

# DTCC

# GSD Segregated Accounts and Margin

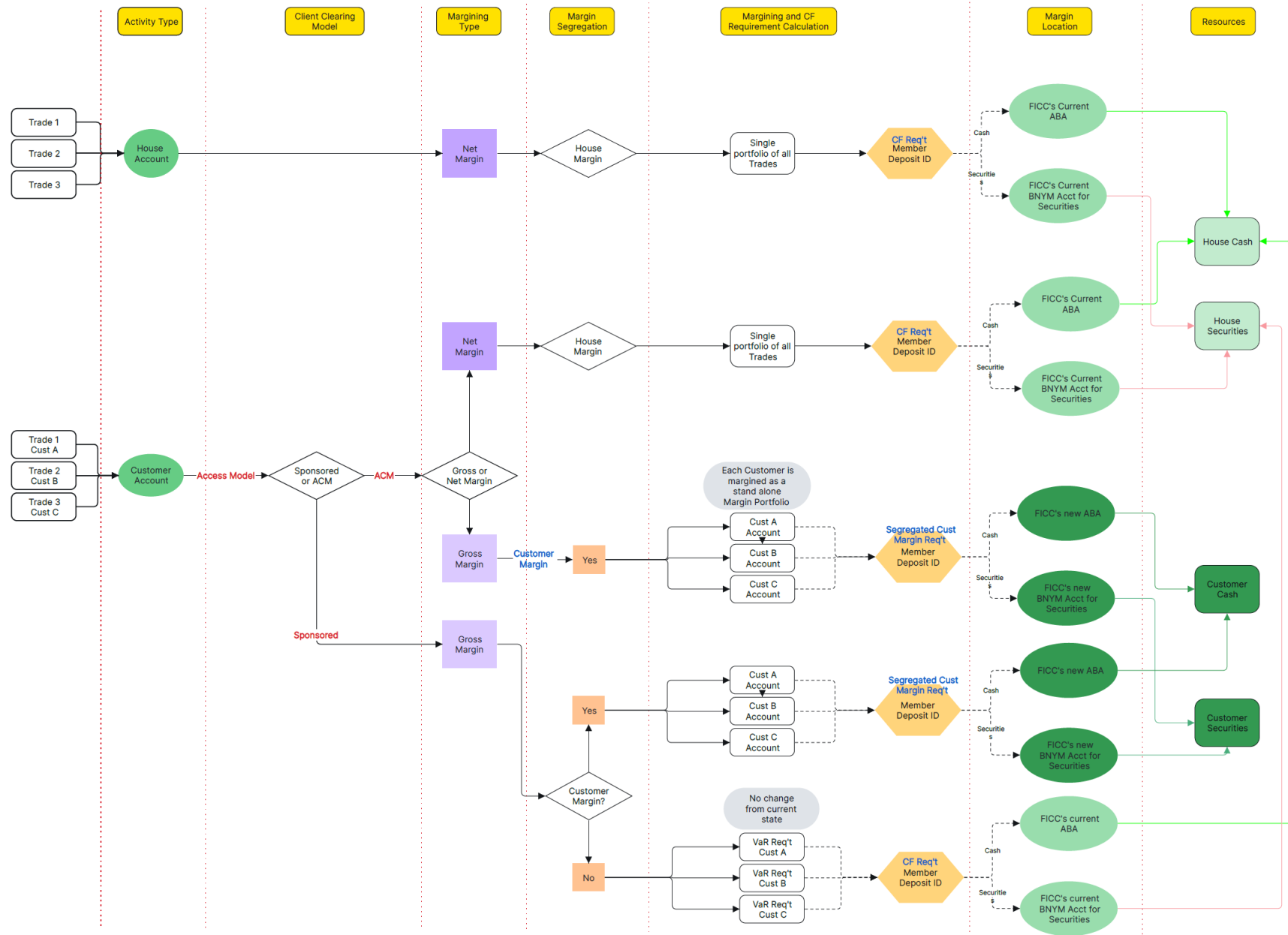
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FICC Account Structure and Risk Management of Segregated Indirect Participant Activity

DATE: March 4, 2024

*The proposals described in this presentation are subject to the review and approval of proposed rule change filings by the SEC. Such filings will be published in the Federal Register and available for public comment. Pursuant to FICC's regulatory obligation, all comments provided to FICC in connection with this proposal either before or after the submission of such filings may be disclosed to the SEC and/or included in the related proposed rule change / advance notice filing. Please contact us with any questions about this requirement.*

# Overview of Accounts and Margin Calculation, Collection and Segregation



# Summary of Proposed Rule Changes

## 1. Account Structure

Clarify GSD account structure by identifying the different types of accounts Netting Members may or are required to use for different activity and different services.

