

DTCC

FICC GUARANTY FUND

Virtual Event

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INTRODUCTION

The purpose of the GSD Guaranty Fund is to increase transparency and risk sensitivity measurement of loss mutualization exposures.

Currently, GSD Members contribute required deposits to the
CLEARING FUND

- Subject to pro-rata loss allocation based on the amount of their Required Fund Deposit
- Deposits are not held in a bankruptcy-remote manner
- Members typically consider their entire Clearing Fund, or an internally calculated stressed amount as their credit exposure to FICC



In adopting a **GUARANTY FUND**

- Clearing Fund deposits, or “initial margin,” is separated and loss mutualization exposure for non-defaulters is limited to their Guaranty Fund deposit plus any required top-ups
- Two top-ups are proposed
- Obtaining a bankruptcy-remote legal opinion and holding initial margin in a bankruptcy remote manner enables Members to receive a 2% RWA reduction on their Clearing Fund deposits, providing for capital efficiency



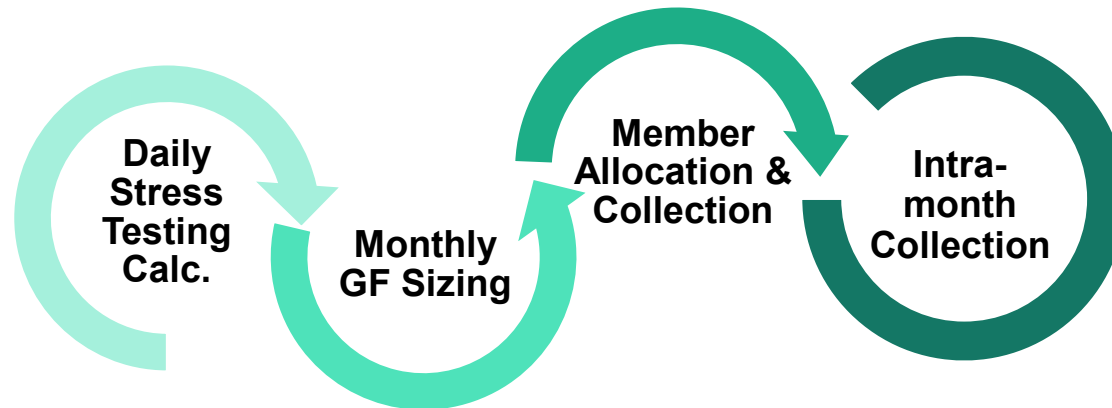
Key Milestones for GSD Guaranty Fund Proposal

March 10	Joint Meeting of DTC/FICC/NSCC Risk Management Advisory Council and FICC Advisory Council
March 30	Management Risk Committee approved proposal and regulatory filings, and escalated matter to FICC Board Risk Committee
March 31	Completion of Guaranty Fund Concept Paper
April 14	<ul style="list-style-type: none">• FICC Board Risk Committee approval of proposal and regulatory filings• Commenced GSD Member Outreach with Impact Studies
June 16	FICC Board Risk Committee meeting to request approval for revised proposed GSD Guaranty Fund
June 30	Formal Submission of Proposed Rule Change and Advance Notice Filings

*Dates are estimated and are subject to change.

CONCEPT

- **Sizing**: The Guaranty Fund is sized to cover the stress loss over Clearing Fund contribution (i.e., stress deficiency) **from simultaneous defaults of GSD's two largest families** (Cover-2).
- **Allocation**: Each member's Guaranty Fund requirement is allocated pro-rata based on member's stressed loss exposures.
- **Intra-month Adjustment**: The Guaranty Fund is sized and collected monthly. Extraordinary market and/or member portfolio events could result in a stress loss exceeding a pre-set threshold (e.g., Cover-2 ratio > 100%) and trigger an intra-month adjustment/collection.



CONCEPT DETAIL

- The Guaranty Fund is sized to Cover-2 and is based on the stress testing deficiencies derived from both historical and hypothetical scenarios.
- FICC is not currently proposing any changes to its stress testing methodology or scenarios.
- The minimum Guaranty Fund requirement for each legal entity will be \$1 million.
- FICC proposes to eliminate Segregated Indirect Participant and Netting Member minimum Required Fund Deposits.

Parameter	Description
Event Period	➤ A five-day “cooling-off period” for Defaulting Member Events and Declared Non-Default Loss Events
Skin-in-the-game (FICC Corporate Contribution)	➤ Equal to 50 percent of FICC’s General Business Risk Capital Requirement as of the end of the calendar quarter immediately preceding the applicable Event Period
Allocated Loss	➤ The pro rata share, based on the amount of a Member’s Guaranty Fund Requirement as compared to the total Guaranty Fund size (excluding any Corporate Contribution), on the first date of the Event Period
Loss Allocation Cap	➤ An assessment cap on loss allocation during each Event Period ➤ Equal to two times (or 200 percent of) the Member’s Guaranty Fund requirement for any Event Period

EXAMPLE: SIZING

- The Guaranty Fund is sized at start of month and is subject to a buffer and intramonth reallocation
- Each day, Cover-2 stress results are compared to the current facility plus a buffer (deficiency total divided by .75)
- FICC will implement collars to limit the size of an increase or decrease.
- An intra-month increase (Cover-2) greater than 20% would result in the following:
 - Reallocation to all members (up to 20%), and
 - Assessment of the excess risk to the family with the largest stressed loss with an initial margin add-on

Day	Stress Deficiency	Action
Day 1 – Start of Month	\$100 (Cover-2)	Standard Allocation
Intra-month Day (Scenario A)	\$95 (Cover-2)	No Action
Intra-month Day (Scenario B)	\$120 (Cover-2)	Reallocate \$120 to all members
Intra-month Day (Scenario C)	\$140 (Cover-2)	Reallocate \$120 to all members, assess ‘Stress Test Charge’ of \$20 to Cover-1 member’s initial margin

EXAMPLE: ALLOCATION

1 Once the size of the Guaranty Fund is determined, FICC calculates the allocation weights on the first day of the month using members' average daily maximum deficiency over the previous 12 months.

