

# DTCC

## FICC Tri-party Repo Service Enhancements & Innovations

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# OUR SPEAKERS



**Brian Disken**

Executive Director,  
Head of Treasury Product  
DTCC



**Richard Kim**

Executive Director,  
Head of Mortgage Product  
DTCC



**Laura Klimpel**

Managing Director,  
Head of Fixed Income and  
Financing Solutions  
DTCC



**Nate Wuerffel**

Head of Market Structure  
BNY

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# Sponsored GC Collateral in Lieu Service

# SPONSORED GC COLLATERAL IN LIEU (CIL) SERVICE OVERVIEW

- ▶ As an expansion of the Sponsored GC Service, the proposed Sponsored GC Collateral in Lieu (CIL) Service would offer FICC tri-party cleared repo services to Cash Investor Sponsored Members (“CIL Funds Lenders”) without the need to collect margin from Sponsoring Members (in most circumstances) with respect to the Cash Investors' side of the trade.
- ▶ “In lieu” of collecting margin on Sponsored GC CIL Trades, FICC would require the CIL Funds Lender to grant FICC a lien on the U.S. Treasury securities sold to the CIL Funds Lender as part of the settlement of the start leg of the repo transaction.
- ▶ Securities would be held as collateral in a dedicated “Collateral in Lieu” tri-party account at a Sponsored GC Clearing Agent Bank and would be subject to FICC’s lien.
- ▶ FICC’s lien on the collateral and its ability to unwind the trade in the event of the default of a CIL Funds Lender would also eliminate the need for a Sponsoring Member Guaranty from Sponsoring Members with respect to the performance of the CIL Funds Lender.
- ▶ All Sponsored GC CIL Trades would be required to have an initial haircut of 2%, which is consistent current market practice.
- ▶ CIL Funds Lenders would be able to execute Sponsored GC CIL Trades on a “done-with” or “done-away” basis. The Sponsored GC CIL Trade flow would be the same as the Sponsored GC Trade flow whether executed on a done-with or done-away basis.
- ▶ The CIL Funds Lender side of a Sponsored GC CIL Trade will always be a reverse repo transaction.

# SPONSORED GC COLLATERAL IN LIEU (CIL) SERVICE OVERVIEW (CONT.)

- ▶ The Sponsored GC CIL Service would utilize the existing Sponsored GC framework allowing for ease of adoption.
- ▶ Aspects of the existing Sponsored GC framework that would be the same for CIL:
  - ▶ Eligibility requirements
  - ▶ Eligible transaction types, which would include overnight and term repos
  - ▶ Collateral Schedules and Schedule of Sponsored GC Timeframes
  - ▶ Operational mechanics of trade processing, including:
    - ▶ Comparison of trade details on the tri-party repo platform.
    - ▶ Trade submission and trade matching on FICC GSD RTTM web.
    - ▶ Identical master reference/dealer reference for trade submissions to the tri-party repo platform and FICC GSD RTTM web.
    - ▶ No settlement netting of trades, which would settle on a trade-for-trade basis.
    - ▶ Novation of the end leg upon confirmation of settlement of the start leg.
    - ▶ Settlement of end leg.
    - ▶ Repo interest payments and collections; which would be paid daily on the tri-party repo platform other than on end leg settlement date.
  - ▶ Transaction processing fees
  - ▶ Minimum margin requirements (when applicable)

# SPONSORED GC CIL ELIGIBLE COLLATERAL TYPES & GENERIC CUSIPS

- ▶ At this time, only Sponsored GC Generic CUSIPs where the underlying collateral are U.S. Treasuries can be executed, submitted and cleared in a Sponsored GC CIL Omnibus Account.
- ▶ Sponsored GC CIL Trades will be submitted using the following Sponsored GC Generic CUSIPs:

CUSIP	Description
84910LAA4	U.S. TREAS W/LESS THAN 30 YR MATURITY
84910LAH9	U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS)
84910LAJ5	U.S. TREASURY STRIPS
84910LAB2	U.S. TREAS W/LESS THAN 10 YR MATURITY

