodology Documents and has filed them separately with the Secretary of the Commission.[8]

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.

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8 See 17 CFR 240-24b-2.

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

1. Purpose

The purpose of this rule filing is to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates. FICC would replace these specific references to the look-back periods with more general language as described below. FICC is also proposing to make certain clarifications, corrections and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document.

FICC is also proposing to make certain clarifications to the MBSD Rules. Specifically, FICC would add a definition of "Margin Proxy" and use such term in the definition of "VaR Charge," as described below. In addition, FICC is proposing to clarify the definition of "VaR Charge" in the MBSD Rules by adding the word "Clearing" before the word "Members."

(A) *Replacing Specific References to the Look-back Periods for the Margin Proxy of GSD and MBSD and the GSD Haircut Rates With More General Language in the QRM Methodology Documents*

Each of the QRM Methodology Documents provides the methodology by which FICC calculates the GSD and MBSD VaR Charges. The QRM Methodology Documents specify model inputs, parameters and assumptions, among other information. With respect to the Margin Proxy, each of the QRM Methodology Documents refers to the specific look-back periods that are in use today. Similarly, the GSD QRM Methodology Document refers to the specific look-back periods for the GSD Haircut Rates. FICC is proposing to amend the QRM Methodology Documents to remove the specific references to the current look-back periods in use and replace them with general language that would refer to a monthly parameter report (that would contain the specific look-back periods).

FICC has the discretion to change the look-back periods that are the subject of this proposal. Specifically, with respect to the GSD haircut charge, the GSD QRM Methodology Document provides that certain key model parameters, including the look-back periods for the GSD Haircut Rates, are subject to periodic review and recalibration.[9] With respect to the Margin Proxy, the rule filings for GSD sensitivity VaR and MBSD sensitivity VaR state that if FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the proposed VaR model (i.e., the sensitivity approach), or if the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level, management may recommend remedial actions to the Model Risk Governance Committee ("MRGC"), and to the extent necessary the Management Risk Committee ("MRC"), such as increasing the look-back period and/or applying an appropriate historical stressed period to the Margin Proxy calibration.[10] By replacing specific references to the look-back periods in the QRM Methodology Documents with general language, FICC would be acting within its existing discretion and would no longer need to submit subsequent rule filings to change these look-back periods unless such changes require an advance notice.

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9 Supra note 4.

10 See Securities Exchange Act Release No. 82588 (January 26, 2018) 83 FR 4687, 4692 (February 1, 2018) (SR-FICC-2018-001) ("Notice of GSD Rule Filing"); Securities Exchange Act Release No. 79491 (December 7, 2016) 81 FR 90001, 90005 (December 13, 2016) (SR-FICC-2016-007) ("Notice of MBSD Rule Filing"); and MBSD Approval Order, supra note 5, at 8782-8783.

Under the proposal, the QRM Methodology Documents would provide that the look-back periods for the Margin Proxy and the two GSD Haircut Rates would be tracked in a monthly parameter report. The QRM Methodology Documents would also provide that these look-back periods shall not be less than one year. Finally, the QRM Methodology Documents would state that any changes to these look-back periods would be subject to the governance process set forth in the Clearing Agency Model Risk Management Framework (the "Framework).[11] The Framework provides that the Model Validation and Control Group ("MVC") prepares Model performance monitoring reports on both a monthly and daily basis. On a monthly basis, MVC (i) performs sensitivity analysis on each of FICC's Models,[12] (ii) reviews key parameters and assumptions for backtesting, and (iii) considers modifications to ensure that the backtesting practices of FICC are appropriate for determining the adequacy of its applicable margin resources.[13] The Framework states that MRGC will review the Model performance monitoring, which includes review of risk-based Models used to calculate margin requirements and relevant

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[11] Securities Exchange Act Release No. 81485 (August 25, 2017) 82 FR 41433 (August 31, 2017) (SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008) ("Framework Approval Order"). In general, the Framework describes the model risk management practices adopted by FICC, National Securities Clearing Corporation and The Depository Trust Company. The Framework is designed to help identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework describes (i) governance of the Framework; (ii) key terms; (iii) model inventory procedures; (iv) model validation procedures; (v) model approval process; and (vi) model performance procedures. Id.