Account Structure Proposed Rule Changes	
<i>Rule 1 (Definitions)</i>	<ul style="list-style-type: none"><li>• New defined terms and updated existing defined terms for different Accounts.</li><li>• Revised descriptions to clarify that these are position-recording accounts.</li></ul>
<i>New Rule 2B (Accounts)</i>	<p>New Rule 2B describes different types of Accounts and rules around which Accounts should be used for different activity and different services:</p> <ul style="list-style-type: none"><li>• Proprietary Accounts (Dealer Accounts and Broker Accounts)</li><li>• Indirect Participant Accounts (Sponsoring Member Omnibus Accounts and Agent Clearing Member Omnibus Accounts)</li></ul>
<i>Rule 3 (Ongoing Membership Requirements)</i>	<ul style="list-style-type: none"><li>• Eliminate concept of Non-IDB Repo Brokers and provide that only IDB Netting Members can submit brokered activity and must submit that activity through Broker Accounts.</li><li>• Simplify requirements for IDB Netting Members and remove FICC's affirmative monitoring of this activity.</li></ul>

# Summary of Proposed Rule Changes

## 2. Segregating Indirect Participant Margin in a Manner that Comports with the 15c3-3 Debit Requirements

Describe how FICC will segregate customer margin in a manner that satisfies the requirements under Note H of amended SEC Rule 15c3-3.

### Segregated Indirect Participant Accounts Proposed Rule Changes

<i>Rule 1 (Definitions)</i>	New defined terms for segregated indirect participant margin and accounts: “Segregated Indirect Participant”, “Segregated Indirect Participant Account”, “Segregated Customer Margin” and “Segregated Customer Margin Requirement”.
<i>New Rule 2B (Accounts)</i>	Provides that Indirect Participant Accounts may be designated by Netting Members to be segregated and describes implications of this designation.
<i>Rule 4 (Clearing Fund)</i>	<ul style="list-style-type: none"><li>• Deposits of Segregated Customer Margin are segregated and FICC would have limited use of those funds.</li><li>• Netting Member’s Required Fund Deposit would have separate portions for separately activity; a Netting Member’s Required Fund Deposit (which may be used for broad purposes) is separated from its "Segregated Customer Margin Requirement" (which may only be used for customer positions).</li><li>• Section 3 (Form of Deposit), Section 4 (Liens), Section 5 (Use of Clearing Fund and Segregated Customer Margin) are updated to address application of these sections to Segregated Customer Margin.</li></ul>
<i>New Margin Component Schedule</i>	<ul style="list-style-type: none"><li>• Describes the calculation of the Segregated Customer Margin Requirement.</li><li>• Describes each applicable margin component to specify how each would be calculated for a Segregated Indirect Participant.</li></ul>

# Summary of Proposed Rule Changes

## 3. Enhance Disclosures of Margin Components and Clearing Fund Methodology

Move descriptions of each margin component and Clearing Fund methodology to new Margin Component Schedule and make certain market risk management enhancements.

Margin Component Schedule and Risk Management Enhancement Rule Changes	
<i>Rule 1 (Definitions)</i>	<ul style="list-style-type: none"><li>All defined terms of margin components are moved from Rule 1 (Definitions) into Section 5 of the Margin Component Schedule.</li></ul>
<i>Rule 4 (Clearing Fund)</i>	<ul style="list-style-type: none"><li>Description of the calculation of Required Fund Deposit and other margin requirements are moved out of Rule 4 and into Margin Component Schedule.</li></ul>
<i>New Margin Component Schedule</i>	<ul style="list-style-type: none"><li>Sections 2 and 3 lay out the methodology for calculating each portion of Required Fund Deposit and Segregated Customer Margin Requirement.</li><li>Section 4 consolidates the description of all additional charges and possible increases to required deposits.</li><li>Section 5 describes the methodology for calculating each component of the Clearing Fund.</li><li>GSD Excess Capital Premium is conformed to recent changes made to NSCC Excess Capital Premium.</li></ul>
<i>Rule 1 (Definitions) – Definition of Current Net Settlement Positions</i>	<ul style="list-style-type: none"><li>Describes new methodology to allocate Current Net Settlement Positions of the Sponsoring Member Omnibus Accounts and Agent Clearing Member Omnibus Accounts to the underlying Sponsored Members and Segregated Indirect Participants of those accounts.</li></ul>

# List of GSD's Clearing Fund Components

The following charges are included in the Unadjusted GSD Margin Portfolio Amount, which shall not be less than zero:

- ▶ **VaR Charge** – designed to cover projected liquidation losses at a 99% confidence level assuming a 3-day liquidation and hedging period; a primary margin component making up over 90% of Clearing Fund Requirement.
- ▶ **Blackout Period Exposure Adjustment** – designed to mitigate exposure that may arise due to potential overvaluation of transactions collateralized with MBS during the Blackout Period and only applicable to Members who collateralized their portfolio with mortgage-backed security during the Blackout Period.<sup>1</sup>
- ▶ **Portfolio Differential** – designed to capture variability in Member's VaR Charge over a set lookback period.

The following charges are then added to the Unadjusted GSD Margin Portfolio Amount:<sup>2</sup>

- ▶ **Backtesting Charge** – designed to cover exposure observed in excess of the required margin; applied if a Member's backtesting coverage falls below 99% (3 or more observations during 250 trading days).
- ▶ **Holiday Charge** – assessed on Business Day prior to a Holiday; designed to approximate the exposure that a Member's trading activity on the Holiday could pose to FICC.
- ▶ **Margin Liquidity Adjustment** – assessed when Member's portfolio concentration exceeds a threshold in comparison to the available market liquidity of an asset group.
- ▶ **Intraday Supplemental Fund Deposit** – may be added intraday based on re-calculation of the VaR Charge.
- ▶ **Excess Capital Premium** – may be added if a Member's Excess Capital Ratio (VaR Charge divided by reported capital) is greater than 1.0; may be waived if it is determined that the charge is triggered by extraordinary market events.