# SPONSORED GC CIL ACCOUNT SETUP AT FICC

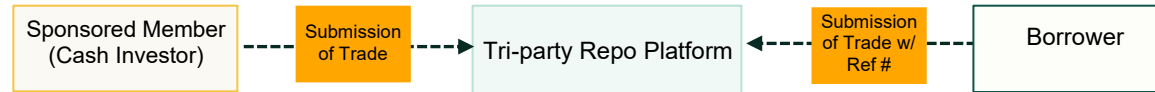
- ▶ Sponsoring Members would open a new Sponsored GC CIL Omnibus Account for Sponsored GC CIL Trades.
  - ▶ No other activity would be recorded in this Account.
  - ▶ An existing Sponsoring Member Omnibus Account cannot be converted to a Sponsored GC CIL Omnibus Account, nor can a Sponsored GC CIL Omnibus Account be later converted to a Sponsoring Member Omnibus Account.
- ▶ Sponsoring Members can have multiple Accounts for the Sponsored Service, and can open any number of these Account types:
  - ▶ Sponsoring Member Omnibus Account (for DVP sponsored activity and Sponsored GC Trades); and
  - ▶ Sponsored GC CIL Omnibus Account (for Sponsored GC CIL Trades)
- ▶ Sponsored GC CIL Omnibus Accounts must be set up as:
  - ▶ Account Type: Customer
  - ▶ Margin Segregation: Non-Segregated
- ▶ Sponsoring Members may select a Done-With, Done-Away or both Done-With and Done-Away trading model for their Sponsored GC CIL Omnibus Account(s).
- ▶ Trade execution by Joint Accounts of CIL GC Funds Lenders will be permitted by approved Joint Account Agents.

# SPONSORED GC CIL START LEG SETTLEMENT / NOVATION OF END LEG

- ▶ Sponsored GC CIL Trades will settle on a trade-for-trade basis on the tri-party repo platform between the CIL Funds Lender and the GC Funds Borrower.
- ▶ Novation to FICC of the end leg of a Sponsored GC CIL Trade will occur at the settlement of the start leg of a Sponsored GC CIL Trade.
- ▶ Only the end leg of a Sponsored GC CIL Trade can be Novated at FICC.
- ▶ Upon confirmation of the settlement of the start leg of a Sponsored GC CIL Trade, FICC would provide output confirming that the end leg of the trade has been Novated.

# PROPOSED SPONSORED GC CIL TRADE FLOW

## Trade Submission to a Sponsored GC Clearing Agent Bank's Tri-party Repo Platform



**Note:**

- This access model supports both done-with and done-away activity. For done-with activity, the Borrower is a Sponsoring Member. For done-away activity, the Borrower (Done-away Counterparty) is either the Done-away Netting Member or an intermediary acting on behalf of an Indirect Participant.
- The reference number used on the trade submission to the Tri-party Repo Platform must be identical to the master reference number submitted on the Sponsored GC Trade in FICC GSD RTTM Web for the trade to novate.

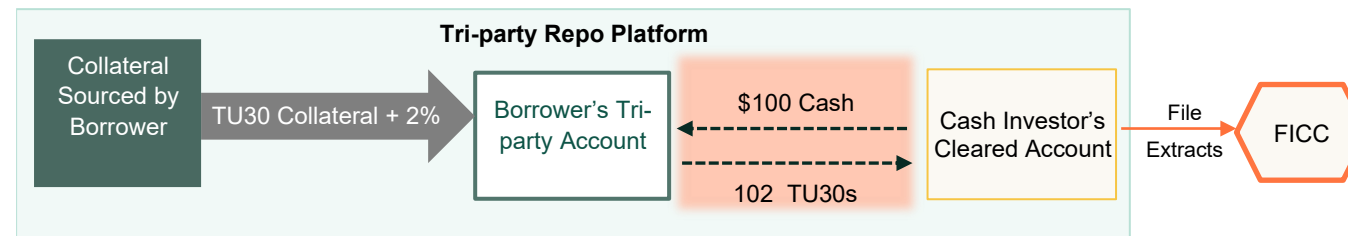
## Trade Submission to FICC



**Note:**

The master reference number on the Sponsored GC Trade submitted to FICC GSD RTTM Web must be identical to reference number on the trade that is submitted to the Tri-party Repo Platform for the trade to novate.