2 FICC will then allocate the Guaranty Fund to members on the first day of the month or when there is an intra-month collection.

➤ On the first day of the month, the member's allocation is the first day's total Guaranty Fund × the member allocation weight %.

Date	Member Allocation %			Guaranty Fund to Allocate	Member Guaranty Fund Allocation		
	Member A	Member B	Member C		Member A	Member B	Member C
10/1/2024	50%	30%	20%	\$ 12,000	\$ 6,000	\$ 3,600	\$ 2,400

3 For an intra-month collection, each member's allocation is the intra-month collection amount × the member allocation weight %.

- FICC considered more than one allocation mechanism to allocate the Guaranty Fund including:
 - Member or Legal Entity Volume
 - Initial margin or Clearing Fund Requirement

LIQUIDITY RISK MANAGEMENT

Changes to the Liquidity Risk Management Framework as a result of the GSD Guaranty Fund Proposal include:

- The Guaranty Fund would be comprised entirely of cash and available as a qualifying liquid resource (“QLR”);
- FICC would be permitted to substitute Treasury securities in place of non-defaulting Member’s cash deposits in the Clearing Fund
- The CCLF methodology will not change with the introduction of the Guaranty Fund

FICC presented the initial liquidity impact analysis to the Board Risk Committee at its April meeting and plans to conduct additional analysis regarding the impact the proposal will have on Cover-1 liquidity sufficiency:

- FICC’s liquidity need is a function of the inbound deliveries to the defaulting Member; these securities along with the defaulting Member’s Initial Margin securities serve as the underlying collateral for CCLF.
- Due to the proposed bankruptcy remote nature of the Initial Margin, Clearing Fund securities of non-defaulting Members would no longer be available as collateral to the CCLF.
- As a result, the securities available to support the daily available QLR for GSD will be reduced and will align closer to a daily Cover-1 liquidity measure.
- Specifically, the year-to-date average collateral available for pledging to the CCLF is expected to decline from \$113 bn to \$56 bn under this proposal, compared to the average Cover-1 liquidity need in the same period is \$61 bn.
- FICC’s resources will be further supplemented by cash posted to the Guaranty Fund.

FICC continues to pursue enhancements to default liquidity resources and a reduced reliance on CCLF through:

- Commercial paper program
- Committed repo facilities*
- GSD Supplemental Liquidity Deposit (SLD) proposal, revised to include the ability to collect anticipatory Intraday SLD*
- Allocation of certain amounts of FICC general operating resources in excess of regulatory capital requirements to be designated as QLR*
- Clearing CCLF trades*

* Subject to i) internal governance review and approval and ii) approval by the Securities and Exchange Commission.

IMPLEMENTATION



Guaranty Fund Requirements

- Each Member is required to contribute to an all-cash Guaranty Fund, a “Guaranty Fund Requirement”
- Guaranty Fund Requirements are determined as the greater of (i) the Member’s pro rata share of the largest Cover-2 Requirement* or (ii) the minimum Guaranty Fund Requirement (\$1 million per legal entity)
 - A Member’s pro rata share is determined using each Member’s average daily largest Stress Test Deficiency as compared to the sum of all Members’ largest Stress Test Deficiencies**
 - Stress Test Deficiencies are determined based on a stress loss over initial margin

Aggregate Guaranty Fund Sizing (monthly) and Intramonth Resizing

- Leading up to the Guaranty Fund implementation (Day 1) – Members will be provided with projected Guaranty Fund Requirements
 - FICC will notify Members of their monthly contribution requirement by 11:00 a.m. ET on the 1st business day of each month and would require all deficits to be satisfied by 2:45 p.m. ET, same day
 - Resizing of Guaranty Fund Requirements intramonth occurs when the Cover-2 Requirement exceeds Intra-month Resizing Thresholds, subject to a cap, an “Adjusted Guaranty Fund Size”
 - FICC will notify Members of any intra-month collection by 11:00 a.m. ET and would require any deficits to be satisfied by 2:45 p.m. ET, same day
- Excess Guaranty Fund Deposits are determined following the completion of any resizing of the Guaranty Fund and Members are notified of such excess

* Cover-2 Requirement observed over a designated lookback period

** largest Stress Deficiency/Deficiencies over a designated lookback period

ONBOARDING AND TRANSPARENCY

New Member onboarding and Member Retirement/Withdrawal of Membership

- Guaranty Fund Requirements for new Members, set by FICC, are based on the expected nature and level of the Member's activity
 - Estimates for Guaranty Fund are based on indicative portfolios provided to FICC
- For retiring Members, Guaranty Fund Deposits will be returned within 30 calendar days, following completion of all settlements and satisfying any obligations to FICC

Risk Management Tools and Reporting

- The FICC Risk Reporting portal will provide Members with real-time and historical reporting for visibility into Guaranty Fund Requirements, including API development support
- The Stress Test Analytics portal provides insight into stress testing calculations and metrics used to monitor and estimate potential impact under extreme, but plausible, market conditions
- FICC will maintain, on its public website, information regarding the stress test scenarios, Guaranty Fund sizing parameters, and intra-month resizing thresholds used to determine the size of the Guaranty Fund