1 Blackout Period is the period between the last business day of the prior month and the date during the current month upon which a government-sponsored entity that issues mortgage-backed securities publishes its updated pool factor.

2 GSD is currently developing the Minimum Margin Amount ("MMA"), which is designed to act as a supplement to the VaR model and improve responsiveness to volatile market conditions by strengthening the VaR floor.

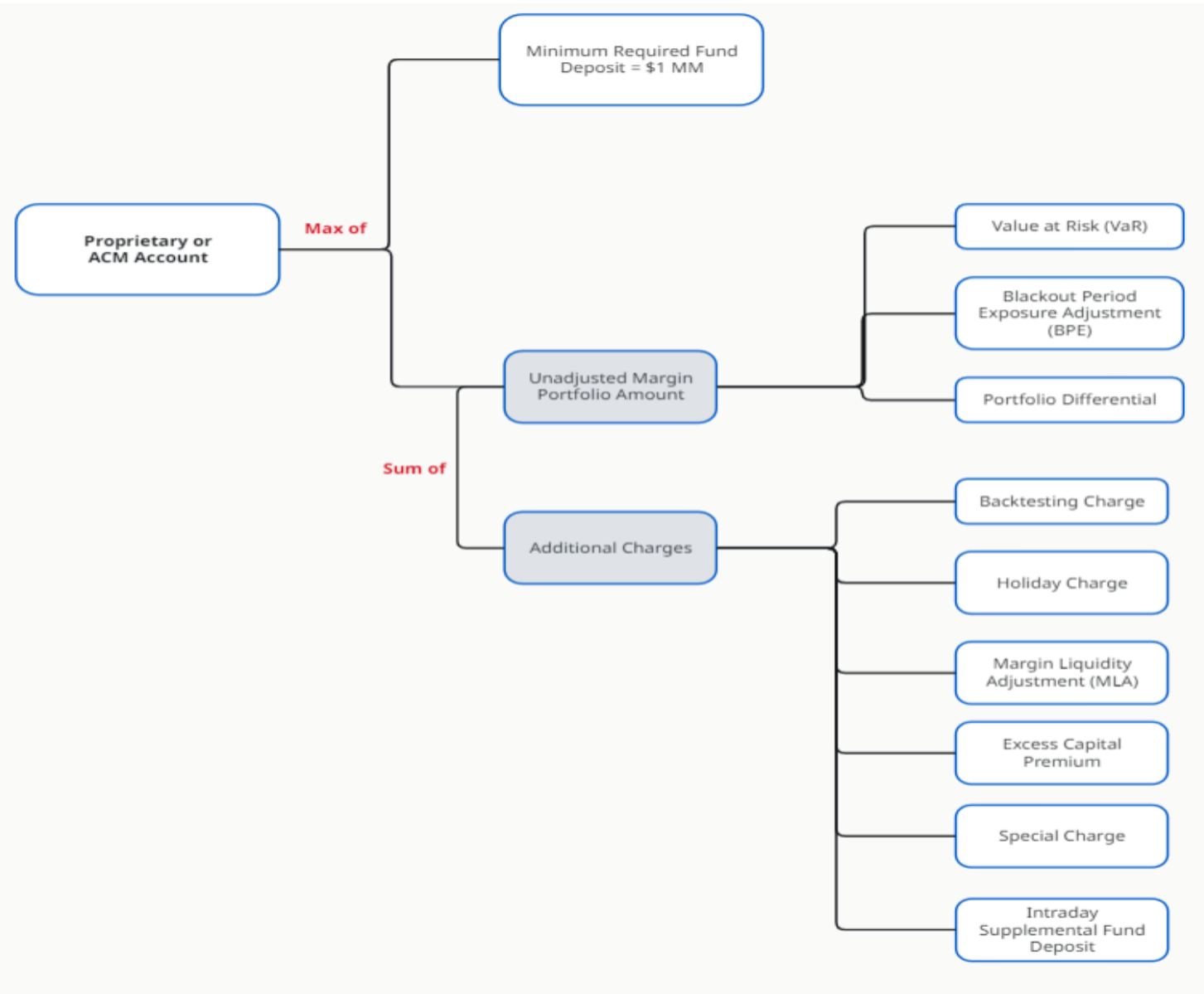
# List of GSD's Clearing Fund Components, cont.

A Netting Member's Required Fund Deposit may be increased by the following additional charges or adjustments:

- ▶ **Special Charge** – additional charge required to mitigate exposure in view of market conditions or other financial and operational capabilities of the Member.
- ▶ **Watch List Charge** – additional charge required by Members that are placed on the Watch List.
- ▶ **Adequate Assurance Additional Deposits** – additional or increased deposits to provide FICC with adequate assurance that the Member can continue to meet its obligations to FICC.
- ▶ **Clearing Fund Premiums** – calculated as the greater of \$1 million or 25% of the Member's Required Fund Deposit and assessed if Member fails to comply with its ongoing membership requirements.