## Start Leg Settlement on Sponsored GC Clearing Agent Bank's Tri-party Repo Platform



**Note:**

- An Initial Haircut ("CIL Required Haircut") is required on all Sponsored GC CIL Trades.
- Operationally, Sponsored GC CIL Trades will be submitted, settled and novated in the same manner as Sponsored GC Trades.
- All Sponsored GC CIL Trades settle on the Sponsored GC Clearing Agent Bank's Tri-party Repo Platform. The Cash Investor's account where the settlement occurs would be subject to an appropriate legal agreement ("CIL Custodial Agreement Supplement") and lien language.

- ▶ All Sponsored GC CIL Trades must have a haircut (“CIL Required Haircut”), which would be initially set at no less than 2%. FICC can utilize the haircut to cover any losses it incurs following the liquidation of Sponsored GC CIL Trades.
- ▶ FICC would not collect margin from the CIL Funds Lender or its Sponsoring Member with respect to the CIL Funds Lender’s side of the Sponsored GC CIL Trade unless the Sponsoring Member:
  - ▶ Enables done-with trading activity in its Sponsored GC CIL Omnibus Account; and
  - ▶ Has (or one of its affiliated entities has) a Segregated Indirect Participant’s Account (either a Sponsoring Member Omnibus Account or an Agent Clearing Member Omnibus Account) at GSD.
- ▶ “In lieu” of collecting margin on Sponsored GC CIL Trades, FICC would require that the CIL Funds Lender grant FICC a lien on the U.S. Treasury securities sold to the CIL Funds Lender as part of the settlement of the start leg of the repo transaction.
- ▶ Sponsoring Members that execute “done-with” activity and have (or their affiliated entities have) a Segregated Indirect Participant Omnibus Account would be required to make a Clearing Fund deposit with respect to their Sponsored GC CIL Trades (a “Sponsored GC CIL Omnibus Account Required Fund Deposit”).
- ▶ The Sponsored GC CIL Omnibus Account Required Fund Deposit would be the minimum charge of \$1 million or the sum of applicable charges, which ever is greater. Applicable charges may include a VaR Charge (with respect to each CIL Funds Lender, the VaR Charge is the positive difference between the VaR Charge and CIL Required Haircut), Portfolio Difference Charge, Backtesting Charge, Holiday Charge, Margin Liquidity Adjustment Charge and Intraday Supplemental Deposit.

- ▶ In the event of the default of the Sponsoring Member or the CIL Funds Lender, the lien would permit FICC to facilitate settlement of any outstanding Sponsored GC CIL Trades, unless both:
  - ▶ the trade was “done-with” (i.e., the Sponsoring Member is the borrower); and either (x) the Sponsoring Member did not onward lend the cash in another FICC-cleared trade, or (y) the Sponsoring Member on-lent the cash to another of its own customers in a done-with trade or facilitated a done-away trade with another of its own customers, and
  - ▶ the Sponsoring Member’s insolvency trustee/receiver prohibits FICC from completing settlement through the Sponsoring Member.
- ▶ As a result, if a CIL Funds Lender engages exclusively in done-away Sponsored GC CIL Trades with done-away counterparties or engages in done-with Sponsored GC CIL Trades but requires its Sponsoring Member’s done-with counterparty to onward lend only to other Netting Members or Indirect Participants, the CIL Funds Lender would have certainty that its Sponsored GC CIL Trades would settle even in the event of a Sponsoring Member’s or GC Funds Borrower’s default.
- ▶ Sponsoring Members are responsible for all loss allocation and Capped Contingency Liquidity Facility (CCLF) obligations attributed to their Sponsored Members, including related to Sponsored GC CIL Trades.