[12] The term "Model" refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. Id.

[13] Id. at 41435.

parameters/threshold indicators, sensitivity analysis, and Model backtesting results. Serious performance concerns will be escalated to the MRC.[14]

(B) ***Clarifications, Corrections, and Technical Changes to the GSD QRM Methodology Document, and a Clarification and Technical Changes to the MBSD QRM Methodology Document***

FICC is proposing to make certain clarifications, corrections, and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document, as described in detail below.

(1) ***GSD QRM Methodology Document***

a. *Clarifications*

FICC would make certain clarifications to the GSD QRM Methodology Document, as described below.

In the section of the GSD QRM Methodology Document that describes key parameters (where the look-back periods are currently listed), FICC proposes to rearrange the list so that the look-back periods associated with sensitivity VaR are grouped together and the look-back periods for GSD Haircut Rates are grouped together. FICC also proposes to add sub-headings to enhance readability and clarity.

In addition, in the section of the GSD QRM Methodology Document that describes key parameters, FICC would amend the language describing the GSD Haircut Rates to correspond to the language used in later sections for clarity and consistency.

Where the GSD QRM Methodology Document references the governance practice regarding the review and recalibration of the look-back periods, FICC also

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14 Id.

proposes to specifically reference the Framework. FICC would provide additional clarity by adding language describing types of data that would be used to determine key model parameters.[15] FICC would also clarify the GSD QRM Methodology Document by adding language stating that management may implement any approved changes.

With respect to the descriptions of some of the GSD Haircut Rates, FICC would (i) add clarifying terminology and (ii) delete duplicative explanations and replace them with a cross-reference to the appendix, which contains the same explanation.

b. *Corrections*

FICC also proposes to make certain corrections to the GSD QRM Methodology Document. FICC would correct a typographical error in the description of key parameters by revising a reference from MBSD to MBS. In addition, to correct an omission in the GSD QRM Methodology Document, FICC would add that if FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the VaR model, management may recommend remedial actions (as was stated in the GSD sensitivity VaR rule filing).[16]

c. *Technical Changes*

Finally, FICC proposes to make certain technical changes (e.g., word usage, spacing corrections, grammar changes, and revising certain references from singular to plural) to the GSD QRM Methodology Document. For example, for consistency, FICC proposes to revise a reference from "window" to "period" in the description of key

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15 Supra note 11.

16 See Notice of GSD Rule Filing, supra note 10, at 4692.

parameters and all references from “lookback” to “look-back” and from “TBA/pool” to “Pool-TBA.”

(2) *MBSD QRM Methodology Document*

a. *Clarification*

FICC proposes to clarify the MBSD Methodology Document by adding language stating that management may implement any approved changes.

b. *Technical Changes*

FICC proposes to make certain technical changes to the MBSD QRM Methodology Document (e.g., grammar changes and revising certain references from singular to plural). FICC would also revise a reference from “lookback” to “look-back” for consistency. In addition, FICC would remove the revision history because it is solely administrative and would not affect the calculation of margin or Clearing Members’ substantive rights or obligations.

(C) *Clarifications to the MBSD Rules*

FICC is also proposing to make certain clarifications to the MBSD Rules. Specifically, FICC would add a definition of “Margin Proxy” and use such term in the definition of “VaR Charge.” In addition, FICC would clarify the definition of “VaR Charge” in the MBSD Rules by adding the word “Clearing” before the word “Members.”

2. Statutory Basis

FICC believes that this proposal is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes to the QRM Methodology Documents and the MBSD Rules described above are consistent with Section

17A(b)(3)(F) of the Act, for the reasons described below.[17] FICC also believes that the proposed changes to the MBSD Rules are consistent with Rule 17Ad-22(e)(23)(ii), as promulgated under the Act, for the reasons described below.[18]

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed "to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible."[19]

FICC believes that amending the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) the GSD Haircut Rates and replace them with more general language as described above would enhance clarity and consistency for FICC. Specifically, the proposed changes would ensure that the QRM Methodology Documents (which have been filed confidentially) are in line with the understanding of FICC's risk management group ("FICC Risk Management") that, if FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the VaR model, or if the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level, then, subject to its MRGC/MRC governance process described above, FICC may change the look-back periods for the GSD and MBSD Margin Proxy as long as the look-back periods are not less than one year. Similarly, if FICC observes that the asset class backtesting performance associated with the GSD Haircut Rates is not at the 99% confidence level, then, subject to its

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17 15 U.S.C. 78q-1(b)(3)(F).