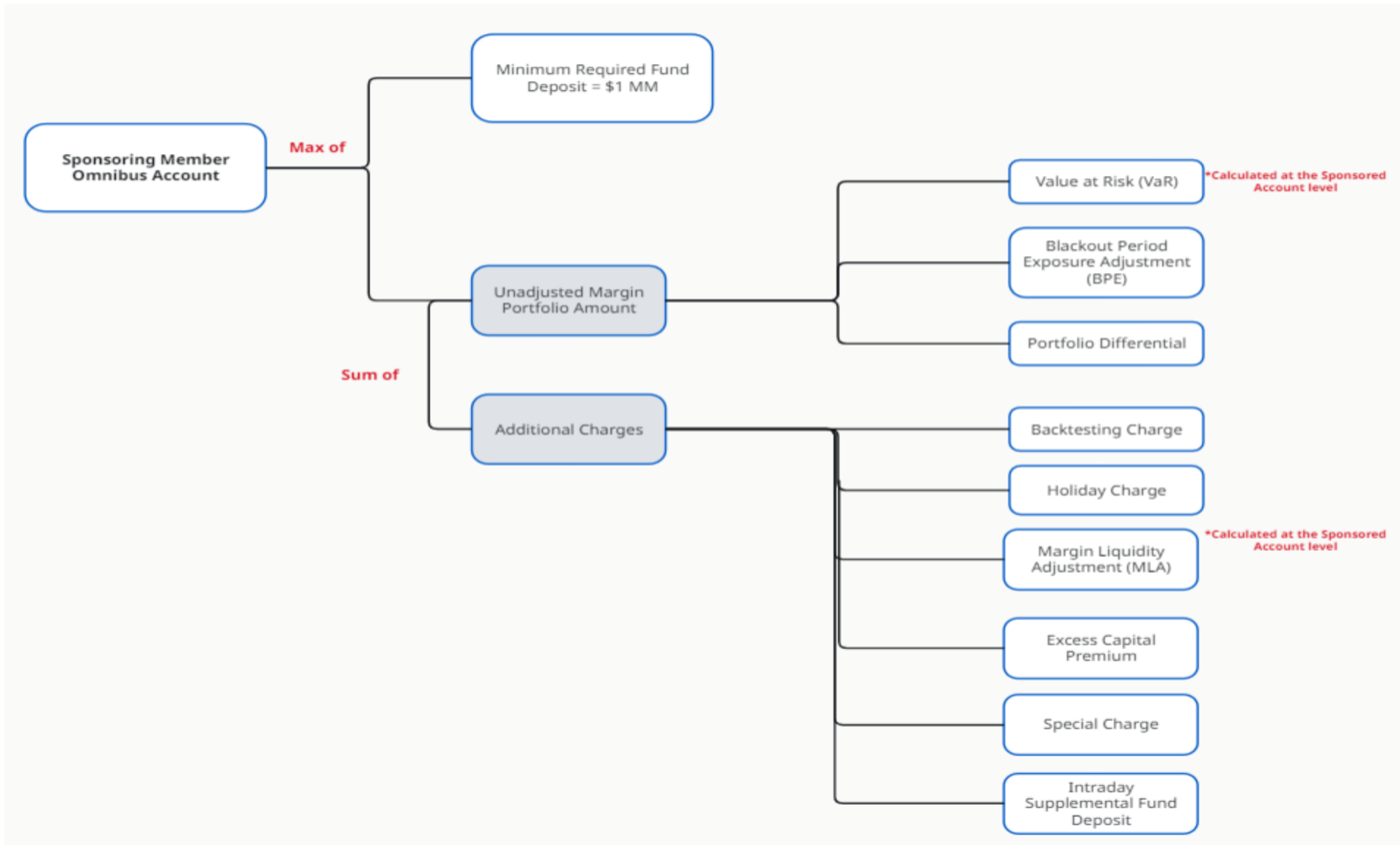
Netting Members must maintain a minimum deposit of \$1M at all times.