- ▶ Currently, Sponsoring Members are obligated to pay to / collect from FICC the Funds-Only Settlement Amount (Interest Adjustment Payment and Forward Mark Adjustment Payment) associated with Sponsored GC Trades.
- ▶ In a default scenario, where FICC would liquidate a Defaulting Member's positions, the collection of the Interest Adjustment Payment and Forward Mark Adjustment Payment associated with the Defaulting Member's Sponsored GC Trades would ensure that FICC and the Defaulting Member's counterparty are made whole if losses are incurred because of a liquidation.
- ▶ FICC's lien on the securities collateral of the CIL Funds Lender would allow FICC to eliminate the collection / payment of Funds-Only Settlement Amount on Sponsored GC CIL Trades for the Sponsoring Member (or its Sponsored Member as CIL Funds Lender).
- ▶ FICC would still collect a Funds-Only Settlement Amount from the GC Funds Borrower.

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# Agent Clearing Tri-party Service

- ▶ In 2024, FICC consolidated its existing correspondent clearing and prime broker services into a single Agent Clearing Service (ACS).
- ▶ As an expansion of its tri-party repo service offerings, the proposed ACS Tri-party Service would offer FICC cleared tri-party repo services to Agent Clearing Members and their Executing Firm Customers.
- ▶ The Agent Clearing Member, as processing agent, can submit eligible tri-party repo transactions executed between its Executing Firm Customer and any of the following: the Agent Clearing Member itself (“done-with”), another GSD Netting Member or any GSD Netting Member’s Indirect Participant (“done-away”).
- ▶ ACS Tri-party Trades may be submitted into the same Agent Clearing Member Omnibus Account that has been established for DVP activity.
- ▶ Executing Firm Customers are represented in FICC’s systems by the executing firm symbols and mapped to the relevant Agent Clearing Member(s), and must specifically authorize their Agent Clearing Member(s) to submit Agent Clearing Transactions to FICC for clearing on their behalf. The same executing firm symbol should be used for both an Executing Firm Customer’s ACS DVP and ACS Tri-party Repo activity, where applicable.

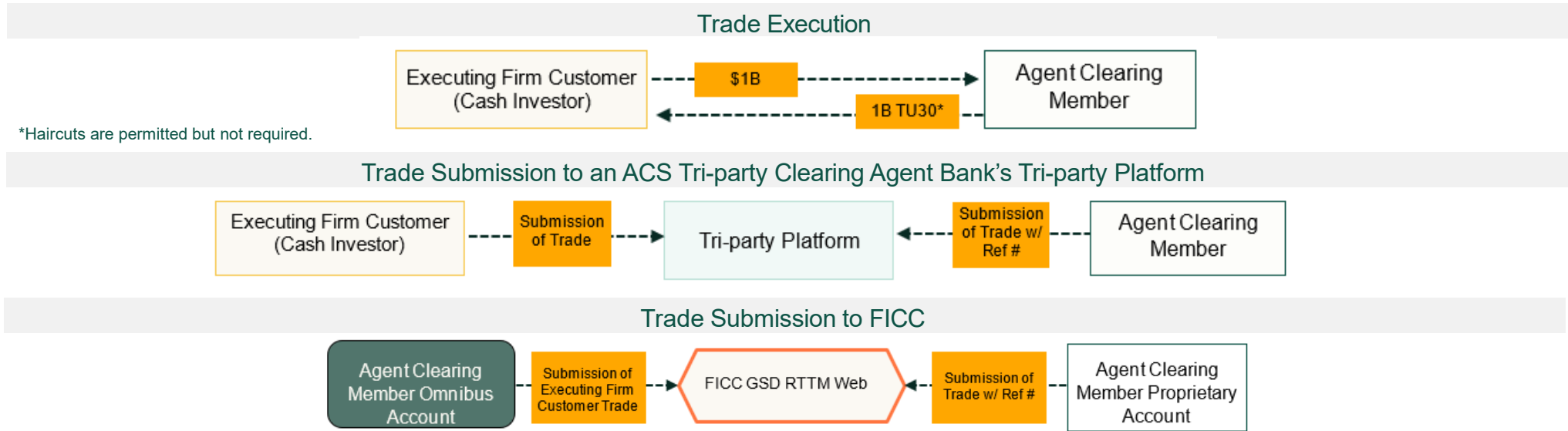
- ▶ The ACS Tri-party service would utilize much of the existing Sponsored GC Service's legal framework and operational framework.
  - ▶ Trade execution between an ACS Tri-party Funds Lender and an ACS Tri-party Funds Borrower would be completed away from FICC between the two counterparties.
  - ▶ An ACS Tri-party Trade may, but would not be required to, have an Initial Haircut.
  - ▶ The existing FICC fee structure applicable to Sponsored GC Trades would be applied to ACS Tri-party Trades.
  - ▶ The same operational mechanics for trade processing as the Sponsored GC Service would also be utilized, including:
    - ▶ Trade submission, validation and matching
    - ▶ Trade settlement on a trade-for-trade basis (i.e., no settlement netting)
    - ▶ Only the end leg of the repo would be eligible for novation upon confirmation of the settlement of the start leg
    - ▶ Settlement occurs on an ACS Tri-party Clearing Agent Bank's platform
    - ▶ Repo interest payment and collection
    - ▶ Trade submission and settlement timeframe