18 17 CFR 240.17Ad-22(e)(23)(ii).

19 15 U.S.C. 78q-1(b)(3)(F).

MRGC/MRC governance process described above, FICC may change the look-back periods for the GSD Haircut Rates as long as the look-back periods are not less than one year. FICC believes that enhancing clarity and consistency within FICC with respect to changes to the aforementioned look-back periods would help to ensure that FICC calculates and collects adequate margin from its Clearing Members and Netting Members and would thereby 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) the Act.[20]

FICC believes that the proposed changes, which constitute certain clarifications, corrections, and technical changes to the GSD QRM Methodology Document, and a clarification and certain technical changes to the MBSD QRM Methodology Document, would also enhance the clarity of the QRM Methodology Documents for FICC. As the QRM Methodology Documents are used by FICC Risk Management personnel regarding the calculation of margin requirements, it is important for the accurate and smooth functioning of the margining process that FICC Risk Management understands when look-back periods can change and the governance process associated with them. The changes referenced in this paragraph would promote such understanding. This would, in turn, allow FICC Risk Management to charge an appropriate level of margin. As such, FICC believes that enhancing the clarity of the QRM Methodology Documents would 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) the Act.[21]

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20 Id.

21 Id.

FICC believes the proposed clarifications to Rule 1 of the MBSD Rules would help ensure that the calculation of margin is clear and transparent to Clearing Members and FICC, and thereby, help ensure that FICC calculates and collects adequate margin from Clearing Members and that Clearing Members understand the relevant definition. As such, FICC believes that the proposed clarifications to Rule 1 of the MBSD Rules would also assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) the Act.[22]

Rule 17Ad-22(e)(23)(ii) under the Act requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency.[23] FICC believes the proposed clarifications to Rule 1 of the MBSD Rules would help ensure that the calculation of margin is transparent and clear to Clearing Members, thereby enabling Clearing Members to better understand the calculation of margin as well as providing them with increased predictability and certainty regarding their obligations. As such, FICC believes that the proposed rule changes are consistent with Rule 17Ad-22(e)(23)(ii) under the Act.[24]

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22 Id.

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

24 Id.

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

FICC believes that the proposed changes to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates and replace them with more general language (as described above) could have an impact on competition. Specifically, FICC believes that the proposed change could burden competition because changes to the look-back periods could result in larger Required Fund Deposits amounts for some Members than the amount currently calculated.

When the proposal results in a larger Required Fund Deposit for Members, the proposed changes could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. Whether such burden on competition would be significant would depend on each Member's financial status and the specific risks presented by each Member's portfolio. Regardless of whether the burden on competition would be significant, FICC believes that any burden on competition imposed by the proposed changes would be both necessary and appropriate in furtherance of FICC's efforts to mitigate risks and meet the requirements of the Act,[25] as described in this filing and further below.

FICC believes the above-described burden on competition that may be created by the proposed changes to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates and replace them with more

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25 15 U.S.C. 78q-1(b)(3)(I).

general language would be necessary in furtherance of the Act.[26] As stated above, with respect to the Margin Proxy, the proposed change would address situations where FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the VaR model, or where the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level. Similarly, with respect to the GSD Haircut Rates, the proposed changes would address situations where FICC observes that asset class backtesting performance is not at the 99% confidence level. Specifically, the proposed changes would help ensure that the QRM Methodology Documents (which have been filed confidentially) are in line with FICC Risk Management's understanding that, in those circumstances, FICC may change the look-back periods for the GSD and MBSD Margin Proxy and GSD Haircut Rates as long as the look-back periods are not less than one year. FICC believes that enhancing clarity and consistency within FICC with respect to changes to the aforementioned look-back periods would help to ensure that FICC calculates and collects adequate margin from its Clearing Members and Netting Members and would thereby 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) the Act.[27]

FICC also believes that the above-described burden on competition that could be created by the proposed change to amend the QRM Methodology Documents to remove specific references (and explanations relating thereto) to the look-back periods for the (1) Margin Proxy of GSD and MBSD and (2) GSD Haircut Rates and replace them with

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[26] Id.