# Risk Management of Proprietary and Agent Clearing Member Activity Accounts

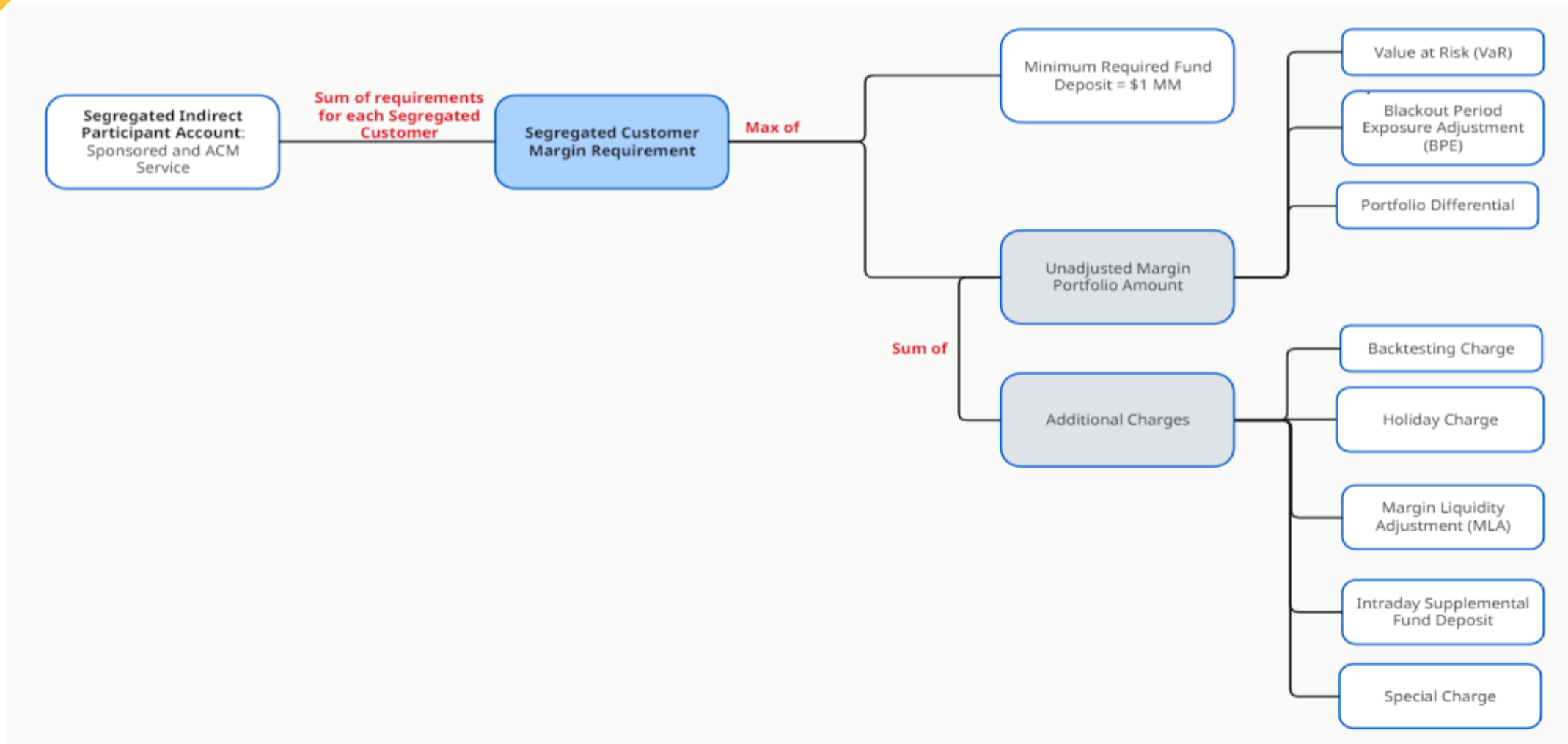




# Risk Management of Sponsoring Member Omnibus Accounts



# Risk Management of Segregated Indirect Participant Accounts



# Risk Management of Existing Sponsored Service vs. Segregated Customer Activity

## Existing Margining Regime for Sponsoring Member Omnibus Accounts - Clearing Fund Components

	<i>Min. Required Fund Deposit</i>	<i>VaR</i>	<i>MLA</i>	<i>Portfolio Differential</i>	<i>BPE</i>	<i>Special Charges</i>	<i>Holiday Charge</i>	<i>Excess Capital Premium</i>	<i>IDAY Supplemental Fund Deposit</i>	<i>BackTesting Charge</i>	<i>Min Deposit Special Charge</i>	<i>Total Charges</i>
<b>Sponsoring Member Omnibus Account</b>	1,000,000.00	5,001,432.00	458,750.00	1,856,290.00	(768,000.00)	733,084.00	-	-	700,000.00	1,300,000.00	-	9,281,556.00
Sponsored Member 1		1,500,000.00	-	-	-	-	-	-	-	-	-	-
Sponsored Member 2		2,300,000.00	300,000.00	-	-	-	-	-	-	-	-	-
Sponsored Member 3		475,800.00	-	-	-	-	-	-	-	-	-	-
Sponsored Member 4		600,000.00	158,750.00	-	-	-	-	-	-	-	-	-
Sponsored Member 5		125,632.00	-	-	-	-	-	-	-	-	-	-

\*Please note: the above referenced margining regime will remain in place for non-Segregated Sponsoring Member Omnibus accounts.

## Segregated Indirect Participant Activity - Clearing Fund Components

	<i>Min. Required Fund Deposit</i>	<i>VaR</i>	<i>MLA</i>	<i>Portfolio Differential</i>	<i>BPE</i>	<i>Special Charges</i>	<i>Holiday Charge</i>	<i>IDAY Supplemental Fund Deposit</i>	<i>BackTesting Charge</i>	<i>Min Deposit Special Charge</i>	<i>Total Charges</i>
<b>Segregated Customer Margin Account</b>	5,000,000.00	6,936,000.00	2,091,000.00	1,725,000.00	(1,248,000.00)	5,063,250.00	-	675,000.00	2,153,000.00	847,000.00	18,242,250.00
Segregated Indirect Participant 1	1,000,000.00	3,000,000.00	676,000.00	799,000.00	(378,000.00)	1,985,250.00	-	-	-	-	6,082,250.00
Segregated Indirect Participant 2	1,000,000.00	958,000.00	-	500,000.00	-	578,000.00	-	675,000.00	-	-	2,711,000.00
Segregated Indirect Participant 3	1,000,000.00	350,000.00	165,000.00	176,000.00	130,000.00	-	-	-	378,000.00	-	1,199,000.00
Segregated Indirect Participant 4	1,000,000.00	128,000.00	-	-	-	-	-	-	25,000.00	847,000.00	1,000,000.00
Segregated Indirect Participant 5	1,000,000.00	2,500,000.00	1,250,000.00	250,000.00	(1,000,000.00)	2,500,000.00	-	-	1,750,000.00	-	7,250,000.00



