

Customer Cross-Margining Arrangement – Segregation Requirements with Respect to Amounts Exchanged in Connection with Cross-Margined Customer Trades

The tables below have been prepared for reference in connection with the FICC-CME customer cross-margining arrangement.¹ The tables set out: (i) each of the payments and deliveries that may occur under FICC-cleared transactions subject to the arrangement, (ii) the types of transactions that may give rise to each such payment or delivery, (iii) whether the amounts exchanged are subject to segregation under Section 4(d) of the Commodity Exchange Act (CEA) and the CFTC Regulations thereunder,² (iv) suggested operational set-ups that BD-FCMs may use to address their regulatory obligations, (v) whether FICC’s reporting allocates amounts exchanged to individual customers, and (vi) whether, for amounts that are not allocated to individual customers in FICC’s reporting, the BD-FCM is able to calculate the amounts that should be allocated to individual customers itself based on the information available to it.

An FCM is generally required to hold futures customer funds only in certain permissible locations described in CFTC Regulation 1.20 or pursuant to an applicable CFTC exemptive relief. Section 4d of the CEA and CFTC Regulations thereunder impose specific segregation requirements for accounts used by FCMs to hold customer funds (including specific acknowledgements from certain custodians), as well as requirements regarding FCMs’ “residual interests” and the withdrawal thereof. We refer to any account established by FCM in satisfaction of such segregation requirements as a “Section 4d compliant segregated account.”

Flows	Description	Relevant Trades	Segregation under Section 4d Required?	Suggested Operational Set-Up	Whether FICC’s Reporting Allocates Amounts to Customers	Ability of BD-FCM to Calculate Allocations
Start-leg Settlement	<ul style="list-style-type: none"> The exchange of cash against securities at the start of a repo transaction. For forward starting repos, FICC calculates net cash and securities payment and 	<ul style="list-style-type: none"> All forward-starting repos (regardless of whether done-with or done-away) 	No (though the BD-FCM may settle such amounts through a Section 4d	<ul style="list-style-type: none"> Trades for which the start-leg is <u>not</u> novated to FICC: <ul style="list-style-type: none"> If the start leg is not novated to 	<ul style="list-style-type: none"> Done-away same day settling start legs settle on a trade for trade basis via FICC and settlement 	N/A

¹ The information set out in the table is applicable to DVP trades cleared at FICC under the Sponsored Member Program or Agent Clearing Service as part of the FICC-CME customer cross-margining arrangement (please note that different flows would apply with respect to tri-party trades). We note that for trades that are not novated to FICC, the terms of the parties’ bilateral agreement would govern the flows in connection with such trades.

² Each Eligible BD-FCM must conduct its own analysis of its legal and regulatory obligation in relation to FICC-cleared transactions. The content of this table does not constitute legal advice or reasoned analysis and is based solely on the orders issued by the CFTC and SEC and the CME Financial and Regulatory Bulletin #26-01. Some of the issues addressed herein are novel, unsettled, and it is possible that firms may take a different analytical approach.

Flows	Description	Relevant Trades	Segregation under Section 4d Required?	Suggested Operational Set-Up	Whether FICC's Reporting Allocates Amounts to Customers	Ability of BD-FCM to Calculate Allocations
	<p>delivery obligations in relation to all positions carried in the same Cross-Margining Customer Account.</p> <ul style="list-style-type: none"> For done-away non-forward starting repos, cash and securities are settled on a gross, trade-for-trade basis. FICC settles the cash and securities payment and delivery obligations on a DVP basis through the clearing agent bank account designated by the BD-FCM for such purpose. The BD-FCM will generally "prefund" the customer, i.e., settle on a DVP basis with the customer before it settles with FICC (if the customer is due to deliver securities) or afterwards (if the customer is due to receive securities). 	<ul style="list-style-type: none"> All done-away same day settling repos <p>(The start-leg of a non-forward starting, done-with repo is not novated to FICC)</p>	<p>compliant segregated account in connection with trades for which the start-leg is novated to FICC)</p>	<p>FICC (i.e., in connection with a same-day-settling done-with transaction) a BD-FCM may not be able to settle the start leg through a Section 4d compliant segregated account, since the cash and securities received from the customer during the start leg are not customer property.</p> <ul style="list-style-type: none"> Trades for which the start-leg is novated to FICC: <ul style="list-style-type: none"> A BD-FCM may designate a Section 4d compliant segregated account at a clearing agent bank for purposes of settling such amounts. Alternatively, a BD-FCM may 	<p>obligations associated with them can be tied back directly to customers – FICC provides electronic reporting that can be used to tie such settlement obligations back to the customer.</p> <ul style="list-style-type: none"> Forward starting repo start legs settle via FICC's netting process – resulting settlement obligations are based on a net settlement position. FICC reports which transactions were included in the netting process and comprise the net settlement position upon which the settlement obligations are established to settle. 	