- ▶ Agent Clearing Members and their Executing Firm Customers would have the opportunity to utilize tri-party collateral management and settlement capabilities for cleared repo activity while retaining the benefits of the Agent Clearing Service.
- ▶ Agent Clearing Members may benefit from a potential reduction in capital requirements and balance sheet relief that may not be available to the same extent the Agent Clearing Members were to engage in the same trading activity with their Executing Firm Customers outside of FICC.
- ▶ Agent Clearing Members may see enhanced margin efficiency due to the net margining capability ACS offers when activity of more than one Executing Firm Customers is recorded in the same Agent Clearing Member Omnibus Account.

- ▶ Agent Clearing Members may use an existing Agent Clearing Member Omnibus Account for ACS Tri-party Trades.
- ▶ Agent Clearing Members who want to post Segregated Customer Margin must set up a Segregated Indirect Participants Account.
- ▶ Agent Clearing Member Omnibus Accounts must be set up as:
  - ▶ Account Type: Customer
  - ▶ Margin Type: Non-Segregated or Segregated
- ▶ Agent Clearing Members may select done-with, done-away or both done-with and done-away trading model for their Agent Clearing Member Omnibus Account or Segregated Indirect Participants Account.
- ▶ Existing executing firm symbols for Executing Firm Customers should be used for both ACS DVP Repo and ACS Tri-party Trades.

- ▶ ACS Tri-party Trades will settle on a trade-for-trade basis on the tri-party repo platform between the ACS Funds Lender and the AC Funds Borrower.
- ▶ Novation to FICC of the end leg of an ACS Tri-party Trade will occur at the settlement of the start leg of an ACS Tri-party Trade
- ▶ Only the end leg of an ACS Tri-party Trade can be Novated at FICC.
- ▶ Upon confirmation of the settlement of the start leg of an ACS Tri-party Trade, FICC would provide output confirming that the end leg of the trade has been Novated.

# AGENT CLEARING SERVICE REPO DONE-WITH TRADE FLOW

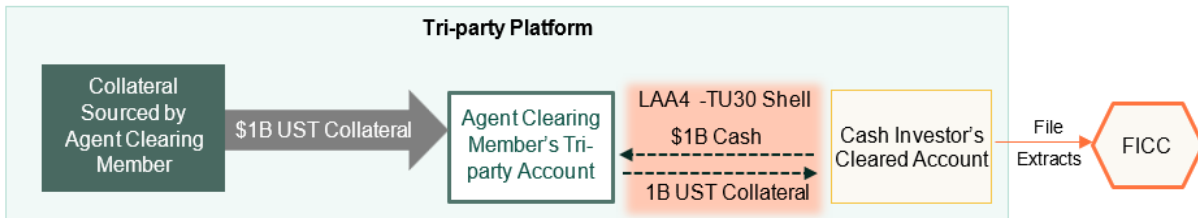


\*Haircuts are permitted but not required.