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# **GSD Access Models**

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**Facilitating Greater Access to Clearance and Settlement of Eligible Secondary Market Transactions in U.S. Treasury Securities**

DATE: **March 4, 2024**

# Summary of Proposed Rule Changes: Facilitating Greater Access

**FICC is proposing rule changes to the GSD Rules designed to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities in accordance with the Treasury Clearing Rules. The proposal would lead to better understanding of the available methods for accessing FICC's clearance and settlement systems.**

## **1. AGENT CLEARING SERVICE**

The proposal will re-name and consolidate GSD's current correspondent clearing / prime broker services as the "Agent Clearing Service" and adopt provisions that are common in agent clearing models. The changes would help Netting Members and their customers recognize the similarities between FICC's indirect access model and FCM agent clearing models and would identify the Agent Clearing Service as a "done away" model.

## **2. UPDATE CERTAIN MEMBERSHIP QUALIFICATIONS**

The proposal will update certain qualifications for GSD's membership, including: (1) eliminate the two categories of Sponsoring Members to apply the qualifications applicable to the current Category 2 Sponsoring Members to all Sponsoring Members; and (2) remove the requirement that Sponsored Members must be qualified institutional buyers or satisfy the financial requirements of such definition.

## **3. IMPROVE PUBLIC DISCLOSURES OF GSD ACCESS MODELS AND MEMBERSHIP CATEGORIES**

The proposal will put in the GSD Rules a public road map of the different models for accessing the FICC's clearance and settlement services that are available to market participants who want to access those services directly, as Netting Members, and firms that want to access those services indirectly.

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## 1. AGENT CLEARING SERVICE – GSD RULE 8

The proposal will re-name and consolidate GSD’s current correspondent clearing / prime broker services as the “Agent Clearing Service” and adopt provisions that are common in agent clearing models.

Proposed Changes to GSD Rules	
<i>Rule 1 (Definitions)</i>	Defined terms identify the parties who can participate in the “Agent Clearing Service” as “Agent Clearing Members” and “Executing Firm Customers”.
<i>Rule 8, Section 2 (Qualifications)</i>	<ul style="list-style-type: none"><li>• Most Netting Members are eligible to apply to be an Agent Clearing Member by submitting an application to FICC.</li><li>• The application will require information about the applicant’s customers, past and/or projected volumes of customer activity, and the applicant’s controls for monitoring and mitigating risks, including customer risks.</li></ul>
<i>Rule 8, Section 3 (Executing Firm Customer Relationships)</i>	<ul style="list-style-type: none"><li>• Agent Clearing Member may establish a relationship with an Executing Firm Customer through the Agent Clearing Service by providing the following: (1) name and executing firm symbol of customer; (2) written authorization from customer; (3) LEI of customer; (4) confirmation that Agent Clearing Member and customer have entered contract that binds customer to applicable provisions of GSD Rules; (5) confirmation customer understands applicable provisions of GSD Rules.</li></ul>

# Summary of Proposed Rule Changes

## 1. AGENT CLEARING SERVICE – GSD RULE 8 (continued)

The proposal will re-name and consolidate GSD’s current correspondent clearing / prime broker services as the “Agent Clearing Service” and adopt provisions that are common in agent clearing models.

### Proposed Rule Changes

<i>Rule 8, Section 4 (Agent Clearing Transactions)</i>	<ul style="list-style-type: none"><li>• “Agent Clearing Transactions” include any transactions that are eligible to be submitted for comparison, netting or settlement with the exception of Netting Eligible Auction Purchases, Brokered Transactions, GCF Repo Transactions and CCIT Transactions.</li></ul>
<i>Rule 8, Section 5 (Rights and Obligations of Agent Clearing Members)</i>	<ul style="list-style-type: none"><li>• Agent Clearing Members may submit Agent Clearing Transactions to FICC in accordance with applicable provisions of GSD Rules, acting as agent of its customers.</li><li>• Agent Clearing Members are fully liable to FICC performance of all obligations with respect to Agent Clearing Transactions.</li></ul>
<i>Rule 8, Section 6 (Executing Firm Customer Acknowledgement)</i>	<ul style="list-style-type: none"><li>• Executing Firm Customer acknowledgements with respect to their participation in the Agent Clearing Service including, for example, (1) use of the Agent Clearing Service is subject to the applicable provisions of the GSD Rules; and (2) FICC has no obligation to the customers but deal directly with the Agent Clearing Members in all respects.</li></ul>
<i>Rule 8, Section 7 (Agent Clearing Transactions Processing Rules)</i>	Agent Clearing Transactions, are recorded in Accounts maintained by FICC on behalf of the Agent Clearing Member, referred to as “Agent Clearing Member Omnibus Accounts”, and are generally processed in the same way as similar transactions submitted to FICC for clearing and settlement.

## 2. UPDATE TO CERTAIN MEMBERSHIP QUALIFICATIONS

The proposal will update certain qualifications for GSD’s membership, as described below. By expanding the eligibility for market participants to be Sponsored Members, in particular, the proposal supports the goals of the Treasury Clearing Rules to facilitate increased central clearing of transactions involving U.S. Treasury securities.

