

Sponsored Service

FREQUENTLY ASKED QUESTIONS

WHO IS FICC/GSD?

Fixed Income Clearing Corporation (FICC), a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC), is a central counterparty (CCP) and the leading provider of trade comparison, netting and settlement for the U.S. Government securities marketplace. FICC's Government Securities Division (GSD) was established in 1986 to provide automated comparison and settlement services, risk-management benefits and operational efficiencies to the Government securities industry.

WHAT IS THE SPONSORED DVP SERVICE?

The Sponsored DVP Service allows eligible GSD Members to sponsor their clients into GSD membership. Eligible transactions include two-directional (i.e., cash borrowing and cash lending) overnight and term DVP repo in U.S. Treasury and Agency securities and outright purchases and sales of such securities. Eligible securities types include:

- US Treasury Bills, Bonds and Notes
- US Treasury Inflation Protected Securities TIPS
- US Treasury STRIPS
- Non Mortgage-Backed Agency Securities
- Floating Rate Notes FRNs

WHAT ARE THE BENEFITS OF REPO CLEARING AT FICC?

The benefits of repo clearing at FICC include:

- Reduction of counterparty risk through CCP guarantee of the completion of settlement in a member default scenario.
- Balance sheet and capital relief opportunities. Centrally clearing these transactions at FICC could alleviate constraints on Members by enabling them to reduce capital usage via netting and lower risk weights in their risk-based capital ratios.
- Potential for growth of institutional investors' on-loan balances and income as borrowers shift their demand to CCP channels.

HOW ARE SPONSORED MEMBER TRADES EXECUTED AND SUBMITTED FOR NOVATION?

Sponsored Member trades are executed on a CUSIP-by-CUSIP basis and submitted for novation into FICC's GSD Real-Time Trade Matching (RTTM®) Web application by the Sponsoring Member.

WHAT IS THE TERM IN WHICH A SPONSORED DVP REPO TRADE CAN BE TRADED?

A Sponsored DVP repo term can be overnight or up to two years in duration.

WHO CAN BE A SPONSOR?

Through the expanded Sponsored Service, a broader category of market participants can participate in the service as sponsors, including Dealers, non-US Banks and Prime Brokers. The expansion also changed how the service can be used, with sponsors now able to let their clients trade with counterparties other than themselves, providing sponsored members with the same execution flexibility they have in the bi-lateral market today.

WHAT ARE THE RESPONSIBILITIES OF A SPONSORING MEMBER TO FICC?

A Sponsoring Member's primary function is to guaranty their Sponsored Member clients' performance to the CCP. Sponsoring Members also facilitate their Sponsored Member clients' trading activity and act as processing agents on their behalf for all operational functions, including trade submission and settlement with the CCP. In addition, Sponsoring Members cover the costs of clearing on behalf of their Sponsored Member clients, such as margin, liquidity facilities, loss mutualization and clearance fees.

WHAT ARE THE QUALIFICATIONS FOR BECOMING A SPONSORED MEMBER?

Any legal entity that has at least one Sponsoring Member willing to sponsor it into FICC/GSD membership is eligible to participate in the service as a Sponsored Member.

WHAT ARE THE RESPONSIBILITIES OF A SPONSORED MEMBER TO FICC?

Sponsored Members are principally liable to FICC for their own securities and funds-only settlement obligations. Every Sponsored Member must also have at least one Sponsoring Member that is willing to sponsor it into GSD membership and to satisfy the responsibilities of being a Sponsoring Member with respect to such Sponsored Member's cleared activity, including providing FICC with a back-stop guaranty of all of the Sponsored Member's obligations to FICC.

DOES A SPONSORED MEMBER APPLICANT HAVE TO APPLY AT THE FUND LEVEL?

Yes, all individual funds must go through the Sponsored Membership process.

ARE SPONSORED MEMBERS SUBJECT TO DEFAULT LOSS ALLOCATION OR MUTUALIZATION?

No, Sponsored Members are not subject to default loss allocation or mutualization.

DOES FICC REQUIRE A SPONSORING MEMBER TO HAVE ANY KIND OF LIQUIDITY FACILITY FOR SPONSORED MEMBER ACTIVITY?

Liquidity needs created by Sponsored Member trade activity will be considered in the aggregate when calculating the Sponsoring Member's Capped Contingency Liquidity Facility (CCLF®) requirement.

FOR MORE INFORMATION

If you would like further information, please visit us on the web at www.dtcc.com