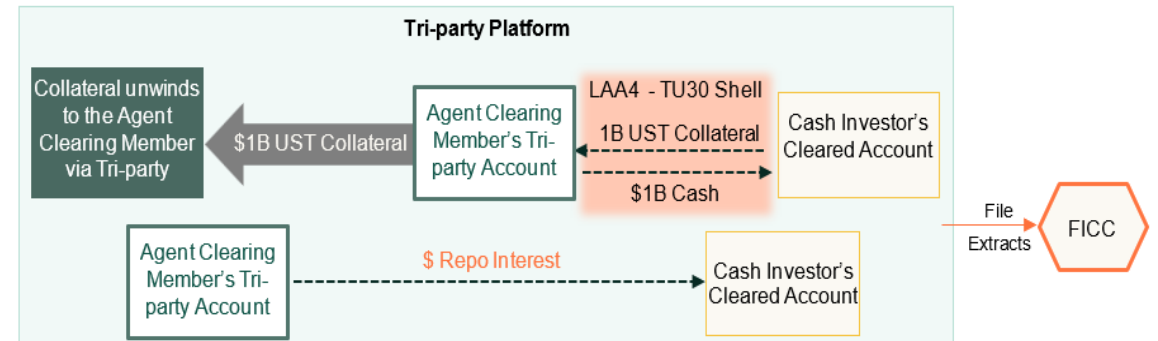
**Note:**

The reference number on the Agent Clearing Member's (Proprietary Account) submissions to the tri-party platform and FICC GSD RTTM Web must be identical for the trade to novate at FICC. Also, this flow is based on an overnight ACS Tri-party Trade where the repo interest is paid with the settlement of the end leg.

## Start Leg Settlement on ACS Tri-party Clearing Agent Bank's Tri-party Platform



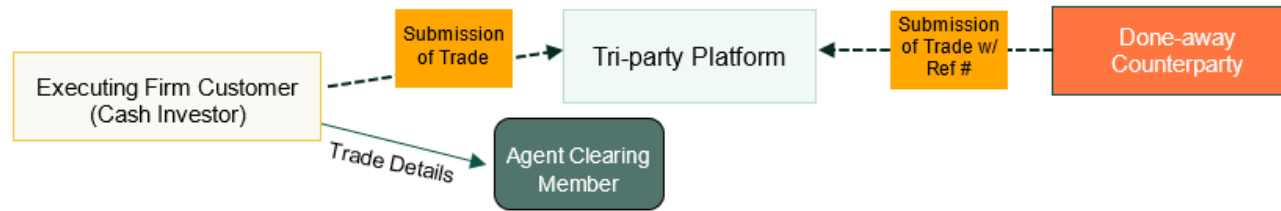
## End Leg Settlement on ACS Tri-party Clearing Agent Bank's Tri-party Platform