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				<p>designate a regular (non-segregated) account at the clearing agent bank for such purpose.</p> <ul style="list-style-type: none"> If the BD-FCM designates a 4d compliant segregated account for such purpose, it must conduct residual interest calculations before withdrawing any amounts necessary to repay itself for any prefunding. 		
End-Leg Settlement	<ul style="list-style-type: none"> The exchange of cash and securities upon final settlement of a repo transaction. FICC calculates net cash and securities payment and delivery obligations in relation to all positions carried in the same Cross-Margining Customer Account. FICC settles the cash and securities payment and delivery obligations on a DVP basis through the clearing 	All	No (though the BD-FCM may settle such amounts through a Section 4d compliant segregated account)	<ul style="list-style-type: none"> A BD-FCM may designate a Section 4d compliant segregated account at a clearing agent bank for purposes of settling such amounts. Alternatively, a BD-FCM may designate a regular (non- 	<ul style="list-style-type: none"> Repo end legs settle via FICC's netting process – resulting settlement obligations are based on a net settlement position. FICC reports which transactions were included in the netting process and comprise the 	N/A

Flows	Description	Relevant Trades	Segregation under Section 4d Required?	Suggested Operational Set-Up	Whether FICC's Reporting Allocates Amounts to Customers	Ability of BD-FCM to Calculate Allocations
	<p>agent bank account designated by the BD-FCM for such purpose.</p> <ul style="list-style-type: none"> The BD-FCM will generally "prefund" the customer, i.e., settle on a DVP basis with the customer before it settles with FICC (if the customer is due to deliver securities) or afterwards (if the customer is due to receive securities). 			<p>segregated) account at the clearing agent bank for such purpose.</p> <ul style="list-style-type: none"> If the BD-FCM designates a 4d compliant segregated account for such purpose, it must conduct residual interest calculations before withdrawing any amounts necessary to repay itself for any prefunding. 	<p>net settlement position upon which the settlement obligations are established to settle.</p>	
Initial Margin	<ul style="list-style-type: none"> FICC will collect initial margin (Cross-Margining Customer Margin) from the BD-FCM in connection with the cross-margined customer trades cleared by the BD-FCM twice daily. The BD-FCM is required to collect from each customer, at a minimum, the aggregate amount of Cross-Margining Customer Margin required by FICC and the aggregate amount of initial margin required by CME in respect of each customer's cross-margined positions. 	All	Yes	<ul style="list-style-type: none"> A BD-FCM must use a Section 4d compliant segregated account at a clearing agent bank for purposes of collecting initial margin from customers, posting such margin to FICC, and receiving such margin back from FICC. 	Yes	N/A

Flows	Description	Relevant Trades	Segregation under Section 4d Required?	Suggested Operational Set-Up	Whether FICC's Reporting Allocates Amounts to Customers	Ability of BD-FCM to Calculate Allocations
	<ul style="list-style-type: none"> ○ BD-FCMs also retain the ability to collect additional margin from customers beyond what FICC and CME require (subject to any contractual agreement with the customer). 					
Funds-Only Settlement (FOS)	<ul style="list-style-type: none"> • FICC exchanges FOS amounts with BD-FCMs on a twice daily basis. • FOS amounts are settled on a net basis across all positions carried in the Cross-Margining Customer Account. • FICC will pay to, or debit from, the clearing agent bank account designated by the BD-FCM for such purpose the net FOS amount due to or from the BD-FCM. • See the table below for a description of each component of FOS, and a breakdown of which of these FOS components are allocated to customers in FICC's reporting. 	<p>All (however, Forward Mark Adjustment Payment (FMAP) and FMAP Return are not exchanged in connection with overnight transactions submitted to FICC for clearing after 12:00pm.)</p>	<p>Yes</p>	<ul style="list-style-type: none"> • A BD-FCM must use a Section 4d compliant segregated account for purposes of exchanging FOS amounts with FICC. 	<ul style="list-style-type: none"> • See the table below for a breakdown of which FOS components are allocated to customers in FICC's reporting. • FICC plans to enhance its available FOS reporting and provide to BD-FCMs transaction-level FOS data, including for components which are today reported at the net position level. FICC is planning to have these reports available by year-end 2026 and electronic 	<ul style="list-style-type: none"> • See the table below for a breakdown of which FOS components are allocated to customers in FICC's reporting. • For all of the components that are not allocated to customers in FICC's reporting, the BD-FCM will be able to allocate such amounts to individual customers using the reporting data