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

more general language would be appropriate in furtherance of the Act.[28] FICC believes these proposed changes would be appropriate in furtherance of the Act because they have been designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible. The proposal achieves this purpose by providing for FICC to act in circumstances where the 99% confidence level is not being met. Specifically, FICC would only change the look-back periods in certain circumstances (i.e., where FICC observes material differences between the Margin Proxy calculations and the aggregate Clearing Fund requirement calculated using the sensitivity VaR model, or where the Margin Proxy's backtesting results do not meet FICC's 99 percent confidence level), and/or where FICC observes that the asset class backtesting performance is not at the 99% confidence level. Furthermore, FICC believes these proposed changes are appropriate because they would be consistent with the discretion (subject to FICC's governance) that FICC has to make changes to the look-back periods consistent with the GSD and MBSD sensitivity VaR filings and GSD QRM Methodology Document.[29] As such, FICC believes these proposed changes would help to ensure that FICC calculates and collects adequate margin from its Clearing Members and Netting Members, and therefore, are designed to assure the safeguarding of securities and funds, consistent with Section 17A(b)(3)(F) the Act.[30]

In addition, FICC does not believe the proposed clarifications, corrections, and technical changes to the GSD QRM Methodology Document and the proposed

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

[29] Supra notes 4, 5, and 10.

[30] 15 U.S.C. 78q-1(b)(3)(F).

clarification and technical changes to the MBSD QRM Methodology Document described above would have any impact on competition because these proposed changes would enhance the clarity and accuracy of the QRM Methodology Documents and would not affect the substantive rights of Netting Members and Clearing Members.

FICC also does not believe that the proposed clarifications to the MBSD Rules would have any impact on competition because these proposed changes would enhance the clarity and accuracy of the MBSD Rules and would not affect the substantive rights of Clearing Members.

(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. FICC will notify the Commission of any written comments received by FICC.

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-2019-001 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-2019-001. 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://dtcc.com/legal/sec-rule-filings.aspx). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2019-001 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.[31]

Secretary

[31] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language

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

Exhibit 5A

DTCC

Methodology Document

GSD Initial Market Risk Margin Model

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Exhibit 5B

DTCC

Methodology and Model Operations Document

MBSD Quantitative Risk Model

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Exhibit 5C

FIXED INCOME CLEARING CORPORATION

MORTGAGE-BACKED SECURITIES DIVISION

CLEARING RULES

RULE 1 - DEFINITIONS

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

* * * *

Loss Allocation Withdrawal Notice

The term “Loss Allocation Withdrawal Notice” shall have the meaning given that term in Section 7b of Rule 4.

Margin Proxy

The term “Margin Proxy” means, with respect to each margin portfolio, an alternative volatility calculation for specified net unsettled positions of a Clearing Member, calculated using the historical market price changes of such benchmark TBA securities determined by the Corporation. The Margin Proxy would be applied by the Corporation as an alternative to the model-based volatility calculation of the VaR Charge for each Clearing Member’s margin portfolio. The Margin Proxy shall cover such range of historical market price moves and parameters as the Corporation from time to time deems appropriate.

Mark-to-Market

The term “Mark-to-Market” means the aggregate amount of a Member’s profits and losses calculated by the Corporation pursuant to Rule 4.

* * * *

VaR Charge

The term “VaR Charge” means, with respect to each margin portfolio, a calculation of the volatility of specified net unsettled positions of a **Clearing** Member, as of the time of such calculation (with respect to the specified net unsettled positions as of the time of such calculation). Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Exchange Act. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such historical data as the Corporation deems reasonable, and shall cover such range of historical volatility as the Corporation from time to time deems appropriate. To the extent that the primary source of such historical data becomes unavailable for an extended period of time, the Corporation shall utilize **the Margin Proxy as** an alternative volatility calculation. If the volatility calculation is lower than 5 basis points of the market value of a Clearing Member’s gross unsettled positions (the “VaR Floor”) then the VaR Floor will be utilized as such Clearing Member’s VaR Charge.

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