# AGENT CLEARING SERVICE REPO DONE-AWAY TRADE FLOW



**Trade Submission to an ACS Tri-Party Clearing Agent Bank's Tri-party Platform**



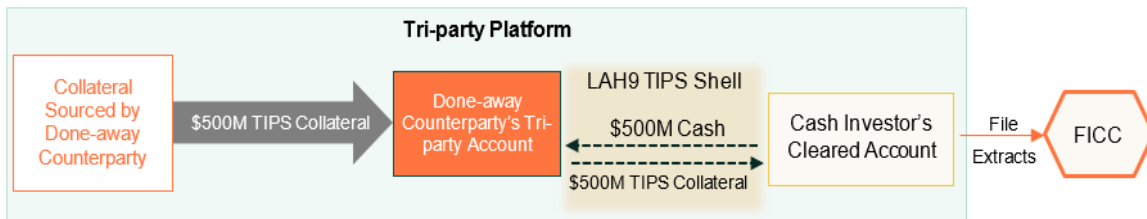
**Trade Submission to FICC**



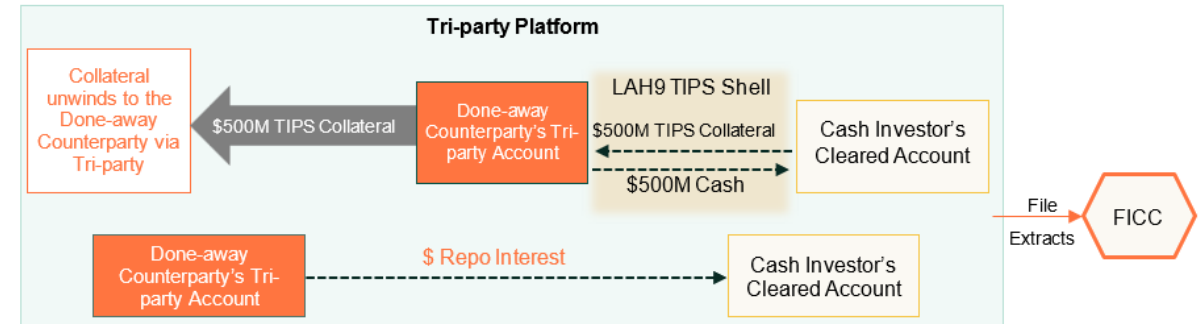
**Note:**

The reference number used on the trade submission to the tri-party platform must be identical to the master reference number submitted on the ACS Tri-party Trade in FICC GSD RTTM Web for the trade to novate. This applies to the Done-away Counterparty's (either a Done-away Netting Member or intermediary of an Indirect Participant) trade submission. Also, this flow is based on an overnight ACS Tri-party Trade where the repo interest is paid with the settlement of the end leg.

**Start Leg Settlement on ACS Tri-party Clearing Agent Bank's Tri-party Platform**



**End Leg Settlement on ACS Tri-party Clearing Agent Bank's Tri-party Platform**



- ▶ Agent Clearing Members can opt for one of two styles of Agent Clearing Member Omnibus Account:
  - ▶ A non-segregated Agent Clearing Member Omnibus Account: margin posted is viewed as belonging to the Agent Clearing Member and calculated on a *net basis* across all Executing Firm Customers whose activity is recorded in that Account; or
  - ▶ A Segregated Indirect Participant Account: margin for each Executing Firm Customer (“Segregated Indirect Participant”) is calculated separately (i.e., on a *gross basis*) and must be collected from the Executing Firm Customer by the Agent Clearing Member, in accordance with the GSD Rules regarding Segregated Indirect Participants Accounts (GSD Rules 2B and 4).
- ▶ Agent Clearing Members are responsible for satisfying any Required Fund Deposit or Segregated Customer Margin and any Funds-Only Settlement (FOS) obligations attributed to its Executing Firm Customers’ activity, as if it had executed such activity itself.
- ▶ There are two components of FOS that are applicable to the ACS Triparty Trades:
  - ▶ Forward Mark Adjustment Payment: this component captures the GC Interest Rate Mark that is used to mark-to-market the unaccrued portion of the repo interest of the ACS Tri-party Trades based on the current System Repo Rate.
  - ▶ Interest Adjustment Payment: this component accounts for the overnight use of funds based on the amount of GC Interest Rate Mark paid/charged to the Executing Firm Customer by FICC on the previous business day.

- ▶ Agent Clearing Members are responsible for all loss allocation and Capped Contingency Liquidity (CCLF) obligations attributed to its Executing Firm Customer(s) activity, including any novated ACS Tri-party Trades.
- ▶ Agent Clearing Members are responsible for all FICC fees associated with its Executing Firm Customer(s) activity.
- ▶ An ACS Tri-party Clearing Agent Bank on FICC's behalf administers the collection of repo interest on a daily basis between the ACS Tri-party Funds Borrower and the ACS Tri-party Funds Lender.