Flows	Description	Relevant Trades	Segregation under Section 4d Required?	Suggested Operational Set-Up	Whether FICC's Reporting Allocates Amounts to Customers	Ability of BD-FCM to Calculate Allocations
					output by the end of Q2 2027.	provided by FICC at the end of day each day.
Invoice Amounts (Including Fails Charges)	<ul style="list-style-type: none"> • On a monthly basis, FICC will provide each BD-FCM with an invoice that includes certain fees and charges. • The fees and charges may include: <ul style="list-style-type: none"> ○ Fails charges ○ Clearing & settlement fees ○ Interest due • The invoice will either be payable by FICC to the BD-FCM or payable by the BD-FCM to FICC. • The BD-FCM must designate an account to which FICC will wire any amounts payable to it in relation to invoice amounts. • The BD-FCM may wire FICC invoice amounts from any account. 	All	<ul style="list-style-type: none"> • Yes, for amounts <u>paid by FICC</u> because such amounts may include fails charges owed to customers. • However, the BD-FCM should not pay invoice amounts out of a Section 4d compliant segregated account because some invoice amounts are not customer obligations. 	<ul style="list-style-type: none"> • When a BD-FCM opens its Cross-Margining Customer Account at FICC, the BD-FCM will give wire instructions to FICC to specify the account to which FICC should send any invoice amounts payable by it. • The BD-FCM should direct FICC to wire such amounts to a Section 4d compliant segregated account. • For amounts owed to FICC, the BD-FCM should wire funds from an account that does not contain segregated funds. 	<ul style="list-style-type: none"> • The invoice will include the net amount of fails charges for all customer positions. There will not be a customer-level breakdown because FICC does not have insight into which customers failed. • FICC's invoice reporting is available at the BD-FCM Cross Margining Customer account level. 	Since all securities settlements flow through the BD-FCM in its role as processing agent, the BD-FCM will have the information necessary to disaggregate the net fails amount displayed on the invoice and allocate the fails charges to customers.

Funds-Only Settlement (FOS):

FOS Component	Description	Whether FICC's Reporting Allocates Amounts to Customers	Ability of BD-FCM to Calculate Allocations
Coupon Adjustment Payment:	<ul style="list-style-type: none"> Payments to account for interim interest payments made under a security underlying a trade. 	Yes	N/A
Redemption Adjustment Payment:	<ul style="list-style-type: none"> Payments to account for the final principal payment made under a security underlying a trade. 	Yes	N/A
Forward Mark Adjustment Payment (FMAP):	<ul style="list-style-type: none"> Payments based on changes in the value of the underlying securities and interest rates. (This is most comparable to variation margin and arguably represents the MTM of the trade.) 	Yes	N/A
Forward Mark Adjustment Payment Return:	<ul style="list-style-type: none"> This component represents the return of the previous FOS cycle's Net Forward Mark Adjustment Payment. 	Yes	N/A
Interest Adjustment Payment:	<ul style="list-style-type: none"> An amount equivalent to the interest accruing on previously posted and unreturned FOS. This is equivalent to Price Alignment Amount ("PAA") in the derivatives context. 	<p>No</p> <p>FICC plans to enhance its available FOS reporting and provide to BD-FCMs transaction-level FOS data, including for the components which are today reported at the net position level. FICC is planning to have these reports available by year-end 2026 and electronic output by the end of Q2 2027.</p>	Yes
Transaction Adjustment Payment (TAP):	<ul style="list-style-type: none"> TAP is an adjustment payment that is designed to address the fact that FICC settles with Netting Members at its system price (i.e., the current market price) rather than the contract price (i.e., the price agreed between the parties to the transaction). 	<p>No</p> <p>FICC plans to enhance its available FOS reporting and provide to BD-FCMs transaction-level FOS data, including for the components which are today reported at the net position level. FICC is planning to have</p>	Yes

		these reports available by year-end 2026 and electronic output by the end of Q2 2027.	
Delivery Differential Adjustment Payment:	<ul style="list-style-type: none"> Similar to TAP, this component is an adjustment payment that is designed to address the fact that FICC settles certain transactions involving the Treasury Auction issuances at the Fed Average Price rather than the market price. 	<p>No</p> <p>FICC plans to enhance its available FOS reporting and provide to BD-FCMs transaction-level FOS data, including for the components which are today reported at the net position level. FICC is planning to have these reports available by year-end 2026 and electronic output by the end of Q2 2027.</p>	Yes
Fail Mark Adjustment Payment:	<ul style="list-style-type: none"> This component is an adjustment payment designed to address the fact that, if a trade fails to settle, FICC will incorporate the trade into the next day's final settlement netting. 	<p>No</p> <p>FICC plans to enhance its available FOS reporting and provide to BD-FCMs transaction-level FOS data, including for the components which are today reported at the net position level. FICC is planning to have these reports available by year-end 2026 and electronic output by the end of Q2 2027.</p>	Yes
Clearance Difference Amount:	<ul style="list-style-type: none"> This component is an adjustment payment that is designed to address the fact that the Netting Member may make a final settlement payment at a price that is slightly different than FICC's system (i.e., market) price. 	<p>No</p> <p>FICC plans to enhance its available FOS reporting and provide to BD-FCMs transaction-level FOS data, including for the components which are today reported at the net position level. FICC is planning to have these reports available by year-end 2026 and electronic output by the end of Q2 2027.</p>	Yes
Miscellaneous Adjustment Payments:	<ul style="list-style-type: none"> These payments represent an ad-hoc miscellaneous adjustment passed to the FOS statement. 	If FICC passes any Miscellaneous Adjustment Payments, FICC provides the rationale behind it (including whether it relates to a particular customer).	N/A