Proposed Rule Changes	
<i>Eliminate 2 Categories of Sponsoring Members</i>	<ul style="list-style-type: none"><li>• <i>Capitalization Requirements</i> – Eliminate the capitalization requirements that Bank Netting Members must meet when applying to be Sponsoring Members and applying the same qualifications to all Sponsoring Member applicants.</li><li>• <i>Required Fund Deposit Increases</i> – Eliminate the risk management measure through which FICC increases the margin requirement if a Category 1 Sponsoring Member fails to meet its capital requirements, and instead apply the existing activity limit to all Sponsoring Members (activity limit restricts submission of sponsored activity when a Sponsoring Member’s VaR Charge requirement exceeds its capital levels).</li></ul>
<i>Remove QIB Requirement for Sponsored Members</i>	<ul style="list-style-type: none"><li>• Remove the QIB requirement for applicants to be Sponsored Members. Only remaining qualification for an applicant to be a Sponsored Member is that it has a current LEI and is sponsored by at least one Sponsoring Member.</li></ul>



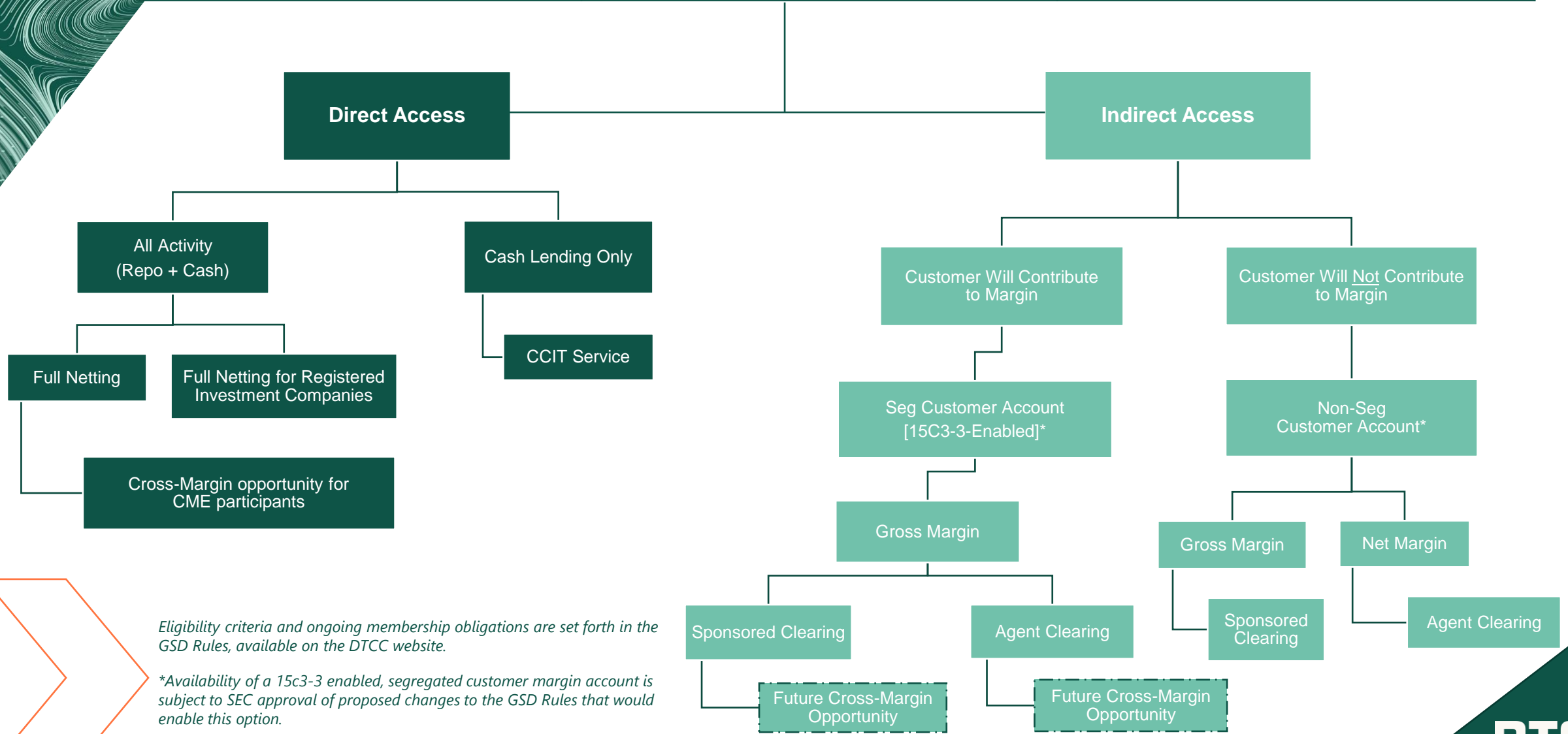
## 3. IMPROVE PUBLIC DISCLOSURES OF ACCESS MODELS AND MEMBERSHIP CATEGORIES

The proposal will put in GSD Rule 2 a public road map of the different models for accessing the FICC's clearance and settlement services that are available to market participants who want to access those services directly, as Netting Members, and firms that want to access those services indirectly.