# Onboarding Documentation for FICC Cleared Tri-Party Services

- ▶ **FICC Required Documentation for Establishing Sponsored Member within Sponsoring Member Omnibus Account** (*note: if client is not a current Sponsored Member at FICC, it will need to go through FICC Sponsored Member onboarding process*)
  - ▶ Application for Sponsored GC Additions via MyDTCC UI
  - ▶ Triparty Service Notification Form
  
- ▶ **BNY Required Documentation** (*note: if Sponsoring Member or Sponsored Member is not a current BNY Global Collateral client, they must complete the standard onboarding process to access this service*)
  - ▶ Account Opening Request Form
  - ▶ BNY Adherence Agreement or Sponsored GC Annex – Clients who wish to continue using only Sponsored GC Done-With can maintain their current arrangement.
  - ▶ Eligible Collateral Schedule (ECS) – one ECS for each of the 9 GC CUSIPS.

- **FICC Documentation Needed for Sponsoring Member to Open a New Sponsored GC Collateral In Lieu Account**

- Request to Establish an Additional Account – sets up a separate position-keeping account for the Sponsoring Member on FICC's records specifically for Sponsored GC Collateral In Lieu operations
- Super Access Coordinator Form – authorizes users within the Sponsoring Member firm to access the Sponsored GC Collateral In Lieu account
- MQ Page 1 and Data Delivery Forms – required for connectivity and data subscriptions (such as MQ and MRO) related to the Sponsored GC Collateral In Lieu account
- Activation Letter
- If the Sponsoring Member is a Foreign Entity, then W-8 Form – a W-8 tax form completed within the past year is required.
- If the Sponsored GC Collateral In Lieu account supports done-with activity and the Sponsoring Member (or affiliate) maintains a Segregated Indirect Participants' Account at FICC, then GSD Initial Margin Estimate Template
- Wire Instructions

**FICC Documentation Needed to Establish Sponsored Member within Sponsored GC Collateral In Lieu Account** (*note: if the client is not yet a Sponsored Member at FICC, they must complete the FICC Sponsored Member onboarding process*)

- Application for Collateral in Lieu (CIL) Additions via MyDTCC UI
- Triparty Service Notification Form
- Joint Account Agreement (if applicable)

**BNY Required Documentation**(*note: if the Sponsoring Member or Sponsored Member is not currently a BNY Global Collateral client, they must complete the standard onboarding process to access this service*)

- ▶ Account Request Template:
  - ▶ Opening new accounts for Sponsored CIL trades.
  - ▶ Converting existing Sponsored GC accounts to CIL accounts. Please note that an account conversion can only be completed if there are no active trades in the account.
- ▶ BNY Adherence Agreement
- ▶ Eligible Collateral Schedule (ECS) – Sponsored GC CIL ECS for each of the 4 GC CUSIPS. While same Sponsored GC eligibility remains, BNY will implement controls on the minimum CIL margin requirement (currently set at 102%).

- ▶ **FICC Required Documentation for Establishing Executing Firm Customer within Established Agent Clearing Omnibus Account** *(note: if Netting Member is not currently an Agent Clearing Member, it will need to go through Agent Clearing Member onboarding process)*
  - ▶ Application for Agent Clearing Tri-Party Service Additions via MyDTCC UI
  - ▶ Triparty Service Notification Form
  
- ▶ **BNY Required Documentation** *(note: if Agent Clearing Member or Executing Firm Customer is not a current BNY Global Collateral client, they must complete the standard onboarding process to access this service)*
  - Account Request Template:
    - ▶ Opening new accounts for ACS trades.
    - ▶ Converting existing Sponsored GC accounts to ACS accounts. Please note that an account conversion can only be completed if there are no active trades in the account.
  - BNY Adherence Agreement
  - Eligible Collateral Schedule (ECS) – ACS will share the same ECS templates as Sponsored GC.

# Q & A





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