Proposed Rule Changes	
<i>Rule 2, Section 1</i>	<ul style="list-style-type: none"><li>GSD's services may be available directly or indirectly through either the Sponsored Service or a relationship with an Agent Clearing Member.</li></ul>
<i>Rule 2, Section 2</i>	<ul style="list-style-type: none"><li>Direct participation through a GSD membership: Netting Members, CCIT Members, Funds-Only Settling Bank Members and Comparison-Only Members.</li></ul>
<i>Rule 2, Section 3</i>	<ul style="list-style-type: none"><li>Indirect participation through one of two available indirect access models:<ul style="list-style-type: none"><li>Sponsored Service – providing indirect access to Sponsored Members through Sponsoring Members.</li><li>Agent Clearing Service – providing indirect access to Executing Firm Customers through Agent Clearing Members.</li></ul></li></ul>

# If engaged in Treasury activity for central clearing, then...

Capital Considerations	Credit Considerations	Jurisdiction Considerations
Balance Sheet netting, margin and CCLF obligations, settlement netting	Benefits of membership	Domicile of customers vs. FICC's currently permitted jurisdictions for Sponsored Members



Eligibility criteria and ongoing membership obligations are set forth in the GSD Rules, available on the DTCC website.

\*Availability of a 15c3-3 enabled, segregated customer margin account is subject to SEC approval of proposed changes to the GSD Rules that would enable this option.

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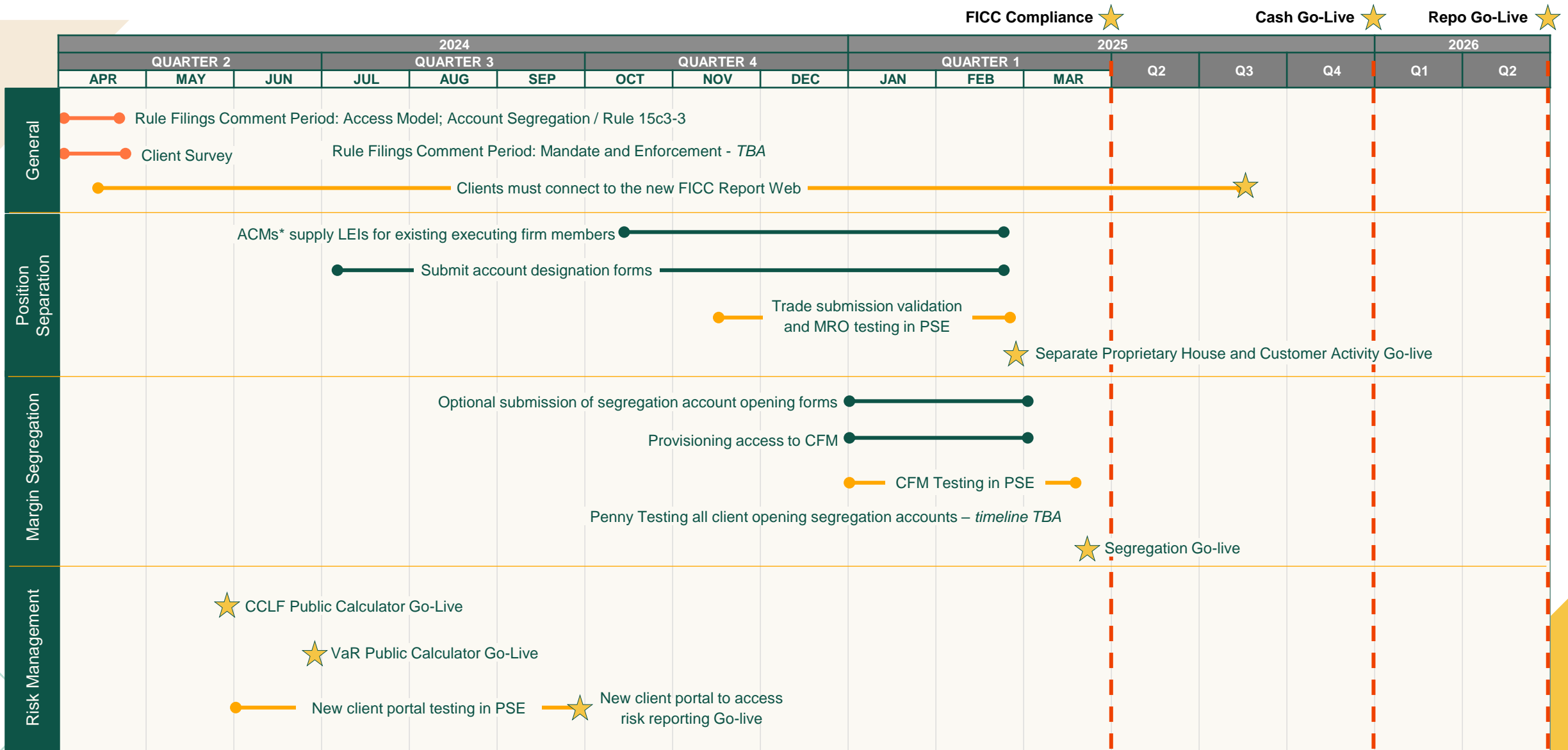
**FICC Treasury  
Clearing Client  
Roadmap**



April 11, 2024

# TREASURY CLEARING CLIENT IMPACT ROADMAP

Onboarding Process ●—●  
 Technical Change ●—●  
 Other ●—●



\*ACM = Agent Clearing Members